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Bloomberg Businessweek
May 4, 2020

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◀ Cao de Benós outside the cafe in Tarragona, Spain, where he holds meetings and greets visitors

PHOTOGRAPH BY IRIS HUMM FOR BLOOMBERG BUSINESSWEEK

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■ COVER TRAIL

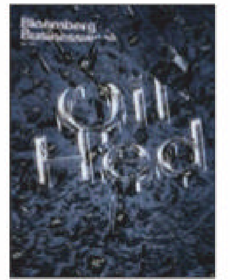
How the cover gets made

❶

"This week's story is about Exxon, which was already doing kinda iffy even before the oil market went totally insane."

"Wow, must be tough. I almost feel bad for them."

❷



"Very cool!"

"Yeah, right? Now we just need some words."

"I see what you did there. How about 'Bottom of the Barrel'?"

"Meh."

"'Over a Barrel'?"

"Did you know that phrase originally had to do with drowning sailors?"

"'Drowning in Oil'?!"

"..."

"'Exxon's Humiliation'?"

"Oh, oh! How about '*Crude* Awakening'? Get it?"

"Why don't you focus on the images, OK?"

Cover: Illustration by Scott Gelber

TAKEOUT MEAL: PHOTOGRAPH BY CARLOS CHAVARRIA FOR BLOOMBERG BUSINESSWEEK

If You Transacted in Eurodollar Futures Contracts and/or Options on Eurodollar Futures on Exchanges, such as the Chicago Mercantile Exchange, between January 1, 2003 and May 31, 2011,

You May Be Eligible to Receive Payment of a Portion of Aggregate Settlement Funds Totaling $187,000,000[1]

The purpose of this notice is to inform you of a partial settlement of a class action lawsuit pending in the United States District Court for the Southern District of New York. The lawsuit involves the alleged manipulation of U.S. Dollar LIBOR ("LIBOR") and its impact on Eurodollar futures contracts and/or options on Eurodollar futures ("Eurodollar Futures") that are linked to LIBOR. The lawsuit against the Non-Settling Defendants remains ongoing. This lawsuit (referred to as the "Exchange-Based Plaintiffs' Action") has been consolidated within *In re LIBOR-Based Financial Instruments Antitrust Litigation*, 11 MDL No. 2262 (S.D.N.Y.).

There are proposed Settlements reached separately with Bank of America Corporation and Bank of America, N.A. (collectively "BOA"), Barclays Bank plc ("Barclays"), Citigroup Inc., Citibank, N.A., and Citigroup Global Markets Inc. (collectively, "Citi"), Deutsche Bank AG, Deutsche Bank Securities Inc., and DB Group Services (UK) Limited (collectively, "Deutsche Bank"), HSBC Bank plc ("HSBC"), JPMorgan Chase & Co. and JPMorgan Chase Bank, N.A. (collectively "JPMorgan"), and Société Générale ("SG") (BOA, Barclays, Citi, Deutsche Bank, HSBC, JPMorgan, and SG are referred to collectively herein as the "Settling Defendants"). These Settlements impact persons, corporations and other legal entities that transacted in Eurodollar futures contracts and/or options on Eurodollar futures on exchanges, including without limitation, the Chicago Mercantile Exchange (the "CME"), between January 1, 2003 and May 31, 2011 (the "Settlement Class Period").

The lawsuit asserts that the Defendant banks (listed on the settlement website, www.USDLiborEurodollarSettlements.com) artificially manipulated U.S. Dollar LIBOR and Eurodollar Futures during the Settlement Class Period by misreporting their borrowing costs to the organization that calculated LIBOR. The alleged manipulation of the U.S. Dollar LIBOR rate allegedly caused Eurodollar Futures prices to be suppressed and/or inflated to artificial levels, thereby causing Settlement Class Members to pay artificial prices for Eurodollar Futures during the Settlement Class Period. Plaintiffs have asserted claims under the Commodity Exchange Act and Sherman Antitrust Act and for unjust enrichment. The Court has issued at least eight published opinions addressing various legal matters raised by the parties in this action. The Settling Defendants have entered into these proposed Settlements to resolve the claims asserted against them. The Settling Defendants deny all claims of wrongdoing.

Claims against Non-Settling Defendants have been limited by the Court's prior rulings. The Court previously dismissed claims against certain defendants for lack of personal jurisdiction and other claims as against SG on statute of limitations grounds. The Court also denied Plaintiffs' class certification motion. Plaintiffs petitioned the Court of Appeals for the Second Circuit for interlocutory review of the Court's denial of class certification. The Court of Appeals denied that petition. As a result, your participation in these Settlements may offer the best, and perhaps only, chance for you to receive any monetary recovery from this lawsuit.

Am I included?

The Settlement Classes are defined in the Full Notice and the Settlement Agreements, which are available for review on the settlement website. In general, you are a Settlement Class Member if you transacted in Eurodollar futures contracts and/or options on Eurodollar futures on exchanges, including without limitation, the CME, between January 1, 2003 and May 31, 2011. Excluded from the Settlement Class are: (i) Defendants, their employees, affiliates, parents, subsidiaries, and alleged co-conspirators; (ii) the Releasees (as defined in the Settlement Agreements described below); and (iii) any Settlement Class Member who files a timely and valid request for exclusion. Notwithstanding these exclusions, and solely for the purposes of the Settlements and the Settlement Class, Investment Vehicles shall not be excluded from the Settlement Class solely on the basis of being deemed to be Defendants or affiliates or subsidiaries of Defendants. However, to the extent that any Defendant or any entity that might be deemed to be an affiliate or subsidiary thereof (i) managed or advised, and (ii) directly or indirectly held a beneficial interest in, said Investment Vehicle during the Class Period, that beneficial interest in the Investment Vehicle is excluded from the Settlement Class.

What do the Settlements provide?

In order to resolve the claims against them, the Settling Defendants have separately agreed to individual settlement amounts totaling $187,000,000 in the aggregate for the benefit of the Settlement Class in exchange for releases of the claims against them, as fully detailed in the Settlement Agreements. Specifically, BOA has agreed to pay $15 million; Barclays has agreed to pay $19.975 million; Citi has agreed to pay $33.4 million; Deutsche Bank has agreed to pay $80 million; HSBC has agreed to pay $18.5 million; JPMorgan has agreed to pay $15 million; and SG has agreed to pay $5,125,000. The Settlement Agreements are available for review on the settlement website referenced below. The Settling Defendants have also agreed to provide certain specified cooperation to the Plaintiffs that can be used in the prosecution of claims against the Non-Settling Defendants.

How can I get a payment?

If you transacted in U.S. Dollar LIBOR-based Eurodollar futures contracts and/or options on Eurodollar futures on exchanges such as the CME between January 1, 2003 and May 31, 2011 and do not exclude yourself from the Settlement Class, you must file a timely and valid Proof of Claim Form to be potentially eligible for any payment. You may obtain a Proof of Claim Form on the settlement website referenced below and submit it online or by mail. The amount of any payment under the Settlements will be determined by a Plan of Distribution approved by the Court. A copy of the proposed Plan of Distribution is available for review on the settlement website at www.USDLiborEurodollarSettlements.com.

The proposed Plan provides for distribution of 75% of the Net Settlement Fund on the basis of *pro rata* "Recognized Net Loss" and 25% on the basis of *pro rata* "Recognized Volume," subject to a guaranteed minimum payment of $20. Only Eligible Claimants may participate in the distribution of the Net Settlement Fund. An Eligible Claimant is a Settlement Class Member whose proof of claim is found to be timely, adequately supported, properly verified and otherwise valid pursuant to the Plan of Distribution all as determined by the Settlement Administrator. At this time, it is unknown how much, if anything, each Eligible Claimant may receive.

To be timely, all Proof of Claim Forms must be postmarked by mail or submitted electronically by December 1, 2020.

What are my rights?

You have the right to remain a member of the Settlement Class or to exclude yourself from the Settlement Class. If you remain a member of the Settlement Class, and if the Settlements are approved, you may be eligible to share *pro rata* in the Net Settlement Fund by timely submitting a valid Proof of Claim Form. If you participate in the Settlements, you will, however, lose your right to individually sue any of the Settling Defendants or their affiliated persons and entities for the alleged conduct at issue in the lawsuit, and will be bound by the Court's orders concerning the Settlements. If you stay in the Settlement Class, you may object to one or more of the proposed Settlements, the proposed Plan of Distribution, the requested attorneys' fees, expense reimbursement, and service awards mentioned below by August 27, 2020. Any objections must be filed with the Court and delivered to the designated representative for Settlement Class Counsel and counsel for the Settling Defendants in accordance with the instructions set forth in the Full Notice. The Settlements will not release your claims against any Non-Settling Defendants, and the lawsuit continues against them.

If you want to keep your right to individually sue the Settling Defendants or their affiliated persons and entities, you must exclude yourself from the Settlement Class for that Settling Defendant(s) by August 27, 2020, in the manner and form explained in the detailed Full Notice. All Settlement Class Members who have not timely and validly requested exclusion from the Settlement Class will be bound by any judgment entered in the lawsuit pursuant to the Settlement Agreements. If you properly and timely exclude yourself from the Settlement Class, you will not be bound by any judgments or orders entered by the Court pursuant to the Settlement Agreements and you will not be eligible to receive any payments from the Net Settlement Fund if the Settlements are approved by the Court.

A fairness hearing will be held on September 17, 2020 at 11:00 a.m. before the Honorable Naomi Reice Buchwald, United States District Court Judge, in Courtroom 21A, at the Daniel Patrick Moynihan United States Courthouse, located at 500 Pearl Street, New York, New York 10007, for the purpose of determining, among other things, whether to approve the proposed Settlements, the proposed Plan of Distribution, Class Counsel's request for attorneys' fees of up to one-third of the Settlement Fund, plus reimbursement of litigation expenses, and payment of service awards to the Settlement Class representatives of no more than $25,000 each. You or your own lawyer may appear and speak at the hearing at your own expense.

THIS IS ONLY A SUMMARY OF THE FULL NOTICE AND SETTLEMENT AGREEMENTS, WHICH CONTAIN MORE DETAILED INFORMATION THAT YOU SHOULD READ. THE FULL NOTICE AND THE SETTLEMENT AGREEMENTS ARE AVAILABLE AT www.USDLiborEurodollarSettlements.com.

Settlement Class Members should continue to review the settlement website for important updates about the Settlements and the litigation. You may also contact the Settlement Administrator below (A.B. Data, Ltd.) to obtain additional information.

USD LIBOR EURODOLLAR FUTURES SETTLEMENT
c/o A.B. DATA, LTD.
P.O. BOX 170990
MILWAUKEE, WI 53217
www.USDLiborEurodollarSettlements.com
info@USDLiborEurodollarSettlements.com
1-800-918-8964

[1] The aggregate Settlements, if all receive Final Approval from the Court, will create a $187,000,000 Settlement Fund. Settling Defendants have separately agreed to settlements as follows: BOA has agreed to pay $15 million; Barclays has agreed to pay $19.975 million; Citi has agreed to pay $33.4 million; Deutsche Bank has agreed to pay $80 million; HSBC has agreed to pay $18.5 million; JPMorgan has agreed to pay $15 million; and Société Générale has agreed to pay $5,125,000.

■ IN BRIEF

● The number of confirmed coronavirus cases around the world now exceeds

3m

Almost a third of them are in the U.S., where more than 50,000 have died. Some of the hardest-hit countries in Europe, such as Spain and Italy, have started easing restrictions as the rate of new infections declines.

● The U.S. economy shrank 4.8% in the first quarter, marking the biggest slide since 2008. But the worst is yet to come, with the current quarter bearing the full brunt of the lockdown. Analysts expect the economy to tumble by a record amount.

● Surfers at Australia's fabled Bondi Beach rushed to catch some waves after authorities reopened it for swimming and surfing following a five-week shutdown.

● HSBC warned that losses from bad loans may balloon to $11 billion this year, the highest since the 2008-09 financial crisis.

● Boeing pulled out of a $4.2 billion commercial-jet deal with Brazil's Embraer.

The two manufacturers entered talks in 2017 to jointly design a midrange jet family. But Boeing's situation has deteriorated after two crashes of its 737 Max and grounded carriers damped demand. Embraer said Boeing was wrong to terminate the accord and will seek damages.

● Crude extended its slide, dropping to about

$10

a barrel on April 28. The price of oil has declined more than 80% this year as the pandemic vaporized demand for crude, gasoline, and other derivatives. The collapse in consumption has created a glut that's straining storage limits worldwide. ▷ 36

● Sergio Moro, the justice minister of Brazil, resigned from Jair Bolsonaro's cabinet.

The former star judge, who made his name as an anticorruption warrior, stepped down in protest after the president fired the head of the federal police. His departure comes a week after the controversial dismissal of the health minister over a difference in pandemic policy.

● "In hindsight, I see that perhaps I should have made it a bit less expensive."

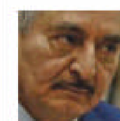
Nicolai Tangen, due to head Norway's sovereign wealth fund in September, has been caught up in a scandal over an extravagant party he organized in Philadelphia. The 2018 event was attended by academics, politicians, and pop stars, as well as his predecessor at the fund, who's now under fire for taking a private jet home.

● Global military spending rose to

$1.9t

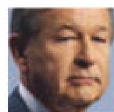
in 2019, the highest since 1988, according to Sweden's Sipri Institute. The U.S. remains by far the biggest spender at $732 billion, which accounts for 38% of the total and almost as much as the next 10 countries combined.

● Libyan military



commander Khalifa Haftar dropped his support for an agreement between warring factions to unite the country. Calling the plan, brokered with help from the United Nations in 2015, "a thing of the past," Haftar plans to advance his assault on Tripoli and form a new government for the war-torn country.

ILLUSTRATION BY CAROLYN FIGEL. BEACH: LOREN ELLIOTT/REUTERS. TANGEN: NINA E. RANGOY/REUTERS. HAFTAR: COSTAS BALTAS/REUTERS. OSPEL: FABRICE COFFRINI/GETTY IMAGES. SCANDINAVIAN: JOHAN NILSSON/GETTY IMAGES

● Former UBS  CEO Marcel Ospel, the driving force behind the merger of Swiss Bank and Union Bank of Switzerland that created UBS in 1997, died of cancer at 70.

● Gilead said results from a trial showed its experimental drug remdesivir helped patients recover more quickly than standard care from Covid-19. Anthony Fauci, the U.S. government's top infectious disease expert, called the outcome "quite good news."

● Scandinavian airline SAS plans to cut 5,000 jobs, almost half its workforce. It's the most dramatic reduction by a European carrier in the face of an imploding travel market. Lufthansa is considering court protection as a last resort should it fail to reach a deal with the German government about a multibillion-euro bailout, people familiar with the situation say.

● Bayer said the number of plaintiffs claiming the Roundup weedkiller caused their cancer has risen to 52,500 from 48,600 in February. But CEO Werner Baumann won broad backing from shareholders at the annual general meeting on April 28, a year after suffering a humiliating vote of no confidence from investors.

● The fate of North Korean dictator Kim Jong Un remains shrouded in mystery.

His absence from the public eye and reports of complications from surgery have fueled speculation that he's ill or even dead. President Trump failed to dispel the rumors by revealing that he knows how Kim is doing but can't say more publicly. ▷ 44

● Mongolia scrapped plans for an IPO of state-owned coal miner Erdenes Tavan Tolgoi. The company had sought a listing as early as this year in Hong Kong that could have raised more than

$1b

according to people familiar with the plan.

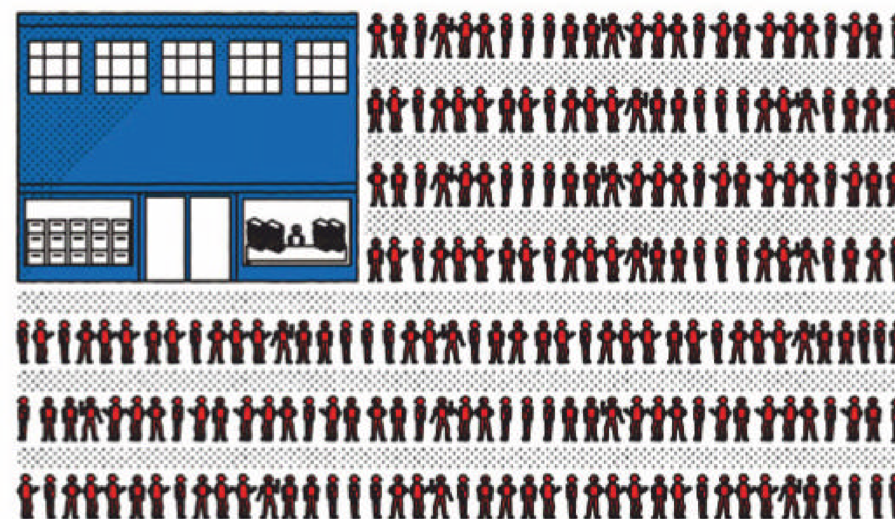
● The U.K. real estate market has seized up as a result of the lockdown, putting

£82b

($102 billion) of home sales on hold, property portal Zoopla said.

● TripAdvisor plans to cut 900 jobs, or a quarter of its total workforce. Those who remain will be forced to take a 20% salary cut. Globally, the travel and tourism sector could see as many as 100 million jobs lost to the virus, according to the World Travel & Tourism Council.

■ AGENDA



▶ Locked Out of Work

The U.S. reports unemployment data for April on May 8. With the economy in lockdown for much of the period, the jobless rate has surged from its half-century low, and some gloomy forecasts see it reaching 30% this quarter.

▶ The Bank of England sets interest rates on May 7. The U.K.'s nationwide shutdown could be lifted later in the month, at which point the economy can start its struggle to revive.

▶ On May 5, German Chancellor Angela Merkel hosts a summit for the car industry to find ways to reignite one of the country's most important industries.

▶ When Lyft reports first-quarter results on May 6, it will detail actions to shore up its financial position and cut costs while supporting riders and drivers.

▶ Nomura releases earnings on May 8. New CEO Kentaro Okuda managed a turnaround in the first quarter, but the pandemic will make further progress much harder now.

▶ German online meal-kit company HelloFresh reports earnings on May 5. With restaurants closed and everyone stuck at home, business is booming, and the stock has hit a record.

▶ Rio Tinto holds its annual general meeting in Brisbane on May 7. Mining companies have been hit by site closures, demand squeezes, and a rush to relocate workers.

The Human Cost of Cheap Meat

● Working in a processing plant has always been dangerous. With Covid-19, it's even scarier

● By Peter Coy

It looks like bad times for Big Meat. The meat processing industry was slow to recognize the danger of Covid-19: Workers continued to work elbow-to-elbow and without masks long after other Americans took precautions. Outbreaks of the disease among employees have now forced the shutdown or slowdown of dozens of plants that produce beef, pork, and chicken. Tyson Foods Inc. Chairman John Tyson has placed full-page ads saying "the food supply chain is breaking." The world is dismayed by scenes of farmers euthanizing hogs and chickens that can't be sold—even as meat prices are leaping and supermarket shelves are emptying.

But it's not all bad for Tyson and the other companies that dominate U.S. meat production, including Cargill, Brazilian-owned JBS USA Holdings, and China's WH Group, owner of Smithfield Foods. The profits from the plants that continue to operate at full capacity have soared: Spot prices for beef and pork are way up because the supply is tight, while the price the plants pay for animals is down because the processors can't handle all of them.

Meanwhile, President Trump's invocation of the Defense Production Act to ensure no disruption in the U.S. meat supply effectively gives producers the government's support in any lawsuits over workers' exposure to the coronavirus, as long as the companies follow safety standards prescribed by government agencies. On April 28, Trump directed Agriculture Secretary Sonny Perdue to "ensure that meat and poultry processors continue operations consistent with the guidance for their operations jointly issued by the CDC and OSHA"—that is, the Centers for Disease Control and Prevention and the Occupational Safety and Health Administration.

Labor unions and public-health advocates have accused Tyson and others of putting profit ahead of worker safety by keeping plants operating despite Covid-19 infections. But with Trump citing national security, "it's easier for companies to say 'we're just following orders,'" says Jennifer Bartashus, a senior industry analyst at Bloomberg Intelligence. "It is a really good time for those that can operate, even if they're not operating at full capacity."

The whole world is feeling the effects of the pandemic on the food supply. In India, starvation looms because a nationwide 40-day lockdown to stop the virus has deprived the poor of money to buy food. A program of free food, fuel, and cash transfers for the poor amounting to less than 1% of the country's gross domestic product has proved insufficient. In Nigeria, stay-at-home orders from state governments have sparked panic buying. In Brazil, coffee growers worry they can't keep their employees safe, and, in Honduras, a fruit export giant has been accused of downplaying the risks. Adding to the pressure, Kazakhstan, Russia, Vietnam, and other countries are moving to secure domestic supply by restricting exports that the world depends on.

The common thread around the world is that agricultural and food-processing workers aren't treated like the essential workers they really are. They earn low pay and have crowded, dangerous working conditions. In wealthy nations, many of them are undocumented immigrants who are afraid to complain. Companies take advantage of that. "Because these giant multinational corporations didn't make the investment to protect workers, their plants are being forced to close," says David Michaels, a George Washington University public health professor who ran OSHA under President Obama.

To keep its production lines moving amid the spreading pandemic, Tyson Foods is offering a $500 bonus in May and another $500 in July to workers who maintain good attendance. People are still eligible for the attendance bonuses if they stay home because they have Covid-19, but some workers who aren't sure they're sick enough to qualify may decide to come to work anyway. Tyson spokesman Gary Mickelson said on April 29 that the company has made its relaxed attendance policy clear to employees. He also said the company is checking workers' temperatures daily and taking other precautions, including placing clear plastic partitions between workers where it's not possible for them to stand 6 feet apart. It began requiring workers to wear masks on April 15.

It's no wonder that some meatpacking plants have become centers of infection in states like Iowa and Nebraska that have otherwise been lightly touched by the coronavirus. Social distancing is impossible when production lines are running at full speed. It takes a full complement of workers side by side to handle all the meat. It's so noisy that workers, supervisors, and USDA inspectors have to shout into each other's ears to be heard. The obvious solution is to slow down the lines and put workers farther apart, but that hurts profitability and reduces supply for groceries.

Some food processors are treating any Covid-19-related slowdown as more of a speed bump than a reason to permanently change how they operate. They're continuing ▶

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$ALE
WHILE IT LASTS!
WARNING
WORKERS MAY HAVE BEEN
EXPOSED TO COVID-19

◀ a long-standing campaign for permission to speed up production lines. Between March 31 and April 17, the USDA granted waivers allowing 16 poultry plants to operate at 175 birds per minute, up from 140, contingent on having enough workers to operate them. "It's just absolutely astonishing to me that they're having a hard time keeping plants open, yet they're approving line speedups," says Tony Corbo, a senior government-affairs representative for Food & Water Watch. Corbo says speedups increase the risk that workers will lose fingers, and that diseased animals will get past inspectors.

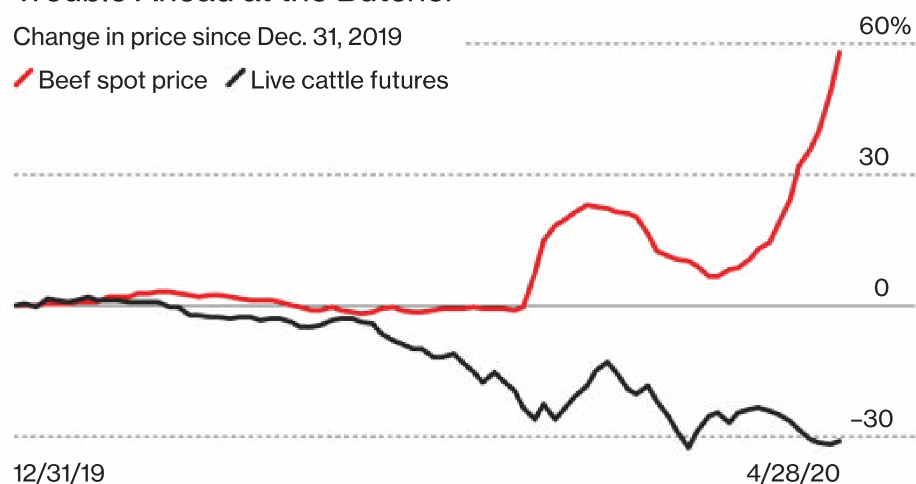
It's not just advocates for workers and food safety who are angry at the meatpackers. It's farmers and ranchers. On April 8 the National Cattlemen's Beef Association wrote to Trump asking for an expanded investigation into the "striking disparity" between the low prices paid for cattle and hogs and the high prices packers receive for their output. The USDA had been investigating price disparities following a fire at a large packing plant last August in Holcomb, Kan., knocked out 6% of U.S. cattle-processing capacity, lowering demand for cattle. It's since added the Covid-19 shutdowns to its investigation.

The pandemic has knocked out much more processing capacity than the Holcomb fire, with a commensurately bigger impact on prices. HedgersEdge LLC, a risk-management and market-research firm in Greenwood Village, Colo., calculates a profit margin for beef and pork packers based on the difference between their inputs (animals) and outputs (cuts of meat). Since 2014 the profit margin for beef has averaged $74 a head. On April 27 it reached $726, a record. The increase for pork is smaller, from an average of $24 a head to a recent level of $76 a head. Andy Gottschalk, the owner of HedgersEdge, says the indexes overstate the profits that packing plants can make because they're based on the latest spot prices, whereas four-fifths of the sales volume is based on contracts that were set when prices were much lower. Plus, he says, the companies still have big fixed carrying costs for plants that are closed or operating below capacity.

But that doesn't assuage the cattle ranchers and hog farmers. Republican senators who have clout in Washington have added their voices to the call for a probe by the USDA, including Steve Daines of Montana, Deb Fischer of Nebraska, Chuck Grassley of Iowa, Mike Rounds of South Dakota, and Kevin Cramer and John Hoeven of North Dakota.

The plant shutdowns and political backlash haven't done much harm to processors' stock prices. As the coronavirus spread, Tyson's shares plunged along with the overall stock market; investors were worried about the closure of restaurants and other food-service establishments that were major customers. But even with plants shutting down, Tyson's stock has rebounded 42% from its March low—not what you'd expect of a company fighting a lung disease that's spreading through its workforce. Hormel is up 17% from its March low; Pilgrim's Pride, 37%; and Conagra, 43%.

The industry has become dominated by a handful of giant companies, led by Tyson, the largest meat processor in North America. The top four companies in beef control 80% of the nation's beef supply; the biggest four in pork control 60% of the pork supply; and the largest five in chicken control 60% of the chicken supply. For efficiency the companies have concentrated production in large plants that run multiple shifts, in some cases around the clock. The plants tend to be in rural areas where workers have few other employment options. The sheer size of the facilities makes them vulnerable to viral outbreaks, simply because there are more people to infect in a big operation than in a small one. The closure of just a few plants can have a significant effect on the nation's food supply. Hence Trump's executive order.



Conditions for workers in Big Meat have improved somewhat in recent years, thanks to outside pressure and the low national unemployment rate, which has forced employers to treat employees better to keep them from taking other jobs. Companies were shamed out of practices such as denying bathroom breaks, which had led some workers to wear diapers on the job, says Celeste Monforton, a lecturer in public health at Texas State University. Tyson has raised wages and is helping workers get their high school equivalency diplomas and citizenship. In Schuyler, Neb., Cargill Inc. is working with the governor's office to secure funding for affordable housing. In other areas, it's set up local clinics to provide free medical services.

But working in a meat-processing plant remains grueling and hazardous. And now, with Covid-19, it's downright scary. "Inevitably, these large businesses create the breeding grounds for disease," Representative Mark Pocan, a Democrat from Wisconsin, wrote in an April 29 statement to *Bloomberg Businessweek*. He's the lead House sponsor of a bill calling for a moratorium on mergers in food and agriculture. Senator Cory Booker, the New Jersey Democrat who ran for president this year, is his counterpart in the Senate. Wrote Pocan: "Monopolies will always expose their weaknesses in times of crisis, and we're seeing it in every industry."

Covid-19's rampage through the meat-processing industry—spreading disease in rural America while wreaking havoc on the meat supply—reminds us of a fundamental truth: How we treat the most vulnerable sooner or later affects the rest of us. Ⓑ —*With Michael Hirtzer and Deena Shanker*

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Unhappy Hour At Emirates

● The long-haul airline thrived on pricey business travel. Covid-19 could change that

Until recently, Tarek Sultani Makhzoumi typically spent every other week of the year on the road, traveling from London to the U.S. or the United Arab Emirates. Like many road warriors, Makhzoumi, chief operating officer for health-care technology company MAP Sciences, became accustomed to the perks of constant corporate travel—everything from restaurant-class in-flight meals to lie-flat beds in business or first class—on business-focused carriers including Emirates.

But in the era of shrunken corporate budgets and a growing embrace of videoconferences, such extravagances risk becoming relics of a globe-trotting past. Moreover, many travelers are likely to remain reluctant to spend time in densely packed lines at airports, queue up at temperature-measuring checkpoints, or sit for hours in close proximity to strangers. "The process of getting into a plane is going to be longer," Makhzoumi says. "And I have to look into my cash flow more closely." He plans to travel only "when it's absolutely worth it" and pack more meetings into each trip when he does.

Any pullback among the bankers, consultants, and tech specialists like Makhzoumi who've long filled the front cabins of commercial airliners is bad news for carriers that cater to them. Especially Emirates, which boasts the world's biggest long-haul fleet.

In particular, the Dubai-based carrier's Airbus A380 double-decker—it has 115 of the behemoths, making it the largest operator of the jumbo—celebrates the art of traveling in the style of a bygone jet era. There are showers to refresh first-class passengers in airborne private suites, a stand-up bar at the rear of the upper deck where business-class passengers can mingle, and fine wines for premium-class flyers to wash down freshly prepared food. The airline spent €120 million ($130 million) on wine alone last year.

Such extravagances may turn out to be a tough sell as companies try to return to business after Covid-19 lockdowns. Since many will face either slumps in demand or outright recession in key markets such as the U.S. and much of Europe, they're likely to spend cautiously. French bank Société Générale SA, for one, expects to cut corporate travel by 80%, according to a person familiar with

Edited by
James E. Ellis

the matter. One consequence: The International Air Transport Association estimates that airlines stand to lose $314 billion in revenue this year.

Emirates is especially vulnerable because its business model is skewed toward attracting high-fare passengers in the front of its planes to connect through its desert hub. That can be lucrative when business is flush. Although premium cabin travelers account for just 10% of passengers industrywide, they represent 30% of revenue, says Brian Pearce, IATA's chief economist. "Filling up the aircraft at the back with passengers on economy seats covers the cost of the operation," he says, "but it's really the premium passengers that are the key to profitability."

For U.S. domestic and European regional travel, a business-class flyer is at least one-third more profitable than an economy passenger, estimates Henry Harteveldt, a travel industry analyst at Atmosphere Research Group in San Francisco. On long-haul flights, business-class customers are approximately five times more profitable than standard economy passengers, he says.

Emirates had been hugely successful at luring those premium passengers through its use of such amenities as free chauffeur-driven car service before and after flights—and access to cigar lounges—while easily charging three to five times the coach fare for a business-class seat and as much as double that for travel in first class. Losing that lucrative line of business comes at an already challenging time. Emirates announced last year that President Tim Clark, the architect of its rise from regional outfit to globe-spanning behemoth, would retire in June. No successor has been named. And the crash in the price of oil has depressed a big portion of travel tied to commodities—an important piece of business for any Middle East carrier. The airline declined to comment on its response to the challenging business environment.

Like every major airline around the world, Emirates has been forced by the coronavirus chaos to make deep cuts, idling as much as 90% of its aircraft, including its entire A380 fleet. It's also slashed salaries and postponed the delivery of its final batch of A380 aircraft. The future composition of the airline's fleet looks unclear now that Airbus SE is ending production of the A380 next year, and production problems at Boeing Co. could delay the introduction of the 777X, the new long-range jetliner of which Emirates has ordered 126.

An Emirates double-decker A380 typically accommodates 14 closed suites, 76 flat beds, and 399 standard seats, and the upper deck is dedicated exclusively to premium travel. One option may be to fast-track introduction of the premium-economy-class product that Emirates had scheduled for the end of 2020, which requires reconfiguring the cabins. That could be the easiest course, given that the A380s are already sitting on the ground.

Other carriers, including Deutsche Lufthansa AG and Cathay Pacific Airways Ltd., have typically priced premium-economy cabins—which have wider seats and more amenities than coach—at about half the price of business class. So the less expensive premium service on Emirates might appeal to price-conscious businesses that otherwise would consider canceling some employee travel altogether. "If they have the manpower and hangar capacity to do retrofitting, they could use the time to make a more modest product," says John Strickland, an independent aviation consultant at JLS Consulting in London.

Indeed, MAP Science's Makhzoumi, once a loyal Emirates customer, says he's shifted his flying to premium-economy service—on Emirates rival British Airways, which already offers the less expensive cabin. —*Layan Odeh*

THE BOTTOM LINE On long-haul flights, business class is about five times more profitable than economy. If the recovery is slow, carriers such as Emirates may have to offer more modest service.

▼ Emirates' annual traffic, in revenue passenger kilometers*

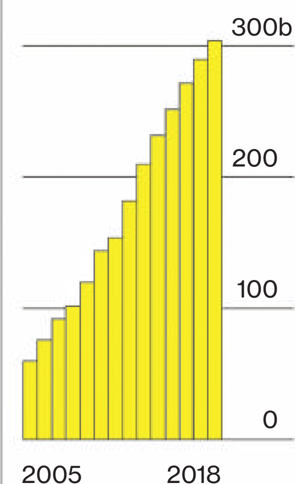


PHOTO: ROLF SCHILTEN/BLOOMBERG. *REVENUE PASSENGER KILOMETERS IS THE NUMBER OF PAYING PASSENGERS TIMES THE NUMBER OF KILOMETERS THEY TRAVELED. DATA: COMPILED BY BLOOMBERG

When Big Companies Crashed the Party

● New rules on what's "small" let large outfits grab an outsize chunk of small-business relief

When the U.S. government began approving almost $350 billion in emergency assistance on April 3 to small businesses hurt by the Covid-19 pandemic, many tiny outfits thought it was finally their chance for some desperately needed relief. But while some mom and pop operations waited in vain for their share of a federal bailout, a 700-person biotech company that recently paid a multimillion-dollar settlement to the Justice Department was approved for a loan. So was a telecommunications company with 1,270 workers, almost half of them outside the U.S.

The Paycheck Protection Program, promoted as a Covid-19 lifeline for operations with fewer than 500 workers, provided tens of millions of dollars in loans to businesses with far larger payrolls than that, according to disclosures filed by publicly traded companies that received the aid. Companies with as many as 1,500 workers could have access to the program because of obscure federal rules that in 2016 redefined what constitutes a small business.

"We are frustrated that this is happening because we do feel like our members are getting boxed out," says Karen Harned, executive director of the National Federation of Independent Business Small Business Legal Center. "They feel like once again, they're getting shortchanged."

Under Small Business Administration rules that set size limits by industry, bituminous coal companies with as many as 1,500 employees qualify for PPP loans of as much as $10 million, as do steelmakers with 1,000 workers. Music publishers, newspaper publishers, and companies that provide sea cruises can have as many as twice the 500-employee limit that made headlines when Congress enacted the program. In all, companies in more than 300 industries are considered small by federal rules even when they have more than 500 workers.

The SBA set the current size standards to govern how businesses in different industries could tap into its existing programs and for government contracting purposes. When Congress created the PPP in March, the adjusted definitions left Main Street shops to compete with far larger companies, and the initial $349 billion pandemic relief program was tapped dry in just 13 days. Congress has since appropriated an additional $320 billion.

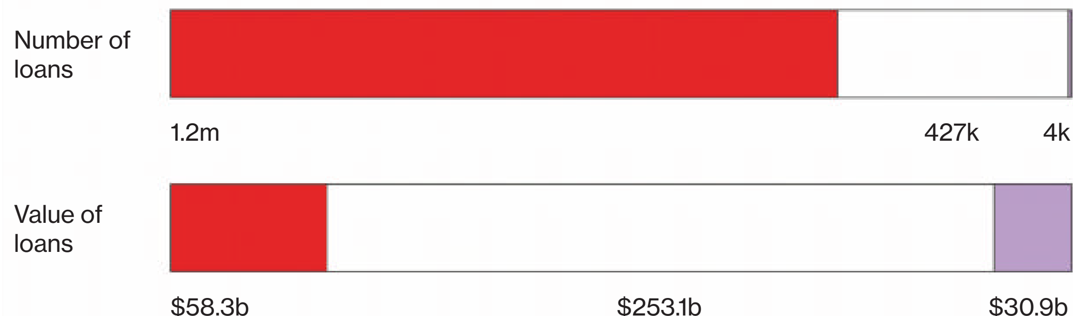
The program's design may have contributed to the problem for truly small businesses. Its forgivable loans were capped at 2½ times a company's average monthly payroll or $10 million, whichever is lower. Larger companies take larger shares, crowding out others. Also, Congress included a special provision allowing restaurant and hotel chains with thousands of employees to apply for loans as long as each physical location had no more than 500 workers. That let some national chains use the program extensively.

Treasury Secretary Steven Mnuchin has sought to defend the PPP's reach, citing more than 1 million companies with fewer than 10 workers that have been approved for loans so far. An SBA report says more than 1.2 million loans were for $150,000 or less. Even so, those small loans accounted for only 17% of the $342.3 billion processed. And while fewer than 2% of the approved applications sought loans for more than $2 million, they accounted for 28% of the total funding, SBA data show.

The Trump administration has announced new guidance for the program, telling large companies with access to capital markets that they

Most of the Loans, But Not the Money

Paycheck Protection Program loans approved through April 16, 2020



DATA: U.S. SMALL BUSINESS ADMINISTRATION

should stay out. And on April 24, the SBA and the Treasury Department ruled that hedge funds and private equity firms won't be eligible. Congress also required that $60 billion of the extra $320 billion appropriated for PPP be set aside for small banks–with $50 billion or less in assets–to disburse, which should give smaller businesses more access than they got in the first round, advocates say. *—Jason Grotto, Mark Niquette, and David Kocieniewski*

THE BOTTOM LINE While fewer than 2% of the approved applications for the U.S. small-business bailout sought loans of more than $2 million, they accounted for 28% of the total funding.

How Ventilator Fraud Went Viral

● Scam artists in China are offering bogus contracts for the difficult-to-obtain devices

As hospitals and governments around the world furiously search for medical ventilators to help treat Covid-19 patients, some have been drawn to the large number of merchants in China offering to sell the lifesaving machines. One account on Weibo, China's version of Twitter and the country's most popular microblogging site, is offering 1,000 of Beijing Aeonmed Co.'s VG70 ventilators for sale. But the listing is far from a find. First, the seller's price of about $51,000 apiece is roughly 50% more than the model's usual price. An investigation of the seller's history shows that the Weibo account until recently focused on blogging about beauty products and posting makeup photos, rather than marketing medical equipment. Moreover, Li Kai, a director of Beijing Aeonmed, the purported maker of the machines in the Weibo listing, told Bloomberg News the seller can't possibly have that many of its products in stock. When a reporter contacted the seller for an explanation and comment, the account blocked Bloomberg News from communicating with it.

Welcome to the buyer-beware world of purchasing ventilators during a pandemic. Forged documents, impostors pretending to be company officials, and fraudulent contracts are some of the moves employed by scam artists as hospitals struggle to secure the respiratory aids. The reputations of legitimate vendors are getting hit by profiteers reselling their equipment for as much as five times its normal price or promising machines they don't have, while the FBI has warned of schemes targeting government and health industry bodies.

Covid-19's rapid spread has forced hospitals to go from keeping a few ventilators on hand to suddenly needing hundreds of the complex devices essential in helping intensive care patients breathe. In the U.S., the Society of Critical Care Medicine estimated in March that 960,000 patients would need ventilator support because of Covid-19, but the nation had only about 200,000 such machines.

Although China produces just a fifth of the world's invasive ventilators, would-be buyers of such equipment have been turning to the country because it's the only major economy so far to come close to resuming normal manufacturing.

"Governments are scrambling to try anything in a desperate situation," says Charlie Yin, sales director at ventilator maker Beijing Siriusmed Medical Device Co. "They went to whatever sources they could find, and that's how they got scammed." Yin says middlemen are hawking ventilators for 400,000 yuan ($56,500) apiece, compared with a normal price of about 80,000 yuan.

While many foreign buyers have remained focused on traditional suppliers, others have turned to China's giant social media platforms of Weibo and WeChat in search of products. "This is a crazy market, there are just too many middlemen," Yin says.

Mechanical ventilators include invasive models that insert a tube in a patient's airway and noninvasive versions that use a mask to deliver air. China's Ministry of Industry and Information Technology estimates the country can make only about 2,200 invasive ventilators a week if key components are available.

Chinese manufacturers compete in a market dominated by European and U.S. producers such as Philips Healthcare, Hamilton Medical, and Medtronic. But the recent spike in demand has caused companies as varied as appliance designer Dyson, plane maker Airbus, and automaker ▶

● Number of U.S. patients estimated in March to need ventilator support because of Covid-19

960k

ILLUSTRATION BY CAROLINE POLLET

◀ General Motors to jump into production to address shortages. That's blurred traditional supply chains—and created an opening for fraud.

Beijing Aeonmed has found scammers using its name without authority, touting forged documents, and employing bogus engraved official stamps in an attempt to hijack contracts. The company said it isn't involved in any attempts to mark up the list price of its products. Some scammers have been so brazen they've set up bogus businesses right outside Aeonmed's Beijing office and posed as employees to prospective clients. "Ventilators are really unlike masks; they can't be churned out," Li says. The company has reported several cases to local police.

Since April 1, China has stepped up quality control on virus-related exports, forbidding medical supplies without government certification to be sold abroad. The Ministry of Industry and Information Technology, which coordinates ventilator production, said Chinese makers have been unable to sufficiently expand capacity because of a lack of key components from foreign suppliers hit by the pandemic. "We are proactively pushing domestic companies to speed up production and expand capacity," the ministry said in a statement. "We are helping them to solve raw materials and labor issues and continuing to urge them to do a good job of quality control." The ministry said that from March 1 to April 22, Chinese manufacturers supplied more than 7,700 invasive ventilators and almost 40,000 noninvasive ones to foreign nations.

In another ventilator case, Ambulanc (Shenzhen) Tech. Co. said people pretending to be employees contacted foreign embassies and health bureaus to offer the machines for sale. The company discovered the fraud only when it was approached by the diplomatic missions.

"Those wishing to get already-made ventilators are prone to scams," says Liu Bo, vice general manager of Ambulanc. "Our production capacity is already booked through June and July."

The FBI warned in April of multiple incidents of U.S. state government agencies transferring funds to fraudulent brokers and sellers before equipment had been delivered. In one case, an individual claimed to represent an entity with which a state purchasing agency had an existing business relationship. By the time the agency became suspicious of the transactions, much of the funds had been transferred outside the reach of U.S. law enforcement and was unrecoverable, the FBI said on April 13. —*Jinshan Hong*

THE BOTTOM LINE With ventilators in short supply, desperate hospitals and governments are seeking the machines from unfamiliar sources online. That's opened the door to criminals.

BW Talks Keith Barr

InterContinental Hotels Group's chief executive officer was sheltering in place with family in the U.K., where the company is based, when he spoke by phone about how businesses may recover from the virus. —*By Carol Massar and Jason Kelly*

● While about 400,000 people work in InterContinental hotels around the world, the company is basically a franchise operation ● Almost 6,000 hotels are individually owned small businesses that may employ 15 to 20 people ● The hotels are hosting front-line medical workers

What's the impact been on business?

We've never seen an impact on demand for the hotel industry like this in our lifetime. We had a fairly good January and February. And then, as an industry, we saw revenue begin falling quite quickly in March. I saw the U.S. data just this morning: From the start of April, it looks like U.S. revenue per available room is down 80% year over year.

What have you resorted to?

At the corporate level, we've been cutting people's salaries, cutting capital expenditures, and really focusing on liquidity to make sure we can get through this very, very challenging time. People have been furloughed.

What about government stimulus and assistance?

These programs are going to have to expand and be extended, because this is not going to be over in a month. Business doesn't go back to normal tomorrow. Until you get better therapeutics, broad-based testing, and a vaccine, I don't believe you can fully reopen.

How does InterContinental head into the future?

We'll learn from this. It may lead to temperature checks, increased cleanliness standards, and changing food and beverage operations. We have a team of innovation people working on this now, thinking through how this is going to evolve.

And what's the post-Covid-19 era like?

The companies with scale can leverage their procurement powers to reduce the costs to operate, of distribution, of building all those things. That will create value for owners. The bigger companies will get bigger, and some of the smaller companies will need to consolidate. That reality is the new norm going forward.

● Interviews are edited for clarity and length. Listen to *Bloomberg Businessweek With Carol Massar and Jason Kelly*, weekdays from 2 p.m. to 6 p.m. ET on Bloomberg Radio.

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When Anime Becomes a Refuge For Patriotism

In addition to entertainment, China's Bilibili offers nationalism to its young audience

Like many Chinese teenagers, Shan Bingxin turns to Bilibili to alleviate his pandemic ennui. For about three hours a day, the 15-year-old scours the online entertainment hub for anime clips, gaming tutorials, and news. But increasingly, the site that began as a forum for gaming- and animation-obsessed geeks is emerging as an unlikely hotbed for current affairs–with an ever more nationalistic bent.

Alongside typical posts about *Grand Theft Auto* or the Japanese manga series *Naruto* are clips generated by government-sanctioned influencers and hawkish news outlets. Shan recently watched a livestream showing Wuhan rapidly erecting temporary hospitals for virus patients, which filled him with pride in his country. Another clip showing U.S. President Trump calling Covid-19 the "Chinese virus" infuriated him.

Beijing is using popular culture to appeal to young people by plastering Communist Party slogans onto video games and enlisting boy bands as role models. One anime series from last year depicts the life of German socialist philosopher Karl Marx, whose theories are taught widely in Chinese schools. The show, co-produced exclusively for Bilibili by several state institutions, including a provincial propaganda department, depicts the young Marx as a typical Japanese manga-style protagonist.

The Communist Youth League and other groups have been flooding Bilibili with virus-related conspiracy theories and fanning anti-American sentiment. The Youth League, the party's branch for younger members, is among the site's top seven creators, with about 6 million followers; it gets the most likes of any contributor, according to data tracker BiliOB. Part of the platform's allure to state-sponsored programs is the credibility it has, being backed by some of China's biggest public companies, such as Tencent Holdings Ltd. and Alibaba Group Holding Ltd. Electronics maker Sony Corp. of America said this April it will invest about $400 million in it.

While propaganda promoters are also active on other social channels, such as microblogging site Weibo and mini-video app Douyin, campaigns appear to be more effective on Bilibili because of the nature of its 130 million active users. "Bilibili is uniquely positioned in China, as it's the only video platform focusing on both high-quality and user-generated content," says Gao Bowen, an analyst

ILLUSTRATION BY REBEKKA DUNLAP. PHOTO: SIPA ASIA/ZUMA WIRE. DATA: BILIOB

Edited by Molly Schuetz

with Sinolink Securities. "Its Gen Z users have created a very interactive community atmosphere."

When it started almost a decade ago, Bilibili was a digital hub for ACG, or anime, comics, and games. Since then it's morphed into a YouTube-style service with wider appeal. Premium members pay about $15 a year so they can watch anime releases early. Now there are other types of offerings. Some of the site's most popular video topics in recent months include: how the coronavirus might have originated from a leak in a secret U.S. military lab; why Taiwan's push for independence will lead Beijing to war; and how Trump is trying to maintain American tech supremacy by suppressing Huawei Technologies Co. A spokeswoman says that Bilibili hosts a variety of content to meet users' diverse interests, and that "keeping our community safe and enjoyable is a top priority."

The site's young audiences are feeling especially good about their country "as a result of pride in the way the nation has contained the virus and also in response to racism toward Chinese abroad and the every-country-for-itself mentality," says Mark Tanner, founder and managing director of China Skinny, a Shanghai-based marketing and research firm.

A video montage by the Youth League about protest violence in Hong Kong has garnered almost 9 million views since it was posted in November, making it the League's all-time favorite on the website. On YouTube, which deemed the clip unsuitable for minors, it's gotten just 7,000 views. In March the Youth League's unit in Guangdong province recruited a group of Bilibili vloggers to create an anime music video celebrating women's empowerment on International Women's Day.

Touting patriotism can also be fun. One of the most well-received Chinese anime series on Bilibili portrays the country as an innocent-looking but tough rabbit and the U.S. as a bald eagle. In one episode about the Korean War, the rabbit dutifully stands by for the order to attack despite the blistering cold. Meanwhile, just a couple of miles away, the eagle whines about having to eat canned meat and the lack of barbecues. (Bilibili is an investor in the studio that produced the show.)

The company has discovered that content that champions China brings traffic and marketing dollars. A New Year's Eve gala co-hosted with state news agency Xinhua and sponsored by Alibaba attracted more than 80 million simultaneous viewers. Along with an orchestra playing *Harry Potter* theme music and people dressed as elves and warriors, it featured a chorus of soldiers singing a patriotic anthem about fighting off Japanese invaders during World War II.

▲ Bilibili users at the 2019 CCG China animation and game expo in Shanghai

Online viewers flooded the livestream with the floating on-screen comments or "bullets," a Bilibili feature, declaring their gratitude for having been born Chinese. The segment elicited more audience messages than a performance by pop idol Kris Wu.

Bilibili reported a bit more than 2 billion yuan ($282 million) in revenue in the fourth quarter of 2019, up 74% from a year earlier. The bulk of that came from mobile-game-related sales, followed by livestreaming and advertising.

Still, its success hasn't been entirely smooth. In 2018 it was removed from China's major Android app stores for a month after regulators expressed concerns over inappropriate material, prompting the company to double the number of content-moderation staff and pledge to recruit 36,000 "volunteer" censors. And some users have been put off by the nationalist themes. Cheng Yingying, a 20-year-old Chinese college student in California and premium Bilibili user, unfollowed the Youth League's account after it spammed her. "I'm here for fun. I don't want to get patriotic education while I'm watching anime," she says.

The cozy arrangement among the platform, propagandists, and advertisers comes with bigger risks. Bilibili, for example, could spawn "some blindly xenophobic nationalists" among young people, says Fang Kecheng, an assistant professor of communication and journalism at the Chinese University of Hong Kong. "If they develop world-views based on the limited information there, it's clearly not a good thing for China's relations with other countries—especially with the U.S." —*Zheping Huang*

THE BOTTOM LINE With its games and anime, video site Bilibili has built a huge following among young Chinese. The platform has begun serving them increasingly patriotic fare.

▼ Top Bilibili uploaders by likes as of April 24

Uploader	Category	Likes
Communist Youth League	Government	96.1m
Guancha.cn	State media	60.4
Jing Hanqing	Lifestyle, food	54.6
Old Tomato	Gaming	45.5
Cool Breeze Kaze	Anime	38.0
China Central Television	State media	35.6

Tock to Go Brings Fine Dining To the Socially Distant

● Helping restaurants pivot from linen to paper napkins, the app may keep kitchens open

When social distancing orders shuttered restaurants around the world, the industry banded together to survive what it hoped would be a temporary crisis. A newly formed Independent Restaurant Coalition lobbied the government for bailout funds; restaurant workers suggested on social media that people buy gift certificates to local eateries; and 20 of New York City's top restaurants asked officials to ban takeout orders to protect their employees' health.

Nick Kokonas didn't play along. The co-owner of the Alinea Group, five high-end restaurants in Chicago, took to Twitter to warn that gift certificates were akin to taking on debt without a revenue plan. He was bracing for a long shutdown, followed by an even longer period when restaurants would be filled to only half capacity. To survive, Kokonas advocated takeout. "Why not try this?" he says he thought. "The restaurant is sitting there. You have a bunch of people who are eager to work." He persuaded Alinea's chef and co-owner, Grant Achatz, to switch from offering a $250 prix fixe meal for 125 people a night to a $35 dinner to go. On most weekend evenings, Alinea now sells 1,250 dinners consisting of set items such as duck cassoulet, osso bucco, and braised short-rib Wellington, plus add-ons like wine and cookbooks, lifting the group's flagship restaurant to about 75% of its previous revenue.

Kokonas, 52, who made his first fortune as a derivatives trader, founded the online reservation app Tock in 2015. A smaller competitor to reservation systems such as OpenTable, Yelp, and Resy, Tock did things a little differently. It sold prepaid tickets for seating at exclusive restaurants, with dynamic pricing depending on the reservation time, to eliminate cancellations. And it serviced restaurants, managing their reservations and providing details about customers they could use to target advertising on Instagram or Google. In early March, looking at the bookings from Tock's 3,000 clients in 28 countries, Kokonas says he feared many would soon close their doors: "I watched clients in Hong Kong go from busy to zero." That's when he got the idea for Tock to Go.

In six days, Tock's engineers reinvented the app—instead of taking reservations for tables, it would schedule takeout orders. OpenTable and Tock's other competitors had lost all their revenue and resorted to linking clients to delivery services such as GrubHub and Uber Eats. But Tock to Go was able to offer its restaurants a solution. Sticking to its roots in reservations, the app helps restaurants schedule pickup and delivery times to avoid a rush

▼ The Harbor House's lasagna; employees bag Tock to Go orders

PHOTOGRAPHS BY CARLOS CHAVARRIA FOR BLOOMBERG BUSINESSWEEK. *SEASONALLY ADJUSTED. DATA: U.S. CENSUS BUREAU

of orders at 6:30 p.m., a common problem with delivery apps that often overwhelms the kitchen. Plus, Tock to Go tracks inventory, automatically pulling items off the menu when a restaurant runs out of, say, banana cream tarts. And the app sorts local restaurants, making them easy to find. Perhaps most important is what Tock to Go doesn't offer: the actual delivery. That allows it to cap fees to restaurants at 3%, significantly lower than the 30% some delivery services charge. Kokonas says he hoped people would be willing to come for pickup. And for those who weren't, he figured restaurants could dispatch their otherwise out-of-work waitstaff to drive around delivering orders.

The Harbor House Inn, in the northernmost corner of California wine country, with sweeping views of the Pacific, used to serve $180 dinners to 20 guests, most of whom were staying at the hotel. The Inn had already switched from Resy to Tock in December, so it jumped on Tock to Go, which helped it build webpage options for add-ons such as sourdough bread loaves. Now Harbor House is selling $20 meals of lasagna or Vietnamese noodles to about 40 locals a night. "We have regulars," says Amanda Nemec, the general manager and partner of Matthew Kammerer, the chef. "Who would have thought this would be happening here?" It's enough business to keep their staff employed.

Steve Hafner, CEO of OpenTable and Kayak, is impressed. "Nick is pivoting, and we applaud his effort," he says. OpenTable has "thrown in the towel on 2020" as it focuses on convincing governments to allow restaurants to reopen. "I'm down here in Miami Beach, and we're ready," Hafner says.

Tock to Go waived its fees in April, and Kokonas went on a flurry of virtual sales calls, adding more than 800 clients and hiring an account manager. It's also branching out beyond restaurants to places that suddenly have lines forming, where people want to make sure they get an item before it's out of stock. Kokonas has been talking to grocery store chains. "Someone checks you in, like a grocery store maître d'," he says. Other new clients include a fishmonger, a distillery, and the Nisei Lounge, a dive bar next to Wrigley Field. At the end of April he added Tock Pasture and Produce, which helps farms and ranches that sell to restaurants deliver to homes. Kokonas thinks that new business will thrive after the pandemic. "Farmers will say, 'Oh, I can do digital sales at retail prices?'" he says. Likewise, he plans on continuing Alinea's takeout options even after the restaurant fully reopens.

So does Seven Reasons, a highly rated Latin restaurant that seats 90 people a mile-and-a-half from the White House. A few days after the restaurant broke its sales record, on March 10, it was ordered to close. It reopened for takeout and sold 900 dinners in 15 minutes, causing its system to crash. When co-owner Ezequiel Vázquez-Ger got a sales call from Tock a week later, he signed up. Then he informed the restaurant's handyman that he'd now be making deliveries.

The restaurant is doing twice as many covers as it did before the pandemic, Vázquez-Ger says, taking in $50,000 to $60,000 a week, compared with nearly $80,000 before. He's going to keep the new At Home by Seven Reasons brand around permanently, selling cook-at-home kits. Two of the line cooks and the pastry chef have created takeout pop-up restaurants from the kitchen, under his umbrella. "If there was an award to that person or company that did the most to help restaurants during the crisis ... It would be for Tock," he says. *—Joel Stein*

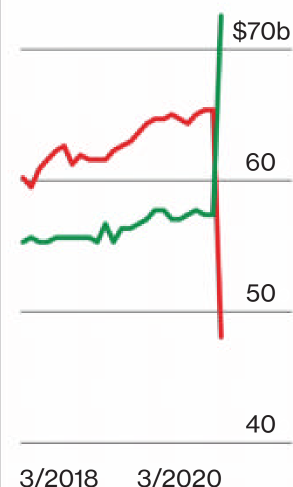
THE BOTTOM LINE Restaurants battered by the pandemic are able to keep staff employed using Tock to Go. The takeout-delivery app doesn't deliver—the restaurants' idled workers do.

▲ A Harbor House order ready to be picked up

▼ Estimated U.S. monthly sales*

Restaurants and bars

Grocery



How Quants Got Bullied

With a few giant companies dominating the market, money managers who buy thousands of stocks have lost out

In a crisis, large companies can have an edge. As the pandemic has forced the shuttering of local stores and restaurants, grounded consumers streamed *Tiger King* on Netflix, stocked up on groceries and supplies with Amazon, and gathered together on Zoom. Hardly any company is immune from the economic shutdown, but the big ones have more resources to weather the pandemic and, in some cases, may be able to gain market share.

On Wall Street, that's exacerbating a divergence between small and large companies which has been frustrating stockpickers for some time. The Russell 2000, a benchmark for small companies, has lagged the big-name S&P 500 index badly over the past two years. This year the small stocks, with a median market valuation of about $525 million, have lost 22% as of April 28; the S&P, about half of that. The Nasdaq 100, which tracks the largest tech stocks, is down less than 1%. The S&P 500's companies now make up 82% of the entire U.S. stock market's value, a share that's been steadily rising this century.

None of that is good news for active fund

Edited by
Pat Regnier and
David Rocks

managers—especially the quantitative investors who create trading rules from computer models. As the big get bigger, a passive fund that tracks a market-value index such as the S&P 500 gets to surf that wave. Even a portfolio that buys all the S&P stocks but holds them in equal proportion—instead of concentrating in the very largest names as an index fund does—is trailing the benchmark so far this year, with a decline of around 17%.

The long-term evidence is already stacked against active funds in general: Fewer than a quarter of them have beaten their passive rivals over the past decade, according to Morningstar. During the recent bear market, only about 42% did so.

Quant managers, meanwhile, are naturally pulled toward buying smaller companies. Instead of analyzing a handful of companies in depth to assemble a portfolio, quants sort through data to come up with a few reliable trading signals and apply them across thousands of securities. Since most companies are midsize or small, quants can end up underweighted in the blue chips that have lately been thumping the rest of the market.

Los Angeles Capital Management, a money manager that uses quantitative tools, has studied the factors that guide its investing decisions—such as a company's forecast cash-flow growth or momentum in its stock price—and found that applying them to large companies reaped higher gains than with small ones. In other words, the trading models haven't been working as well with the very stocks quants are more likely to buy. "A lot of the factor efficacy is just in those largest names, whereas historically we used to think the factors apply across the market," says Edward Rackham, co-director of research.

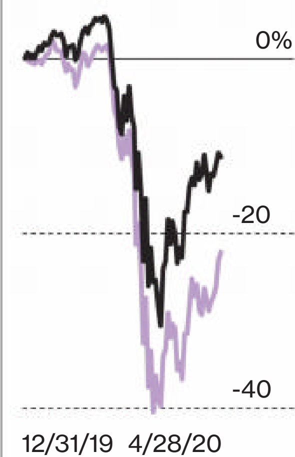
The underperformance of small companies shakes up one of the oldest quantitative investment strategies in the books. A classic study by finance professors Eugene Fama and Kenneth French showed that stocks' returns could be explained via a variety of factors, including a size effect: Bet on small stocks and against large ones, and you'll come out ahead. But in the first three months of 2020, that strategy posted its worst period since at least 2002, extending a six-year decline, a Dow Jones index shows.

Michael Hunstad, head of quantitative strategies at Northern Trust Asset Management, says the size factor isn't dead. Rather, it just has a very long cycle, meaning it can go into and out of favor for years at a time. And not all quantitatively driven strategies are suffering. For example, a hypothetical momentum portfolio—one that buys the past year's winners—has outperformed through the 2020 sell-off.

Quants would refrain from making any qualitative predictions, but it's easy to see the pandemic continuing to entrench some advantages of size. Bashing Big Tech now looks as dated as a handshake, and Silicon Valley's giants may be able to expand their clout. Large companies can also find it easier to tap credit and solve supply chain problems.

Even so, Gavin Smith, a fund manager at asset management company QMA, says the gap between big and small has become so stretched that small-caps should see a recovery. Likewise, Hunstad reckons the mega-caps' ascendancy might not last much longer, given the sky-high expectations now priced into their valuations. That could give quants a break. If a handful of giant companies "have massively inflated growth expectations, and we're heading into a recession, those are going to be the names to fall the hardest," Hunstad says. —*Justina Lee*

THE BOTTOM LINE The pandemic has only exacerbated the long-standing performance gap between the S&P 500 and the rest of the U.S. market.



The Empty Earnings Season

● You have to think about stocks differently at a time when the numbers alone don't tell you much

This may be the least informative earnings season in history. Companies' first-quarter financial results are scarcely relevant because they cover a period that mostly predated the pandemic. About a fifth of S&P 500 companies have stopped guiding Wall Street analysts about how much they expect to earn this year. Wild swings in the market give the impression that stock prices have become unanchored from reality.

Here's the surprise, though. The lack of information about the short-term situation may force investors to do what they should have been doing all along, namely focus on companies' long-term earnings potential. Lazy expedients such as extrapolating the latest results into the future or leaning on the forecasts of the chief financial officer aren't working right now. Stock prices are being influenced instead by meaningful considerations: Is there a future for cruise ships? Will we need less office space because we're staying home, or more because we'll sit farther apart? Will distancing create more demand for cars and less for airlines?

These are bigger questions than the ones that accompany an ordinary business cycle fluctuation. "Investors have never had to make a decision like ▶

ILLUSTRATION BY BAPTISTE VIROT. DATA: COMPILED BY BLOOMBERG

◀ this before"—about which businesses will survive—says David Russell, vice president for market intelligence at TradeStation, an online brokerage.

Aswath Damodaran, a valuation expert at New York University's Stern School of Business who began blogging at the start of the last financial crisis, is impressed by how investors have handled themselves this time. "I know that it is fashionable to talk about how inefficient and volatile markets are but this crisis, in many ways, has been surprisingly orderly and markets have dispensed punishment judiciously, for the most part," he wrote in an April 24 post.

There was plenty of craziness in stocks from their February peak to their March trough. Good companies were pulled down along with bad ones. Since then, though, investors have tried to winnow the wheat from the chaff. Amazon.com Inc., which lost nearly a quarter of its value in the selling wave, has since risen 38% and touched a record. Health-care giant Johnson & Johnson is up 36% from its recent low. Meanwhile, big banks such as Citigroup Inc. are not far above their cyclical bottoms, reflecting ongoing concern about loan losses. "It might take a day, a week, or three weeks, but eventually the market mechanism separates good from bad," says Dubravko Lakos-Bujas, chief U.S. equity strategist and global head of quantitative research at JPMorgan Chase & Co.

Looking well past the current year's earnings is something investors should do always, not just when there's a pandemic going. Quarterly earnings guidance is at best a crutch. "If you want to get an investment edge, company guidance doesn't buy you anything," says Erika Karp, founder and chief executive officer of Cornerstone Capital Group.

That's where long-term analysis comes in. Most of the value of a growing company "comes from the aggregate cash it will generate in the years 2023-2050 and beyond," Win Murray, research director at fund manager Harris Associates, wrote in a February newsletter. Hypothetically, he wrote, if 2020 cash flows fell to zero but later years were somehow unaffected, a company's market value "should only fall by 4%-5%."

Investors are focusing less than usual this quarter on which companies beat and which companies fell short of earnings expectations, says Savita Subramanian, an equity and quant strategist at Bank of America Securities. The way the game is ordinarily played, company executives steer analysts toward an earnings-per-share number that they're confident they'll be able to beat, so surpassing expectations is in fact expected. This quarter, the day-after stock-market underperformance by companies that fall short of expectations is only one-third the normal amount, she calculates.

That tolerant reaction is a good sign. "There's a growing disillusionment" with management of earnings expectations, Subramanian says. "People realize it's a game." It's a game with pernicious consequences: A survey of financial executives by Duke University published in 2005 found that a majority of them would avoid initiating a project with a positive long-term value "if it meant falling short of the current quarter's consensus earnings."

Of course, it's appropriate to focus intently on the short term if a company is at risk of failing. Bankruptcies are already beginning to spike. But most big, publicly traded companies will survive. "My mantra is: depression-like shock, no depression," says Joseph Brusuelas, chief economist at RSM Global, an audit, tax, and consulting firm. Those that make it past the pandemic could actually benefit in the long run from a reduction in competition, says Harris Associates' Murray.

If you spot a company whose stock price looks high in comparison with its projected earnings over the next year, it could be a sign of a bubble—or it could be evidence that investors are looking beyond that 12-month cutoff to better days ahead. —*Peter Coy, with Claire Ballentine*

THE BOTTOM LINE Investors can't lean on companies' recent earnings or guidance. That may force them to focus on the more relevant issue of long-term profit potential.

▼ 2020 total return through April 28 of the 20 largest members of the S&P 500*

Company	Return
Amazon	25%
Walmart	8
Microsoft	8
Johnson & Johnson	4
Home Depot	0
Intel	-1
UnitedHealth	-2
Pfizer	-2
Verizon	-4
Apple	-5
Procter & Gamble	-5
Alphabet	-8
Visa	-9
Merck	-10
Facebook	-11
Mastercard	-11
Berkshire Hathaway	-17
AT&T	-19
JPMorgan Chase	-30
Bank of America	-32

Mein Liebling Credit Card

● In the coronavirus era, Germany's passion for cash is cooling because of fears about handling dirty bills

For years, Lauren Lee has offered a revolving mix of delectables drawn from various cuisines—Korean, Indian, American, and more—at Fraulein Kimchi, her Berlin food truck. One thing, though, never changed: Customers had to hand over cash for every bowl of bibimbap or plate of curry. But these days she's worried about picking up the coronavirus from handling grubby money, so Lee now accepts only cards. "Since I started in 2013, this is the first time I've taken noncash payments," she says. "But we all know money is super dirty."

Germany—industrial powerhouse, Europe's biggest economy, and home to the Continent's finance

hub—is among the least carded places in the developed world. Germans complete 75 card transactions per capita annually, vs. 173 in France and 279 in the U.K., according to a report last year by consulting firm McKinsey & Co. For obvious historical reasons, Germans hate the idea of the government being able to track them via spending or any other means, but these days many fret that someone may have coughed or sneezed on the tenner in their pocket.

So across the country, more and more merchants are allowing—and often even encouraging—customers to pay with plastic. Supermarket chain Edeka says noncash purchases are up 30% in recent weeks. SumUp, a pan-European electronic payments service, says card transactions at cafes (still open for takeout) jumped 35% in the week ended April 5. And at newsstands—where the typical transaction is just a few euros and cash has long been king—card purchases climbed 40%. Because of the virus, consumers are "even buying things as inexpensive as chewing gum with a card rather than cash," says SumUp co-founder Marc-Alexander Christ. "Merchants also prefer it this way."

The German central bank insists euro banknotes are less likely to spread viruses than door handles, elevator buttons, or shopping carts. But hygienic concerns about money have been spreading almost as fast as the virus. The People's Bank of China has ramped up measures to sanitize bills to reduce contagion risks, and Thailand's central bank is offering advice on how to disinfect banknotes at home. The Bank of International Settlements says public worry about touching cash is "unprecedented" despite minimal risk. "There are no known cases of Covid-19 transmission via banknotes or coins," the BIS says in a report. "Whether concerns are justified or not, perceptions that cash could spread pathogens may change payment behavior."

Nowhere is the shift likely to be as dramatic as in Germany. In Sweden, the Netherlands, France, and elsewhere in Europe, it's possible to go weeks without handing over any coins or bills, but in Germany tens of thousands of restaurants and shops, from the smallest villages to the capital, are still cash-only. Supermarket chain Aldi only began accepting credit cards in 2015, and German branches of Ikea made the transition in 2016 (though both had allowed debit cards before that). Chancellor Angela Merkel typically pays cash when picking up groceries at a supermarket near her flat in central Berlin. On a recent outing, she was spotted whipping out her credit card.

Even as Germans start using plastic more frequently, the Covid-19 crisis is spurring them to use contactless payments—where buyers simply touch their card to a terminal, with no need to handle a receipt. At Hokey Pokey, an ice cream shop in Berlin's Prenzlauer Berg neighborhood, the card reader is set on a table about 3 feet from the counter so payments can be made without approaching the server. The National Association of German Cooperative Banks reports that in the first week of April, half of card payments were contactless, up from 35% in December. Mastercard International says it's seen a "dramatic increase" in the use of contactless cards during the pandemic. "I don't like touching money," says Sarah Durante, who owns Humble Pie, a Berlin food truck selling American Southern cuisine such as fried chicken and mac 'n' cheese that has shifted entirely to contactless payments. "It's a pain to constantly wash your hands."

The question remains whether the shift will be permanent. Blue Code, a mobile payments system in Germany and Austria, says yes, noting that daily downloads of apps incorporating its software—which lets customers complete a transaction by scanning a QR code with their phones—have jumped more than 50% since mid-March. "In people's minds, touching things now will be slightly different," says Chief Executive Officer Christian Pirkner. But Jones, an ice cream shop in Berlin's Schoeneberg district that has gone from all-cash to cards-only, says it will start taking cash again once the crisis abates. "It's not very fair for people who don't have a card, or for kids getting ice cream after school," says owner Gabrielle Jones. "Plus, the fees are quite high, and it takes longer to pay with a card than just handing over a €2 coin. We need a faster pace when there's a line." —*Sarah Syed, with Natalia Drozdiak, Carolynn Look, and Arne Delfs*

THE BOTTOM LINE Germans fret about being tracked via spending, but card use at cafes is up 35%, and at newsstands—where cash has long been king—it's climbed 40%.

▲ In Berlin, Jones ice cream shop has switched from all-cash to cards-only

▼ Amount of cash in the average wallet in selected European countries†

PHOTO: SEAN GALLUP/GETTY IMAGES. *AS MEASURED BY MARKET CAPITALIZATION. STOCK RETURN DATA: COMPILED BY BLOOMBERG. †CASH FIGURES AS OF 2016. CASH DATA: EUROPEAN CENTRAL BANK, DEUTSCHE BUNDESBANK, AND DE NEDERLANDSCHE BANK

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Will the Virus Make Inequality Worse?

The Great Depression changed the social order—but the rich got even richer after the Great Recession

Edited by Cristina Lindblad

A recession is no picnic. A financial crisis leaves wounds that last for decades. A pandemic, though, can sow a unique kind of chaos.

The Black Death took a highly stratified medieval society and turned it upside down. With 75 million dead, Europe's wealthy landowners couldn't find enough people to tend their fields. When peasants—the essential workers of the day—demanded higher pay, the elites of the 14th century fought back with punitive laws, forced labor, and taxes. Even so, wages for the lowliest workers soared. In rural England, they doubled.

As epidemics go, the novel coronavirus is a relative lightweight—one that has nevertheless killed more than 200,000 people worldwide so far. Yet it's accomplished something not seen in far deadlier outbreaks of the past: a simultaneous shutdown of much of the world's commerce. No one can predict the long-term effects of a pandemic hitting an economy this complex and globalized.

For now, the most obvious guide to what comes next isn't the Black Death, which precipitated the demise of European feudalism, but the Great Recession, which had more or less the opposite effect. In the aftermath of the 2008 financial crisis, inequality soared to heights not seen since the early part of the last century. At first, elites feared that much of their wealth would be wiped out in a globally synchronized market crash, à la 1929. But central banks pumped out trillions of dollars as monetary stimulus, markets recovered, and what followed may have been the best decade in history for the superwealthy.

Wall Street's savviest investors are already pulling out their 2008 playbooks. The basic idea: Pay discount prices for ailing businesses and other distressed assets now, then cash in later when everything bounces back. In early April, Goldman Sachs Group Inc. said it was considering setting up a $10 billion fund that would make loans to financially strapped companies. Executives at Apollo Global Management Inc. told investors during a March 24 call that the crisis was the private equity firm's "time to shine." And in an April 7 appearance on Bloomberg TV, billionaire Steve Schwarzman said his Blackstone Group Inc. was "looking aggressively" at making investments—even as he warned the pandemic could take a $5 trillion bite out of the $21 trillion U.S. economy.

Will the recovery from this crisis, whenever it arrives, be as unequal as the last one? There are reasons to think so. Even as business closings threaten to push U.S. unemployment past the 25% record set during the Great Depression, the stock market has bounced back from its March lows, buoyed by a multistage government rescue effort that's running in the trillions of dollars.

Some billionaires are faring better than others. The personal net worth of Amazon.com Inc. founder Jeff Bezos has increased more than $25 billion in just the two weeks from April 3 to April 17, according to the Bloomberg Billionaires Index, while three heirs of Walmart Inc. founder Sam Walton are collectively more than $6 billion richer than they were at the start of the year.

So far, so 2008.

History is full of surprises, though, and no two crises are alike. Among the many ways 2020 could differ from 2008: This downturn may be worse. The International Monetary Fund predicts the world economy will shrink 3% this year, the most since the Great Depression. And the Great Depression had a very different impact on the world's rich from the Great Recession.

From 1929 to 1932, the top 0.1%'s share of all U.S. household wealth plunged by a third, and the top 0.01%'s portion fell by half—a funhouse-mirror opposite of their 2007-10 surge, according to estimates by Emmanuel Saez and Gabriel Zucman, a pair of professors at University of California at Berkeley who study economic inequality.

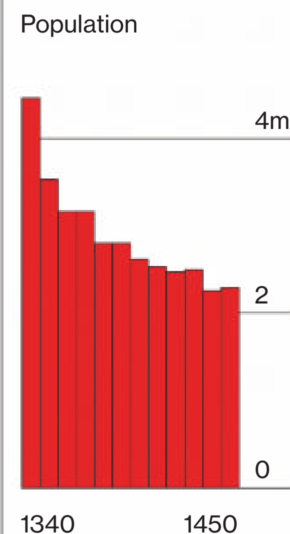
The 1929 Wall Street crash helped create a new economic order in the U.S. called welfare capitalism. With the New Deal, American workers gained a safety net. With World War II, they won leverage with employers and higher wages. The owners of the means of production—well, they didn't do as well. By 1950 the very richest Americans, the top 0.01%, controlled just 2.3% of the nation's wealth, less than a quarter of their share in 1929. Meanwhile, the bottom 90% of households had doubled their share.

One wild card, now and in past crises, is government policy. A dozen years after the financial crisis, it's still galling to many that America's leaders failed to prevent millions of foreclosures, even as bailout funds propped up the banks that originated mortgages that went toxic. "In 2008 they got away with it in a sense," says University of Texas professor James Galbraith. "They're going to find that they can't stop the pitchforks this time."

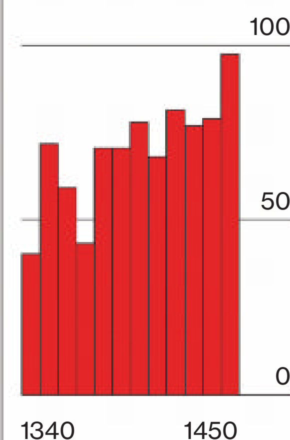
The Federal Reserve's policies also contributed to widening the wealth divide. Record low interest rates—meant to stimulate borrowing and productive investment—pushed asset values ever higher. Corporate profits soared as the economy recovered much faster than workers' wages. If you had capital to deploy in the bleak days of late 2008 and early 2009, you were lavishly rewarded. From the depths of the crisis to the beginning of this year, U.S. stocks more than quadrupled.

▼ England after the Black Death

Population



Inflation-adjusted average daily wage for men, in pence



DATA: GREGORY CLARK, UNIVERSITY OF CALIFORNIA AT DAVIS

The rich have advantages in good times and bad. In an economic shock, "the issue of who has liquidity and who has access to credit lines becomes very important," says Salvatore Morelli, an economist at City University of New York who's spent more than a decade studying how crises affect inequality. "The people who have liquidity jump in and buy those assets," he says, then profit handily when the economy recovers.

After 2008, fortunes at the top ballooned even as the middle and working classes were hobbled by derailed careers, stagnant pay, and permanent losses on their biggest investments—their homes. From 2009 to 2012, when the economy was supposedly in recovery, the earnings of the bottom 50% of Americans fell 1.5%, while the top 1%'s income rose 21% and the top 0.1%'s earnings jumped 24%. By 2012 the top 0.1% of Americans were earning $6.7 million a year on average and collectively controlled a fifth of U.S. wealth, more than at any point since 1929.

Another increase in inequality may be inevitable. "Any recession, regardless of the cause, hits poor people disproportionately," says Martin Eichenbaum, a professor of economics at Northwestern University.

Downturns also especially penalize those entering or exiting the job market. Millennials who graduated during the last recession paid a long-lasting penalty for their bad timing. In 2016 the average American under 35 was still earning less than the same age group in 2007, according to the Survey of Consumer Finance. The Federal Reserve Bank of St. Louis found that the median household headed by someone born in the 1980s had 34% less wealth in 2016 than earlier generations held at the same age. Baby boomers approaching retirement will likewise struggle, especially if they lose their jobs and must tap savings early.

In normal times, being laid off can be devastating. Losing your job in a recession, when it's harder to find another, often means you never recover. A U.S. study covering 1974 to 2008 found men laid off during periods of high unemployment lose out on the equivalent of 2.8 years of lifetime earnings, twice as much as men let go in better times.

What made the Great Recession great was that it waylaid people whether they lost their jobs or not. The main reason is that middle-class Americans have much of their wealth tied up in their homes, and their equity collapsed with the housing bubble. According to University of Bonn researchers in a forthcoming paper in the *Journal of Political Economy*, the bottom 90% of Americans consistently hold about half of U.S. housing wealth, but they have very little exposure to the markets—the top 10% own about 90% of stocks. When stocks rebound but real estate stagnates, the wealth gap widens.

More than 26 million Americans have filed for unemployment benefits in five weeks, a level of claims that implies a jobless rate of around 20%—twice the last recession's peak of 10%. And some economists believe a 30% rate is possible. If these job losses sink the housing market again, the damage will be that much worse. Mark Zandi, chief economist for Moody's Analytics, estimates about 15 million American households with mortgages could stop paying if the economy stays closed through the summer or beyond.

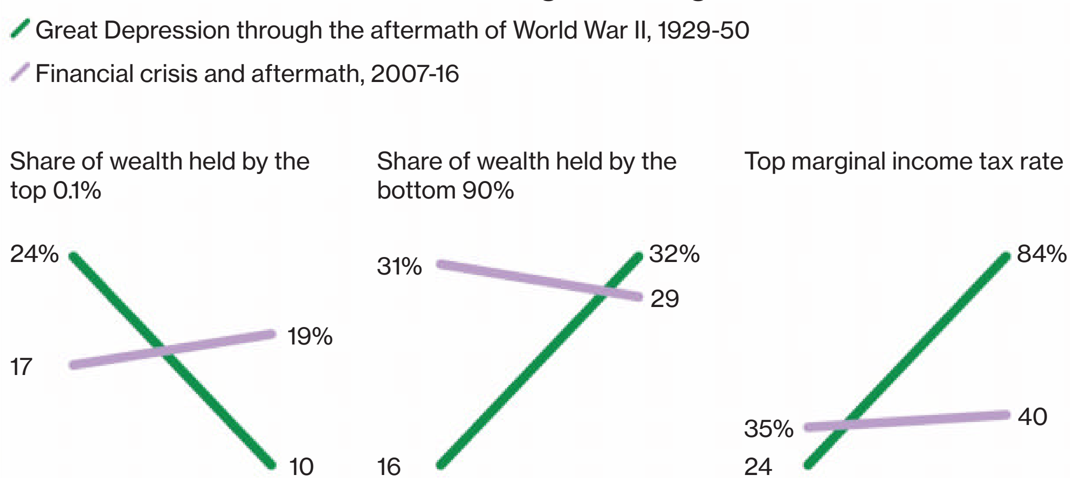
Even if the economy snaps back quickly, the pandemic could create new inequality fault lines, such as a gap between those who have the luxury of working from home and those who cannot. Researchers at the University of Chicago have calculated that 37% of U.S. jobs "can plausibly be performed at home."

For decades technology has been transforming how people work, benefiting the tech-savvy while pushing millions into precarious gig jobs. The virus-induced recession is accelerating technological change, something we've seen in previous downturns. In one 2012 study economists found that since the 1980s, 88% of the job losses in "routine"—or easily automated—positions happened within 12 months of a recession. Even as other occupations bounce back in a recovery, the jobs lost to automation never return. Researchers at Brookings Institution estimate that as many as 36 million U.S. jobs could be at risk if that dynamic plays out once more.

The more the economy is transformed by the virus, the more people will be left behind in a recovery. "There are certain industries that are not going to come back," says Michael Bordo, an economics professor at Rutgers University. ▶

"In 2008 they got away with it in a sense. They're going to find that they can't stop the pitchforks this time"

How U.S. Wealth Distribution Changed During Two Crises



DATA: THOMAS PIKETTY, EMMANUEL SAEZ, AND GABRIEL ZUCMAN; TAX POLICY CENTER

◀ Manufacturing should have an easier time bouncing back than services, he says, while most at risk are business models based on bringing masses of people together, starting with cruise ships.

One potential upside of the pandemic is that, like the Black Death, it may give some of the working poor a leg up. Having realized that grocery clerks, delivery people, and warehouse workers perform vital functions, will we as a society continue to tolerate the low wages and ill treatment many receive at the hands of their employers? For decades, unions have withered as politicians weakened labor laws and companies used aggressive tactics, such as "just in time" shift scheduling, to squeeze out more profits. Could public pressure empower workers to fight back and bargain for a better deal?

On the flip side, it's not impossible to imagine that some politically connected members of the 1 Percent could find themselves on the wrong side of economic disruptions created by the virus. While a billionaire with a diversified portfolio may fare well, the crisis could shatter millionaires whose fortunes are concentrated in private businesses such as restaurants, retail stores, car dealerships, and hotels. The National Federation of Independent Business, an important constituency for the Republican Party, surveyed its 300,000 small-business members in April and found 90% were feeling a negative impact from Covid-19, and 70% had already tried to apply for federal assistance.

Just as they did in 2008, governments and central banks have responded to this crisis with an unprecedented deluge of cash. The question now, as it was then, is who gets the money. The U.S. rescue effort 12 years ago prioritized Wall Street; this time, Main Street isn't being left out. Congress has authorized a total of $669 billion for loans and grants to small businesses, while more than 150 million Americans are receiving checks of up to $1,200 per adult. Big businesses, meanwhile, face at least some restrictions—arguably symbolic, such as bans on stock buybacks—on what they can do with their bailout money.

The details will matter. "What's difficult to figure out is exactly how this $2 trillion stimulus bill is going to work out and whose skin is going to get saved and who isn't," says Alexander Field, an economist at Santa Clara University. Two weeks after the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed, Congress's bipartisan Joint Committee on Taxation estimated that a major tax change delivered more than 80% of its benefit to those earning $1 million or more. The provision, costing $135 billion over 10 years, lets rich investors avoid taxes on stock market gains

● Percentage of small businesses that said they applied for federal assistance in April

70%

ILLUSTRATION BY SOPHY HOLLINGTON

and other income by lifting limits on the deduction of business losses in 2020 and the previous two years—even those that had nothing to do with the coronavirus. "They're moving taxpayer money to companies who weren't making money before the crisis," says Reed College economics professor Kimberly Clausing. "That seems very odd."

The Paycheck Protection Program for small businesses is also facing criticism. Besides the well-chronicled bottlenecks in disbursing the funds, Bloomberg along with other media have documented instances of hedge funds and private equity firms seeking to tap the funds. "I'm a little bemused, puzzled, and somewhat outraged, I guess, that private equity would be pushing to the front of the line to try to get taxpayer assistance," hedge fund investor Jim Chanos said in an April 9 interview on Bloomberg Television.

Even if bailouts are administered in ways that don't do the wealthy and powerful special favors, small businesses and individual workers are inevitably more vulnerable to an extended shutdown than large companies, which can keep operating by turning to the capital markets, refinancing loans, or declaring bankruptcy. "We're going to see households going into debt very fast," University of California at Berkeley sociologist Neil Fligstein says.

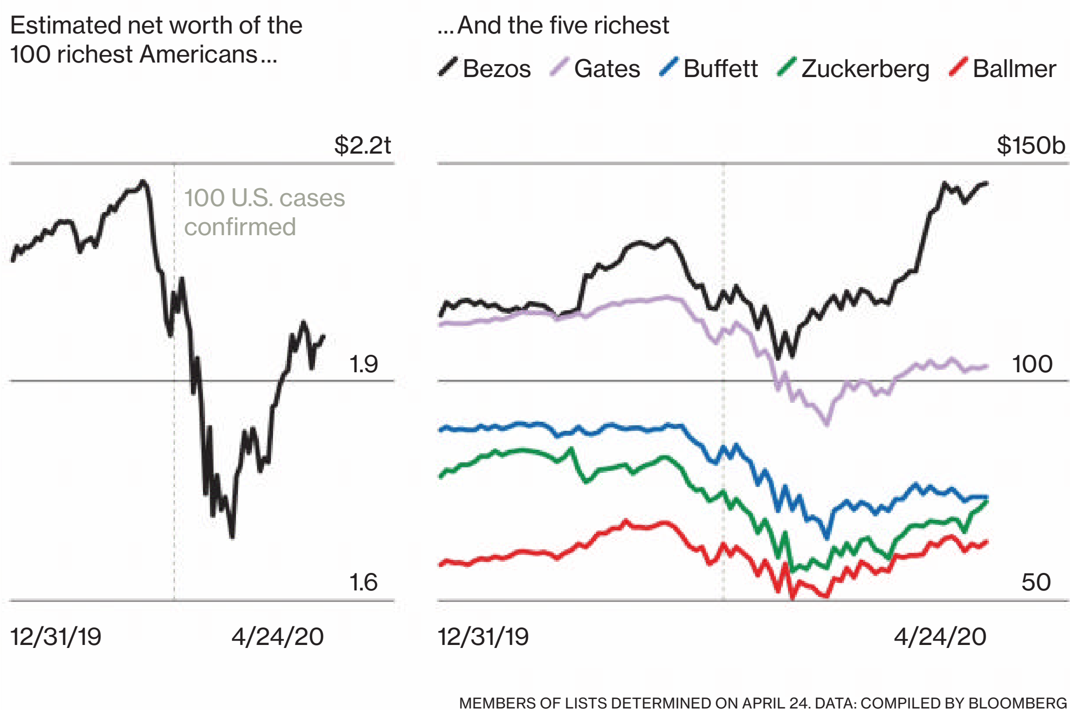
So far it sounds like a replay of the 2008 financial crisis, right? It doesn't have to be. Governments could make choices that might prevent the income gap from widening even more—and indeed could cause it to narrow.

Even before the pandemic, Americans had been engaged in a conversation about whether the wealthy and giant corporations pay their fair share of taxes. Democrats running for president largely agreed on the need to close loopholes and raise rates on millionaires. Bernie Sanders and Elizabeth Warren went further with plans to directly tax billionaires' wealth. These soak-the-rich proposals may find new impetus once the nation begins to grapple with the trillions of dollars in government debt created fighting the coronavirus.

If policy moves in that direction, the pandemic may play out less like a financial crisis and more like a war. It's generally bad news for the super-wealthy when an entire economy mobilizes for war: The U.S.'s first income tax was imposed in the Civil War, and the top tax rate hit 77% during World War I and 94% in World War II.

If higher taxes don't dent inequality, something less predictable might. What some have christened the Lockdown Recession has highlighted the risks inherent in today's world-spanning supply chains. Globalization has given the upper hand

How the Wealthiest Have Fared Since the Pandemic Hit the U.S.



MEMBERS OF LISTS DETERMINED ON APRIL 24. DATA: COMPILED BY BLOOMBERG

to corporate managers and eroded the bargaining power of workers. What happens to labor dynamics if companies, prodded by governments, begin reversing decades of offshoring and start moving production closer to home?

It may take years if not decades to discern whether the virus started a new chapter in our economic history. University of California at Davis researchers recently studied 12 pandemics that each killed more than 100,000 people since the 14th century. They found that the economic effects linger about 40 years after the last victim dies.

One pathogen hitting two different places can have very different long-term effects, according to research by Guido Alfani, an economic historian at Bocconi University in Milan. A determining factor is how leaders react. In places where the 1918 flu pandemic was mishandled and death rates soared, Alfani found evidence of "permanent negative effects on interpersonal trust" that plagued those societies for decades. That's why "national governments should make every possible effort to contain the pandemic," he says, "and also why national politicians should seek cooperation instead of confrontation."

A lot depends on the outcome of the 2020 election, says Reed College's Clausing. "It all comes down to how the polity responds to this crisis," she says. "If they change course, I think the policy changes will be really dramatic. But I also could imagine things don't go that way, and we limp along and things get worse and more polarizing." —*Ben Steverman*

THE BOTTOM LINE Inequality in the U.S. was already at a record before the outbreak. If this is a replay of the financial crisis, it will get worse. But if America stays on a war footing, it could improve.

Merkel's Clarity

Trump's Bluster

● The contrast between the leaders has never been sharper than during the pandemic

Donald Trump and Angela Merkel were never destined to hit it off, but with the novel coronavirus sweeping the globe, the depth of their differences—in style and substance—has never been more apparent. The pandemic has amplified the two leaders' most fundamental traits: for Trump, a proclivity to bask in the limelight and a loose relationship with the facts; for Merkel, the frankness and clarity of a scientist who takes comfort in data.

So far, the German chancellor's approach has been the clear winner. Merkel's popularity at home has soared after she consistently delivered sober messages about the toll the virus would take on Germans' lives.

President Trump has taken a near-opposite approach. In the early days of the outbreak, he insisted his administration had it "under control," and for weeks he continued to downplay the impact the virus was set to have on the U.S. When asked about how his optimism conflicted with the increasingly visible devastation of the pandemic, he said, "I'm not about bad news." Now that denial is threatening to cost him the White House in the November election.

In March and early April, as Covid-19 infections and deaths mounted in the U.S., Trump's job approval rating dropped 6 percentage points, from 49% to 43%, according to a Gallup poll. He now trails Democratic rival Joe Biden in key swing states, including Florida, Michigan, Wisconsin, and Pennsylvania, other surveys show.

Although she's fighting to defend her legacy on managing successive financial crises and the refugee crisis, reelection isn't a concern for Merkel, who announced last year she wouldn't seek a fifth term as chancellor. That could ease the pain of delivering a tough message. But she has always employed a methodical approach to her job, a style Germans have especially come to appreciate during the pandemic.

Merkel's approach hasn't been flawless. Early in the crisis the German government issued an export ban on medical masks, which suggested an every-country-for-itself attitude. And Merkel, like Trump, has suffered some criticism for not responding more quickly to the global outbreak.

But Germany has maintained one of the lowest coronavirus mortality rates in the world, and the number of confirmed cases in the country is growing at just over half the speed as in the U.S. Key

Edited by
Amanda Kolson Hurley
and Rodney Jefferson

BEAKER: ALEXANDR KORNIENKO/ALAMY

among the reasons for the nation's success, public-health experts say, has been testing. As the outbreak took hold, Germany launched an aggressive testing regime to track it. That data helped identify infected people more quickly, limiting the spread and enabling early medical interventions.

While testing has been the foundation of Merkel's success, it's become Trump's Achilles' heel. The U.S. has struggled to set up a robust testing regime, starting with a botched rollout of faulty kits from the Centers for Disease Control and Prevention. The lack of data has made it more difficult for public-health experts to track the virus and has obscured the scale of the outbreak.

Trump's message has remained riddled with inconsistencies, reversals, and more optimistic claims about the outbreak, which public-health officials have contradicted. He declared at an April 23 news conference that the virus "might not come back at all" in the fall and winter—and if it did, it would be in "smaller doses we can contain." Moments later, Anthony Fauci, the top infectious disease expert on the White House coronavirus task force, took the podium and said: "We will have coronavirus in the fall."

Speaking at the same briefing, Trump went on to say he "disagreed" with a decision by Georgia's governor to begin allowing some businesses to reopen. The comments were a jarring reversal from a president who for weeks had urged states to relax social distancing measures.

More than 51% of Americans now disapprove of Trump's response to the outbreak, compared with 45% who approve, according to FiveThirtyEight. By contrast, according to a poll by public broadcaster ARD, Merkel is once again Germany's most popular politician, with an approval rating of 64%.

Merkel has called on the Bundestag to increase German contributions to the European Union "in a spirit of solidarity" as the region grapples with the outbreak. That sentiment has resonated in the international community, while Trump has sought to blame China—where the outbreak started—and the World Health Organization. In an April 16 videoconference, Merkel and other Group of Seven leaders countered by saying the WHO was doing important work.

Merkel gave a taste of her scientific knowledge during a news conference on April 16, when she lectured Germans about a quantitative measure of how quickly the virus spreads, known as the reproduction factor. She explained how a factor of 1.2 means that 1 in 5 coronavirus patients infects two others, not just one, and that a small uptick could quickly overwhelm the nation's hospitals.

Trump's own discourses on science and medicine have proved disastrous. He was criticized by doctors and scientists on April 23 after a riff in which he suggested that sunlight and disinfectant could be used to treat coronavirus patients. (He later said he was speaking "sarcastically.") The president has also promoted two antimalarial drugs, chloroquine and hydroxychloroquine, as a remedy for Covid-19, despite a lack of clinical evidence.

Trump's response to the pandemic is certain to be the defining issue of the 2020 election. Talk of his impeachment and questions about his relationship with Russia are nowhere to be seen. Instead, Biden tweeted on April 24: "I can't believe I have to say this, but please don't drink bleach." *—Joshua Gallu and Arne Delfs*

THE BOTTOM LINE Trump's inconsistencies on the virus have their opposite in the German chancellor's steady, methodical approach—which has boosted her popularity as Trump's sinks.

Red States Will Need Bailouts, Too

● It's not just Democratic states that are reeling from a sudden, dramatic loss of tax revenue

On April 27, President Trump took to Twitter to escalate the spat over the next coronavirus stimulus, questioning whether the federal government should rescue "poorly run" states led by Democrats. His tweet echoed the comments of Senate Majority Leader Mitch McConnell, who suggested during a radio interview that states with large pension obligations under union contracts could pursue bankruptcy instead of federal aid. The Kentucky Republican's office gave his comments a twist in a press release with a section titled "On Stopping Blue State Bailouts."

It's true that many of the states that are ground zero for the Covid-19 pandemic—New York and New Jersey, as well as California and Illinois—are solidly Democratic. But the fiscal challenges that states now face aren't limited to the blue ones and go well beyond pension obligations. States across the country are reeling from a brutal double whammy of lost revenue: With 27 million people thrown out ▶

◀ of work in just five weeks, income tax collections are tanking, and sales taxes have evaporated after stores and restaurants shuttered. Most states receive a majority of their revenue from those two sources.

Hawaii, a blue state, and Florida and Nevada, both swing states, rely heavily on sales tax revenue generated by tourists who travel and spend money in hotels and restaurants and, in Nevada's case, casinos. Since that tourism has been all but eliminated, the states are preparing for a significant falloff in funds, which will be realized when April receipts are collected toward the end of May. Florida's chief financial officer recently told a task force meeting, "We're trying to find 127 million tourists to have the confidence to come back and patronize our state," the *Orlando Sentinel* reported. "This is a one-of-a-kind enemy we've never seen before."

Business activity around the country is unlikely to return to normal immediately after stay-at-home orders are lifted, because many Americans may still be afraid to venture out. According to a Citigroup Inc. research note, sales taxes "are expected to fall much more this time" compared with previous recessions.

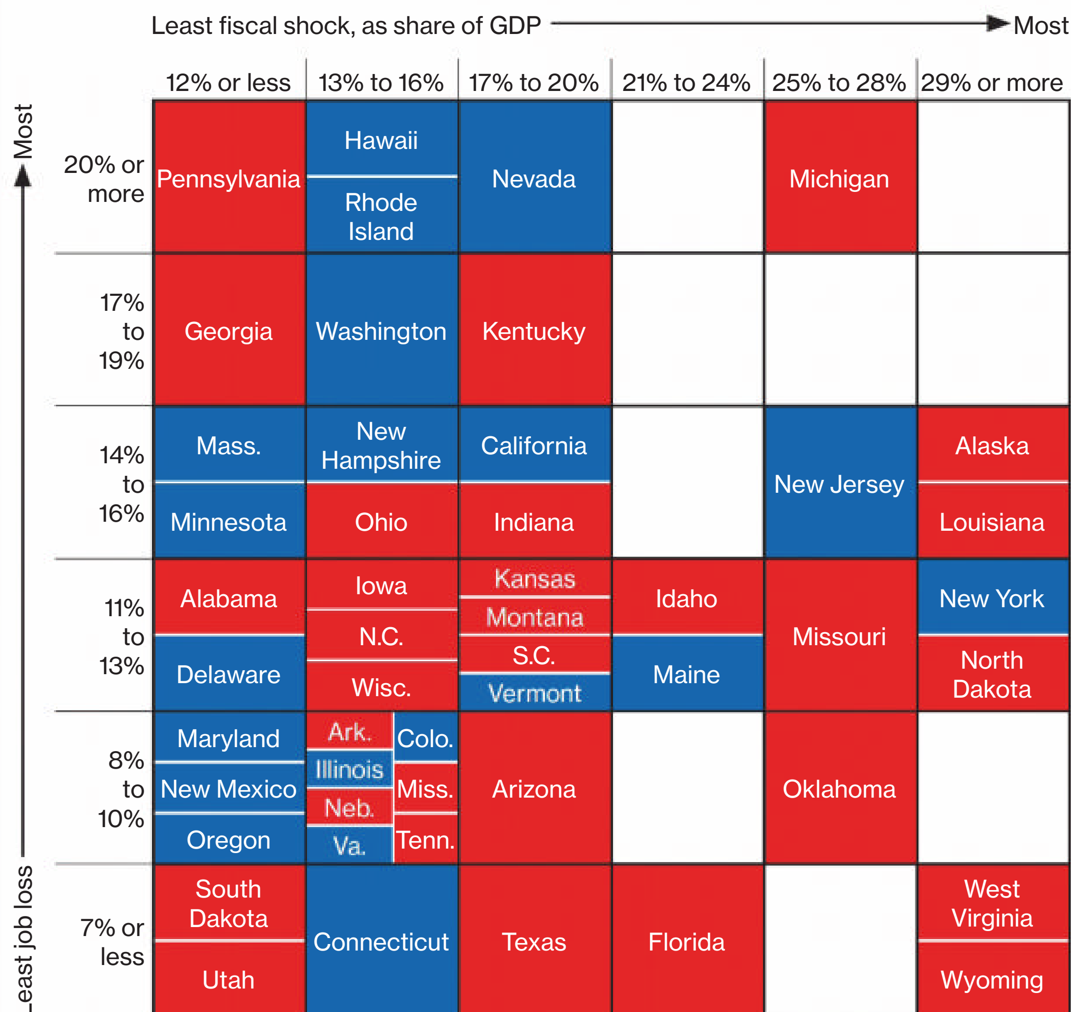
"The speed at which the economy has declined is like nothing that states have seen, certainly in decades," says Michael Leachman, senior director of state fiscal research at the Center on Budget and Policy Priorities, a Washington, D.C., think tank. "It is unprecedented." Most states are required to balance their budgets, meaning that if there's a gap between the revenue coming in and the expenses the state spends on services, it would have to either cut funding, raise taxes, or both.

Meanwhile, millions of Americans are filing for unemployment, which means the income taxes they'd pay to states are vanishing. In Hawaii as well as swing-voting Michigan and McConnell's deep-red Kentucky, at least 24% of the labor force became unemployed over the five weeks ended on April 18, according to U.S. Department of Labor data analyzed by Bloomberg.

Moody's Analytics projects a fiscal shock to states of $158 billion to $203 billion through the end of the fiscal year ending in June 2021, resulting in almost half of states having to fill a budget gap of at least 10%. (Their ability to weather the impact will depend in part on the amount in their reserves.) Under Moody's most severe scenario, Louisiana, North Dakota, and West Virginia–all red states–are projected to lose more than 39% of their revenue. Another Republican stronghold, Alaska, is poised to see the largest loss, potentially as much as 79.6% of its general fund. That's because the state gets much of its revenue from

States' Pain Spans the Political Divide

States classified by percentage of the workforce that's become unemployed over the last four reported weeks and vulnerability to fiscal shock, according to Moody's baseline scenario



DATA: MOODY'S, BUREAU OF LABOR STATISTICS

the oil and gas industry, and prices have crashed.

The National Governors Association, chaired by Maryland Republican Governor Larry Hogan, has called on Congress to allocate an additional $500 billion in funding for state shortfalls. Although the Coronavirus Aid, Relief, and Economic Security Act provides $150 billion for states and localities, those funds must be spent on virus relief only. The Federal Reserve announced it will start buying short-term municipal debt using its emergency lending programs, which has helped the market recover from the havoc wreaked by the virus.

The Brookings Institution estimates that at least $500 billion needs to be infused into state and local governments for them to continue providing services such as education, public safety, and health care. Amy Liu, director of the metropolitan policy program at Brookings, says that without federal aid it will be even more difficult for the country to recover. The aid, she says, "is making sure these essential services continue as we try to bring back the economy." —*Danielle Moran*

"The speed at which the economy has declined is like nothing that states have seen, certainly in decades"

THE BOTTOM LINE As unemployment bites into income taxes, and sales taxes dry up for lack of consumer demand, states across the U.S. face yawning budget gaps.

The Crown Prince's Plans Go Awry

● Economic losses—partly of his own making—will force Saudi's MBS to trim his sails

The courtyard around the Grand Mosque in Mecca should be teeming with hundreds of thousands of pilgrims marking the start of Ramadan. Instead, it's deserted: The coronavirus pandemic has hit the city where the Prophet Muhammad was born. Saudi Arabia's response to Covid-19 was to lock down quickly, winning praise from many Saudis. The economic impact of the pandemic, though, couldn't have come at a more pivotal time.

This was supposed to be Crown Prince Mohammed bin Salman's year. For 2020 the plan was for Saudi Arabia to exhibit some of the first fruits of its great modernization project–from a record number of Muslim faithful visiting holy sites to new industries that showed the society had become more open and could one day thrive without oil. Then, in November, the 34-year-old prince–the kingdom's de facto leader–would claim the world stage by hosting his fellow Group of 20 chiefs.

A combination of his own actions and calamitous world events is now throwing up some tough questions for the prince over whether his economic dream remains attainable in its current form.

For all of Prince Mohammed's efforts to crush dissenters at home and silence his critics abroad, his role in escalating an oil war with Russia showed a rashness that's marked some of his decisions–including a failed boycott of neighboring Qatar and a disastrous military campaign in Yemen. There was also the gruesome murder in 2018 of columnist Jamal Khashoggi by Saudi agents on his watch.

No leader, though, could have predicted the coronavirus crisis. The hush of Mecca and Medina is now the most striking illustration of the challenges facing a prince who staked his leadership on bringing economic prosperity to a nation where two-thirds of the population is under the age of 35.

According to a blueprint Prince Mohammed unveiled four years ago, called Vision 2030, one of the aims was to increase income from religious visits to Islam's holiest cities. Saudi Arabia planned to enable 15 million Muslims, mainly from abroad, to perform the minor pilgrimage called umrah to Mecca this year, almost doubling 2019's arrivals. This was to be achieved by increasing capacity and improving the quality of visitor services. But coronavirus restrictions prevent travel, and Mecca remains in total lockdown.

In truth, the grand transformation plan was already faltering before the pandemic and oil prices crashed. Bringing in more pilgrims and opening to tourism weren't the only ways Saudi Arabia intended to boost the private sector and diversify the economy. Its most eye-catching megaprojects include the futuristic city of Neom on the Red Sea and a massive entertainment, arts, and nature site on the outskirts of the capital, Riyadh. All are dependent on a healthy budget, foreign investment, and attracting skilled labor from abroad.

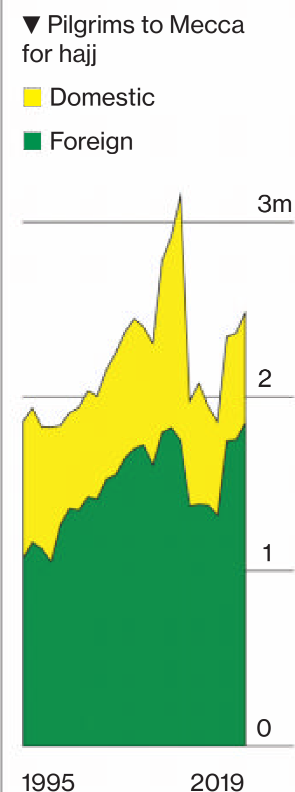
"Although it was difficult before, now it's close to impossible to deliver on all elements of the vision," says Ayham Kamel, head of Middle East and North Africa at the Eurasia Group consulting firm. It leaves Prince Mohammed having to make "difficult choices in terms of what he wants for diversification, the megaprojects, investments in assets abroad and at home," he says.

Kamel says the short-term impact will be felt mostly economically, but the political cost will accumulate over the long term. The kingdom has already moderated its positions on Iran and Qatar and announced a cease-fire in Yemen in April, he says.

Saudi Arabia's economy still hinges on petrodollars, despite the crown prince's insistence in 2016 that by this year the kingdom would be able to "live without oil." With such a young population, the government can't continue being the main employer and needs to create jobs in the private sector while bringing more women into the workforce.

Significant progress has been made to develop ▶

▼ Pilgrims to Mecca for hajj



▼ A worshipper prays in Mecca's Grand Mosque on March 7

ABDEL GHANI BASHIR/AFP/GETTY IMAGES. DATA: GENERAL AUTHORITY FOR STATISTICS-KINGDOM OF SAUDI ARABIA

◀ cinemas and concert venues and in lifting non-oil revenue with taxes and fees. But the oil shock and the virus's impact are making it difficult to fund projects when more than 60% of revenue this year was meant to come from sales of crude.

At a news conference on April 22, Finance Minister Mohammed Al-Jadaan assured Saudis the kingdom has been through similar crises in its history and "was able to pass through them." The vast Public Investment Fund has accumulated stakes in European oil companies and a concert promoter, and it's in talks to buy an English Premier League soccer club. But Al-Jadaan also said the country might end up borrowing as much as 220 billion riyals ($58 billion) this year, and the government is assessing additional spending cuts.

"Saudi Arabia and young Saudis, the prince's main constituency, are going to face another new normal: a poorer country, slow economic growth, even a weaker private sector," says Karen Young, a resident scholar at the American Enterprise Institute.

For the time being, the emphasis is on highlighting the slew of measures the government has announced to aid businesses during the virus shutdown, including a plan to cover 60% of the salaries of some Saudi nationals working at private companies.

Known as MBS, Prince Mohammed has been the face of the new Saudi Arabia since 2017. Yet it's notable that his father, King Salman bin Abdulaziz, has assumed a prominent role during the coronavirus outbreak. "Because of the oil price crisis and the Covid crisis, the prince would want his father to be there," says Yasmine Farouk, a visiting fellow in the Middle East program at the Carnegie Endowment for International Peace, a global policy think tank. "As long as the king is there, in this phase, MBS is probably secure."

There's a lot of goodwill toward Prince Mohammed as the kingdom works to fight the virus. But once it's under control, the focus will be on the main challenges facing the kingdom, says Kamran Bokhari, director of analytical development at the Center for Global Policy in Washington.

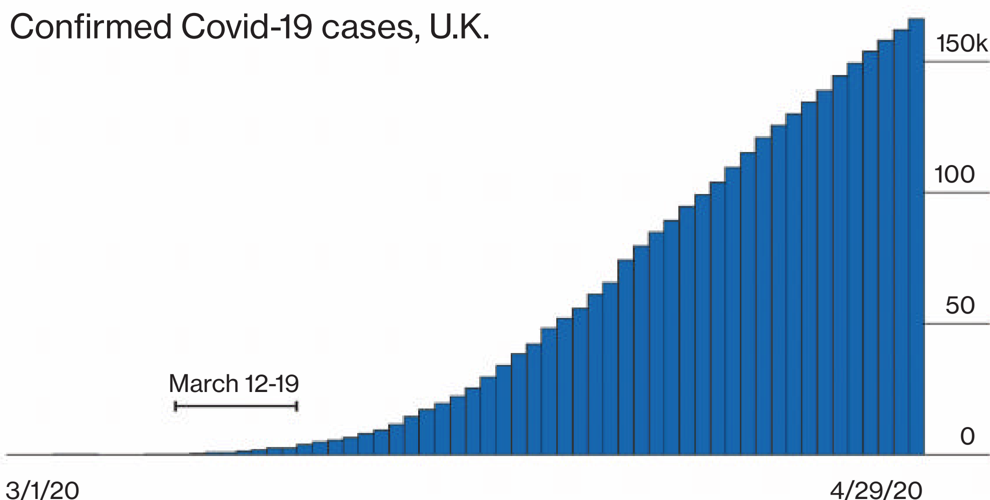
The prince has worked hard to ensure he doesn't have an organized challenge to his power, "but that's like a bare minimum," Bokhari says. If he doesn't deliver on his promises, he will be "a weak monarch struggling with a lot of social and political problems at home, along with external threats." —*Donna Abu-Nasr*

THE BOTTOM LINE Saudia Arabia's crown prince had hoped to keep pursuing his grand modernization plan, but the oil shock and the coronavirus will make it harder to pull off.

Policy The U.K.'s Lost Week

Prime Minister Boris Johnson returned to work on April 27 following a bout of coronavirus that left him fighting for his life. Just two days earlier, the U.K. had lost its hope of keeping Covid-19 fatalities below 20,000.

It's too early to fully judge the success or failure of efforts to tackle the pandemic. But the British government waited longer than many countries before shutting schools and stores and failed to track the spread. Disease specialists and political opponents say the government let the virus get away from it during a crucial period in March. —*Alex Morales, Suzi Ring, Robert Hutton, and James Paton*



March 12

One day after the World Health Organization declared Covid-19 a pandemic, the U.K. government dropped efforts to test the wider population and trace people's contacts (the WHO-recommended "test-and-trace" approach).

March 13

The government's chief scientific adviser, Patrick Vallance, suggested its aim was to acquire "some degree of herd immunity," in which around 60% of the population would become infected with the virus. The remark provoked an outcry, and the government now insists that it was never official policy. But the same day, Health Secretary Matt Hancock on a Group of Seven conference call asked if Italy was also following a herd-immunity plan. The response from the Italian representative was blunt: Allowing the virus to run riot would result in thousands of unnecessary deaths.

March 16

A team from Imperial College London warned that Britain could face 250,000 deaths if it didn't take more aggressive steps to contain the virus. Johnson ordered the first phase of social distancing, telling people to work from home if possible.

March 17

Vallance told a parliamentary committee the country needed to ramp up testing. Why had the U.K. abandoned wide testing earlier? Vallance said capacity, at 4,000 tests a day, was "clearly not going to be enough going forward," so efforts had been focused on testing the seriously ill. The U.K. virus death toll rose from 55 on March 16 to 69 the next day.

March 18

The government announced that schools would close for an indefinite period starting two days later.

March 19

Johnson set an improbable goal of performing 250,000 tests a day, but with no target date. The prime minister would not impose a lockdown for four more days. By that time, the U.K. had recorded 335 deaths—lower than the toll in Italy when it ordered its quarantine but more than three times the number of fatalities in France and Germany when they told people to stay at home.

As of April 29, the U.K. had more than 165,000 confirmed cases of Covid-19 and over 26,000 deaths.

DATA: COMPILED BY BLOOMBERG

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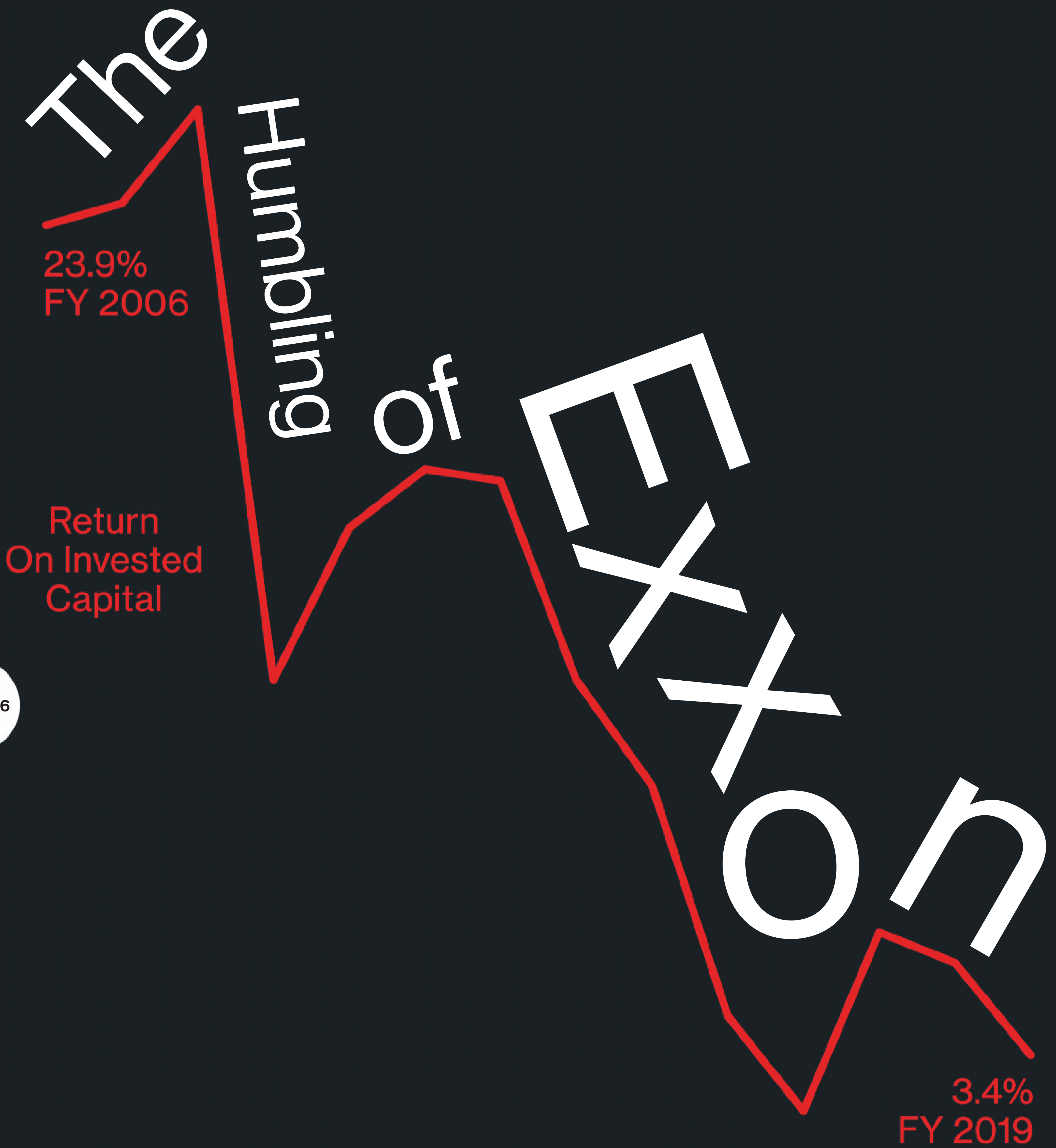
The Humbling of Exxon



Years of miscalculation turned a juggernaut into just another middling company. And that was before the pandemic

By Kevin Crowley and Bryan Gruley

Darren Woods, chief executive officer of Exxon Mobil Corp., was chipper as he bandied with industry analysts on Jan. 31 about his company's poor 2019 performance. The coronavirus had yet to spread far beyond China, but Woods had prepared to say a few words about it if anyone asked. No one did.

As for the lower earnings and sliding share price, Woods assured his conference-call audience that things were under control. Oil prices languishing in the $60-a-barrel range weren't a problem but an opportunity. "We know demand will continue to grow, driven by rising population, economic growth, and higher standards of living," Woods said. "We believe strongly that investing in the trough of this cycle has some real advantages." He went on to describe how Exxon would spend in excess of $30 billion on exploration and other projects in 2020, more than any other Western oil company. "While we would prefer higher prices and margins," he said, "we don't want to waste the opportunity this low-price environment provides."

Over the next several weeks, Covid-19 ravaged the oil industry by vaporizing global demand just as Russia and Saudi Arabia launched a price war. Investors were stunned to see oil fall to an 18-year-low of $22.74 a barrel at the end of March. An agreement aimed at cutting output and boosting prices failed to halt the slide, and on April 20 some oil contracts were trading for less than zero—sellers were paying buyers to take the crude. The fallout for producers large and small has been devastating. "You're seeing fragilities exposed," says Kenneth Medlock III, senior director of the Center for Energy Studies at Rice University's Baker Institute for Public Policy. "Covid-19 is doing things that nobody could have imagined."

Perhaps no company has been humbled as profoundly by recent events as Exxon, the West's largest oil producer by market value and an industry paragon that sets the bar not just for itself but for its competitors. And the pandemic isn't primarily to blame; the culprit is just as much the company itself.

The coronavirus has laid bare a decade's worth of miscalculations. Exxon missed the wild and lucrative early days of shale oil. An adventure in the oil sands of Canada swallowed billions of dollars with little to show for it. Political tensions doomed a megadeal in Russia. Exxon ended up spending so much on projects that it has to borrow to cover dividend payments. Over a 10-year period, its stock has declined 10.8% on a total-return basis, which includes dividends. The company's major rivals all posted positive returns in that period, except for BP Plc, which had the Deepwater Horizon spill in the Gulf of Mexico in 2010. The wider S&P 500 index has returned nearly 200%.

The oil business is all about how much you produce, how low you get your costs, and how well you capture resources for the future. Exxon produces about 4 million barrels a day—essentially the same as 10 years ago, despite repeated vows to push the number higher. Meanwhile, the company's debt has risen from effectively zero to $50 billion, and its profit last year was a bit more than half what it was a decade ago. Once the undisputed king of Wall Street, Exxon today is worth less than Home Depot Inc., which has less than half the revenue.

Former CEO Rex Tillerson oversaw that eventful span before leaving to become President Trump's secretary of state. Under Tillerson, Woods ran Exxon's then-successful refining business. The rangy, white-haired graduate of Texas A&M University is known for his unfailing optimism and affability. (Woods declined to be interviewed for this article.) The size of the job he has now is difficult to overstate. In an unprecedented crisis he's guiding what author Steve Coll, in his book *Private Empire: ExxonMobil and American Power*, called "a corporate state within the American state... one of the most powerful businesses ever produced by American capitalism."

For four decades Exxon has plowed ahead, eyes on the distant horizon, keeping its financial returns healthy, share price steady, and dividend rising through wars and recessions, Democratic administrations and Republican. Now the world will see how well Exxon can survive a pandemic—and whether it has what it takes to thrive in the aftermath.

On Jan. 30, 2009, Exxon reported a profit of $45.2 billion for 2008, at that time the biggest annual profit ever recorded by a public U.S. company. Revenue was $425 billion, the stock closed that day at $76, and Exxon pumped more oil than any OPEC member except Saudi Arabia and Iran.

Tillerson had been CEO for three years. A gruff Texan who'd risen through Exxon's rough-and-tumble drilling and exploration businesses, he was about to make his biggest deal to date: the $31 billion acquisition of XTO Energy Inc., the largest independent U.S. producer of natural gas. The deal was bold not just because of the price, but also because in buying XTO, Exxon was tacitly acknowledging that concerns over greenhouse gases would spur demand for cleaner gas. The purchase surprised some investors, who couldn't easily see how the company would make a return. This wasn't like Exxon, known for an iron discipline about cutting deals that offered clear, reliable payoffs. Tillerson told analysts, "We'll probably suffer in the near term as we put it together. This is really about value creation over the next many years."

XTO's expertise was in extracting gas from subterranean rock using newly developed fracturing techniques. But as Exxon assimilated the company, wildcatters such as Harold Hamm of Continental Resources Inc. and Scott Sheffield of Pioneer Natural Resources Co. were discovering that fracking worked for oil, too. Soon it became clear that the real riches in North Dakota and West Texas shale were in oil, because crude was rising in price while gas was plummeting.

As the decade wore on, the magnitude of oil accessible in U.S. shale would make the country an energy superpower to rival OPEC. Yet it would be years before Exxon would embrace shale oil. "I would be less than honest if I were to say to you... we saw it all coming, because we did not, quite frankly," Tillerson said at a 2012 event at the Council on Foreign Relations. Later, in 2019, he told a Houston industry ▶

DATA: COMPILED BY BLOOMBERG

◀ conference that he "probably paid too much for XTO," a rare Exxon mea culpa. Tillerson didn't respond to requests for comment for this article.

Exxon wasn't the only energy giant to whiff early on in the shale oil boom. So did Chevron, Royal Dutch Shell, and BP. That's partly because the business was undergoing a fundamental change that the supermajors weren't eager to accept. For decades, politicians and consumers were paranoid about running short of oil and gas. The biggest companies, led by Exxon, spent great sums exploring and drilling in ever more exotic and forbidding geographies, seeking the next mother lode.

Shale changed the calculus. Nobody doubted anymore that there were oceans of oil in the ground; it was a matter of getting it out as inexpensively as you could. The Hamms and Sheffields, fueled by cheap money from Wall Street, were driving down extraction costs and ramping up production in old American oil fields that the big boys had long ago abandoned. Some of them were a short drive from Exxon's Irving, Texas, headquarters. Exxon, meanwhile, was taking chances on faraway lands.

Consider western Canada, where Exxon invested in the Kearl oil sands project. If you believed the world was short of crude, it sounded great: Millions and millions of barrels were waiting to be squeezed from Alberta sand, and Exxon had the technical prowess to plumb them. But upfront costs ran 18% higher than expected, and in 2014 oil prices began a nearly two-year swoon as OPEC flooded the world with oil in the hope of suffocating American shale drillers.

With crude dipping below $40 a barrel, Exxon's hand was forced. In early 2017, after investing more than $16 billion, the company had to erase 3.3 billion barrels from its listing of crude reserves, most of it from Alberta. The company couldn't control oil prices, of course, but the oil sands write-off was nevertheless part of the deepest reserves cut in Exxon's modern history. (Exxon last year rebooked some of the Alberta reserves.)

Russia seemed more of a sure thing. President Vladimir Putin and Tillerson had a history. In 2003, under then-CEO Lee Raymond, Exxon had come close to buying into Yukos Oil Co., the Russian oil producer owned by Putin adversary Mikhail Khodorkovsky. Putin balked at the prospect of Exxon calling the shots on production and other matters; Tillerson, then an Exxon senior vice president, was just as wary of Putin meddling with Yukos. He helped persuade Raymond to back off, which forged a bond between Putin and Tillerson that no other Western oil company executive enjoyed.

In 2011, Putin and Tillerson agreed on the first piece of what was envisioned as a $300 billion exploration deal that opened vast tracts of the Russian Arctic thought to contain billions of barrels of oil. It was an ideal match: Exxon wanted the natural resources, Putin the expertise and money. Then, in 2014, the Obama administration imposed sanctions on Russia for its annexation of Crimea. The sanctions prevented Exxon from continuing work on most of the Russia project. Another big fish had gotten away. Again, Exxon probably couldn't have predicted Crimea—nor was it alone in seeking access to Russian crude. But maybe that's what you get for trusting Putin.

By the time Tillerson departed to join the Trump administration, Exxon looked a lot different than it did when it reported those record earnings. Revenue and profit were a fraction of what they'd been, and the stock had lost its premium to other S&P 500 energy companies for the first time since 1997. Worse, for the first time since the Great Depression, Standard & Poor's had stripped Exxon of its top credit rating. And the company faced a New York state lawsuit alleging that it had intentionally misled investors about the dangers of climate change. (The company won the case in December 2019.)

When Woods became CEO in January 2017, there were the predictable media stories about him stepping out of Tillerson's shadow. That wasn't going to be easy given the big write-off, the S&P downgrade, and the other unfortunate circumstances he inherited. But Woods was determined to rebuild Exxon with projects in Brazil, Guyana, Mozambique, and Papua New Guinea—the sorts of efforts that for some shareholders conjured unpleasant memories of Canada and Russia. Exxon had also finally jumped into shale oil with a $6 billion acquisition of acreage—negotiated by Tillerson—in West Texas' prodigious Permian Basin.

Other supermajors weren't as eager to embark on new endeavors. Like Exxon, they'd spent heavily, then paid for it during the 2014-16 crash. Burned investors were cooling on energy stocks and diverting their money into tech, pharma, and other sectors. Energy now makes up less than 3% of the S&P 500, compared with more than 10% in 2009.

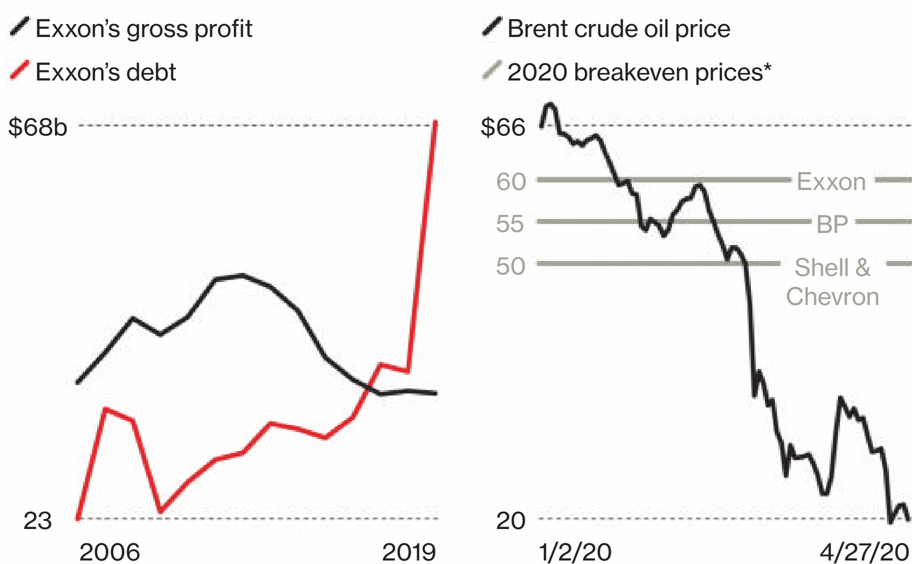
The growing movement to transition away from fossil fuels to solar, wind, and other energy sources was also peeling away investment. Such is the clamor in Europe that Royal Dutch Shell Plc and BP have both pledged to become carbon neutral by 2050 and invest heavily in renewable energy sources. Exxon has made no such pledge, instead investing in early-stage green technologies while insisting that the world will need more and more oil and gas until at least 2040, driven by China and India. Some on Wall Street see demand peaking as early as 2030.

At his first annual Investor Day, in March 2017, Woods vowed to spend more on new ventures so Exxon would be ready when the market turned. "We are confident," he declared before dozens of analysts and shareholders in New York. "Our job is to compete and succeed in any market, irrespective of conditions or price."

Even then, a lot of institutional investors were inclined to take an Exxon CEO's word as gospel. But an odd turning point came a year into Woods's tenure. Wall Street analysts threw a little tantrum about the lack of forward-looking data in Exxon's quarterly reports. They were growing weary of sunny promises belied by a lackluster share price.

With the company planning to spend so much money

The Numbers Tell the Story



*BREAKEVEN DEFINED AS OIL PRICE NEEDED TO COVER CAPITAL SPENDING AND DIVIDENDS. DATA: COMPILED BY BLOOMBERG

on stuff its rivals saw little need for, the analysts zeroed in on why Exxon's CEO never appeared on quarterly conference calls to answer their questions, as the top bosses at almost every other S&P 500 company did. "We think times have changed, and that Exxon may not necessarily be able to expect the market will continue to offer it the benefit of the doubt," a Barclays Plc analyst wrote in a February 2018 investor note. In other words, Exxon was no longer a special case.

Two months later, Jeff Woodbury, then Exxon's investor relations vice president, promised that Woods would soon start participating in conference calls, saying, "We believe that the investment community did not have a very good understanding of what our value growth potential was."

"Good morning, everyone," Woods said when he stepped onstage at Exxon's most recent Investor Day, on March 5 in New York. He waited for a response. When none came, he said, "Good morning, everyone?" Still nothing. "Come on now," Woods said. "A little bit of energy here." Nervous titters rippled through the audience.

On that Thursday, the coronavirus had only begun to wreak havoc with America's health and economic well-being. Social distancing wasn't yet happening widely, though guests at the Exxon presentation were offered small bottles of hand sanitizer. Woods mentioned the virus as part of a "very challenging short-term margin environment" facing Exxon in 2020. It was a new twist on a familiar spiel that investors could have heard Tillerson spinning years before. "The longer-term horizon is clear, and today our focus is on that horizon," Woods said.

Exxon was for the most part sticking with its plan. Woods said he intended to pare spending barely 6%, to a maximum of $33 billion for the year, and emphasized the company's "optionality"—a word he uses a lot—to adjust spending to react to market conditions. While others retrench, Woods said, "we believe the best time to invest in these businesses is during a low, which will lead to greater value capture in the coming upswing. You can do that if you have the opportunities and the financial capacity, which we do. This is a key competitive advantage of ours."

Within 48 hours, Woods's plan was in trouble. The Russians and Saudis, unable to agree on how much crude to pump, started pushing oil prices down. At the same time, demand was spiraling lower as lockdowns proliferated around the world. Storage tanks and pipelines were overwhelmed with unwanted oil; refineries reduced their inflows of raw crude; high-cost wells were shut. Analyst Paul Sankey of Mizuho Securities USA observed in an investor note that Exxon was "stepping up when the industry was stepping back. Turns out, they were stepping off a cliff."

On March 16, S&P again downgraded Exxon's credit rating, to AA from AA+, and said it could happen again "if the company does not take adequate steps to improve cash flows and leverage." A week later the stock closed at $31.45, the lowest since 2002. Investors started to wonder whether Exxon might end its string of 37 straight yearly increases in its dividend. To cover that $14.7 billion payment—the third-highest among S&P 500 companies—along with its aggressive capital spending, Exxon needed crude to fetch about $77 a barrel, the highest breakeven among oil majors, according to RBC Capital Markets.

The stock began to recover in early April, but it was all too much. On April 7, Woods said Exxon would cut 2020 capital spending to $23 billion—a drop of an additional $10 billion, or 30%—and shave operating expenses by 15%. The bulk of the cuts would be aimed at the Permian. Exxon would defer some activities in its Guyana project while postponing investment decisions elsewhere. "They cried uncle," says Rice University's Medlock. With the cuts, the breakeven dropped to $60 a barrel, still tops among the biggest companies.

You could almost feel Woods gritting his teeth in the company's statement that day: "The long-term fundamentals that underpin the company's business plans have not changed—population and energy demand will grow, and the economy will rebound." Despite the cuts, Exxon still expected Permian production would rise. In other words, the company wasn't abandoning its strategy; it was just hitting pause in deference to Covid-19.

Woods certainly can't be faulted for not foreseeing the recent oil carnage, with the industry abandoning fracking and laying off more than 50,000 workers in March alone. And Exxon isn't seeking government intervention to help save U.S. shale oil as Hamm, Sheffield, and others are. With as many as 1 in 3 shale players expected to exit the market one way or another, Exxon could be in a position to snap up cheap acreage after the virus retreats. "The large companies might actually get bigger on the back of this," Medlock says.

For now, though, it's hard not to see Exxon as just another company getting tossed around by the market. After the recent Investor Day, a reporter asked Woods if Exxon was still capable of navigating today's up-and-down-and-down-somemore energy business. "I don't think you stay in business for 135 years," Woods said, "without being attentive to the needs of your customers, your stakeholders, and the communities that you operate in." It wasn't actually an answer. Ⓑ

Go Big

To rescue America from the Covid-19 crisis, we're going to need a lot more than a bailout

By Barry Ritholtz

The economic crisis created by Covid-19 is unlike any other in modern American history. Thousands are dead, and the economic fallout has been devastating. More people lost their jobs over four weeks in March and April than did so during the entire 2008-09 financial crisis. In fact, since mid-March, all of the employment gains since the last crisis ended have been lost. Of the 156 million people the U.S. Bureau of Labor Statistics measured as working full time then, more than 26 million—about 16.7%—were no longer receiving a paycheck as of April 23. If you add in gig workers and those who were unable to file unemployment claims because state offices were too overwhelmed, the tally was more than 20%. At this pace, we will eclipse the peak of unemployment during the Great Depression, 25%, in a matter of weeks.

This sudden collapse in economic activity, hitting every sector except for food, health care, and Netflix, is why Congress moved quickly to pass the $2 trillion CARES Act on March 27. In late April, lawmakers added $320 billion to replenish the U.S. Small Business Administration's Paycheck Protection Program. That sounds like a lot, until you learn that the first allotment, $349 billion, lasted barely a week. CARES2, another trillion-dollar stimulus, is already under congressional consideration. CARES3 won't be too far behind.

But these are all temporary salves, not long-term solutions. The current rescues only treat the symptoms of economic distress; they do nothing to address structural issues that have been a drag on middle-class household income since the 1980s. If we want to restart the engine that made this nation a superpower, we need to do something big. I mean really, really big: defeat-the-Nazis, land-a-man-on-the-moon, invent-the-internet big.

There's no small amount of irony in this coming from me. I'm the guy who wrote an entire book, *Bailout Nation*, arguing against bailouts for, among others, Chrysler in 1980, Long-Term Capital Management in 1998, and the failing banks of 2008-09.

But I'm not talking about a bailout. For generations, and most successfully in the Depression's aftermath, the U.S. has used public-private partnerships to drive the country's economic expansion, allowing entrepreneurs and innovative companies to take advantage of the long-term planning and financial strength of Uncle Sam. This strategy led to new industries and technologies, creating millions of good middle-class jobs in the process. This is the solution that must no longer be overlooked. What we need right now are public-private partnerships on a scale not attempted since the Depression.

When the stock market crashed in 1929, the Federal Reserve was a young institution with limited authority. Reviving the economy was the job of the White House and Congress. Programs such as the Works Progress Administration, in which the federal government hired workers to build more than half a million miles of streets and 10,000 bridges, along with airports, dams, highways, and sanitation systems, helped alleviate mass unemployment. However, the lasting economic gains came not from temporary work programs, but rather from the Reconstruction Finance Corp., a public-private entity better known as the RFC.

Louis Hyman, an economic historian and director of the Institute for Workplace Studies at Cornell, recently described RFC in the *Atlantic* as "an independent agency within the federal government that set up lending systems to channel private capital into publicly desirable investments. It innovated new systems of insurance to guarantee those loans, and delivered profits to businesses in peril during the Depression." Most impressive, as Hyman has noted, these programs cost taxpayers nothing.

The RFC was an enormous economic multiplier. Start with the Depression-era breakdown of the banking system. That institutional collapse wasn't caused by a lack of capital; larger national banks such as National City Bank and Bank of America had idle cash. But low potential returns, combined with post-traumatic stress lingering from the stock crash, made bankers so risk-averse they wouldn't even lend to each other.

The RFC's solution in 1934 was for private bank employees to work with its subsidiary, the Federal Housing Administration, to create insurance for pools of mortgages. This led to a resurgence of financing for home purchases. Another RFC subsidiary, the Rural Electrification Administration, worked with farm cooperatives and banks to issue low-interest 20-year loans to run thousands of miles of electrical wires to rural farms and ranches—something the private sector had said would be too expensive.

During the years before World War II, the RFC created the Defense Plant Corp., offering loans and tax benefits for the manufacture of tanks, planes, and other weapons used by the Allies to fight the Nazis. The DPC helped add 50% to the country's manufacturing capacity by the war's end, according to Hyman. In 1940 it was responsible for 25% of the nation's entire gross domestic product. Hyman noted that it remade the U.S. aerospace and electronics industries, turning them into some of the largest sectors in the economy.

Half a century later, most Americans have forgotten all that these public-private partnerships accomplished—to such an extent that there is political hay to be made by demonizing government programs of any kind. We've lived off their fruits while failing to establish new programs. This void has led to a list of structural issues: underemployment, an increasing wage gap, a lack of household savings, and a looming retirement crisis.

By the time the Great Recession arrived in the late aughts, Congress resisted the idea of a big stimulus plan. That was, until Federal Reserve Chairman Ben Bernanke informed them the nation was "days away from a complete meltdown of our financial system," as then-Senator Christopher Dodd later recounted. Even then, lawmakers didn't do all that much, passing the $700 billion Troubled Asset Relief Program, which was later reduced to $431 billion, and the American Recovery and Reinvestment Act of 2009, a $787 billion plan that included short-term benefit extensions and tax cuts.

While Congress dithered, the response of the U.S. central bank was unprecedented. The Fed fashioned dozens of programs to put $4 trillion into credit markets. This helped to unfreeze credit markets and allowed bank lending to occur. The Great Depression had FDR; the Great Recession had Ben Bernanke.

His actions were effective in a narrow sense: He saved the finance sector. The Fed's zero-interest-rate policy stopped 2/28 adjustable-rate mortgages—loans with teaser rates that shot higher after 24 months—from resetting, which prevented defaults. This gave banks time to gradually improve their balance sheets, but it planted seeds that led to a variety of unintended consequences.

Saving the banks turned out to be a boon to property owners, homebuilders, and the private equity funds that were investing in distressed real estate, who saw their holdings quickly recover their value. But those who didn't own homes, including many people who'd lost them to foreclosure, were turned into renters.

Investors did well, of course. If you still owned stock in March 2009, when the market hit its lowest point—or better yet, if you had enough capital to buy more stock—your risk-taking was richly rewarded. From those lows, the S&P 500 tripled over the next few years. Even with the recent post-Covid correction, the index is still worth four times what it was in 2009.

Most Americans don't own much in stocks. In a 2017 study, Edward Wolff, a professor at New York University and researcher at the National Bureau of Economic Research, found that the wealthiest 10% of U.S. households owned 84% of all stocks. During the recovery, the wealthiest segments of society got wealthier. I should disclose that I benefited from it personally, too. My firm, Ritholtz Wealth Management, manages more than a billion dollars in stocks and bonds. Our clients did well in part because their portfolios have benefited ▶

◀ dramatically from rising prices. The Fed deserves credit for some of that increase in asset values.

Another enormous windfall went to those employees who had lots of company stock options. From October 2007 to March 2009, the S&P 500 fell 56%. Many companies, including Apple, Starbucks, and Google, allowed their employees to trade in worthless stock options for new ones with much lower strike prices in 2009. The biggest beneficiaries were the executives who held the lion's share of issued options. As the market and the economy recovered thanks in part to the Fed's monetary efforts, these options became deep in the money. Tens of millions of dollars in risk-free profit were created for some already wealthy people.

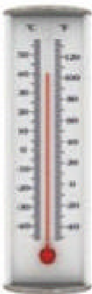
While the financial sector recovered, Congress did little to help the rest of the economy. In the past, when household and private-sector demand collapsed, the government stepped in to replace it by spending more and cutting taxes. For reasons people still debate—ideology? deficit concerns? partisanship?—the fiscal response in 2009 was sorely lacking.

As people began to find new jobs, they were often worse than the ones they'd lost during the crisis—with lower wages and fewer (if any) benefits. Without a substantial fiscal stimulus, the good middle-class jobs associated with large public works projects or civil service employment never materialized. Gains from the economic recovery never "trickled down" to the working classes.

The 2020 economic rescue has skimmed from the responses to both the Great Depression and the Great Recession. But so far it's been heavily slanted toward the latter approach, as the Fed has slashed interest rates to zero and committed more than $2 trillion to keep rates low and credit markets liquid. The $2 trillion CARES Act aims to replace income and spending for those 92% of Americans under shelter-in-place orders until the crisis passes. Most of that CARES money will replace lost wages for employees of small and midsize businesses for a short while; the rest will cover lost revenue for a few larger businesses. There's also money going to states, cities, and hospitals.

The response has been more substantial than what the government did during the 2008-09 crisis. But it's still nowhere near enough.

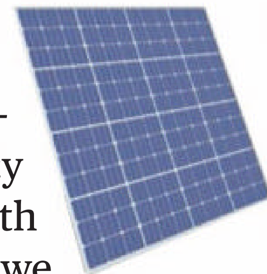
We should be using RFC-like partnerships to build technological platforms and infrastructure for the future. The list of potential areas is long—but here are a few ideas:



❶ Climate remediation

Nine of the 10 warmest years in recorded history have occurred since 2005. What's been missing from the attempts to address global warming has been a comprehensive search for a huge technological solution to remove carbon dioxide from the atmosphere, or perhaps a series of smaller ones that cumulatively have a substantial impact. Accelerating this process could have implications for avoiding what might very likely be humanity's next great crisis.

❷ Sustainable energy



One reason for modest hope in the looming climate crisis has been incremental improvements in the efficiency of wind and solar energy, along with battery storage improvements. What we need to make this energy technology much more efficient would be a Manhattan Project of sorts, aiming for fundamental breakthroughs in both the science and the technology. The resulting cheap, abundant energy would help reduce future carbon emissions and pollution—and lower costs for energy-intensive businesses.

❸ Infrastructure

The U.S. once had the world's leading roads, airports, and electrical grids. We have foolishly allowed these to fall into disrepair and decay. This lowers the quality of life, hurts economic growth, and puts America at a disadvantage to rising powers in Asia. The solution is to create a Reconstruction Infrastructure Corp. to prioritize projects for repair and rebuilding. Fund it with 50- to 100-year bonds issued at 2%. Infrastructure is more than a make-work program; it's the platform that allows businesses to operate efficiently.

❹ Smart roads

Speaking of platforms, it's only a matter of time before self-driving cars are here. Greater traffic capacity, faster commutes, and reduced automobile fatalities will be the happy result. But whether this happens in a few years or, more pessimistically, a few decades is unclear. What would speed things along would be a uniform set of radio-frequency devices built into roads and vehicles to allow safe navigation regardless of weather or traffic conditions. A public-private partnership could (among other things) create a set of standards that allows different vehicle manufacturers to interact safely on the open road.

CONE, PANEL, STETHOSCOPE, THERMOMETER: GETTY IMAGES. ASTEROID: COURTESY NASA. CAR: COURTESY TESLA

❺ Digitized health care
How is it possible that in 2020 the flow of health-care information has yet to become seamless and universal? How is this crucial sector still operating as if it were the 19th century? Prior government attempts to address this issue have been too modest. Instead, combine the government's efforts with the health-care initiative created by Warren Buffett, Jamie Dimon, and Jeff Bezos—and create a bold, comprehensive experiment.

❻ Asteroid mining
This isn't merely something out of science fiction. Serious technologists believe we could launch a fleet of unmanned ships to mine valuable minerals. I understand that some want to go to Mars. I say aim farther, all the way to the asteroid belt, with its vast riches of industrial metals, nickel, cobalt, and likely gold and platinum.

In all of those examples, the journey is the reward. Landing a man on the moon was a triumph of ingenuity, but the economic benefits came from the technology that the Apollo program developed. Integrated circuits, fireproof materials, water purification, freeze-dried food, polymer fabrics, cordless tools—the list is so long that we take it for granted. We need to update President Kennedy's challenge, not for the national glory, but for the societywide economic benefits.

Some will say what I'm arguing for here would be a departure from 21st century U.S. political and economic realities. But as entrepreneur and author Bhu Srinivasan points out in *Americana: A 400-Year History of American Capitalism*, Uncle Sam has successfully partnered with the private sector throughout our history, creating exclusive monopolies through patent protections and municipal bonds, among many other innovations. Or, to quote the venture capitalist William Janeway, the U.S. innovation economy has always been "sponsored by the state and funded by speculation."

It sometimes takes a crisis to get past the usual partisan wrangling in Congress. Right now there's a rare willingness to try more short-term stimulus. But the lesson of the past two centuries is that to benefit the U.S. population, the government needs to enact a long-lasting fiscal stimulus—a new NASA, not just an extra few hundred dollars to get us through the next few months.

Grover Norquist once said his goal for government was "to get it down to the size where we can drown it in the bathtub." It's a great punchline, right up until you need the government to fight the Nazis—or to control a global pandemic that threatens to kill millions and destroy the economy.

Time will tell if this White House and Congress are up to this enormous task. The public gets to grade the response and rescue plan in about six months—on Nov. 3.

This is no time for thinking small. America, confronted with the biggest crises, has always stepped up. We face yet another historic crisis. Once again it is time for America to **go big.**

Barry Ritholtz is a Bloomberg Opinion columnist and the author of Bailout Nation: How Greed and Easy Money Corrupted Wall Street and Shook the World Economy. *He is the founder of Ritholtz Wealth Management.*

North Korea's

Man in Spain

18+

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If you want to explore mining opportunities or get word on Kim Jong Un's health, you start with Alejandro Cao de Benós. He's only 6,000 miles from Pyongyang

By Josh Dean   Photographs by Iris Humm

The message from Dubai in late 2018 wasn't unusual. It's just part of the day for Alejandro Cao de Benós to open his email and find some intrepid capitalist who wants to do a little business in North Korea.

Recently, there was the one from a guy in Hawaii who wanted to open a McDonald's in Pyongyang. That's an easy no. Privately owned businesses are forbidden in the Democratic People's Republic of Korea. "No McDonald's, no Kentucky Fried Chicken, no Burger King," Cao de Benós says. Every so often it's the head of the Church of Jesus Christ of Latter-day Saints in Spain, asking if it's finally all right to send over a wave of white shirts carrying the *Book of Mormon*, even though he knows that's a nonstarter. Only those religions that existed in Korea before the DPRK's formation in 1948 are allowed to operate in the country. Sometimes a lead seems real enough that Cao de Benós can pass it up the ladder from his desk in Tarragona, on Spain's sunny east coast, to the North Korean Embassy in Madrid—or even to his contacts in Pyongyang.

At first glance, the Dubai email was one of those. An Elena Sanchez was writing from an investment firm called Baron Stone Capital. Her boss, Adrian Hong, hoped to meet at the embassy to discuss investment opportunities, ideally in mining.

It might seem strange that a banker in Dubai would email a Spaniard to talk about investments in Pyongyang, but such is the idiosyncrasy of doing business with North Korea.

"I receive this kind of request every day," Cao de Benós tells me one afternoon in November. (Requests of late have been more to address rumors that Supreme Leader Kim Jong Un was in grave condition after heart surgery.) We're walking around Tarragona during one of its infrequent rainy days. "I'm the only reachable person," he says. He means that literally. Cao de Benós began as a teenage fanboy of North Korea's socialist state and, over time, developed ties to the regime. In 2002, after he'd spent more than a decade as a volunteer cheerleader and propagandist, the nation's late supreme leader, Kim Jong Il, made him a "special delegate" to the Committee for Cultural Relations with Foreign Countries.

Official diplomacy is conducted through the Ministry of Foreign Affairs. And there are envoys at the United Nations. But business, science, culture, sports—basically anything outward-facing—goes through the committee. As the only non-Korean affiliated with the government, Cao de Benós says, he's the primary contact for anyone in the West who wants to cold-call North Korea.

The woman in Dubai said her boss was looking for investments in "frontier markets." Cao de Benós can help with a request like this. "We have many investment possibilities," he says, naming mines, hotels, and IT. Or perhaps you don't have a specific play. In this case, Cao de Benós might arrange a meeting with the Ministry of Foreign Trade. Even an American like me can invest if I'm willing to violate international sanctions. "We are happy to make business with you," he says.

When Cao de Benós dug into Baron Stone, he couldn't find any information on it. Sanchez was pushy, too. She responded to his chilly replies with what felt like a bribe: an offer to hire him as a consultant if he could facilitate introductions at the embassy. She then announced that Hong would soon be in Madrid and hoped to arrange a dinner with Cao de Benós and North Korea's ambassador. Cao de Benós says he notified the embassy of the inquiries and registered his skepticism. He didn't recommend a meeting.

A few weeks later, on Feb. 22, 2019, Hong showed up anyway. When an embassy worker came to the door, Hong and eight accomplices forced their way in.

For several hours, according to news reports, Hong and his team—who claimed to represent Free Joseon, a North Korean dissident group—menaced the staff. They isolated the only accredited North Korean diplomat in the basement, where they put a hood over his head and attempted to bully him into defecting. This effort failed, and at around 9:30 p.m. the gang took laptops and flash drives and fled in stolen diplomatic cars.

Media accounts speculated that the break-in was an attempt to disrupt the then-upcoming nuclear talks between President Trump and Kim Jong Un in Vietnam. The group had supposedly targeted Madrid because North Korea's top negotiator, Kim Hyok Chol, was previously ambassador to Spain.

North Korea had no official comment. Cao de Benós theorizes "it was the CIA" and tells me this was "confirmed" by friends in the "Spanish intelligence service." The CIA has denied involvement. Hong, sought by Spanish authorities on unspecified charges, is still at large.

Cao de Benós assumes that interest in Hong will fade, because no one cares about the treatment of North Korean diplomats. He's also sure that the sloppy assault was a Plan B. The real plan, he says, was that dinner Sanchez had tried to set up. It's easier and cleaner to kidnap a diplomat leaving a restaurant.

Which means: He might have been snatched, too?

Cao de Benós laughs and pats his belly. He's a little plump; there's something vaguely Ted Cruz-ish about him. "I'm too big," he says. "They have to feed me too much." More important, he's a Spanish citizen and quasi-famous. Taking him would be bad PR. "I'm too much of a public person."

Alejandro Cao de Benós seems like a lot of name, but it's actually shortened. The whole banana—Alejandro Cao de Benós de Les y Pérez—is unwieldy for daily use and off-brand, signifying the aristocratic lineage of Spain's most famous socialist. ▶

◀ He didn't grow up rich, but his family was once powerful, he says. An ancestor conquered land on the French border and claimed it for the Spanish king, who rewarded him with the title of Barón de Les. Cao de Benós, as the eldest male heir, has claim to this title, as well as Marqués de Rosalmonte, Conde de Argelejo, and Marqués de Diezma y la Hinojosa.

Today, the titles carry no privileges. All the wealth is gone, too, because his paternal grandfather blew the fortune on poor investments and gambling. Cao de Benós could claim the honorifics, but he'd have to ask the king's permission and pay a fee.

His father was a chemist who married and raised his son in a happy, middle-class home. After high school, Cao de Benós served three years as an MP in Spain's air force, but the whole time his heart was in North Korea.

He has only honorary citizenship in the country, he says. To become a North Korean citizen, Cao de Benós would have to renounce Spain, which would mean giving up a free life on the Spanish coast and moving to the world's most closed-off country. This isn't a dealbreaker for him. "It's what I wanted since I'm 13," he says, over a plate of vegetable paella (Cao de Benós is vegetarian) in Tarragona's old quarter, during one of three days' worth of conversations in which he rhapsodizes about the famously brutal and authoritarian regime. That's when he read about North Korea's particular—in his view, pure—form of socialism and fell in love. At 16, he flew to Pyongyang, having saved up for the flight by working at a gas station. "I found a very clean society with very nice people," he recalls. "And then, I made up my mind: I want to help Korea."

His first step was to found the Korean Friendship Association, or KFA. Cao de Benós persuaded high school pals to join, not out of a shared affinity for socialism, but because he offered Coca-Cola and karaoke at meetings. His father didn't approve. "He wanted to push me out of home, because he worried something will happen to the family because of my work," Cao de Benós says. "I had a tough time." It was a tough time to be an aspiring socialist, period. This was the early 1990s, when Eastern Europe was falling. "I was the only one going against direction," he says.

In 2000, Cao de Benós created North Korea's first official website, korea-dpr.com, despite knowing just rudimentary web design, he says. This was the country's only outwardly facing government site in English, he adds, until it started its own in 2012, meaning that any Westerner who tried to contact North Korea online from 2000 to 2012 was writing to one guy in Spain.

Hundreds of thousands of people visited the primitive

"I will sacrifice myself in the capitalist jungle and fight

site in its first year, occasionally overwhelming the limited bandwidth Cao de Benós could afford on his monthly budget of €20. His work also attracted media attention, especially after U.S. journalists learned who was behind the janky North Korean website that had just appeared in the world one day.

By the time Cao de Benós returned to Pyongyang in 2001 with a group of 20 “delegates” from the KFA, he says his organization had thousands of members; it now has more than 16,000 across 120 countries. Still, he ached to be more than a friend. Cao de Benós wanted to be “part of the project,” he says, and offered to move to North Korea and join the army. Officials there told him the country had plenty of soldiers. What it didn’t have was a European cultural envoy. He was disappointed but saw the logic. “I will do what the country needs me to do, which is international relations,” he says. “I will sacrifice myself in the capitalist jungle and fight my way.”

On Feb. 16, 2002, Kim Jong Il gave Cao de Benós his official appointment. “The only non-Korean working for the government,” he says, with pride. “First and only in history.”

Cao de Benós is sometimes portrayed as a glorified tour guide—the man you call to book a trip to Pyongyang—but “my work is not tourism,” he says. “My work is to bring VIPs.”

my way”

He did not arrange visits by former presidents Bill Clinton and Jimmy Carter—or, for that matter, by Dennis Rodman, the eccentric former basketball star. Those came through the UN mission, and Cao de Benós is fine with that. Rodman was a “huge headache,” he says.

But he did organize North Korea’s first cryptocurrency conference. For a country banished from the global banking system, crypto has obvious appeal. The gathering was held in April 2019 at the glittering Pyongyang Sci-Tech Complex—which looks, from above, like an atom—and was open to anyone who wanted to apply for an invitation, except for journalists and residents of South Korea, Japan, and Israel.

Eight foreigners attended, including Italian information-security specialist Fabio Pietrosanti. He says the two-day event was strange: The English talks were translated into Korean with a delay, forcing speakers to pause after every line, and participants “were not allowed to interact with a single North Korean.”

Prominent American crypto specialist Virgil Griffith was another guest. Griffith flew home to Singapore with official state souvenirs—patriotic posters and knickknacks—and “went straight to the [U.S.] embassy to say, ‘I have been to North Korea, and I give you some gifts,’” Cao de Benós tells me, breaking into a grin. The decision was unwise, in his opinion.

On Nov. 28, three weeks after my visit to Spain, Griffith was arrested in Los Angeles and charged with violating U.S. sanctions for advising North Korea on bitcoin mining. He faces 20 years in prison and has pleaded not guilty.

Pietrosanti had a more fruitful trip. He’d been looking for cheap technical talent to build an open-source medical-software tool (legal, under UN sanctions), and Cao de Benós helped him set up meetings. Shortly thereafter, Pietrosanti paid €7,100 (about $7,700) for four months of design work by four programmers. “I can’t say that they are super-high-quality, but they were much better than many Indians I’ve worked with,” he says.

What impressed him most is that the programmers are able to work despite being cut off from the internet, as nearly all North Korean citizens are. When they need technical information, the programmers told Pietrosanti, they find it offline. He’s now contemplating establishing a permanent research and design center there; €30,000, he figures, would pay for five or six full-time developers for a year.

Cao de Benós says that other influential people, including Americans, have visited Pyongyang at his invitation, but they rarely talk about it. This frustrates him. He wishes they would scream from the rooftops of the fantastic visits that obliterate their preexisting biases about Asia’s utopia.

A former defense minister from a European nation that Cao de Benós won’t name recently contacted him to inquire about a trip, he says. This was an opportunity for promotion, to “break the propaganda that you cannot travel to North Korea—or, you know, that we will kill you,” he says. “But they don’t want that, because they know the problem it will create.” Cao de Benós gets it. When he built the North Korean website, he had a good job doing IT. But after word about ▶

◀ his side hustle got out, he was reprimanded. He told his bosses it was just a hobby. "Whenever I go home, instead of playing football, or playing on the computer, I'm working for Korea from 7 or 8 p.m. until 2 or 3 a.m.," he told them. "It is my passion." The company wasn't having it. It urged Cao de Benós to quit, and he did in exchange for severance. He hasn't worked since 2005. "I have to fight to survive, but that's the rule of the capitalist jungle," he says.

His position carries no salary. North Korea doesn't compensate him directly in any way, he says; he makes money by commission. When a company signs a deal to invest with North Korea, Cao de Benós takes what he calls a "tiny fraction" from the foreigner's side. This pays his bills, usually, though he's been unable to arrange meetings during the coronavirus pandemic. "I'm doing this for ideology and not for other interests," he says. If the KFA were a business, he'd charge members €10 a month and be rich.

Instead, he's often broke. Sometimes, "it can be two months, and I don't have a single cent," he says. In those cases, month three gets hairy, and he more actively pursues deals. But every deal is fraught. One side often backs out, because of the complexities of trying to make business in a country under international sanctions.

It helps that he lives frugally in a 60-square-meter (650-square-foot) house with a €600 monthly mortgage on a few acres of wooded hillside. "There is a phrase that I like to use," he says. "The rich person is not the one who has more money, but the one that needs less. I don't need fancy cars, and I don't spend money going to a disco." He sees a movie once every couple of months. He doesn't drink or smoke.

Cao de Benós must be entrepreneurial to navigate this peculiar path. He brokers relationships between capitalists and a regime that dislikes them but not their money. As such, he runs into bureaucratic roadblocks. Persistence is a prerequisite, immunity to frustration a necessity.

The easiest deals to consummate, he says, often involve North Korea's natural resources. That's why the Adrian Hong request to talk about mining seemed reasonable at first. Also, there are investments to be made in textiles, pharmaceutical research, and heavy industry. Lately, Cao de Benós says he's fostered agreements with European companies to use cheap, skilled labor on technology projects. "We develop a lot of apps for Android and iOS, and very cheap," he says. "And we are very strong in animation. We export a lot for all kinds of modern cartoons."

He cites an example, but obliquely: "Let's say you're making a cartoon, and you are outsourcing the work. So you go to Romania, because you know it's very cheap." But the Romanian company knows of an even cheaper option. Its representative flies to Pyongyang and makes a deal for the same work at half the cost—and then gets 50% of the fee without employing anyone. "This has happened," he says. He will not name movies. Nor popular video games. North Korean labor is also behind websites and crypto, he says. The shadow hands of globally sanctioned socialist labor are all around us.

Cao de Benós is famous in North Korea. He has a Korean name—Cho Son Il, meaning "Korea is one country"—and a nickname—Changunim Chonsa, which means "dear soldier of the general," the general being Kim Jong Il. North Koreans politely approach him in restaurants and "bring their glasses of wine to cheer with me," he says. (He speaks only a little Korean, saying he doesn't have time to learn, and conducts business with the cultural committee in English.)

Spaniards, however, "will stop me to talk and to take selfies. They're kind of invasive in the private area, because they see you in the TV, and they think they know you."

I witness two women approach him at a cafe. They say something in, I think, Korean. "Yes," he confirms after the women leave. "They thanked me for my work."

Sometimes, fans show up at Pyongyang Cafe, a small space on the ground floor of an apartment building near Tarragona's port. Cao de Benós opened the cafe—which served Korean foods, coffee and beer, and North Korean souvenirs—as a marketing opportunity in 2016, and for a year it was a minor tourist attraction. A KFA member owns the place, so there's no rent. Still, what little business it did wasn't enough to cover the monthly €2,000 in taxes and staff wages. Today, it's just a place to hold KFA meetings and bring visitors like me.

He plops on a couch and talks about how people have the wrong ideas about North Korea and the U.S. The former isn't bleak and miserable; the latter isn't Eden. (Cao de Benós is a loyal mouthpiece. He rejects all questions about extrajudicial killings or humanitarian atrocities as propaganda: "The media is often reporting that we execute people, which is not true," he claims.)

He says he's been to Palo Alto, and was worried for his safety after dark. He also stayed in New York City—the Bronx—once. And then there was Orlando.

That was in 2014, when Cao de Benós went to Florida to film a scene for a documentary, *The Propaganda Game*, in which he plays a major role. The Spanish director, Álvaro Longoria, wanted to get Cao de Benós talking—in the U.S.—about what he calls "the famous film of the stupid Franco man."

He means James, the actor, not Francisco, the fascist, and the film in question is *The Interview*, which Franco made with Seth Rogen. *The Interview* makes fun of North Korea and shows Kim Jong Un perishing in a helicopter crash. This indignity allegedly infuriated Kim so much that he ordered the hacking of Sony Pictures Entertainment Inc. and the release of documents.

Longoria liked the idea of having Cao de Benós mock these allegations on garishly American soil—next to the giant metal globe at Universal Studios Florida. (Why there and not outside, say, Sony headquarters is unclear. Longoria didn't return requests for comment.) They shot it guerrilla-style, just two men and a small camera among the tourists. "I was explaining that it is known that the DPRK doesn't care about that stupid movie," Cao de Benós recalls. He was explaining it loudly enough that nervous tourists called security, and the

Regarding Kim's health, he wrote, "there is no official comment." However, "I can say that those rumors are false"

Spaniards were ejected from the park. "At least I managed to see alligators," he says. "That's the good part of it."

Public rants have harmed Cao de Benós before. A few years back he was standing along the Korean Demilitarized Zone with a Spanish journalist who asked him, on camera, how he felt about the presence of U.S. soldiers. Cao de Benós replied that he felt "very angry" about "the U.S. occupation" and that if necessary, "I will take the arms and push them out." The footage set off a backlash in Spain that led to a raid on his home, the confiscation of two handguns that fired only rubber bullets, and the loss of his passport. He pleaded guilty to not having the required license for the guns. The case is under appeal, and he's still unable to travel.

Consensus in the U.S. has been that North Korea was behind the Sony hack, but that's not been proven. Cao de Benós is here to tell us all that the assertion is ridiculous. The country does have excellent hackers; targeting a movie studio would be a waste of their abilities.

It's been three years since Cao de Benós has visited Pyongyang. He says he misses the place. He still wishes he could live there, where the only thing his life might lack is variety. He'd miss horror movies. "We don't have good horror movies in North Korea, because you need special effects and a full industry behind that," he says. "But will I sacrifice a horror movie once every two months for living in a place where I can leave my wallet, and nobody's going to steal from me—where I will have a free mortgage. Because now I'm living on the edge. If I don't have money at the end of this month, the bank kicks me out. I'm homeless. So what do you want, to see a horror movie or have a house guaranteed for life?"

Cao de Benós is an idealist. Hypocrisy irritates him. "That's why I work for North Korea," he says. "I know the president, vice president, and most of our ministers and leaders. I know how they live. I know how they behave. They are the ones who set the standard of honesty and being humble. If I found that any of them will accept a bribe, or saying one thing and doing the other, I will never work for our government. I told our president, 'I will always serve the DPRK as long as we keep our ideology and our standard.' The day that DPRK will change, like China, or when they accept bribes, I will say bye-bye." (North Korea's mission at the UN and the country's embassy in Beijing didn't respond to requests for comment on Cao de Benós's relationship to the government. South Korea's Unification Ministry, which is responsible for inter-Korean affairs, declined to comment.)

China, in particular, offends him. As a communist nation that now has a quasi-free market riddled with corruption, China is a cautionary tale of what could happen if North Korea opened its borders. If you ask Cao de Benós, China is a far worse place than the U.S. At least America is honest about what it is.

He's not finished. This is important. "I will write a letter," he says, "and renounce my position immediately. In the very moment that we allow private housing, or private land, or privatize education, or health care."

Recent months have only reinforced Cao de Benós's devotion. I tried calling him for comment about the pandemic and Kim Jong Un's health. He was slow to reply, then apologized when he did, saying that he was "completely busy with so many interviews." He offered to reply to questions by email.

While much of the Western world, including Spain, has been ravaged by Covid-19, North Korea, he wrote, is coronavirus-free. On Jan. 15, he says, he was asked by Pyongyang to "help secure medical equipment for the prevention" of the virus. On Jan. 22, North Korea closed its borders and imposed a 30-day quarantine on anyone entering the country. Cao de Benós says the government mass-produced masks and disinfectants; mobilized the army to "develop disinfection duties and tightly control the borders"; reached out to friendly nations and nongovernmental organizations for test kits and personal protective equipment; and put 20,000 people into quarantine.

"There has not been a single death or a case of a patient with Covid-19," he says. Although that assertion was confirmed by the World Health Organization's representative in Pyongyang, it seems impossible that this is true. North Korea borders China, its largest trading partner.

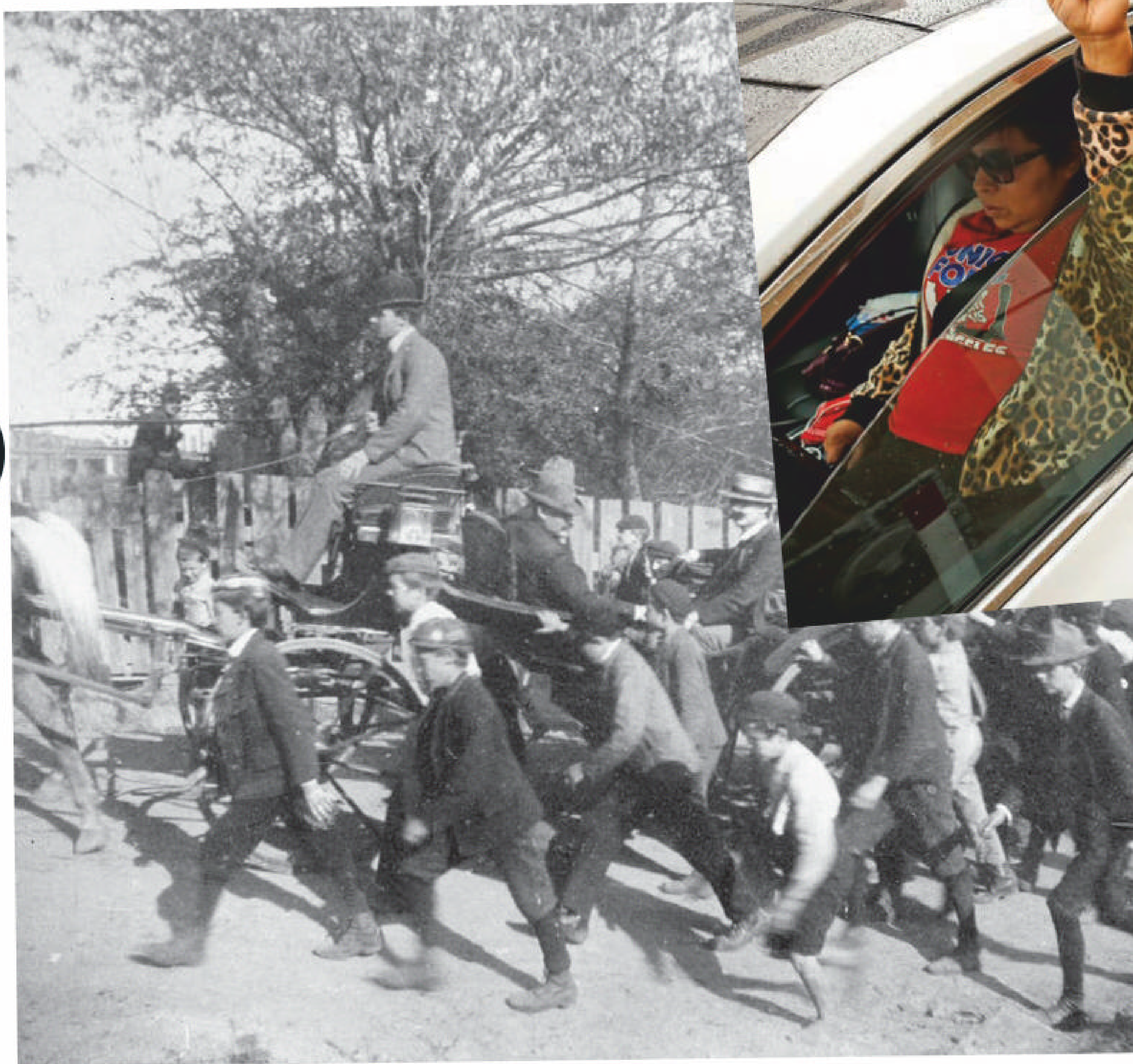
Contrast that to what he's seen at home, in a society that prioritizes freedom of movement and the health of its businesses and isn't easily locked down. "An absolute disaster," he says. As of late April, Spain was still averaging more than 300 deaths a day, lacked adequate PPE, and was experiencing a shortage of some basic foods. Cao de Benós says when he visited a public hospital in mid-February, he was the only one wearing an advanced protective mask. "The fact that the politicians, doctors, and generals of the army and police in charge of overseeing the measures got the virus demonstrates how incapable they are to keep the population safe," he says.

Regarding Kim's health, he wrote, "there is no official comment." However, "I can say that those rumors are false." He pointed out that the source of the claim, which cited an anonymous person, was *Daily NK*, which I'd heard him complain about before. As evidence that it wasn't true, he pointed me to a photo he'd shared with his 60,000 Twitter followers. It was of Kim smiling and looking as healthy as Kim ever looks, next to fighter planes—allegedly taken the day before this health crisis. "It is also interesting to see our Marshal Kim Jong Un watching the Air Force drill in perfect health just the day before he was supposed to have the 'Heart operation,'" Cao de Benós wrote.

During my visit, I'd forgotten to ask if he and Kim had met. "I had the chance to shake his hand and be close to him in different state events," he said, adding that a few letters had been exchanged through intermediaries. "But unfortunately I do not have a close friendship like President Trump says he has." Ⓑ

—*With Li Jing, Sharon Cho, and Kanga Kong*

THE ESSENTIAL WORKERS' REVOLT



Miners' union president Mitchell arrivies in Shenandoah, Pa.

(from top) McDonald's, Amazon, and grocery store workers protest as the pandemic spreads.

In 1902 thousands of coal miners showed Americans that crucial work was often low-paid and dangerous, helping forge a new kind of social contract. Could it happen again today?

By Susan Berfield

In the weeks since the coronavirus pandemic took hold in America, the country has come to redefine essential work and to appreciate that essential often means vulnerable. We've watched the people who pack online orders, stock grocery stores, and deliver takeout assume unprecedented risk, often for low pay in unsafe working conditions. Some who've protested have been silenced; some who've carried on have been infected.

We've also seen evidence, though, that in a collective (and profit-threatening) emergency, the big companies that employ essential workers will, under duress, raise wages and offer paid sick leave. The government will find the money to give many families at least $1,200, no application necessary. And at seven every night, we cheer.

But will the country remember its newly essential workers once the social and economic shock wears off? That hopeful and haunting question will be on many people's minds leading up to the presidential election in November, and in the months after. Covid capitalism could see the country extend the privileges of the wealthy, of monopolistic corporations, of the insured, of anyone who's had the luxury of keeping their jobs while working from home. Or it could see the country finally rewrite its increasingly one-sided social contract.

Reckonings like this tend to come every couple of decades—expected by some, denied by others. On occasion, American capitalism is reformed; rarely does it stay that way. The Great Depression brought on Franklin Delano Roosevelt's New Deal, which eventually helped the country return to prosperity, but not for all, which in turn prompted the Great Society reforms of Lyndon Johnson. Before either of those movements, at the start of the 20th century, came Theodore Roosevelt's Square Deal.

The progressive moment announced itself in 1902 with a monthslong coal strike that revealed miners to be the essential and undervalued workers of their time. Americans had known, in an abstract way, that the advances and luxuries of the industrial age depended on the willingness of a few hundred thousand men to hazard dangerous conditions and high mortality rates for low pay. But then, as now, it took a crisis to crystallize in people's minds that the country needed an economy that worked for everyone.

By 1900, America's restless ambitions were being mechanized and manufactured. With automobiles coming onto the streets, and electric lights and telephones being installed in homes, the standard of living was improving. There were more roads and rail lines, more buildings, bigger corporations, bigger cities. But many people also felt confused and uprooted, surrounded by the unfamiliar.

Almost half a million immigrants arrived in 1901, only to find themselves crowded into unhealthy tenements and some of the most difficult and unreliable jobs. The backlash against Reconstruction in the South—and pervasive racism throughout the country—meant many African Americans were struggling to rise out of poverty. Women could work on the production lines and in the sweatshops, but they earned considerably less than men, and few could vote. When Roosevelt came to power in 1901 after the assassination of William McKinley by a former factory worker, the possibility of social unrest seemed close. "The storm is on us," said Henry Adams, a historian and friend of the new president.

The tempest threatened to begin in the anthracite coal mines of northeastern Pennsylvania. For decades the region's workers had been doing some of the country's most dangerous jobs. They knew all the ways they could die. Mines could collapse, rocks could fall, water could rise. The dust and damp and explosive powder could turn their lungs black. They knew the whistle that signaled for work to begin, and the one that signaled someone had met his end. In 1901 the warning whistle blew three or four times a day in the 346 Pennsylvania mines that held almost all of the nation's hard coal. Twelve hundred men were injured that year, and an additional 500 died. The bodies were claimed by families who might not have set aside money to bury them, and only some employers would help. If a miner died alone and friendless, his corpse was donated to a medical school and dissected.

America's industrialization depended on that coal. Anthracite made possible stronger grades of iron and steel, which made stronger rails, which allowed for heavier locomotives, which made interstate trade on the transcontinental railroads possible. It generated steam for those locomotives and for manufacturing glass, textiles, ceramics, and chemicals. It warmed the homes, offices, and schools of a distant America, urban and modern.

The coal companies depleted the easily reached deposits in the years after the Civil War, which meant they had to spend more to extract what remained. Independent operators eventually sold out to bigger companies, which were backed by the railroads, which had financial supporters of their own. By 1874 most of the coal land in northeastern Pennsylvania was controlled by the railroads. And by 1900 most of the railroads were controlled by John Pierpont Morgan. Morgan wasn't the richest person in the U.S., but through his companies and connections he influenced more money than anyone else in the country, maybe the world. If anything important was happening on Wall Street, Morgan was assumed to be behind it.

As the coal railroads came under his sway, a cartel took shape. Having beaten back labor unrest and early attempts at unionization, the anthracite bosses frequently hired workers they thought wouldn't challenge their authority. They recruited miners from central and eastern Europe, often more than they could fully employ, which helped to depress wages. Then they lowered production and raised prices.

But in the Midwest and states such as West Virginia, where coal was bituminous and more mines independently owned, labor organizers had some success. The United Mine Workers, which claimed 93,000 members, was headed by John Mitchell, who'd first gone underground in Illinois at age 12. At 28, he was ambitious, well liked, and politically astute—and he saw an opportunity in Roosevelt. The new president was promising a government that would hold corporations to account, that ▶

1902: COURTESY LIBRARY OF CONGRESS. 2020: CLOCKWISE FROM TOP: AL SEIB/LOS ANGELES TIMES/POLARIS; BEBETO MATTHEWS/AP PHOTO; M. SCOTT BRAUER/REDUX

◀ offered the same justice to the privileged and the neglected. He was young and kinetic, a moralist and an opportunist, with a fighter's instinct for keeping opponents off-balance and a showman's sense of drama.

Five months after Roosevelt was sworn in, he took on Morgan and the enormous railroad company he'd just formed, Northern Securities, which threatened to dominate the country's vast Northwest. The government called on the courts to enforce antitrust law and break up the company. Morgan was shocked by the attack. Wall Street traders described it as a "thunderbolt out of a clear sky"–unreasonable, dangerous, theatrical.

During those early months of 1902, Mitchell, who'd been organizing Pennsylvania's anthracite miners for two years, hoped to force their employers to the table to discuss wages, working conditions, and union recognition. He asked in February, in March, in April. The response, when there was one, was uncompromising: no, no, no.

On May 12, start whistles pierced the morning. In Coaldale, Carbondale, Shamokin, Panther Creek, and other towns, more than 147,000 men and boys heard the call to work. They ignored it. The miners were aware of what their actions would bring them: payless days, rationed food, untreated illnesses, possibly eviction. "I am of the conviction that this will be the fiercest struggle in which we have yet engaged," Mitchell wrote to the activist Mother Jones.

At first the coal executives seemed unconcerned. Some were reportedly playing golf early on. "We are confident they will regret their action and be glad to resume work on the old terms," one executive said. Later, George Baer, president of the most important of the coal railroads, the Philadelphia & Reading, said: "These men don't suffer. Why, hell, half of them don't even speak English."

As the strike stretched into days, then weeks, it revealed itself to be more than a protest for fair wages and treatment, more than a face-off between labor and capital. It was a confrontation between a past in which power was concentrated and a future in which it was shared.

Public sympathy was with the miners; a relief fund swelled with contributions. But Roosevelt was initially unsure of his role. His secretary of labor suggested that the miners be allowed to bargain collectively and have their complaints heard by an impartial panel, and that the companies try a nine-hour workday instead of 10. In exchange, he held, the miners should promise not to intimidate those who didn't want to join the union. Roosevelt liked the recommendations but had no real power to implement them.

In July violence erupted in Shenandoah. Strikers confronted three men who'd continued to work, police opened fire, and at least 20 miners and five officers were injured. The Pennsylvania National Guard arrived the next day to keep order.

Mitchell and Roosevelt watched anxiously; Mitchell because he was worried the strikers would lose support, Roosevelt because he feared the violence would spread. Three weeks later, though, public opinion turned decisively against the coal barons, when the newspapers got hold of a reply Baer had written to a letter from a concerned citizen pleading with him, as a good Christian, to settle with the miners. "The rights and interests of the laboring man will be protected and cared for," Baer wrote, "not by the labor agitators, but by the Christian men to whom God in His infinite wisdom has given the control of the property interests of the country." A God-given right to dominate the nation's economy? That was too much.

Roosevelt and 80,000 miners listen to Mitchell speak in 1905.

Eastern governors were by then calling on Roosevelt to at least temporarily take over the mines or to prosecute the coal barons for operating a cartel. Encouragement and assistance for the strikers flooded in from other labor unions, charities, religious congregations, political and reform clubs, debating and literary societies. Prominent citizens urged the miners, operators, and federal government to end the conflict. In New York City, 10,000 people rallied on the strikers' behalf.

Their support wasn't merely a gesture of solidarity. It was also a recognition of just how much the nation depended on coal. By September, the U.S. Post Office was threatening that, absent heat or light, it would have to shut down. Public schools were warning they might not be able to remain open past Thanksgiving. Steel mill owners in Pennsylvania told their workers to prepare for mass layoffs. In Milwaukee, men stole wooden beer kegs from saloons to burn as fuel.

The New York State Democratic Convention backed a call for the government to take over the mines. Business leaders agreed. "The operators do not seem to understand that the present system of ownership…is on trial," Roosevelt wrote to a friend. America was facing a winter of darkness, sickness, and starvation. Some might freeze to death; others might riot. The strike could spread. If panic outran reality, the government might have to respond with force. Roosevelt feared the crisis could become almost as serious as the Civil War.

The time had come. On the first of October, he sent a telegram to the owners of the six biggest mines. "I should greatly like to see you on Friday next, October 3rd, at eleven o'clock am, here in Washington, in regard to the failure of the coal supply, which has become a matter of vital concern to the whole nation," he wrote. "I have sent a similar dispatch to Mr. John Mitchell." With that, Roosevelt became the first president to mediate between big business and labor, after decades in which the government had sided firmly with the former.

When the men gathered on Oct. 3, Roosevelt appealed to the executives' patriotism. "Meet the crying needs of the people," he said. They replied that they wouldn't meet anything but the miners' surrender. Mitchell said the miners wouldn't return to work until their demands had been considered by an independent commission.

"Well, I have tried and failed," Roosevelt wrote that evening to a Republican senator. He said he was considering "a fairly radical experiment"–sending in the army to take over

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the mines. Winter was closing in, and all the news was disturbing. A major utility, the Peoples Gas Light & Coke Co. in Chicago, calculated that its coal supply would run out in 20 days, leaving 350,000 businesses and residences in the dark. Brooklyn's courts were out of coal. On Dundee Island, in New Jersey, a band of 50 men and women stole several tons of coal from parked railroad cars, using nothing but wagons and bags.

Roosevelt had one final move he could make before sending in soldiers: turning to Morgan. The man whose company he was trying to break up was also the only man capable of bringing Baer and the others to heel. By now, even Morgan was embarrassed by their arrogance and intransigence. He feared the public's hostility toward the coal industry might spread to his other, more profitable companies. Most of all, he, too, was worried about disorder.

Morgan agreed to meet with Elihu Root, Roosevelt's secretary of war and a former corporate lawyer. Both Morgan and Roosevelt trusted Root far more than they trusted each other. On Saturday, Oct. 11, the financier welcomed the secretary onto his 304-foot yacht, the *Corsair*, which was anchored in the waters around Manhattan. Root and Morgan conferred for almost five hours, drafting a statement in pencil on eight pages of ivory-colored *Corsair* stationery.

The document was designed to reflect the coal operators' point of view, condemning "the reign of terror" in the anthracite fields and recognizing "the urgent public need of coal." But it ended by proposing the creation of a presidential commission to arbitrate the disputed issues. It was exactly the idea Mitchell had proposed, Roosevelt had supported, and the executives had rejected.

The miners agreed and got back to work. Headlines called Roosevelt a statesman, describing his mediation as a welcome approach and his commission as impartial and expert. "I feel like throwing up my hands and going to the circus," he wrote.

When the commission met a month later, the men of coal country spent days testifying to injuries they'd never been compensated for, hours they couldn't count on, wages never paid in cash. They spoke of debt and of death. One, Henry Coll, summed up 29 years underground: leg and fingers broken, ribs smashed, skull fractured, half-blind. "I lost my right eye, and I can't see out of the glass one much," he said. He'd been evicted and forced to move into a house in such poor condition that his kids had gotten sick. His wife, already ill, died soon after. "She died?" the head of the commission repeated. She died.

When it was Baer's turn to speak, he described mining—the deep underground, explosive work of it—as an unskilled trade that more men than necessary wished to undertake. "What does that indicate? Why, that labor there is attractive," he said. Asked to comment on the inequalities between the prosperous and the poor, he replied that they existed "to teach the power of human endurance and the nobility of a life of struggle."

The commission ultimately agreed to cut the miners' workday to nine hours and award them a retroactive 10% wage increase despite the likelihood of a 10% increase in coal prices. Mitchell's union didn't win recognition, but the commission did say that all workers had the right to join one. It also created a permanent board to rule on future disputes.

Both sides declared victory. Mitchell said he was pleased to win a wage increase. The coal presidents said they were gratified Mitchell didn't get union recognition. Roosevelt said the commissioners had done a great job and invited them to dinner at the White House. Morgan said nothing.

The president came away from the episode emboldened to push for a progressive agenda. "I stand for the square deal," he said. "But when I say that I am for the square deal, I mean not merely that I stand for fair play under the present rules of the game, but that I stand for having those rules changed so as to work for a more substantial equality of opportunity."

In March 1904, the government won its antitrust case against Morgan's railroad company. It was the first time such a powerful businessman had been held accountable to the public rather than just to the bottom line or investors. Coming eight months before the presidential election, the decision helped Roosevelt win in a landslide. In his second term, he pressed Congress to pass stricter railroad regulations and create an agency to ensure food and drug safety. He supported unions, eight-hour work days, and an inheritance tax. America, he said, must not be "the civilization of a mere plutocracy, a banking-house, Wall-Street-syndicate civilization." Making change could be dangerous, he said, but doing nothing could be fatal.

The U.S. was on its way to becoming a richer and more powerful nation, but it was newly aware that prosperity for some meant anxiety for others. Even those enjoying their perch in the middle class were uneasy as they realized their dependence on left-behind, sometimes-displaced, often minority workers. Then, as now, energy and anger were building.

Roosevelt grabbed these forces and tamed them. The coal strike and antitrust fight gave him momentum. Labor activists and government reformers, populists, and socialists pushed him to stand up for the working class. His changes seemed too timid to some, too radical to others, including some in his own party. But they set a precedent for a more progressive society and a moral tone that soothed an agitated nation.

Today's labor activists and union leaders hold less sway; with the advent of the gig economy, work has become even more provisional and fragmented. Joe Biden just beat Bernie Sanders and Elizabeth Warren in the Democratic primary. Yet ideas that were once unfeasible are now up for discussion: universal health care and child care, a living wage, paid sick leave and parental leave. Calls to renegotiate the social contract have gotten louder, and polls suggest more people are listening. Essential workers at some of the country's biggest companies plan to strike on May 1 for more protection and compensation. There will be an election; there could be a new president.

Someday it will be quiet again at seven. What will America do then? Ⓑ

Adapted from The Hour of Fate: Theodore Roosevelt, J.P. Morgan, and the Battle to Transform American Capitalism.

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Chefs vs. Leftovers

How the nation's top cooks start with this and end with six fabulous dishes. *By Kate Krader*

Photograph by Heami Lee

May 4, 2020

Edited by Chris Rovzar

Businessweek.com

We've never been so directly connected to chefs: Many are hosting impromptu cooking classes in their personal kitchens, an unexpected bonus for food lovers amid the chaos the coronavirus pandemic has inflicted on restaurants. Yet once the shakshuka's eggs have set, there's one thing the expert livestreams often skip: What to do with the food that goes uneaten?

As home cooks know, leftovers play a key role in the food equation right now. So Bloomberg Pursuits asked six top chefs to give us the recipe for one of their most beloved dishes, then to pass along the excess ingredients to someone else to make magic. Call it a chef daisy chain.

Jonathan Waxman, of Barbuto in New York's West Village, gave leftover roast pork to Daniela Soto-Innes of Cosme. Her luscious tacos al pastor yielded excess tortillas, which became a soup, whose limes leapfrogged to cookies. Along with a recipe, the chefs also got the chance to plug their current charity of choice—so you, too, can pass along some soulful nourishment.

Roast Pork Loin With Garlic

Jonathan Waxman
Chef-owner, Barbuto New York

Leaves
ROAST PORK

Why: Roast pork is terrific cold in a sandwich, reheated in a stir-fry, or tossed into pasta. Tying the pork roast helps hold the meat together, but it's not necessary. *Serves 4, with leftovers*

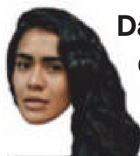
2 tbsp. extra-virgin olive oil
1 tbsp. chopped fresh sage
1 tsp. chopped fresh rosemary
¼ tsp. crushed red pepper flakes
1 anchovy fillet, finely chopped
2 garlic cloves, finely chopped
Grated zest and juice of 1 lemon
½ tsp. each sea salt and freshly ground pepper
4 lb. loin of pork, tied at 2-inch intervals with twine (optional)
3 tbsp. unsalted butter

Heat oven to 400F. In a small bowl, combine oil, herbs, red pepper flakes, anchovy, garlic, lemon zest, and salt and pepper into a paste. Rub loin with paste. Set pork on a rack in a roasting pan.

Roast, turning once, until lightly browned, about 30 minutes. Reduce oven to 350F; roast, turning once, until a thermometer inserted in thickest part of meat reads 150F, about 20-25 minutes.

Transfer pork to a carving board; let it rest 15 minutes. Add lemon juice and ½ cup water to pan over moderate heat. Whisk in butter. Slice pork and serve with sauce.

Pork Tacos



Daniela Soto-Innes
Chef-restaurateur, Cosme and Atla in New York

Takes
ROAST PORK

Leaves
TORTILLAS

Why: Tacos al pastor are an easy way to repurpose pork (loin or other cuts) into a bright-flavored dish. *Serves 4*

6 dried guajillo chiles
3 dried pasilla chiles
1 white onion, halved, one half chopped
4 garlic cloves
5 canned chipotle chiles
3 tbsp. pineapple vinegar or cider vinegar
1 tsp. dried oregano
½ tsp. ground allspice
Salt and sugar
¼ cup grapeseed oil or peanut oil
12 corn tortillas, warmed
1 lb. cooked pork loin, cut into 1-inch chunks
1 cup ½-inch chunks ripe pineapple
Cilantro, chopped serranos, and limes

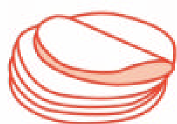
Heat oven to 375F. Roast dried chiles, whole onion half, and garlic on a baking sheet for 15 minutes. Transfer dried chiles to a bowl, cover with boiling water, let soften for 30 minutes. Put dried chiles in a blender with ½ cup soaking liquid, chipotles, vinegar, oregano, and allspice. Season with salt and sugar. Blend adobo until smooth.

Heat oil in a large skillet over medium-high heat. Toss pork in sauce; add to skillet. Cook until crispy, 4 or 5 minutes. Add pineapple and stir to deglaze pan. Season with salt. Top warm tortillas with pork and pineapple. Garnish with cilantro, serranos, and onion; serve with lime halves.

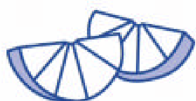
THIS PAGE AND PREVIOUS PAGE: PHOTOGRAPHS BY HEAMI LEE FOR BLOOMBERG BUSINESSWEEK (TACOS, PORK LOIN); PROP STYLIST: REBECCA BARTOSHESKY; FOOD STYLIST: MAGGIE RUGGIERO. PHOTOGRAPHS COURTESY BARBUTO (WAXMAN), COURTESY COSME (SOTO-INNES)

Quick & Easy Tortilla Soup

Kim Leali
Director of culinary operations, One Off Hospitality, Chicago



Takes
TORTILLAS



Leaves
LIME WEDGES

Why: There are always too many tortillas. This simple soup solves that problem, and it's also a good place for any leftover chicken in your fridge. *Serves 4*

4 garlic cloves
2 canned chipotle chiles, with a little sauce
15-oz. can pinto beans with liquid
1 cup canned crushed tomatoes with some juice
1 qt. chicken or vegetable stock
Salt
4 corn tortillas, cut into ¼-inch strips
¾ cup vegetable oil, for frying
½ cup queso fresco or mild feta, crumbled
Lime wedges, for serving
Shredded rotisserie chicken, sliced radishes, avocado, and cilantro, for serving (all optional)

In a small bowl, cover garlic with water, then microwave 1 minute to soften. Alternately, cover garlic with boiling water and let stand for 5 minutes. Drain the garlic and add to a blender along with the chipotles, pinto beans and their liquid, and crushed tomatoes. Purée on high speed for 2 minutes—it should look like a smoothie.

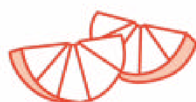
Strain into a medium saucepan, pressing down on solids with a spatula. Add stock; bring to a boil. Reduce heat and simmer soup 15 minutes, skimming, until flavors come together. Season with salt.

In a small saucepan, heat oil until shimmering (325F). Working in batches, carefully add tortilla strips; fry about 2 minutes, until crispy and golden. Transfer to a paper-towel-lined plate; season lightly with salt.

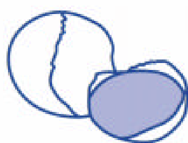
Ladle soup into bowls. Garnish with queso fresco and tortilla strips. Serve with lime wedges and, if desired, shredded chicken, radishes, avocado, and cilantro.

Coconut-Lime Macaroons

Cassidee Dabney
Executive chef, the Barn at Blackberry Farm, Walland, Tenn.



Takes
LIME WEDGES



Leaves
EGG YOLKS

Why: It's always good to have cookies on hand. Macaroons are especially simple to make; they have great texture and freeze well. This one has an ingredient you don't usually see in desserts: lime. The tartness balances the sweetness of the coconut, which I always seem to have around the house as well. *Makes 15 cookies*

1½ cups sweetened shredded coconut
⅓ cup sugar
2 tbsp. all-purpose or gluten-free flour
⅛ tsp. salt
2 large egg whites, beaten until frothy
3 tbsp. lime juice
½ tsp. pure vanilla extract
Grated lime zest (optional)

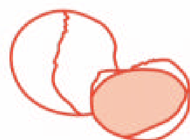
Heat oven to 350F. In a large bowl, stir coconut, sugar, flour, and salt until blended. Stir in egg whites, lime juice, and vanilla until incorporated.

Spoon tablespoon-size scoops onto a parchment-lined baking sheet. Shape scoops into mounds. Bake for about 20 minutes, rotating pan halfway through cooking. Let cool; sprinkle with lime zest if desired.

PHOTOGRAPHS BY KIM LEALI (SOUP), COURTESY MARC HAUSER (LEALI), LINDSAY FITZGERALD TOM (COOKIES), COURTESY BLACKBERRY FARM (DABNEY)

Shakshuka

Alon Shaya
Chef-owner, Safta, Denver; and Saba, New Orleans



Takes
EGG YOLKS

Leaves
CANNED TOMATO, ONION, AND GARLIC

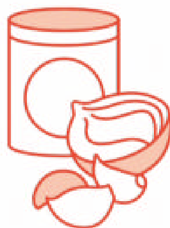
Why: Chances are, like me, you have eggs and a can of tomatoes on hand. Outside of that, you can be as creative as you'd like: Toss in your favorite vegetables or meats, along with any herbs and spices. Allow at least one egg per person, but you can also add extra egg yolks. I always serve it with homemade zhoug, a Middle Eastern green chile-cilantro sauce (Trader Joe's also makes it), but use any hearty hot sauce. *Serves 4*

3 tbsp. extra-virgin olive oil
1 pint cherry tomatoes, halved
1 small red bell pepper, stemmed, seeded, and sliced
1 small green bell pepper, stemmed, seeded, and sliced
½ medium yellow onion, thinly sliced
2 garlic cloves, chopped
2 cups canned whole tomatoes with juice, coarsely chopped
4 eggs, plus any leftover yolks
Kosher salt
¼ cup thick hot sauce, preferably zhoug

Heat oil to shimmering in a large enameled or stainless-steel skillet with a lid. Remove from heat and carefully add cherry tomatoes to avoid splattering. Return pan to moderately high heat and let char without stirring for 2 to 3 minutes. Add bell peppers, onion, and garlic; cook, stirring, until vegetables turn golden at the edges, about 15 minutes. Add canned tomatoes and cook until juices are reduced, 4 to 5 minutes. Season well with salt. Reduce heat to low and, using a spoon, make little wells in the sauce for eggs and yolks. Crack an egg or pour a yolk into each well; cover pan and cook for 4 to 5 minutes, until egg whites are set but the center still jiggles. Dollop hot sauce over eggs before serving.

Pasta Puttanesca

Tim Hollingsworth
Chef-owner, Otium, Los Angeles



Takes
CANNED TOMATO, ONION, AND GARLIC

Why: This is such a classic, and it's made with pantry staples we forget we have, such as a jar of capers or olives you picked up and used once. *Serves 4*

4 tbsp. olive oil
½ medium yellow onion, chopped
4 garlic cloves, minced
2 cups canned tomatoes with juice
8 anchovies
½ cup pitted chopped olives
3 tbsp. capers
3 tbsp. chopped pickled red peppers, preferably spicy
Salt and freshly ground pepper
1 lb. pasta
Crushed red pepper flakes
Chopped fresh herbs—whatever you have on hand—parsley, basil, and oregano, for serving (optional)

In a skillet, heat oil. Add onion and garlic and cook over moderate heat, stirring occasionally, until translucent, about 7 minutes. Add canned tomatoes and cook for 3 to 4 minutes. Add anchovies, olives, capers, and pickled peppers. Season with salt, pepper, and red pepper flakes; cook until sauce thickens, about 4 minutes.

Meanwhile, in a pot of boiling salted water, cook pasta according to package directions, until al dente. Drain, reserving some pasta cooking water. Add to sauce with a little cooking water and toss to combine. Sprinkle with herbs and serve.

CHEF'S CHOICE CHARITIES

Keep the goodwill going—support these worthy causes.

Waxman: Citymeals on Wheels
Soto-Innes, Dabney: No Kid Hungry
Leali: One Off Hospitality GoFundMe
Shaya: The Lee Initiative
Hollingsworth: The Alzheimer's Association

PHOTOGRAPHS BY COCO HOLLINGSWORTH (PASTA, HOLLINGSWORTH), ALON SHAYA (SHAKSHUKA); COURTESY SAFTA DENVER (SHAYA)

Table for One

Consider a piece of furniture that has a singular focus

By Monica Khemsurov
Photograph by Janelle Jones

At a mere 9 inches across, the Lily table looks like it might be missing an extra section or two. But welcome to the world of drink tables. Popularized in the 1920s, when people began entertaining at home more often, these small surfaces are just big enough for one cocktail—maybe two.

Prized for its portability, the drink table has made a comeback in recent years as interest in decorating has grown and home sizes have shrunk. "There's a high demand for small-space solutions, particularly for flexible items that make a big impact visually and functionally," says Jeff Hannoosh, vice president for design at West Elm. The company introduced its bestselling Martini table in 2009 and has since added almost a dozen other styles.

Even those with plenty of room are embracing the diminutive item. Many clients of San Francisco interior designer Lauren Geremia are tech CEOs who had increasingly been interested in entertaining at home. "We've been working on a lot of residential bars, wine rooms, and seating vignettes featuring drink tables," she says.

Designer Kelly Wearstler placed one on either side of the door to a client's walk-in bar on Manhattan's Upper East Side. "I see them as destination points for guests to gather," she says.

Of course, we aren't entertaining much these days, but the drink table is useful in a pandemic, too. It fits in tight corners where bigger side tables aren't within arm's reach, so there's no need to stretch for your phone or coffee while working from the sofa.

"Drink tables are incredibly useful because they're so easy to pick up," says London designer Tom Faulkner, who was inspired by the shape of lily pads to create his Lily table. It can come topped in copper ($1,370, as shown), marble, or brightly colored Venetian glass to give rooms a more textured glow.

Faulkner has found an almost endless list of uses for it. "My mum has four for her bridge parties," he says. "I keep one next to my bathtub." Ⓑ

The Garden in Your Pantry

Seeds out of stock? No problem. Look no further than the kitchen for this year's crop. *By Heather Arndt Anderson Photograph by Gabriela Herman*

BEANS
If you can't get a $3 packet of seeds, just grab a few of your favorite dried Rancho Gordos and poke them into the soil. Mung beans (far left) are even better: You can eat them as sprouts.

MUSTARD
The mustard seeds you might have for home pickling won't produce the ruffly leaves you're used to seeing braised with bacon in Southern cooking, but the smaller leaves still pack a peppery punch. And they grow fast.

CORIANDER
You might have already bought whole-seed spices for, say, a homemade curry. Save a few to sprinkle over soil and pat them down gently. A couple of weeks later, you've got a little lawn of cilantro.

KABOCHA
The first time I realized I could mine seeds from store-bought produce was when a kabocha squash volunteered itself in my compost heap and vined up my cedar hedgerow. They're *prolific*.

GOJI BERRIES
Because we need superfoods more than ever, right? Pick the seeds out of dried berries and give the shoots a trellis to climb.

PEPPERS
You can scoop the seeds out of a bell pepper—I recommend striped Holland varieties—but try walking on the wild side with the seeds of a jalapeño, poblano, or habanero. Even dried chiles work!

PROP STYLIST: DAN PELOSI

I got an early clue that these are indeed Uncertain Times when I started planning my backyard vegetable bed and found that seeds had become maddeningly tricky to source. My go-to garden center now has an arduous ordering system for tomato starts, and most of my favorite sites are completely sold out. With a little creative problem-solving, though, a lush vegetable garden is still obtainable, and you probably don't even have to leave your kitchen. Refrigerator drawers, spice racks, and pantry shelves can hold a bountiful repository of baby plants-to-be. If you don't believe me, stick some sesame or chia seeds in the dirt sometime and see what happens. And if you are already growing microgreens for salad, let the radish and broccoli grow past the sprout stage and harvest once they're mature. I've already got a thick patch of daikon and lentils in my garden that I planted only a month ago.

Here are a dozen staples that, if tended, can produce your own green quarantine.

GARLIC

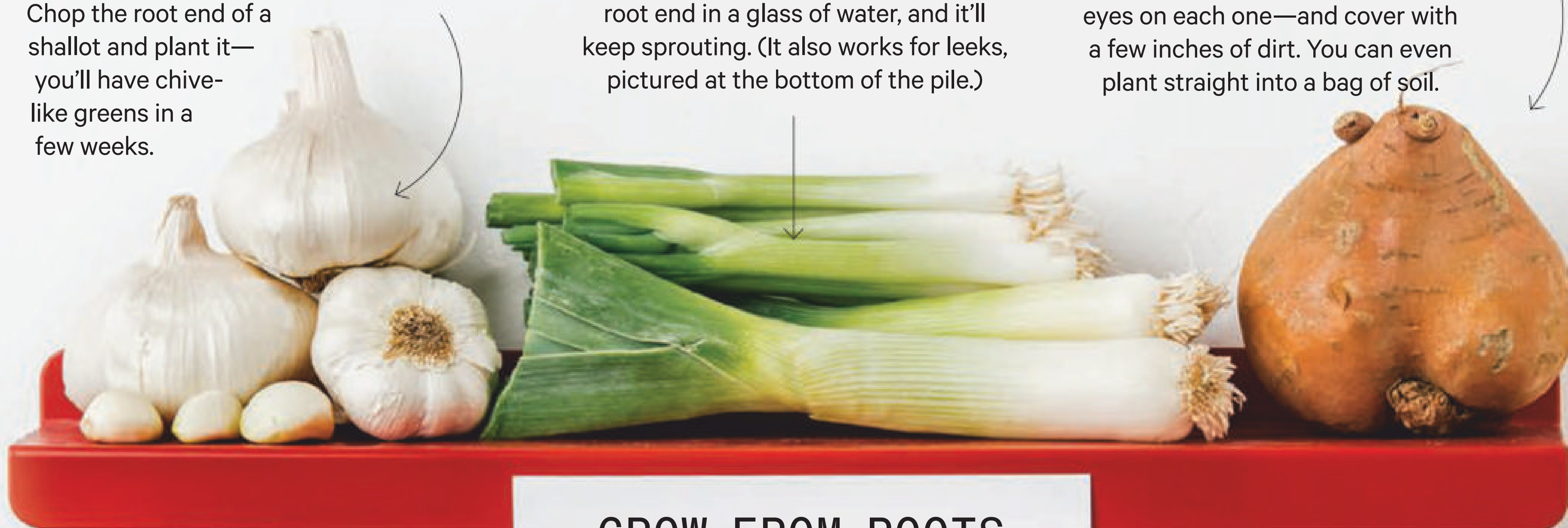
It takes patience, but if you buy a head of garlic and bury each clove pointy side up, you can harvest next year. No time? Chop the root end of a shallot and plant it—you'll have chive-like greens in a few weeks.

SCALLIONS

Chef David Chang recently shared this trick from his mom on Instagram: Snip the scallion's greens and put the root end in a glass of water, and it'll keep sprouting. (It also works for leeks, pictured at the bottom of the pile.)

SWEET POTATO

Just one can yield several of the root vegetable. Cut it into hunks—make sure there are two or three eyes on each one—and cover with a few inches of dirt. You can even plant straight into a bag of soil.



GROW FROM ROOTS

MINT

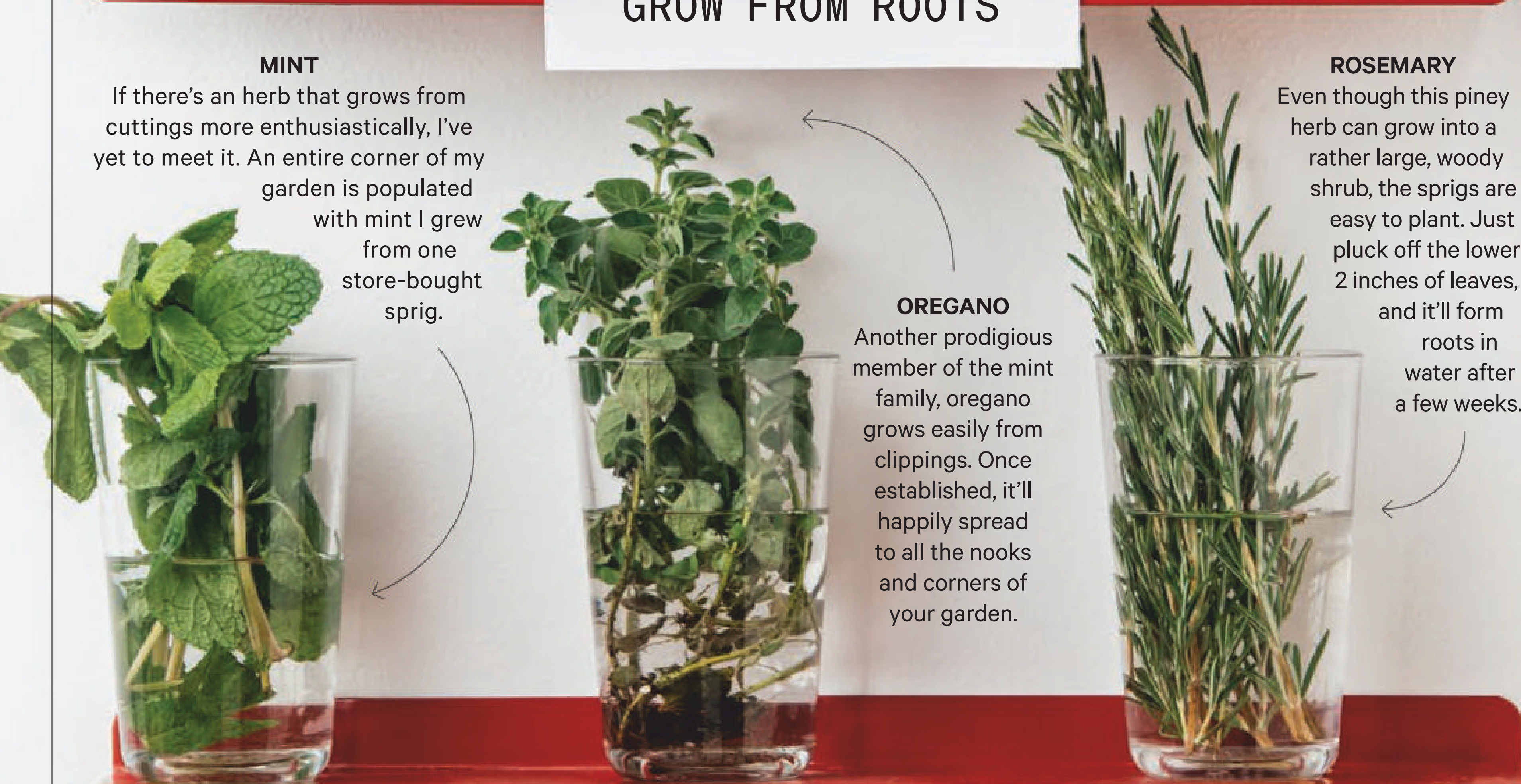
If there's an herb that grows from cuttings more enthusiastically, I've yet to meet it. An entire corner of my garden is populated with mint I grew from one store-bought sprig.

OREGANO

Another prodigious member of the mint family, oregano grows easily from clippings. Once established, it'll happily spread to all the nooks and corners of your garden.

ROSEMARY

Even though this piney herb can grow into a rather large, woody shrub, the sprigs are easy to plant. Just pluck off the lower 2 inches of leaves, and it'll form roots in water after a few weeks.



GROW FROM CUTTINGS

Agave Keeps On Giving

There's a world waiting beyond tequila and mezcal

By Brad Japhe

Tequila tends to command plenty of excitement this time of year, though American drinkers don't limit their enthusiasm to Cinco de Mayo: The U.S. imports more of Mexico's national liquor than any other country. Since 2002 the volume of consumption has swelled 158%, according to the Distilled Spirits Council of the U.S., to 20 million 9-liter cases last year. That's a lot of margaritas.

But many Americans have been thirsting for something more. I began exploring smoky mezcal around the start of the last decade, and by the late 2010s I happily watched as the liquid commodity of Oaxaca made its way into the mainstream. Fuller in flavor and less industrial than its tequila counterparts, it seemed custom-built for the connoisseur. Now, even that once-esoteric liquor runs the risk of becoming passé with newly trending categories of agave distillates you may have never heard of, let alone sipped. They encompass a wide range of flavor profiles, spanning metallic to marzipan, cilantro to smoked meat. Open a few of these bottles, and you'll invigorate your senses while elevating your home bar.

Technically any agave-based spirit—even tequila—is a mezcal. (The name derives from the Nahuatl words *metl ixcalli*, or "cooked agave.") But like Scotch is to whiskey, or Champagne is to bubbly, a 1994 *denominación de origen* limits mezcal to specific regions (now nine), though it can come from any variety of the plant. Tequila, granted its DO in '74, can be made only from *Agave tequilana Weber var. azul*, aka blue agave.

Raicilla, Mexico's newest DO-protected spirit as of June 2019, hails mainly from the southwestern parts of Jalisco, such as Puerto Vallarta, and can exude a slightly salty maritime *terroir*. The designation is so new, production methods that stretch back centuries are still being codified: Four types of spiky agave (producers are debating if there should be five) are used. Their hearts, or *piñas*, are roasted in wood-burning clay ovens or sunken pits before spontaneous fermentation in small vats—stone, plastic, or otherwise. Unlike mezcal, which is distilled twice, the resulting liquid is often distilled only once.

When regulatory bodies solidify the raicilla DO, expect a boom, says Clayton Szczech, an agave spirits specialist in Mexico City: "The region is in close proximity to Guadalajara and its existing large spirits companies." In the meantime, get your hands on Mezonte Raicilla Japo ($170). It's a curiously savory sip with notes of pancetta and cotija cheese and an herb-garden finish. La Venenosa—a brand that has seven expressions, each sourced from a distinct subregion—is more affordable; the black-labeled Sierra Occidental ($65) bristles with citrus, black pepper, and a pronounced acidity.

Bacanora, outlawed as moonshine for much of the 20th century because of a regional prohibition, was granted a DO in 2000. Made from only Agave Pacifica (*A. angustifolia*) in Sonora, which borders Arizona and the Gulf of California, its desert provenance lends drier, often less smoky notes. (The piñas don't need to be cooked in a pit before pressing; some producers use autoclaves or boilers.) The adventurous will want to seek out complex Rancho Tepua ($65) or Yoowe ($70), which adds a faint salinity to the minty, almost tinny fray.

Then there's sotol, which a gringo could be forgiven for thinking is also a mezcal. "Modern biology has taught us that the sotoles—genus *Dasylirion*—are not, in fact, agaves," Szczech says of the spindly "desert spoon" shrub. Sotol "can be made from many different species of Dasylirion, and differences in taste between desert and forest can be quite dramatic." Its gentle smoky finish comes from various woods—acacia, mesquite, oak—used to roast the plant in the northern regions of Chihuahua, Durango, and Coahuila. (There are even some unofficial Texan versions.) A good start is Fabriquero Sotol Durango ($70), a 90-proof spirit with a full body and an echo of tropical fruit balancing the smoldering notes at its core. When you're ready to dig deeper, grab all three single-species bottles of La Higuera ($35 to $48). Identical production techniques mean you can isolate the discernible differences among sotol varietals by sipping them side by side.

"The wealth of raw material and huge geographical area [of provenance] could make sotol the next big thing," Szczech says. I've tasted hints of cured ham, curdled milk, and campfires in alternating sips. These sorts of flavors are indeed head-scratching to the casual drinker—tasting notes that serve as sensory warning. To any agave enthusiast, however, they read more like a promise than a threat. B

PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (AGAVE); COURTESY COMPANIES (BOTTLES)

A New Layer Of Flavor

This skillet pushes beyond traditional kitchen boundaries
Photograph by Hannah Whitaker

The world's sauté masters are divided between cast-iron classicists, who worship the material's heat-holding properties, and carbon-steel groupies, who appreciate a lighter piece of cooking equipment. The A$150 ($96) Aus-Ion Satin skillet, from Solidteknics Pty Ltd. in Australia, aims to bring together both parties. Made from low-carbon wrought iron, it can also pair with an ingenious Flaming skillet insert that has a perforated bottom. Put it into the skillet for stovetop cooking, or use it solo on an outdoor grill.

THE CASE
The Aus-Ion Satin sears food with the same proficiency and dependability as a cast-iron pan, but it's about half the weight. Fashioned from seamless steel, it also distributes heat more evenly. But it's the Flaming skillet insert, designed with star Australian chef Neil Perry, that pushes boundaries. The holes lift your food off the surface of the skillet so you can separate pan juices, but the sturdy insert can also go onto a grill, where foods can benefit from a little char of fire. It's ideal for smaller ingredients such as shrimp and slim vegetables that tend to fall through the grates. *A$150 (Satin skillet), A$200 (Flaming skillet); solidteknics.com*

THE COMPETITION
- Lodge Manufacturing Co., the venerable Tennessee-based maker of cast-iron and carbon-steel pans, has been around since 1896. And its wares are affordable: A 10.25-inch cast-iron skillet is $21.
- Notable chefs such as Tom Colicchio are investors in direct-to-consumer line Made in Cookware, which specializes in blue-carbon steel—"blue" being a heat treatment to inhibit corrosion. Its 10-inch $69 pan is exceptionally light.
- Smithey Ironware Co. has garnered a reputation for handsome cookware. A 12-inch carbon-steel Farmhouse skillet ($275) is hand-forged by the Charleston, S.C.-based blacksmith Robert Thomas Iron Design. The long handle evokes an antique fire tool.

Good Riddance To Energy Assets

By Brooke Sutherland

There's never been a better time to not be in the energy business.

With the coronavirus pandemic crippling demand and a dearth of storage capacity complicating the technicalities of trading contracts, the price of crude oil crashed into negative territory for the first time on April 20. But when industrial conglomerate Dover Corp. held its earnings call the next day, executives barely touched on the subject. That's because Dover—a $13 billion company that makes gas station pumps, bar code printers, and refrigerated displays for grocery stores, among other things—spun off its Apergy Corp. energy business in May 2018.

ILLUSTRATION BY GEORGE WYLESOL

It's a case of spectacularly good, if somewhat accidental, timing. Former Dover Chief Executive Officer Bob Livingston had actually expressed concern in 2017 about divesting the energy assets too early, lest he deprive shareholders of the benefits of a recovery from the oil price rout in 2015 and 2016. But with some encouragement from activist investor Third Point LLC, he moved ahead anyway, making this a success story for the push to streamline industrial conglomerates and steer them away from more volatile businesses. Since the split, shares of Dover are up about 20%, more than triple the gains of the S&P 500 index, while those of Apergy are down about 80%.

Dover isn't immune to the pandemic. Shuttered restaurants are unlikely to spring for its food-service equipment anytime soon, and fashion retailers are going to spend less on its digital-textile-printing products. And Dover does still sell pumps to the energy sector. With all the uncertainty, it withdrew its earnings guidance for the year. But the company is clearly in a much better position than it would have been without the breakup, says Melius Research LLC analyst Scott Davis. Earnings per share declined more than 30% from peak to trough during the last oil price slump. In contrast, while analysts have been aggressively cutting their earnings estimates for Dover, they're modeling a decline on average of only about 7% in 2020.

This kind of resilience in the face of market swings is precisely why industrial conglomerates have spent much of the past five years spinning off and selling assets. Some companies have moved more slowly: Emerson Electric Co. still has outsize exposure to the energy sector and a weird amalgamation of businesses ranging from automation equipment to garbage disposals. Eaton Corp. has yet to divest its volatile vehicle unit despite analysts' calls for it to do so. General Electric Co. is stuck with a 37% stake in oilfield-services company Baker Hughes Co. that's dropped sharply in value.

Dover's ability to weather the crisis will send a message to those still sitting on volatile businesses, energy-related and otherwise: It's better to get out while you can. Ⓑ

—Sutherland is a columnist covering deals and industrial companies for Bloomberg Opinion

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