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Bloomberg Businessweek
June 11, 2018 ● ASIA EDITION

How to Fix a Fragile System

Before the next financial crisis

By Mohamed A. El-Erian 10

◀ Toys "R" Us paid $400 million in interest on $5 billion of debt every year for a decade

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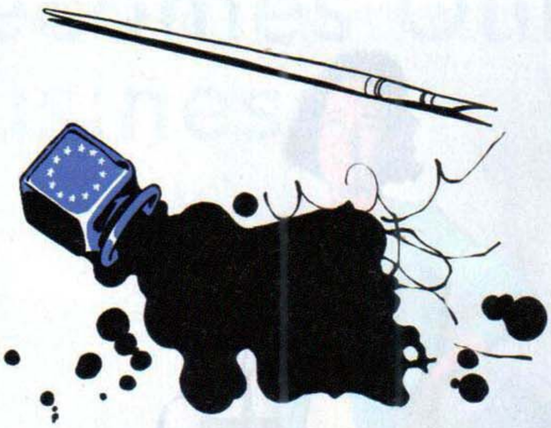


▶ May's Search for Nays

Theresa May has to persuade Britain's House of Commons to reject several amendments to the European Union Withdrawal Bill passed in the House of Lords, including one aimed at keeping the U.K. in the EU customs union. Failure could jeopardize her already shaky hold on power.

▶ President Donald Trump and Supreme Leader Kim Jong Un are scheduled to meet at the Capella Hotel in Singapore on June 12.

▶ The E3 Expo, the video game industry's premier conference, runs June 12-14. Look for rivals Nintendo Co. and Sony Corp. to announce new games.

▶ South Korea holds local elections on June 13, plus by-elections to fill 12 vacancies in its National Assembly.

▶ South Africa's scandal-plagued Gupta family will auction some assets to pay creditors. The family has denied corruption allegations.

▶ Despite a challenge from the U.S. Senate, which voted in May to maintain net neutrality protections, the regulations are set to expire on June 11.

▶ The Federal Reserve's rate-setting committee meets on June 12-13. Expect it to raise rates a quarter-point, to between 1.75 percent and 2 percent.

■ THE BLOOMBERG VIEW

Import Food—or Labor?

● The U.S. visa system for temporary agricultural workers is broken

American farmers have been complaining of labor shortages for several years. The complaints are unlikely to stop without an overhaul of immigration rules for farmworkers.

Congress has stymied efforts to create a more straightforward visa for agricultural workers that would let foreign workers stay longer in the U.S. and change jobs within the industry. If this doesn't change, American businesses, communities, and consumers will be the losers.

Perhaps half of U.S. farm laborers are undocumented immigrants. As fewer such workers enter the country, the characteristics of the agricultural workforce are changing. Today's farm laborers, while still predominantly born in Mexico, are more likely to be settled rather than migrating and more likely to be married than single. They're also aging. At the start of this century, about one-third of crop workers were over the age of 35. Now more than half are. And picking crops is hard on older bodies. One oft-debated cure for this labor shortage remains as implausible as it's been all along: Native U.S. workers won't be returning to the farm.

Mechanization isn't the answer, either—not yet, at least. Production of corn, cotton, rice, soybeans, and wheat has been largely mechanized, but many high-value, labor-intensive crops, such as strawberries, need labor. Even dairy farms, where robots do a small share of milking, have a long way to go before they're automated.

As a result, farms have grown increasingly reliant on temporary guest workers using the H-2A visa to fill the gaps in the workforce. Starting around 2012, requests for the visas rose sharply; from 2011 to 2016 the number of visas issued more than doubled.

The H-2A visa has no numerical cap, unlike the H-2B visa for nonagricultural work, which is limited to 66,000 a year. Even so, employers complain they aren't allotted all the workers they need. The process is cumbersome, expensive, and unreliable. One survey found that bureaucratic delays led the average H-2A worker to arrive on the job 22 days late. The shortage is compounded by federal immigration raids, which remove some workers and drive others underground.

Petitioning each year for laborers is no way to run a business. In a 2012 survey by the California Farm Bureau Federation, 71 percent of tree-fruit growers and almost 80 percent of raisin and berry growers said they were short of labor. Some western farmers have responded by moving operations to Mexico. Without steady access to a reliable workforce, more will be tempted to move south. From 1998-2000, 14.5 percent of the fruit Americans consumed was imported. Little more than a decade later, the share of imports was 25.8 percent. Rural U.S. communities that might have benefited didn't.

In effect, the U.S. can import food or it can import the workers who pick it. Ⓑ

For more commentary, go to bloomberg.com/opinion

ILLUSTRATION BY JONATHAN DJOB NKONDO

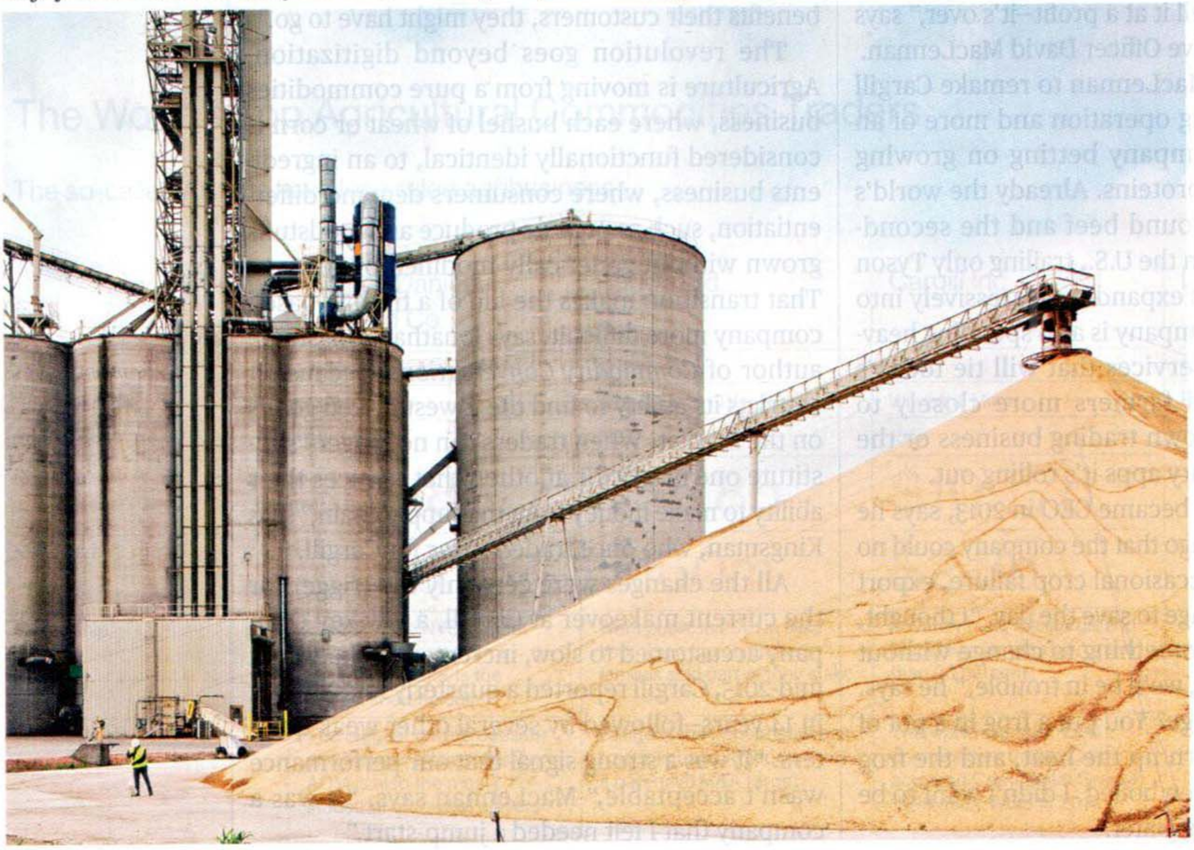
Can a 153-Year-Old Cargill Reinvent Itself?

● In the internet age, America's largest private company needs to be more than a middleman

William Wallace Cargill pioneered the modern agricultural trading industry in 1865 when he established a string of grain warehouses across the American Midwest. Having a deep-pocketed buyer that could take delivery locally gave farmers an easy way to quickly get cash for their crops, lest they rot in the field waiting on a sale or transport to a faraway market. The ability to store huge amounts of grain also gave Cargill the flexibility to time his own sales to maximize the spread between what he paid farmers and what he could get from distant food processors or exporters.

That business model of playing the middleman between farmers and their ultimate customers has enjoyed a lucrative 153-year run, turning Cargill Inc. into the largest privately held company in the U.S. It had revenue of $109.7 billion in 2017 and employed about 155,000 workers–more than the population of Dayton–in offices across 70 countries. And the roughly 100 members of the founding Cargill and MacMillan families who still own the company have become fabulously wealthy, with 14 billionaires among the ruling clan, one of the largest concentrations of wealth in any family-controlled business anywhere in the world.

Yet Minnesota-based Cargill's business is falling victim to a scourge that's already upended media, retailing, and other venerable industries: digital disruption. Cargill long made fat profits by having far more information about global commodity prices than the local farmers it negotiated with or the food companies it sold to. But today, even a small Iowa farmer with a smartphone or a tablet can get real-time data about weather conditions and prices facing his Brazilian counterparts. This change has decreased farmers' dependence ▶



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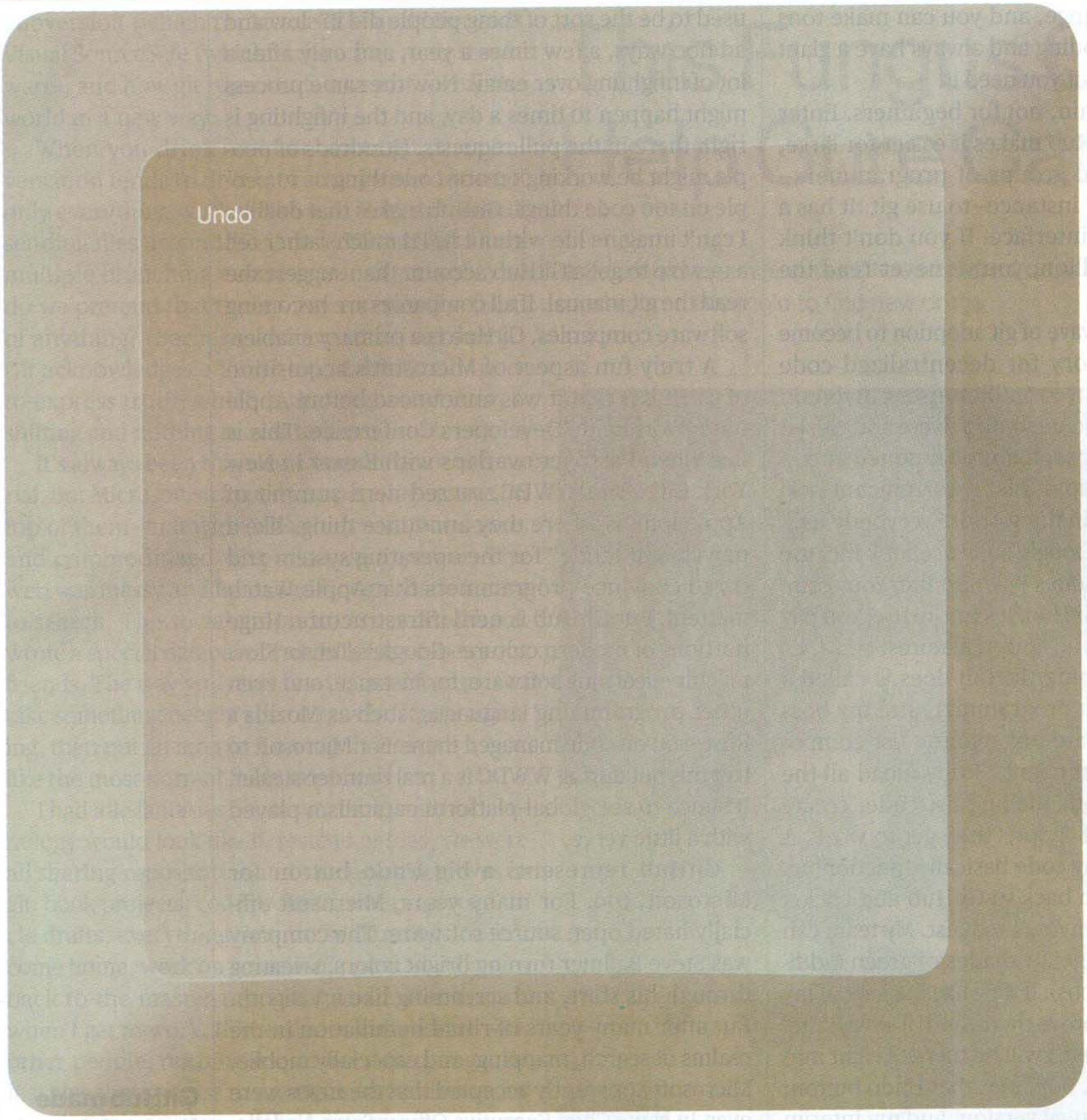
◀ Soybeans at a Cargill grain elevator in Albion, Neb.



● By buying GitHub, Microsoft may be able to reset its relationship with programmers

Oh, GitHub, we knew ye...pretty well, actually, over the past decade. At least programmers did. To us you've been comically unavoidable, from your "Octocat" mascot to the fake, fully furnished Oval Office at your San Francisco headquarters, complete with a special Octocat-emblazoned rug that proclaimed "United Meritocracy of GitHub." Of course, that rug came up a lot when people debated the concept of meritocracy. And part of the reason they were debating it was the sexual harassment investigation that led one of your co-founders to resign—#MeToo before #MeToo. The company seemed to normalize after that, though we also knew you'd been looking for a new boss for a while. Congrats on your $7.5 billion purchase by Microsoft Corp.!

To civilians, it can be baffling what in God's name GitHub Inc. does or why it's worth so much. The key thing to understand is that git is free software and GitHub makes it easier to use that software. Git keeps track of changes in sets of files. The first version, written by Linux creator Linus Torvalds, was released in 2005.

Git isn't for beginners. You typically use it from a command line, as opposed to with a mouse. Want to start tracking changes? Go into any directory and type "git init," and you're off to the races. From there, git lets you get Borgesian about your files. Everyone can make his own "branch" (copy) off the master tree of code and change whatever the hell he wants without breaking anything—git keeps track of it all. This means everyone can have a ▶

Edited by
Jeff Muskus, Jim Aley, and Julie Alnwick

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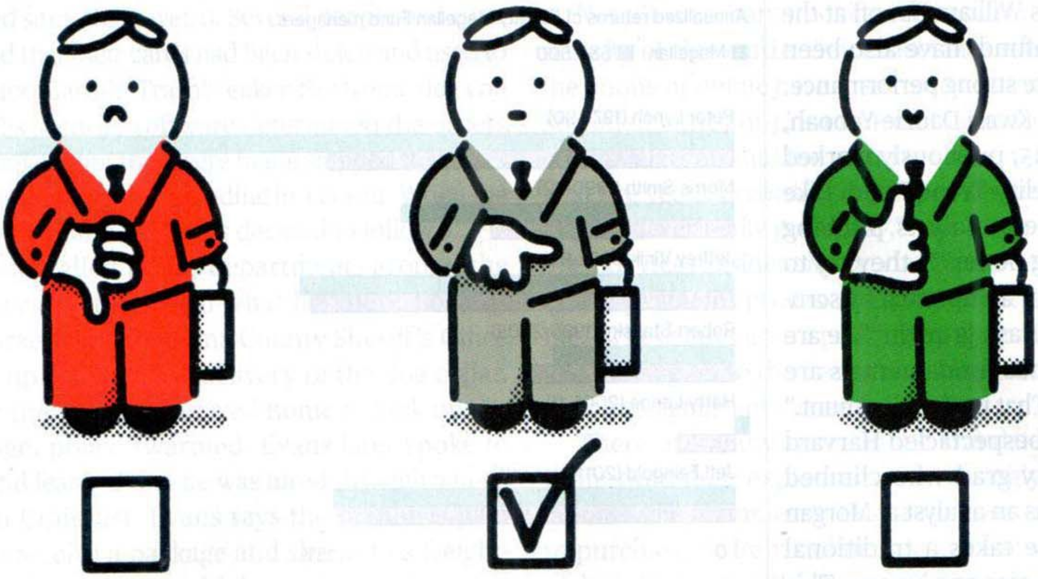

ILLUSTRATION BY THOMAS COLLIGAN

Pretty Good. Not Good Enough

● Fidelity Magellan Fund has made a comeback, but investors are skeptical of active managers

Jeff Feingold runs Fidelity Magellan, once the world's most famous mutual fund. But there's a good chance you've never heard of him, which says a lot about the plight of active money managers these days.

From the late 1970s through the '80s, most Americans who invested in the stock market knew the man behind Magellan. Peter Lynch posted market-beating returns of 29 percent a year, leading many ordinary investors to think the path to riches was choosing the right money manager. Lynch's successors, including Jeffrey Vinik and Robert Stansky, got plenty of media ink in the 1990s, even if they never came close to matching Lynch's numbers.

Now, indexing is king, and many individual investors would rather find the lowest-cost benchmark tracker than bet on hot managers. Magellan's journey from icon to afterthought may be the starkest example of the eroding trust in professional stockpickers. Feingold's record is strong: Under his tenure, which began in September 2011, Magellan has bested the S&P 500 every full year but 2016. Annualized gains have averaged more than 15 percent, currently putting the fund just a bit ahead of the index. The fund has outdone more than 90 percent of funds with a similar investing style over the past one, three, and five years.

What Magellan isn't doing is winning cash from customers. Magellan was once so popular that Fidelity closed it to new investors in 1997. Assets topped out at almost $110 billion in 2000, when it was the largest fund in the business. But investors have pulled money out for 18 straight years, even though Magellan reopened to new investors in 2008. "If we do our job well and generate alpha, hopefully that is what will matter to shareholders," says Feingold in a conversation at Fidelity headquarters in Boston's financial district. Alpha means beating the index. "People expect us to perform. They expect we will beat the benchmark every year."

At $17.5 billion, the fund is about the same size it was when Feingold assumed the helm. This actually obscures the outflow of cash, because the fund's holdings grew in value over the same period, offsetting the redemptions. Fidelity's biggest equity fund, at $150 billion in assets, is now the Fidelity 500 Index Fund, a passive one that tracks the S&P. There are glimmers of a turnaround: Magellan in March had its first month of net deposits in a decade, according to Morningstar Inc., and its overall redemptions this year have slowed.

Still, the tide is against it. Newly released data show that actively managed U.S. stock funds and ETFs saw $67 billion in outflows this year through April. Their passive counterparts hauled in $59 billion. "You need a compelling argument to get investors to buy your fund, and it isn't clear Magellan has one," says Lawrence Glazer, managing partner at ▶

Who's Holding Italy Back?

● Populist politicians indulging pensioners are ruining the country for the young

At just 31 years old, Luigi Di Maio, head of Italy's populist Five Star Movement, is no one's image of a gerontocrat. Yet since helping form a new coalition government, Di Maio has given priority to rolling back a gradual increase in Italy's retirement age—even though doing so would help older Italians while adding to the debt burden on his own generation.

Dismantling a money-saving 2011 pension measure is one of a handful of issues on which Di Maio sees eye to eye with his coalition partner, Matteo Salvini, 45, of the right-wing, anti-immigrant League party. Asked earlier this year about former Prime Minister Silvio Berlusconi's goal of preserving the "good parts" of the 2011 measure, Salvini said, "It's no problem, because there are no good parts in it."

It's not easy to be young in Italy, even apart from the pension burden. The country's economic output is smaller now than it was in 2004, and employment policies are skewed to protecting jobs, not creating them. The number of Italians registered ▶

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Edited by Cristina Lindblad

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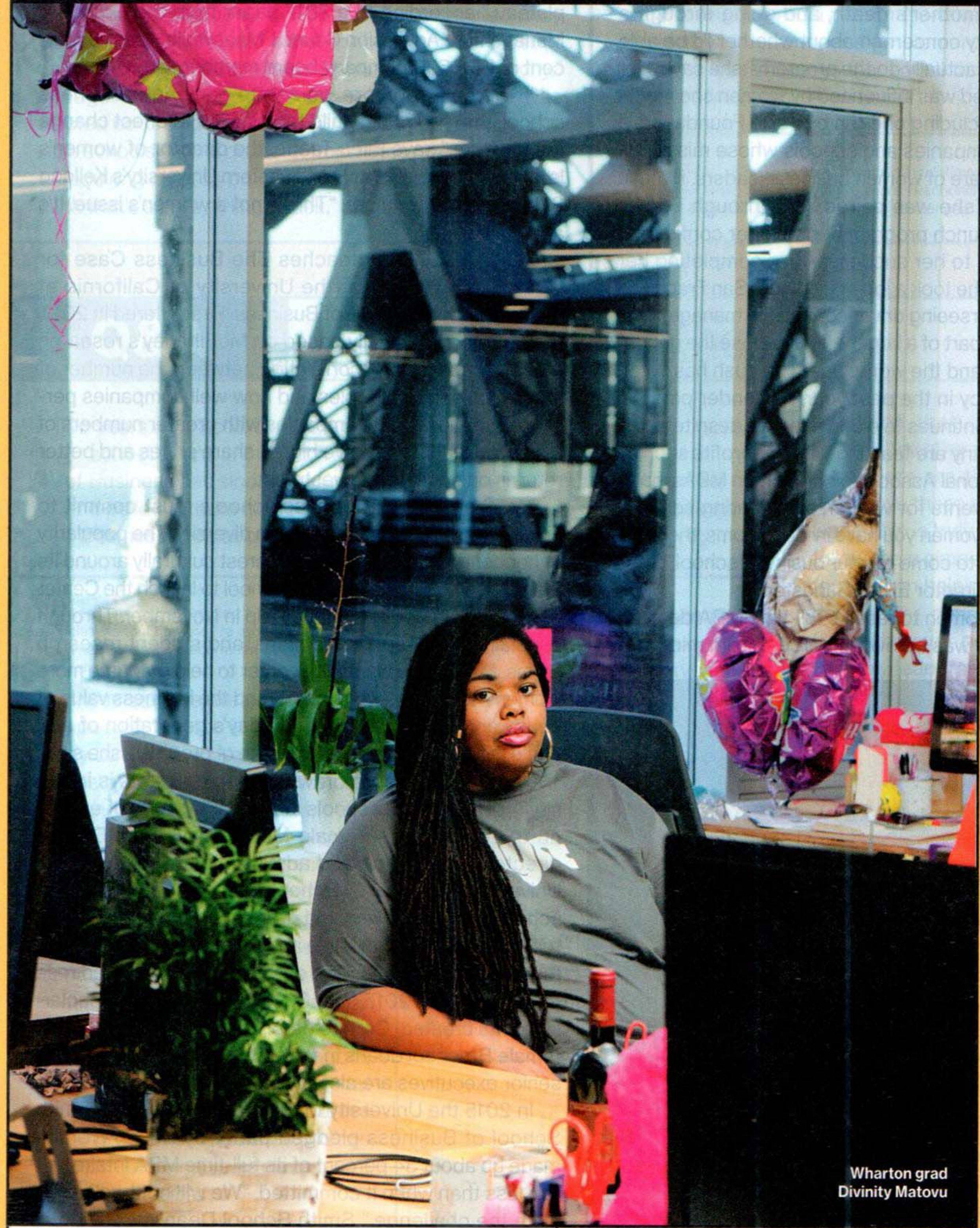

Wharton grad Divinity Matovu

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Investing in Women MBAs

Parity in applications and degrees awarded continues to elude B-schools

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Edited by Dimitra Kessenides

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OUT OF THE SHADOWS AT CHÂTEAU LAFITE

As a journalist, Saskia de Rothschild covered everything from the art world to prison inmates. Now she's taken the reins at her family's global wine empire
By Elin McCoy

Photograph by Marlène Awaad

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Edited by Chris Rovzar

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