● Saving America's Black banks 22 ● Life and debt at a PE hospital 42 ● A $500 million oil jackpot 18

Bloomberg Businessweek

August 10, 2020

The dominant search company faces antitrust scrutiny for its power over an increasingly vulnerable Main Street

38

Is Google Burning Small Business?

Bloomberg Businessweek

August 10, 2020

◀ As the price of search ads rose in the pandemic, psychotherapist Ellen Ross had to choose between paying Google or missing out on new clients

FEATURES

CORRECTION

The Bank of England item in Agenda (Aug. 3, 2020) should have converted £300 billion into $390 billion.

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■ COVER TRAIL

How the cover gets made

"This week we're talking about Google search ads. Turns out the company has a ton of power over small businesses."

"So much for 'Don't be evil.'"

"They removed that phrase from their code of conduct, you know?"

"How about a *really* big Google something?!"

"Dig deeper."

"Google doodle!"

"Is this 2015?"

"Autofill! Search meme! The color wheel!"

"I get it. This isn't the first time we've arted a Google story."

"Maybe we do something with the magnifying glass... you know when you were a kid and used it to kill ants?"

"Uh, no. No, I don't."

"I was late to 'Don't be evil.'"

Cover: Photograph by Jessica Petway for *Bloomberg Businessweek*; prop stylist: Sara Schipani

HONG KONG: PHOTOGRAPH BY BILLY H.C. KWOK FOR BLOOMBERG BUSINESSWEEK

The Agile Advantage | Information Technology

We spoke to Archana Rao, Chief Information Officer of Atlassian, about how agile management can help IT professionals address new challenges.

Q: What is agile management for IT professionals?
A: IT always gets the reputation of being slow and expensive, and, too often, focused on the technology without understanding how it will be used. Agile management means you focus on providing value, and doing so continuously. You put your customer first.

Q: Who is the IT customer?
A: Every employee in the company is a customer. We have to have very good relationships across all the company's departments, both in the trenches and at a C-Suite level, to effectively serve them.

> **"Agile management allows you to deliver flexibility along with speed. And that's a hard thing to accomplish.**

Q: How does that play out day-to-day?
A: Our goal is to have every new employee be productive on their first day. We were really put to the test during the pandemic, when all those folks were being on-boarded from their homes.

For my team, it was all hands on deck. First we had to arrange to send a laptop to every employee — sometimes directly, sometimes through third parties, depending on the regulations of the country in which the employee works.

Then we had to make sure that their WiFi was working, that their VPN was working and that they could access everything on our systems. Despite all that, in March 2020, we remotely on-boarded a record 200 employees.

Q: How do you prepare for a challenge like that?
A: In a sense, you can't — not specifically. You need a company culture that fosters operating in an open, transparent manner, where everyone is comfortable learning from everyone else, and not just in a hierarchical way. It's those characteristics of adaptability and teamwork that are the real preparation for the challenges you don't see coming.

Q: How does this apply to IT teams in companies that aren't in the software industry?
A: As every team in the world starts operating remotely, IT departments have an incredible challenge, but also an incredible opportunity. How can technology be brought to bear for every team to unleash their fullest potential and build amazing products and services for everyone? That's the challenge agile IT is meant to address.

Q: What's often overlooked with agile management and IT?
A: To move fast, you have to have strong relationships with people in every department, both to understand what is needed to meet their needs and to get their buy-in.

ARCHANA RAO
Chief Information Officer

Archana joined Atlassian in 2018 after working for Symantec and Cisco.

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ATLASSIAN

● Global coronavirus cases topped

18.6m

and deaths passed 702,000. President Trump said he thinks a vaccine may be ready before yearend, with more than a half-dozen prominent companies and researchers racing to develop one.

● Hong Kong delayed September's Legislative Council election for a year, blaming a recent surge in Covid-19 cases.

The move outraged pro-democracy advocates, who accuse Hong Kong Chief Executive Carrie Lam and China's central government of trying to stamp out dissent.

● A devastating blast in Beirut on Aug. 4 killed more than 100 people and injured thousands. The explosion, which has yet to be explained, destroyed the city's only wheat silo. Now, in addition to the pandemic, Lebanon faces food shortages.

● Trump threatened to ban Chinese social media app TikTok.

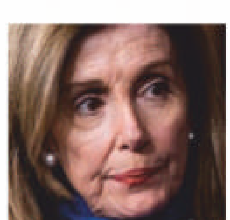
He's given the company until Sept. 15 to strike a deal with Microsoft or another U.S. entity about its American operations. Critics of the app say TikTok, with an estimated 100 million U.S. users, poses a national security threat—a charge parent ByteDance denies. Trump added that the U.S. Treasury should get a slice of any sale.

● Argentina and its largest creditors, which include investment companies Ashmore, BlackRock, and Fidelity, struck a deal to restructure

$65b

of debt. The accord sets the stage for the country to emerge from its third default since the turn of the century.

● "Right now, today, we have an emergency. A building is on fire, and they are deciding how much water they want to have in the bucket."



House Speaker Nancy Pelosi sought a compromise with Republicans to push through a new pandemic relief package, including an extension of the supplemental unemployment insurance that has expired.

● French lender Natixis replaced CEO François Riahi because of "strategic differences."

Crosstown rival Société Générale also culled deputy CEO Séverin Cabannes and retail banking head Philippe Heim after reporting its worst quarterly loss in more than a decade.

● Seven & i, the Japanese operator of the 7-Eleven franchise, agreed to buy Marathon Petroleum's gas station business for

$21b

The deal gives the world's largest convenience store operator 3,900 Speedway outlets and a presence in 47 of the top 50 U.S. metropolitan markets.

● Juan Carlos I, Spain's

former king, said he plans to leave the country he ruled for almost four decades. The once-popular monarch abdicated in favor of his son, Felipe, in 2014, after helping restore Spanish democracy. Juan Carlos, who saw his reputation tarnished by scandals in recent years, didn't say when he would leave or where his exile would take him.

● A federal appellate court, citing possible juror bias, tossed out Dzhokhar Tsarnaev's death sentence on July 31.

Tsarnaev was convicted in the Boston Marathon bombings, which killed three people and injured more than 260 at the race's finish line on April 15, 2013.

BEIRUT: ANWAR AMRO/AFP/GETTY IMAGES. PELOSI: TOM WILLIAMS/CQ-ROLL CALL/GETTY IMAGES. JUAN CARLOS: CARLOS ALVAREZ/GETTY IMAGES

Hire Laid-Off Oil and Gas Workers to Fight Climate Change

● By Michael R. Bloomberg

As Congress debates how to address the economic calamity we are facing, we have an unprecedented opportunity to put people to work addressing the climate crisis—and let's start by hiring laid-off oil and gas workers to help lead the way.

The fact is, the U.S. oil and gas sector was in trouble even before the pandemic struck. Last year more than three dozen producers declared bankruptcy, hobbled by declining energy prices and rising debt. The pace of filings has quickened with the spread of the coronavirus, and even after the virus threat subsides—which is unlikely to be anytime soon—cheap renewables will drive more companies under.

This turmoil has hurt oil and gas workers—some 100,000 have been laid off in 2020—and communities that depend on fossil fuel extraction are suffering. The bankruptcies have also left scars on the environment, in the form of abandoned wells. Some 3 million such sites are scattered across the country, according to the Environmental Protection Agency, and most leak copious amounts of methane, a powerful greenhouse gas.

But the U.S. can meet both challenges in one stroke—by paying laid-off energy workers to clean up abandoned wells.

Plugging a single well can cut its methane emissions by 99%, according to the EPA, and the work requires skills that oil and gas workers already possess. Yet despite the best efforts of state regulators, most abandoned wells—more than 2 million—remain unplugged. A federal program to plug so-called orphan wells could create as many as 120,000 well-paying jobs, while preventing hundreds of thousands of tons of greenhouse gases from escaping into the atmosphere. It's an idea that appeals to environmental groups, fossil fuel dependent states, and even some fossil fuel industry leaders.

Joe Biden has included the idea as part of his green energy campaign platform. I've spoken with him about it, and I know how strongly he supports it. It's a perfect example of how expanding the economy and fighting climate change go hand in hand. Biden gets it, and this is the kind of practical policy—one that helps hard-hit communities while also protecting the environment—that he would lead as president.

However, we need these jobs right now, and the infrastructure stimulus bill passed by the House would create a federal well-plugging program. While it could be more ambitious—it would plug about 60,000 wells, far less than the 500,000 experts have proposed—it's a step in the right direction. Its $2 billion price tag should be modest enough to appeal to Republicans, many of whom represent states such as Texas and Oklahoma that would see immediate job benefits.

The bill would also make a start on mending the broken system for funding well cleanups. Polluters should be held accountable for cleaning up their own messes. They're legally required to, and besides, that's what corporate responsibility is all about. But many try to use bankruptcy to escape their obligations to workers and shift their cleanup responsibilities to taxpayers. The bill Speaker Nancy Pelosi shepherded through the House would require companies to set aside enough money to retire wells before they drill new ones. At the moment, states can try to attract business by minimizing that requirement, which is how we've ended up in this mess. We need a national standard to prevent it from happening again.

The bill is stalled in the Senate. Republicans are skeptical about further stimulus, and the administration isn't concerned about climate change. But cleaning up wells helps everybody. It fights climate change, creates jobs, and is affordable. Biden is right to push for it, but the idea is too good—and the needs of unemployed gas and oil workers too urgent—to wait for 2021. Ⓑ

For more commentary, go to bloomberg.com/opinion

■ AGENDA

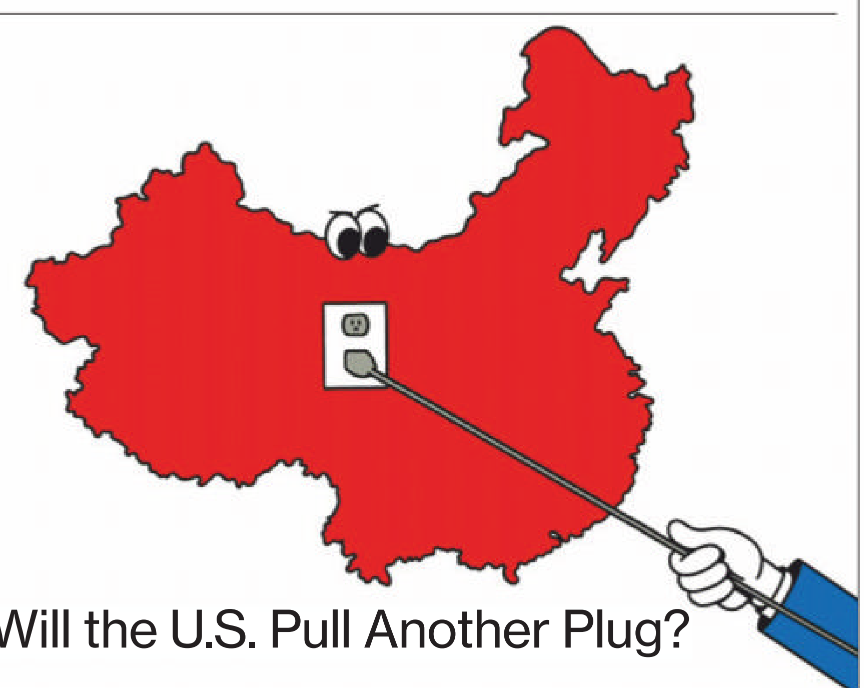


ILLUSTRATION BY LAUREN MARTIN

▶ Will the U.S. Pull Another Plug?

Social media giant Tencent reports earnings on Aug. 12, amid mounting pressure on Chinese technology companies from governments focusing more closely on data security.

▶ New Zealand's central bank sets rates on Aug. 12. A strong currency and low inflation have raised calls for stimulus, including negative interest rates.

▶ The USDA World Agricultural Supply and Demand Estimates, a closely watched gauge of demand for crops such as soy and wheat, is due on Aug. 12.

▶ China provides economic data on July industrial production and retail sales on Aug. 14. Economists are looking for signs of a rebound.

▶ Royal Caribbean Cruises reports second-quarter earnings on Aug. 10. The pandemic has hit the industry particularly hard.

▶ The U.S. Court of Appeals in Washington on Aug. 11 reconsiders a ruling to dismiss a criminal case against former national security adviser Michael Flynn.

▶ J.P. Morgan hosts a virtual automotive conference on Aug. 11-12 to explore the road to recovery for the battered transport sector.

The Italian

● The pandemic worsened global inequality. Now some measures meant to help are widening the gulf

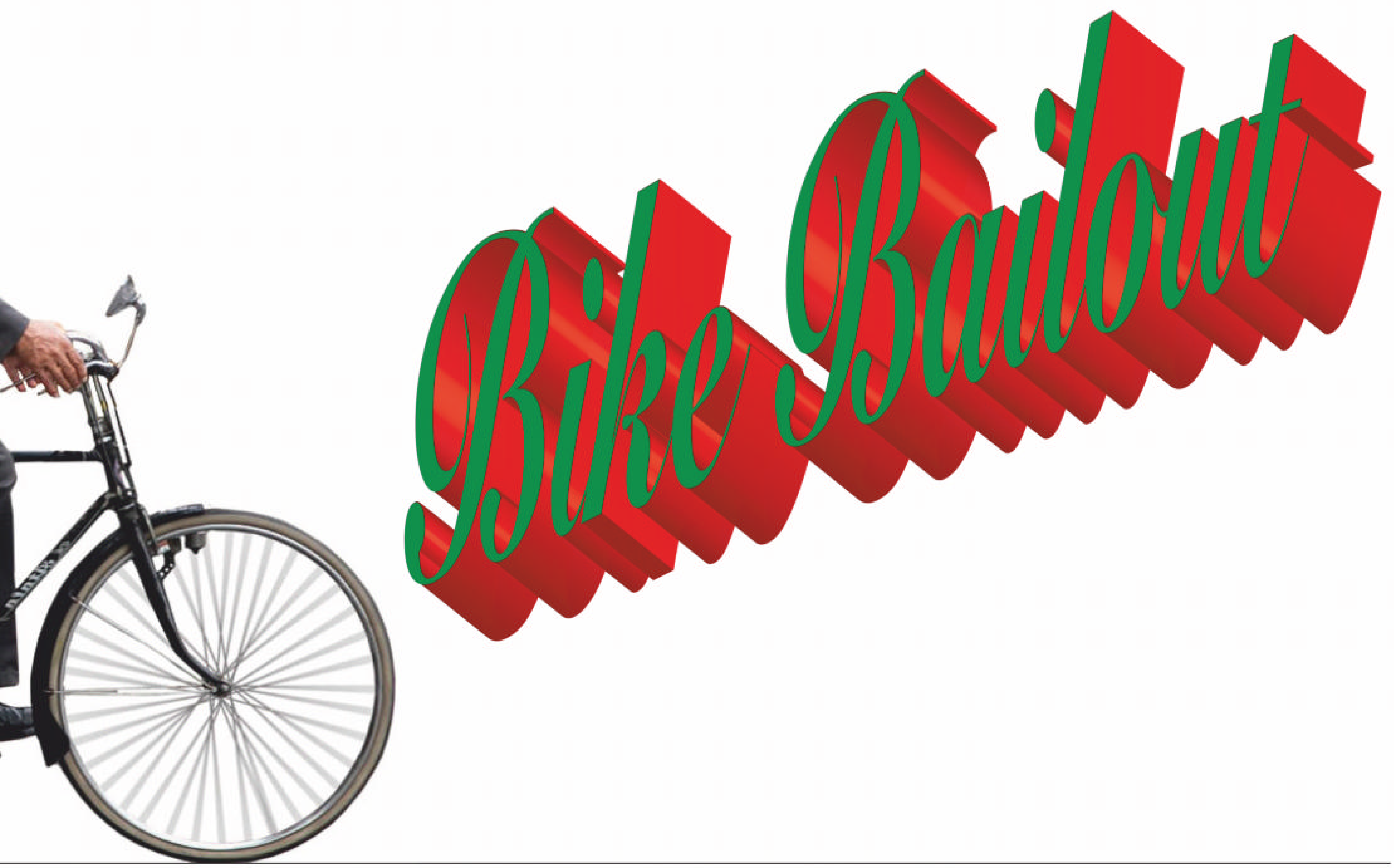
● By Alessandra Migliaccio and Vernon Silver

It's early evening on Via del Pellegrino, a narrow cobblestone street in the heart of ancient Rome, and Orsola Polimeno is taking delivery of a pair of bright-orange-detailed folding bicycles. The matching bikes will be a pleasure to ride, she says, but the purchase is even sweeter, because the €1,500 ($1,775) she's spending will net her a government check for €900. The payout comes thanks to a provision in Italy's Covid-19 recovery plan that offers 60% cash back to buyers of greener transport such as bicycles, electric scooters, even Segways and hoverboards.

The rebate goes up to €500 per person, corresponding to the purchase of a bike costing €833. That means to take full advantage you'd have to be the sort of Italian who has that kind of money sitting around. Case in point: Polimeno and her husband selected his-and-hers folding models because they'd fit into their vacation home on the coast of Tuscany. "I'd been planning to buy bikes to get around at the beach," she says. "The subsidy was an opportunity I had to jump at."

Like many Covid-relief provisions around the globe—trillions of dollars for everything from modest rebates on restaurant meals to tax breaks worth millions to megacorporations—the bike bailout benefits lots of folks who aren't the most in need. It even helps widen income gaps that the outbreak has exposed and exacerbated.

Few would argue that nudging people away from cars is bad, and the bike benefit is available to everyone. But the reality is that people of more modest means—frequently dependent on government handouts—lack the cash for an €800 bike, even with a 60% discount. "Programs like the bike bonus or electric car incentives are worth more if you spend a lot, so they tend to encourage wealthier people to buy that Tesla or fancy bike," says Rosamaria Bitetti, an economist at Luiss University in Rome. "If you don't have the money, it's not going to help you much, so these programs tend to increase inequality."



A better way would be to shift the tax breaks away from consumption, which tend to reward the wealthy, and focus on reductions in labor levies, beefed-up unemployment insurance, or investments in infrastructure and research. But ideas such as those, Bitetti says, are usually less visible to voters. “Governments favor the bonuses because they’re easy to market,” she says. “You’re putting money in the economy, but there are more useful ideas that would help the poor more.”

The pandemic, of course, has hit various populations differently, depending on your race, your sex, and the size of your bank account. Poor and non-White populations are more likely to contract the virus, they’re dying at higher rates because of inequities in living conditions and health care, and their children suffer more when schools close, as wealthier families typically have better internet access and more time to help with homework.

The most precarious workers—migrant laborers or gig-economy types such as Uber drivers—are frequently the first to lose their already meager wages, and many don’t qualify for unemployment benefits because they don’t hold permanent jobs. In Italy, which shuttered nonessential industries for months, the restaurant and hotel business, staffed largely by people at the bottom of the economic ladder, will contract 26% this year, researcher Prometeia predicts.

And the economic impact is harder on women. They most often bear the brunt of unpaid child-care duties as schools and summer camps close, and they’re more likely to have part-time or temporary contracts, which are the first to go in a downturn. Italy’s fashion industry, where 56% of the workers are women, is on track to shrink 19%. “Remember how the last recession was a mancession?” says Luigi Pistaferri, professor of economics at Stanford University. “This time it’s sectors that have lots of female employees that are in trouble—hospitality, services, public relations.”

Governments around the world are seeking to give money to those most in need, and some is undeniably reaching them. Many of Italy’s poorest get €500 or more every month via various programs aimed at offsetting the economic toll of the outbreak. The $600-per-week boost to U.S. unemployment checks kept many families afloat before it ran out at the end of July.

In Japan, everyone is eligible for a 100,000-yen ($950) government grant—yes, billionaires too, but the effect of the money clearly will be more dramatic for drivers, waiters, ▶

CFIMAGES/ALAMY

◀ or hotel cleaners. (An earlier plan to offer payouts of 300,000 yen just to the needy was scrapped on concern that assessing eligibility would slow the transfers and largely defeat the purpose.) While wealthier people are benefiting from the fire hose of cash, "money has gone to all classes in various forms, we can't say just the middle and upper," says Jeremy Siegel, a professor of finance at the University of Pennsylvania's Wharton School. "Everything is meant to encourage spending."

Yet critics say many well-intentioned programs tend to help the haves and don't do much for the have-nots. Italy is offering tax rebates to offset green-oriented home improvements and will even throw in an extra 10%—so if you spend €60,000 (the maximum), you'll get €66,000 in benefits. Australia is handing out A$25,000 ($18,000) grants for renovations or newly built houses. While the cash is only for homes valued below A$750,000, detractors say it's still a subsidy for people who don't really need it. The money, says Cassandra Goldie, chief executive officer of Australia's Council on Social Service, would be better spent with a more targeted program. "It will largely benefit those on middle and higher incomes undertaking costly renovations," she says. "It's a wasted opportunity to address the backlog of urgent social housing repairs and the shortfall in social housing."

Like Italians, residents of Paris and its suburbs can get a rebate check for half the cost of a bike up to €1,000. And across France, buyers of new electric cars are being offered as much as €7,000 cash back from the state. In Germany, government incentives on electric cars have doubled, to €6,000 for purchases up to €40,000, at an expected cost to the treasury of about €2.2 billion through the end of next year.

In the U.K. the efforts range from the micro (50% off meals on certain days in August, up to £10 [$13] per person) to the macro (exempting home purchases up to £500,000 from a transaction tax, saving buyers as much as £15,000). "No stamp duty if you can afford to buy a home. Cheaper dinner if you can afford to dine out in restaurants," British trade unionist Lauren Townsend wrote on Twitter. "But nothing to ease the pangs of anxiety if you've recently lost your job, are facing eviction from your home, or are using food banks every week just to survive. Cool."

Despite the deep economic crisis, those lucky enough to have kept their jobs or hold investments have been able to save—even forced to do so, given closed shops and the difficulties of jetting off to Bali, Barcelona, or Berlin for the weekend. Some of the money not spent on restaurants and vacations has gone into kitchen renovations, flatscreen TVs, or video games to ease the ennui of home schooling and remote working. Sales of game consoles almost tripled in April from the year-earlier period, according to researcher NPD Group.

It's also going toward swimming pools. Pentair Plc, a maker of pool pumps and control systems, says demand has been "very, very strong." In Italy, the number of people intending to install pools has swelled by more than half this summer from last year, as families seek a secure way of keeping cool behind the walls of their properties, according to market researcher ProntoPro.

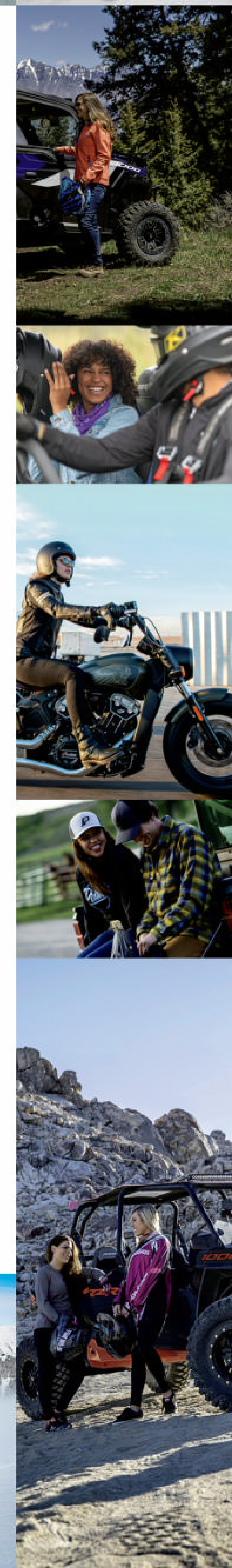
Bicycles represent one of the most poignant symbols of modern Italian culture—from the Alp-climbing-superheroes of the Giro d'Italia, to the craftsmanship of the finest racing frames, to perhaps the nation's most celebrated film, Vittorio De Sica's 1948 *The Bicycle Thief*. In the black-and-white fable, an impoverished father needs his dilapidated two-wheeler for his job hanging movie posters around Rome. When it's stolen, he can no longer feed his family. In his desperation for a new bike, he steals one from another member of the underclass—and is arrested while his young son looks on in shame. In essence, De Sica transformed bikes into a metaphor for the economic distress of the postwar era.

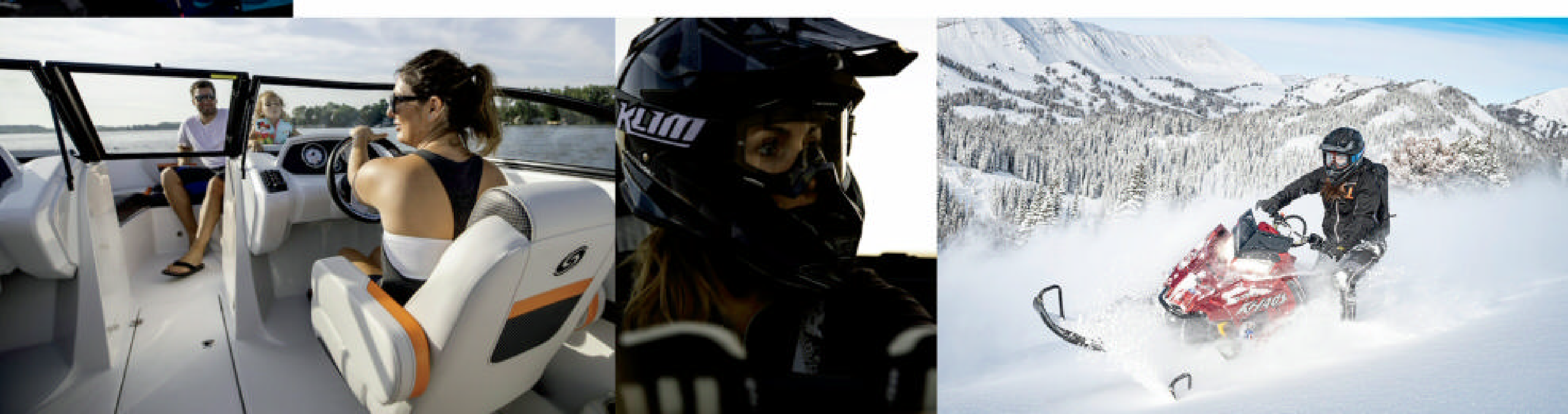
In the Rome of 2020, bikes present a more complex picture of class and opportunity. They are now, simultaneously, the object of bourgeois desire and tools of the trade for legions of immigrant deliverymen who fed the locals via food apps during lockdown. While there are no statistics showing how many of the latter are taking advantage of the "*bonus bici*," it felt like Christmas in July in wealthy sections of Rome. Bike sales in the city tripled in the weeks after the program was announced, and at a shop near the Galleria Borghese museum, police had to intervene to keep order as customers jostled over limited supplies, *Corriere della Sera* reported.

In all, Italy has set aside about €210 million for the "mobility bonus." That's a small slice of the government's Covid-19 measures, which include €100 billion in state-guaranteed loans for small companies and some €400 billion for larger ones. (The moneyed middle classes are arguably getting crumbs via the bike bonus when compared with the wealthy people who control the biggest companies. Government-backed loans have included a €6.3 billion credit facility for the Agnelli family's Fiat Chrysler Automobiles NV.)

At Collalti, a bike shop near Rome's Campo de' Fiori market run by the same family since 1899, the spending spree has been going full tilt. A wooden pallet holding boxes with eight Casadei bikes sits at the door. A crate with a €1,000 Serious Athabasca Hybrid is propped against a wall across the street. There's barely room in front of the store for the empty cartons from a pair of Brompton folding bikes (about €1,500 apiece) just in from the U.K. Inside, Collalti family members complete purchases by taking personal details from customers, which staffers send off to the Italian tax service. "It was crazy, a tsunami," says Danilo Collalti, the current generation's proprietor. "Everyone wanted one, even customers who'd never ridden a bike."

It is at Collalti that Polimeno found her Tern foldable bikes. She and her husband have since packed them and the dog into their car and relocated to the Tuscan sun for a work-from-home summer. These days, Polimeno's biggest concern is that the government might not make good on the deal. "I'm a bit nervous that Italy will run out of money," she says, "before they send me the check." Ⓑ *—With Carolynn Look, William Horobin, Paul Jackson, and Nate Lanxon*





The Aborted Airline Takeoff

● Early signs of recovery have been stalled by Covid flareups during prime travel season

Just a month ago, airlines around the world began adding flights as lockdowns eased and people craved escape. But as the travel season reaches what should be its annual peak, hopes for an industry comeback have been dashed by flareups of the pandemic in Asia, a deepening health crisis in the Americas, and the reimposition of flight curbs in Europe. With optimism about a quick rebound gone, the aviation world is increasingly resigned to years of depressed demand.

Airlines are now rethinking plans to restore their schedules and facing a jump in bankruptcies. It's also forcing a reassessment of just how long travel will take to return to normal, with the International Air Transport Association predicting that last year's traffic probably won't be matched until 2024, a year later than previously estimated. "The situation is deteriorating," IATA Chief Economist Brian Pearce says. "Airlines are having to take on costs, but demand and revenues are not rising as quickly as was expected, so they're still burning cash."

The difficulty airlines are having planning even days ahead was illustrated when Britain on July 25 abruptly reimposed a 14-day quarantine for people arriving from Spain after a surge in Covid-19 cases in the Catalonia region. TUI AG, the world's biggest tour operator, responded by scrapping all package holidays for Britons in Spain—previously their No. 1 destination—until the middle of August.

Fresh emergency measures imposed across the Asia-Pacific region, where international flights were first to return, suggest spontaneous clampdowns may be the shape of things to come. A so-called travel bubble allowing unfettered service between Australia and New Zealand is on hold for months, after a flareup in infections put Melbourne into lockdown and triggered a disaster declaration in the state of Victoria. The Philippines has halted nonessential overseas trips just a month after resuming service, and Hong Kong now requires some visitors to prove they've tested negative for the coronavirus.

In the U.S., a burgeoning recovery in demand has been squashed by a leap in cases, with many states

Edited by
James E. Ellis and
Benedikt Kammel

and some major cities adopting quarantine rules. The relapse prompted Scott Kirby, chief executive officer of United Airlines Holdings Inc., to predict his company's revenue will plateau at no more than half of prepandemic levels until a vaccine is widely available. IATA, which has forecast a record $100 billion loss for the industry this year and next—three times the losses after the 2008 economic slump—will need to revisit that prediction, according to Pearce.

Summer represents the only profitable period for many carriers even in normal times. But with the prospect fading for a traffic rebound, a spate of collapses and bankruptcy filings is inevitable, says Stuart Hatcher at consultant IBA Group. Compounding the crisis in tourism is the collapse in business travel, particularly on key routes across the Atlantic and linking China with Europe, which make up a major part of full-service airlines' earnings.

Some 34 carriers have failed so far this year, up from 27 in 2019 but well short of the 63 that went under in 2008. Airlines that have folded include U.K.-based Flybe; SunExpress Deutschland, which carried German tourists to Turkish sun spots; Miami Air, and the OpenSkies unit of IAG SA, which flew between Paris and the U.S. Richard Branson's Virgin Atlantic Airways Ltd. filed for Chapter 15 bankruptcy protection in the U.S. on Aug. 4 after telling a London court it was set to run out of cash next month if a pending rescue deal isn't approved. Among other carriers in administration, Virgin Australia Holdings Ltd. is being acquired, and two big South American carriers, Latam Airlines Group SA and Avianca Holdings SA, are also likely to reemerge.

Collapses have been held back by the grounding of fleets, which stemmed the outflow of cash, together with governments using furlough programs to pay wages and injecting billions of dollars via bailouts and loans. But Hatcher estimates casualties may double by yearend. "We expect the next level of blood to be spilled from September," he says. "That's when airlines take stock of what's been achieved over the summer in ticket sales and make a judgment about whether to continue."

Most devastating for carriers would be a new wave of infections over the Northern winter, coinciding with the seasonal slump in revenue and a tailing off of government support. Charter carriers, regional airlines, and operators that primarily serve leisure destinations are most vulnerable, according to IBA. Household names will generally endure, with discounters buoyed by strong cash positions and national carriers likely to be given further government support if they need it, Hatcher says.

Meantime, a clutch of major players is facing a long slog for survival. Carriers in Southeast ▶

▼ Annual airline bankruptcies*

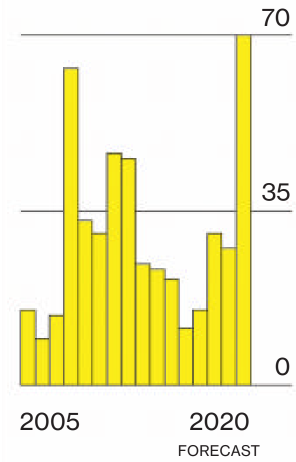


ILLUSTRATION BY EVA CREMERS. *INCLUDES AIRLINES THAT CLOSED WITHOUT FORMAL PROCEEDINGS. FORECAST INCLUDES AIRLINES IN ADMINISTRATION. DATA: INTERNATIONAL BUREAU OF AVIATION

◀ Asia may be endangered by a splurge on route expansion and aircraft orders. Auditor EY has cast doubt on the viability of Malaysia's AirAsia Group Bhd. and its AirAsia X Bhd. unit, a specialist in the kind of low-cost, long-haul travel that may now be moribund. Similar pressures are playing out in India, until recently the fastest-growing aviation market, where budget carrier SpiceJet Ltd. is struggling with liabilities of more than 500 times its cash in hand. India's government has ruled out assisting airlines as it confronts the world's fastest rate of infections.

In Europe, Norwegian Air Shuttle ASA's bid to penetrate the lucrative North Atlantic market was struggling under a mountain of debt before the pandemic. The carrier has restructured its borrowing, but by shifting its strategy to emphasize short-haul routes, it faces being squeezed between healthier discounters such as Ryanair Holdings Plc and full-service airlines like Air France-KLM and Deutsche Lufthansa AG—flag carriers that have been propped up by a combined €20 billion ($23.5 billion) in state aid. Even the three giant U.S. carriers are under pressure after borrowing ballooned in April. American Airlines Group Inc. is seen as the most at risk, with the upfront cost of insuring its debt in the credit-default swaps market implying an almost 100% chance of default in the next five years. The odds stand at 59% for United Airlines and 47% for Delta Air Lines Inc.

The extent of the crisis may be most apparent in the number of aircraft set to permanently exit fleets. Some 980 planes have been retired, and IBA projects a total of 5,000 will follow this year and next. "It's a very worrying time," says Willie Walsh, CEO of IAG, which owns British Airways, Iberia, and Irish carrier Aer Lingus. The holding company reported on July 31 that all of its airlines suffered substantial losses in the second quarter. "The figures speak for themselves," Walsh says. "British Airways has lost more in one quarter than the record loss it made in a year. This is by far the biggest crisis we have ever faced." *—Chris Jasper, with Anurag Kotoky, Justin Bachman, and Mary Schlangenstein*

THE BOTTOM LINE The airlines are expected to lose more than $100 billion this year and next. If a coronavirus vaccine isn't found soon to calm travelers, that dire forecast may need to be even higher.

Airbus and Boeing Play The Long Game

● As their airline customers struggle to survive, plane makers gamble on continued production

For decades, the competition between Airbus SE and Boeing Co. has centered on issues such as which could build the biggest jumbo jet or log the most multibillion-dollar sales each year. Then the coronavirus hit. Now the world's two dominant plane makers will battle to see which one can best weather an unprecedented downturn in air travel that's emptied the wallets of the airlines that buy their planes.

With new orders dormant, the challenge is to cut costs and protect cash while keeping factory systems and global webs of suppliers operating at a high enough pace to retain essential skills and be ready to bounce back when the crisis passes. Getting the balance right will be tough, given that Airbus and Boeing together employ almost 300,000 people and sell aircraft that typically take a year to build. Walking this tightrope is also expensive: In the second quarter, Boeing burned through $5.6 billion in cash; Airbus, $5.2 billion. And things are set to get tougher, as a fresh surge in infections prompts new travel restrictions worldwide.

Airbus and Boeing are sharply reducing output, announcing plans to reduce staff and trimming costs in research. They've also entered into what Airbus Chief Executive Officer Guillaume Faury calls "difficult" discussions with customers, negotiating to stretch out delivery schedules while prodding airlines not to walk away from commitments.

That risks creating a dynamic that pits the plane makers against ailing carriers, as they try to get them to honor contracts and accept jets they can't afford and don't need. If they don't press carriers to pay for at least some of the planes ordered during flush times, then the airframe manufacturers will have to burn more cash to keep their operations humming. But if they push too hard, they could further hobble some customers financially—endangering future sales or even driving them toward bankruptcy, jeopardizing existing contracts. "It's more about finding ways to deal with the situation together," Faury says.

Even at lower production levels—a roughly 40% drop at Airbus alone—it's unclear whether

◀ Boeing's 737 Max production line in Renton, Wash.

the market will be able to absorb the jets the two companies will churn out in coming years. Neither wants to cut too quickly, out of fear of ceding business to its archrival, according to Sash Tusa, an analyst with Agency Partners in London. He says they're also reluctant to lower production rates until after airlines have agreed to pay the costs associated with deferring deliveries of aircraft often ordered many years earlier. "Airbus and Boeing are now playing a potentially damaging game of chicken," Tusa says.

At the end of the second quarter, Airbus had 145 finished jets awaiting delivery. Boeing has about 450 of its 737 Max jets ready to ship once regulators clear the plane to fly again. Deliveries have been frozen since March 2019 following two deadly crashes; the go-ahead from the U.S. Federal Aviation Administration is expected by the end of fall. By Tusa's count, more than 1,600 planes are scheduled to enter or reenter service next year—on par with the industry's production peak in 2018.

While airlines retiring some older, fuel-guzzling planes from fleets will help, each plane maker is taking the calculated risk of continuing to produce jets faster than the market can absorb them. Airbus is set to complete 51 aircraft a month, despite delivering only 74 in the entire second quarter. Even as Boeing scales back its production plans, it wants to get back to producing 31 of its 737 Max jets a month by early 2022. The monthly build rates for its widebody 787s and 777s were at 19 pre-Covid and are coming down to a combined 8 jets a month next year. The U.S. manufacturer is pushing to hand over at least half of the grounded 737 Max aircraft in the first 12 months after the plane's return to service. But delivery delays related to the grounding have given customers extra leverage to demand flexibility on when they accept the jets.

"Both are very focused on minimizing cash burn, and part of that strategy is ensuring you don't build a lot of airplanes that sit on the ramp," says Bloomberg Intelligence analyst George Ferguson. "Airbus is being less cautious than Boeing, trying to build through the downturn in hopes that as things fade, the customers will come and get their airplanes."

By continuing to produce more than it can deliver, Airbus would provide greater support for its cash-strapped supplier network and more jobs for its own workforce, something Faury has flagged as a priority. The danger is that if the recovery comes later than expected—a growing possibility as areas in Europe and elsewhere see a flareup in Covid-19 cases—Airbus will be stuck with even more planes it can't push on the airlines.

The company has matched its adjustments as closely as possible to the downturn "in a way that is sustainable and brings back stability, not only for the company but also the wider supply chain, too," says Chief Operating Officer Michael Schöllhorn. It can cut back further if needed, he says.

Airlines are sounding an increasingly cautious note. Air France-KLM said on July 31 that it will continue to take aircraft only if it has financing. Air Canada in July threatened to cancel Boeing and Airbus orders, including for Airbus's Quebec-made A220 narrowbody jet, if it doesn't get support from the Canadian government. Willie Walsh, CEO of British Airways owner IAG SA, said airlines that treat the crisis as temporary are "misguided."

A further downturn in demand could force more drastic measures. Boeing is already considering consolidating production of its 787 widebody, which is built at factories in North Charleston, S.C., and Everett, Wash., into a single plant. Hard decisions lie ahead, CEO Dave Calhoun said on an earnings call: "I don't want to predispose any answers, because we don't have any."

For Airbus, which assembles planes in China, Europe, and North America, the options are more limited. The company has ruled out closing factories in the short term. And dismissing more workers, after it already announced plans for 15,000 cuts, would risk a run-in with European labor unions.

Still, standing firm could pay off, allowing Airbus to scoop up a bigger share of the market, says Bloomberg Intelligence's Ferguson. He says the company is better positioned to bet travel will bounce back because of state support and a healthier narrowbody program—but it might not be enough. "Cutting production is the most important lever to pull to get through the downturn," Ferguson says. "I don't see any other good responses." —*Charlotte Ryan, with Siddharth Philip, Julie Johnsson, and Guy Johnson*

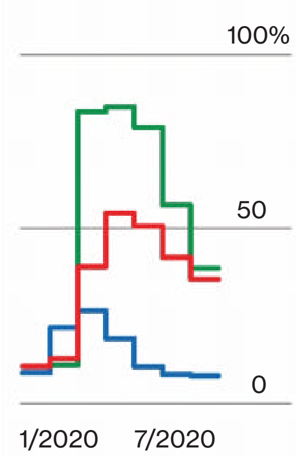
THE BOTTOM LINE New orders at Airbus and Boeing have stalled thanks to the pandemic. Now the future of 1,600 planes set to enter or reenter service next year seems increasingly at risk.

▼ Share of airline fleets in storage

Europe

North America

China



COURTESY BOEING. DATA: CIRIUM, BLOOMBERG INTELLIGENCE

Silicon Valley Failed To Think Different

● Tech companies' mostly White workforce reflects years of broken promises on diversity

Quora Inc., which runs the eponymous questions and answers website, couldn't figure this one out: Why were so many Black and Latinx college students rejecting its job offers or withdrawing from interviews? Last year, a recruiter suggested that the Silicon Valley company might seem more welcoming if it had dedicated groups of underrepresented employees for the candidates to consult. Higher-ups were initially skeptical, she says, whether the company even had enough diverse employees to do so. Quora says it's in the process of creating such groups.

Silicon Valley's predominantly White, male workforce didn't have to be this way. The wave of national unrest around ingrained racism has called attention to the dearth of people of color across corporate America. Yet if there's one industry that should have been able to avoid these problems, it's technology. Many of today's biggest tech companies, which frequently use their corporate mission statements to espouse utopian harmony, didn't exist a few decades ago. They didn't inherit the same racial disparities entrenched at banks and other centuries-old institutions. Yet they've replicated the same rot.

"Tech had started to take over our world, but as the industry added tens of thousands of jobs, it was ushering in the same systemic racism we've faced for 100 years," says Joseph Bryant, who leads PushTech2020, an initiative of the Reverend Jesse Jackson. "It's not just, 'Don't put your knee on my neck.' It's also, 'Help me get a job and build wealth, because I'm qualified and you're not even looking in my direction.' "

According to the Kapor Center for Social Impact, about 21% of computer science graduates are Black or Latinx, yet they represent only 10% of technical roles at the 20 top-grossing tech companies. More than 97% of tech startup founders and their venture capital backers are White or Asian.

Renewed vows in June by tech companies to diversify their workforces recall years of failure at Microsoft, Facebook, and Google. At those companies, Black employees make up 3.3%, 1.7%, and 2.4% of technical roles, respectively. Proxy statements show there was only one Black executive among the leadership teams at Microsoft, Facebook, Google, Apple, and Amazon.com last year. He was at Google, and he left in January.

To truly make good on all these years of promises, tech companies must start by puncturing two pervasive Silicon Valley myths: that they're meritocracies where everyone gets a fair shot, and that diversity is a pipeline problem. The reality is that Black employees are leaving faster than they're being hired because, for people of color, many tech companies can be painful places to work. Getting through the door is one thing; staying and progressing up the ranks to a position of influence is another.

Often, Black employees are the only minorities on their teams. They receive salary offers that average $10,000 less than offers to White peers, according to recruitment marketplace Hired Inc., and take longer to get promoted. Many also incur what's referred to as a "Black tax"–additional work such as representing the company at career fairs or conducting new-hire interviews, implicitly distorting how diverse the company is. That takes them away from their day job for no extra pay. Small wonder, then, that many tech companies lose more Black employees through attrition in a given year than they manage to hire. To have any meaningful change, tech companies will have to spend as much time–or more–retaining and promoting Black employees as getting them in the door.

And if they want smart people to speak up, they can't penalize outspoken Black workers. "One of my managers used to call all the things I was doing around diversity 'extracurriculars,' " says Bari Williams, a former Facebook Inc. lawyer who now heads legal at Human Interest Inc., a fintech company. "Leadership can talk about diversity all day long, but if the managers and people who implement it don't buy in, it's not going to happen."

Google came under fire in June after claims that its campus security policy, which encourages

Edited by David Rocks

staffers to look at the ID badges of passersby to make sure they match the people's faces, led to discrimination against Black and Latinx workers. Employees who said Black and Latinx workers were subject to disproportionately frequent checks complained to CEO Sundar Pichai, who committed to ending the practice. "It seems small, but over time it makes you feel like you don't belong," says one Black employee in the Bay Area, who spoke on condition of anonymity for fear of retribution. It's a signal that "this space wasn't built and isn't intended for us."

Black Googlers who speak out are criticized even as the company holds them up as examples of its commitment to diversity, according to Timnit Gebru, a Google researcher who uncovered how some facial-recognition programs mischaracterize darker-skinned women. She says co-workers and managers have tried to police her tone, make excuses for harassing or racist behavior, or ignore her concerns. When Google was considering having Gebru manage another employee, she says, her outspokenness on diversity issues was held against her, and concerns were raised about whether she could manage others if she was so unhappy. "People don't know the extent of the issues that exist because you can't talk about them, and the moment you do, you're the problem," she says.

Google says it began paying closer attention to attrition rates in 2018, when it saw Black and Latinx workers leaving the company at faster-than-average rates. The company says its response efforts included hiring case managers to focus on trying to retain the employees. "Only a holistic approach to diversity will produce meaningful, sustainable change," the company said in a statement.

The focus on diverse hiring has overshadowed failures to retain new Black and Latinx employees, pay them equally, and promote them. Tech companies' leaky bucket syndrome makes it look as if their overall workforce diversification efforts are stagnant. That discourages other diverse hires from seeking similar jobs and creates a difficult cycle to break, according to Charlene Delapena, a former recruiter at Quora who now works for another startup and also runs URx Inc., a talent development organization.

Quora says no Black students rejected job offers during last fall's recruiting season. "It is important to our mission and also to me personally that we provide an environment where people from all kinds of backgrounds can do their best work," CEO Adam D'Angelo said in a statement.

The push to diversify tech's ranks can be traced to the 2013 disclosure by former Pinterest Inc. ▶

"Leadership can talk about diversity all day long, but if the managers and people who implement it don't buy in, it's not going to happen"

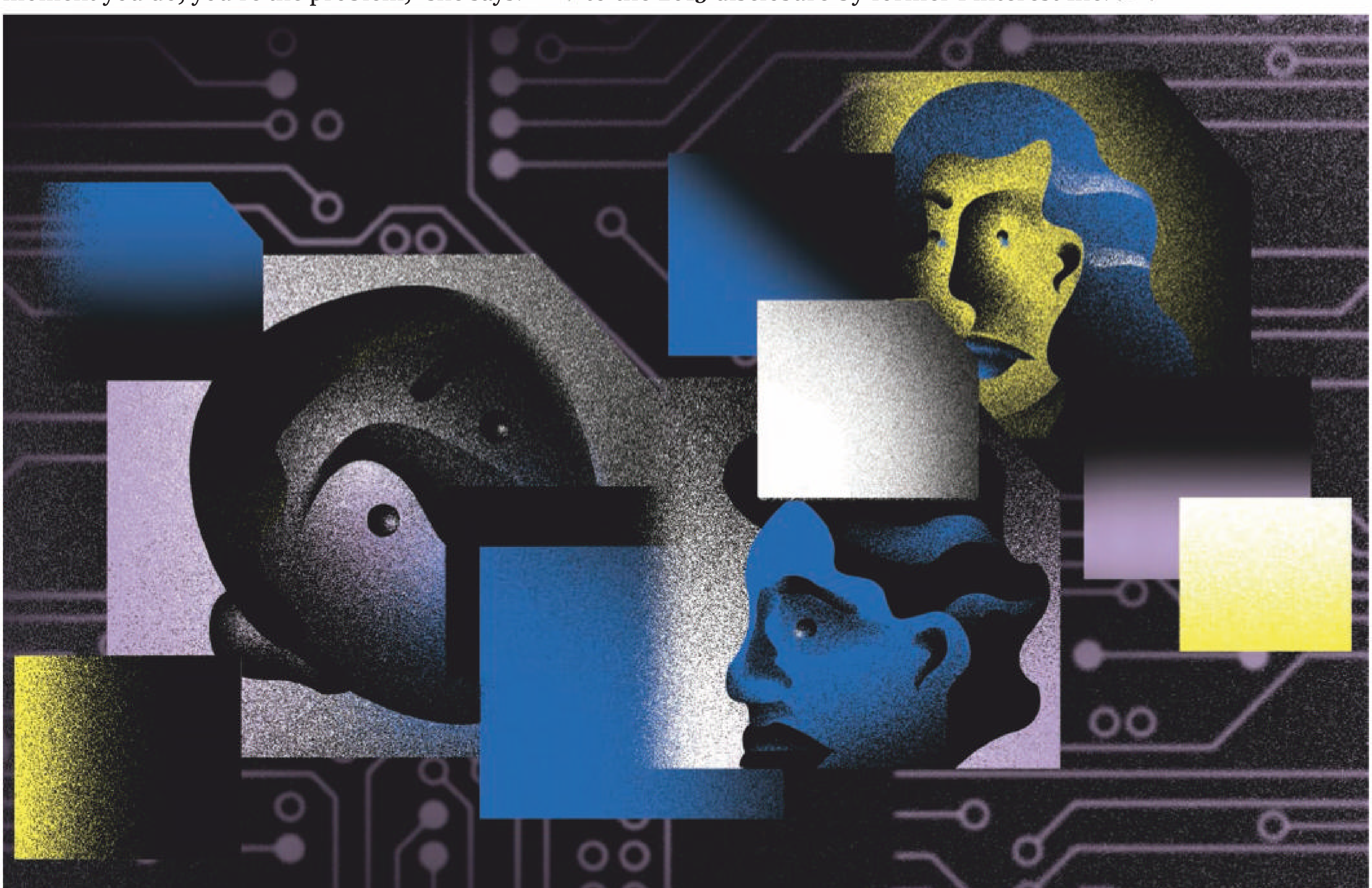


ILLUSTRATION BY JORDAN MOSS

◀ engineer Tracy Chou that women made up just 12% of the company's engineering staff. Her declaration prompted women at other companies to speak out. "There's no way we'd get systemic change if we weren't even willing to release the basic numbers," says Chou, who now runs Block Party, the maker of an anti-harassment app.

The next year, Reverend Jackson established PushTech2020 in San Francisco. He showed up at the annual shareholder meetings of Google, Microsoft, and Amazon and demanded they disclose their race and gender data. In 2015 members of the Congressional Black Caucus weighed in, meeting with Facebook Chief Operating Officer Sheryl Sandberg and Apple Inc. CEO Tim Cook.

PushTech2020 aimed for 20% of people of color in Silicon Valley by 2020. "We won't say they totally failed because this story hasn't reached its endpoint," says Bryant. "But they haven't come close." Top tech companies did begin to disclose their diversity stats and hire chief diversity officers, but five years on, not one such company has anything close to a 13% Black workforce, which would match the Black proportion of the U.S. population. Some companies have even tried to fudge figures by including temporary contractors and cafeteria workers, Bryant says, declining to name names.

Gwen Houston, Microsoft Corp.'s former head of diversity, says Black employees there would quickly become disillusioned by the "only-ness factor" that comes when few minorities are on a team. Promotion and hiring discussions regularly excluded Black employees under the banner of amorphous criteria, such as whether a candidate was considered a good "fit," she says. When the employees leave, she says, Microsoft's reputation among other Black job candidates naturally suffers. By the time Houston left Microsoft in late 2017, there had been some progress on increasing the number of women in leadership, but not much on the number of Black people. Twice-yearly talent reviews while she was at the company failed to elevate many Black executives because there were too few of them at a high enough level, she says.

A company the size of Microsoft would need to hire 9,000 Black workers in the U.S. alone to achieve population parity, so losing Black staff stung. "I always used to say we need to be just as invested on the retention as we are on the recruiting because we have to manage this hemorrhaging effect," Houston says. "Microsoft wasn't keen on talking about turnover costs."

Pledges to double the number of Black employees in senior and leadership positions by 2025 will "hold us accountable for progress," a Microsoft

spokesperson said in a statement. "We need to ensure that our culture of inclusion is a top priority for everyone. We acknowledge that there is much more that we need to do to improve the lived experience of Black and African American employees at Microsoft and members of the community in society."

The opportunity to build a diverse workforce perhaps seemed more promising at a younger company such as Facebook, which has added 42,000 employees globally over the past eight years. Facebook was founded in 2004, Microsoft in 1975. But according to company filings with the U.S. Equal Employment Opportunity Commission, there were only 260 Black employees in Facebook's 11,200-strong U.S. workforce in 2016. That count increased to more than 1,000 in 2018, but only after Facebook's total workforce roughly tripled.

Facebook has managed to increase the proportion of women among its technical employees to 24% in 2020, from 15% in 2014, the first year it published its diversity stats. In that time, however, it hasn't managed to increase the share of Black U.S. employees in those roles by a single percentage point.

Chief Diversity Officer Maxine Williams, who joined Facebook in 2013, says that failure doesn't have a simple answer—improving retention will require systemic changes beyond what the company has managed so far, rather than "leaving it up to chance whether someone has a good manager." Each team will need its own goals, she says. "It's bloody hard to keep doing this hard work every day."

In July, Facebook was accused of systemic discrimination by a Black employee in a complaint to federal civil rights authorities. Oscar Veneszee Jr., a decorated former U.S. Navy veteran, said he was denied promotions and stalled by middling evaluations, despite being good at his job. He had three managers in three years and was often the lone Black employee on his team. Veneszee said he was forced to apologize to a White Facebook recruiter after questioning why a list of potential schools where Facebook was actively recruiting only had one historically Black college or university on it. "If someone is being silenced over raising diversity concerns in recruiting, it means next time, someone like Oscar feels like they can't speak up," says Peter Romer-Friedman, a principal at law firm Gupta Wessler who is representing Veneszee. Facebook has said it's investigating the allegations; Williams declined to comment further.

Facebook in 2013 found zero correlation between alma mater and performance, according to Adam Ward, a former recruiter for the company who now runs his own firm. Current and former Facebook staffers say that despite adding more schools to the recruiting lists, White managers continue to select from the same Ivy League and West Coast schools they'd attended. Many of these institutions act as another racial filter because Black students are often underrepresented. "Companies will give unfair weight to a school like Stanford, dipping down to the top 20% of students, but might pass on a student in the top 2% of their class at Penn State because of baked-in bias," says Ward. Top roles are narrowly filled with people from other tech companies rather than Black or Latinx executives in more diverse sectors, he says.

Experts say the coronavirus pandemic and global economic slowdown are hurting diversity efforts, too. Businesses are looking for ways to cut costs, and diversity and inclusion teams can be low-hanging fruit. Companies give chief diversity officers "little to no budget," says Aubrey Blanche, the former diversity head at Atlassian Corp. "They're trying to solve 400 years of structural oppression and, 'Oh, by the way, they need to hit their target at the end of the quarter.' " *—Shelly Banjo and Dina Bass, with Alistair Barr*

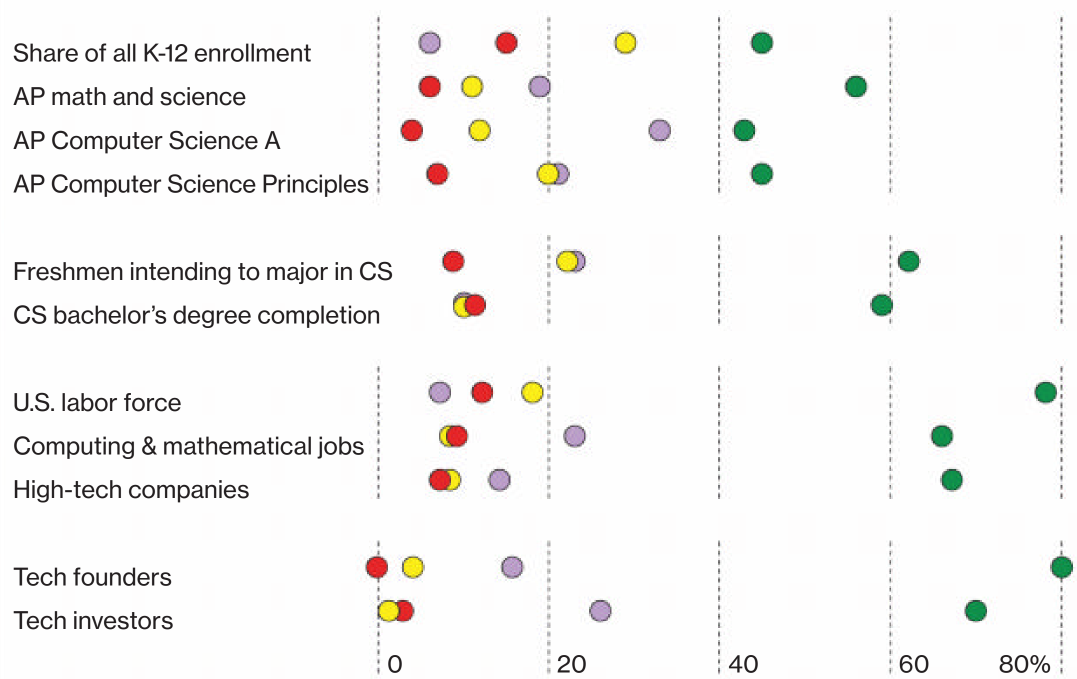
THE BOTTOM LINE The world's largest technology companies didn't inherit the same racial disparities entrenched at other centuries-old institutions. They replicated them anyway.

◀ Google researcher Gebru (top) and Chou, a former Pinterest engineer

Demographics of Computer Science

Share of group by race or ethnicity

● White ● Asian ● Latinx ● Black



DATA: COLLEGE BOARD, NATIONAL CENTER FOR EDUCATION STATISTICS, NATIONAL SCIENCE FOUNDATION, BUREAU OF LABOR STATISTICS, U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION, HARVARD BUSINESS SCHOOL, RACIAL BREAKDOWN OF VENTURE CAPITALISTS. COMPILED BY THE KAPOR CENTER

CHOU: PHOTOGRAPH BY ELENA HEATHERWICK FOR BLOOMBERG BUSINESSWEEK. GEBRU: CODY O'LOUGHLIN/THE NEW YORK TIMES/REDUX

3

FINA

The $500 Million Oil Jackpot

Edited by
Pat Regnier

● When oil prices went negative, a few traders above a London pub made a fortune. Did they also help cause the crash?

On April 20 the price of a barrel of oil for delivery the following month plummeted $40 in an hour, settling at –$37. It was the first time crude had ever crossed into negative territory. Regulators, oil executives, and investors have struggled to understand how a commodity at the heart of almost every aspect of global trade had fallen so far that buyers had to pay counterparties to take it off their hands.

But for a small group of veteran traders at a tiny London firm called Vega Capital London Ltd., the mystery mattered less than the results: They pocketed as much as $500 million that day, according to people familiar with the matter, who spoke to *Bloomberg Businessweek* on condition of anonymity.

Vega's jackpot, which hasn't been previously reported, involved about a dozen traders aggressively selling oil in unison before the May West Texas Intermediate contract settled at 2:30 p.m. in New York, the people say. It's a tactic Vega's traders used regularly, according to another person familiar with the firm's strategy, but that day its trading coincided with a period of unprecedented volatility, when demand for fuel was wiped out by the coronavirus pandemic, and storage space in Cushing, Okla., where buyers take physical delivery of WTI crude, had all but disappeared.

Now regulators at the U.S. Commodity Futures Trading Commission, the U.K.'s Financial Conduct Authority, and CME Group Inc., owner of the Nymex exchange where the trading took place, are examining whether Vega's actions may have breached rules on trading around settlement periods and contributed to oil's precipitous fall, according to people with knowledge of the probes.

Within 24 hours of the crash, the May WTI contract had bounced back to about $10 a barrel. But the plunge, however brief, created some big losers. They include thousands of Chinese and American retail investors who, lured by oil's recent slump, had piled into instruments whose value was pegged to the contract's April 20 settlement price.

Whether Vega's windfall was a result of savvy trading, blind luck, or something else, the idea that a relative minnow could have such a profound impact calls into question CME Chief Executive Officer Terry Duffy's April 22 declaration that the futures market had "worked to perfection."

"The idea that the anomalies that day were a function solely of supply and demand is fanciful at best," says Joe Cisewski, special counsel to Better Markets, a lobbying group that advocates for tougher regulation. "Oil producers, brokers, and other market participants have been sent into serious financial distress. Regulators need to objectively and thoroughly investigate what happened."

Spokespeople for the CFTC, FCA, and CME declined to comment. The CFTC has said it's looking to release a report on the crash later this year. Vega didn't return emails seeking comment.

Prop-trading firms like Vega give independent traders access to the world's exchanges, back-office services, and extra capital to trade with in exchange for a desk fee, a commission on every trade, and sometimes a share of any profits. In a trillion-dollar energy ecosystem dominated by the likes of BP, Glencore, and Royal Dutch Shell, prop firms are bit players.

Vega was started in 2016 by Adrian Spires and Tommy Gaunt, friends who'd worked together on the management team at another London prop firm, Tower Trading Group, before branching out on their own. In 2017 about 20 of Tower's energy traders quit to join Vega, sparking a legal dispute that was settled out of court. Gaunt quit as a director last year, and Spires, 44, now owns all of the business. He left school at 18 to take a job in the trading pits of the London International Financial Futures and Options Exchange. Some of Vega's traders spent time at the International Petroleum Exchange, buying and selling barrels of oil using hand signals, before commodities trading migrated from open outcry onto screens.

The firm has an office a short walk from Liverpool Street station, above one of London's All Bar One pubs, which it shares with a group of mostly recent college graduates trading cryptocurrencies for another company also owned by Spires. But most of Vega's traders work from home, according to people familiar with the firm, even more so since the U.K.'s lockdown came into force.

While more than two dozen individuals trade through Vega's omnibus account, finding information about them is difficult. Only a few list Vega as their employer on LinkedIn. The company's website has remained under construction since Vega was founded.

One oil investor describes the firm as something of a throwback to the days of the pits, ▶

▼ West Texas Intermediate price per barrel

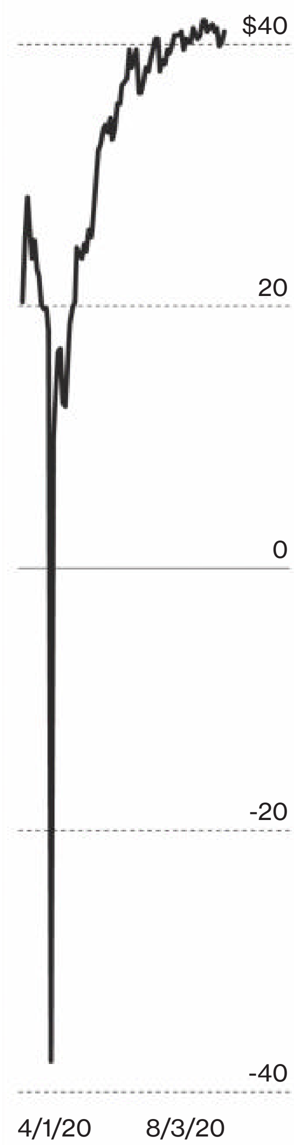


ILLUSTRATION BY 731. DATA: COMPILED BY BLOOMBERG

◀ when rowdy so-called locals made or lost fortunes before heading to the pub to celebrate their winnings or drown their sorrows. Many of Vega's traders know each other socially, playing golf and taking ski trips. They also trade together during key periods to maximize their impact on the market, the people familiar with the firm say.

To understand how Vega wound up making so much money that day, it's helpful to consider some of the idiosyncrasies of the oil market. Among the most popular ways to trade oil is Nymex's WTI futures contract, which allows buyers and sellers to agree on a price for 1,000 barrels of light sweet crude for delivery at a future date. New contracts are released every month, and they settle at 2:30 p.m. on or near the 20th of the month.

Nymex also offers a corollary instrument called Trading at Settlement, or TAS, in which buyers and sellers agree to transact at whatever the settlement price turns out to be. The settlement price is based on a volume-weighted average of trades occurring in the two minutes before 2:30 p.m. While it might seem curious that anyone would agree to buy something without knowing the price, the TAS market is popular among exchange-traded funds and other funds whose mandate is to track the price of oil rather than to get the best deal. It was also central to Vega's strategy.

One of the quirks of the oil futures market is that to take a long-term position, investors must keep buying new monthly contracts, then sell them before they expire and buy future months' contracts, a process known as rolling. A significant proportion of the market's participants are speculators with no interest in taking possession of any oil, so before each contract expires they have to close out any residual positions, creating a flurry of buying and selling.

In the lead-up to the April 20 settlement, rumors were circulating that there would be significant downward pressure on the May contract. The recent slump in prices had attracted bargain-hunting retail investors into funds that track oil, including the Bank of China Ltd.'s Treasure, a vehicle linked to the price of oil. To manage its position after the influx, Bank of China and the banks it uses to help execute trades needed to sell large numbers of the May contracts and buy June ones. Two weeks before the settlement, CME, which monitors market activity, issued a rare public warning that negative prices were a possibility.

On April 20, as Bank of China and others were selling May contracts, Vega's traders were hoovering them up in the TAS market, according to people familiar with the matter, agreeing to buy oil at whatever the settlement price turned out to be. Then, as the settlement time approached, they aggressively sold outright WTI contracts and other related instruments, contributing to the downward pressure on the price. Vega stood to profit if it managed to buy oil through the TAS market more cheaply than the oil it sold through the day.

Vega's selling collided with an exodus of buyers, and the May contract tumbled from about \$10 at noon to zero at 2 p.m., then all the way down to settle at −\$37. Oil's dive into negative territory meant that Vega ended up being paid for many of the contracts it sold as the market was falling—and for all those it bought at the −\$37 settlement price via TAS, locking in a huge profit.

Buying TAS and selling outrights before and during the settlement is a well-known strategy that dates back to the pits, according to market participants, but it carries considerable risk. Selling futures can quickly turn into losses if a bigger player shows up and starts buying. "It's a big poker game," says Greg Newman, founder of energy-trading firm Onyx Capital Group.

There are also rules that forbid trading with the goal of deliberately affecting the settlement. In 2008, Dutch firm Optiver was sanctioned by the CFTC for abusing the TAS mechanism and boasting about its exploits in emails. And in 2011 the agency introduced a rule prohibiting a practice known as "banging the close," which it defines as trading heavily during the settlement period in one market to influence a larger position elsewhere.

But proving manipulation requires the government to demonstrate intent, which is difficult without incriminating communications such as text messages. And winning cases has been difficult, even with the new rules. "They're not in any way slam-dunks," says Aitan Goelman, a former head of the CFTC's enforcement division and now a partner at Zuckerman Spaeder.

It seems unlikely that Vega's traders could have predicted just how far oil would fall on April 20. Its selling that day met a whirlwind of other factors that spooked potential buyers and exaggerated all participants' impact on the market. As a result, Vega's traders made more money than they could have dreamed of—and found themselves in the authorities' spotlight. That may explain why its traders, usually active on settlement days, weren't active in May, June, and July, according to a person familiar with the firm's trading. *—Liam Vaughan, Kit Chellel, and Ben Bain, with Jack Farchy*

THE BOTTOM LINE A small group of traders in London made a fortune on oil's unprecedented plunge into negative territory—now they're being scrutinized by regulators.

A Coin Shortage Is Hurting Laundromats

● After months of lockdown, quarters are getting harder to find

Every morning, Charles Boukas drives to six Chase banks in the San Diego area in search of quarters. The most he ever drove to was eight, but one branch was closed that day, and two others didn't have change. Boukas, the 55-year-old owner of the Coin Hut Laundromat, is in a bind: He's running low on quarters, because residents of apartment complexes are using his change machine but not necessarily to do laundry. The whole trip takes about two hours, and the total amount of quarters he can get is worth $120 because his banks limit how many coins they give out. So he's been seeking alternative sources.

Under couch cushions? Maybe not that far—but close. "Our biggest success has been friends and family so far, and the banks are just a daily grind that I do," Boukas says.

On top of a slowdown in foot traffic, laundromat owners such as Boukas are struggling because the coronavirus seems to have stopped up the flow of coins through the economy. People made fewer store trips, and many businesses stayed closed with old change sitting in their tills. Even big retailers have felt the pinch, with many putting up signs at registers encouraging customers to use exact change or pay with plastic. Some have called it a national coin shortage, but as of April, the U.S. Treasury estimated that about $47.8 billion worth of coins were in circulation, compared with $47.4 billion last year.

"I don't refer to it as a shortage, I refer to it as 'We don't have coin moving.' It's there, it's just not in the right place," says Jim Gaherity, chief executive officer of Coinstar, which collects loose change at machines that often are found in grocery stores. "It's in homes. It's probably in some businesses that haven't reopened at this point in time. It's in banks—so it's there."

Even in an increasingly digital world, cash is used in 49% of payments less than $10, according to a study from the Federal Reserve Bank of San Francisco. That's led to a strange kind of liquidity problem. Since the lockdowns began, the U.S. Federal Reserve has gone to considerable lengths to ensure that big money keeps moving through the financial system. Need to sell millions of dollars of corporate bonds? The Fed stands ready to make it happen. Need 75¢ for the dryer? That could be trickier. "This is just an unexpected wrench in the works that I don't think any of us could have anticipated, finding ourselves short on quarters," says Brian Wallace, president and CEO of the Coin Laundry Association, which represents about 2,000 laundromats across the country.

Only a fraction of the laundromats in the association have what it calls alternative payment systems; about 20% have laundry card options and 27% accept credit cards, Wallace says. "The people that show up to the laundromat each weekend are there for a purpose," he says. "It's an essential service. Anything that impedes that progress certainly impacts tens of millions of families that use vended laundry each week."

Coinstar plays a role in the recirculation of coins in America. Its green kiosks were responsible for processing $2.7 billion of coins last year. In the U.S., the company generally collects an 11.9% fee from customers, who take paper bills in exchange for their coins, though it also offers to pay in the form of gift cards with various retailers without the fee. A spokeswoman for the company says it saw coin volume decrease during the lockdown, but is seeing it return.

The company also operates in Japan, Canada, Italy, and several other European countries, but didn't see this problem abroad. "There's something unique about the U.S. that we can't figure out why this has come to this crisis," says Gaherity.

Once a kiosk is full of coins, Coinstar deposits them in a financial institution, which can recirculate the coins to customers such as Boukas. But he says a big chunk of the ▶

▼ Share of U.S. consumer payments in 2018, by purchase amount

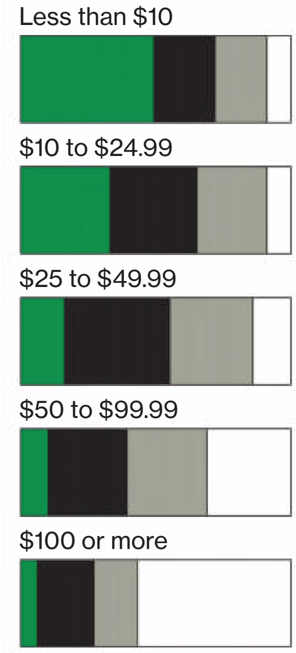


PHOTO ILLUSTRATION BY 731; LAUNDRY: STEPHEN VANHORN/ALAMY STOCK PHOTO. DATA: FEDERAL RESERVE BANK OF SAN FRANCISCO'S DIARY OF CONSUMER PAYMENT CHOICE

◀ quarters he stocks in his change machines don't make it into his washers and dryers. "I average $100 a day leaving the laundromat, going somewhere else," he says. "I'm like a minibank. They get change from me."

Fed Chairman Jerome Powell said in June that he believed the shortage would be temporary. The U.S. Mint is increasing production, and the Federal Reserve formed a coin task force with industry stakeholders, including Coinstar, to come up with recommendations on how to fix the flow of coins.

Suggestions from the Coin Laundry Association and the National Automatic Merchandising Association, which represents the vending machine business, include the Fed distributing additional coins and prioritizing distribution to "consumer businesses in the essential critical infrastructure workforce." Another obvious fix might be to pay people for their now-precious loose change. For a week ending on July 21, Wisconsin-based Community State Bank ran a coin buyback with a $5 bonus for every $100 worth that customers turned in.

If he can't find additional quarters, Boukas says his contingency plan is to take customers' paper cash and operate the laundry machines manually. In the meantime, he's been trying to dissuade the people who take his change elsewhere: "I explained to the apartment dwellers, 'you come take coins out of here, you're putting me out of business. You are asking me to go to the bank for you, in a way.'" —*Michael Tobin*

THE BOTTOM LINE The pandemic has limited coin circulation in the U.S. more than in other countries and forced American businesses that rely on loose change to get resourceful.

Saving America's Black Banks

● An activist rapper brings attention—and customers—to the few remaining Black-owned financial institutions

Michael Render, the rapper and activist better known as Killer Mike, has been saying the same thing for years: America needs Black banks. But after George Floyd was killed by police in Minneapolis, Render is issuing another plea on behalf of the few Black-owned banks still standing. Once again, he's urging fans to #BankBlack.

The campaign has worked—at least on the small, often precarious scale of Black-owned banks. The largest one, OneUnited Bank in Boston, quickly attracted $50 million of new deposits. Yet even with that additional money, OneUnited is only an asterisk in the wider banking industry. JPMorgan Chase & Co. has more than 150 branches that are each bigger than all of OneUnited.

While Wall Street behemoths may be too big to fail, many Black-owned banks have proven too small to succeed. Two decades ago, 48 were open for business. Today there are just 21. Since the 2008 financial crisis, as the big banks have gotten $2 trillion bigger, the combined assets of Black-owned banks have actually declined.

Amid the nation's reckoning over race, a pivotal moment is arriving for Black-owned banks, in the form of the #BankBlack movement Render helped set in motion in 2016. The question is whether those


● Killer Mike

lenders can push back against the national giants that dominate their industry and pull the financial levers in most Black communities. "The best way to punish a wicked system within capitalism is to use capital, your dollar" to show that "systemic racism is bad for money, it's bad for business," says Render, one-half of the rap duo Run the Jewels.

Render and others are urging consumers and businesses to use their economic power to bolster Black-owned lenders, which serve communities that remain disproportionately underbanked. Making those banks stronger and pushing the industry's giants to boost lending to African Americans can help begin to rectify an imbalance that has left Black families with an average net worth that's one-tenth that of White families.

There are signs that the message is taking hold. OneUnited has added more than 40,000 customers since the beginning of the protests sparked by Floyd's death. Netflix Inc. pledged to shift as much as $100 million to lenders that support the Black community. While that accounts for less than 2% of the entertainment giant's cash, it's a start.

The history of Black banks in the U.S. goes back to Freedman's Savings & Trust Co., which was chartered by the U.S. government in 1865 to serve newly freed slaves who were denied by other lenders. It collapsed in 1874.

Since then, many financial institutions catering to Black communities have suffered the same fate, including City National Bank of New Jersey, which failed last November. In contrast, the "too big to fail" lenders that received government bailouts during the 2008 financial crisis came into the Covid-19 crisis riding high off of record profits. Regulations put in place to avoid future bailouts in turn heaped more compliance costs on smaller lenders already facing thin margins.

Commercial banks in the U.S. topped $200 billion in collective profits for the second straight year in 2019. None of the biggest Black-owned banks was able to crack $5 million. The shrinking of the industry is tied to structural racism, says Mehrsa Baradaran, a law professor at the University of California at Irvine. Black-owned banks are based mostly in low- and moderate-income communities, where they collect small deposits and have fewer opportunities to profit from making loans. Like many of their customers, the lenders lack the capital necessary to grow.

"The fact that Black banks are still serving these communities is huge, and so they can use all the help that they can get," says Baradaran, whose book *The Color of Money* influenced Netflix's move. The banks provide a crucial alternative to payday lenders that charge high rates and fees, she says, and a boost in low-cost deposits could further that effort.

In mainstream banking, African Americans still have less access to credit and other banking services as legacies of slavery and segregation. Unfair practices such as redlining, which made it difficult for Black people to get mortgages in the U.S. for decades, and the subprime crisis have "clobbered" Black communities and worsened the racial wealth gap, Baradaran says.

The Office of the Comptroller of the Currency convened a roundtable last month to promote financial inclusion, comprising representatives from minority lenders and nonprofits, as well as Citigroup Inc. Chief Executive Officer Michael Corbat and JPMorgan Co-President Gordon Smith.

The #BankBlack movement offers a partial remedy, calling on Americans to use their spending power to create social and economic change. Killer Mike is one of its biggest advocates. Comedian Tiffany Haddish is on board, and so are other entertainers, athletes, and community leaders. Kevin Cohee, CEO of OneUnited, urges everyone–not just Black people–to join in.

"Are you on the side of being progressive, are you on the side of justice for all, are you on the side of equal treatment for everyone?" says Cohee. "Or are you not?" He hopes prospective customers will give his bank a chance, even if they only use it for their secondary accounts to start.

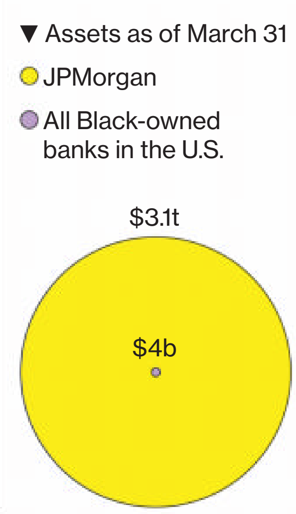
Render points to his single *Ju$t*, featuring Pharrell Williams and Zack de la Rocha from Rage Against the Machine. The song is about not losing one's humanity in the pursuit of riches. "Wall Street is connected to any Black street in America–and if we don't look at it that way, then this country continues to be a giant that's hobbling along on a broken ankle," Render says. "If the Black community is strong economically, the greater community is stronger." —*Lananh Nguyen, with Jennifer Surane*

THE BOTTOM LINE More than half of America's Black-owned banks have disappeared in the last two decades, and a social campaign is helping those that remain gain new customers.

Largest Black-Owned Banks in the U.S.

Bank	City	Est.	Assets as of March 31
OneUnited	Boston	1982	$656m
Liberty Bank and Trust	New Orleans	1972	624
Industrial	Washington	1934	560
Broadway Federal	Los Angeles	1947	504
Citizens Trust	Atlanta	1921	444

DATA: COMPANY FILINGS, FEDERAL DEPOSIT INSURANCE CORPORATION



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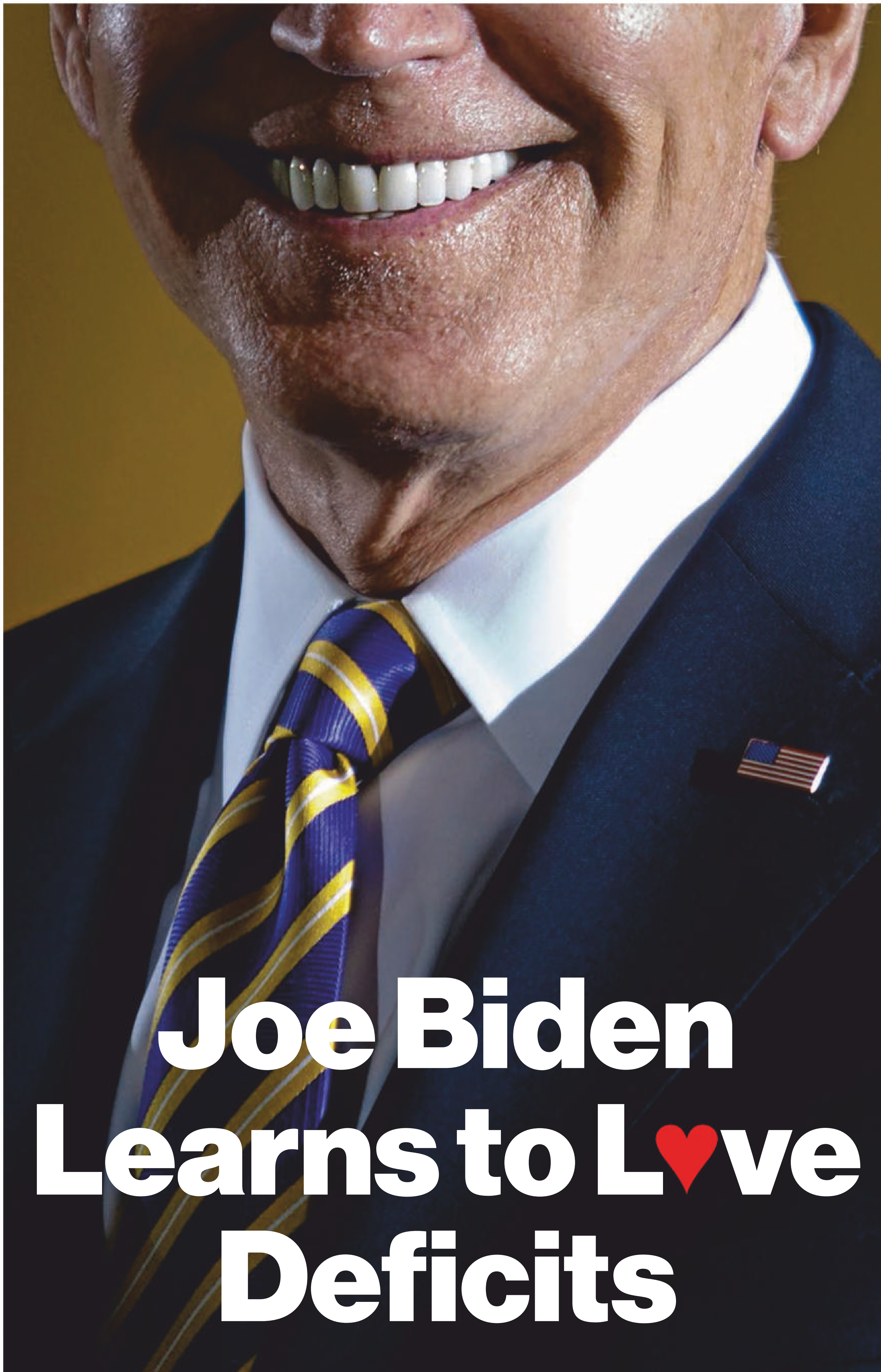
ECONOMICS

Edited by
Cristina Lindblad



Joe Biden Learns to Love Deficits

BIDEN: TOM BRENNER/THE NEW YORK TIMES/REDUX ; RIGHT: BLOOMBERG (3)

● The Democratic nominee is willing to spend big on issues such as climate and inequality

Joe Biden, who's warned about the dangers of budget deficits for decades, will inherit one of the biggest in U.S. history if he becomes president—and he'll be in no rush to pare it back.

That's the signal the Democratic candidate is sending after his campaign rolled out a $3.5 trillion economic program over the past month that promises to invest in clean energy and caregiving, buy more made-in-America goods, and start narrowing the country's racial wealth gaps.

The bill for this agenda is modest compared to the universal health-care and student loan forgiveness plans backed by some of Biden's primary season rivals. Still, it would come right after the U.S.'s multitrillion-dollar effort to pull its economy out of a pandemic slump. This year's budget shortfall is forecast to exceed 17% of gross domestic product, the most since the country mobilized to fight World War II.

All that red ink might have been a problem for past incarnations of Biden. First elected to the U.S. Senate in the 1970s, he has a history of urging fiscal restraint. In the 1990s he twice voted for unsuccessful Republican efforts to make balanced budgets compulsory by amending the Constitution. And as a presidential candidate in 2007 he signaled that he would consider trimming spending on Social Security and Medicare in the interest of sound public finances.

Since then there's been a sea change in American politics and economics. It began while Biden was vice president in the Obama administration. Concerns that too much stimulus was being pumped into the economy and might trigger higher inflation proved unfounded. Instead, the drawn-out recovery highlighted the opposite risk: premature belt-tightening after a recession. "It took us 11 years to get back to full employment. One key reason was that lawmakers went from fiscal support to fiscal austerity much too quickly," says Mark Zandi, chief economist at Moody's Analytics. "It's pretty clear that was a mistake, and hopefully we don't make that mistake again."

"The attitudes around deficits and debt in all circles—academic, political, economic—were very different," Zandi says. The shift was gathering pace well before the pandemic as the U.S. ran bigger budget deficits under President Trump without any sign of inflation surging, the dollar weakening, or the flight from U.S. bond markets that Wall Street analysts used to warn about.

In recent years, several prominent economists—including some who are now part of the Biden brain trust, such as former U.S. Treasury Secretary Lawrence Summers—have downplayed the risks of deficits in an era of feeble economic growth and rock-bottom borrowing costs. Modern Monetary Theory has gained a following, especially in the left wing of the Democratic Party. MMT argues that a country with its own currency has room for more government spending as long as inflation doesn't get out of hand. Stephanie Kelton, a leading MMT economist, was a member of the task force jointly convened by Biden and Senator Bernie Sanders of Vermont to seek policies the party can unite around.

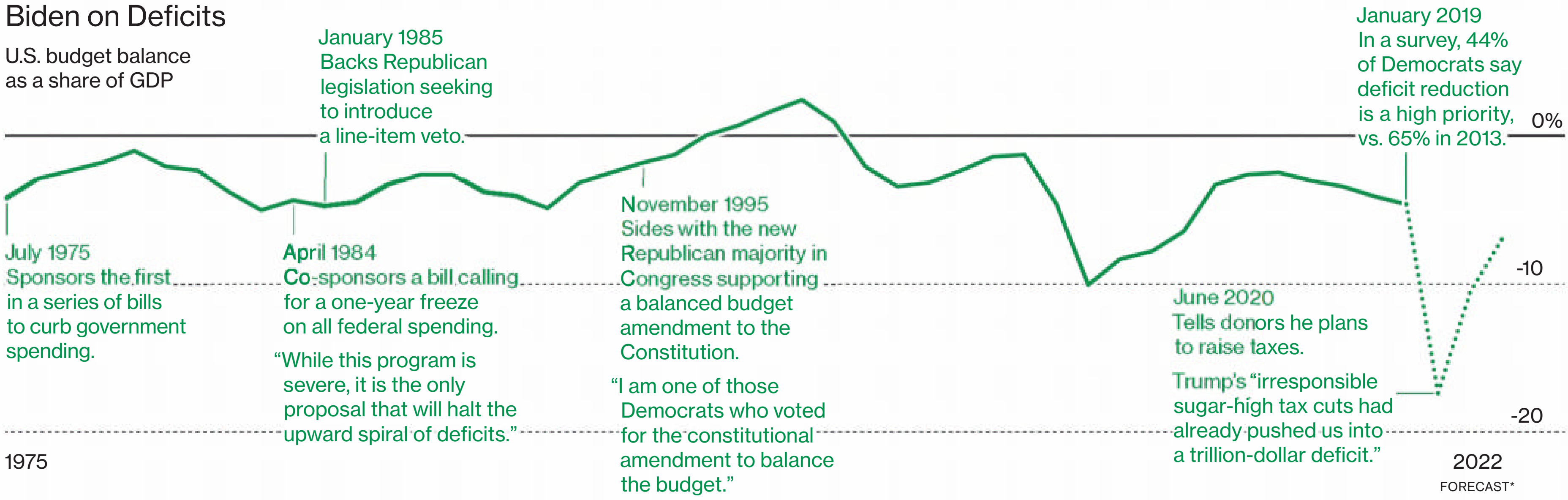
Fiscal hawks were driven further into retreat by Covid-19, which brought more pressing problems such as Depression-era levels of unemployment as the economy shrank at a 33% annual pace in the second quarter. Biden retains a "laser focus on ▶

● Kelton

● Summers

Biden on Deficits

U.S. budget balance as a share of GDP



*MEDIAN FORECASTS BASED ON A BLOOMBERG SURVEY OF ECONOMISTS
DATA: U.S. DEPARTMENT OF THE TREASURY, COMPILED BY BLOOMBERG; PEW RESEARCH

◀ the long-term fiscal health of the United States," says Jake Sullivan, one of his top policy advisers. But he's consulted a wide range of economists and former government officials about the need for stimulus, and "the answer that comes back is we're going to have to make big, bold investments early next year," Sullivan says. "He feels that's going to be necessary."

The biggest outlay in Biden's plan is the $2 trillion over four years earmarked to shift millions of jobs into clean energy, with the goal of cutting carbon emissions from power generation to zero by 2030. The idea has been cheered by progressives who were skeptical of Biden on climate because he opposes the Green New Deal backed by such Democrats as Representative Alexandria Ocasio-Cortez of New York.

To boost manufacturing, Biden is pledging an additional $400 billion in procurement of domestically made goods, as well as $300 billion to support high-tech research. The other core spending proposal is to expand the availability of care for the youngest and oldest Americans, including universal preschool for 3- and 4-year-olds, at a cost of $775 billion over a decade.

While Biden has pledged to reverse most of Trump's 2017 tax cuts, his campaign hasn't gone into much detail on how his proposals will be financed. "How much is stimulus and how much is paid for," Sullivan says, "is a question that turns on the economic conditions that we find in January."

That in turn may depend on the outcome of a budget battle in Congress this summer over the next round of coronavirus relief. Key parts of the $2 trillion in spending approved by lawmakers earlier in the crisis, such as the $600-a-week top-up for unemployment benefits, expired in July—just as the economy appeared at risk of a relapse amid a new wave of virus cases in Sun Belt states.

Biden has backed congressional Democrats who are demanding more than $3 trillion in new measures, including an extension of the jobless payments and aid for state and local governments. Republicans, pointing to an already rising national debt and arguing that overgenerous benefits will deter people from returning to work, want to cap the package at $1 trillion.

If the GOP retains control of the Senate in the November election, it could throw up the same kind of roadblocks to a Biden administration's spending plans. Pressure to "pare everything back because of concerns over deficits" won't just be coming from the other side of the aisle—it could surface within Biden's own party, too, according to Beth Baltzan, a fellow at the left-leaning Open Markets Institute. "There are plenty of Democrats who are superhawkish on this stuff."

But Baltzan says she doesn't expect that kind of "doctrinaire" approach to fiscal policy from the former vice president if he wins the top job this time. "I think he's pragmatic," she says. "I think he understands the moment in history that we're dealing with."

The Covid crisis may compel Democrats who've voiced concerns about the national debt to be pragmatic as well. "We're in a very unique moment, where if we don't inject money into the economy, we're going to end up in a depression," says Representative Tim Ryan, a Democrat from Ohio who slammed Trump's tax cuts partly on the grounds of how much they would widen the deficit. "We're all concerned in the long term about debt and deficits. But right now, it would be counterproductive." *—Jenny Leonard and Tyler Pager*

THE BOTTOM LINE Biden was once a debt scold, but his $3.5 trillion spending plan demonstrates that his thinking on the danger of deficits has evolved with the times.

Counting Puerto Ricans

● Ahead of a door-to-door campaign, the territory lags all U.S. states in census responses

As Americans are being asked to stand up and be counted in the 2020 census, Puerto Ricans are taking a pass.

The U.S. commonwealth has a census self-response rate of just 27%—the lowest of any U.S. jurisdiction and well behind the national average of 63%. Alaska, the other national laggard, has a comparatively robust response rate of 49%.

Just how many people the island has lost in the last decade—driven away by a deep recession, political instability, and natural disasters—remains a matter of contention, particularly on Wall Street. The territory has been mired in court proceedings since 2017, when it sought to reduce almost $125 billion in debt and pension liabilities by filing for municipal bankruptcy—the largest claim in U.S. history. As

investors try to claw their money back, the question of how many taxpayers remain on the island to shoulder that burden has taken center stage.

The accuracy of the count will also have deep repercussions for the island, which is why Governor Wanda Vázquez regularly issues statements urging residents to fill out the paperwork, saying the territory's economic health depends on it. More than 300 federal agencies use data from the decennial census to allocate an estimated $1.5 trillion in funds to states and territories each year, says Andrew Reamer, a research professor at George Washington University—everything from lunch money to disbursements for highway construction.

"This will be the first time we can officially assess how much migration there was during the decade," says Alexis Santos, an assistant professor of demography at Pennsylvania State University. "I think it's safe to say that this is the most important census that Puerto Rico has ever had."

Quantifying the impact of an inaccurate count is tricky because it depends on who's not being counted. Whether a person is elderly, poor, unemployed, living in a rural area—different demographic factors tilt the balance of different government programs. But at the most basic level, "every person counts," Reamer says. "If you and I do not fill out the census form, our community loses money."

The U.S. Census Bureau says it will close the data gap in Puerto Rico with door-to-door surveys that began at the end of July and will continue through September under a revised schedule published on Aug. 3 that moves up the deadline by four weeks. The stakes are high: Any errors that might occur now won't be corrected until the next census in 2030. "If Puerto Rico misses 100,000 people in 2020 they are gone for a decade," Reamer says.

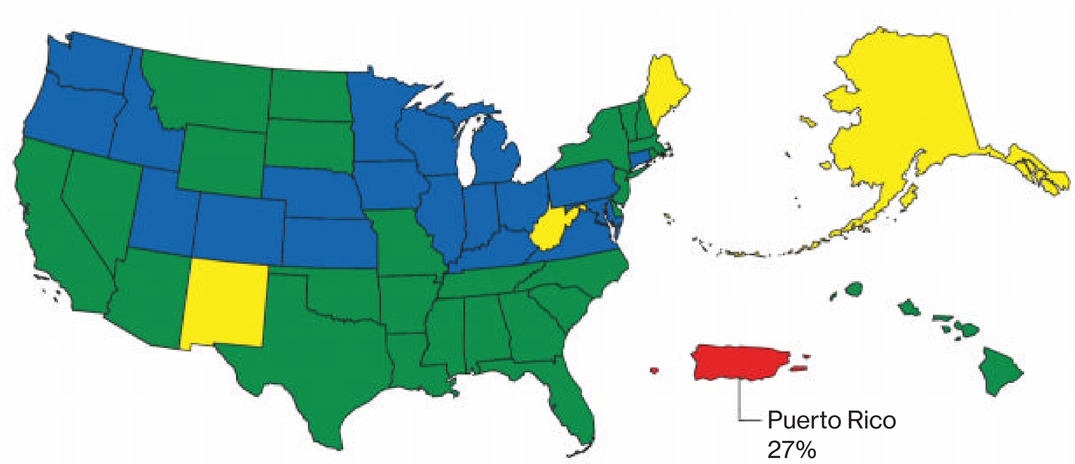
The government estimates Puerto Rico has lost about 14% of its inhabitants since the 2010 census, leaving it with a population of 3.2 million. Many left after Hurricane Maria ravaged the island in 2017. And even more have fled a grinding economic crisis that's seen gross domestic output contract 10% from 2009 to 2019. Compounding the problem, very few people have been moving to Puerto Rico. But just how dreadful the decade has been is a mystery that can be resolved only by a direct census-to-census comparison. The data will also be key to predicting the future. ▶

▲ Santos Burgos, who hasn't responded to the census yet

Puerto Rico Lags in the Decennial Count

2020 census self-response rate* as of July 30

Under 45% | 45%-55% | 55%-65% | 65%-75%



*HOUSEHOLDS THAT HAVE RESPONDED ONLINE, BY MAIL, OR BY PHONE. DATA: U.S. CENSUS BUREAU

JIM WYSS

◀ Jesse Keenan, an associate professor of real estate at Tulane University, co-authored a study that argues that most government agencies on the island—relying on their own experts—are overestimating the size of Puerto Rico's population in the years to come.

"Demography is somewhat politicized," Keenan says. An agency interested in protecting bondholders may look for forecasts that project a robust tax base in the future. The same goes for agencies seeking federal money to expand roads or rebuild after a hurricane. "People have a self-interest in steering these numbers one way or another," he says.

Keenan's study suggests the island could lose half its residents—1.6 million people—over the next 30 years. But underpinning those grim projections is census data, and that's why these next few months will be so critical. "The census is fundamental to understanding the future population and preparing for those future populations," he says.

Officials at the U.S. Census Bureau say that while Puerto Rico's self-response rate is unusually low—about half the 2010 figure—it's not surprising. According to Jeff Behler, the regional director for the Census Bureau, the agency started hand-delivering census packets on March 14, only to suspend its work two days later when the island went into one of the U.S.'s strictest lockdowns amid the surge in coronavirus cases. It didn't restart that process until the end of May.

During the last week of July, some 10,000 census "enumerators" began going door to door to pull data from the silent households, an army that will be supplemented by at least 2,000 new hires to meet the revised deadline, according to Behler. "I am confident we are going to get a 100% response rate," he says. "It just means our workload in Puerto Rico is a little bigger."

On a narrow road in the heart of San Juan, a group of men sat outside a car garage and motioned to a white-bagged census packet that had been hanging on the fence of a nearby house for months. It would never get answered because the home had been abandoned after Hurricane Maria, they said. Other homes on the street were empty because their residents had been moved to senior-care facilities or joined the wave of people heading to the U.S. mainland.

Santos Burgos, 60, said he'd received his census packet but hadn't filled it out yet. "My brother and I looked at it, but it's just too confusing," he said. "We're waiting for the census people to come by and help us. Tell them we're still waiting." *—Jim Wyss*

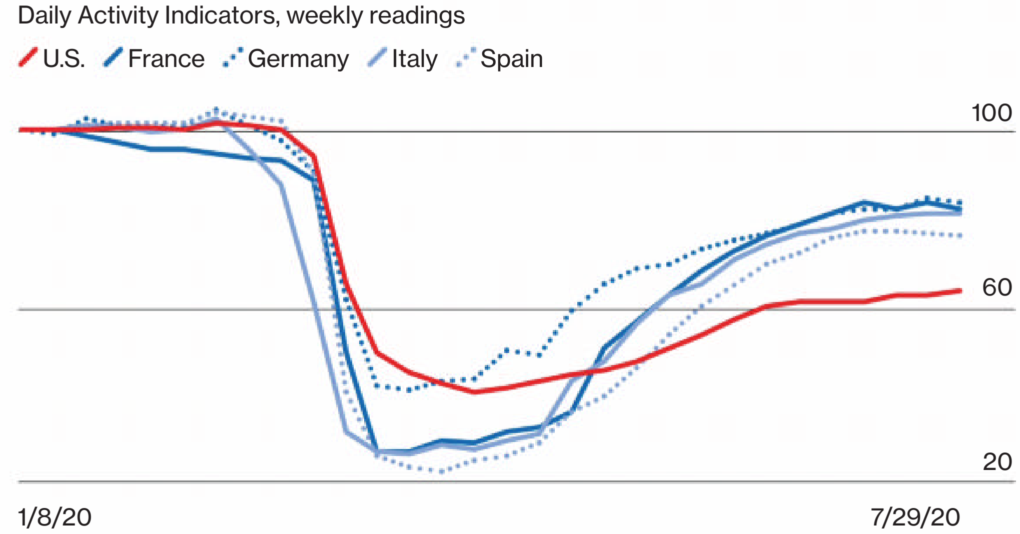
THE BOTTOM LINE Getting an accurate count of Puerto Rico's population is key for parties hashing out repayment terms on the island's defaulted bonds and for agencies seeking federal dollars.

Recovery U.S. vs. Europe

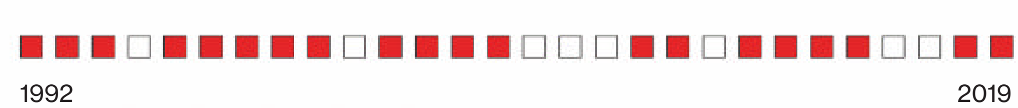
The major economies of the euro area have been rebounding from the recession caused by the Covid-19 pandemic at a faster pace than the U.S.'s, according to indexes developed by Bloomberg's economists using high-frequency data such as demand for electricity and usage of public transportation. That's a departure from a decades-long trend in which the economy of the euro area has largely underperformed that of the U.S. The recent divergence has led to euro gains against the dollar. European stocks are also performing better than American equities. Because the U.S. hasn't been as successful at controlling the coronavirus spread or protecting jobs and incomes, the recovery is showing signs of stalling stateside. *—Catherine Bosley and Reade Pickert*

New Covid-19 cases, 7-day total as of Aug. 2

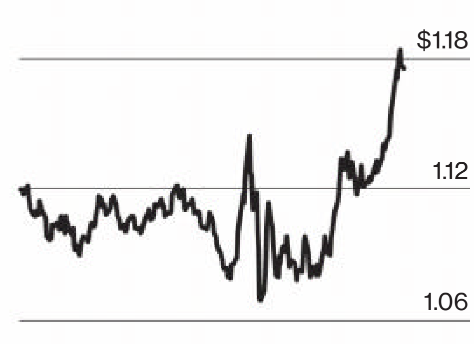
Daily Activity Indicators, weekly readings



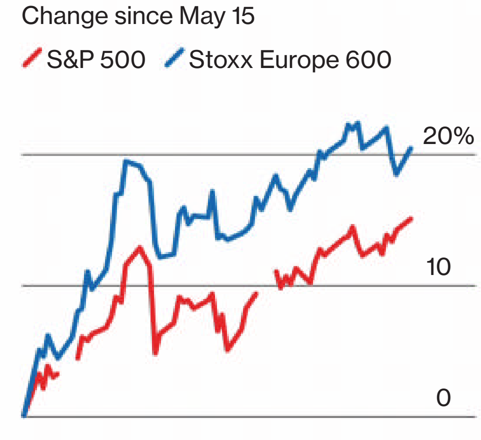
Years in which the U.S. economy outperformed the euro area's



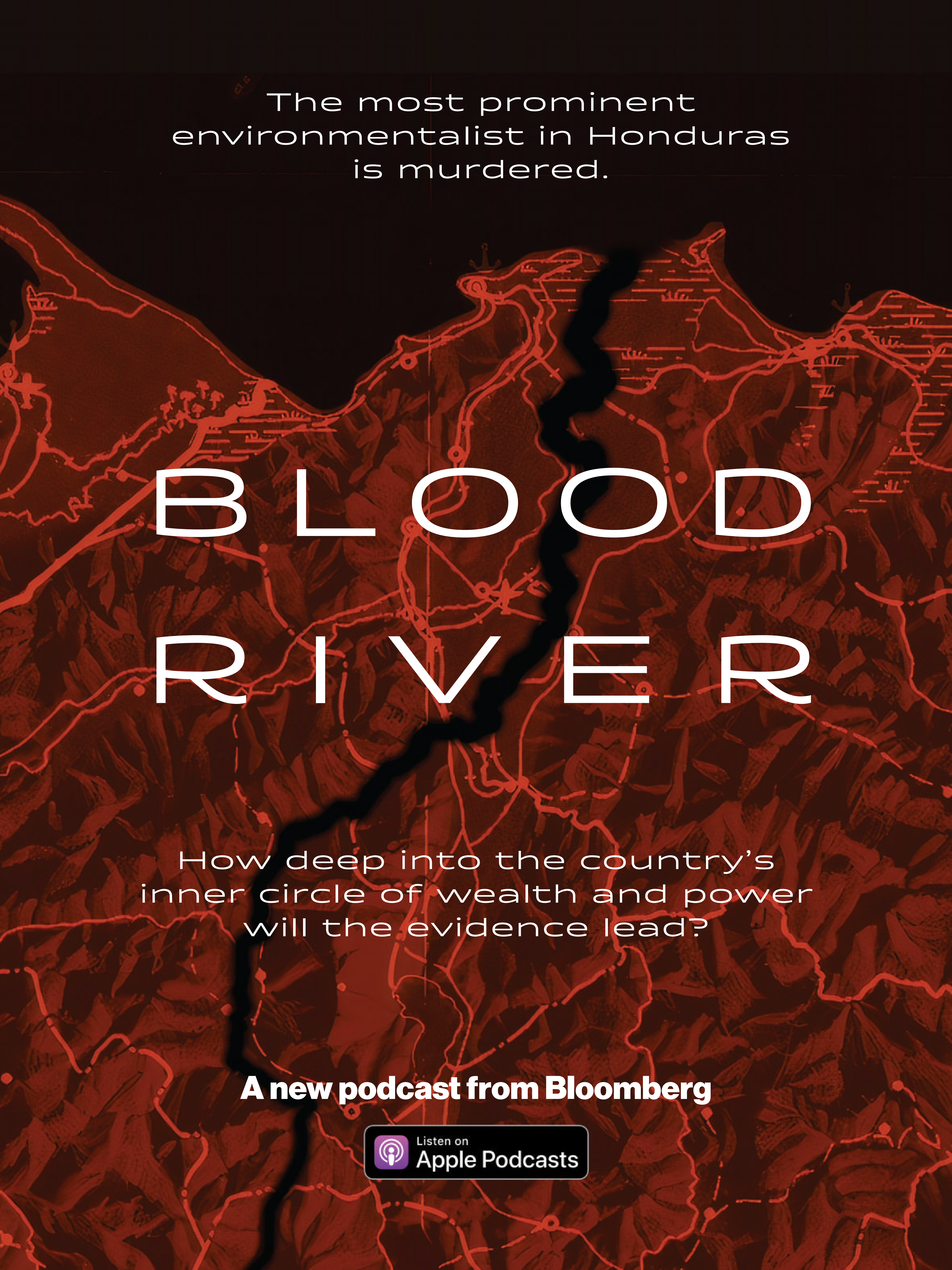
U.S. dollars per euro



Change since May 15



DATA: JOHNS HOPKINS UNIVERSITY, BLOOMBERG ECONOMICS, INTERNATIONAL MONETARY FUND, COMPILED BY BLOOMBERG


The most prominent environmentalist in Honduras is murdered.
BLOOD RIVER
How deep into the country's inner circle of wealth and power will the evidence lead?
A new podcast from Bloomberg
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Hong Kong's Counter Revolu

PHOTOGRAPH BY BILLY H.C. KWOK FOR BLOOMBERG BUSINESSWEEK

● Pro-democracy restaurants get creative about speech as Beijing clamps down

The striking red-and-white protest posters on the windows of a Hong Kong restaurant proclaim in Chinese, "Revolution Is No Crime! To Rebel Is Justified!" and "Carry the Revolution Through to the End." Once meant to rally the proletariat in Mao Zedong's China, they carry a new meaning in Hong Kong: The opposition to China's clampdown on Hong Kong's autonomy may be struggling, but it isn't dead.

Across Hong Kong, among the thousands of restaurants, shops, and other small businesses participating in what's known as the "yellow economy" in support of anti-government protests, signs of defiance have emerged in the weeks since Beijing officials imposed a sweeping new national security law. Almost immediately, yellow establishments took down posters with protest slogans that government officials warned may be violating the law. The yellow economy got its start with restaurants that provided food and drink to protesters last year and has since come under heavy criticism from members of the pro-China establishment as well as China's official representatives in Hong Kong.

At least one popular cafe announced it was withdrawing from the yellow economic circle, and others began to hide their affiliation. But many businesses replaced protest signs with blank Post-it notes or plain paper—the absence of free speech being its own form of dissent. And the boldest have begun to embrace Chinese Communist revolutionary slogans in an ironic appropriation of the language of China's own revolutionary leaders and in an effort to keep speaking up without prosecution.

"Using politically safe, politically correct, and politically cynical slogans is a way to continue to protest against the Hong Kong government," says Sonny Lo, a Hong Kong academic and political commentator. "The yellow economy members are now adjusting their strategy to be more flexible, more strategic, more underground."

Following a year of anti-government protests that sometimes turned violent, China imposed the law on Hong Kong on June 30. It includes broadly worded provisions against subversion, secession,

Edited by
Amanda Kolson Hurley
and Anthony Lin

tionaries

terrorism, and collusion with foreign forces. Human Rights Watch has called it “a roadmap for repression” that seeks to “prosecute peaceful speech, curtail academic freedom, and generate a chilling effect on fundamental freedoms.” Since it went into effect, 12 candidates for legislative elections, including four incumbents, were disqualified over their opposition to the law or to government actions; a total of 15 people, including street protesters and teenage activists who posted on social media, have been taken into custody under its provisions. On July 31 the Hong Kong government announced that the elections, originally scheduled for Sept. 6, would be postponed for as long as a year because of the coronavirus pandemic. Opposition politicians have said the real motive is to prevent the pro-democracy camp from winning.

The vintage posters in yellow businesses are not only ironic: Their calls for change are also inspirational, says the co-owner of Just’er Bar & Restaurant in Hong Kong’s Tsim Tsa Tsui district, who goes by Pong. Plus, they keep police from hassling him, he says with a chuckle. Before, when the pro-democracy eatery displayed posters with slogans demanding freedom for Hong Kong—now deemed illegal under the national security law—police would come in almost daily at the busiest times, he says, to measure the space between tables and ensure compliance with Covid-19 distancing regulations. So Pong went online and ordered a bunch of the historical posters for about HK$2 (25¢) each. He believes he’s the first restaurateur to start displaying them, having replaced his pro-democracy posters on July 2, just after the law came into effect.

“The police see these now, and they don’t want to give me trouble anymore,” Pong says. “If they were to come in and say, ‘You are breaking the law by posting these,’ I can say, ‘Well, then you are against the Chinese government.’ ” A spokesman for the Hong Kong police denied that enforcement of Covid regulations is based on any political stance.

◀ Pong, at his Just’er Bar & Restaurant

At Mainichi, a Japanese fusion restaurant in Mongkok where protesters took refuge during nearby clashes with police last year, blank Post-it notes have replaced political slogans, and some protest fundraising items previously for sale are gone. Yet a number of the pro-democracy images remain, including one of a yellow-helmeted protester in a cloud of tear gas raising his hand to the sky. One poster still proclaims “Never Give Up,” which the restaurant’s owner, who gives his name as Chong, says shouldn’t be seen as a violation of the national security law.

A resurgence of coronavirus cases, however, may turn out to be more damaging to yellow establishments than the new law. The Hong Kong economy is reeling from the pandemic: Gross domestic product dropped 9% in the second quarter from the same period a year earlier, and unemployment is at a 15-year high. To combat a third wave of the virus, Hong Kong’s strictest measures yet ban evening dining at restaurants and limit diners to two per table at breakfast and lunch, with restaurants restricted to half capacity. But Chong says yellow restaurants may survive because of loyal clients who will keep supporting them with takeout orders. One of the primary apps listing yellow restaurants has shut down, but another is still functioning. Many supporters have migrated to private yellow Facebook and Instagram groups, where photos of establishments posting Mao-era posters have started circulating. Pong, of Just’er, says there’s debate in these forums about whether Mao posters indicate support for China’s Communist Party, but those who know China’s history can understand the appropriation of the message.

● Decline in Hong Kong restaurants’ revenue in the first half of 2020

29%

Pong’s business is down 90% this year. He says he can hang on for six months using pre-Covid profits, but he’s concerned that his menu of spaghetti carbonara and steaks doesn’t lend itself ▶

◀ to takeout. Restaurant revenue in Hong Kong fell 29% in the first half of this year compared with the same period in 2019, according to government data. The Hong Kong Federation of Restaurants and Related Trades forecast a HK$3 billion loss of revenue in July from businesses not able to serve customers in the evenings. Lo, the academic, estimates that one-third to half of yellow restaurants may close. The longer Covid restrictions are in place, the more businesses struggle just to stay afloat–never mind continue their fight for change.

"The pace of the movement has been slowing down, and it seems the fire to sustain it may die soon," says Carrie Lau, the 30-year-old owner of C+ Burger, who reluctantly replaced pro-democracy posters with blank sheets of paper because customers feared she'd be arrested. "Yet I'm still optimistic about the future. As long as our generation is still here, we won't be brainwashed by Beijing, and we still have ways of making change. The journey may be a long one, but we'll never give up." —*Sheridan Prasso*

THE BOTTOM LINE To comply with Hong Kong's national security law, "yellow" businesses are adopting clever forms of expression. But many won't survive the economic blow of the pandemic.

Is Neomi Rao Far Enough Right?

● Social conservatives doubt the bona fides of a judge floated as a future Supreme Court justice

In less than a year and a half since being appointed to the federal appeals court in Washington, Judge Neomi Rao has consistently sided with the White House in politically charged cases, earning her a reputation as President Trump's strongest supporter on the bench and fueling talk that he may name her to the Supreme Court if he gets the chance. Two of the nine justices on the high court, Neil Gorsuch and Brett Kavanaugh, were nominated by Trump. The health problems of Justice Ruth Bader Ginsburg have liberals worried about him possibly getting to pick a third.

If Rao were to get that nod, Democrats would be incensed. But her biggest obstacle may be emerging on the right.

Rao, 47, has been championed for years by the conservative legal movement, a network of activists at such groups as the Heritage Foundation and the Federalist Society that have long advised Republican presidents on judicial appointments and have helped Trump on his quest to appoint judges at a faster pace than his predecessors. Recently that movement has come under fire from social conservatives, who say it's mainly delivered business-friendly judges who rule against unions and strike down regulations while failing right-wing voters who care more about restricting abortion, immigration, and LGBTQ rights. The dispute could fundamentally reshape the judicial selection process on the right, starting with a new list of potential Supreme Court nominees the president has promised to release next month.

"You hear people talking about Team Amy vs. Team Neomi"

In June social conservatives felt betrayed when Gorsuch wrote a majority opinion protecting gay and transgender employees from workplace discrimination. (Republican Senator Ted Cruz of Texas blasted the decision as "lawless.") Their alarm increased as the court went on to block the White House from ending Obama-era protections for the undocumented immigrants known as Dreamers and allowed states to limit church services during the pandemic.

Senator Josh Hawley, a Missouri Republican, said in a floor speech in June that Gorsuch's ruling marked "the end of the conservative legal movement." He'd raised similar concerns last year when he questioned Rao's social conservative bona fides before her appointment to the appeals bench.

It's unclear how that disquiet will affect the president, who views his Supreme Court suggestions as a means of motivating voters before the election. Rao, who once spearheaded the administration's deregulation agenda, has emerged as a favorite of business-minded conservatives, while religious conservatives have gravitated toward potential nominees such as Amy Coney Barrett, a devout Catholic whom Trump appointed to the federal appeals court in Chicago and who appeared on his previous Supreme Court shortlist. "You hear people talking about Team Amy vs.

◀ Rao replaced Brett Kavanaugh on the federal appeals court in Washington

ZACH GIBSON/GETTY IMAGES

Team Neomi," says Jonathan Adler, a conservative law professor at Case Western Reserve University who's known Rao for more than 20 years. "There's been some jockeying."

The list remains in flux, with a range of conservative groups offering suggestions to the White House, which is also consulting with staff for Senate Majority Leader Mitch McConnell, according to people familiar with the process. Some organizations are lobbying for the choices to include conservative politicians whose views on social issues are firmly established, such as Republican Senators Mike Lee of Utah and Tom Cotton of Arkansas, as well as Hawley, one of the people said. A White House spokesman declined to comment.

Rao, who didn't respond to a request for comment, has long been seen as an up-and-comer in conservative legal circles. As an undergraduate at Yale, she wrote caustic opinion pieces challenging liberal orthodoxy on race and gender issues. After earning her law degree at the University of Chicago, she clerked for Justice Clarence Thomas before joining the law faculty at George Mason University, where she helped lead the successful effort to have the law school renamed after the late Justice Antonin Scalia, an icon of the conservative legal movement.

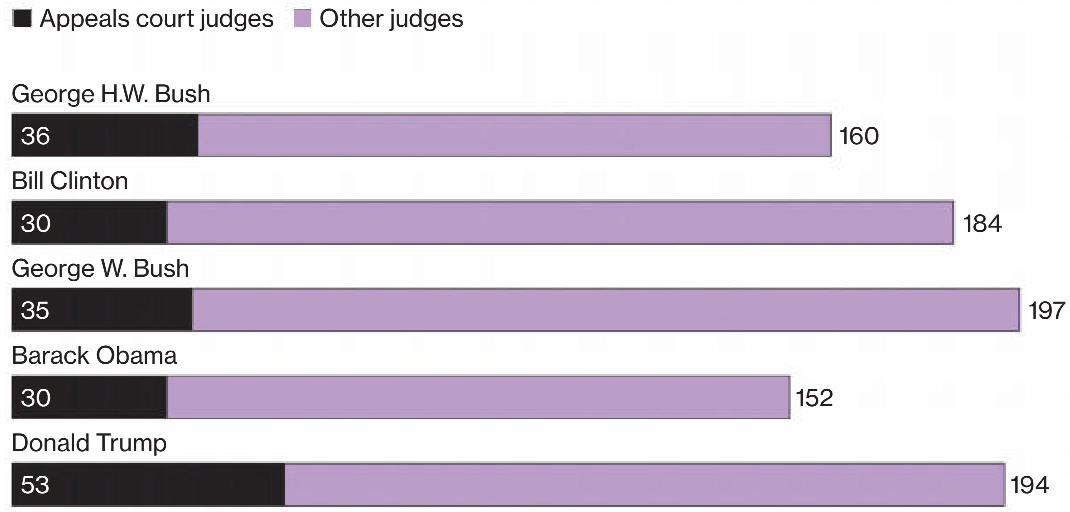
She joined the U.S. Court of Appeals for the District of Columbia Circuit in 2019—taking the seat occupied by Kavanaugh before he joined the Supreme Court—after a stint in the White House heading a regulatory affairs office. She soon drew scorn from the left with a dissent from a ruling allowing House Democrats to subpoena Trump's financial records, in which she said impeachment was the only context under which Congress can investigate accusations of illegal conduct by the president. In June she ordered a lower-court judge to dismiss the criminal charges against Trump's former national security adviser Michael Flynn without investigating whether the U.S. Justice Department's decision to drop the case was a political favor to the president.

Democrats and even some anti-Trump Republicans criticized her Flynn ruling, which is being reviewed by the appeals court's full panel of judges, saying she violated judicial norms to please the president. "She's dangerous," says Christopher Kang, a founder of Demand Justice, a left-wing judicial advocacy group. "In the positions she takes and the language she employs, she's going as far as she can to prove that she would be a loyal partisan on the bench." Her Flynn decision would ensure a blistering confirmation hearing if she were nominated to the Supreme Court.

Still, Rao has influential backers. John Malcolm,

Confirmed Federal Judges

Judges approved by the Senate as of July 7 of each president's fourth year in office



DATA: PEW RESEARCH

a legal expert at the Heritage Foundation whose list of possible Supreme Court justices was largely adopted by Trump in 2016, says he will almost certainly include Rao if he compiles a similar one this summer. "She has the potential, given her rigorous analysis and clear intelligence, to become a leader on the court," he says.

Rao is also friends with Leonard Leo, an architect of the conservative legal movement who helped secure the nominations of Gorsuch and Kavanaugh. In an interview, Leo declined to comment on the new White House list, but he defended the movement, pointing to significant rulings in support of religious groups. "Anyone who says that the judicial selection process is a failed conservative enterprise either doesn't know the facts or is a snake oil merchant," he says.

That may not be enough for social conservatives who are pushing Trump to impose litmus tests on court nominees. Although he ultimately voted to confirm her to the D.C. Circuit, Hawley raised questions about Rao's commitment to overturning *Roe v. Wade*, pointing to past writings in which she had used the phrase "anti-abortion" rather than "pro-life," the term preferred by anti-abortion activists. Hawley recently announced he would vote to confirm Supreme Court justices only if they agree that *Roe v. Wade* was wrongly decided.

Adam White, a professor at George Mason's law school, where Rao used to teach, says he expects her to remain a force in conservative legal circles. But he acknowledges that the frustration of religious conservatives might continue to hurt her and other judges with slim or mixed track records on social issues. "The questions Hawley raised will surely be raised again," he says. —*David Yaffe-Bellany*

THE BOTTOM LINE Rao is a rising star in the conservative legal movement, but social conservatives such as Senator Josh Hawley aren't convinced she's on their side.

A 'DEI' TO-DO LIST

ILLUSTRATION BY MICHELLE KWON

● Your company has committed to becoming more diverse. How do you make that happen?

In June, spurred by worldwide anti-racism protests, companies pledged to do better on racial equality. Two months later, after making internal and public declarations about their commitments, some leaders may be wondering how to handle the next steps.

It starts with gathering data, say experts in diversity, equity, and inclusion (DEI). Ruchika Tulshyan, founder and chief executive officer of consulting company Candour in Seattle and author of *The Diversity Advantage: Fixing Gender Inequality in the Workplace*, suggests an internal audit. How many people of color does your organization employ, and how senior are they? Have you measured employee engagement levels by race or gender? Do you have performance reviews to indicate how fair and inclusive managers are?

Once you know where you stand, set clear, measurable targets. "Deal with the problem using the tools businesses use for any problem they actually care about—evidence, goals, and metrics," says Joan Williams, a professor at University of California Hastings College of the Law who studies gender and racial bias. Especially helpful for setting objectives:

Edited by Bret Begun

Look not only at outcome metrics (how many Black people are in the C-suite) but also at process metrics (performance review ratings). Those can help identify why outcomes are uneven. Communicate these goals to staff with a transparent, long-term vision about why meeting them is vital. Tie it back to the company's mission and values so employees feel they have a stake in the outcome.

As with any reform, there may be resistance. "People don't volunteer to change," says Abigail Mary Dunne, a senior faculty member at the Center for Creative Leadership in Greensboro, N.C. Win skeptics over by talking about what your company is missing out on by failing to be more diverse, she says. And though you can make the robust business case for diversity, she adds, make the moral case, too.

The next step is to hold employees at all levels accountable for meeting goals. That's no different from any other vital business initiative, says Kira Hudson Banks, a consultant and psychology professor at Saint Louis University. Be upfront about progress, even when it's uneven or stalled. "To be accountable doesn't mean to be perfect," Banks says.

Meeting diversity goals will take much more than training sessions on topics such as implicit bias. "Training can be helpful and start a conversation, but only if it's part of a larger strategy," says Ella Washington, a professor at Georgetown University's McDonough School of Business and a leadership coach. Relying too heavily on anti-bias training can give the inaccurate impression that racism is an individual, not a structural, problem. Similarly, mentoring programs and employee resource groups, while popular, are unlikely to create lasting, systemic change in the absence of strong organizational goals. Banks adds, "We can't nice our way out of racism."

Any serious initiative requires leaders to analyze their internal processes—formal ones, such as hiring and promotion, and informal ways decisions are made and work gets done.

With hiring, recruit from a broader applicant pool and work with executive search companies that specialize in diversity. Make sure your candidate pools have multiple female and non-White candidates. Research by Stefanie Johnson, author of *Inclusify: The Power of Uniqueness and Belonging to Build Innovative Teams* and a professor at the Leeds School of Business at the University of Colorado at Boulder, has shown that when half a candidate pool is non-White or female, the hiring committee has a 50-50 chance of choosing one of those applicants. When only one person in the finalist pool is non-White or female, that person is never chosen. You might also anonymize the application process, removing names and other race- or gender-identifying details from résumés; this effectively boosts underrepresented candidates' success, Johnson's research has found.

> Relying too heavily on anti-bias training can give the inaccurate impression that racism is an individual, not a structural, problem

Williams suggests moving to more structured processes for job interviews and performance reviews. Having standard questions and criteria can reduce disparities. One experiment using a structured review process led to Black men and White and Black women getting higher bonuses. In a different study, an insurance company that added objective criteria to the interview process offered jobs to 46% more minority candidates than it had under the old, subjective approach.

When setting salary ranges, Dunne suggests that human resources managers base their recommendations on fair market rates. Managers should share that research with employees during the compensation conversation so hires can see how management arrived at its numbers. Don't base salaries on what people made in previous jobs; a recent study shows this perpetuates inequities, which is one reason 14 states have made it illegal to ask job candidates about it. The research, led by Boston University economist James Bessen, found that in those states, Black employees saw a 13% pay increase after the ban went into effect. Women saw an 8% uptick.

Making progress on pay and promotions is only part of the challenge. "Representation is not equity," Banks says. Diversity might be a numbers game, but equity and inclusion stem from company culture—the informal systems that are harder to measure and change. Employee engagement surveys, company culture assessments, or focus groups can help businesses track if they're creating an inclusive workplace, Georgetown's Washington says.

Middle managers have an outsize impact on company culture. They shape how engaged direct reports feel and how well they perform, Dunne says; too often, "you have talent that is completely and utterly buried by inept managers." She says "race-laced" interactions—such as underestimating a Black employee's qualifications—make those workers want to shut down instead of investing more in their work.

To see how they're doing on inclusion, middle managers can create dashboards, Johnson says. Make a spreadsheet to keep tabs on who gets what assignment, making sure you're handing out the plum ones (and the scut work) fairly and spending one-on-one time with everyone on your team. This makes annual performance reviews easier to write, because you have clear records of what people did.

On the other end of the influence spectrum is the chief diversity officer, who too often lacks the authority to make any real changes, says Tulshyan, the Seattle-based consultant. Too many CDOs report to the general counsel's office (focusing on ▶

◀ compliance issues) or human resources (focusing on recruiting). For diversity initiatives to succeed, the CDO should report directly to the chief executive. "If you have a DEI initiative that is not led by someone with the authority to make structural change, it is going to be ineffective," Williams says.

Another dead-end strategy, Johnson says, is promoting diversity by promoting meritocracy, without explicitly talking about race or gender. Experiments show that when researchers emphasize choosing the most qualified candidate, study participants overwhelmingly choose the White male—even if his experience is identical to everyone else's.

Above all, the most important strategy for a more equitable and inclusive environment is persistence. This process is going to take awhile; there won't be a point at which you can declare success and move on. "Though this moment in time has released a lot of energy, we can't be discouraged by lack of immediate change," Washington says. "Those of us who have been doing this a long time know it can be great when there's energy, but there can be whiplash if things don't change overnight." *—Sarah Green Carmichael*

PROXIES FOR PROXIMITY

● We have to think differently about our schedules to stay innovative

In the past five months, we've become pretty adaptable. But as we make the daily, short-term adjustments our new reality requires, we might be doing long-term damage to our ability to be creative—unless we rethink our approach to work.

Innovating is a function of collaboration. And no matter how productive a company is on Zoom, "people learn the most from those who are physically proximate," says Sharique Hasan, associate professor of strategy at Duke University's Fuqua School of Business. "Proximity makes people more likely to collaborate and seek feedback and advice, and this leads to higher-quality, more novel, and more diverse ideas."

Unfortunately, many of us probably aren't going back to the office soon. About 65 million Americans—40% of the workforce—now work remotely, according to Nicholas Bloom, a Stanford economist. He predicts this shift will lead to a drop in the number of patents, copyrights, and major product launches—especially in industries that make physical objects, such as computer hardware, or whose employees work in laboratories, like biotech.

The key to mitigating these effects is to replicate the spirit of collaboration and serendipity in an organization whose workers are physically isolated. But much of our thinking about how to do this has been wrongheaded. We've been exporting in-office routines to an online environment.

"A big part of making remote work beneficial is by not trying to re-create what you already have," says Aaron Dignan, co-founder of TheReady, a consulting firm that works with Fortune 1000 companies, and author of *Brave New Work: Are You Ready to Reinvent Your Organization?* Dignan pushes clients to have teams meet only when confusion or conflict emerges. "Deep thinking and collision of ideas happens, but not in the moment," he says.

Jason Fried, co-founder of collaboration-software maker Basecamp, which has been almost entirely virtual since its founding in 1999, urges a shift from "real-time interactions to asynchronous interactions." Eliminate meetings, in other words, and give employees "time to express complete thoughts that others can then consider."

Workers may not interact as much using this method, but the quality of their interactions could be higher. And managers won't have to try so hard to convince employees that working from home isn't a poor proxy of office life. People are thinking, I can't wait until this is over, Fried says. "They're not in the mindset of wanting to get better at it." A move away from grafted-on scheduling could be the start of that process. *—Larry Kanter*

THREE WAYS TO BETTER CONNECT

● Don't stare at yourself

Disable the self-view function on a videoconference call. "It makes you self-conscious, and that detracts from creativity," says Amy Edmondson, a professor at Harvard Business School and author of *The Fearless Organization: Creating Psychological Safety in the Workplace for Learning, Innovation, and Growth.*

● Go on blind dates

Zoom has a "breakout room" function, which randomly puts meeting participants into small groups. (Slack's Donut app works similarly, creating random pairs.) "You can put people together in ways that might never have happened in the office," says Beth Comstock, a former vice chair of General Electric Co. who led its business-innovation unit.

● Pick up the phone

Make some of your daily interactions walk and talks. "We are all so sick of sitting at our desks and staring at screens when we need to connect with each other," Edmondson says, adding that even small changes in our routines can shake loose big ideas. *—L.K.*

ILLUSTRATIONS BY MICHELLE KWON. DATA: GALLUP

Q&A

MASK WEARING 101

As you've likely discovered from interactions at your local grocery or drugstore, employee-customer relations are a bit strained. Making someone at an establishment feel welcome when both parties have half their face covered isn't an innate skill. Employees need to be taught how to do this successfully, says Richard Delany, president of the Old Edwards Inn and Spa in Highlands, N.C., about a three-hour drive from Atlanta and Charlotte. A small Covid-19 cluster among the staff led to a few cancellations when the hotel reopened in May, but now business is booming. "We feel really good about the safety procedures we put in place," Delany says. Here are edited excerpts from a late-July conversation he had with Arianne Cohen.

● What made you realize that your staff would need instruction?

An employee said to me, "Richard, have I done something wrong? The last couple of times I've seen you, you seemed upset with me." Which was not the case. I'm usually pretty happy-go-lucky, high-fiving people and smiling, but I can't high-five them anymore, and they can't see my smile. If someone who knows me cannot recognize my temperament and expressions, then obviously guests are gonna have a hard time doing that with our employees.

● What did you train your staffers to do?

Make eye contact with guests immediately, so they can sense their temperament and the intention of their greeting, and also to speak to guests as soon as possible, so they can hear it in our voices.

● So when a guest approaches the front desk, what does your staff do?

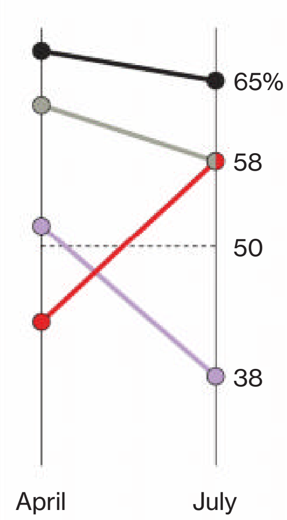
The No. 1 thing is to stand at attention whenever a guest enters one of our public areas–it shows recognition and respect–and to sort of nod the head gently in a welcoming, "good afternoon" movement.

● What about smiling?

We encourage smiling at all times, and that's sort of hard, because when you've got a mask on, you feel like you don't need to. And to smile bigger, because the bigger you smile, the more it can be seen in the eyes. It is all sort of overexaggerating the welcome process.

▼ Share of employed U.S. adults who say they are always doing the following while working:

- ● Adopting new or more frequent cleaning
- ● Maintaining 6 feet of physical distance
- ● Working remotely
- ● Wearing personal protective equipment



● Do employees have ID tags?

We took pictures of all our employees smiling, which they wear around their necks so the guest can see what that employee looks like with a smile on their face. This has been a huge hit.

● Have you had to shift what workers say?

Since speech is such a big part of how the guest is perceiving employees, they need to make sure that they're upbeat. The other thing is being careful about what is said and how it is said.

● Sarcasm doesn't work from behind a mask?

[*Laughing*] No, sarcasm does not work.

● What have you had to retool?

We got feedback from our guests that they appreciate our efforts, but several times they saw someone pull a mask down to speak. So we made sure that the absolute standard is that you cannot remove the mask.

● What kind of masks do your staff wear?

We thought it'd be fun to use fabrics that we use in the hotel–fun floral masks, paisley, different-colored stripes that match the interiors of the public areas and the rooms. Guests have picked up on that.

● What's your advice to other managers?

Vet what masks their staffers are wearing. Some of our employees have come in with masks that cover a little bit more of a face than they need to. Stay away from the big, black Darth Vader-looking masks. They're not really welcoming. Ⓑ

Google Dominates Search Ads More Than Ever. It’s Working Through That

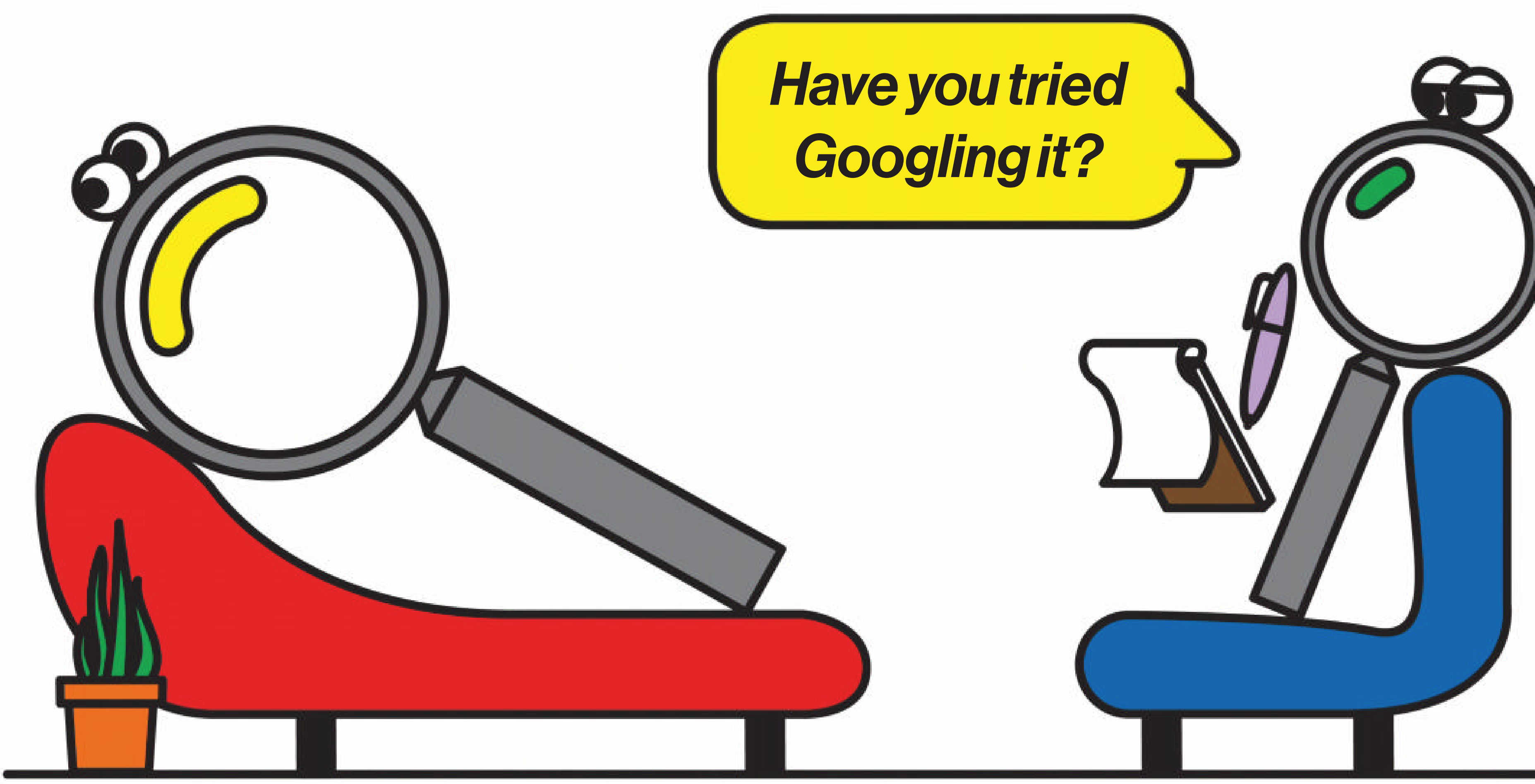


ILLUSTRATION BY 731

If you’re a therapist—or any small-business owner, really—you live and die with Google. Regulators may step in

By Mark Bergen and Shelly Banjo

In March, Ellen Ross's business came to a standstill. Ross is a psychotherapist, accustomed to sitting across from patients, helping them deal with their deepest traumas and fears. When the pandemic started shutting the economy down, Ross shut her San Jose office, too. She nixed plans to hire another therapist and began adjusting to video therapy, which meant, among other things, building breaks in between sessions.

"I can't look at a screen as long as I can interact with human beings," says Ross, who spent years counseling in hospitals before setting up her own practice in 2017. And then there was the Google problem. In the beforetimes, Ross spent about $20 a day on search ads to promote her practice. That worked well enough. People would search for things like "therapist near me" and she would bid for those terms at Google's silent auction. If she won the auction, ads for her practice, True North Psychology, would appear at the top of search results. Google charged for each click. In 2019, she spent about $5,500.

Starting in April, Ross's calculus changed. Americans were stuck at home, some juggling home-schooling and work, others newly jobless. They were anxious and searched the web for help, sometimes looking for video counseling. Ross noticed that the prices for her regular keywords jumped sharply. She was still finding patients, though they often arrived after trying one of the proliferating virtual therapy startups, such as BetterHelp and Talkspace, and it was becoming prohibitively expensive to buy the Google ads to attract them.

Ross wasn't sure what to do. Google, as she well knew, has a near monopoly in web search—it has 87% of the U.S. market by some estimates. Its next-largest competitor, Bing, has about 7%. So Ross knew she couldn't simply stop buying Google ads. If she did, she'd lose out on any new business. But continuing to pay so much didn't seem sustainable either. "I'm a fairly good psychologist," she says. "I'm a terrible marketer."

Ross is one of millions of small-business owners whose reliance on Google has only grown during the pandemic, when the internet has become the main avenue of commercial life. That dependence is at the heart of the most high-profile antitrust showdown since Uncle Sam went after Microsoft Corp. in the 1990s. The U.S. Justice Department and almost every state attorney general are preparing antitrust cases that are expected to allege that Google's dominance is illegal. "High prices in and of itself isn't an antitrust violation, neither is being big," says Herbert Hovenkamp, a professor at the University of Pennsylvania Carey Law School. "The bigger question is whether Google is abusing its power."

Google got a preview of the government's likely argument on July 29 during a five-hour congressional antitrust hearing. It opened with questions about Google's stranglehold on search and included lawmakers calling four tech chief executives "cyber barons" and unregulated bullies.

Sundar Pichai, Google's well-dressed and reserved chief executive officer, began by ticking off family-owned U.S. companies that have benefited from Google ads and services. "Nearly one-third of small-business owners said that, without digital tools, they would have had to close all or part of their business during Covid," he said via video feed from Google's headquarters. The company gave out $340 million in ad credits to small companies as part of its pandemic response. In his testimony, Pichai also asserted that the company operates in competitive global markets. The point was reinforced the following day, when Google announced that its ad intake fell for the first time ever because of the crisis. The company still finished the spring quarter with $121 billion in cash on hand.

When it comes to advertising, Google likes to broadly define the market it competes in to include even television. And it likes to point to its fierce rivalry with Facebook Inc. and Amazon.com Inc. But for therapists, lawyers, and anyone offering a service, this argument is bogus. People peruse Facebook for the latest news or baby photo, not for psychological care. No one goes to Amazon to buy a therapy session. Other search engines are afterthoughts. Ian Palombo, a therapist in Denver, bought Bing ads right after the pandemic hit, but it was such a throwaway proposition, he didn't even check to see how they did. "I mean, it's Bing, right?" he says.

Therapists talk about Google like they would about any utility. It's just another check, only this one goes to the fourth-biggest company in the world and comes with no guarantees. "It's a lot like a poker table at the casino," says Daniel Wendler, founder of Marketing for Therapists. "Anyone can play, but unless you know what you're doing, you're likely to get rolled."

The last time the global economy cratered, in 2009, Google released its first "Economic Impact" report. Regulators and other critics were questioning its sway over web publishers, whether the search engine was too big and powerful. Peppered with glossy, smiling photos of mom and pop business owners in each state, Google's report showed that, far from consolidating economic power, the company was helping the little guys. A bookstore in Mishawaka, Ind., a lighting supplier in Kennebunk, Maine, a remodeling service in Aberdeen, S.D.—each had grown, Google said, thanks to Google ads.

Selling therapy, though, isn't as straightforward as selling a book or a light fixture. It can be expensive and, for some, still comes with a stigma. "There is just a really significant human need that a lot of us struggle with," says Wendler, who's been helping therapists buy Google ads for the past five years. At 32, with his rectangular glasses and untidy facial scruff, he could pass for an engineer at the Googleplex. He also has Asperger's syndrome and wrote a guidebook, *Improve Your Social Skills*, full of tips for others with it.

Those interests prompted Wendler to pursue a career as a counselor. While in grad school, he set up a marketing practice for therapists and now handles the budgets for roughly 20 of them a month. He wrote another book, *Clicking With Clients: Online Marketing for Private Practice Therapists*. In the first months of the pandemic, he saw the prices of keywords related to therapy jump as much as 50%, with some terms that had once cost $7 or $8 fetching $10 a click. Prices went higher as searches and buyers piled on. "There's only so much inventory," he says, referring to the slots available ▶

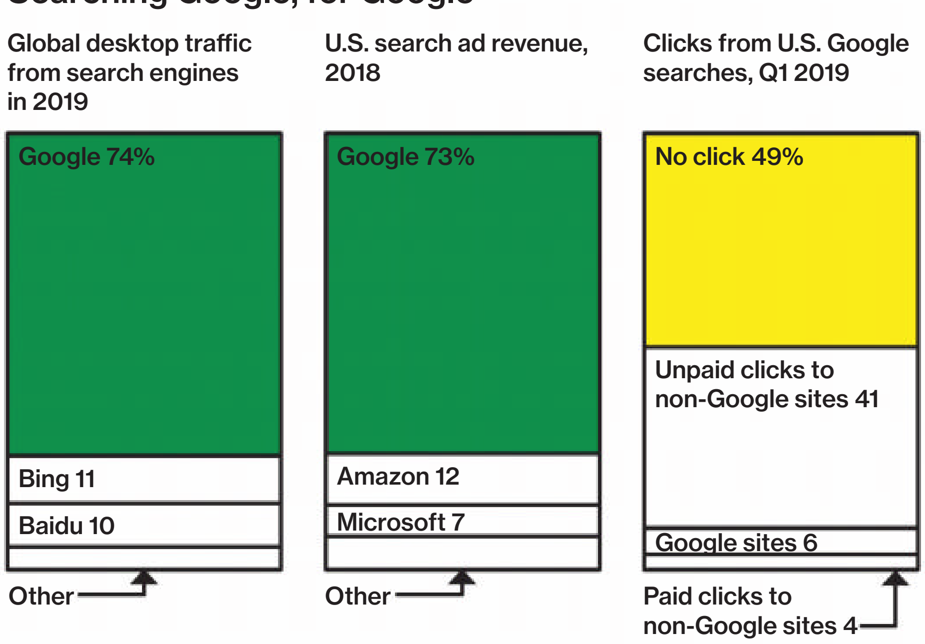
◀ for search page ads. “That is driving prices up, up, up, up.”

Prices are a problem. But even more frustrating for Wendler and other search buyers are the tweaks Google has made in recent years as it pushes to automate wherever it can. Today there are two basic ways to buy search ads. A business owner can pick out search terms manually or take the approach Google prefers: Hand over a budget, select an industry, and let Google’s software figure out which ads will get the most clicks. In Google-ese, these are known as Smart campaigns. The idea is to make search-ad buying as simple as possible, while Google uses what it promises is the latest and greatest in machine intelligence to maximize profits for itself and its customers. “Our advertising tools are designed to help small businesses compete on a level playing field with large businesses, even Fortune 500 companies,” says a Google spokesman. “Local businesses, even those without marketing expertise, can create compelling ads in minutes that reach the right audiences.”

But automation doesn’t work terribly well for therapists. Many are specialists, focusing on, say, couples counseling or trauma—distinctions that Google’s software doesn’t necessarily make. As a result, some therapists who use the automated approach end up entering auctions for broader keywords where the clicks don’t lead anywhere. For one of Wendler’s clients, Google’s system once suggested “PTSD,” a search many people make for idle research rather than to find an expensive counselor. Another client wasted a tenth of his $2,000 monthly Google ads budget this way before Wendler caught the problem. In another feature, Google even automatically writes ad copy. “If you’re selling a widget or something, maybe that works for you,” Wendler says. People are less thrilled with psychologists who sound like they’ve been programmed.

That hasn’t stopped Google from pushing therapists to adopt Smart campaigns. Wendler recalls Saturday calls from Google representatives asking him to turn on automated ads for his clients. He politely declines and asks them not to call again. They wait three months and call again. “Google is essentially competing with itself,” he says. “I think Google’s ultimate goal is that you give them your credit card and that’s the only thing you do.”

Searching Google, for Google



The control such companies as Google exert over their markets is one key reason lawmakers are trying to check Big Tech’s monopoly power. Consider Amazon’s “subscribe & save” feature, which lets shoppers place a standing order for Raisin Bran or toilet paper. It’s convenient—and it reduces the incentive to try competitors. “It locks you in,” says Luigi Zingales, a finance professor at the University of Chicago Booth School of Business. The same could be said of Google’s Smart campaigns.

But Wendler and other search marketers say Google’s drive to automate has dovetailed with a reduction in the quality of customer support. For years a search-ad buyer could call a Google help line and get someone on the phone. Starting about two years ago, Google began outsourcing these services, and, buyers say, the quality of support quickly diminished. “It feels like you’re speaking to someone who’s just talking out of a binder,” says Matt Coffman, founder of Therapy Practice Accelerator, a health-care marketing firm.

During the pandemic, Coffman says, he hasn’t been able to get a human on the phone at all; Google moved its customer support to chatbots. The Google spokesman says the company “scaled back” support services because of Covid-19.

Practically every antitrust investigator who’s looked into Google has seen a web presentation called “Focus on the User.” It was created in 2014 by Yelp and TripAdvisor, local review sites and longtime Google critics whose central complaint was that Google was expanding its ambitions beyond mere web search in ways that hurt small companies. As rivals tell it, Google’s search engine once did one thing: Spit out a list of 10 blue links. But starting in the mid-2000s, search results began to include, above the links, actual answers to questions like “How hot is the sun?” and “What are the signs of heat stroke?” Google pulled these facts from other websites, resulting in searches where consumers don’t bother clicking on any links. Yelp and others argue this represents a theft of their intellectual property, siphoning off their web traffic.

Gradually this extended to phrases like “Where is the best Sichuan food in London?” with the top results from Google Maps. After Maps, Google did the same with its own services in travel, hotel booking, and shopping. In each case, Google says it shows the best results for consumers. Competing businesses say this is an open-and-shut abuse of monopoly power.

Google has done something similar with health care. At times the company has seemed intent on capitalizing on Doctor Google—that ubiquitous modern phenomenon of self-diagnosis-by-web-search. In 2015, Google teamed up with the Mayo Clinic to begin listing symptoms and treatments directly in search results rather than showing web links. At that point, Google said 1 in 20 searches were health-related.

About two years ago, the company hired David Feinberg, a hospital executive and former psychiatrist, to lead a new division, Google Health. Feinberg’s remit is to create an electronic medical records system for hospitals that functions like Google search and to help revamp Google searches about health. His division created a special search page for anything related

DATA: NETMARKETSHARE.COM, EMARKETER, SPARKTORO to Covid-19 in May and rolled out features specifically about mental health. People can now book virtual-care appointments directly in Google Maps. Searches for terms such as "anxiety disorder" or "PTSD" produce buttons linking to a clinically validated questionnaire and other resources.

"A lot of folks come to Google and ask us questions," Feinberg said in a May interview with YouTuber Dr. Mike Varshavski. "You can do your own, in essence, screening for depression and anxiety. So then you can see that you're not alone." That he was speaking on YouTube, Google's in-house streaming service, was fitting. Those self-assessments happen directly on Google, rather than on the sites of would-be competitors such as WebMD or Zocdoc. Feinberg, through a representative, declined to comment. Google says that he doesn't control paid ads.

These Google-owned mental-health checkups on Google's own search engine compound a problem marketers have complained about for a decade—namely, that it's very hard to attract users without paying Google for ads. If someone near Google's headquarters in Mountain View, Calif., searches for "treat depression," they might see ads for One Medical, a concierge health service in which Google is itself an investor; PlushCare, a tech company that specializes in online prescriptions; and BetterHelp, a virtual counseling service. To the right, they'd see an information box where Google lists various treatment options. The so-called organic search results—the old 10 blue links—come below all of that. In fact, so many search results are stacked with ads that one health-care investor says his firm advises portfolio companies not to bother tweaking websites to inch higher in Google search listings. Only paid results matter.

This has propelled an entirely new kind of competitor that is, more or less, the inverse of someone like Ross: Marketers that have a sideline in therapy, such as BetterHelp and Talkspace. When Ross loses Google auctions, it's mostly to these therapy consolidators. They have hundreds of millions in venture capital and corporate backing, and use an Uberlike contract labor model, acquiring customers and sending them to a sprawling, nationwide network of counselors and coaches.

Ross holds a doctorate in clinical psychology, which required six years of graduate school. She usually charges $250 an hour. BetterHelp's therapists need to be licensed counselors, clinical social workers, or psychologists with a master's degree and at least three years' experience. The company charges from $35 to $50 a session. (Full-time therapists earn from $15 to $30 an hour.) "I could probably make more money working at the grocery store," Ross says. "They pay terribly. It's abysmal."

Alon Matas, president of BetterHelp, says retention is high among his company's 11,000 therapists. Some therapists with thriving private practices in affluent areas can earn more than they could online, he says, but "there are providers on the platform who make six figures annually. Definitely not 'abysmal.'"

Google is, in a way, a co-conspirator in turning the business of mental health into a marketing game. BetterHelp's app has been downloaded 600,000 times so far in 2020, a 41% increase from the same period a year ago, according to research firm Sensor Tower. During the first couple of months of the pandemic, new customers complaining of stress and anxiety doubled from the year before, Matas says. The app saw a similar influx of independent therapists joining its platform, many of whom had no choice but to try online care while the pandemic shuttered physical businesses. The Google spokesman says a range of companies and nonprofits have bought search ads related to mental health. He notes that the company doesn't set ad prices and that its auctions operate fairly for all advertisers.

BetterHelp and others like it have another advantage: They don't have qualms about asking customers for testimonials to display on their websites or paying social media influencers to tout their networks. That helps them boost their rankings on Google, which favors businesses with reviews. Many licensed therapists consider that kind of marketing an ethical violation.

One could argue that the rise of these virtual therapy providers is a positive development, making therapy affordable and available at a time when everyone seems to need it. But that would cast BetterHelp, whose parent company brought in more than $550 million in sales last year, in the role of the scrappy challenger, and Ross, a sole proprietor, as the incumbent. David Cicilline, the Democratic representative from Rhode Island who led the antitrust hearings, challenged Pichai's contention that Google helps small businesses. "Google just shows what's most profitable for Google," Cicilline said. Gary Reback, an attorney with Carr & Ferrell LLC who worked on the Microsoft antitrust case, watched that and saw a clear signal that the Justice Department should be more confident to pursue a case against Google. "There are so many issues, and it looks like Google is on the bad side of all of them," he says.

By summer, Ross's practice was picking up again. A couple of patients who'd left town continue seeing her via video. New patients are coming in, stressed by the unrelenting pandemic, dissatisfied with whatever they'd been trying as relief. She's even reopened her office for those who truly need in-person care. To prepare, Ross spent hours searching for Clorox wipes before finding a reliable supply at her local liquor store. She's also improved her video backdrop, adding new wallpaper, a potted plant, and a smart-looking wooden desk and bookshelf. Since more people seem to be seeking care, she's back to paying Google about $20 a day. She says she's feeling better about her business. She's also telling her patients that she's preparing herself for two more years of pandemic dislocation.

Google could be in for even more political hurt. It may have to pay record fines and make deep changes to its ad business. Politicians from both parties opened a probe into a data-sharing arrangement Feinberg's health division set up with hospitals. Google has waited more than nine months to close its $2.1 billion acquisition of Fitbit, which makes fitness trackers. Regulators, politicians, and critics have denounced the deal, worried about handing over a company that tracks our bodies to one that knows so much about our minds. To win approval, Google has promised that it won't use any data from Fitbit's devices for its primary business of selling ads.

Life and Debt at a Private Equity Hospital

A decade ago, a buyout giant took over a group of Catholic medical centers and made some clever financial moves. The pandemic highlights the strategy's success—and its cost

By John Hechinger and Sabrina Willmer

Early one Sunday morning in May, a mouse wandered onto a high-voltage transformer at St. Elizabeth's Medical Center in Boston. The rodent died, and so did part of the power supply. In one building, a 1970s beige brick tower, lights went out. Nurses grabbed flashlights to search for medicine. As minutes became hours, staffers rigged up flood lamps, connected to still-functioning outlets by extension cords that snaked through hallways and stuck to the floors with colored tape. Electric beds no longer worked. A nurse gathered a pile of pillows to prop up a stroke victim for a meal.

In a building next door, the lights didn't go out, but it wasn't safe to rely on the backup generator alone. Severely ill patients without Covid-19 needed to be moved from a temporary "clean" intensive-care unit into the main ICU, which had no power issues but was packed with Covid cases. So nurses created a makeshift boundary, a privacy curtain on wheels, to keep the two sets of patients apart. "I was beside myself," says Jackie Fabre, an ICU nurse. "That was unacceptable. That was terrible."

The for-profit company that owns St. Elizabeth's, Steward Health Care, says backup power kicked in after the transformer blew, the outage didn't affect patient outcomes, and the hospital had been planning to consolidate the two ICUs. Steward also points to the more than $100 million it's spent to upgrade St. Elizabeth's. To be fair, the power crisis that began on May 10, and lasted 38 hours, was a confluence of freak events. Medical centers across the Northeast were battling a pandemic. Then a mouse showed up in the wrong place at the wrong time.

But for some who work at St. Elizabeth's, the outage capped years of complaints about what they see as the company's penny-pinching approach. Steward has long been heralded as a bold experiment in using Wall Street financial engineering to save community hospitals. A decade ago, Cerberus Capital Management, a private equity firm, bought St. Elizabeth's and five other Catholic hospitals in Massachusetts. The buyout created Steward, which has become one of the largest U.S. chains of for-profit hospitals, with $6.6 billion in annual revenue in 2018.

St. Elizabeth's Medical Center in an undated photo

The Massachusetts hospitals were hardly a prize. When Cerberus bought them, they were in precarious financial condition and had substantial pension obligations. Cerberus's ownership wasn't only supposed to spruce up old buildings but also revolutionize health care. Steward would build an "accountable care organization" under Obamacare, which passed the same year as the buyout and brought the sense that big reforms were possible. Steward's network of family physicians, specialists, and hospitals could work together seamlessly to manage every aspect of a patient's health, offering better care at a lower cost to the working-class communities many of the hospitals served.

As the U.S. faces an uncertain economic future linked to the relentless coronavirus, providing affordable health care has never been more urgent. Steward says it's taken steps toward that goal. It points to improvements in mortality and other measures at its hospitals since the Cerberus purchase. Yet for all of Steward's impressive growth, the company, like so many created through buyouts, remains on a financial knife's-edge. To pay off Cerberus and its investors as well as to finance the health system's growth, Steward has sold off some of its most valuable assets—the real estate its hospitals occupy—and is now saddled with debt.

In May, as St. Elizabeth's was dealing with its electrical glitch and the crush of Covid patients, it faced another upheaval. Cerberus transferred control of the company to a group of the hospitals' doctors. In an example of the strange magic of private equity, Steward's financial struggles now hardly matter to Cerberus. The investment firm has already made its money back several times over.

Private equity firms see health care as a growth opportunity, in part because of the graying of America, and they've been buying like crazy. As a whole, they made a record $78.9 billion worth of medical investments last year, according to consultant Bain & Co. Along with hospitals, investors have bought doctors' offices, surgery centers, and drug-treatment clinics.

Cerberus and the Massachusetts hospitals, which were part of a nonprofit group called Caritas Christi Health Care at the time of the deal, made for especially sharp contrasts. The hospitals were anchors of local communities and had names such as Good Samaritan and Holy Family. Cerberus, named after the three-headed dog that guards the gates of the underworld, is as powerful and connected as they come. Its leadership includes billionaire Stephen Feinberg, former Vice President Dan Quayle, and former Treasury Secretary John Snow.

Private equity typically buys a company, overhauls its operations, and tries to make it grow. Generally this strategy involves piling on a lot of debt—but, crucially, that debt sits on the books of the target company, not the private equity fund. David Johnson, chief executive officer of 4sight Health, a healthcare advisory firm, says Cerberus and other private equity firms bring market discipline to an industry that really needs it. "I look at private equity the same way I look at nuclear energy," says Johnson, who wrote a case study about Steward with one of its investment bankers from Cain Brothers. "It has beneficial and detrimental uses. It is a heat-seeking missile for profits."

Cerberus needed approval from the state and even the Vatican to do the deal. The firm paid $246 million in cash and agreed that Steward would assume a more than $200 million pension shortfall and make $400 million in investments over several years.

Under its CEO, Ralph de la Torre, a heart surgeon who'd also headed Caritas Christi, Steward lived up to its deal, the state says. It ultimately invested $800 million in its Massachusetts hospitals, with new operating rooms and emergency departments to show for it. Steward recruited respected doctors ▶

◀ from rivals, such as Frank Pomposelli Jr., chief of surgery at St. Elizabeth's. "The care you get here is as good, if not better, than at any Boston hospital," says Pomposelli, recruited from Boston's Harvard-affiliated Beth Israel Deaconess Medical Center in 2011.

But almost as soon as the state monitoring period ended, Cerberus did what many private equity skeptics feared. In 2016, Steward sold off some of the hospitals' property for $1.25 billion. The hospitals now had to pay rent to use buildings they once owned. That helped Cerberus extract a giant gain; one of its funds collected a $484 million dividend, according to a confidential investor document. Mostly because of the real estate transaction, the fund tripled its money. The deal also enabled an acquisition spree. Steward now owns 34 hospitals in nine states, including Florida, Ohio, Pennsylvania, and Texas, as well as two in, of all places, Malta.

Steward ended up with $1.3 billion in long-term debt in 2018. On top of that, it owed more than $3 billion in future lease payments. In keeping with the private equity model, Cerberus didn't owe that. Steward did. The hospital company is bleeding—a combined half a billion dollars in losses in 2017 and 2018 alone, according its last publicly available financial statements. Based on 2018, the Massachusetts agency monitoring hospital finance rated Steward's solvency lower than that of any other hospital system in the state.

A spokesman for Steward says it has plenty of cash to meet its obligations, and its underlying businesses are sound and growing. Still, current and former employees complain about chronic maintenance problems and supply shortages, and some vendors have cut off business with Steward. Since early 2019, several companies have taken Steward to court over past-due invoices: two advertising firms, Rev77 in Arizona and Richards Group in Texas, for billings that topped $2 million; Angelica, for $317,000 in hospital linens; Great Eastern Energy, a New York utility, for $250,000 in natural gas bills; and Ohio vendors for $213,000 in flooring and $36,000 for boiler repair. Not long ago, Cape Cod Cafe stopped delivering pizzas for the cafeteria at Steward's Good Samaritan Medical Center, in Brockton, Mass. Cafe co-owner Jonathan Jamoulis says Steward would pay only after thousands of dollars in bills piled up for six months. "It was a lot of money for us," he says.

Late payments weren't just an oversight, according to several former finance employees. Steward instructed staff to delay payments. Mike Green, who worked briefly as a controller for three of Steward's Ohio hospitals in 2018, says the company wanted to improve its short-term cash flow. "Vendors that were used to receiving a payment in 30 days were waiting 90 and sometimes more than that," says Green, now chief financial officer at Jaro Transportation Services Inc., an Ohio trucking company. "It snowballed to where we were struggling to get supplies in a timely manner."

Steward says disputes with vendors have been resolved and reflect a negligible part of its spending. The delays, it says, reflect the difficulty of integrating payments systems in the companies it bought. "We continue to work diligently on this transformation," the company said in a statement.

Steward and its financial backer pride themselves on being shrewd hospital operators. Under Cerberus, Steward adopted software that it says can predict hospital occupancy with 95% accuracy. That way, rather than focusing on a hospital's average patient count—and risk being overstaffed or understaffed—Steward can get closer to the ideal. When, as is inevitable, hospitals have more than the expected number of patients, they rely on overtime and contract nurses. Several years ago, the software helped alert one hospital to a coming surge related to a bad flu outbreak. The approach has saved tens of millions of dollars a year, says Mark Girard, a Steward executive and radiologist in Massachusetts. In an investor update, Cerberus said Steward's "proprietary proactive labor management IT tool" enabled it to reduce staffing by 532 employees in 2013.

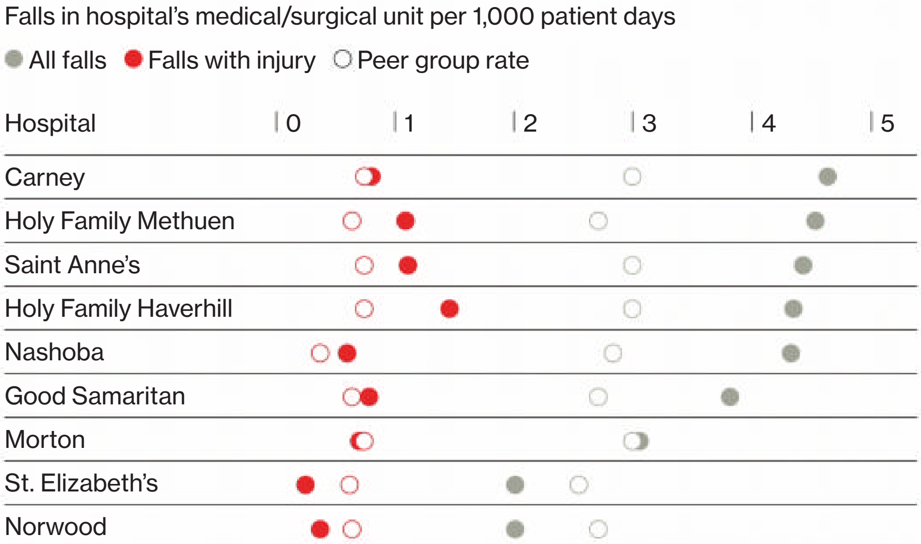
But more than two dozen current and former employees say the hospitals are often short-staffed. In their view, the situation can threaten patients, such as those who need supervision to prevent falls. In the business, certain mishaps are considered unacceptable, or "never events." In 2018, the latest year available, Steward reported 754 falls to the Massachusetts Health & Hospital Association, including 156 with injuries. In many of its units, it had a higher rate of falls than at similar sized hospitals.

The Centers for Medicare and Medicaid Services (CMS) criticized Steward's response to an elderly patient's February fall at its Holy Family Hospital in Haverhill, saying it had failed to take steps to "prevent a like event from occurring in the future." According to a federal inspection report, the emergency room had ordered a one-to-one aide, or sitter, but the patient didn't have one. The hospital blamed a nurse for turning off a bed alarm; the nurse said she had been overwhelmed with other patients. The company says it has increased sitters at Holy Family and elsewhere in recent years.

Two other indicators suggest inadequate staffing. Leapfrog Group, a quality rating service, says Steward hospitals such as St. Elizabeth's, Holy Family, and Good Samaritan have above-average rates of some hospital-acquired infections. In Medicare and Medicaid surveys, a lower percentage of patients at those

Patient Fall Rates at Steward Hospitals in 2018

Falls in hospital's medical/surgical unit per 1,000 patient days



hospitals report that they always got help as soon as they wanted. Overall, the CMS gives low to middling quality ratings to Steward's hospitals, in part because they have more patients who have to be readmitted after discharge.

Steward says its mortality rate is better than expected based on the underlying health of the patients it treats and that it's improved since the takeover. The company also cites data showing that since 2016 its hospitals have improved their patient safety index, which measures how well hospitals avoid a collection of 10 serious complications. Steward notes that its hospitals have won awards from Leapfrog and Healthgrades, another rating company, for services such as cardiac care.

An analysis of 2019 Massachusetts hospital association data shows patients in most Steward adult care units on average receive less time in direct care from nurses and aides compared with those in similar-sized hospitals. In Good Samaritan's ICU, patients received roughly four fewer hours a day of care. Steward says industry data can't be used fairly to compare hospitals on staffing, because institutions may not be reporting consistently, making it "skewed against Steward." Patricia Noga, the association's vice president of clinical affairs, says her group trains hospital officials on what to include and asks them to attest to the data's accuracy.

Through their union, nurses filed hundreds of unsafe staffing reports with Steward in 2019 and so far in 2020. Massachusetts Nurses Association documents tend to claim that shifts are down a nurse, or that nurses lack assistants, including aides for patients at risk of falling. "Patients had to wait excessive time for interventions including meds, toileting," one Good Samaritan nurse wrote last September. Patients were "in hallways without monitoring as beds were full."

At times, nurses say, they're forced into overtime even after 12-hour shifts, leaving them exhausted. Often, they say, the patients are so sick that they need more than minimum levels of staffing. "Frequently, I'm not performing the job up to standard," says Stephanie Hinsvark, a St. Elizabeth's nurse. "I feel like I'm failing my patients."

Struggling with overwhelming numbers of Covid-19 patients at the peak of the pandemic in the spring, nurses say short-staffing, especially a lack of aides, increased their exposure to the virus. Lisa Mancuso, a nurse at St. Elizabeth's for 37 years, contracted Covid-19 in May. Although she recovered, she quit her job in June. Mancuso says the church prized patient care, while Steward focuses on profit. "They're pretty much all about the money,'' she says. "They made that clear over and over again over the last 10 years. Their M.O. is take care of corporate first. Then, take care of everything else—second, third, and fourth."

Joseph Weinstein, Steward's chief medical officer, says the company is working to lower readmission rates through better follow-up with patients. "We do not cut corners on staffing," Weinstein says. "I will be emphatic on that one." Steward says the unsafe-staffing reports are a union strategy to gain leverage, rather than indications of serious shortcomings. The complaints can reflect unusually busy nights, a spokesman says, adding that during the Covid crisis, the company flew in out-of-town nurses to handle the surge in virus cases. Steward says it has support for its efforts from other labor groups. Tim Foley, executive vice president of 1199SEIU United Heath Care Workers East, which represents Massachusetts nursing assistants, housekeepers, and others, credits the company for cooperating with workers and keeping struggling hospitals afloat.

Covid-19 has exposed the weaknesses of the entire U.S. hospital industry. Medical centers rely on profitable elective surgery to offset the losses they take on many lines of business, including treating poor patients. In May the American Hospital Association estimated that hospitals and health systems lost $203 billion from March through June, because of the costs associated with treating patients with the virus combined with the inability to treat others.


De la Torre

Steward was no exception, but its finances had deteriorated long before the crisis. Cerberus indicated as much to investors last year. In a yearend update, the investment firm described Steward's liquidity, or ability to raise cash easily to meet obligations, as "on watch." Previously, Cerberus had "no concerns." (In a statement, Cerberus said that "at no time was the Steward investment viewed as at risk.") More recently, the firm told investors the Covid crisis could cost Steward $500 million.

The company got help from U.S. taxpayers to get through the pandemic. It received at least $400 million in loans from a federal health program and secured a $105 million U.S. grant. Then in May, to stabilize its finances, Steward agreed to sell an additional $400 million worth of property, according to a confidential letter to investors. At the same time, Cerberus made a move to protect its remaining investment. In June, Steward announced the outline of a deal: The private equity firm transferred a controlling interest to a management team of Steward doctors. Cerberus said it was ceding control on "a high note," calling its investment "a success story."

Cerberus hasn't cut all ties. It exchanged its stock in Steward for a kind of bond. Steward now owes Cerberus $350 million through a note due in five years. Cerberus says the note puts its investors in a more "secure place in the capital structure." In essence, Cerberus is hedging. If Steward were to head to bankruptcy, it will be better to be a bondholder than a stockholder—equity is frequently wiped out. Cerberus says the transaction ensures that Steward has "unfettered access to capital" in the Covid crisis and wasn't motivated by concerns about bankruptcy.

If Steward trudges on, Cerberus will collect another $350 million when Steward repays the note, plus interest. And if Steward stabilizes its finances and even thrives? Cerberus can convert the note into a 37.5% equity stake. So, whether or not Steward's nurses, doctors, and patients prosper, or its vendors get paid, Cerberus may yet have another big payday. B

PHOTOS: PREVIOUS PAGE: ST. ELIZABETH'S: GETTY IMAGES. THIS PAGE: DE LA TORRE: MICHAEL NAGLE/ BLOOMBERG. DATA: MASSACHUSETTS HEALTH & HOSPITAL ASSOCIATION

The Cola Contest Wi

Decades ago, Pepsi's Number Fever promotion captivated consumers and promised to end Coke's dominance in the Philippines. But an error at a bottling plant led to disaster

th 600,000 Winners

By Jeff Maysh   Photographs by Geric Cruz

TWO OF PEPSI'S INFAMOUS 349 CROWNS

MARILY SO, A WOMAN IN her early fifties with graying hair, runs a *sari-sari* store out of her one-room home in a concrete building beside a railway track in Manila. In the steamy heat of a summer afternoon, shirtless children appear at her window clutching coins. With a kind smile, she serves them warm bottles of water and Royal Tru, one of a few sodas she displays alongside tiny shampoo sachets and single cigarettes. There's one brand she refuses to sell. If someone asks for a Pepsi, her expression sours. For more than 28 years she's nurtured bitter resentment against the company. "I didn't have a job back then," she says, starting in on her Pepsi story.

It was 6 p.m. on May 25, 1992, and So was among the 70% of Filipinos watching the Channel 2 evening news. Then 23, she was living in a wooden shack beside the tracks with four children under 5. Pepsi was about to announce the winning number in a promotion that had gripped the Philippines' 65 million people. Her husband, a house painter, had spent their last centavos on special "Number Fever" bottles of Pepsi, hoping one of the three-digit numbers printed on the underside of the caps would match one of the winning numbers locked inside a vault.

Across the Philippines' 7,641 islands, ads had promised people "You could be a millionaire." A million pesos, about $68,000 in today's dollars, was the largest prize available, 611 times the country's average monthly salary at the time. The published odds of winning that amount were 28.8 million to 1, but Pepsi had already minted 18 millionaires. They appeared in its ads, real as day. One, a bus driver named Nema Balmes, became known as Mrs. Pepsi after joking that drinking cola put her husband "in the mood."

Number Fever was the brainchild of an executive named Pedro Vergara, a Chilean who worked for the promotions department in New York. After a successful U.S. rollout, Pepsi-Cola International Chief Executive Officer Christopher Sinclair made it part of his strategy to fight Coca-Cola abroad. Since becoming the global arm's youngest CEO at 38, Sinclair had developed a reputation as a "battlefield commander." Visiting 77 countries in six months, he was dismayed to find the world's grocery aisles "awash with Coca-Cola red," as *Fortune* put it.

Pepsi hired a Mexican company, DG Consultores, to bring Number Fever to Argentina, Chile, Guatemala, Mexico, and the Philippines, where it truly caught fire. Monthly sales there quickly jumped from $10 million to $14 million and its market share from 19.4% to 24.9%. Bottling plants roared 20 hours a day, doubling their usual production. An aggressive ad campaign dominated the media, with 29 radio stations and four newspapers circulating the winning numbers. The promotion, initially scheduled to end on May 8, was extended five weeks. By then, Number Fever was verging on Number Hysteria. Cops jailed a maid accused of stealing her employer's winning crown, as the bottle caps were known. Two Pepsi salespeople were murdered following a dispute over another crown.

The night of May 25, So murmured a prayer as the blue of the television shone in her children's eyes. When Pepsi announced the winning number, her husband, Isagani, rifled through their crowns and found the one: 349. A million pesos. Her prayer had been answered. The couple danced and laughed until the TV started to rattle and a passing freight train drowned out their shrieks of joy.

Five miles across town, Ernesto de Guzmán de Lina, a tricycle-taxi driver, was dashing downstairs to tell his nephew Simon Marcelo that his 349 crown had just won him 50,000 pesos. Marcelo was already celebrating—he had a 349 worth 100,000 pesos, enough to quit his job as a cocktail waiter in the city's red-light district.

Similar scenes were playing out across the country. A bus driver had three 1 million-peso 349s. A mother of 12 whose children went through 10 bottles of Pepsi a day had won 35 million pesos. Winners raced to the iron gates of Pepsi's bottling factory in Quezon City, just northeast of Manila, to claim their prizes. As the crowd grew, a secretary dialed the marketing director, Rosemarie Vera. "There seems to be many 349 crowns in circulation among people I know," the secretary said, according to an account in the *Philippine Daily Enquirer*. At 10 p.m., someone from the company telephoned the Philippine Department of Trade and Industry and said a mistake had been made.

Within a year, a violent consumer uprising would be under way, with riots and grenade attacks leaving dozens injured and five dead.

It was perhaps the deadliest marketing disaster in history—and remains one of the business world's great cautionary tales. "I don't think that, from the onset, people would look at this and say people could actually die," says Lee Oster, a University of Idaho professor and the co-author of a risk management textbook that included Number Fever as a case study. "But even then, like the nuclear power industry or aviation, people have to be on top of things and realize the catastrophic events that can happen at the end."

In response to a request for comment on the events described in this story, Pepsi said it would be unable to verify them. "These events took place almost 30 years ago, and none of the executives familiar with this program are at PepsiCo anymore. And given that the Philippines is just emerging from one of the world's longest Covid lockdowns, we have been unable to access stored records on this matter," the company wrote. But, it said, "we deeply regret any pain and suffering our mistake caused the people of the Philippines."

SO IN HER SARI-SARI STORE

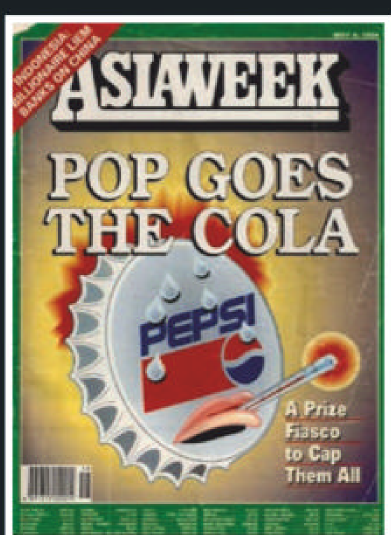
AMERICA DOMINATES MANY ASPECTS OF FILIPINO life, from the kaleidoscope of beverages at most sari-sari stores to a fondness for swing dancing and apple pie. The U.S. took control of the islands from Spain in 1898. After defeating the country's revolutionary government in a vicious three-year war, it established military bases and colonial rule, and its influence remained long after independence in 1946. The U.S. interfered in presidential elections, tacitly supported Ferdinand Marcos during his brutal two decades of rule, and generally used the country as proxy turf for the Cold War. (Sometimes in bizarre ways—at one point the CIA helped suppress a communist peasant rebellion by faking vampire attacks to scare superstitious guerrillas into leaving their positions.)

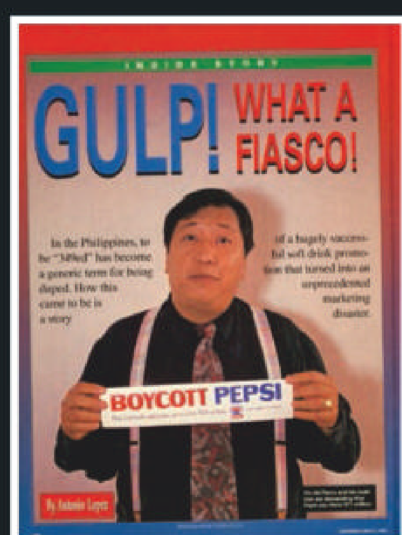
Two American companies also used the Philippines for a different kind of proxy war. PepsiCo Inc. and Coca-Cola Co. duked it out there in ways that would never have been allowed in the U.S., employing espionage and other dirty tricks. At one point during the Marcos era, Pepsi executives were caught cooking the books to show higher sales than Coke, forcing a $90 million write-off. Coke kept the upper hand mainly by undercutting Pepsi's prices. By 1992 it had expanded its share of the cola market to 83%, so high that it no longer bothered to advertise.

Number Fever hit Coke like a sucker punch. Rodolfo Salazar, president of Pepsi-Cola Products Philippines Inc., boasted that half the country's population was participating, making it "the most successful marketing promotion in the world." As Pepsi's sales jumped, Coke executives scrambled unsuccessfully to devise their own promotional game—even, recalls Barbara Gonzalez, Coke's former corporate communications director in the Philippines, buying "a whole truck of bottles, to find out what is the ratio of what we call the seeding, the winning crown to the nonwinning." Coke's Filipino president, Jesus "King King" Celdran, a World War II hero who sometimes showed up at bottling factories in a tank, publicly admitted he was concerned.

There was reason to be skeptical, though, that the promotion would end as a clear win for Pepsi. During the rollout in Chile earlier that year, a garbled fax had led a wrong number to be announced, triggering riots. And swindlers in the Philippines were creating fake winning crowns, leading ▶

AN ANTI-PEPSI RALLY OUTSIDE THE PHILIPPINE HOUSE OF REPRESENTATIVES IN AUGUST 1993





A 1994 *ASIAWEEK* COVER STORY FEATURED DEL FIERRO

people to claim they'd been wrongly denied prizes even before the 349 error emerged.

When disaster struck on May 25, Pepsi initially tried to change the winning number. Newspapers reported the next morning that the real winner was 134, only adding to the confusion. The company locked the factory gates in Quezon City, and by midmorning policemen and soldiers were wrestling with 349 holders who were lobbing rocks at the building. Executives inside were trying to phone headquarters in New York, but Sinclair was unreachable, schmoozing on a yacht at an annual gathering of bottlers, according to a report in *AsiaWeek* magazine. (Sinclair declined to comment for this story.)

Protests carried on through the next night. At 3 a.m., Pepsi decided it would pay 349 holders who came forward over the following two weeks a "goodwill gesture" of 500 pesos. Executives calculated that if half the 600,000 crowns that had been minted with the number 349 were cashed in, the damage would be contained at $6 million.

Among those assembled outside the factory was Vicente del Fierro Jr., an advertising consultant and a preacher for a charismatic Catholic sect. Del Fierro had called the promotion "a social disease that nurtures the gambling instinct in our children" in an open letter to a newspaper. But despite his opposition, his daughter Cymbel held a winning crown. He later wrote that he saw security guards tossing glass soda bottles at the crowd and that a policeman charged at him with a riot shield. He took cover at a nearby Dunkin' Donuts jammed with agitated winners. Outside, Pepsi trucks rumbled past, flanked by guards carrying automatic weapons. A manager tried to escape the factory, but protesters threw stones at him. A bomb threat would follow hours later.

Del Fierro stood on a table at the doughnut shop and demanded quiet. Then he asked for volunteers to draw up a list of winners' names. As reporters gathered around, he announced a crusade. "It's about Third World countries being exploited by multinationals," he said.

MANY 349 HOLDERS TOOK UP PEPSI'S OFFER OF 500 pesos for their crowns; in the first two days, the company paid out more than 12.5 million pesos. (The final bill ended up close to $10 million, according to *AsiaWeek*.) It didn't take long for Pepsi to trace the source of the error: 349, designated a nonwinner in the original promotion, had been mistakenly chosen as a winner for the contest extension. The company reported that crowns from the extension had been printed with a different seven-digit security code and that none of these would be honored.

The explanation didn't appease the protesters. As del Fierro rallied support for his campaign, which he called Coalition 349, he got an early boost from an unlikely source: Celdran, Coke's local CEO, who instructed an employee to offer del Fierro 10,000 pesos—"startup money," according to the now-former staffer, who spoke on condition of anonymity. "Can I have a megaphone?" the employee recalls del Fierro asking when the contribution arrived. (Celdran passed away in 2013. Coke didn't respond to emailed requests for comment.)

Coalition 349 organized rallies outside Pepsi plants, where del Fierro would yell into his new PA system. He also started preparing a lawsuit he hoped would win class-action status, promising crown holders a huge settlement. He accepted 500 pesos for legal fees from those who could afford it and worked pro bono for those who couldn't. De Guzmán De Lina, the Manila taxi driver, arrived with his nephew at del Fierro's house one night not long after the draw to find 349 holders lined up around the block. Inside, del Fierro's wife, Norrie, a glamorous cookbook author, was making food for the crowd.

Del Fierro said he'd take the fight all the way to New York, a city he knew mainly from Frank Sinatra songs. "We are committed to pursue this crusade until the very end," he wrote in a letter to the *Manila Chronicle*. "God is definitely bigger than the 50th largest corporation in the world." When the story hit international papers, Kenneth Ross, PepsiCo International's primary spokesman, portrayed the activists as opportunists. "Quick-buck artists have lured thousands of unwitting Filipinos with very empty promises of a huge settlement for the payment of an upfront fee," he told the Associated Press.

RALLY: ROMEO GACAD/AFP/GETTY IMAGES. ASIAWEEK: COURTESY DEL FIERRO FAMILY (2)

Groups with names such as United 349 and Solid 349 actually were charging fees, with some asking as much as 1,000 pesos for "membership." Marily So and her husband signed up with a preacher, "Brother" Bambi Santos, who said God had called him to fight Pepsi. They agreed to pay him 30% of any future settlements and joined his rallies and protests. In the provinces, farmers were reported to be selling their cattle to afford the journey to Manila.

And the chaos continued. Protesters in Quezon City burned tires. Speculators offered wads of cash for 349s in hopes of a bigger payoff later. Even police weren't immune to the frenzy. One National Bureau of Investigation (NBI) officer arrived at the Quezon City plant with an empty attaché case to carry home his million pesos. "Pepsi either pays," he told a reporter, "or they close down."

As days turned into weeks and then months, some 10,000 claimants filed suits demanding money. Molotov cocktails crashed into Pepsi factories and dozens of delivery trucks, their drivers dousing the flames with 7 Up. The Pepsi-Cola Hotshots basketball team changed its name to the 7-Up Uncolas. Executives began traveling with bodyguards, and the company moved American employees out of the country, save for one who'd worked in Beirut. "We were eating death threats for breakfast," Vera, the marketing director, later told a reporter. At a riot in Manila, a 64-year-old protester named Paciencia Salem, whose husband had died of heart failure during a march, told a journalist, "Even if I die here, my ghost will come to fight Pepsi."

WHY HAD THE CONTEST SPARKED SUCH anger? It was the money, of course, but it wasn't only that. The scandal tapped into rising anticolonial sentiment in the Philippines, which was then flaring over the American military presence. Following fraught, failed negotiations, the U.S. was withdrawing from the last of its six bases. The closures were a victory for nationalists, but they came at the cost of hundreds of millions of dollars in yearly aid and tens of thousands of jobs.

Number Fever also became linked in the public imagination with the country's chaotic national elections, which had taken place a few weeks earlier but were still unresolved thanks to counting delays and procedural and legal challenges. The presidential contest, in particular, had had colonial overtones, pitting Fidel Ramos, a cigar-chomping, right-leaning West Point graduate with Pentagon connections, against Miriam Defensor Santiago, a U.S.-educated lawyer who'd worked overseas for the United Nations, and Eduardo Cojuangco Jr., chairman of San Miguel Corp., a Coca-Cola partner. Other candidates included Imelda Marcos, widow of Ferdinand. "One must wonder how many voters were drawn from the voting booth to Pepsi protests," a columnist wrote. In the end, Ramos narrowly defeated Santiago, a result marred by evidence of fraud.

In January 1993, Pepsi had to pay a fine of 150,000 pesos to the Department of Trade and Industry, for deviating from the promotional campaign the government had approved. "We have done everything that we think is reasonable to amicably ▶

"MY WIFE WOULDN'T HAVE DIED!" ROSARIO SAYS HE TOLD PEPSI REPRESENTATIVES IN 1993. "IT'S BECAUSE OF THE 349 INCIDENT!"

RAUL ROSARIO'S WIFE, ANICETA, WAS KILLED WHEN A PEPSI TRUCK WAS BOMBED

◀ conclude this issue," Ross told the *Los Angeles Times*. "At this point we do not intend to lay out additional money." Del Fierro, meanwhile, had hired five employees to process new lawsuit claimants—he eventually signed up about 800 in all—and was looking for U.S. lawyers to bring the fight to New York. His daughter Cymbel had taken over his advertising business.

One morning in February, a schoolteacher named Aniceta Rosario made her way to a sari-sari store in Manila to buy rice. As she reached the market, a Pepsi delivery truck arrived. Someone threw a homemade bomb that bounced off the truck and detonated. The blast killed Rosario and a 5-year-old girl standing nearby. Five others were injured.

Rosario's eldest daughter, Cindi, still recalls the shock of seeing her mother's lower half covered at the funeral. "They told me her legs were shattered," she says. Rosario's widower, Raul, didn't speak for days after his wife's death. A slight man who never remarried, he tells me in a whisper that Pepsi invited him to an office where a group of men in polo shirts with corporate logos offered him 50,000 pesos (about $3,400 today) not to sue. "My wife wouldn't have died!" he says he shouted in reply. "It's because of the 349 incident, because you cheated the people!" He stormed out, but not long afterward, on the advice of friends, he changed his mind and took the money.

In early April, Sinclair, the Pepsi International CEO, flew to Manila for an emergency meeting with President Ramos. A Ramos aide told the *Los Angeles Times* that Sinclair pleaded for help, warning that the incident could scare away much-needed foreign investment. Ramos disagreed. "It's a special kind of case," Ramos told the *Times*.

The following month, a grenade tossed into a Pepsi plant in Davao City killed three employees. The company urged the NBI to open an investigation into the attacks. A witness to several riots, Nomer Palacios, came forward with a list of six leaders of anti-Pepsi coalitions who, he claimed, were masterminding the violence to force the company to pay.

In late July, del Fierro and his wife boarded a flight to New York, armed with the findings of a Philippine Senate report whose legitimacy Pepsi contested. It called the company guilty of "gross negligence" and "misleading or deceptive advertising." As del Fierro strode through Manhattan, he later wrote, Sinatra's *New York, New York* played in his head, a kind of personal battle hymn. He hired two American consumer lawyers to sue Pepsi for $400 million in actual damages and $1 million in "moral and exemplary" damages. "This problem will become a serious threat to the very existence of PepsiCo," he told reporters. "Massive negative public opinion will create a very deep wound, which may be very difficult to heal."

CYMBEL DEL FIERRO BUILT AND RUNS A COALITION 349 WEBSITE

"PEPSI, THEY KILLING ME SOFTLY," DEL FIERRO RECALLS HER FATHER SAYING

PEPSI WAS IN THE MIDST OF AN ANNUS HORRIBILIS. In the U.S., dozens of people were claiming they'd found syringes inside its cans, a "tampering" crisis the FBI would later expose as a hoax. Crystal Pepsi, a colorless version of the soda, was selling miserably, soon to become one of history's great product failures. And a world tour by longtime spokesman Michael Jackson was about to be derailed by accusations of child molestation, with Jackson canceling dates and saying that he'd become addicted to painkillers first prescribed after his hair caught fire during a 1984 Pepsi commercial shoot.

Del Fierro showed up at a Pepsi building in upstate New York, where Ross met with him. He warned the spokesman that he'd stay in New York until they reached a settlement. Ross said the violence had to end first. "We don't have any control over the violence," del Fierro replied. He returned to Manila empty-handed.

Later that year the NBI alleged that a trio of thugs dubbed the Three Kings was behind the anti-Pepsi bombings. Initially, one of the men, a garment-factory worker named Rodelio Formento, said he'd volunteered for a 349 group and been recruited by the other two during a clandestine lunch. According to documents obtained by *Bloomberg Businessweek* from the NBI, he told investigators that a Pepsi security officer was present at the meeting and that the company had paid the Three Kings to cause violence at rallies in an effort to frame protest organizers. Formento also said they'd been hired to cause a rift among the various movements' leaders. "If we were successful in our mission, Pepsi would give us [a] huge amount," he claimed. But Formento's conscience nagged him. "Many got hurt and died," he told investigators. "I was so guilty, and I could not take it anymore, so I decided to reveal the truth." (Formento couldn't be located for comment.)

A lawyer for Pepsi dismissed the police report, but the head of the NBI's anti-organized-crime division told the media, "We've been had." The *People's Journal* soon ran a story headlined "Pepsi Goons Bombed Own Trucks."

In February 1994 the company lost a 349 court case. A 21-year-old medical student named Jowell Roque won a lower court verdict in Bulacan, north of Manila, ordering Pepsi to pay him more than 1 million pesos. The company appealed, but it's unclear whether it succeeded.

That spring, del Fierro suffered a serious stroke. He recovered well enough that, in the fall, when the Philippine Supreme Court issued arrest warrants for nine local Pepsi executives, he posed for a celebratory photograph holding a newspaper with the headline "Arrest of 9 Pepsi Executives OK'd." (There's no record that the warrants were executed.)

The company sued him for libel, saying he'd been circulating pamphlets calling Number Fever a "scam" and had falsely claimed Pepsi had him illegally detained. Soon afterward another stroke almost killed him. From his hospital bed, he labored over paperwork, dragging himself into court when necessary. "Pepsi, they killing me softly," Cymbel recalls him telling her. He made her promise to keep fighting the company even after he was gone.

That November hundreds of torch-wielding 349 winners demonstrated near Manila's Malacañang Palace during a state visit by U.S. President Bill Clinton, yelling for his help and igniting a Pepsi-bottle effigy stuffed with fireworks. Their hopes of American intervention were further dashed the following summer, when a New York court dismissed del Fierro's lawsuit, saying it should be heard in the Philippines.

Sinclair was made CEO and chairman of Pepsi's combined international and North American operations in March 1996, but he resigned four months later, citing personal reasons. "Sinclair departed voluntarily but ungracefully," *Fortune* wrote, "leaving the overseas beverage mess for someone else to mop up." Pepsi had by then fallen back to also-ran status abroad, outsold by Coke 3 to 1 in the Philippines. It was even overtaken by Cosmos, a local Coke-owned brew. Marketing there had become all but impossible. "Anytime anyone mentions anything to do with Pepsi," Frederick Dael, a local vice president with the company, told *Deutsche Presse-Agentur*, "somebody always digs up 349." To be "349ed" was slang for being duped.

The protests eventually died out, but the lawsuits plodded along for years. It wasn't until 2006 that a Philippine court finally ruled Pepsi hadn't been negligent and wasn't liable for damages. At long last, the company's nightmare was over. "This was not some little incident in a far-off land that we didn't care about," says Ross, who left Pepsi in 1997. "We cared deeply about what happened. We cared deeply about amicably resolving the matter to everybody's satisfaction. We certainly regretted the violence that surrounded this in Manila."

Marily So had by then moved on. Her husband died of a heart attack two years after the 349 draw, sending her into emotional and financial despair. Storms flooded her shack, tarnishing her winning crown, and with four growing children to feed she had no time to attend rallies, so one day she tossed the cap away. It was perseverance, she says, not luck, that led her to find a better home and start her sari-sari store. Today, framed photographs of her children in graduation caps and gowns hang on one wall; she tears up as she shows them off.

Although del Fierro never won a settlement from Pepsi, he did squash the libel case against him. And he could claim some credit for helping pressure the government to strengthen its provisions on misleading and deceptive advertisements; after the 349 controversy, it started more closely monitoring promotional schemes and doubled its fines against companies that violate consumer rights.

Del Fierro died in January 2010, following another stroke. Each night for months afterward, Cymbel would boot up her father's computer to fulfill her promise to keep up the fight. She built a Coalition 349 website, uploading legal documents and press clippings. Inside a filing cabinet she maintains an archive of thousands of winning crowns, the rusting dreams of a generation. "He guided me to do this," she says–so that Pepsi would never forget. Ⓑ *—With Barbarra Resurrection and Nicole Anne Revita*


Is your business
equipped for
the unexpected?

THE FUTURE OF LIVING

WE CAN'T LIVE LIKE THIS ANYMORE

And we don't have to. Architects and designers offer 29 brilliant solutions for the way we live, dine, and travel

August 10, 2020

Edited by Chris Rovzar

Businessweek.com

Architect Bjarke Ingels has five big ideas to fix urban living

By James Tarmy

When pandemic stay-at-home orders were implemented in March, people in cities around the world were made prisoners in their own apartments. Residents in many buildings designed by the Danish-born architect Bjarke Ingels found themselves spending time on their balcony.

"One of our first buildings, in Copenhagen, has these very long balconies that are staggered," he says. There, residents connect with neighbors in a physically distant way. "People were sending me videos of 'block parties' where everyone was outside, enjoying the sunset and listening to music, but safely."

Ingels isn't the first architect to build a balcony, but he's made it a motif in his residences from New York to Taiwan. Incorporating more outdoor space seems inevitable after Covid-19. And as the world reassesses offices and urban space, Ingels sees an opportunity to fast-track other ideas and hone the design language he's been championing for years. "We've been spending a big part of Covid, really all of 2020, looking at this," he says.

It's not only outdoor spaces. Ingels wants to change everything, including mechanical systems, which he says lag in innovation; facades, which could be more energy-efficient; and the layout of apartments, which are mostly one-size-fits-all. "In the 1950s, there was this kind of fixed idea of a nuclear family, whereas the diversity of households today is massive," he says. In his eyes, urban homes in the next few decades will reflect a broad spectrum of uses, as well as iterative innovations in technology.

Here are a few ways Ingels intends to improve housing, wellness, and how we live and (try to) work.

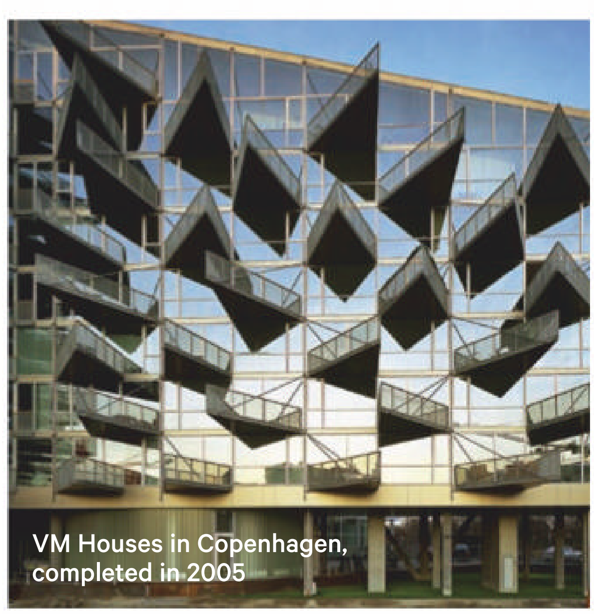
Sluishuis, a forthcoming building by Ingels in Amsterdam

REARRANGED LIVING SPACES

Traditional apartment layouts simply don't account for many family formats, Ingels says, including single-parent households, childless households, and co-living arrangements with multiple roommates. "Most of us have, in our lifetime, stayed in a shared flat with other people," he says, "where we took a bourgeois home from the early 20th century and converted it into something where five young people each had a bedroom and a shared living area. That should be reinterpreted into building designs."

In the Sluishuis, an Ingels project in Amsterdam, one of the apartment types is called a slice home, which is essentially two apartments with shared rooms in the middle. "It could be for divorced families with children," he explains. "Depending on whose week it is, you can move the entryway so the children can stay in the same home."

Co-living, he says, "is going to be a bigger and bigger part of our residential future." People might have distanced during Covid, but the ongoing economic slump may force many to find savings in shared accommodations. "I don't think the result of Covid is that we're going to live in complete isolation in a sort of hermetic bubble," he says. The most immediate consequence is "that dense cities have discovered the importance of outdoor space."



VM Houses in Copenhagen, completed in 2005

BALCONIES AS ROOMS

"During Covid, one of my partners in New York took every conference call from his balcony," Ingels says. "It's generous enough in terms of space, and it's shaded well enough that it can function as his home office." Most people think of balconies—particularly in urban apartment buildings—as "small little things, maybe with space for a potted plant and room to smoke a cigarette," he says. "But I think the balcony is going to be much more like an outdoor room."

Even though it's an extension of the home, Ingels doesn't think a balcony should necessarily be as private as the rest of the house. It could, he says, be a form of semipublic, semiprivate common space. Take his apartment building in Copenhagen with balconies jutting out over one another. "At first it was seen as challenging, because you didn't have full privacy from your neighbor," he says. "Now it's seen as creating a community."

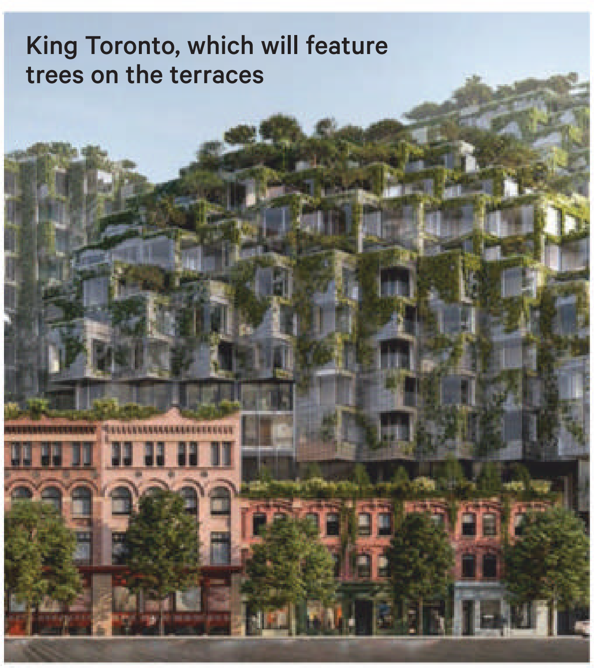

A tent at the Nômade in Tulum

RETHINKING LUXURY

"In the past, there was a global agreement on what 'high-end' meant," Ingels says. Developers (and consumers) required "a checklist of features and materials." Is the bathroom covered in marble with a standalone bathtub? Is a kitchen loaded up with commercial-grade appliances? Criteria along those lines are on their way out, he suggests, to be replaced with "personality, character, and authenticity."

He points to a hotel he didn't design, the Nômade in Tulum, Mexico, which is set in the jungle and features tents nestled in groves of palm trees. "With that abundance of greenery you can allow people to live relatively close to one another without impacting their privacy," he says. Yes, he acknowledges, the rooms are comfortable and pleasant, but it's not the kind of luxury you find at the Ritz. The real point is that people need to "sense the care of the designer."

BIOPHILIA


King Toronto, which will feature trees on the terraces

Part of Ingels's preoccupation with outdoor space is his interest in biophilia, which posits that humans who experience changes in light, weather, and seasons "are more productive and healthy," he says. "The more access you have to greenery, if only visually, the fewer your sick days and the higher your productivity."

According to a 2009 Norwegian study, blocking out nature results in negative effects. Ingels says future generations of buildings, including his own, will have "almost an extra layer to the facade, but outdoors, where you have access to fresh air and plants." One such project of his, King Toronto, is already under construction. "It's essentially a mountain, where every home has a terrace with a tree on it," he says.

The added benefit of plants on an exterior is that the nature, in theory, creates a "shade for a glass facade," he says. "You don't have to have tinted or mirrored glass," because the foliage creates a barrier to sunlight.


A rendering of Toyota Woven City

REDESIGNED THOROUGHFARES

Eventually, people will leave their apartment and return to work. When they do, Ingels wants to change what they see when they step out the door. Earlier this year he released plans for Toyota Woven City, a commission from the car company set on a 175-acre plot at the base of Mount Fuji in Japan.

"Every third street is a classic street" with room for cars, albeit ones that are mostly electric, Ingels says. Another one of the three street types is a recreational promenade, where people can ride bikes and scooters. The final, he says, "will be like a park, with grass and trees." Residents will be able to walk from one end of town to the other—or wherever they need to go—without ever leaving green space.

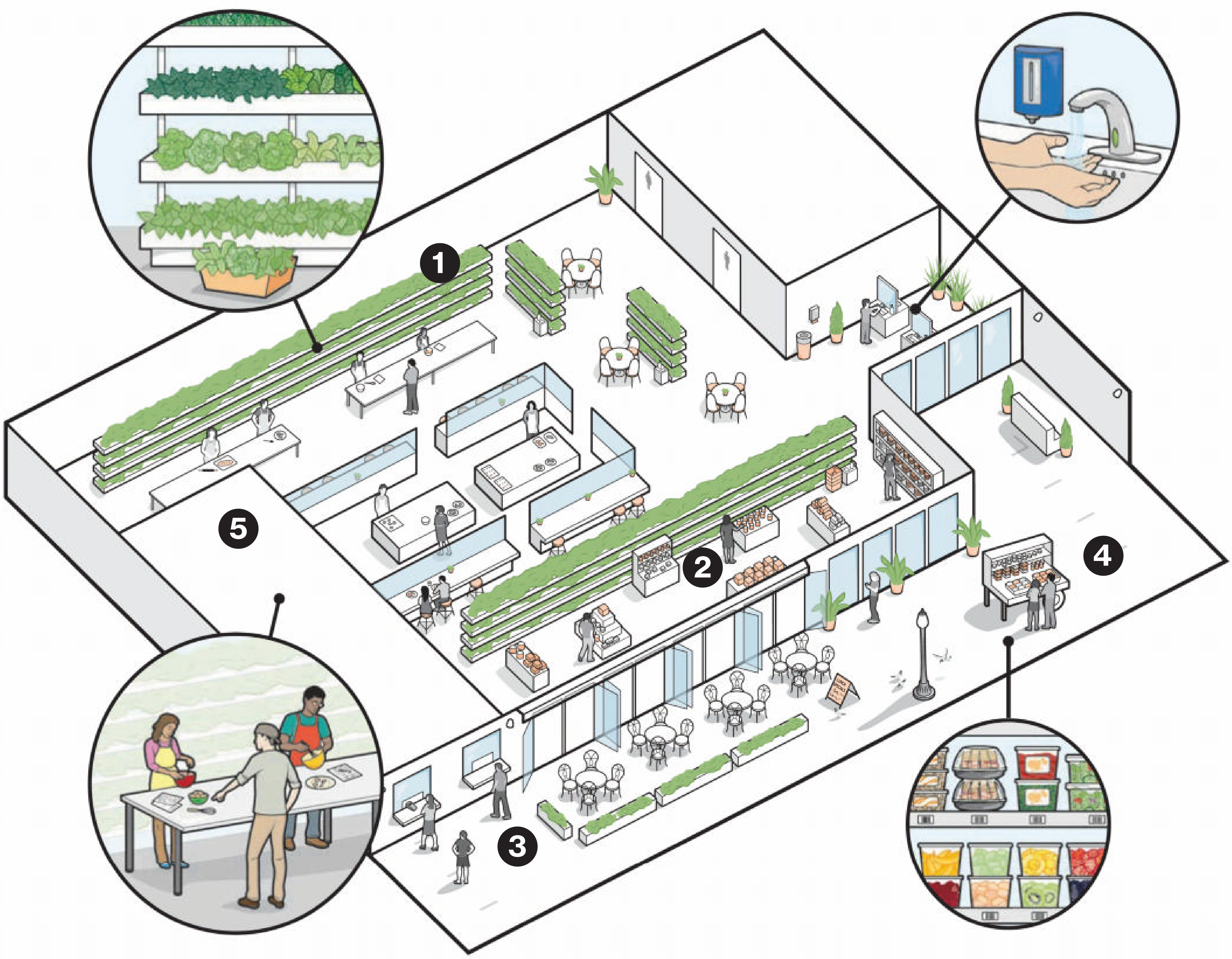
"It turned out that this would be the perfect scenario of a post-Covid reimagining of a city," he says. "When a space isn't dominated by vehicles, it becomes additional outdoor space for people to enjoy." Ⓑ

PREVIOUS PAGE: PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (14). THIS SPREAD: RENDERINGS: COURTESY BJARKE INGELS GROUP. NOMADE: COURTESY NOMADE

RESTAURANTS CAN BE SAVED

We now know the business model needs rethinking and the layouts aren't safe. But legendary restaurant designer David Rockwell has a blueprint to solve both problems with one genius, flexible plan

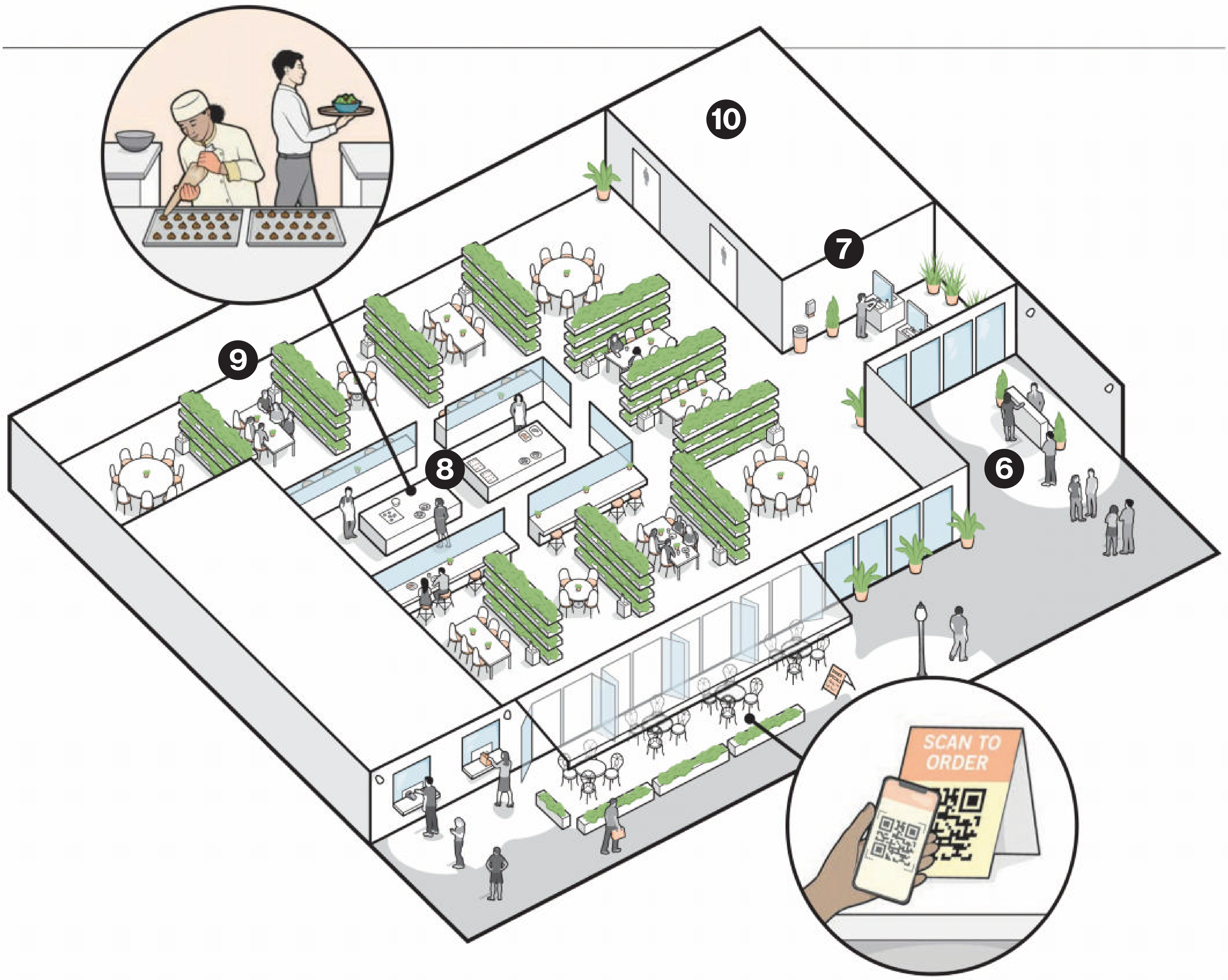
By Kate Krader Illustrations by Brown Bird Design



Even in good times, restaurants operate on slim margins. Owners battle unmanageable rents and struggle to pay meager wages, as much of their venue's real estate sits unused for hours every day. Now that diners are threatened by airborne pathogens, management is finding the spaces difficult to keep sanitary—if they're open at all.

Bloomberg Pursuits asked the Rockwell Group, renowned for designing such destinations as New York's Nobu 57 and the Palms Casino Resort in Las Vegas, to share a vision of the future that solves these structural problems—a multipurpose hub that's economically and environmentally viable. In these renderings, the restaurant serves as a community center, grocery, and educational space during the day. At night, diners sit down to eat indoors, and various components can be rearranged for privacy and distance in the midst of communality.

"Restaurants of the future will be more flexible," says founder David Rockwell. "A model like this reinforces the French root of the word 'restaurant,' which is 'restore.'"



Daytime

A multifunctional market and community space can help ensure profitability during off-peak hours and employ more people, too.

Small, automated, and modular food-growing beds are stacked into long, thin walls throughout the room. Such vertical gardens would allow the restaurant to raise leafy greens, herbs, and edible flowers indoors, providing chefs with a year-round supply of fresh ingredients to further reduce costs. Additional rooftop gardens and apiaries can further expand urban farm production. Any surplus could be put into meal kits or sold separately.

These hydroponic green "walls" (**1**) also serve as lush, movable room dividers that can expand or contract seating areas as needed.

Restaurant/shops like these will also offer a selection of cheeses, charcuterie, baked goods, and other products from local artisans, either in a spacious grocery (**2**) or via a pickup window (**3**). Rotating specialties can entice shoppers at a streetside kiosk (**4**). QR code menus and mobile ordering will minimize server interaction. Outside of wait-service hours, outdoor tables facilitate grab-and-go dining.

In the back of the dining area (**5**), space can be converted into a classroom or meeting-style forum, where wellness, nutrition, cooking, hospitality—really anything—could be taught.

Nighttime

A host greets diners at an outdoor station (**6**). Just beyond, low bench seating and cafe tables surrounded by greenery provide a peaceful place to wait and avoid crowd buildup in front. Attractive sanitation stations (**7**) with sinks demonstrate an attention to hygiene. (In this future, the pandemic has passed, but restaurants are better prepared for potential new health issues.)

Inside, with the green walls rearranged, the layout is now oriented around a central show kitchen (**8**) that's tucked behind sliding glass doors. This adds a bustling air at quieter dining times and reassures guests about the business's operating practices. A series of flexible private-dining spaces (**9**) surrounds the kitchen, so guests still feel like part of a communal experience while having physical separation. Carts in each dining nook, which include hand sanitizer, clean silverware, and napkins, can be easily rolled up to tables when they turn over.

A counter spanning the kitchen accommodates pairs and solo diners. The periphery is kept clear for people to circulate easily. Bathrooms (**10**) feature automatic doors and touch-free fixtures.

Window walls that pivot out onto the street blur the boundary between the outdoor patio seating and the interior. Ventilation is further assisted by high-efficiency particulate mobile air filters that move around the restaurant.

THE PREFLIGHT UPGRADE

Innovation born from the pandemic might radically improve the way passengers move through the world's airports

By Brandon Presser
Illustrations by Jaci Kessler Lubliner

Navigating the Roman circus of obstacles known as an international airport is likely the one thing travelers aren't missing during the Covid-19 crisis. Now that forecasts predict tourism won't fully recover until 2023, these transit centers are getting a rare, low-traffic chance to make many of the changes flyers have long wanted—along with upgrades they never imagined. Among them: disinfection booths, biometric security scans, automated customs and border patrol screenings, and enhanced self-check-in stations. Together, they represent the most significant overhaul of the airport experience since Sept. 11.

"The traditional way we design airports has long been hamstrung in two directions," says Matthew Johnson, who helped spearhead the ongoing $14 billion renovation of LAX in Los Angeles as an aviation principal for architecture firm Gensler. The de facto airport floor plan funnels traffic through an "X" shape, with passengers coming from various entries and converging at one congested portal—TSA—before dispersing to find their gate. This design was largely put into place after the 2001 terror attacks, when extensive security scans became emblems of personal safety.

If long lines were once the price of safety, they're downright dangerous now. "Covid-19 is going to herald a complete reversal," says Johnson, who proposes eliminating the X all together. Airports could become like casinos, he says, coupling eye-in-the-sky surveillance with state-of-the-art sensors—as in the "smart tunnel" at Dubai International that verifies your identity by scanning your iris as you walk through it. Add advanced X-ray technology, and airports may be able to identify threats without requiring anyone to line up, divest, or even put luggage in a tray.

The most radical changes have the potential to turn airports from hotbeds of frustration into beacons of innovation. Here's a look at what's being installed around the world, and a few ideas yet to come.

Checking In

Without having to rush to get through a snaking TSA line, passengers will be able to enjoy their time anywhere in the airport—including presecurity areas. Free of human gridlock, these spaces will be landscaped and outfitted with seating, where it will be possible to get food dropped off from Uber Eats or Grubhub if traffic is light and you're a little early. Such deliveries are being tested at Toronto Pearson.

Airline apps will also mitigate the need to touch screens; in May, United Airlines Inc. announced plans for touchless kiosks that print baggage tags when you scan your phone. Coupled with QR code boarding passes and self-drop luggage stations, the check-in process will be fully digitized. From here, walking to the gate is a choose-your-own-adventure, done on your own time.

Going Through Security

Some airports already provide security without requiring human interaction. At Hong Kong International, passengers tap passports to unlock security barriers, scan their boarding pass, and have their photo snapped for identity verification at an electronic terminal. Munich and Singapore Changi have similar systems. Then there's new technology that's being fast-tracked for deployment: Remotely operated X-ray machines can check carry-ons for explosives, and millimeter-wave imaging systems can examine your shoes for traces of contraband while they're on your feet.

In response to the current pandemic, thermal cameras—common in Asian airports following the 2003 SARS outbreak—will become a ubiquitous way to detect feverish travelers. Trailblazing Hong Kong International is one-upping that, with full-body disinfecting stalls that look like walk-in tanning booths. They take your temperature and blast you with an antimicrobial spray, all in 40 seconds. Except for these stalls, all the technology operates in the background, without your even knowing it (though it may alarm those concerned about privacy).

Navigating the Terminal

In places such as Seoul Incheon and Guangzhou, a new type of employee can be spotted throughout terminals: robots. Some of them sterilize common high-touch surfaces such as bathrooms, hallways, bag trolleys, and elevator buttons with UV lights; others flag authorities when they detect an unmasked face.

At JFK an artificial intelligence platform called SafeDistance is using cameras to monitor for congestion, so employees can easily identify overcrowded areas and open up other avenues of access in response. A similar software tool called Zensor uses CCTV footage to bring real-time crowd estimates for places such as gate-side bathrooms, coffee shops, or retail outlets right to a traveler's phone; Pittsburgh International is piloting it.

Boarding

A touchless departure is the last step. Cathay Pacific Ltd. is working in collaboration with U.S. Customs and Border Protection to bring automated boarding gates to LAX and San Francisco International, joining a similar effort at JFK. They'll scan your face and biometrically verify your identity, allowing you to get on the plane without handing over your ticket and passport. James Groark, who handles landside innovations for the carrier as its vice president for airports, says that "eventually this will be mandatory for all airlines—the writing is on the wall." Ⓑ

AS SIPPED ON TV

The Spirits Network offers a tantalizing taste of home shopping's possibilities for cocktail lovers. *By Brad Japhe*

The rapid growth of online shopping may be the dominant retail storyline of the past decade, but e-commerce in the liquor industry remains something of an exotic curiosity.

Don't blame the alcohol. After Prohibition, regulation in the U.S. was left to individual states, which means that, including the territories and commonwealths, there are 54 separate sets of logistics for a potential purveyor to navigate. The byzantine landscape is confounded further by a three-tiered system in which suppliers and retailers can connect only through distributors.

Charting a surprisingly seamless course through these murky waters is the Spirits Network, a "shoppable streaming entertainment channel" that started in September 2019 with around-the-clock programming. It's available on demand and free online or through its app to your preferred device, though you need to sign up with a credit card to enable one-click purchasing. By integrating buying opportunities into original content, it positions itself somewhere between Netflix and QVC. An Amazon Live, but for liquor.

It airs both licensed content and original shows, which currently consist of about a dozen titles. *#WhiskyWednesdays* is built around themed, virtual tastings. The host of *Home Bar Hero* is "liquid chef" Rob Floyd, who walks you through classic cocktail preparations. Bourbon personality Peggy Noe Stevens shows up to demonstrate how to batch Manhattans, and Flavien Desoblin, who owns Brandy Library in Manhattan, is a ubiquitous presence.

Anytime a bottle is mentioned in a show, a little pop-up "buy-bar" appears in the lower left corner of the screen. Click that, and you're taken to a purchasing page. (The show continues to play in one corner.) If you live in a major urban area, your order can arrive in two hours; the suburbs take a day or two. Harder-to-find products can require five days.

In a sense, the Spirits Network acts as a fourth tier to connect connoisseurs with shops that have what they want. "We play arbitrage to get the product through a retail network," says co-founder and Chief Executive Officer Nick Buzzell.

The concept is on firmer footing now that the coronavirus has altered how Americans access their booze. In the first two weeks of April, e-commerce for adult beverages rose almost fivefold compared to the same period last year, according to Nielsen Holdings Plc. Sales on Drizly, the largest alcohol delivery app, have risen 300% since mid-March. Kantar, a data insights company, suggests a third of these shoppers could permanently alter their buying habits.

Buzzell says the network has a subscription base in the tens of thousands. A $99-per-month Enthusiast package includes one bottle of midshelf liquor (think Bushmills 10) mailed to you based on your flavor profile on the site. A $149 Connoisseur membership bumps to top-shelf territory with a bottle of, say, 18-year-old single malt from the Glenrothes or Bunnahabhain. Both paid tiers include barware and a concierge service to help procure highly allocated Pappy Van Winkle and notoriously elusive Yamazaki 25-year-old whiskies.

On the platform, it's easy to toggle through snippets of trending content, and below that are rows of recommended programs you can tailor to your drinking specifications. Most feature no more than three episodes, but the content consistently brandishes impressive production values; expect multiple camera angles and studio-quality lighting and sound.

The Spirits Network has no "interruptive advertising," but the trade-off is the inevitable appearance of sponsored content. Liquor behemoth Diageo Plc is one of the primary spenders, and it shows: Affiliated brands such as Don Julio tequila and Bulleit bourbon appear across the "related products" section wearing conspicuous banners. In the original programming, the company's myriad bottlings often enjoy center stage.

I didn't see any small craft producers partnered on the platform, and I doubt they have the resources for such an expense—especially now. They rarely appear in the shows either, which is a shame. Traditionally we've relied on local bottle shops and barkeeps to learn what's new and next. In an uncertain future, when in-person relationships aren't a given, the Spirits Network could try tapping into that same honest rapport to highlight something obscure yet sensational. When they do, I won't hesitate to raise my glass. Ⓑ

HAND: GETTY IMAGES. BOTTLES: COURTESY SPIRITS NETWORK

RARE AIR

Boucheron's pendant necklace sounds like science fiction

Photograph by Benjamin Bouchet

The mark of an artist, some say, is the ability to conjure something from nothing. Aerogel, an ultralight material NASA uses to both capture stardust like a sponge and insulate its Mars rover, is as close to nothing as something can be. Described as "solid smoke," the Space Age material is at the heart of Boucheron's Goutte de Ciel, which translates as "taste of the sky." Creative director Claire Choisne designed the one-of-a-kind necklace to accentuate the material's delicate properties (it's 98% air), protecting it in a clear, almost 2.5-inch rock-crystal pendant shaped like a teardrop.

THE COMPETITION

• Instead of the lightest material known to man, try osmium, one of Earth's heaviest naturally occurring substances. It's the source of the glittering crystal face of Ulysse Nardin's Tourbillon Free Wheel timepiece, which clocks in at €102,000 ($120,800).

• If it's a truly extraterrestrial bauble you're after, David Yurman's $775 dog tag necklace is made from a slice of the 4 billion-year-old Gibeon meteorite and patterned with crisscrossing lines of iron and nickel.

• Made-to-order titanium rings by Mach3Ti were created from parts of mission-flown Air Force SR-71 Blackbirds, long-range, high-altitude reconnaissance aircraft that were capable of speeds of more than 2,100 mph. Prices start at $999.

THE CASE

The centerpiece of Boucheron's latest collection is not only a lump of near-air; the necklace is enhanced by 6,162 diamonds totaling 108.17 carats. The aerogel pendant can be removed and worn in other, less blingy configurations. A simple silk cord is included, and a bracelet version is available separately. However it's showcased, the substance captures and reflects an ethereal spectrum of light: It can look white, blue, and sometimes almost invisible. *€590,000 ($696,000); us.boucheron.com*

Stocks + Gold = The New 60/40?

By Shuli Ren

In the past decade, a traditional 60/40 portfolio of stocks and bonds, as represented by the S&P 500 index and long-term government bonds, was a winner. But with U.S. bond yields moving toward zero or even negative territory, it may be time to rethink that mix. One thought: How about swapping out some bonds for gold?

In normal times, bonds serve as a hedge against falling stock prices, because they tend to rise in value when equities slump in an economic downturn. But this relationship starts to break down when government bond yields stay down for long periods—especially when they're low as a result of central bank policy.

Moreover, we may be on the brink of an inflationary period, which would be bad for both stocks and bonds. The Federal Reserve has been flooding the financial system with cash: In just three months, assets held by the Fed ballooned by two-thirds, to almost $7 trillion, from $4.2 trillion in early March. Both monetary and fiscal stimulus have been larger than they were during the financial crisis.

$7t

● PUMPING CASH
The Fed's balance sheet has grown substantially, from $4.2 trillion in early March, as it buys all kinds of debt to support the economy.

● INFLATION FEARS
Investors and consumers are growing more concerned about inflation, according to market indicators and surveys.

People are clearly worried. Since May, polls conducted by the Conference Board show that consumers' inflationary expectations have shot up to above 6%, from about 4.5% before the Covid-19 outbreak. Meanwhile, the future inflation rate implied by relative prices in the Treasury market has been steadily creeping up.

Gold can be a useful hedge against equity risk at times like this, according to Goldman Sachs Group Inc. History shows that gold outperformed stocks by a big margin when inflation went above its long-term trend. Gold is experiencing a record-breaking rally, with futures prices briefly touching $2,000 an ounce on July 31. In the Covid-19 era of easy money and low interest rates, Goldman estimates the price could rise even to $3,000. All it would take, the bank says, is for inflation to hit 4.5%, or stay at a lower rate, such as 3.5%, for a sustained period. We've grown so accustomed to stability in the cost of living that any uptick would send traders scrambling for gold's protection.

The 60/40 formula was conceived when bonds and stocks were still free markets' agents. But now that the Fed is buying up everything from mortgage-backed securities to recently downgraded corporate debt, bonds have lost their usefulness as a hedge against stocks. A little gold might fill the gap. Ⓑ —*Ren is a columnist for Bloomberg Opinion*

ILLUSTRATION BY GEORGE WYLESOL

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