

The
Economist

The world comes to

Brazil

June 12TH - July 13TH



Editor's note

WITH apologies to the Summer Olympics, the World Cup is humanity's favourite athletic competition. For most viewers, the majority of Olympic events are quaint curiosities: equestrian dressage? canoe slalom? In contrast, the World Cup is the quadrennial culmination of a game that is already a principal topic of conversation around the globe. And academic studies show the cup is the only sporting event with a statistically significant positive impact on happiness in the host country.

One of the principal attractions of sport in general and the "beautiful game" in particular is its role as an escape from the ugliness of everyday life. And every World Cup has its share of heartwarming human-interest stories, like that of the Somali rapper whose song was chosen as Coca-Cola's promotional anthem for the 2010 tournament. The tournament also offers encouraging measures of collective progress, such as the "Jabulani" ball used in South Africa, which combined a water-deflecting surface texture with the smoothest aerodynamics ever. This edition's "Brazuca" ball will consist of just six panels, a far cry from the familiar 32 of years past.

But a spectacle this big invariably reflects the weaknesses as well as the strengths of the people and cultures behind it. Leading up to this year's event, the world's attention was squarely focused on a pair of corruption scandals. Leaks to the media from an internal investigation by FIFA, football's international governing body, revealed allegations that the organisation's officials had accepted payments totalling £3m (\$5m) in exchange for granting the 2022 World Cup to Qatar. *The Economist* has proposed to stop to such mischief by putting the right to host the Cup up for auction. Another FIFA report that made its way to the press outlined how a Singaporean criminal syndicate had fixed a series of exhibition matches in South Africa just ahead of the 2010 World Cup. Better salaries for referees and a bigger budget for forensic investigations of betting patterns would help, but FIFA has seemed more eager to sweep the problem under the rug than to confront it head-on.

The Cup's second big challenge is not a public embarrassment but a missed opportunity. India, home to 1.2 billion people, is a cricket-focused nation that pays almost no attention to football. The even more numerous Chinese have begun following European clubs, just as they have become a fast-growing market for most Western brands. But they will have no one to cheer for

at the Cup, since the country's top-down approach to developing athletes has proved far more successful at producing medallists in obscure Olympic disciplines than it has at assembling a competitive football team. And although a growing Hispanic population has helped football to grow rapidly in the United States, by far the world's most valuable national sports market, the game still lags far behind local pastimes like American football, baseball, basketball and hockey. Football is far too self-congratulatory about its perch as the unquestioned leading global game, given that roughly half the world will either tune out the World Cup or not be represented on the pitch.

In Brazil, of course, all eyes will be on the tournament—and on the quality and price tag of the facilities where it will take place. The government has spent billions of dollars on stadiums, some deep in the Amazon, which routinely came in over budget, behind schedule, and are destined to become white elephants once the tournament ends. Last year Brazilian streets erupted in mass protests, partly inspired by the perception that the government was squandering its hefty tax take on boondoggles for the Cup rather than much-needed public services. With an election looming in October, Dilma Rousseff, the president, will need the event to run without a hitch to secure a second term.

The fastest way to make Brazilians forget about such concerns would be for the national team to win their sixth World Cup. Fortunately for Ms Rousseff, *The Economist's* forecast, based on probabilities derived from past performance, has the country as an overwhelming favourite, almost three times as likely to take home the title as the team with the second-best odds. Nonetheless, the model still thinks there is a four-in-five chance that someone other than the hosts will be crowned champions, with Spain, Germany, Portugal, Argentina, Colombia, Switzerland and Uruguay clustered closely together as the next-strongest options if Brazil falters. We'll be posting updates on our Game Theory blog as the tournament progresses. Stay tuned.

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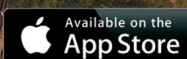
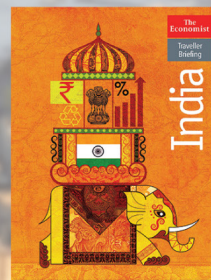
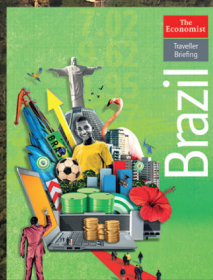
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Football

Beautiful game, dirty business

Football is a great sport, but it could be so much better if it were run honestly

Jun 7th 2014



THE mesmerising wizardry of Lionel Messi and the muscular grace of Cristiano Ronaldo are joys to behold. But for deep-dyed internationalists like this newspaper, the game's true beauty lies in its long reach, from east to west and north to south. Football, more than any other sport, has thrived on globalisation. Nearly half of humanity will watch at least part of the World Cup, which kicks off in Brazil on June 12th.

So it is sad that the tournament begins under a cloud as big as the Maracanã stadium. Documents obtained by Britain's Sunday Times have allegedly revealed secret payments that helped Qatar win the hosting rights to the World Cup in 2022 (see article). If that competition was fixed, it has company. A report by FIFA, football's governing body, is said to have found that several exhibition matches were rigged ahead of the World Cup in 2010. And as usual, no one has been punished.

This only prompts other questions. Why on earth did anyone think holding the World Cup in the middle of the Arabian summer was a good idea? Why is football so far behind other sports like rugby, cricket and tennis in using technology to doublecheck refereeing decisions? And

why is the world's greatest game led by such a group of mediocrities, notably Sepp Blatter, FIFA's boss since 1998? In any other organisation, the endless financial scandals would have led to his ouster years ago. But more than that, he seems hopelessly out of date; from sexist remarks about women to interrupting a minute's silence for Nelson Mandela after only 11 seconds, the 78-year-old is the sort of dinosaur that left corporate boardrooms in the 1970s. Nor is it exactly heartening that the attempts to stop Mr Blatter enjoying a fifth term are being led by Michel Platini, Europe's leading soccercrat, who was once a wonderful midfielder but played a woeful role in supporting the Qatar bid.

Our cheating rotten scoundrels are better than yours

Many football fans are indifferent to all this. What matters to them is the beautiful game, not the tired old suits who run it. And FIFA's moral turpitude is hardly unique. The International Olympic Committee, after all, faced a Qatar-like scandal over the awarding of the winter games in 2002 (though it has made a much bigger attempt to clean itself up). The boss of Formula One, Bernie Ecclestone, stands accused of bribery in Germany, while American



► basketball has just had to sack an owner for racist remarks. Cricket, the second-most-global sport, has had its own match-fixing scandals. American football could be overwhelmed by compensation claims for injuries.

But football fans are wrong to think there is no cost to all this. First, corruption and complacency at the top makes it harder to fight skulduggery on the pitch. Ever larger amounts of money are now being bet on each game—it may be \$1 billion a match at the World Cup. Under external pressure to reform, FIFA has recently brought in some good people, including a respected ethics tsar, Mark Pieth. But who will listen to lectures about reform from an outfit whose public face is Mr Blatter?

Second, big-time corruption isn't victimless; nor does it end when a host country is chosen. For shady regimes—the type that bribe football officials—a major sporting event is also a chance to defraud state coffers, for example by awarding fat contracts to cronies. Tournaments that ought to be national celebrations risk becoming festivals of graft.

Finally, there is a great opportunity cost. Football is not as global as it might be (see article). The game has failed to conquer the world's three biggest countries: China, India and America. In the United States soccer, as they call it, is played but not watched. In China and India the opposite is true. The latter two will not be playing in Brazil (indeed, they have played in the World Cup finals just once between them).

In FIFA's defence, the big three's reticence owes much to their respective histories and cultures and the strength of existing sports, notably cricket in India. And football is slowly gaining ground: in the United States the first cohort of American parents to grow up with the game are now passing it on to their children. But that only underlines the madness of FIFA giving the cup to Qatar, not America. And the foul air from FIFA's headquarters in Switzerland will hardly reassure young fans in China who are heartily sick of the corruption and match-fixing in their domestic soccer leagues.

A Seppless world

It would be good to get rid of Mr Blatter, but that would not solve FIFA's structural problem. Though legally incorporated as a Swiss non-profit organisation, FIFA has no master. Those who might hold it to account, such as national or regional football organisations, depend on its cash. High barriers to entry make it unlikely that a rival will emerge, so FIFA has a natural monopoly over international football. An entity like this should be regulated, but FIFA answers to no government.

All the same, more could be done. The Swiss should demand a clean-up or withdraw FIFA's favourable tax

status. Sponsors should also weigh in on graft and on the need to push forward with new technology: an immediate video review of every penalty and goal awarded would be a start.

The hardest bit of the puzzle is the host-selection process. One option would be to stick the World Cup in one country and leave it there; but that nation's home team would have a big advantage, and tournaments benefit from moving between different time zones. An economically rational option would be to give this year's winner, and each successive champion, the option of either hosting the tournament in eight years' time or auctioning off that right to the highest bidder. That would favour football's powerhouses. But as most of them already have the stadiums, there would be less waste—and it would provide even more of an incentive to win.

Sadly, soccer fans are romantic nationalists, not logical economists—so our proposal stands less chance of winning than England does. One small step towards sanity would be formally to rotate the tournament, so it went, say, from Europe to Africa to Asia to the Americas, which would at least stop intercontinental corruption. But very little of this will happen without change at the top in Zurich. ■

More from *The Economist*:

[A game of two halves](#)

The world's largest nations will play almost no part in the World Cup. But there are signs that, eventually, football will become a truly global game

[Let the games begin](#)

Brazil's election could go to penalties

The World Cup

Pitch imperfect

They think it's all over budget

May 17th 2014

FOOTBALL'S World Cup was meant to display Brazil's coming-of-age as a global player. Instead, the preparations have illustrated the improvisation for which the country is nearly as famous as its footballers. With less than a month to go, organisers are scrambling to get everything ready. A swanky new terminal opened at Guarulhos Airport in São Paulo on May 11th. But just eight airlines will be operating there next month, not 25 as planned. Chunks of the airport in Belo Horizonte, another host city, are wrapped in scaffolding and sprinkled with dust—and will remain so well after the tournament ends in July.

Unfinished work at Arena Corinthians stadium in São Paulo means only 40,000 fans will attend a pre-tournament test game on May 18th, well shy of the 68,000 expected at the opening match on June 12th. The media centre at the stadium in Curitiba won't be ready for the event; journalists will slum it in a tent.

Red tape and overlapping federal, state and municipal fiefs have snarled projects. Jérôme Valcke, secretary-general of FIFA, football's governing body, has described dealing with Brazilian authorities as "hell". Eight construction workers have died in accidents, six more than in South Africa four years ago. FIFA insists stadiums will be ready when fans start pouring in. But delays have left little time to install and test telecommunications kit, prompting worries over patchy television and radio transmission.

Cost overruns, partly blamed on alleged price-gouging, mean that, measured by the cost of a seat, Brazil now boasts ten of the world's 20 most expensive football venues, according to KPMG, a consultancy. The whitest of these elephants, in Brasília, may end up consuming 2 billion reais (\$900m), nearly triple the initial estimate. After the Cup it is unlikely ever to draw capacity crowds again, as the city lacks a good league side.

A promised public-works bonanza has not materialised. Brazil's government insisted on staging games in 12 cities, rather than the required eight, in order to spread the benefits across the country. It succeeded only in spreading itself thin. Just five of 35 planned urban-mobility schemes are complete. Fans will use buses or taxis to get to most city centres.

Support for hosting the World Cup has fallen sharply, from 79% after it was awarded to Brazil in 2007 to 48% now, according to Datafolha, a pollster. Given Brazilians' love of football and knack for making merry, the tourna-



Eyevine

ment is almost certain to be a blast. But the legacy has been left in the changing-rooms. ■

More from *The Economist*:[Looks good](#)

Brazilian cosmetics and other consumer brands are powering ahead

[Leave well alone](#)

Brazil's agriculture has benefited from government neglect. Its car industry has had too much attention

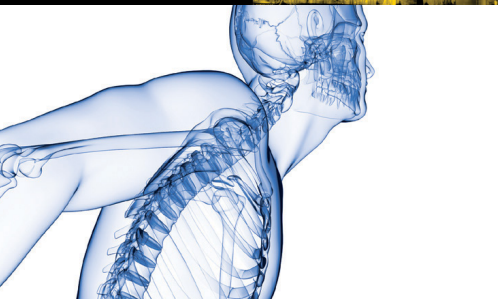
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Game schedule

Group stage

THURSDAY 12 JUNE

Group A • 17:00 Local time (GMT - 4 hours)

Arena de Sao Paulo
Sao Paulo



Brazil v. Croatia



FRIDAY 13 JUNE

FRIDAY 13 JUNE

Group A • 13:00 Local time (GMT - 4 hours)

Estadio das Dunas
Natal



Mexico v. Cameroon

**Group B • 16:00 Local time (GMT - 4 hours)**

Arena Fonte Nova
Salvador



Spain v. Netherlands

**Group B • 18:00 Local time (GMT - 4 hours)**

Arena Pantanal
Cuiaba



Chile v. Australia



SATURDAY 14 JUNE

Group C • 13:00 Local time (GMT - 4 hours)

Estadio Mineirao
Belo Horizonte



Colombia v. Greece

**Group D • 16:00 Local time (GMT - 4 hours)**

Estadio Castelao
Fortaleza



Uruguay v. Costa Rica

**Group D • 18:00 Local time (GMT - 4 hours)**

Arena Amazonia
Manaus



England v. Italy

**Group C • 22:00 Local time (GMT - 4 hours)**

Arena Pernambuco
Recife



Côte d'Ivoire v. Japan



Group stage

SUNDAY 15 JUNE

Group E • 16:00 Local time (GMT - 4 hours)Estadio Nacional
Brasília

Switzerland v. Ecuador

**Group E • 16:00 Local time (GMT - 4 hours)**Estadio Beira-Rio
Porto Alegre

France v. Honduras

**Group F • 17:00 Local time (GMT - 4 hours)**Maracanã - Estádio Jornalista Mário Filho
Rio De JaneiroArgentina v.
Bosnia and Herzegovina

MONDAY 16 JUNE

Group G • 13:00 Local time (GMT - 4 hours)Arena Fonte Nova
Salvador

Germany v. Portugal

**Group F • 16:00 Local time (GMT - 4 hours)**Arena da Baixada
Curitiba

Iran v. Nigeria

**Group G • 19:00 Local time (GMT - 4 hours)**Estadio das Dunas
Natal

Ghana v. USA



TUESDAY 17 JUNE

Group H • 13:00 Local time (GMT - 4 hours)Estadio Mineirão
Belo Horizonte

Belgium v. Algeria

**Group A • 16:00 Local time (GMT - 4 hours)**Estadio Castelão
Fortaleza

Brazil v. Mexico

**Group H • 18:00 Local time (GMT - 4 hours)**Arena Pantanal
Cuiabá

Russia v. Korea Republic



Group stage

WEDNESDAY 18 JUNE

Group B • 13:00 Local time (GMT - 4 hours)

Estadio Beira-Rio
Porto Alegre



Australia v. Netherlands

**Group B • 16:00 Local time (GMT - 4 hours)**

Maracanã - Estádio Jornalista Mário Filho
Rio De Janeiro



Spain v. Chile

**Group A • 18:00 Local time (GMT - 4 hours)**

Arena Amazonia
Manaus



Cameroon v. Croatia



THURSDAY 19 JUNE

Group C • 13:00 Local time (GMT - 4 hours)

Estadio Nacional
Brasilia



Colombia v. Côte d'Ivoire

**Group D • 16:00 Local time (GMT - 4 hours)**

Arena de Sao Paulo
Sao Paulo



Uruguay v. England

**Group C • 19:00 Local time (GMT - 4 hours)**

Estadio das Dunas
Natal



Japan v. Greece



FRIDAY 20 JUNE

Group D • 13:00 Local time (GMT - 4 hours)

Arena Pernambuco
Recife



Italy v. Costa Rica

**Group E • 16:00 Local time (GMT - 4 hours)**

Arena Fonte Nova
Salvador



Switzerland v. France

**Group E • 19:00 Local time (GMT - 4 hours)**

Arena da Baixada
Curitiba



Honduras v. Ecuador



Group stage

SATURDAY 21 JUNE

Group F • 13:00 Local time (GMT - 4 hours)Estadio Mineirao
Belo Horizonte

Argentina v. Iran

**Group G • 16:00 Local time (GMT - 4 hours)**Estadio Castela
Fortaleza

Germany v. Ghana

**Group F • 18:00 Local time (GMT - 4 hours)**Arena Pantanal
CuiabaNigeria v.
Bosnia and Herzegovina

SUNDAY 22 JUNE

Group H • 13:00 Local time (GMT - 4 hours)Maracanã - Estádio Jornalista Mário Filho
Rio De Janeiro

Belgium v. Russia

**Group H • 16:00 Local time (GMT - 4 hours)**Estadio Beira-Rio
Porto Alegre

Korea Republic v. Algeria

**Group G • 18:00 Local time (GMT - 4 hours)**Arena Amazonia
Manaus

USA v. Portugal



MONDAY 23 JUNE

Group B • 13:00 Local time (GMT - 4 hours)Arena de Sao Paulo
Sao Paulo

Netherlands v. Chile

**Group B • 13:00 Local time (GMT - 4 hours)**Arena da Baixada
Curitiba

Australia v. Spain

**Group A • 17:00 Local time (GMT - 4 hours)**Estadio Nacional
Brasilia

Cameroon v. Brazil

**Group A • 17:00 Local time (GMT - 4 hours)**Arena Pernambuco
Recife

Croatia v. Mexico



Group stage

TUESDAY 24 JUNE

Group D • 13:00 Local time (GMT - 4 hours)Estadio das Dunas
Natal

Italy v. Uruguay

**Group D • 13:00 Local time (GMT - 4 hours)**Estadio Mineirao
Belo Horizonte

Costa Rica v. England

**Group C • 16:00 Local time (GMT - 4 hours)**Arena Pantanal
Cuiaba

Japan v. Colombia

**Group C • 17:00 Local time (GMT - 4 hours)**Estadio Castelao
Fortaleza

Greece v. Côte d'Ivoire



WEDNESDAY 25 JUNE

Group F • 13:00 Local time (GMT - 4 hours)Estadio Beira-Rio
Porto Alegre

Nigeria v. Argentina

**Group F • 13:00 Local time (GMT - 4 hours)**Arena Fonte Nova
SalvadorBosnia and Herzegovina v.
Iran**Group E • 16:00 Local time (GMT - 4 hours)**Arena Amazonia
Manaus

Honduras v. Switzerland

**Group E • 17:00 Local time (GMT - 4 hours)**Maracanã - Estádio Jornalista Mário Filho
Rio De Janeiro

Ecuador v. France



Group stage

THURSDAY 26 JUNE

Group G • 13:00 Local time (GMT - 4 hours)

Estadio Nacional
Brasília



Portugal v. Ghana



Group G • 13:00 Local time (GMT - 4 hours)

Arena Pernambuco
Recife



USA v. Germany



Group H • 17:00 Local time (GMT - 4 hours)

Arena de Sao Paulo
Sao Paulo



Korea Republic v. Belgium



Group H • 17:00 Local time (GMT - 4 hours)

Arena da Baixada
Curitiba



Algeria v. Russia



Second stage

Round of 16

SATURDAY 28 JUNE

Round of 16 • 13:00 Local time (GMT - 4 hours)

Estadio Nacional
Belo Horizonte

1A v. 2B

Round of 16 • 17:00 Local time (GMT - 4 hours)

Maracanã - Estádio Jornalista Mário Filho
Rio De Janeiro

1C v. 2D

SUNDAY 29 JUNE

Round of 16 • 13:00 Local time (GMT - 4 hours)

Estadio Castelao
Fortaleza

1B v. 2A

Round of 16 • 17:00 Local time (GMT - 4 hours)

Arena Pernambuco
Recife

1D v. 2C

Round of 16

MONDAY 30 JUNE

Round of 16 • 13:00 Local time (GMT - 4 hours)

Estadio Nacional
Brasilia

1E v. 2F

Round of 16 • 17:00 Local time (GMT - 4 hours)

Estadio Beira-Rio
Porto Alegre

1G v. 2H

TUESDAY 01 JULY

Round of 16 • 13:00 Local time (GMT - 4 hours)

Arena Corinthians
Sao Paulo

1F v. 2E

Round of 16 • 17:00 Local time (GMT - 4 hours)

Arena Fonte Nova
Salvador

1H v. 2G

Quarter-finals

FRIDAY 04 JULY

Quarter-finals • 13:00 Local time (GMT - 4 hours)

Maracanã - Estádio Jornalista Mário Filho
Rio De Janeiro

W53 v. W54

Quarter-finals • 17:00 Local time (GMT - 4 hours)

Estadio Castelao
Fortaleza

W49 v. W50

SATURDAY 05 JULY

Quarter-finals • 13:00 Local time (GMT - 4 hours)

Maracanã - Estádio Jornalista Mário Filho
Rio De Janeiro

W55 v. W56

Quarter-finals • 17:00 Local time (GMT - 4 hours)

Estadio Castelao
Fortaleza

W51 v. W52

Semi-finals

TUESDAY 08 JULY

Semi-finals • 17:00 Local time (GMT - 4 hours)

Estadio Mineirao
Belo Horizonte

W57 v. W58

WEDNESDAY 09 JULY

Semi-finals • 17:00 Local time (GMT - 4 hours)

Arena Corinthians
Sao Paulo

W59 v. W60

Play-off for third place

SATURDAY 12 JULY

Play-off for third place • 17:00 Local time (GMT - 4 hours)

Estadio Nacional
Brasilia

W61 v. W62

Final

SUNDAY 13 JULY

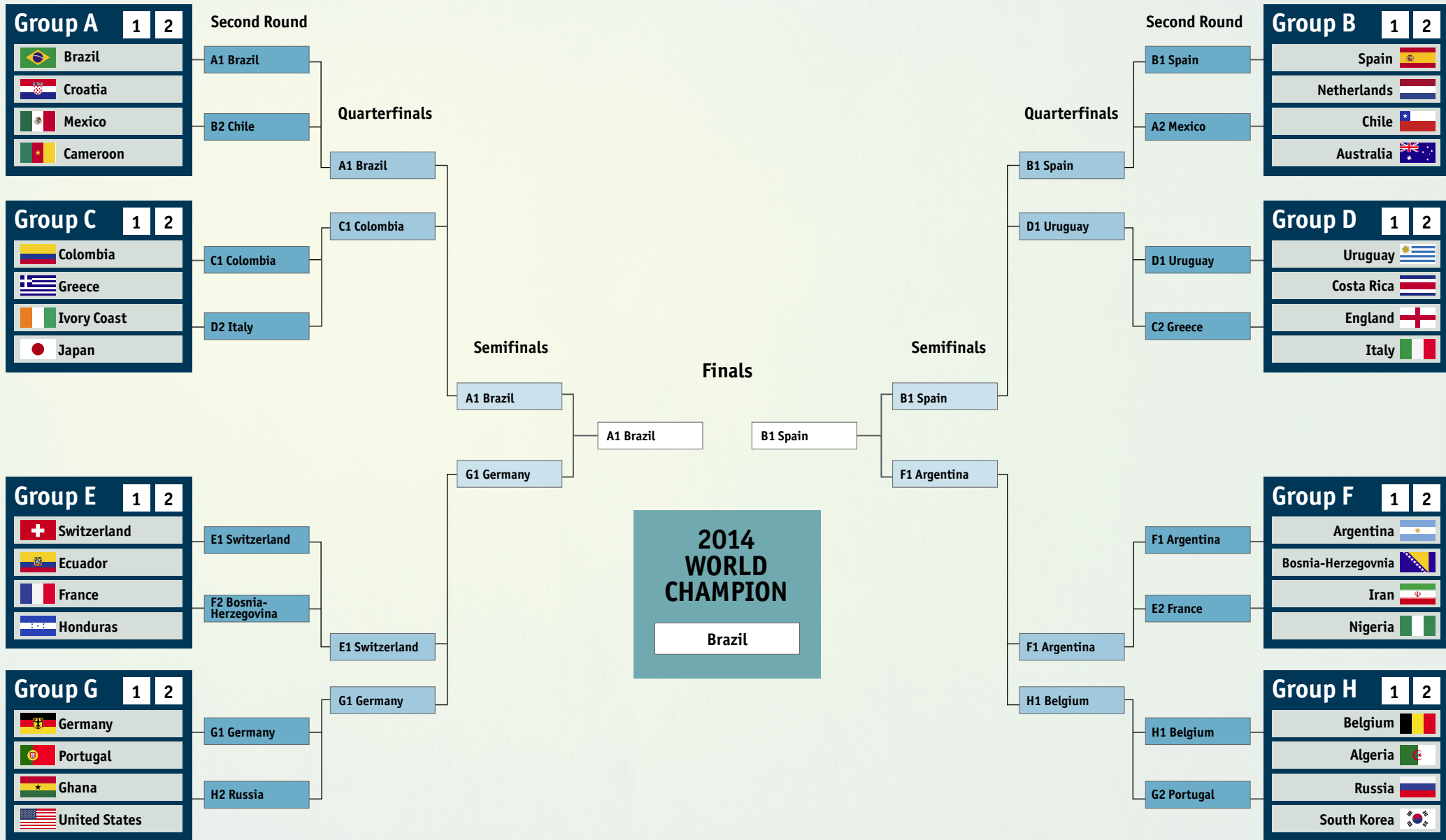
Final • 16:00 Local time (GMT - 4 hours)

Maracanã - Estádio Jornalista Mário Filho
Rio De Janeiro

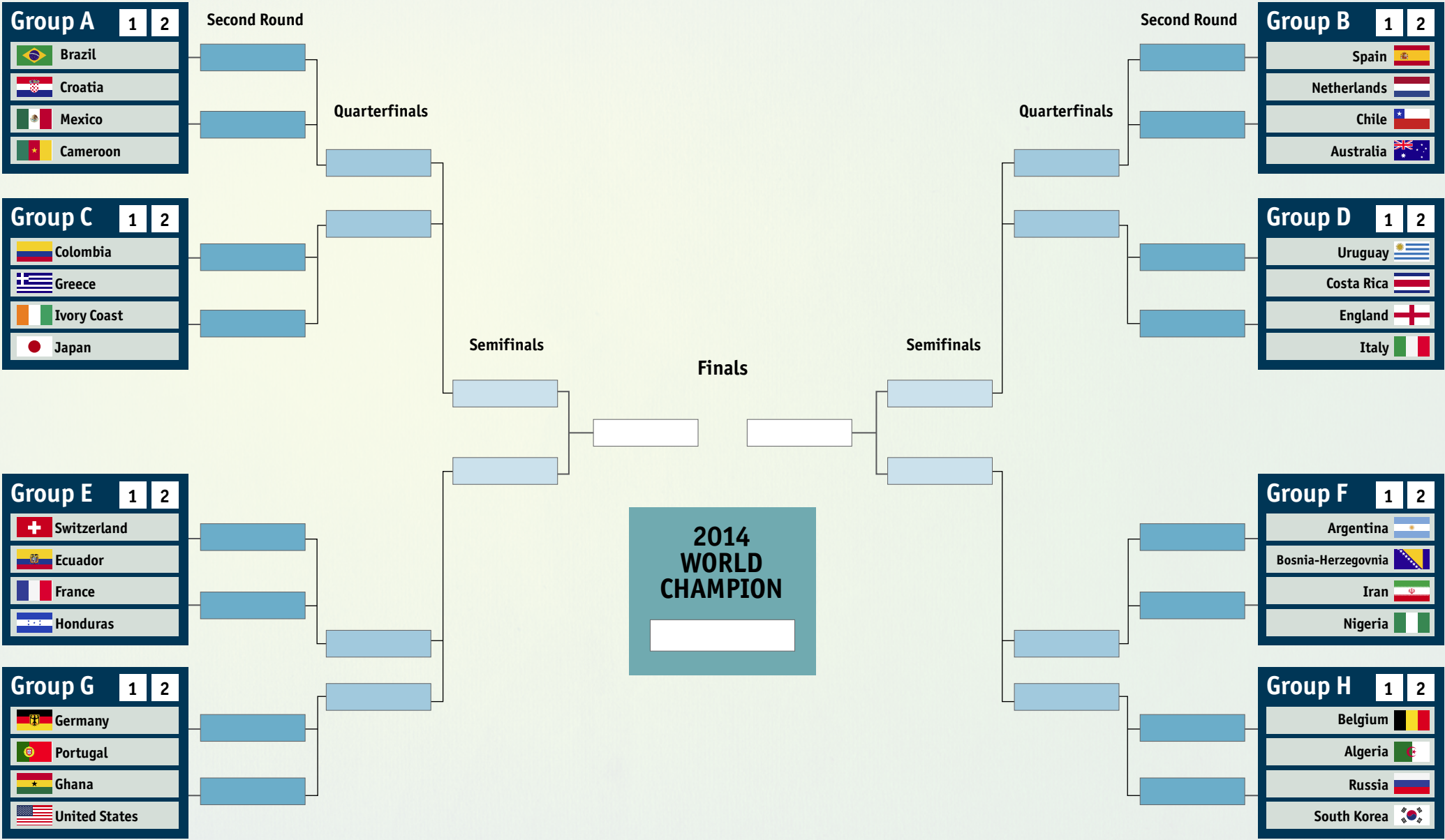
W61 v. W62

Predictor Bracket: elimination round

The Economist's prediction



Predictor Bracket: elimination round



The
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The Economist explains

The economics of Panini football stickers

May 27th 2014

THE World Cup is still two weeks away, but for children worldwide (plus disturbing numbers of adults), the race to complete the Panini Brazil 2014 sticker book started long ago. Panini, an Italian firm, has produced sticker albums for World Cups since the tournament in Mexico in 1970; this year's version has 640 stickers to collect (Brazilians are being forced to find nine sponsor cards, too). The market for the stickers is not just for kids, however; it is also for micro-economists. Getting every slot filled delivers an early lesson in probability; the value of statistical tests; the laws of supply and demand; and the importance of liquidity.



When you start an album, your first sticker (they come in packs of five) has a 640/640 probability of being needed. As the spaces get filled, the odds of opening a pack and finding a sticker you want lengthen. According to Sylvain Sardy and Yvan Velenik, two mathematicians at the University of Geneva, the number of sticker packs that you would have to buy on average to fill the album by mechanically buying pack after pack would be 899. That assumes there is no supply shock to the market (the theft of 300,000 stickers in Brazil in April left many collectors fearful that Panini would run short of cards).

It also assumes that the market is not being rigged. Panini says that each sticker is printed in the same volume and randomly distributed, although every collector will be haunted by a single recurrent card. In a 2010 paper Messrs Sardy and Velenik played the role of “regulator” by checking the distribution of stickers for a 660-sticker album sold in Switzerland for that year's World Cup. Out of their sample of 6,000 stickers, they expected to see each sticker 9.09 times on average (6000/660). They tested to see whether the actual fluctuations around this number were consistent with the expected distribution of stickers,

and found that it was. Such statistical tests are increasingly being applied to spot price-fixing and anti-competitive behaviour in real markets.

Even in a fair market, though, it is inefficient to buy pack after pack as an individual (not to mention bloody expensive for the parents). The answer is to create a market for collectors to swap their unwanted stickers. The playground is one version of this market, where a child who has a card prized by many suddenly understands the power of limited supply. Sticker fairs are another. As with any market, liquidity counts. The more people who can be attracted into the market with their duplicate cards, the better the chances of finding the sticker you want. Messrs Sardy and Velenik reckon that a group of ten people, swapping stickers efficiently and taking advantage of Panini's practice of selling the final 50 missing stickers to order, would need only 1,435 packs between them to complete all ten albums. Internet forums, where potentially unlimited numbers of people can swap stickers, mean that this number falls even further. The idea of a totally efficient market should dismay Panini, which will sell fewer packs as a result. Fortunately, as in all markets, behaviour is not strictly rational. Despite entreaties, this correspondent's son is prepared to tear out most of his stickers to get hold of Lionel Messi. ■

More from *The Economist*:

[Bend it like Britain](#)

The growth of Football Associations worldwide and the number of FIFA registered football teams by country

[The booty -full game](#)

In football, managers matter. But not as much as money does

Sportswear-makers

The adidas method

A German firm's unusual approach to designing its product

Aug 24th 2013

TEN years ago sportswear-makers were cramming ever more features and futuristic designs into their products. They were convinced that the consumer bought, say, training shoes based on their technical specifications. But in 2004 James Carnes, today adidas's creative director for sportswear, and a Danish consultant named Mikkel Rasmussen met at a conference in Oslo at which Mr Rasmussen challenged this notion. A mobile phone, he said, may have 72 functions, but that is 50 more than most people wanted, or used.

Mr Carnes was intrigued, and so began an almost decade-long engagement for ReD, the small consultancy Mr Rasmussen co-founded in Copenhagen. In that decade adidas's sales and share price have grown steadily, alongside those of Nike, an American firm that is the global leader in sportswear (see chart). It remains far ahead of Puma, its crosstown rival. The two German firms, based in Herzogenaurach in Bavaria, were founded by brothers, Adi Dassler (hence adidas's name) and the older Rudolf (Puma), who fell out.

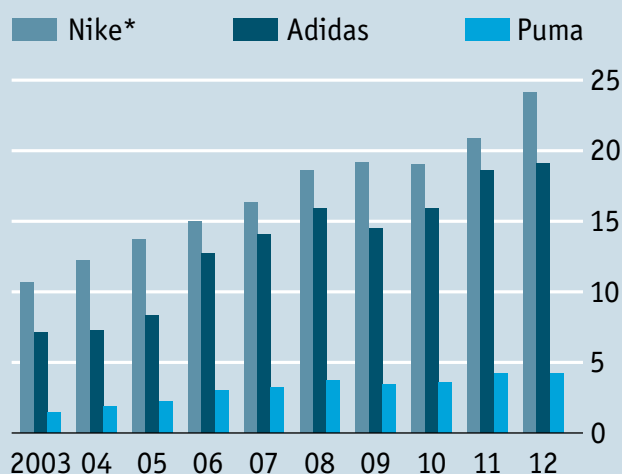
Nike's brash marketing is based on offering big cheques to star athletes to endorse its products. Puma spends an even greater share of its revenues on marketing, and has pushed into non-sporting casual clothes. Its sales have grown, but they remain far behind its main rivals'. Adidas takes a quieter approach, spending less of its revenues



Getty Images

Still the runner-up

Revenues, \$bn



Sources: Company reports; Bloomberg

*Fiscal years ending May 31st

on marketing than the other two. Although about a third of adidas's sales are also "lifestyle" goods, sportswear remains at the firm's core.

To succeed in a business with tight margins, adidas has had to get the nuts and bolts right. Like its rivals it has outsourced production to cut costs, for example. But with ReD's help it has also made handsome stuff that American rappers mention in their lyrics, and it now has prominent designers offering to co-operate on projects. Mr Carnes gives generous credit to the geeks at ReD, saying that they have had "a general effect on everything".

ReD has some curious methods. It hires ex-academics, largely anthropologists and ethnologists, to study customers' motivations intimately. ReD trained a group of adidas design staff in basic techniques, and sent each of them to spend 24 hours with a customer: to have breakfast, run and do yoga with them, and find out what made them exercise. In a related project, an anthropology doctoral student working for ReD mailed dozens of customers a



► disposable camera, asking them to photograph something that made them work out. Of 30 women who responded, 25 sent a picture of a little black dress, says Mr Carnes. The company had assumed that most customers were training to be good at specific sports; in fact for many, fitness itself was their “sport”.

Spending weeks with both the professional and amateur divisions of Bayern Munich football club, ReD’s researchers asked not how long the studs on their boots should be, but what would determine the success of a footballer in ten years’ time. They learned that top European clubs had all become proficient at teaching the necessary skills. The thing that could not be taught, and could only to a small extent be trained, was speed. So adidas adapted one of its track shoes into an exceptionally light football boot. When released in 2010 it became an instant hit—and it scored far and away the most goals in that year’s World Cup.

Intimate study of customers has influenced aesthetic design too. Adidas got the job of creating the host country’s uniforms for last year’s London Olympics. ReD found that for all their patriotism, Brits did not get terribly moved by traditional images like the monarchy and double-decker buses. So adidas and ReD told Stella McCartney, their chosen designer (pictured, centre), to think “untraditionally British”. She made a splash by putting the Union Jack’s red only on shoes, socks and trim, while making elements of the flag so big that on some shirts they were unrecognisable. Despite some initial criticism it was a commercial hit.

Similar research into national identity is going into next year’s football World Cup uniforms. When Russians were interviewed about what made them proud, “nothing past 1970 ever came up,” says Mr Carnes. Instead they mentioned Dostoevsky, the second world war and winning the race into space. So Russia’s uniforms will feature a curve representing Yuri Gagarin’s view from orbit.

Adidas has set an ambitious €2 billion (\$2.7 billion) sales target for its football division alone in 2014, up from €1.5 billion in 2010, the last World Cup year. Overall, the company wants €17 billion in sales by 2015, at the same time increasing operating-profit margins to 11% (from 8% now). Zany as some of its methods sound, equity analysts seem convinced that they will continue to pay off. In a recent poll of 34 analysts by Reuters news agency, none recommended selling the shares, and 25 labelled them as “buy” or “outperform”.

Adidas’s 2006 takeover of Reebok, another sports-wear firm, was a rare misstep. It has taken far longer than expected to turn around. The main risk adidas faces, says Erwan Rambourg, an analyst at HSBC, is that its heavy spending to gain market share in America and China does not pay off. A strengthening euro is another. But adidas’s

many admirers believe that the company’s disciplined habits, and its novel approach to product research, should help it leap over any such hurdles. ■

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Post-reform Mexico

Last year, Mexico's government overcame political gridlock to pass a robust reform agenda that had been pending for years. Unprecedented changes to the energy and telecom sectors, among others, have laid an important foundation for a healthier and more globally competitive economy. But the economy, which grew a mere 1.1% last year, has not seen as much momentum.

As Mexico comes to grips with the effects of these policy changes, can it emerge as a lasting global economic force? Join *Economist* editors, key policy-makers and top business minds at our annual Mexico Summit this November 5th. The conference will take an in-depth look at how the post-reform landscape is shaping the country's economic outlook and how Mexico can leverage its position both regionally and globally to ignite progress.

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How many prestigious sports stadiums does Brazil need?

Sep 28th 2013

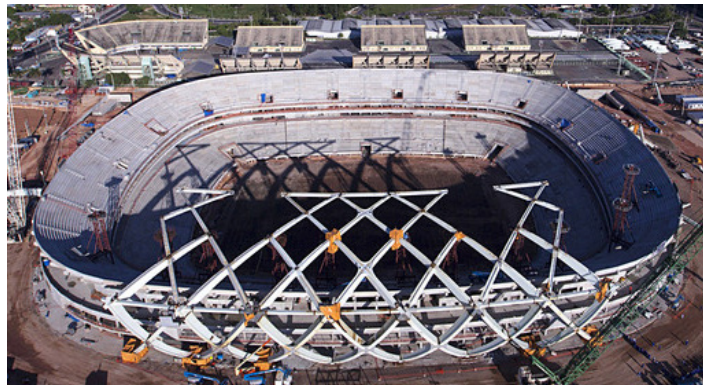
TOURISTS COME TO Manaus in the northern state of Amazonas for rolling rivers, virgin rainforest and Belle Epoque buildings from the 19th-century rubber boom when the city was known as the Paris of the Tropics. The most striking monument to that era is the Amazonas Theatre. Decked out with European hardwoods, Carrara marble and Venetian glass, it took 12 years to build and went dozens of times over budget. Now Manaus is to get another pricey landmark—for some, another folly. This time the cost will fall on taxpayers.

Amazônia Arena, a 42,000-seat steel-and-fibreglass affair inspired by local hand-woven baskets, is one of 12 venues in 12 cities Brazil is building or refitting for next year's World Cup. It will cost 600m reais (\$265m), which will make it one of Brazil's most expensive football venues. Its external framework was shipped from Portugal in 800 pieces because Brazilian firms that could have delivered the required quality were booked out until 2016. The deadline for completion is December, but FIFA, the sport's governing body, fears that it will be missed.

Once the tournament is over, Manaus's new landmark is unlikely to see much sport. The city's football team plays in a low division, with matches attended by only a few hundred fans. The teams in three other host cities, Brasília, Cuiabá and Natal, also draw small crowds. The government says the four were chosen to showcase Brazil's diversity. Amazônia Arena's project manager, Miguel Capobianco, gamely talks of covering monthly running costs of 500,000 reais with business meetings, craft fairs and municipal shows. More likely, though, all four will become a permanent drain on public funds—though the other eight have a reasonable prospect of a useful future.

Brazil's taxpayers are outraged that 8 billion reais are being spent on all these sparkling stadiums when their country's infrastructure in general is so decrepit. Most of the transport upgrades planned for the tournament will not now be ready in time or have been axed altogether. June's protests coincided with the Confederations Cup, a trial run for next year's event. Placards demanded public money for new roads, schools and hospitals, to be built "to FIFA standards". The mood scarcely improved even when in the final Brazil beat Spain, the current world champion.

A four-hour flight south from Manaus, Rio de Janeiro is preparing not only for seven World Cup games, including the final, but also the 2016 Olympics. Organisational chaos during Pope Francis's visit to the city in July cast doubt on its capacity to plan large-scale events: his motorcade



Reuters

got stuck in traffic, a blackout halted the metro for hours and Mass for 1.5m had to be moved to Copacabana beach when rain turned the original venue into a mudbath.

Rio's famous Maracanã football stadium scrambled to reopen before the Confederations Cup after its third renovation in a decade, which brought the total spent on refits to 1.35 billion reais. More may be needed before it hosts the Olympics opening and closing ceremonies. But new high-speed busways and an extension to the city's metro should be useful, and the run-down port area is being renovated with private money.

Hosting the Olympics, says Maria Silvia Bastos Marques, the boss of the Municipal Olympic Company, has given Rio a fresh "focus, determination and will". After the federal government moved to Brasília in 1960, incompetent and sometimes corrupt local governments left the once marvellous city looking down-at-heel. In Manaus, Mr Capobianco hopes the World Cup will teach Brazilians something new: that when it wants to, their government can build to a high standard and hard deadline. If only it would do so more often. ■

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Protest in Brazil

Cheering for Argentina

The protest movement that shook Brazil last year has not died. But it is unlikely to disrupt the World Cup

May 31st 2014



WITH a university degree and a flat in a smart neighbourhood of São Paulo, Ernesto Filho, a 33-year-old choreographer and dancer, is not your average Brazilian. He is, however, typical of the 1m people who took to the streets 12 months ago, in the greatest social unrest Brazil has seen in two decades.

The protests began on June 6th last year, with a small rally against a rise in São Paulo bus fares of 20 centavos (at the time, nine American cents). Over two weeks they morphed into a nationwide outpouring of dismay at shoddy public services, corruption, the cost of living, ineffectual government and much else. Since then politicians and pundits have been analysing the events, which unfolded as Brazil hosted the Confederations Cup, a warm-up tournament for the football World Cup that begins on June 12th—and trying to work out whether they should brace for a replay.

For now the betting is against another round of mass demonstrations. Among paulistanos support for them has dropped from 89% at the end of June 2013 to just 52% now, according to Datafolha, a pollster. That shift reflects the

changing profile of the protesters, says Christopher Garman of Eurasia Group, a risk-analysis firm.

Research has found that an overwhelming majority of those who took part in the first big protests were, like Mr Filho, under 35, university-educated or students, and protest novices rather than hardened activists. Most had little sympathy for established political parties. They were also better off than average. Normally a quiet bunch, this middle class rose up at first in response to brutal repression of the bus-fare crowd by ill-trained police. Images of journalists wounded by rubber bullets and innocent bystanders choked by tear gas prompted Brazil's conservative press, which had called for a crackdown on public disorder, to perform an about-turn.

The authorities' reaction, Mr Garman explains, inadvertently helped to reshape the protests. Policemen were told to restrain themselves; seeing their popularity plummet, mayors around the country rushed to reverse bus-fare rises. This galvanised organised social movements with traditional agendas and, often, links to political parties, to occupy the space left open by the retreating riot ►►

- police. Violent elements such as “Black Blocs”, an anarchist group, moved in as well.

The fire last time

In the year since, the protests have become more overtly political, and more extreme—putting off moderates such as Mr Filho who had at first bulked them out. Again, the authorities have been partly responsible. After the initial panic, little changed. Talk of a constituent assembly, for example—an idea floated by President Dilma Rousseff in response to calls for political reform—came to nothing.

That convinced Black Blocs of the futility of peaceful protest, says Esther Solano of the Federal University of São Paulo. In February a cameraman covering a protest in Rio de Janeiro died after being struck by a firework set off by two of the group’s members. Violence and the presence of 100,000 policemen and 57,000 soldiers enlisted to keep the peace during the football championship are likely to deter many middle-class protesters.

None of which means the tournament will be entirely protest-free. On May 27th 2,500 indigenous and other militants confronted the police in Brasília, the capital. A few days earlier, in São Paulo, at least 15,000 homeless people blocked one of the city’s main thoroughfares at rush hour, clogging already congested streets in the biggest single protest since last June. Guilherme Boulos, a leader of the protesters, says he was encouraged by last year’s bus-fare reversals; his main demand now is for City Hall formally to hand over property that the protesters are occupying illegally. A huge rally to commemorate the bus-fare triumph is planned for June 19th, this time to agitate for a bigger prize: universal free public transport.

These demands are either too narrow or too radical to impress most Brazilians, who are consequently less willing to tolerate the considerable inconvenience caused by those who make them. At the same time, politicians are less likely to bow to activists’ whims if these are not backed by an outraged citizenry.

Bruno Torturra of Mídia Ninja, an activist news outlet, thinks the scale of World Cup protests will depend on how well the event is run, as well as on the performance of Brazil’s team on the pitch. Support for the tournament has already plummeted from 79% in 2007 to 48%. Should the national team be eliminated early, Mr Torturra reckons, more Brazilians are bound to question the extravagant expense, which the government puts at 25.8 billion reais (\$11.5 billion), spending that has not yielded the promised public infrastructure. “Social movements are quietly cheering for Brazil to lose,” remarks one activist, “even to arch-rival Argentina.”

But, given both skill and home advantage, the odds are that the Brazilian team will do well. And there are

other reasons why unrest is unlikely to spiral. Last year’s protests took everyone by surprise. That is no longer true. Security forces will be careful not to repeat the excesses of last June; 13,000 police officers have received special training in facing down troublemakers without undue violence. The social movements, for their part, will also tread carefully. Many have a bone to pick with Ms Rousseff’s Workers’ Party. But they are far less keen on her centre-right rivals in the presidential poll this October, who would use any upheaval to score electoral points.

Last June was a dress rehearsal for the World Cup and, for the politicians, a warm-up for arguments at the presidential election. This year there is more at stake, both for them and for Brazil’s reputation. Not wanting to be tainted by association with the radicals, and fearful for their own safety, Mr Filho and many like him plan to play safe, and stay at home. ■

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The price is wrong

Why Brazil offers appalling value for money

Sep 28th 2013

FROM \$30 CHEESE pizzas in São Paulo to \$250-a-night windowless, smelly hotel rooms in Rio, the lasting memory from a visit to Brazil in recent years has been shock at how expensive it is. When Lula came to office in 2003 a dollar bought 3.5 reals; by mid-2011 it bought just 1.53 reals, barely a third of the 2003 figure in real terms, because inflation in Brazil during the period was much higher than in the United States. Since then the exchange rate has fallen to 2.3 reals to the dollar, but that has undone little more than half the past decade's gains. In any case, the causes of Brazil's competitiveness problem go far deeper than the exchange rate. The strong real actually helped keep prices down by making imports cheaper. It did, however, give foreign visitors a chance to experience something the locals know so well that they have a name for it: the custo Brasil (Brazil cost).

Compared with other middle-income countries, Brazil is astonishingly poor value for money. Large domestic appliances and cars cost at least 50% more than in most other countries. For everyday items such as toothbrushes and children's toys the difference is often a lot more. Among the 48 countries tracked by the Big Mac index, The Economist's lighthearted currency-comparison tool, a burger in Brazil costs more than in only a handful that are much richer (Norway, Sweden, Switzerland) and one that is dysfunctional (Venezuela). Burgers should be cheaper in poorer places because wages are lower: in Brazil, less than a quarter of European or North American levels. Allowing for that, a Brazilian Big Mac costs an indigestible 72% more than it should do, and the real remains one of the world's more overvalued currencies.

The IMF's broader cost-of-living figures show that Brazil's high prices are no mere quirk of burgeronomics. In most less well-off countries people find their money goes further than market rates would suggest because non-tradable goods are cheaper. Averaged across all goods and services, a Mexican's spending power, for example, is 45% higher at home than if he bought dollars and shopped across the border. But a Brazilian can buy little more at home than he can in the United States.

The causes of Brazil's cost problem are legion. Start with taxes. At 36% of GDP, the total tax burden is far heavier than in other developing countries. Payroll taxes, at 58% of salary, are higher than in any other big economy. Consumption, too, is heavily taxed, which explains why a Brazilian-made car costs up to 45% less in Mexico than it does in Brazil itself. High tariffs push up the price of imports even more. A smartphone costs about 50% more



Reuters

than in the United States. Most cars imported from outside the Mercosur trade block and Mexico attract not only a 35% tariff but an extra 30% on top of the normal sales tax.

The complexity of the tax code also raises compliance costs. A mid-sized Brazilian firm takes 2,600 hours to prepare its annual tax return, almost ten times the global average. Rigid labour laws make it hard to deploy workers efficiently and lead to costly court cases, 3.2m last year ►►

The Brazil price

1

Cost of doing business 2012	Brazil	Average	
		Other Latin America	OECD
Procedures to start a business, number	13	9	5
Time to start a business, days	119	51	12
Time to pay taxes, hours per year	2,600	308	186
Cost* to: export	2,215	1,197	1,029
import	2,275	1,545	1,089
Time to resolve insolvency, years	4.0	3.1	1.7

Sources: World Bank; *The Economist* *\$ per container

The world comes to Brazil

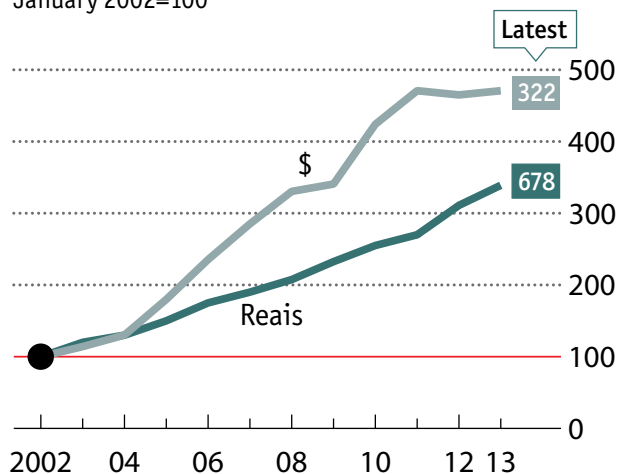
▶ alone. Many businesses prefer to hide in the informal sector. A 2006 McKinsey report estimated that by remaining in the shadows a retailer could more than triple its profit margin, but at the cost of forgoing investment and economies of scale. A simplified regime for small firms introduced since then has persuaded many to register, but the resulting efficiency gains are limited by a new problem: too many “Peter Pan” firms unwilling to grow up and lose their privileges.

A plethora of other costs help drive up prices. Poor roads and a limited rail network make for high freight charges. High crime rates have bred a private army of 650,000 security guards. Prime office rents in big cities are vertiginous; Rio's are the highest in the Americas, north or south. A low savings rate, high bank-reserve requirements and the government's considerable funding needs (it runs a budget deficit each year, despite that 36% tax burden) make credit expensive. FIESP, São Paulo's association of industrialists, says firms' financing costs make up 5% of the end price of manufactured goods.

Retailers manage to keep selling by accepting payment in instalments. The hyperinflationary years taught Brazilian consumers not to worry about the total cost, just whether they can afford the monthly payments. But the effect is to push up the sticker price, since the cost of waiting for full payment and the risk of default has to be built in. Corners are also being cut on quality. In Mexico the bottom-of-the-range VW Gol, made in Brazil, is a 1.6-litre, four-door affair with air-conditioning. In Brazil it has a 1-litre engine and two doors, with air-conditioning extra.

Less minimal

Monthly minimum wage
January 2002=100



Sources: Brazil Labour Ministry; Thomson Reuters

Shopping around

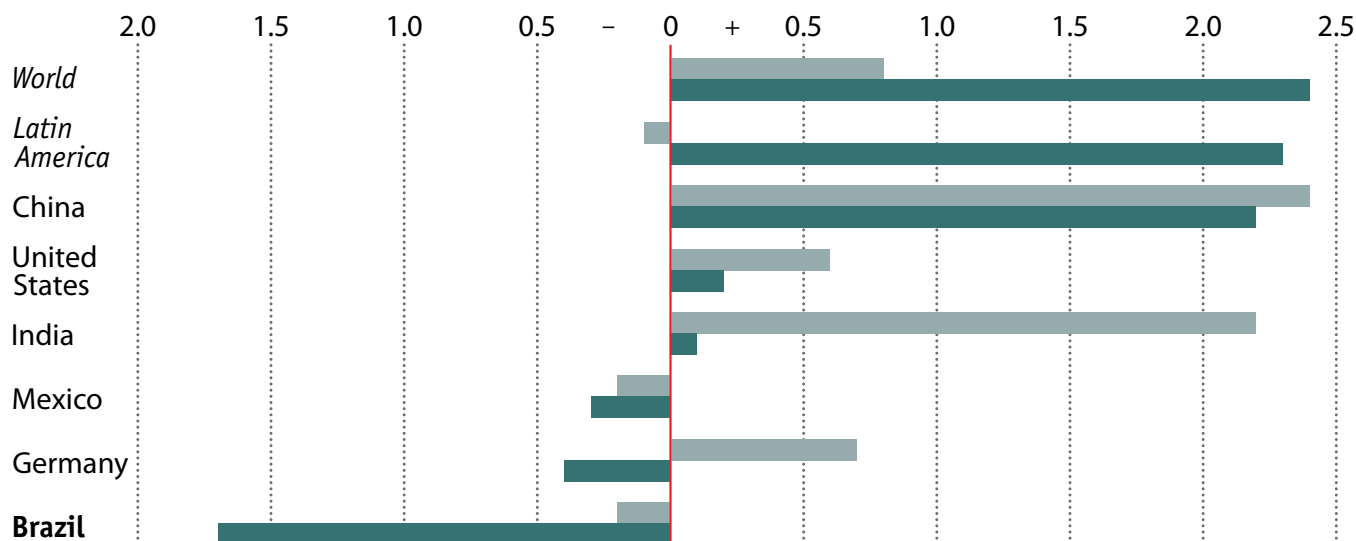
Brazilians respond to whopping price differences by going on foreign shopping sprees. Brazilian tourists spent \$22.2 billion abroad last year, a record, and seem set to go even higher this year. Direct Luxury Group, a consultancy, estimates that four-fifths of Brazilians' spending on upmarket goods takes place abroad. Miami has been getting so many Brazilian shoppers in recent years that many stores ▶▶

Poor show

Total factor productivity change, annual average, %

1996-2010

2012 or latest



Sources: The Conference Board; The Economist

- ▶ there have hired Portuguese-speaking staff. TAM, a Brazilian airline, says it takes on extra fuel on the return leg of that route to allow for excess baggage.

The story of the custo Brasil is decades old. Now soaring pay is adding a new chapter to it. Since 2003 the country's unit labour costs have doubled, compared with inflation at 67%. In dollar terms they have trebled, thanks to currency appreciation. One reason is the scarcity of well-educated workers. Manpower Group, an employment agency, says Brazil is the world's second-hardest place for firms to find the skills they need, behind only ageing Japan. At the top end, headhunters say multinationals often have to pay their Brazilian executives more than their bosses in London or New York earn. But the main reason is a decade of big increases in the minimum wage, which sets a trend for all pay negotiations. At the start of 2003 it was 200 reais a month; now it is 678 reais, almost twice as much in real terms (see chart 2). The government is committed to above-inflation increases until 2015.

Raising the minimum wage had its merits at first, says Gray Newman of Morgan Stanley. In the years before Lula took office its value had eroded, creating room to shift profits from capital to labour. High interest rates kept inflation in check, and the weak currency ensured that exports remained competitive even if prices did rise a bit. Higher incomes, helped by somewhat more accessible consumer credit, boosted consumption, creating more jobs in a virtuous cycle.

Large domestic appliances and cars cost at least 50% more than in most other countries

But the policy has now pushed costs beyond what either the foreign or the domestic market is willing to bear. Household consumption, one of the economy's few bright spots in the past two years, has levelled off. Consumers are overstretched, with 21.5% of household income going to service debts. Despite some of the world's highest tariffs, imports are taking a bigger share of the manufactured products Brazilians buy. Exports of manufactured goods are slipping. After several years of price rises close to 10%, demand for services is losing steam. "After a long boom driven by credit and consumption, Brazil has ended up looking in some ways like southern Europe," says Tony Volpon of Nomura Securities, a broker. Only the rising value of its commodity exports saved it from ballooning current-account deficits.

In the short term a weaker currency will help, as long as tight fiscal and monetary policy prevent it from fuelling inflation. The real is now 11% lower than at the start of this year, having touched 20% in August, though after taking inflation into account it is still well above its long-run average. A cheaper real will make Brazilians poorer by lowering their wages in foreign-currency terms and do nothing to get to the roots of the custo Brasil. But it will protect jobs by making exports cheaper and imports

pricier, and by reducing the price of services compared with tradable goods.

In the longer term Brazil needs to boost its productivity. A recent study by the Boston Consulting Group estimated that three-quarters of Brazil's growth in the past decade has come from adding more workers and only a quarter from productivity gains. Since there is little room for the workforce to grow further, that needs to change. Other developing countries, and plenty of rich ones too, are doing far better. Regis Bonelli and Julia Fontes of the Fundação Getulio Vargas, a university, calculate that in 2000 Brazil achieved 19% of United States productivity levels, but by 2012 this had dropped to 18%. Over the same period the Chinese figure leapt from 6% of that in the United States to 17%.

A closer look at the productivity figures points to some explanations. In the past two decades "total factor" productivity—the part left over after accounting for growth in inputs such as labour, education and physical capital—has fallen in Brazil but grown in most other countries: in China by 2.8% annually, in India by 2.3%. That suggests Brazil missed out on gains other countries saw from investments in both human and physical capital, or that other improvements that generally come with such investments somehow failed to materialise.

The World Bank's annual report on doing business in various countries reads like a productivity to-do list for Brazil: make it simpler to start up and wind up companies; cut and streamline taxes; increase domestic savings and investment. For more hints, the country might turn to one of the few sectors where productivity has grown steadily in recent years: agriculture. ■

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Getting Brazil moving again will need lots of private investment and know-how

Monitor

The referee's a robot

Technology and sport: The deployment of goal-line technology to assist football referees may open the way to further decision aids in future

Sep 7th 2013



IT'S July 13th 2014. England's Wayne Rooney darts behind a German defender to score the only goal of the football (soccer) World Cup final, just seconds before the final whistle. But the jubilation of the team's supporters at Maracanã stadium in Rio is cut short as the linesman hoists his flag. The goal is disallowed under the offside rule, despite video evidence to the contrary. The German team goes on to win the penalty shoot-out.

Although the notion of England reaching the World Cup final makes this scenario somewhat fanciful, erroneous offside calls are rather more regular occurrences. A clear refereeing error at the last World Cup persuaded the International Football Association Board (IFAB), which determines the laws of the game, to sanction the introduction of goal-line technology this summer. This may be just the first step towards the wider use of technology to assist error-prone match officials.

Not everyone approves. FIFA, football's international governing body, which has half of the votes at IFAB meet-

ings, argues that goal-line decisions are a special case and opposes any other technological aids. But Francisco Rocca, chief executive of La Liga, Spain's top football league, revealed earlier this year that he and his colleagues have already started looking at offside technologies.

There have long been calls for referees to have access to instant video replays, as they do in other sports including basketball, American football, baseball and rugby. Many share the view of Sepp Blatter, the president of FIFA, who is opposed on the grounds that it would break the flow of matches. But this criticism cannot be levelled at new devices and systems, at varying stages of development, which could mitigate refereeing errors.

GoalControl, the German provider of the goal-line technology used during June's FIFA Confederations Cup in Brazil, has already begun work on new decision aids for referees. Its existing system uses seven high-speed cameras focused on each goal, and software that transforms two-dimensional images into three-dimensional representa-



► tions of the ball and its trajectory. With more cameras and extra software capable of identifying individual players, a souped-up version could make a variety of refereeing judgments. The company claims that by tracking players' hands and arms, it could even call handballs. "We are concentrating on goal-line technology, but the system is able to detect offside and penalties," says Dirk Broichhausen, GoalControl's boss.

Hawk-Eye, a British company owned by Sony which has developed decision aids for tennis and cricket, is behind the goal-line technology now being used in the English Premier League. A video-based system that works in a similar way to GoalControl, it could also be adapted to do other things, though Paul Hawkins, its inventor, is unwilling to discuss whether the firm is working on offside decisions.

Researchers at Keio University in Japan have devised a 16-camera system that can spot offside offences. It can also identify situations in which players in offside positions do not actually touch the ball. In a recent test during a live match, there were two incidents in which the system got offside calls right—and the referee got them wrong.

These image-processing systems are not the only games in town. Engineers at the Fraunhofer Institute for Integrated Circuits, in Erlangen, Germany, have developed RedFIR, a radio-based sport tracking system. A small, impact-resistant radio transmitter within the ball allows its position to be determined 2,000 times per second to receivers around the pitch, while similar devices built into shin pads do the same for the players.

Because the use of such devices in professional games would require rule changes, RedFIR is currently being developed to provide performance data during training. Its software allows managers to monitor things like sprint frequency and pass completion. But it could do much more, including helping referees with offside calls, corners and throw-ins, says René Dünkler of the RedFIR team.

Even more infuriating to supporters than incorrect offside decisions are players who dive to gain unwarranted penalties. The prototype anti-dive shin pads used during a demonstration match in London in 2011 could put a stop to such antics. These use an accelerometer and a magnetic proximity sensor to identify the impact of an opponent's boot, so that dives can be distinguished from legitimate tackles. They were designed as a decision aid rather than a fully automatic system, says Daniel Bartram of Smallfry, the British firm that designed the pads. But an automatic system could be built.

Though there is much disagreement over the merits of such technologies, few dispute the fallibility of human referees. Research shows, for example, that home teams

are awarded more penalties, receive fewer punishments for offences and get more extra time when losing. As automated systems that can make more accurate calls than humans are refined and demonstrated, football's custodians may find that pressure for their adoption becomes too great to resist. ■

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