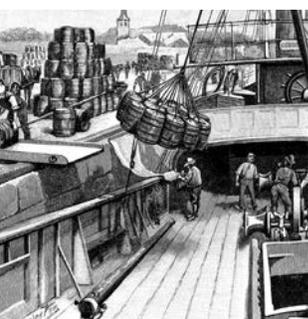


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NEWS IN CONTEXT



September 2016

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**SPECIAL
U.S.
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HOW THE U.S. ELECTS ITS PRESIDENTS

BY ANGELA GREILING KEANE



Photo: Marc Sercia/Getty Images

The U.S. Constitution lays out just three requirements to be eligible to become president: You must be at least 35 years old, have lived in the U.S. for at least 14 years and be a natural-born citizen. Not much else about becoming president is simple. Americans have the longest, most expensive and arguably most complex system of electing a head of state in the world. And after all the debates, primaries and conventions, the person who gets the most votes can still lose. It's a system that baffles non-Americans — and many Americans, too.

THE SITUATION

The two main candidates, Democrat Hillary Clinton and Republican Donald Trump, are spending time and money in “swing states” that will decide the Nov. 8 election. That’s because the president is selected via a quirky mechanism called the Electoral College, created by the nation’s founders as a compromise between those who favored a direct popular vote and those who wanted lawmakers to pick the president. Every state is assigned as many Electoral College votes as it has members of Congress, a formula that amplifies the importance of small states. In the early 19th century, states seeking to maximize their impact adopted a winner-take-all approach that awards all Electoral College votes to whichever candidate wins the most votes in that state on Election Day. (Maine and Nebraska are the only exceptions.) The electoral votes of many states — including reliably Democratic California or Republican Texas — can be taken for granted. So the election normally comes down to whether states such as Florida, Ohio and North Carolina favor the Democrat or the Republican. In this unusual election, there are more “battleground” states — including Arizona and Pennsylvania — which are being closely watched to see if they might switch sides.

THE BACKGROUND

The U.S. has had an elected president since the Constitution went into effect in 1789. The contest is held every four years on a Tuesday in November. Since Abraham Lincoln won the job in 1860, all presidents have been members of the Republican or Democratic parties. Third-party candidates have a hard time getting on state ballots for the November general election and have never done better than the 27.4 percent garnered in 1912 by former Republican President Theodore Roosevelt, then running on the Bull Moose Party ticket. The two candidates representing the main parties on Election Day survive a long series of state-level primaries (votes by ballot) and caucuses (votes by a show of hands or by clustering all the candidate’s supporters in one place in the room) held from February through June. Then each state selects delegates to send to the Democratic and Republican conventions, where they normally translate the popular votes into formal nods for their party’s November candidate. Democrats also have “superdelegates,” lawmakers, governors, past presidents and national party officials who have the freedom to back any candidate, regardless of how their states voted. In recent decades, conventions have served as made-for-TV spectacles to laud the de facto nominee and that person’s pick to be the vice presidential running mate.

THE ARGUMENT

The winner-take-all system caused the Electoral College to choose presidents who did not win the overall vote in 1876, 1888 and 2000, when Republican George W. Bush beat Democrat Al Gore after a weeks-long recount. After each such election, there’s a renewed push to make the total tally of ballots decisive, but states, especially small ones, are unwilling to switch, citing the loss of sway. Since the early state elections are the most decisive, critics say that the process favors voters in rural Iowa and New Hampshire, traditionally the first two states to vote. This means urban issues get short shrift. Defenders say that small states and farm areas would otherwise be overlooked. There’s broad agreement that money plays too big a role in campaigns. It’s estimated that each party will spend more than \$1 billion by Election Day, most of it on advertising. So the winners in this long process include local television stations that reap these ad dollars and the political junkies who love to watch the saga unfold.

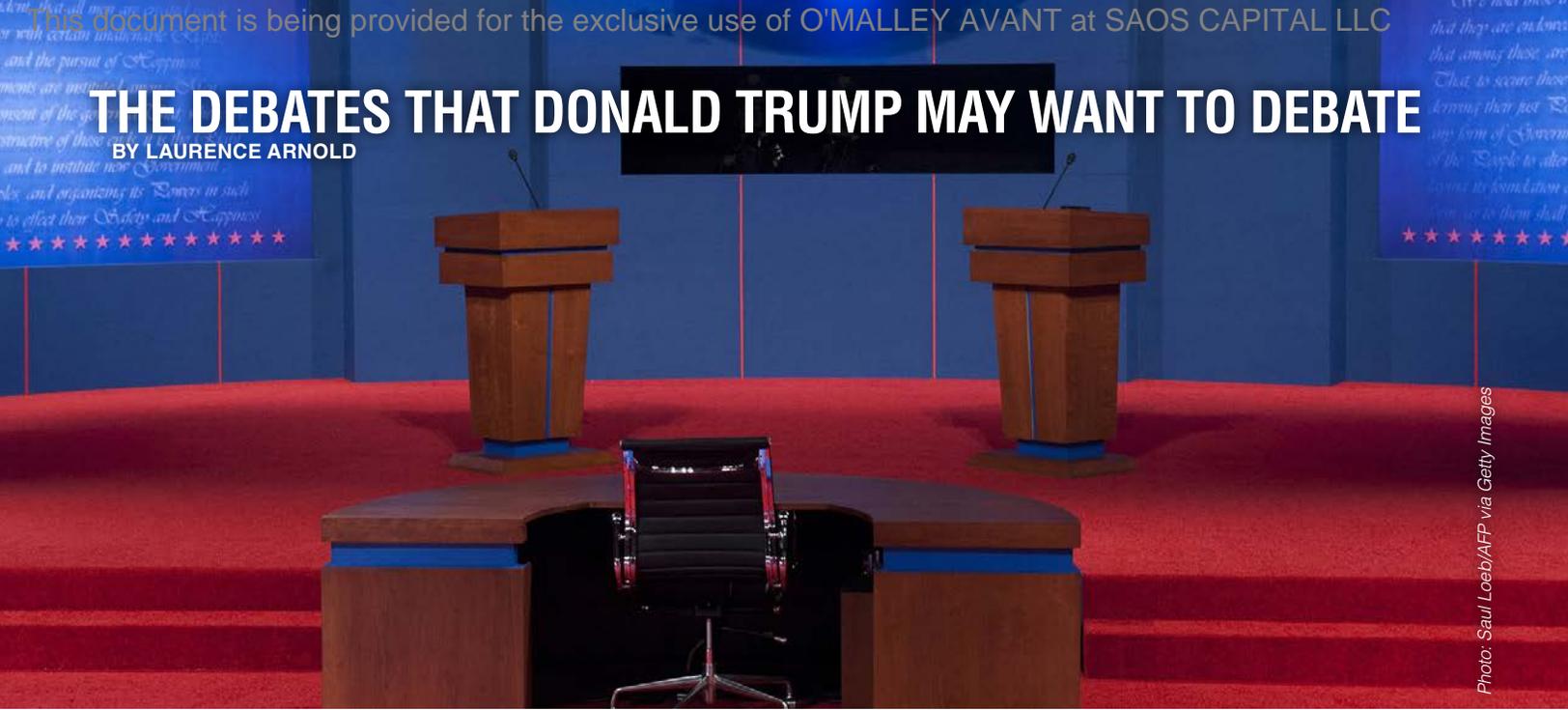


Photo: Saul Loeb/AFP via Getty Images

THE DEBATES THAT DONALD TRUMP MAY WANT TO DEBATE

BY LAURENCE ARNOLD

The televised debates between Donald Trump and Hillary Clinton figure to be must-watch television — assuming they happen. There's been minimal debating over presidential debates since the creation in 1987 of an independent commission that sets the dates and rules. But Trump has criticized the timing of this year's debates, two of which will compete for viewers with nationally televised professional football games. Trump also expressed concern about the debate moderators, who are picked by the commission. He says he might seek to negotiate some details, fueling speculation he could choose to skip one or all of the debates.

WHAT'S THIS YEAR'S DEBATE SCHEDULE?

Clinton and Trump are scheduled to participate in three 90-minute debates:

- Sept. 26 at Hofstra University in Hempstead, New York. Moderator poses questions during six 15-minute segments on different topics.
- Oct. 9 at Washington University in St. Louis. Audience of uncommitted voters poses questions, as does a moderator using “social media and other sources.”
- Oct. 19 at the University of Nevada-Las Vegas. Format similar to first debate.

Their running mates, Timothy Kaine and Mike Pence, are scheduled to debate on Oct. 4 at Longwood University in Farmville, Virginia. That 90-minute debate will be led by a moderator and divided into nine topic segments of 10 minutes each.

WHO SETS THE DATES AND FORMATS?

Starting with the 1988 presidential election, the nonpartisan Commission on Presidential Debates has arranged presidential and vice presidential debates and secured sponsorships from companies and foundations. The Republican and

Democratic parties created the commission in 1987 because, as the commission writes, the “hastily arranged” debates in 1984 “reinforced a mounting concern that, in any given election,” the candidates might fail to face off.

DOES THE COMMISSION NEGOTIATE WITH THE CAMPAIGNS?

The commission generally is open to negotiating over details such as whether the candidates will stand or sit and who gets the first question. Larger matters, such as dates and the identity of moderators, have generally not been open to negotiation after being set by the commission.

HOW ABOUT THE REPUBLICAN AND DEMOCRATIC PRIMARY DEBATES?

The commission has no role in the primaries. The parties and individual campaigns are responsible for planning and participating in the legions of primary debates.

WILL THIRD-PARTY CANDIDATES BE INCLUDED?

Under the debate commission's rules, candidates need to be drawing support from an average of 15 percent of voters in five national political polls in order to win a spot on stage. In mid-August,

Libertarian candidate Gary Johnson was drawing support from about 10 percent of voters, and Green candidate Jill Stein was getting around 4.5 percent. The Libertarian and Green parties went to court over the debate-participation rules, but a judge rejected their challenge. The last independent or third-party candidate to win a place was Ross Perot in 1992, before the commission instituted its 15 percent threshold.

HOW IMPORTANT WILL THE DEBATES BE?

Though most voters could be already decided by then — and two states, Minnesota and South Dakota, start early voting three days before the first debate — the debates might be Trump's best chance to narrow the lead that Clinton has opened in most polls since the party conventions. He was an effective debater during the crowded Republican primaries, labeling his opponents with unflattering nicknames and usually grabbing more than his share of microphone time. But a one-on-one debate will be a different challenge for Trump, requiring greater mastery of policy and a more polished demeanor. He also showed a willingness to skip a debate when he felt that served his purposes.

TRUMP'S WARNINGS ABOUT A 'RIGGED' ELECTION

BY LAURENCE ARNOLD

Donald Trump, a man who prizes winning above all, shows no interest in being an agreeable loser, should it come to that. The Republican U.S. presidential nominee complains about a "rigged" system favoring Democrat Hillary Clinton and says he will lose in Pennsylvania, a battleground state, only "if cheating goes on." The fact that Clinton has opened a commanding lead in polls of Pennsylvania voters hasn't squelched talk of a fixed election, since Trump and many of his supporters suggest that polls, too, are rigged against him. Even though the U.S. supplies advisers and observers to monitor democratic elections around the globe, Trump is far from the first politician to question the integrity and fairness of America's own voting. He may, however, be the first presidential candidate to suggest before Election Day that the results could be dishonest.

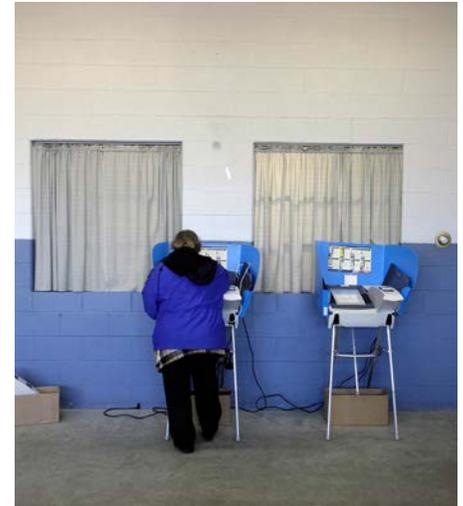


Photo: J.D. Pooley/Getty Images

WHAT DOES TRUMP SAY MIGHT HAPPEN?

He's urging supporters, at least in Pennsylvania, to monitor polling stations to "make sure other people don't come in and vote five times." Republican strategist Roger Stone, a Trump supporter, has suggested that since voting machines "are essentially a computer," they can be programmed to give false results.

WHY IS TRUMP SINGLING OUT PENNSYLVANIA?

It's one of 17 states that won't require voters to show some form of identification. Plus, there's some history. Conspiracy theories shared on the Internet held that fraud cost Republican Mitt Romney votes in sections of Philadelphia in the 2012 election. (Those theories were debunked.) On Election Day in 2008, two members of the New Black Panther Party, wearing military gear, stood outside a Philadelphia polling place, prompting a federal voter-intimidation lawsuit against the men and their black nationalist organization. Republicans howled when the Justice Department dismissed most of the case.

WHY WON'T PENNSYLVANIA VOTERS HAVE TO SHOW PHOTO IDS?

Photo-ID requirements for voters are a recent innovation, part of a surge in new voting restrictions passed by state governments controlled by Republicans after the Supreme Court stripped the federal government of the right to block them preemptively. Eight states have strict photo-ID requirements. Pennsylvania passed one, but a state judge struck it down in 2014.

WHAT'S THE ARGUMENT AGAINST REQUIRING PHOTO IDS?

Not everybody has a driver's license, passport or other photo ID, and acquiring one can take effort or money. That's why critics say photo-ID requirements have a disproportionate impact on blacks and Hispanics, the elderly, students and people with disabilities. The judge who overturned Pennsylvania's photo-ID law wrote that it would "disenfranchise hundreds of thousands of valid voters." Photo IDs are required of voters in some other countries, but they're also easier to get.

HOW BIG A PROBLEM IS VOTER FRAUD?

It's far from impossible to cast an illegal vote but a great deal more difficult to do so on a scale that decides an election. For every study suggesting widespread voting by ineligible non-

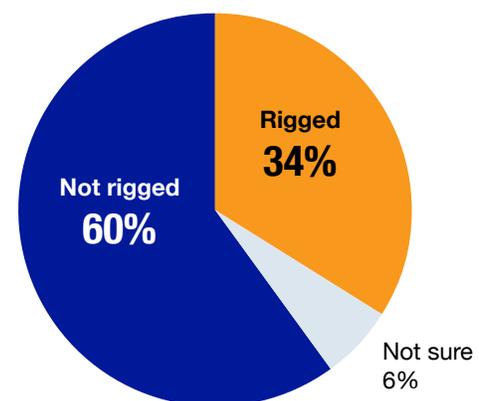
citizens, felons or dead people, there are multiple studies or investigations painting voter fraud as rare and inconsequential.

IS VOTER FRAUD THE ONLY CONCERN?

Not even close. From hanging chads to broken-down machines, the highly decentralized, volunteer-dependent U.S. voting system produces gripes and laments every election. A decade ago, following back-to-back wins by George W. Bush, it was Democrats who questioned the reliability and integrity of electronic voting machines like those made by industry leader Diebold Inc., which had an active Bush supporter as its chief executive. The Republican National Committee remains under court supervision because of a 1981 "National Ballot Security Task Force" initiative in New Jersey that was found to have been an effort to intimidate minority voters.

Rigged or Not?

Likely voters were asked whether it was their sense that the presidential election will or will not be rigged



From a Bloomberg Politics poll conducted Aug. 5-8 by Selzer & Co. with 749 likely voters; the margin of sampling error was plus or minus 3.6 percentage points.

Source: Bloomberg

IMMIGRATION REFORM

BY KATE HUNTER



Photo: David McNew/Getty Images

Democrats and Republicans in Congress agree on little, but they agree on this: Immigration in the U.S. is broken. About 11 million people already live illegally in the U.S. after crossing the border or remaining in the country when their visas expired. What should be done about them? That's where the consensus falls apart. Most Americans say the undocumented should be allowed to stay — 72 percent said so in a 2015 poll by the Pew Research Center — although there are deep disagreements about what conditions they should have to meet to win legal residency or citizenship.

THE SITUATION

In June, the U.S. Supreme Court divided 4-4 over President Barack Obama's executive orders that would have shielded as many as 4 million unauthorized immigrants from deportation. This left intact an appeals court ruling that said Obama overstepped his authority, along with a trial judge's order preventing the program from taking effect. Obama had acted after a series of congressional votes on immigration reform were blocked by the Republicans in the House of Representatives. But the issue of how to deal with illegal immigration isn't going away. In the 2016 presidential race, Democratic candidate Hillary Clinton says she'd enforce existing immigration laws "humanely" and provide a pathway to citizenship. Republican candidate Donald Trump has proposed "real immigration reform," including ending birthright citizenship and building a wall between Mexico and the U.S.

THE BACKGROUND

Ronald Reagan was the last president to win passage of major immigration reform, in 1986. President George W. Bush pushed for a bill in 2007 that would have tightened border security while creating a path to citizenship for undocumented immigrants who paid fines and met other conditions, but it was killed by conservatives in Congress. In 2012, Republican candidates focused on deporting the undocumented, and the party's presidential candidate, Mitt Romney, opposed a path to legal residency or citizenship. That November, Hispanic voters cast 71 percent of their ballots for Obama. A post-election review by Republican leaders called on the party to "embrace and champion" comprehensive changes in immigration or face a further shrinking of political support. In 2013, a bipartisan measure similar to Bush's plan was passed by the Senate. But polls showed that a significant chunk of Republicans opposed offering a path to citizenship; the Republican-controlled House of Representatives refused to vote on the bill.

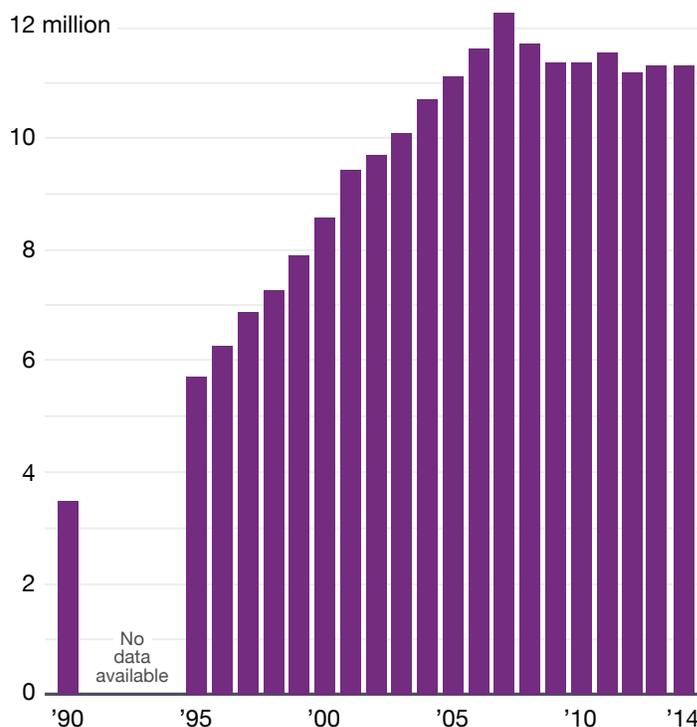
THE ARGUMENT

Democrats are more or less united on immigration, while congressional Republicans are split. To hard-liners, border security is the only issue that needs to be addressed. They were unmoved by an amendment to the 2013 Senate bill that would have hired about 20,000 more border security guards and required an additional 350 miles of fencing along the U.S.-Mexico border. Other Republicans are wary of backing measures that would, in

the words of conservative radio host Rush Limbaugh, "create 11 million new Democrats." Yet there are conservatives who approve of offering a path to legal status but not citizenship, including House Speaker Paul Ryan. There were even some Republicans who favored the Democratic Senate bill, a position that reflects the wishes of the business community. Meanwhile, 59 percent of Republicans and Republican-leaning independent voters say the party is not doing a good job in representing their views on illegal immigration. And the Republican leadership fears that fighting immigration will complete the alienation of the growing number of Hispanics voters.

Population Levels Off

Estimated unauthorized immigrant population in the U.S.



Source: Pew Research Center



GLOBAL TRADE IS CENTRAL TO CLINTON-TRUMP RACE

BY LAURENCE ARNOLD

The differing world views of Hillary Clinton, the globetrotting former U.S. secretary of state, and Donald Trump, who preaches “America First,” are on display on the issue of free trade. Trump blames trade deals and China’s inclusion in the World Trade Organization — negotiated during the presidency of Clinton’s husband — for the closings of U.S. factories and the loss of millions of American jobs. Clinton, who faced another free-trade critic, Senator Bernie Sanders, during the Democratic primaries, has tried to soften her past support for trade deals.

WHY IS TRADE SO IMPORTANT?

The merits of free trade have come under attack in recent years as attention focused on the workers and communities that critics say have been hurt by the global movement of capital and jobs. A bipartisan coalition of politicians, unions, religious groups, internet freedom activists and conservationists opposes a new generation of proposed trade deals, including the Asia-focused Trans-Pacific Partnership. Unless President Barack Obama manages to win congressional approval of the TPP this year, the treaty’s future will be up to the next president.

HOW PRO-FREE TRADE IS CLINTON?

Trump, like Sanders before him, paints Clinton as a dyed-in-the-wool free trader. Her record is a bit more nuanced. “From 1993 to 2016, she supported eight deals, opposed two, flip-flopped from opposing to supporting three, and flip-flopped the other way on two others,” according to Politifact. In 2007, during her first run for the presidency, Clinton called the North American Free Trade Agreement, known as Nafta, which her husband signed, “a mistake to the extent that it did not deliver on what we had hoped it would.” After voicing support for the TPP, Clinton came out against it in 2015.

HOW ANTI-FREE TRADE IS TRUMP?

Unlike Clinton, Trump has never had to vote on a trade deal, and his running mate, Mike Pence, has a long record of supporting such agreements. “I’m not against trade,” Trump has said. “I just want to make better deals.” He promises to pull the U.S. from Nafta if Canada and Mexico refuse to renegotiate it. He called the TPP “a rape of our country.” He says he would impose punitive tariffs on goods from China, which doesn’t have a free-trade deal with the U.S. And if WTO rules block such tariffs, Trump says he would consider pulling the U.S. from the trade group altogether. Inconveniently for him, some of his personally branded products, such as Donald J. Trump dress shirts and perfume, are made in Bangladesh, China, Honduras and other low-wage countries.

WHAT DO POLLS SAY?

It depends on how the question is asked. A Bloomberg Politics poll in March showed that 65 percent of Americans want U.S. trade policy to “have more restrictions on imported foreign goods to protect American jobs.” But in a Wall Street Journal/NBC News poll in July, 55 percent said free trade with other countries is a

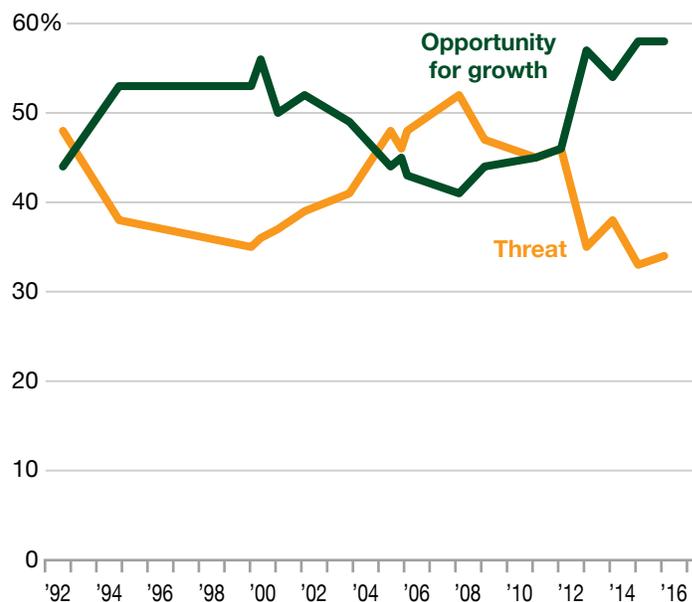
good thing because it opens up new markets. A March poll by the Pew Research Center found that 67 percent of Trump supporters view free-trade agreements as a bad thing, and 58 percent of Clinton supporters say they are a good thing.

WHY DOES THIS MATTER?

Trump’s case against global trade is at the core of his appeal to white working-class men. Their support could help him win crucial U.S. Rust Belt states — including Pennsylvania, Ohio and Michigan — that are home to the once-vibrant U.S. manufacturing sector.

Weighing Trade

Americans were asked whether foreign trade was more of an opportunity for economic growth through increased U.S. exports or a threat to the economy



From Gallup polls; most recent conducted Feb. 3-7, 2016, with 1,021 adults; margin of sampling error was plus or minus 4 percentage points

Source: Gallup

FIGHTING ISLAMIC STATE

BY LISA BEYER

It's easy to find agreement that Islamic State is a menace. What to do about it is a different story. After big chunks of Iraq and Syria fell to the group's jihadists in 2014, the U.S. put together a coalition to fight them. Operation Inherent Resolve, officially engaging more than 60 nations, is a campaign of airstrikes and other efforts to back the Iraqi military forces and Syrian rebels fighting the group on the ground. The operation has begun to make gains. At the same time, Islamic State has become a wider threat, launching or inspiring terrorist attacks in Europe, the U.S. and around the Muslim world.



Photo: Tauseef Mustafa/AFP via Getty Images

THE SITUATION

Islamic State took credit for, was assigned blame for, or appeared to inspire a string of terrorist attacks in mid-2016 in countries including Iraq, Saudi Arabia, Bangladesh, Turkey, France, Germany and the U.S. The group earlier had demonstrated its reach beyond the Muslim world by declaring responsibility for attacks in Paris in November 2015 and in Brussels in March 2016. On the military front, the U.S. said in June that Islamic State had lost 47 percent of the territory it once held in Iraq and 20 percent in Syria. Strategic victories, such as the retaking of the Iraqi city Fallujah in June, have been hard-won, however, and American commanders have said defeating Islamic State will take a decade or two. Russia began airstrikes in 2015 against Islamic State in Syria, backing government forces. The U.S. stepped up airstrikes against the group in Libya in August.

Shiite-dominated central government and its record of oppressing other ethnic and religious factions.

THE ARGUMENT

Many analysts see Islamic State's expanded use of terrorism as an effort to appear strong when it's actually been weakened. The optimistic view is that the group will continue losing territory. That should undermine its ability to attract followers, since its unique selling point has been the establishment of a pseudo-state. On the other hand, challenging battles lie ahead for the Islamic State strongholds of Mosul in Iraq and Raqqa in Syria. Critics argue that world powers and Mideast nations aren't doing enough to defeat

Islamic State. In the U.S., Republican presidential candidate Donald Trump says that if he is elected, the U.S. will be more aggressive, but he hasn't spelled out a new military plan. Democratic candidate Hillary Clinton has said she'd intensify the current campaign and establish a no-fly zone in northern Syria to protect rebels against government attacks so they could better maneuver against Islamic State. She says she wants to bring Iraq's Sunnis into the fight again, a condition some analysts think is critical to success. Their willingness to join, however, depends on whether the Shiite-led central government can reach an accommodation with Sunnis that has eluded the country since the U.S. invasion.

THE BACKGROUND

Islamic State was established in Iraq as an affiliate of al-Qaeda in 2004. It attracted Sunnis rebelling against the occupation that followed the U.S.-led invasion the year before. When American forces toppled Saddam Hussein, the country's Sunni minority lost the dominant role it had held in his dictatorial regime. Like al-Qaeda, which eventually disowned it, Islamic State aims to create a purified Islamic society, but its methods differ. It openly targets Muslim civilians, especially Shiites, whom it considers heretics, but also fellow Sunnis who oppose it. Weakened in 2007 by a surge of U.S. troops combined with an organized Sunni backlash, the group revived with the 2011 departure of coalition forces. It honed its combat skills in the Syrian civil war that began the same year. In 2014, Islamic State began conquering Iraqi and Syrian cities and declared a caliphate, a state that claims dominion over all Muslims. Initially, many secular Sunnis in Iraq fought alongside the group or welcomed it as a way of opposing the

Islamic State in Syria and Iraq



Source: IHS Conflict Monitor

CLINTON VS. TRUMP ON GUNS AND THE SECOND AMENDMENT

BY LAURENCE ARNOLD



Photo: Luke Sharrett/Bloomberg

Another U.S. election, another impassioned debate about gun ownership. Americans own more guns than anybody else on earth, even adjusted for population. Outbreaks of gun-related crimes inspire some Americans to seek limits on firearm ownership and others to cherish their Second Amendment right to have a gun for self-defense. The National Rifle Association, the leading pro-gun group, has been on a decades-long winning streak convincing courts and lawmakers to loosen gun restrictions and to prevent the passage of new ones. The constitutional right of Americans to bear arms has become a flashpoint in the presidential contest between Democrat Hillary Clinton and Republican Donald Trump.

WHAT'S THE SECOND AMENDMENT?

The first 10 amendments to the U.S. Constitution, adopted in 1791, are collectively known as the Bill of Rights and were intended to address concerns that the new nation needed more explicit guarantees of personal freedoms. The Second Amendment reads, "A well regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed." What precisely that right includes is still debated, 225 years later. The Supreme Court ruled in 2008 that the amendment protects the gun rights of individuals, not just militias.

HAS CLINTON REALLY PROPOSED ABOLISHING IT?

No. Trump's repeated claim that Clinton "wants to abolish the Second Amendment" has been shot down multiple times by Politifact.com and

FactCheck.org, and by Clinton herself. The view that Clinton favors repealing the Second Amendment gained traction when one of her policy advisers, Maya Harris, told Bloomberg Politics that the candidate believes that the Supreme Court's decision striking down a Washington, D.C., ban on handguns was "wrongly decided" and would result in further gun safety measures being overturned.

WHAT DOES CLINTON PROPOSE ON GUNS?

She advocates making more gun purchases — those at gun shows and on the internet, for instance — subject to background checks through the Federal Bureau of Investigation's National Instant Criminal Background Check System, though that system is hardly foolproof. She would insist that all gun buyers pass a background check even if that delays their purchase beyond three business days, the current

time limit. Her campaign website also pledges to "work to keep military-style weapons off our streets," which could mean another semi-automatic firearms ban like the much-criticized one implemented under her husband from 1994 to 2004.

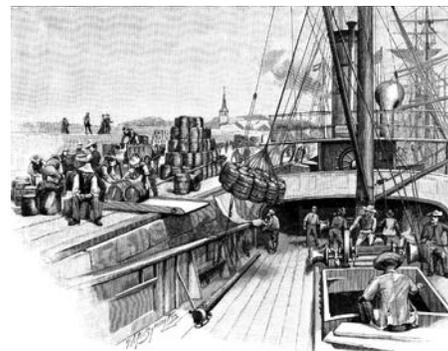
WHAT DOES TRUMP PROPOSE ON GUNS?

Trump is running as a Second Amendment absolutist, despite a more nuanced history on the issue of gun rights. He says he would support mandatory minimum sentences for crimes committed with guns and fixing "our broken mental health system," although he hasn't said how. He says a gun owner with a state license to carry a concealed weapon should be able to do so in any of the 50 states, and that members of the military should be allowed to be armed while at recruiting centers.

CARRIED INTEREST

BY LYNNLEY BROWNING

As widely reviled tax breaks go, few can match the one known as carried interest. It lets some high-earning managers in private equity or venture capital funds pay a lower tax rate on their income than most working Americans. Carried interest hinges on the idea that a partner in a long-term investment whose contribution isn't money but management skill should be regarded as a fellow entrepreneur. It's a notion that dates back to the way Renaissance merchants paid ship captains for profitable journeys. To its critics, it's become a symbol of how the tax system can exacerbate income inequality.



Engraving: The Religious Tract Society

THE SITUATION

In the U.S., the carried-interest benefit applies to partnerships that make long-term investments by buying or funding companies. It allows the profits going to managers in those partnerships to be taxed at the long-term capital gains rate of 20 percent, versus a top rate on ordinary income of 39.6 percent. (A 3.8 percent surcharge tied to Obamacare is added to both rates.) When President Barack Obama tried, unsuccessfully, to end the preferential tax treatment, the Treasury estimated that doing away with it would raise \$17.7 billion over a decade, although a prominent critic puts the figure at \$180 billion. In April, Britain began taxing carried interest at a higher individual rate of 40 percent for private equity funds that hold their investments for fewer than 40 months. Germany requires managers to pay rates of up to 47.5 percent on 60 percent of their carried-interest profits, with the rest tax free. Hong Kong doesn't tax capital gains, but authorities are considering taxing some portion of partnership profits now considered carried interest.

THE BACKGROUND

In the 1600s, Venetian merchants would send ships to carry porcelain, grains and silk in rat-infested holds across stormy seas. A captain's compensation was an "interest" in the value of the cargo, making him a partner in the venture. Private equity funds buy stakes in companies they see as undervalued and fix them up (or strip them of assets, depending on your point of view) before selling them, usually five to seven years later. Venture capital funds invest in startups and wait for them to grow. In addition to a salary, executives in either kind of fund who are designated as general partners receive what's known as "2 and 20" — a fee of 2 percent of assets under management and 20 percent of profits that are carried over

from year to year until a company is sold. In 1954, Congress approved rules making money distributed by partnerships non-taxable. The idea was that income from partnerships, then a relative novelty, shouldn't be taxed twice — at the corporate level and personally. The rules didn't foresee that private equity and venture capital would explode in size, starting in the 1980s. Hedge funds are often lumped in by critics of carried interest, but their focus on short-term trading strategies means they rely on other provisions to hold down their tax rates.

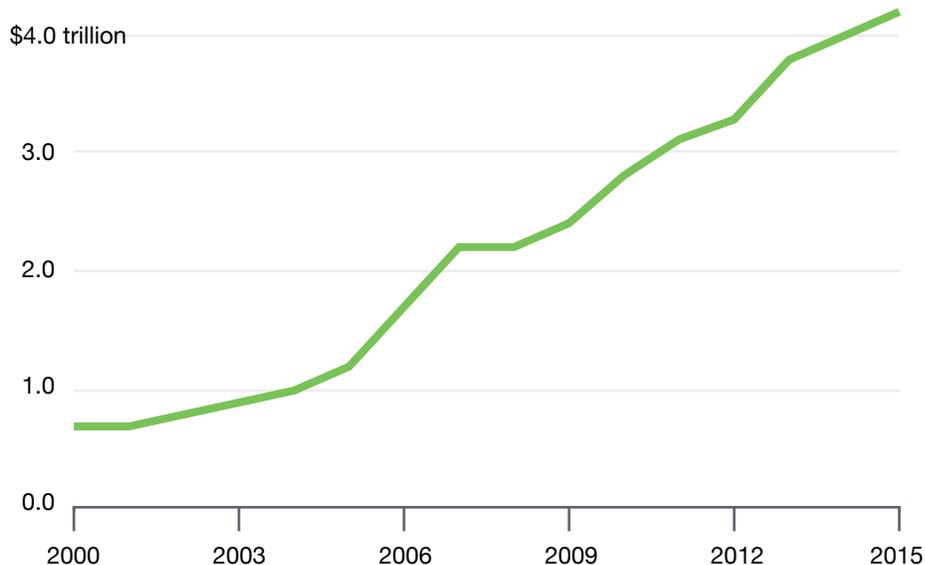
THE ARGUMENT

Opponents argue that carried interest is simply remuneration for the work involved in growing a company a fund invests in. They say that the preferential long-term capital-gains treatment

should be reserved for investors who are risking their own money. Supporters argue that carried interest is akin to "sweat equity." They call fund managers entrepreneurs who take on the risk of raising money from outside investors and putting the dollars into companies that might not pan out. They say the tax incentive contributes to job growth and innovation. In the U.S., Hillary Clinton, the Democratic presidential nominee, wants to close what she sees as a loophole and has said that if Congress doesn't act she'll end it by executive order. The Republican nominee, Donald Trump, also harshly criticized carried interest, saying it lets rich managers "get away with murder." His tax plan would end it — but by creating a new category for all business income, including partnerships, that would have an even lower rate, of 15 percent.

Private Equity on the Rise

Total global assets under management, year end.



Source: 2016 Preqin Global Private Equity and Venture Capital Report

THE ESTATE TAX

BY ZACHARY MIDER

One of the first Americans to beat the estate tax was a guy by the name of John D. Rockefeller. Not long after Congress in 1916 declared a special new tax on the estates of people who died with more than \$50,000, the oil tycoon, then the world's richest man, gave hundreds of millions of dollars to his son. It took eight years for Congress to close the loophole. The episode was the first round in what's become a century-long cat-and-mouse game. The cats are congressional lawmakers, and the nation's wealthy are the mice. A whole industry, known as estate planning, sprang up to counsel taxpayers on how to play the game. The mice are winning. There are so many legal shelters that for many of the wealthiest Americans the estate tax has become all but voluntary. Now the presidential race is giving Americans a choice: abolish the tax or make it tougher?



Photo: Keystone-France via Getty Images

THE SITUATION

The U.S. estate tax rate is 40 percent on portions of estates above \$5.45 million, or \$10.9 million for couples. Those levels were set as part of a 2010 deal between President Barack Obama and congressional Republicans that eased the tax. Hillary Clinton, the Democratic presidential candidate, has called for rolling the rules back to where they stood before the deal, with thresholds of \$3.5 million for individuals or \$7 million for married couples, and a 45 percent rate. Donald Trump, the Republican nominee, wants to repeal the tax altogether. Because of loopholes and the large exemption, the estate tax raised just \$17.6 billion in 2014, less than 1 percent of federal tax revenue, down from \$26.5 billion as recently as 2008. Fewer than one in 600 people who died in 2015 will have to pay any estate tax. Even so, the tax remains unpopular with the American public. There's little consensus globally: Japan, Germany and the United Kingdom all have estate or inheritance taxes, for instance, while Australia and Canada don't. Sweden abolished its tax in 2004.

THE BACKGROUND

The estate tax sprang to life when the Great War raged in Europe and President Woodrow Wilson needed cash for an arsenal. Progressives were also concerned that fortunes amassed during the 19th century's Gilded Age might spawn a permanent American plutocracy. Starting in the 1990s, Republicans in Congress pushed to end what they called the "death tax." In 2001, they won a temporary phase-out of the tax culminating in a one-year repeal in 2010; New York Yankees

owner George Steinbrenner was among the wealthy Americans to die during that period. When the time came for permanent legislation, the deal between Obama and Republicans succeeded in keeping the estate tax in place indefinitely, although in weakened form.

THE ARGUMENT

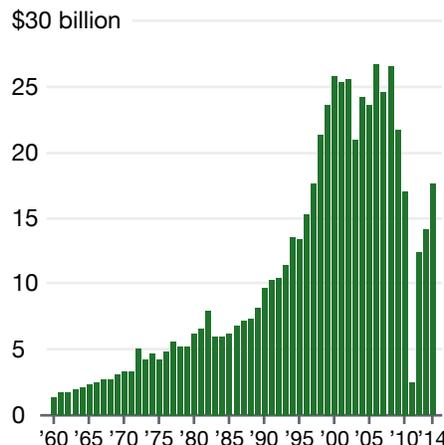
Some Democrats say raising the estate tax would help reduce economic inequality by shifting the tax burden to the people who can most easily pay it. Yet many Americans consider the levy a form of double taxation. Congress has done nothing about the growing tally of loopholes that make the tax easy to avoid. One device, called the "Walton

GRAT," gives extremely rich people a new way to do what Rockefeller did: make tax-free transfers to heirs. Created inadvertently by Congress in 1990 as it shut down an earlier loophole, the GRAT won the blessing of the U.S. Tax Court in 2000 over the protests of the Internal Revenue Service. Another, called the "dynasty trust," is being promoted by states such as South Dakota and Delaware that have tailored their trust laws to facilitate federal tax avoidance. And today's super-low interest rates are turning charitable vehicles known as "Jackie O." trusts, which were never intended to become tax shelters, into opportunities to reduce tax bills.

The Estate Tax's Portion

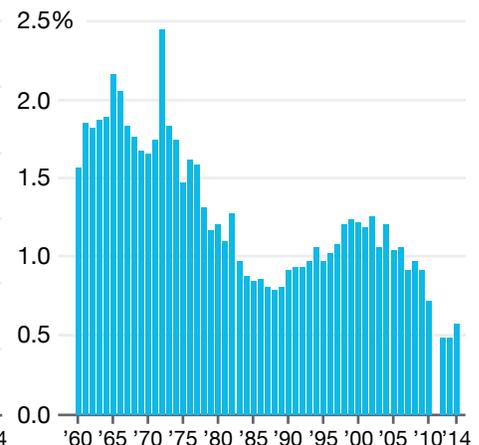
Total Collected

Each fiscal year in the U.S.*



Its Share

Estate tax as percent of all federal tax revenue



* U.S. fiscal years began on July 1 until 1977, when they switched to Oct. 1 starts

Source: U.S. Internal Revenue Service

MARIJUANA LEGALIZATION

BY ALISON VEKSHIN

Photo: Getty Images

Americans have changed their minds about pot. In less than a generation, public opinion has turned against the drug laws that banned marijuana, a historic shift in attitudes away from prohibition and penalties. In four U.S. states and the District of Columbia, pot is now legal for recreational use, driving the debate about how it should best be regulated, consumed and taxed as it gains acceptance across the U.S. and in other countries.

THE SITUATION

Maine, Massachusetts, Nevada and California — the largest state by population — have referendums on legalizing weed for recreational use scheduled for 2016. Arkansas and Florida will consider medical use. Legal weed — joints and pot-laced consumables like chocolates and mints — generated an estimated \$3 billion in sales in the U.S. in 2015. Voters in Washington and Colorado were the first to approve recreational use of marijuana in ballot measures in 2012, followed by Oregon, Alaska and the District of Columbia two years later. Though marijuana is still an illegal substance under U.S. federal law, the Justice Department said it won't challenge the state statutes. Since 2013, a number of polls have shown that a majority of Americans think pot should be legal. In 1969 — the year of Woodstock — just 12 percent agreed. But Ohio voters in 2015 rejected a ballot measure to legalize it for medical and recreational use. Uruguay became the first country to legalize marijuana in 2013, defying an international drug treaty. Mexico's president said in April that he wanted to ease laws that punish marijuana consumers. Mayors in the Netherlands, which has tolerated pot smoking in its coffee shops since the 1970s, called on the Dutch government to start regulating growers and sellers, mirroring the U.S. approach.

THE BACKGROUND

Cannabis has been used since ancient times for its fiber in addition to its medicinal and mood-altering effects. It was effectively outlawed in the U.S. in the 1930s, at about the same time that a 13-year prohibition on alcohol was overturned through a constitutional amendment. Pot was demonized by the 1936 black-and-white cult film "Reefer Madness," a cautionary tale of corrupted teens. Support for legalization in the U.S. grew after states began permitting medical use

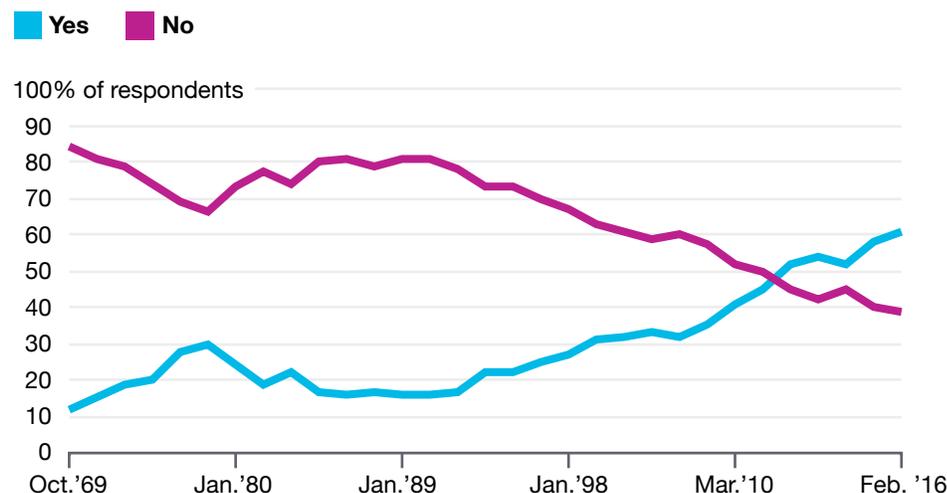
of the plant to treat pain and nausea in patients with AIDS and cancer. California was the first state to allow it in 1996 and now 25 do. About 620,000 people were arrested for marijuana possession in the U.S. in 2014, more than those arrested for all violent crimes. Twenty U.S. states and several countries have passed laws decriminalizing possession, so that getting caught with a small amount is treated as a minor offense. Even with wider acceptance in the U.S., the clash of federal and state laws has created uncertainty over what's legal and where. Federal authorities in August denied a petition to remove marijuana from the list of Schedule 1 drugs which includes heroin, LSD and ecstasy. They did, however, agree to allow additional research into the drug's medical benefits, proof of which could help get it reclassified. Weed's presence on the Schedule 1 list deters banks from providing accounts to the burgeoning pot industry.

THE ARGUMENT

Legalization advocates make the case that cannabis is safer than alcohol. They argue that making weed legal would allow for better monitoring of an industry that has long existed underground. It also provides tax revenue, and Colorado collected \$135 million in state taxes and fees from 240 dispensaries in 2015. The growing number of Americans who acknowledge that they have smoked pot include President Barack Obama, who has spoken out about how poor and minority kids account for a disproportionate share of those punished for its use. Critics say easing marijuana laws exposes children and teenagers to the drug and could lead to an increase in drugged driving. Chronic use of marijuana inhibits brain development, causes breathing problems and has been linked to mental illness, including worsening symptoms for those with schizophrenia, according to the U.S. National Institute on Drug Abuse.

Americans' Views on Legalizing Pot

Do you think the use of marijuana should be made legal, or not?



Sources: Gallup, General Social Survey, Pew Research, AP-NORC Center for Public Affairs Research.

HILLARY CLINTON'S PRIVATE E-MAIL SYSTEM

BY ANNE CRONIN AND LAURENCE ARNOLD



Photo: Pete Marovich/Bloomberg

Hillary Clinton, the Democratic nominee for president, chose to use a private e-mail account and servers in her last job, as U.S. secretary of state. Through that personal account, hdr22@clintonemail.com, she sent or received about 60,000 messages from 2009 to 2013, roughly half of them work-related. The FBI investigated whether classified information was included in those emails. It recommended no charges, and the case was closed. For months, Republican blueprints to defeat Clinton had included the hope and belief that she'd be indicted. Now that that's off the table, Republicans continue to question what was in the roughly 32,000 messages that Clinton deemed personal and deleted before turning her e-mail over to the State Department. The FBI has recovered about half of those.

WHAT DID INVESTIGATORS CONCLUDE?

FBI Director James Comey said that while Clinton and her staff were "extremely careless" in their use of e-mail, and that "there is evidence of potential violations regarding the handling of classified information," his office determined that "no reasonable prosecutor" would file criminal charges. Asked whether Clinton had been truthful in her explanations to the public, Comey said, "That's a question I'm not qualified to answer." The State Department's inspector general found Clinton's use of private e-mail violated rules, but that "longstanding" problems with the department's electronic communications began before Clinton took office.

HOW DID WE GET HERE?

Clinton's account came to light during the probes into the 2012 attacks in Benghazi, Libya. In March 2015, a New York Times report raised questions about whether her use of it violated federal rules governing retention of and access to official records. Some of the e-mails were deemed classified after Clinton left office. In October 2015, Clinton testified during an 11-hour hearing before a House of Representative committee. "I don't think anything inappropriate was done," Clinton said of her e-mail practices in an April 3 interview on NBC's "Meet the Press."

WHAT'S NEXT?

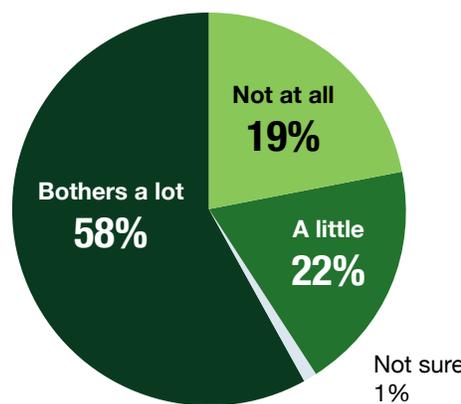
Though cleared legally, Clinton still must answer politically for her decision-making. Donald Trump, the Republican presidential nominee, has said that Clinton is guilty at least of "stupidity and bad judgment" and called the justice system "rigged." The State Department, which had suspended action during the criminal probe, reopened its internal review of whether Clinton or her aides mishandled information. Congress asked for – and received – some documents from the FBI's investigation.

WHAT DO POLLS SAY?

A Washington Post-ABC News poll released July 11 found that 56 percent of Americans disapproved of the decision not to charge Clinton. Another Washington Post-ABC News poll, released Aug. 7, found that 59 percent of Americans see Clinton as not honest and trustworthy – though even more, 62 percent, said that of Trump.

Likely Voters on the E-Mails

Likely voters were asked whether Hillary Clinton's handling of her private e-mail, which the FBI director called "extremely careless," bothered them a lot, a little or not at all



From a Bloomberg Politics poll conducted Aug. 5-8 by Selzer & Co. with 749 likely voters; the margin of sampling error was plus or minus 3.6 percentage points.

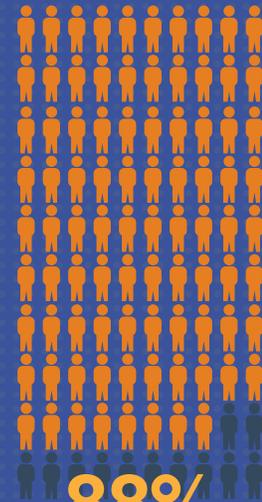
Source: Bloomberg

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To contact the editor responsible for QuickTakes:

Leah Harrison Singer
lharrison@bloomberg.net/+44-20-3525-2936

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