THE WALL STREET JOURNAL.

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What's News

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Nikesh Arora announced his abrupt departure from SoftBank, a split that follows criticism from investors. **A1**

◆ **Some of Asia's** biggest firms say they would face operational turmoil and increased financial risks if the U.K. votes to leave the EU. **A1**

◆ **The Fed's Yellen** is slowly coming to acknowledge that subpar growth could be the new long-run state of the U.S. economy. **A1, B10**

◆ **Tencent and its partners** will pay $8.6 billion to purchase a majority stake in Finland's Supercell. **B1**

◆ **Hedge-fund manager** Sanjay Valvani, charged last week in a U.S. insider-trading case, was found dead in an apparent suicide. **B5**

◆ **Boeing said it signed** a tentative agreement to sell jetliners to Iran Air. **A1**

◆ **South Korea's two** biggest electric-vehicle battery makers failed to get certifications from China. **B2**

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◆ **Campaigners began** a final dash to win support on both sides of the U.K. referendum on whether to stay in the EU, as more polls suggested a close vote. **A3**

◆ **The killing** of U.K. lawmaker Jo Cox has drawn attention to far-right extremist groups centered in northern England. **A3**

◆ **Germany's top court** rejected a legal challenge to the ECB's unlimited bond-buying program. **A4**

◆ **Jordan said** a car bomb along the border with Syria killed and injured several border guards. **A4**

◆ **Bahrain stripped** the citizenship of its top Shiite cleric over allegations of inciting sectarianism. **A4**

◆ **Resurgent inflation** is likely to be the first big test for India's next central bank governor. **A5**

◆ **New research shows** that the upper middle class in the U.S. is larger and richer than ever. **A7**

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Long Road to Recovery After Landslides in Indonesia

ULET IFANSASTI/GETTY IMAGES

FANNING OUT: Indonesian soldiers and rescuers cleaned a road as they searched for victims of a landslide in Purworejo, Central Java province, on Tuesday. At least 47 people were killed in landslides and flooding in the densely populated province east of Jakarta.

U.K. Vote Has Asia on Edge

Leaders in China, India and Japan warn of potential impact were Britain to leave the EU

By Megumi Fujikawa in Tokyo, Preetika Rana in New Delhi and Wayne Ma in Hong Kong

The threat of a U.K. vote to leave the European Union is alarming some of Asia's biggest companies, which say they face operational turmoil and increased financial risks should the economic union be broken.

From Japanese auto makers to Indian conglomerates and China's wealthiest tycoons, Asia's biggest investors in the U.K. have warned that a vote to leave would diminish Britain as an investment destination for companies employing tens of thousands of workers in industries from car manufacturing to transport, utilities and information technology.

The U.K. has long been a portal for Asian companies seeking exposure to Europe, and with polls showing the vote on Thursday too close to call, the threat of a "leave" vote has prompted political leaders in China, India and Japan to urge the U.K. to remain in the EU because of its importance for market access.

"Many Japanese companies set up their operations in the U.K. precisely because the U.K. is a gateway to the EU," Japan Prime Minister Shinzo Abe said last month, adding that "a vote to leave would make the U.K. less attractive as a destination for Japanese investment." Indian Prime Minister Narendra Modi and Chinese President Xi Jinping have also backed an EU that

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SoftBank President Abruptly Departs

By Alexander Martin

TOKYO—Nikesh Arora, the former Google Inc. executive who was anointed the heir to Japanese internet and telecommunications giant SoftBank Group Corp., announced his abrupt departure, a split that follows a spate of criticism from investors in recent months.

Tencent Seals Deal For Supercell
The $8.6 billion purchase of the 'Clash of Clans' game maker puts the Chinese internet giant on the world stage. **B1**

Mr. Arora, who was handpicked by Softbank's founder and Chief Executive Masayoshi Son to be his successor, said Tuesday that he would leave to pursue a different path after just two years with the Tokyo firm. Mr. Arora, 48, led major overseas investments for SoftBank, including several in India, that have so far yielded lukewarm results. He was also appointed a board member of U.S. wireless carrier Sprint Corp., which has been hemorrhaging cash since SoftBank acquired it in 2013.

Investors have raised concerns about Mr. Arora's performance, and some launched a campaign to oust him, suggesting that he faces a conflict of interest because he also advises a private-equity firm.

Mr. Arora has said the inves-

Please see ARORA page A2

Big Changes Unlikely for iPhone

YOSHIO TSUNODA/AFLO/ZUMA PRESS

STAND PAT: Apple plans to make only subtle changes to the iPhone models it will release this fall, breaking its pattern of overhauling every two years. The headphone plug is expected to be removed. **B1**

Yellen Cites Headwinds, Offers Few Clues on Rates

By Jon Hilsenrath

Federal Reserve Chairwoman Janet Yellen is slowly coming to acknowledge that after seven years of subpar U.S. growth, this could be the new long-run state of the economy, a development that could weigh on interest rates for years to come.

Long-run headwinds to economic growth were a central theme in a statement Ms. Yellen delivered to lawmakers in her first of two days of testimony to Congress on the economic outlook and monetary policy.

Fed officials next meet July 26-27. Ms. Yellen gave no indication that she expects to move rates up at that time. She pointed to reasons for optimism and said she doesn't anticipate a recession in the coming year, as some fear. Still, the central-bank leader dwelled on uncertainties and risks that could hold back growth.

"Considerable uncertainty about the economic outlook remains," Ms. Yellen said in her five pages of prepared testimony. Consumer spending and investment could falter, she said. Moreover, slow productivity growth could persist, which would hold down wage

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◆ Heard on the Street: Inflation may be the Fed's friend.... B10

Banned From the Roads, Saudi Women Flock to Bumper Cars

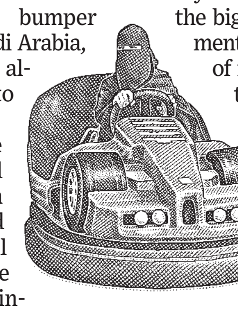
* * *

Long lines for amusement-park driving sessions; 'Please, don't bump me!'

By Margherita Stancati

JEDDAH, Saudi Arabia—Joudi al-Omeri drove in circles. And when cars came in her direction, she swerved. These were electric bumper cars, but in Saudi Arabia, the ride doesn't always live up to its name.

"I come here to drive," said Ms. al-Omeri, a 27-year-old homemaker still giddy from the roughly five-minute, mostly crash-free ride in her red-and-green two-seater. "It's much better than bumping against others," she adds.



Bumper car

At the weekly ladies-only night at the Al Shallal Theme Park in the coastal city of Jeddah, women discard head scarves and head-to-toe black gowns to reveal the latest trends—ripped jeans, tank tops, and tossed-to-the-side '80s-style hair. For many of them, the biggest draw of the amusement park isn't the few hours of fashion freedom. Instead, they go there to get behind the wheel—even a bumper-car wheel—in a country that bans female drivers.

There are no loud bangs or ferocious head-on crashes. There are a few slow-speed collisions, but also a lot of dodging, as many women are content with just gliding over the smooth surface. For some, the biggest risk of bumping into each

Please see BUMPER page A6

Boeing Signs Deal To Sell Jets To Iran Air

By Robert Wall

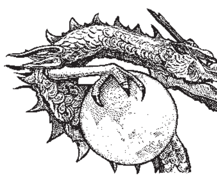
LONDON—Boeing Co. Tuesday said it had signed a tentative agreement to sell jetliners to Iran, in what would be one of the Islamic Republic's biggest deals with a U.S. manufacturer since trade sanctions on Tehran were eased.

The proposed agreement comes after months of talks between Boeing and Iran Air. Details of the potential transaction haven't been disclosed by Boeing, but Iranian Transport Minister Abbas Akhoundi told state television on Tuesday that the pact could have a value of up to $25 billion, according to the Associated Press.

"Boeing confirms the signing of a Memorandum of Agreement (MOA) with Iran Air, expressing the airline's intent to purchase

Please see BOEING page A2

Protectionist Backlash Against China Builds



CHINA'S WORLD
ANDREW BROWNE

SHANGHAI—If there's a single German company that embodies the country's industrial ambitions in the digital era it's the robot maker **Kuka** AG.

A global leader in factory automation, it helps build fuselages for the U.S. military's new F-35 stealth fighter.

This is why Kuka's potential takeover by China's largest home appliance maker, **Midea Group**, is such a watershed, not just for Germany but in a broader sense for America and the industrialized West.

Kuka is the latest in a string of advanced German manufacturers targeted by Chinese companies. As their shopping spree gathers pace—one company a week so far this year—what rankles Chancellor Angela Merkel and her government even more than the loss of cutting-edge technology are the rotten terms of the transfer.

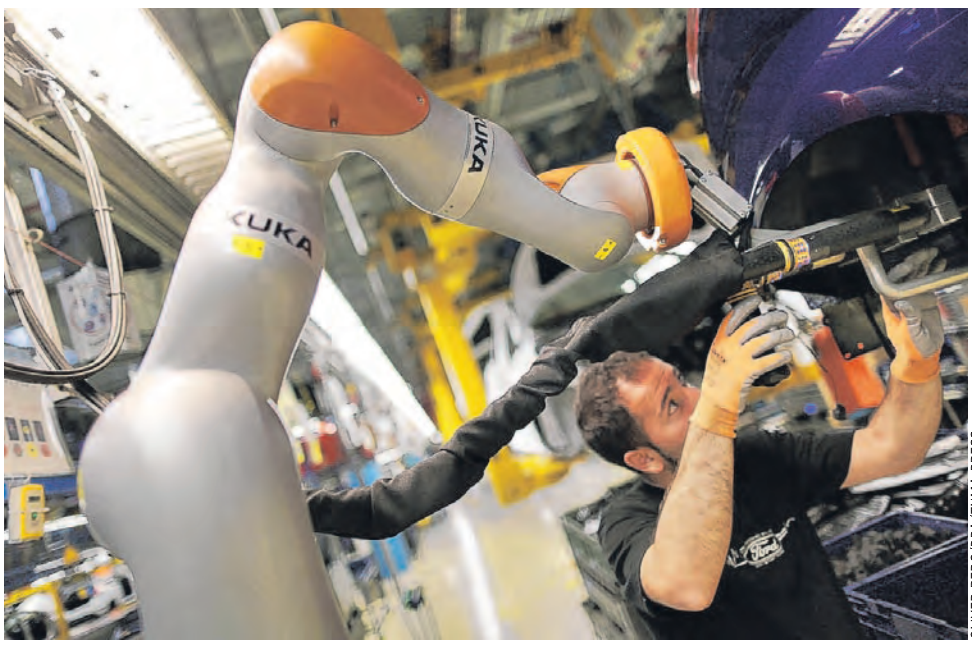
Ms. Merkel has signaled that she is losing patience with a country that acquires high-technology expertise in Germany's wide open markets, makes hefty profits from it in protected Chinese markets and—worst of all—uses it to build state-owned national champions that compete with German firms around the world, including on their own home patch.

On a visit to Beijing this month, Ms. Merkel called on Chinese authorities to grant foreign firms the same "rights and privileges" as domestic ones. "No one wants to see an expanded trade war between the European Union and China," she added.

Day by day, that risk increases. China is snapping up Western technology and brands as it rebuilds its economy around services and "smart manufacturing" that connects machines digitally to logistics networks and customers. It has trillions of dollars to throw into a state-coordinated effort to become a modern manufacturing superpower.

Small and medium-size German engineering companies—the backbone of the economy—are particularly attractive to Beijing. China is so enamored of Germany's industrial-modernization plans that it has copied whole chunks of the Berlin concept "Industry 4.0" into its own blueprint for digital transformation.

But China doesn't reciprocate. The world's second-largest economy comes dead last in a list of countries ranked according to their openness to foreign investment put together by the Organization for Economic Cooperation and Development, far behind other emerging economies, including India. On Monday, the Indian government announced new liberalization moves that will allow foreign investors to buy 100% of defense ventures and airlines. Prime Minister Narendra Modi tweeted that India is now more open than any other country in the world.



OLIVER BERG/DPA/ZUMA PRESS

A Kuka robot in a Cologne factory. Germany tried to broker a sale of Kuka to a German or European buyer.

China, meanwhile, is sliding further backward, squeezing out foreign suppliers of technology, hobbling media companies with internet restrictions and maintaining strict limits on access to financial services and telecommunications—all areas in which Western companies excel, and which are growing rapidly as China pushes services instead of traditional industries. The defense industry is completely off limits; transport is a largely no-go area.

Not surprisingly, as Chinese outbound investment soars, inbound investment from the European Union and America is tailing off.

Rampant theft of intellectual property in China further dampens interest in the market.

A recent report by the European Chamber of Commerce in China complains of "a business environment that is increasingly hostile combined with a playing field that is perpetually tilted in favor of domestic enterprises."

Ms. Merkel faces the same dilemma as American politicians in trying to right the imbalance: She has few legal and regulatory tools available to turn away Chinese investment. Nor is that a desirable strategy. Foreign investment is an elixir of growth, creating jobs and improving efficiencies. Chinese investors like Huawei, the telecommunications-equipment giant, are building research and development labs across Europe.

Moreover, for Western companies a new Chinese corporate owner can open vast untapped markets in China.

That was the logic that drove the $4.7 billion sale of American meat giant Smithfield to China's Shuanghui in 2013—then the largest Chinese takeover of a U.S. company.

And it is why Kuka, the German robot maker, is proceeding with its $5 billion purchase by Midea, despite efforts by the German government to broker a sale to another German, or European, company or consortium.

Neither a Kuka nor a Smithfield deal, it should be noted, would be possible in the other direction: China jealously guards strategic sectors, including food and technology.

This lopsided flow is clearly unsustainable. In fairness, China recognizes this but has so far spectacularly failed to deliver on promises to open up.

Meanwhile, Germany and other Western governments are increasingly coming to the conclusion that what may be good for corporate shareholders—a sale to a Chinese company—may not be in the national interest.

A protectionist backlash against China is building, fueled by the rise of populist politics across the West. Protests by European workers against a flood of cheap Chinese steel imports highlight a shift in the public mood. Ms. Merkel is doing Chinese leaders a big favor by reminding them publicly of these mounting risks.

ARORA

Continued from Page One

tors' claims were groundless.

His resignation was announced a day after SoftBank said a special committee investigating allegations raised by one group of investors found that the group's claims were "without merit."

The committee, comprising independent members of SoftBank's board of directors, was formed in February after the shareholder group questioned Mr. Arora's record and suggested that he faces a conflict of interest in his position because of his role as an adviser to a private-equity firm.

Mr. Son said Tuesday that the controversy had nothing to do with the resignation.

"I was thinking of handing over my job as CEO when I turn 60 but thought maybe I'm still a bit too young and still have energy to continue," the 58-year-old Mr. Son said, explaining that he wants to continue leading SoftBank for at least another five to 10 years. Mr. Son's decision to stay on led to Mr. Arora's decision, according to a company statement.

The surprise departure of one of the highest-paid tech executives nevertheless puts into doubt the company's growth strategy. Saddled with $80 billion in debt after the Sprint acquisition and with profit growth slowing, Mr. Son and Mr. Arora have been attempting to turn the internet giant into more of an investment company that could generate big returns through acquisitions.

Mr. Arora told reporters that he plans to remain as an adviser to SoftBank but that his exit "will allow me to think about my next move." He joined SoftBank in 2014 as head of its Silicon Valley internet and media investment unit. At Google he had overseen all revenue and customer operations as well as marketing and partnerships.

SoftBank was founded as a software distributor in 1981 by Mr. Son. It acquired Vodafone Group PLC's Japanese operations in 2006, rebranded it using the SoftBank name and transformed it into Japan's third-largest mobile-phone service provider. The company is attempting another turnaround at Sprint, but those efforts have been difficult.

Since joining SoftBank nearly two years ago, Mr. Arora has spent nearly $4 billion investing in startups around the world in a hunt for a breakthroughthrough technology company capable of driving growth.

TOMOHIRO OHSUMI/BLOOMBERG NEWS

SoftBank CEO Masayoshi Son, left, and Nikesh Arora in May.

It is too early to tell whether those bets will pay off as well as Mr. Son's early investments in Chinese e-commerce behemoth Alibaba Group Holding Ltd. and Japanese internet portal Yahoo Japan Corp.

Mr. Arora had come under fire from shareholders over some of those deals, as well as over his compensation, and some investors had questioned his qualifications. Mr. Arora is one of the highest-paid corporate executives in the world, receiving $135 million in 2014 and $73 million last year.

SoftBank announced in March that it would separate its profitable but slow-growing domestic mobile business from its fast-paced but riskier overseas operations, the latter led by Mr. Arora, in a move analysts said could potentially unlock value from the company's vast portfolio.

Mr. Son said Ron Fisher, a SoftBank board member, and Baer Capital Partners founder Alok Sama, whom Mr. Arora scouted, will fill Mr. Arora's role in directing overseas investments.

SoftBank has been on a selling spree in recent weeks as it seeks to shore up its balance sheet, which is burdened with $80 billion in interest-bearing debt, about one-third of which is tied to struggling U.S. mobile-carrier Sprint.

This month SoftBank announced the sale of $10 billion of shares in Alibaba, reducing its stake to around 27% from 32%. It also announced the sale of most of its shares in Japanese gaming company GungHo Online Entertainment in a deal valued at about ¥73 billion ($685 million).

On Tuesday, it said it would sell its stake in Finnish game maker Supercell to China's Tencent Holdings Ltd. in a deal that values Supercell at more than $10 billion.

Mr. Arora also served as chief operating officer of SoftBank Corp., where he was in charge of the company's overseas operations.

Before joining SoftBank, Mr. Arora was a longtime executive at Google Inc. In addition to his role in revenue and customer operations, and marketing and partnerships, he served in several other positions, including development and management of Google's operations in Europe, the Middle East and Africa.

Before that, Mr. Arora was chief marketing officer at T-Mobile Europe.

In June last year, just three weeks after Mr. Son had publicly anointed Mr. Arora as his heir-apparent, Mr. Arora pulled the trigger on a $1 billion bet on Coupang, a South Korean mobile commerce startup, in a deal that was billed at the time as the largest internet investment in South Korea's history.

The $1 billion investment, which was larger than SoftBank's next two largest internet deals combined—a $627 million bet on India's Snapdeal and a $250 million investment in Singapore's GrabTaxi—instantly doubled Coupang's valuation to $5 billion.

Mr. Arora praised Coupang as "one of the fastest-growing and most disruptive internet companies in the world."

The $1 billion infusion was widely seen as a knockout punch for Coupang, which was the country's No. 1 competitor in mobile commerce but was embroiled in a brutal fight against two other well-funded domestic rivals for market dominance.

Instead, less than a year after the investment, Coupang, known formally by its corporate name Forward Ventures Co., reported an annual loss of 526 billion Korean won ($456 million), more than four times its 2014 loss, as Coupang spent heavily to build out an extensive logistics network that it was betting would differentiate its "Rocket Delivery" service from those of rivals, including KKR & Co.-backed TicketMonster.

—Jonathan Cheng and Wayne Ma contributed to this article.

BOEING

Continued from Page One

Boeing commercial passenger airplanes," said the world's largest plane maker.

Iran's airlines have indicated a dire need for both medium-haul jets such as Boeing's single-aisle 737 and long-haul aircraft like its 777 and 787 Dreamliners.

State-owned Iran Air on Monday said it planned to introduce 737 and 777 planes pending approval from its government and the U.S.

Completing an agreement with Iran Air could take months amid continued uncertainty from lenders about financing deals with Iran and the need for the U.S. government to sign off on any sale.

The transaction would include Boeing 777-300ER long-range jets, a plane Boeing has been struggling to sell to sustain production until a replacement is ready toward the end of the decade.

The potential plane sale isn't without critics.

Two U.S. Congressmen, Jeb Hensarling (R., Texas) and Peter Roskam (R., Ill.), last week sent a letter to Boeing expressing concern a deal could aid Iran's military. "Iran's commercial aviation sector is deeply involved in supporting hostile actors," they said, requesting information to assess the national security implications.

"Boeing will continue to follow the lead of the U.S. Government with regards to working with Iran's airlines, and any and all contracts with Iran's airlines will be contingent upon U.S. Government approval," the Chicago-based plane maker said.

John Smith, acting director of the U.S. Treasury Department's Office of Foreign Assets Control, last week said at the Atlantic Council in Washington, D.C., that "it is possible for authorized deals to get financing."

The U.S. Export-Import Bank, which often provides financial backing to Boeing deals, has told Congress it wouldn't finance transactions to Iran because the country has been designated by Washington a state sponsor of terrorism.

The U.S. has maintained sanctions over the sale of planes to some Iranian carriers due to concerns they are involved in supporting terrorism. The Iranians deny the charge.

In January, Airbus Group SE announced an agreement with Iran for 118 new jets, underscoring Iran's interest in restoring commercial ties with Europe, as well as the country's urgent need for new commercial aircraft. The deal, which had a list price value of about $27 billion, hasn't been completed because of worries in the financial community about doing deals in Iran. Airbus also is waiting for an export license from the U.S. government.

Airbus commercial airplane boss Fabrice Brégier recently said the company was making progress securing the export license. He remained optimistic the agreement could be completed this year.

Franco-Italian turboprop maker ATR is putting together a mix of banks and lessors to help finance the euro-denominated sale of 40 of its planes to Iran, the company's Chief Executive Patrick de Castelbajac said this month. ATR hopes to deliver the first of its regional planes by the end of the year.

Canadian plane maker Bombardier Inc. also said it is eyeing the Iranian market. The initial focus would be on selling regional planes, Fred Cromer, president of Bombardier Commercial Aircraft, said this month.

Iran is considered one of the most promising growth markets for plane makers because decades of sanctions have left the country with some of the world's oldest airliner fleets.

The European Union last week eased restrictions on Iran Air flights. The carrier since 2010 was limited to using a small number of planes to serve destinations in the EU because of safety concerns with some of the other aircraft.

—Aresu Eqbali in Tehran, Jay Solomon and Jon Ostrower contributed to this article

VAHID SALEMI/ASSOCIATED PRESS

State-owned Iran Air plans to introduce 737 and 777 planes pending Iranian and U.S. approval.

CORRECTIONS & AMPLIFICATIONS

Malaysia's ruling United Malays National Organization won two parliamentary district elections Saturday with about 54% of the vote in each. A World News article Monday about the results incorrectly said it won by margins of 29 percentage points and 30 percentage points.

Readers can alert The Wall Street Journal to any errors in news articles by emailing **wsjcontact@wsj.com**.

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WORLD NEWS

Leave and Remain Sides Make Final Push

Amid tight polling results, campaigns pull out the stops for and against the EU

BY MAX COLCHESTER

CHRISTOPHER FURLONG/GETTY IMAGES

SADIQ KHAN/ZUMA PRESS

Labour Party leader Jeremy Corbyn, left, argued Tuesday in Manchester for staying, while UKIP leader Nigel Farage pressed to leave.

LONDON—Campaigners on both sides began a final dash to win supporters ahead of Thursday's referendum on whether the U.K. will stay in the European Union, as polls continued to suggest the vote was still being closely fought.

Prominent figures including U.K. Prime Minister David Cameron, billionaire George Soros and soccer star David Beckham lined up Tuesday to warn about the risks of leaving the EU. Meanwhile, anti-EU campaigners pressed their case that the U.K. would be better off outside the bloc.

The day's campaigning was to be capped with a debate in front of 6,000 people at London's Wembley Arena and broadcast live nationally.

A poll by Survation showed the vote on a knife's edge, with Remain ahead by 1 percentage point, at 45% to 44%. However, its data showed that Leave gained 2 percentage points since it last conducted a poll on the issue.

Other surveys sent conflicting signals. Pollster ORB put Remain ahead, with 53% of voters choosing the status quo and 46% backing Leave. A YouGov poll put Remain at 42% and Leave at 44%, with 9% saying they don't know which way to vote.

Betting odds continued to favor a Remain vote, with only a 24% chance of a U.K. exit, according to bookmakers Betfair. Stock markets have fallen sharply when polls tilted toward an exit vote, but rebounded quickly Monday when they veered toward Remain. Stocks were broadly steady Tuesday.

Campaigning clicked into a higher gear as pro-EU supporters scrambled to convince voters to turn out in force. Mr. Cameron made a personal plea from the steps of Downing Street for people to back staying in the EU, arguing there is "no going back."

"Brits don't quit," he said. In the Sun newspaper he hinted that he would push for further reforms of the EU if Britons voted to stay in—including rethinking freedom of movement in the bloc.

Mr. Soros warned in a column in the Guardian newspaper that the value of the pound "would decline precipitously" if the U.K. left the EU. He argued the pound would fall more than it did back in 1992 when he made around $1 billion shorting the currency.

The Leave camp pointed out that Mr. Soros had called for the U.K. to adopt the euro, which has been battered by years of crisis. "He has made mistakes in the past," Justice Secretary Michael Gove, a prominent leader in the Leave campaign, said in an interview on BBC radio.

Mr. Gove played down fears markets would swing wildly if the U.K. left the EU. "I think we would be in a better position to deal with any bumps in the road if we are in the driving seat," he said in a television interview.

Mr. Beckham also waded in on the pro-EU side of the debate, pointing out that his once all-conquering Manchester United team included players from France and Denmark.

The pro-EU campaign unveiled its final campaign poster, which shows stairs leading up to an open door and into the darkness. "Leave, and there's no going back," the poster says.

At the Wembley Arena debate, each side was to have three people making their respective cases. The pro-Brexit team was to be led by former London Mayor Boris Johnson.

Mr. Cameron has avoided debating members of his own party who support exiting the EU live on television. The pro-EU side was to be represented by a trio made up of Scottish Conservative leader Ruth Davidson, a trade unionist and newly elected London Mayor Sadiq Khan.

Lawmaker's Killing Puts Focus on Far-Right Groups

BY ALEXIS FLYNN

LONDON—The brutal killing of British lawmaker Jo Cox in northern England last week, allegedly at the hands of a suspect who witnesses said yelled "Britain first" during the attack, has drawn attention to far-right extremist groups centered in the region.

Prosecutors have said in court that "material of an extremist, far-right nature" was found at the home of Thomas Mair, the 52-year-old man accused of shooting and stabbing Ms. Cox on Thursday. On Monday, they said his case would be treated as terrorism-related.

When he appeared in a London courtroom on Saturday, he gave his name as "Death to traitors, freedom for Britain." Mr. Mair hasn't entered a plea and a judge has ordered him to be given a psychiatric evaluation.

U.K. security services say Islamic fundamentalists and Irish republicans present the country's greatest terrorist threat. The U.K. Home Office says "terrorism with an international dimension" represents 79% of the 3,157 terror-related arrests since 2001. Domestic terrorism, primarily far-right extremists, accounts for 10%.

A 2015 Europol report said U.K. authorities have observed a more dynamic right-wing extremist movement that by 2014 was more actively campaigning.

England's small white-supremacist movement has had a presence in the West Yorkshire region—which includes the village of Birstall, where Ms. Cox was killed and where Mr. Mair lives.

Hope Not Hate, a nonprofit advocacy group that monitors extremism in the U.K., said Batley and the surrounding cities of Bradford, Dewsbury, Leeds, Huddersfield and Halifax have proved fertile recruiting grounds for extreme far-right groups and neo-Nazis for at least two decades.

In 2010, Terence Gavan, a former soldier and onetime member of the British National Party, pleaded guilty to terrorism after police recovered 54 improvised explosive devices and 12 firearms at his Birstall home.

Far-right groups have found little traction in economically successful areas, but some experts say they have a presence in some of the poorer, postindustrial regions.

"Certainly we've had the BNP. But they've never really been able to have a substantial number of council seats," said Andrew Cooper, a Green Party councilor for Kirklees, the local administrative area that includes Ms. Cox's constituency. "That doesn't mean there aren't views that aren't abhorrent," he said, but added that membership in extreme-right parties in the area was "actually very low."

TOBY MELVILLE/REUTERS

A man on Monday wrote a tribute to slain Labour lawmaker Jo Cox on a message board in London.

Groups like the National Front, and later the BNP, have railed against the high number of Pakistani immigrants that settled in the region. "Immigration has been a real disaster for the indigenous people of this country," said Brian Parker, one of two BNP councilors nationwide. Mr. Parker, who represents a ward in Lancashire, said Muslims in his town of Nelson accounted for almost half the population. "People never consented to this form of social engineering."

The peak of the BNP's popularity came in 2001, after race riots in Oldham, when the party finished third in a race for a parliamentary seat with 16.4% of the vote. But after drawing 563,743 votes nationwide in parliamentary elections in 2010, the BNP contested just eight seats in 2015, drawing 1,667 votes.

Since then, new groups have emerged, with some using social media to court supporters, said Matthew Feldman, a history professor at Teesside University who studies far-right groups in Europe and the U.S.

One is Britain First, which calls itself a patriotic resistance against what it sees as left-wing collaboration in the Islamicization of Britain, according to the group's literature.

Britain First has strongly denied any link to Ms. Cox's killing, which it described on its website as an "act of despicable criminality." A representative for the organization didn't reply to an email and phone calls seeking comment.

On Tuesday, Keith Vaz, the chairman of a committee of U.K. lawmakers that has oversight of the government's counterterrorism strategy, told The Wall Street Journal that it would next week discuss convening an inquiry into the rise of far-right extremism and the danger of lone-wolf attackers.

—Stu Woo in Birstall, England, contributed to this article.

Europe Braces for Vote Aftermath

Like many business leaders in Europe, Philippe Depoux sees the potential for an economic slowdown across the continent if the U.K. votes to leave the **European Union**.

By Sam Schechner in Paris and Neanda Salvaterra in London

But Mr. Depoux, chief executive of **Gecina** SA, one of the biggest owners of office space in Paris, also sees opportunity: New tenants may come knocking in the event of a corporate exodus from London.

"What we can say for sure is that it is better to be in the Paris office real-estate business than in any other" ahead of Thursday's referendum on continued British membership in the bloc, Mr. Depoux said.

Opinion polls show the vote too close to call. Many small British business owners, as well as some hedge fund and private-equity managers, say they're better off outside the EU's regulatory regime. But most big firms that have spoken up on the issue—inside and outside the U.K.—are pushing a "remain" vote.

Executives forecast that a departure would slow economies on both sides of the channel, complicate hiring and force relocations of some employees or entire operations. That view hasn't stopped some cities and trade groups in France, Germany and other EU countries from readying red carpets to welcome what they say could be tens of thousands of new employees for their local economies if the U.K. votes to leave.

"Our message would be simple: welcome to Europe, welcome to Paris," said Alain Pithon, secretary-general of Paris Europlace, a group set up to promote French finance.

"Frankfurt will have all men on deck," said Hubertus Väth, managing director of Frankfurt Main Finance, a lobby group that promotes Frankfurt as a financial center. He said he wants the U.K. to stay in the EU, but his organization is preparing a roadshow to woo banks in case of a Brexit.

Some European business leaders, meanwhile, say that the vote itself could be a bigger, much-needed shock to a region with too much bureaucracy and regulation in the first place.

"This Brexit vote is a really important wake up call," said Maurice Lévy, chief executive of Paris-based advertising giant Publicis SA. He is hoping Britain stays in, but says the EU has botched issues ranging from the economy to what to do with refugees. "Europe is not working well."

Telecom Italia Chairman Giuseppe Recchi said he didn't have an opinion about whether a Brexit would be good or bad for businesses. But he said in an interview this week that "maybe a shock is needed." The EU "doesn't grow and its governance isn't efficient."

An EU spokeswoman declined to comment directly but pointed to remarks on Monday from European Commission President Jean-Claude Juncker, who said "the EU will no longer be complete...without British pragmatism."

In the U.K., the case for Brexit is more concrete for the mostly small British business owners who chafe at what they say is stifling regulation from Brussels. Some hedge funds and smaller financial firms in London have argued an exit could eventually lure firms and jobs.


MEHDI FEDOUACH/AGENCE FRANCE-PRESSE/GETTY IMAGES

Place d'Eymet in southwestern France's Dordogne region where many British expatriates live.

Rise in U.K. Borrowing Bodes Ill for Targets

BY JON SINDREU AND DAVID HODARI

LONDON—Borrowing by the U.K. government remains higher than it was during this time last year, data released Tuesday showed, suggesting Treasury chief George Osborne will once again struggle to meet his fiscal targets.

The public sector's budget deficit was £9.7 billion ($14.3 billion) in May, the **Office for National Statistics** said, broadly in line with forecasts by economists polled by The Wall Street Journal.

While this was the best May for government coffers since 2007, borrowing in the first two months of the fiscal year—April and May—was 0.8% higher than during the same period of 2015, underscoring how the Treasury's aim to close the budget deficit is proving difficult.

Mr. Osborne, the Chancellor of the Exchequer, has pledged to balance the books by 2020.

To be on track to meet this self-imposed target, the **Office for Budget Responsibility**—the U.K.'s independent fiscal watchdog—estimated that the chancellor would need to borrow no more than £72.2 billion in the 12 months to March of last year. But the government's deficit eventually amounted to £74.9 billion, according to government statisticians.

The target for the current fiscal year, ending March 2017, is for total borrowing to be no higher than £55.5 billion, of which the Treasury has already used up a third with 10 months still to go.

Governments often have little control over their own budget deficits, because their income is almost fully dependent on tax revenue, which goes up or down depending on how strong economic activity is. At the same time, many of the government's outlays—such as welfare benefits—also increase when the economy is weak.

The British economy has shown signs of slowing during the first half of 2016.

The British economy, however, has showed signs of slowing during the first half of the year, which bodes poorly for the chancellor's promises to eliminate the budget deficit.

Mr. Osborne has warned that leaving the European Union would further damage the economy and require the Treasury to raise taxes and cut spending to balance the books, even though proponents of exiting the bloc say the U.K. would prosper over the longer term.

Britons are set to vote Thursday on their membership of the EU, with polls showing the "leave" and the "remain" camps neck-and-neck.

Court Rejects Challenge to ECB Bond Program

By Tom Fairless And Todd Buell

FRANKFURT—Germany's top court ruled that an unlimited bond-buying program created by the European Central Bank at the height of Europe's debt crisis complies with German law, ending a yearslong legal challenge to a program credited with easing fears of a breakup of the currency zone.

The verdict on Tuesday is an important victory for ECB President Mario Draghi over his German critics at a time of renewed tensions between the ECB and its biggest shareholder, Germany.

It marks an about-face for Germany's Federal Constitutional Court, which had harshly criticized the bond program in early 2014 before referring it to the European Court of Justice, the European Union's top court. The decision was immediately criticized by top German economists and plaintiffs in the case.

Peter Gauweiler, a conservative politician and one of the most high-profile plaintiffs, warned that the decision demonstrated a lack of courage, and might even affect Britain's referendum on Thursday on whether to leave the EU.

"The message of the judgment is that there is no effective protection through the courts against constant usurpations of competence by the EU authorities," Mr. Gauweiler said. "The judgment may be grist to the mill for 'Brexit' advocates."

The bond-buying program, called Outright Monetary Transactions, or OMT, was created in September 2012, weeks after Mr. Draghi pledged to do "whatever it takes" to save the euro. While the program has never been used, the mere prospect of a flood of ECB funds to buy the bonds of vulnerable eurozone governments was credited with restoring investors' confidence in the single currency.

The program also sparked public outrage and multiple lawsuits in Germany, supported by thousands of plaintiffs, amid concerns that the ECB had overstepped its mandate. Jens Weidmann, president of Germany's powerful Bundesbank, warned that the decision put the ECB in the realm of fiscal policy.

In a four-page news release on Tuesday, the German court said the OMT program "doesn't present a constitutionally relevant threat to the German parliament's right to decide on the budget," provided conditions laid down a year ago by the European Union's top court are respected.

Testifying to European lawmakers in Brussels, Mr. Draghi said the OMT program had "preserved the singleness of monetary policy within the euro area."

—Andrea Thomas in Berlin contributed to this article.

JOHN THYS/AGENCE FRANCE-PRESSE/GETTY IMAGES

The ruling is a victory for ECB President Mario Draghi.

ASSOCIATED PRESS

Workers unloaded aid for the rebel-held Syrian town of Daraya on June 10, in a photo provided by the World Food Program.

Regime Bombs Follow Aid Into Besieged Syria Towns

By Raja Abdulrahim

Hours after an aid convoy delivered the first food assistance to the besieged Damascus suburb of Daraya in three years, Syrian regime forces unleashed a hail of bombs and mortars.

Since that delivery on June 10, more than 300 barrel bombs—oil drums packed with explosives—have rained down on the rebel-held town, local officials and residents said. It is a practice that, with a recent increase in aid, has become more visible: When the regime grants access to humanitarian-relief groups in areas it is besieging, the gesture is often closely followed by punishment.

"If there is a pattern of coincidence with approvals and shelling, then that should be addressed," Staffan de Mistura, the United Nations envoy to Syria, said last week.

The bombardment of Daraya has undermined what had been a tiny victory for the U.N. and other humanitarian groups pushing for access to some of the 19 areas where an estimated half-million people live under siege. Most are in rebel-held areas besieged by the regime.

"The barrel bombs really delayed us in being able to distribute the aid to people," said Hytham Ghazal, manager of the humanitarian office in Daraya. As a result, much of the aid sat underground in three buildings, two of which were struck by bombs and mortars, though none of the aid was damaged.

Four days passed before the aid office in Daraya began passing out food. It had to limit distribution to a two-hour period in the afternoon when warplanes were unlikely to launch strikes, Mr. Ghazal said.

The barrel bombs dropped since June 10 have killed 13 people, he said.

More than 40 barrel bombs were dropped on Daraya on Monday, said Shadi Matar, a member of the opposition-run local council.

The U.N. estimates there are at least 4,000 residents in Daraya; local residents say the population is about double that number. Last week's delivery contained only enough food for 2,400 people.

Bouthaina Shaaban, a top political adviser to President Bashar al-Assad, said during an appearance via Skype before a U.S. audience this month that Daraya was a fertile area and no one was starving there, according to media reports. The Damascus regime has maintained it doesn't attack civilians.

The sieges have put residents at regular risk of malnutrition, even starvation.

"We are fully aware that the food delivery was not enough," said Jens Laerke, spokesman for the U.N. Office for the Coordination of Humanitarian Affairs. "That was the amount of food that was agreed with the government."

A recent report by more than 50 humanitarian organizations operating in Syria accused the U.N. of prioritizing cooperation with the Syrian government at all costs, contributing to the deaths of civilians from starvation or lack of medical access.

The regime has used the threat of removing the U.N.'s permission to operate inside Syria to manipulate how much aid is delivered and who gets it, the report says. As a result, much of the aid has gone to regime-controlled territory.

"I do not agree that our courageous colleagues on the ground...who have multiple times had confrontations with the government to be able to reach areas, are in any ways not impartial," Jan Egeland, a senior adviser to Mr. de Mistura, said on Thursday.

The aid convoys have ushered in a return to the situation before a Feb. 27 cease-fire, when dozens of barrel bombs were dropped each day.

The cease-fire, which has fallen apart, provided calm. Residents used the respite to plant wheat and other staples.

But as air attacks on Daraya resumed in May, warplanes hit the fields—burning the crops, town officials and residents said.

"The resumption of shelling has returned us to zero," said Mr. Matar, the local official.

Bahrain Strips Shiite Cleric of Citizenship After 'Fatwas'

By Asa Fitch And Felicia Schwartz

Bahrain stripped the citizenship of its top Shiite Muslim cleric over allegations of inciting sectarianism, drawing rebukes from Shiite-majority Iran and the U.S.

Bahrain's Ministry of Interior said revoking Isa Qassim's citizenship aimed to confront extremism and clamp down on "those subordinate to external political and religious authorities," especially ones that divided society on sectarian lines.

The ministry's statement on Monday didn't specify to which external authorities Mr. Qassim was subordinate. It said he illegally collected funds and used his religious position to influence elections.

"Through his [preaching] and 'fatwas' he exploited the religious pulpit for political purposes to serve foreign interests," the ministry said, referring to Islamic religious rulings followers are called upon to obey. "He also encouraged sectarianism and violence."

It wasn't clear the revocation of Mr. Qassim's citizenship would force him to leave the country.

Dozens of his supporters gathered at his home on Tuesday to protest the revocation, with some men wearing white shrouds signalling their readiness to die, Reuters reported.

The Sunni Muslim monarchy that rules Bahrain, a small Persian Gulf island country, has been trying to crack down on the Shiite opposition since 2011. Shiites constitute the majority of the population, but have long been marginalized.

Bahrain has long used the revocation of citizenship as a tool to check dissent. The country stripped 208 people of their citizenship last year alone, according to a March report from Human Rights Watch, and subsequently deported a number of them.

The U.S. State Department expressed concern at Bahrain's decision to revoke Mr. Qassim's citizenship. Officials are concerned the move could fuel tensions between Saudi Arabia and Iran, which reached a low point this year after Riyadh executed prominent Shiite cleric Nemer al-Nemer.

Bahrain is a key American ally in the Middle East and hosts the U.S. Navy's Fifth Fleet.

"We're certainly worried about any action in the region that potentially stokes sectarian tensions, obviously we certainly don't want to see that," State Department spokesman John Kirby said.

U.S. condemns the move, saying it could fan tensions between the Saudis and Iran.

The move against Mr. Qassim is the latest escalation in the confrontation between Sunnis and Shiites in the Gulf.

Sunni-majority Saudi Arabia, which lies across a long causeway from Bahrain, has been a staunch supporter of its monarchy and sent troops to support it in 2011 when popular protests threatened its rule. Riyadh and its Sunni Gulf allies feared the upheaval could spread from Bahrain, challenging their regional dominance.

Iran, Saudi Arabia's chief regional rival, supports Mr. Qassim and Bahrain's Shiite opposition.

Iranian Qods Force commander Qasem Soleimani warned of the toppling of Bahrain's ruling Al-Khalifa family as a result of the citizenship revocation and other recent moves against Shiite political organizations, reported the semiofficial Fars News Agency.

Trespassing on Mr. Qassim's authority "is a red line whose crossing will set fire to Bahrain and the entire region and leave people with no other option but armed resistance," he was quoted as saying.

A Bahraini court last week ordered the country's main Shiite opposition group Al-Wefaq to stop all political activities, citing its alleged role in inciting sectarian violence.

Mr. Qassim is closely associated with Al-Wefaq, but holds no formal position in the group, which has been suspended before.

In January the State Department expressed strong concerns after Mr. Nemer's execution. Saudi Arabia cut its diplomatic ties with Iran after protesters in Tehran stormed the Saudi Embassy and set it on fire. U.S. officials pursued high-level contacts with the Saudis and the Iranians to try to calm tensions.

The U.S., a Saudi ally, was among the six world powers that reached a landmark nuclear deal with Iran last summer.

Blast Kills Guards On Jordan Border

Associated Press

AMMAN, Jordan—A car bomb exploded on the Syrian-Jordanian border early on Tuesday, the Jordanian military said, killing and wounding several Jordanian border guards in an attack that raised new questions about the pro-Western kingdom's stability.

The military said the blast went off at about 5:30 a.m., close to a makeshift tent encampment where tens of thousands of Syrian refugees are stranded, awaiting entry to Jordan.

The camp, known as Ruqban, is one of two that have sprung up along an earthen barrier, or berm, which runs along the border in a remote desert area.

A booby-trapped car exploded at the berm, "killing and wounding a number of border guards," the military said.

It said several other "hostile" vehicles were destroyed but didn't give further details.

No militant group claimed responsibility for the attack.

The extremist group Islamic State controls large areas in neighboring Syria and Iraq, and Jordan has fortified border defenses to prevent attacks and infiltration attempts.

Jordan has also widened a crackdown on Islamic State sympathizers at home, jailing hundreds in the past two years for promoting the group's ideas on social media.

The kingdom is a member of the U.S.-led international military coalition against Islamic State.

MUHAMMAD HAMED/REUTERS

A security officer hurt in an attack at a camp for Syrian refugees in eastern Jordan was transported to a medical center in Amman on Tuesday.

Resurgent Inflation Poses Test for India

Next central bank chief will struggle to prevent a return to double-digit price jumps

BY RAYMOND ZHONG

NEW DELHI—Before India's central-bank governor abruptly announced his departure last weekend, the hot-button economic—and political—issue occupying the country's leaders was soaring prices of onions, sugar and lentils.

Resurgent inflation was for decades a steady drain on savings and incomes in the world's second-most-populous country, and a source of uncertainty for investors and industrialists. It is likely to be the first big test for Raghuram Rajan's successor at the Reserve Bank of India.

Speaking in Mumbai on Monday, Mr. Rajan described as "truly revolutionary" the changes he spearheaded during his three years in office to reorient the RBI as a steadfast defender of price stability.

"He's taken the right measures," said Upasna Bhardwaj, an economist at Kotak Mahindra Bank. But unless they are seen through, it is difficult to make a call on where inflation will end up, she said.

Consumer prices in May increased 5.8% from a year earlier, the fastest rise in nearly two years. A 7.6% jump in food prices was the driver. Indians are bracing for more: According to the central bank's latest survey, households in March expected inflation to reach 9.4% within the next year.

Even price growth at that pace wouldn't quite match the double-digit inflation that was convulsing Asia's third-largest economy when Mr. Rajan took the RBI's reins in 2013.

Facing weak growth and a falling currency, the new governor swiftly reversed a monetary-easing plan initiated by his predecessor. He raised rates three times in five months and held them at 8% for a year.

Mr. Rajan backed giving the RBI an explicit inflation-targeting mandate, with a long-term goal of bringing price growth to around 4%. He also agreed to surrender the governor's sole discretion over monetary policy to a new committee, due to be formed soon.

His efforts, and his tough talk on inflation, seemed to pay off. Price growth cooled to below 4% last summer. Economic growth recovered and is today above 7.5%, the fastest among major economies.

A worker filling crates with tomatoes to be sold at a wholesale market near Amritsar last week.

NARINDER NANU/AGENCE FRANCE-PRESSE/GETTY IMAGES

Yet Mr. Rajan's hawkishness ruffled critics who say high interest rates are stifling investment and job creation.

And even the governor's admirers don't deny that certain features of India's developing economy mean the central bank has limited control over prices to begin with, which might imply that trying to target inflation is, in India, futile at best and growth-choking at worst.

For the RBI, "it's very difficult to take credit either way inflation moves," said Kunal Kumar Kundu, Société Générale's India economist. In the past few years, he said, "we got lucky on inflation"—oil prices were falling, and the domestic economy remained, by many indications, sluggish.

Indeed, the recent run-up in food prices reflects factors, from weather to world commodity markets to poor storage facilities, which are beyond the RBI's reach.

India's government intervenes so heavily in food markets in the name of taming prices—imposing export duties on sugar and buying up and storing thousands of tons of lentils so they can be redistributed to places where supplies are short—that its policies may in some cases be working at cross-purposes.

Because India subsidizes rice production, for instance, farmers find growing rice more profitable than growing lentils, said Shyam Khadka, the U.N. Food and Agriculture Organization's representative in India. That has caused lentil productivity to fall behind, Mr. Khadka said.

Also muting the effect of RBI policy on inflation is India's weak financial system, which doesn't smoothly transmit rate changes into the real economy.

Mr. Rajan said on Monday that monetary policy's limits in India aren't a good reason not to turn the RBI into an apolitical inflation fighter.

Prime Minister Narendra Modi would seem to concur. In New Delhi in March, he said the creation of a monetary-policy committee was "testimony to our strong commitment to macroeconomic prudence and stability."

Safeguarding that commitment, however, may require further changes that fall to Mr. Rajan's yet-to-be-named successor to carry out.

Brazil Treasury Offers State Governments Debt Relief

BY PAULO TREVISANI AND PAUL KIERNAN

BRASÍLIA—Brazil's Finance Ministry cut a deal with financially strapped state governments on Monday to alleviate high debt-service costs that have forced them to slash spending on critical public services such as policing, education and health care.

The federal treasury, which is the main creditor to Brazilian states, granted state governments a six-month grace period during which they won't have to pay interest and amortization charges on their debts. Payments to the treasury are scheduled to gradually resume over the subsequent 18 months.

Finance Minister Henrique Meirelles said the deal would cost the government 50 billion reais ($14.7 billion) over the next three years, an amount officials say was already factored into budget plans.

Brazil's deepest recession in memory has eaten away at the tax revenue of state governments, which owed 482 billion Brazilian reais to the National Treasury as of April. Brazil's astronomical interest rates and generous pension rules for civil servants have also helped devastate states' coffers.

The problem is particularly acute in Rio, Brazil's top oil producer. High oil prices increased the state's production royalties, creating a fiscal windfall that the government used to fund huge expansions in payroll and infrastructure spending. But when prices fell, they created a budget shortfall that has forced Rio's state government to cut spending on vital services ahead of the Olympics, which start in August.

Rio's latest budget projections call for expenditures of 78.8 billion reais and revenues of just 58.9 billion reais. That massive deficit prompted interim Gov. Francisco Dornelles on Friday to declare a "state of public calamity," calling for "exceptional" budget-cutting measures to meet his government's Olympic-linked commitments, including a 9.77-billion-reais subway extension.

Acting President Michel Temer met with governors on Monday.

ERALDO PERES/ASSOCIATED PRESS

Service on Rio's 72 billion reais in debt with the federal government accounts for a large chunk of Rio's overall spending at 6.5 billion reais. Monday's deal should ease pressure on that front for Rio and other states.

"After a long winter, it seems the light has appeared in the horizon," interim President Michel Temer told Brazil's 27 state governors in a closed meeting, according to the administration. "We are solving the states' difficulties."

The states' fiscal problems mirror those of Brazil's public sector as a whole, after years of solid economic growth left politicians at all levels of government accustomed to increasing spending year in and year out. With tax receipts falling, total public-sector debt climbed to 67.5% of gross domestic product in April, up from the past decade's average of 56%.

The fiscal debacle is at the center of Brazil's political turbulence. President Dilma Rousseff was suspended last month to face an impeachment trial in the Senate for allegedly doctoring the budget to mask a widening deficit, an accusation she denies.

State-government debt is an old problem that was first tackled in the late 1990s, when the federal government took a large haircut in exchange for tough limits on new debt. Experts say the last decade's commodities boom made governors more confident they could raise salaries and other long-term costs that pleased voters, while the federal government generally endorsed borrowing from development banks and multilateral lenders.

Another big contributor to the fiscal woes: Laws that make it difficult to cut costs and all but impossible to fire public servants.

Ms. Rousseff's administration cut a previous deal with state governors two years ago, changing the way interest rates were calculated to reduce their monthly payments. But some states found a loophole to further reduce their interest payments, leading to a legal dispute with the Treasury. Brazil's Supreme Court gave the parties a June 27 deadline to reach an agreement.

Mr. Meirelles said the agreement should put an end to the dispute, but it could also carry some moral hazard. Brazilian states' history of fiscal irresponsibility was long fueled by the assumption that the federal government would simply bail them out if they got in too deep, says Márcia Rodrigues Moura, a budget expert at the lower house of Congress.

"States that did their homework aren't pleased," she said. "As a lesson, it is the worst possible."

World Watch

PHILIPPINES

Pact With Rebels Set to Be Announced

The Philippine government and communist rebels are expected to declare a cease-fire next month, shortly after President-elect Rodrigo Duterte takes office and following the resumption of long-stalled peace talks, peace negotiator and incoming Labor Secretary Silvestre Bello said.

Mr. Bello, who headed the government peace panel during the tenure of former President Gloria Macapagal-Arroyo, said Tuesday that formal negotiations with exiled communist leaders will begin in the third week of July, raising the possibility that a cease-fire declaration will be made before Mr. Duterte makes his first address to Congress on July 25.

Preliminary talks were held last week in Oslo, Norway.

—Cris Larano

RUSSIA

Olympic Committee Affirms Track Ban

The International Olympic Committee formally supported a ban for the Russian track team, while also voting to offer a path to competition for individual athletes who may be unfairly implicated in a widening doping crisis in international sports.

Less than two months before the start of the Summer Games in Rio de Janeiro, members of the IOC voted to toughen sanctions against athletes, coaches, and officials engaged in doping but deferred authority on some antidoping measures to sports federations.

The vote followed a decision by the International Association of Athletics Federations on Friday to uphold a ban on Russia's team due to state-sponsored doping there, as well as recent declarations by the World Anti-Doping Agency that national agencies in Kenya and Spain don't meet international doping-control standards.

—Sara Germano

JAPAN

Growth, Wages Cited In BOJ Forecast Cut

Bank of Japan officials cut price forecasts at their April meeting because of weakness in economic growth and wage increases, rather than cheaper oil, an indication that they recognized problems in their rosy inflation scenario.

At the April 27-28 meeting, the central bank lowered its inflation projections for the coming years through a quarterly update and pushed back its forecast date for achieving its 2% price target.

According to meeting minutes released Tuesday, a cut made to the inflation forecast for the year ending March 2017 was "mainly attributable to downward revisions in projections for gross-domestic-product growth and wage developments," in contrast to similar revisions made in previous meetings that were "primarily attributable" to oil prices. The figure for that year was lowered to a 0.5% increase from a 0.8% rise projected in January.

—Takashi Nakamichi

TURKEY

Key Rate Is Cut As Inflation Slows

Turkey's central bank cut a key interest rate for a fourth consecutive month Tuesday on the back of lira stability and slowing inflation, continuing to loosen its monetary policy despite concerns the U.K. referendum could weigh on the currency if Britain votes to leave the European Union.

The Monetary Policy Committee in Ankara said it cut the overnight lending rate to 9% from 9.5%, while keeping its benchmark one-week repo rate steady at 7.5% and its overnight borrowing rate at 7.25%. The decision brings the top end of Turkey's interest-rate corridor to its lowest since August 2013.

Turkish policy makers have trimmed the ceiling of the interest rate corridor from 10.75% over the past four months, capping borrowing costs for Turkish lenders at a lower rate in a move to help support economic growth.

A "marked decline" in inflation contributed to the decision, the central bank said, while pledging to keep a "tight liquidity stance" to continue fighting still-high inflation forecasts as services and labor costs threaten to derail price stability.

Tuesday's move is in line with a plan to simplify Turkish monetary policy by gradually moving toward a single benchmark rate, the central bank said, as the margin between its official policy rate and the overnight lending rate declined to 1½ percentage points, the narrowest since 2010.

—Yeliz Candemir

FRANCE

Hollande: Keep Sanctions on Russia

French President François Hollande called for European economic sanctions on Russia to remain in place while the peace process in eastern Ukraine is unfinished, lending momentum to renew the measures when they expire at the end of July.

Speaking after a meeting with Ukrainian President Petro Poroshenko on Tuesday, Mr. Hollande said the process that Ukraine and Russia accepted at a meeting in Minsk last year is "a long way" from being completed.

"For the moment, we must ensure that the sanctions are kept in place and linked to the Minsk peace deal," Mr. Hollande said.

—Matthew Dalton

GERMANY

Court Rejects Erdogan's Appeal

Turkish President Recep Tayyip Erdogan's efforts to silence what his lawyers have called libelous mockery of his person in Germany suffered a blow on Tuesday when a court rebuffed a complaint he had filed against a prominent German media executive.

The higher court of Cologne ruled on appeal that Mathias Döpfner, chairman and chief executive of media group Axel Springer SE, expressed an opinion when defending a comedian's vitriolic text about the president. This opinion, it said, was protected by freedom of expression.

The decision, which confirmed a judgment in first instance, marked a win for critics of the Turkish president and advocates of press freedom, who had accused Mr. Erdogan of seeking to extend a domestic crackdown on critics to other countries.

—Ruth Bender

Indian Prime Minister Narendra Modi took part in a yoga demonstration as part of the World Yoga Day celebration Tuesday.

PIB/AGENCE FRANCE-PRESSE/GETTY IMAGES

BREXIT

Continued from Page One

includes the U.K.

Chinese billionaire Wang Jianlin, founder of real-estate and entertainment group Dalian Wanda Group Co., warned during a recent U.K. visit that Chinese companies would consider moving their European headquarters elsewhere in the event of a British exit, or "Brexit." Mr. Wang has significant investments in the U.K., including British luxury-yacht maker Sunseeker International Ltd.

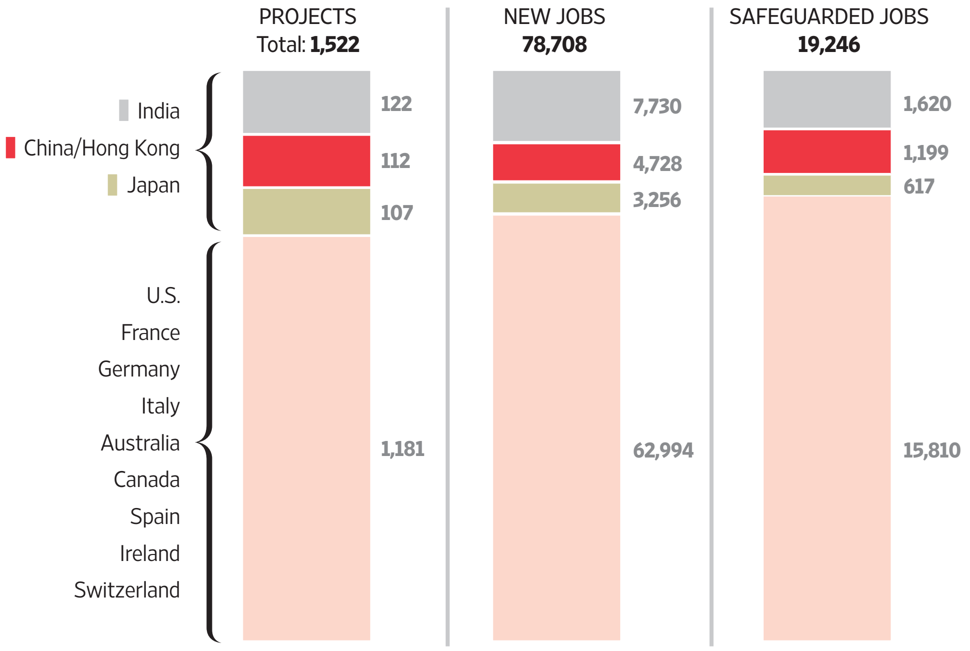
Hong Kong tycoon Li Ka-shing is one of the U.K.'s biggest investors and employers, owning businesses as diverse as mobile-phone network Three UK Ltd. and ports. Mr. Li has been ramping up infrastructure investments in the U.K., which accounted for 37% of his operating profit last year, while trimming property assets in China. Mr. Li has said he would cut British investments if a Brexit occurs.

Senior executives at India's Tata Group, which currently employs 69,000 people in the U.K. and owns Jaguar Land Rover PLC and other companies with interests ranging from steel to telecommunications and tea in the U.K., cautioned its British employees to vote with "careful thought."

Asian Backing

The number of projects in the U.K. backed by companies in India, China and Japan have grown in recent years. Last year, the countries were the biggest backers of projects in the U.K. after the U.S. and France.

Biggest source markets for FDI projects in the U.K. for the fiscal year ending March 31, 2015



Source: Inward Investment Report THE WALL STREET JOURNAL.

"If the U.K. was to leave the EU, it would become more difficult to buy components and sell our products in our largest market," Jaguar Land Rover Chief Executive Ralf Speth said in a staff memo earlier this week. Europe accounted for one-quarter of Jaguar's sales last year and is a significant supplier of automotive parts.

Some companies say Brexit wouldn't be bad for business. Indian conglomerate Aditya Birla Group said that if the British pound depreciates as a result of a "leave" vote, it could bolster its aluminum, foil and industrial-packaging business, Novelis Inc., because the company bills its U.K. clients in euros, according to Novelis Vice Chairman D. Bhattacharya.

More than 1,000 Japanese companies invest more than ¥1 trillion ($9.62 billion) annually in the U.K., according to the Japan Business Federation. Fujitsu Ltd. employs 14,000 people in the U.K., where it provides IT systems and cloud-based data-center services. If the U.K. leaves the bloc, "demand for investment could fall, some of our customers may decide to move from the U.K.," a spokesman said.

Japanese car companies have set up shop in the U.K. to produce vehicles for export to other parts of Europe. Those companies would be hit hard by a Brexit, losing preferential tariff and customs treatment in Europe. Toyota Motor Corp., for example, exports 90% of its U.K.-built cars.

Japanese auto makers produce about half of all vehicles made in the U.K. every year. Nissan Motor Co. employs 8,000 people there and has invested £3.7 billion ($5.44 billion) in the country. Nissan's Sunderland plant supplies 130 markets inside and outside the EU.

"Our preference as a business is, of course, that the U.K. stays within Europe—it makes the most sense for jobs, trade and costs," Nissan Chairman Carlos Ghosn said earlier this year.

Over the past decade, the U.K. has also become an attractive destination for Asian companies looking to pour money into transportation and infrastructure projects. Analysts at Nomura last week wrote in a note to clients that companies in Hong Kong, Malaysia and Singapore could be hardest hit by a Brexit because of their revenue exposure to the U.K.

Singapore-based transport operator ComfortDelGro Corp. earns about one-quarter of its revenue from the U.K., where it operates a fleet of more than 8,000 taxis and buses. Malaysia's YTL Power International Bhd., which runs a water utility that supplies 1.3 million customers in southwest Britain, earns a similar percentage of revenue from the country.

Meanwhile, China, as the world's second-largest economy, has viewed the prospect of a Brexit warily, fearing it might undermine efforts to deepen its own ties in Europe.

The U.K. has been the top recipient of Chinese foreign direct investment in Europe in recent years and the two nations' relationship has grown tighter, with Britain becoming the first Western country to sign on to Beijing's Asian Infrastructure Investment Bank as a founding member.

—Te-ping Chen in Beijing and Takashi Mochizuki in Tokyo contributed to this article.

YELLEN

Continued from Page One

growth and income generation.

"We cannot rule out the possibility expressed by some prominent economists that slow productivity growth seen in recent years will continue into the future," she said. It was an acknowledgment of an argument, made most prominently by Harvard University professor Lawrence Summers, that the U.S. is prone to a period of "secular stagnation," in

Despite being cautious, Ms. Yellen sought to shed a positive light on recent developments.

which output grows slowly and interest rates stay exceptionally low.

Ms. Yellen was greeted by mostly polite questioning from senators in her first day of testimony.

Democrats prodded her to push the central bank for more diversity on boards and leadership at the 12 regional Fed banks. Republicans pressed her on the effectiveness of the Fed's low-interest-rate and regulatory policies.

In all, however, there were few of the fireworks that have accompanied Fed testimony in recent years, when the central bank's authority, transparency and actions have been challenged.

In a series of recent public appearances—including a news conference last week after the Fed decided to hold short-term interest rates steady between 0.25% and 0.5%—Ms. Yellen emphasized her concern about long-run impediments to growth, including factors like slowly growing worker productivity, which the Fed isn't in a position to affect much with interest-rate policies.

For years, Ms. Yellen has argued that headwinds to economic growth would fade, allowing growth to pick up and interest rates to rise. Now, she is subtly adding qualifiers to this forecast. In her testimony, for instance, she said she expected these headwinds to "slowly fade over time."

In her testimony to Congress at the same time last year, she said more pointedly that these headwinds "should diminish over time."

She listed a range of other concerns, many of them beyond the Fed's reach and U.S. borders.

A vote in the U.K. to exit from the European Union "could have significant economic repercussions," she said. Moreover, China faces "considerable challenges as it rebalances its economy toward domestic demand and consumption and away from export-led growth." In weighing these and other uncertainties, "investor perceptions of and appetite for risk can change abruptly."

If the U.S. economy does falter, Ms. Yellen said the Fed would rely on tools it developed after the financial crisis to promote growth—including more purchases of mortgage or securities bonds and promises of continued low rates. She said she had no intention of following Japan and Europe by adopting policies of negative interest rates.

"It is not something we are considering," Ms. Yellen said. Nor is it something she expected the Fed would need to do, she added.

The Fed's tone on the economy has changed notably in just the past few weeks. In late April and May, many officials thought the moment was becoming ripe to push short-term interest rates up a second time after December's move from near-zero rates. Developments abroad and disappointing readings on domestic hiring have made Ms. Yellen skittish.

EVAN VUCCI/ASSOCIATED PRESS

Fed chief Janet Yellen arriving for testimony before the Senate Banking Committee on Tuesday.

Last week, officials reduced their estimates of how high rates are likely to get in the years ahead. By the end of 2018, they see them lingering below 2.5%. In the long run, they don't see them going above 3%, according to the median of officials' projections.

Her testimony gave no clear signal about when rates will go up again. Instead, she stuck to a line that the Fed will move rates up gradually and cautiously.

Despite that caution, she sought to shed a positive light on recent developments. Wages show signs of picking up, Ms. Yellen noted. Economic output appears to have experienced a "noticeable step-up" in the second quarter after meager first-quarter growth. Moreover, low oil prices, low interest rates and ongoing job gains should support sustained consumer spending.

BUMPER

Continued from Page One

other is while taking a selfie.

"They love driving the cars," Aman al-Abadi, the ride attendant, said of the women who were getting back in line for another spin. "Men are always bumping."

With the exception of remote corners of the desert kingdom—where Bedouin women sometimes get behind the wheel—the amusement park offers a rare, hassle-free environment for women to hone their driving skills. That is partly why, on ladies nights, there is a winding queue at the bumper cars.

Outside the theme park, activists, writers and even some politicians now are pushing to lift the ban on driving actual cars. One of the strongest cases proponents make is financial: Many women, even those with jobs, simply can't afford a driver.

In this conservative society, there are many who resist it, warning that allowing women to move freely without a male guardian would expose them to social evils and personal trouble.

Among them is Mohammed Bayea, who on mixed-gender evening at the amusement park was happily driving alongside several women on the crowded bumper-car platform. There was the occasional knock, but for the most part men and women steered clear of each other. The women wore traditional dress.

"It's OK if they drive here," said Mr. Bayea, a Riyadh native who was on vacation in Jeddah. But he said he wouldn't want them driving in the real world. "I am a nice guy, I don't flirt with women. But other men will."

The driving ban has helped lead to the flourishing of ride-hailing apps by companies like Uber Technologies Inc., which recently announced it received a $3.5 billion investment from Saudi Arabia's sovereign-wealth fund.

While women at Saudi Arabia's amusement parks often seek a driving experience that mirrors crash-avoidance reality, men relish bashing into each other. When they take to the bumper cars, their goal—like pretty much everyone else in the world—is to gather speed for maximum impact.

When it comes time for the women to drive in a mixed-gender theme park in the town of Abha, a big black curtain goes up around the bumper car platform to shield the female drivers from outside view. The cars resume driving in circles and the platform becomes placid again.

Some women have unwittingly breached the no-bumping etiquette. When, for the first time in years, Arwa al-Neami went on the bumper cars in the theme park in Abha, she decided to chase the other female drivers. She got a lot of angry shouting in return.

"They would scream: 'Please, don't bump me! I am trying to drive!' " says Ms. al-Neami, a Jeddah-based artist who began documenting the phenomenon in 2014 as part of an art project called Never Never Land.

Some women viewed the bumper car for what it was: Amusement. "It's just a game," said Darin Twergi, a student, with a shrug. "It's not that big a deal if I drive or not."

Others regard time spent in a brightly colored open-top vehicle with a hot rod attached to the ceiling as a serious practice session.

Before she moved abroad for university, Sama bin Mahfooz said she would go to the theme park in Jeddah especially to drive. "We never get a chance to in Saudi Arabia—this is the right place to do it," says Ms. bin Mahfooz, 20. "Whenever my best friend would hit me, I would tell her: 'No, let me drive, let me drive!' "

ARWA AL-NEAMI/NEVER NEVER LAND SERIES

A women-only round on the bumper cars at a theme park in Saudi Arabia. Many prefer a smooth ride and avoid bumping.

Her wealthier friends were less interested. They would say "we have drivers, we don't need to do that," she recalls.

In a country where only 23% of Saudi women have jobs, ladies-only nights bring women out in force. Every employee is in fact a woman, from the popcorn sellers to the security guards to the bumper car attendant. The men have the night off.

And while cinemas are normally banned, there are two of them in Al Shallal alone. Granted, the movies last under five minutes, and the experience is really just about the special effects: 3-D screens, seats that jolt and sprays of water.

For many women, the biggest attraction of ladies nights is simply a man-free world. One woman says she goes every week, ostensibly to accompany her teenage daughters. "The girls can wear what they want and roam around freely," said Nadia Shamsaan, 33. "But I also come here to relax," she added, sprawled on an outdoor sofa in a patterned shirt and jeans.

Outside the park, reality hits. The women step out in their all-covering abayas to find a tangle of traffic that snarls around its perimeter. The men have come to pick them up.

Many of the female bumper car drivers confide they would like to sit on the driver's seat outside the park's high walls, too. Some of them say, secretly, they already have. Ms. al-Omeri, the homemaker, says with pride: "I've driven in the desert."

U.S. NEWS

Upper Middle Class Grows, Research Finds

By Josh Zumbrun

A range of data after the recession and the housing bust supported the idea that only a tiny elite of U.S. society, generally seen as the top 1%, had rebounded and was doing well.

But a growing body of evidence suggests the economic expansion since the 2007-2009 financial crisis has enriched a much larger swath of the upper middle class and that a deeper income divide is developing between that top quarter or so of the population and everyone else.

The latest piece of evidence comes from economist Stephen Rose of the Urban Institute, who finds in new research that the upper middle class in the U.S. is larger and richer than it has ever been. He finds the upper middle class has expanded from about 12% of the population in 1979 to a record of nearly 30% as of 2014.

BOB MILLER FOR THE WALL STREET JOURNAL

Hoover, Ala., is home to several planned communities tailored for the upper middle class.

"Any discussion of inequality that is limited to the 1% misses a lot of the picture because it ignores the large inequality between the growing upper middle class and the middle and lower middle classes," said Mr. Rose. The Urban Institute is a nonpartisan policy-research group.

There is no standard definition of the upper middle class. Many researchers have defined the group as households or families with incomes in the top 20%, excluding the top 1% or 2%. Mr. Rose uses a more dynamic method similar to how researchers calculate the poverty rate, which allows for growth or shrinkage over time and adjusts for family size.

Using Census Bureau data available through 2014, he defines the upper middle class as any household earning $100,000 to $350,000 for a family of three: at least double the U.S. median household income and about five times the poverty level. At the same time, they are quite distinct from the richest households. Instead of inheritors of dynastic wealth or the chief executives of large companies, they are likely middle managers or professionals in business, law or medicine with bachelor's and especially advanced degrees.

Smaller households can earn somewhat less to be classified as upper middle class; larger households need to earn somewhat more.

Mr. Rose adjusts these thresholds for inflation back to 1979 and finds the population earning this much money has never been so large. Using different measures of inflation or using higher income thresholds for the upper middle class produces the same result: substantial growth among this group since the 1970s.

Mr. Rose's new paper is part of a broader body of research reappraising and seeking to measure the upper middle class. This reappraisal doesn't fit comfortably in the left or the right's political narratives. While it underscores the growth of American economic inequality, it undermines the idea of lower- and upper-middle-class voters being in the same boat. It suggests that the majority of Americans have indeed struggled but that a large minority has thrived.

Sean Reardon of Stanford University and Kendra Bischoff of Cornell University, for example, found in research published in March that the number of families living in affluent neighborhoods has more than doubled, to 16% of the population in 2012 from 7% in 1980. They define these neighborhoods as those where the median income is at least 50% higher than the rest of the city.

The Pew Research Center last month found that 203 metropolitan areas have seen their middle class shrink, but in 172 of those cities, the shrinkage was in part because of the growth in wealthier families.

Man Charged With Plot to Kill Trump

By Byron Tau

A man arrested at a Donald Trump rally is facing federal charges after allegedly trying to grab the gun of a police officer for the purpose of trying to kill the Republican presidential candidate.

Michael Sandford, a British citizen, was arrested at Mr. Trump's Las Vegas rally Saturday at the Treasure Island Casino after an altercation with a Las Vegas Metropolitan Police officer.

Mr. Sandford approached the officer, saying that he was trying to get an autograph from Mr. Trump, according to a charging document filed in federal court. He then proceeded unsuccessfully to try to seize the officer's gun.

After his arrest, Mr. Sandford told the Secret Service that he had been plotting to kill Mr. Trump for about a year, according to the charging document. Mr. Sandford also told agents that he had visited a gun range in Las Vegas the day before the rally to learn how to use a weapon.

According to the Secret Service, Mr. Sandford had driven to Las Vegas from California in an effort to kill Mr. Trump.

Asked why he tried to seize the officer's gun, Mr. Sandford said, "To shoot and kill Trump," according to the criminal complaint. He also said he had booked tickets to another Trump rally in Phoenix in case this attempt didn't work out, the document said.

Mr. Sandford told agents he had been in the U.S. for about 1½ years, mostly living in Hoboken, N.J. He told the Secret Service that he would attempt to kill Mr. Trump again if he had the opportunity.

The incident was the latest episode of violence or attempted violence by Mr. Trump's opponents as well as his supporters, that has sometimes marked the Republican candidate's campaign events.

Mr. Sandford appeared in court in Las Vegas on Monday but didn't enter a plea. An attorney for the Federal Public Defender's Office, which is representing him, didn't respond to a request for comment.

Mr. Trump has been protected by a Secret Service detail since November. As the presumptive Republican nominee, he has Secret Service protection for his rallies, as well as receiving personal protection from the agency.

Firearms and other weapons aren't permitted into events even if they are held in states that allow residents to carry firearms.

Mr. Sandford is due back in court on July 5. He is being charged with attempting to commit an act of violence on restricted grounds.

Wide Gap in Candidates' War Chests

Donald Trump raised only $3.1 million in May, after he became the GOP's presumptive presidential nominee, putting him a staggering cash disadvantage heading into the general election against Democrat Hillary Clinton.

After largely self-financing the primary election, Mr. Trump said last month he would begin actively soliciting money for the general election. He appointed a national finance chairman and developed a joint fundraising vehicle with the Republican National Committee. But his paltry haul suggests his campaign was unable to turn clinching the party's nomination into a fundraising boost.

Mrs. Clinton, meanwhile, raised $27 million in May. She has raised $240 million over the course of the cycle, to Mr. Trump's $17 million. (He also had lent himself $45.7 million through May.)

Mr. Trump's May haul, which he supplemented with $2.2 million in loans, left him with $1.3 million in the bank. Mrs. Clinton's campaign had 32 times as much in its war chest: $42 million.

Mr. Trump's cash deficit means it will be difficult for him to rival Mrs. Clinton's expansive operation, both in TV ads and grass-roots efforts.

He has said he would rely heavily on the RNC, but the party's efforts in battleground states are small in comparison to the Democrats and nonexistent in several blue states, such as California, that Mr. Trump says he wants to put in contention.

—*Rebecca Ballhaus*

How Big Is Too Big?

BY DOMINIC GREEN

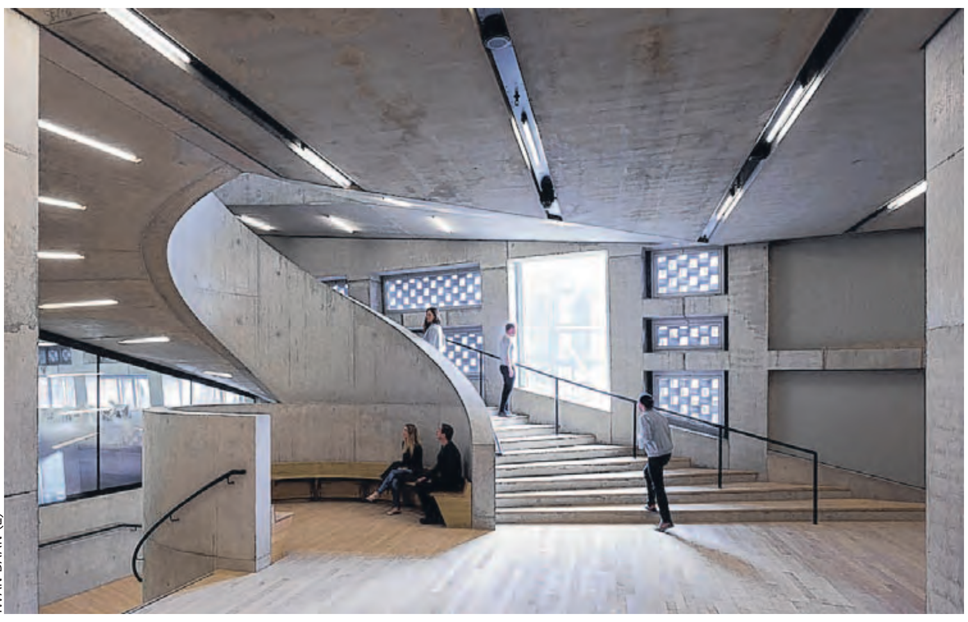
London

TATE MODERN, which opened in the former Bankside Power Station back in 2000 as a showcase for modern and contemporary art, is the Disney World of museums, an obligatory stop on the caravan of global tourism. Its new extension is the Tate's Epcot, an "experimental prototype" for the museum of the future.

When Tate Modern opened, it expected one million visitors a year. It soon became the world's most popular contemporary museum. Last year, more than five million people passed through its Boiler House and Turbine Hall—twice as many as New York's Museum of Modern Art, and not far behind the Metropolitan Museum of Art.

The new Switch House extension was designed by the Swiss firm of Herzog & de Meuron, which also did the Bankside conversion, at a cost of £260 million ($375 million). A 10-story twisted concrete pyramid, it is built atop the Tanks, three enormous underground fuel storage spaces that Tate Modern opened in 2012 as venues for performance art and installations—"the world's first museum galleries permanently dedicated to live art," as its publicity describes them.

The Switch House extension at Tate Modern, designed by Herzog & de Meuron, adds more than 225,000 square feet to the museum.



IWAN BAAN (2)

Tate Modern's expansion increases the museum's gallery space by about 60%, adding more than 225,000 square feet to its existing area. The new space displays the fruits of a global buying binge: 800 works by over 300 artists from over 50 countries, with some 75% of the works purchased since 2000. Tate Modern wants to show that "great art is made all over the world," in the words of its news release. As with virtually every other museum expansion, the opportunities for eating, drinking and shopping have more than doubled, too.

The Tate vaunts these statistics with the pride with which the Kremlin used to announce an increase in tractor production. But, the footsore visitor might wonder, can there be too much of a good thing? And how good are the things in Tate Modern?

The collections of London's National Gallery, New York's Met and Paris's Louvre come close to containing the history of art. But Tate Modern is a niche museum, "modern and contemporary"—like MoMA, but not nearly as comprehensive in its holdings of "classic" Modernism (1880-1945).

To circumvent this limitation, Tate Modern follows the current fashion and displays its collection in "thematic" compilations, rather than chronologically. Sometimes the groupings work, sometimes not. Mark Rothko's Seagram Murals (1958) are a brooding counterpoint to Claude Monet's shimmering Water-Lilies (after 1916). But placing the dizzying Op-Art abstractions of Bridget Riley in the next gallery obscures both the delicacy of Monet and the intellectual subtlety of Riley.

The problem is not just that Tate Modern has too much for us to take in. It is that Tate Modern has taken too much in. A museum should collect carefully and slowly, because the test of time replaces price with value. But the Switch House feels like a warehouse. Is Tate Modern a museum, a coherent showcase for carefully selected artworks? Or is it just a repository of myriad objects that were vacuumed up because they seemed important or affordable at the time, and because it has space to fill?

The inflation of the Tate is not unique. We are witnessing a kind of world-wide "arm's race" among museums, with each one's expansion trying to outdo the other's. As the success of Tate Modern and the recent expansion of the San Francisco Museum of Modern Art show, grandiosity can drum up new audiences and donors. To remain major players on the cultural stage, museums must keep expanding. In the process, they are redefining themselves in ways that marginalize the art.

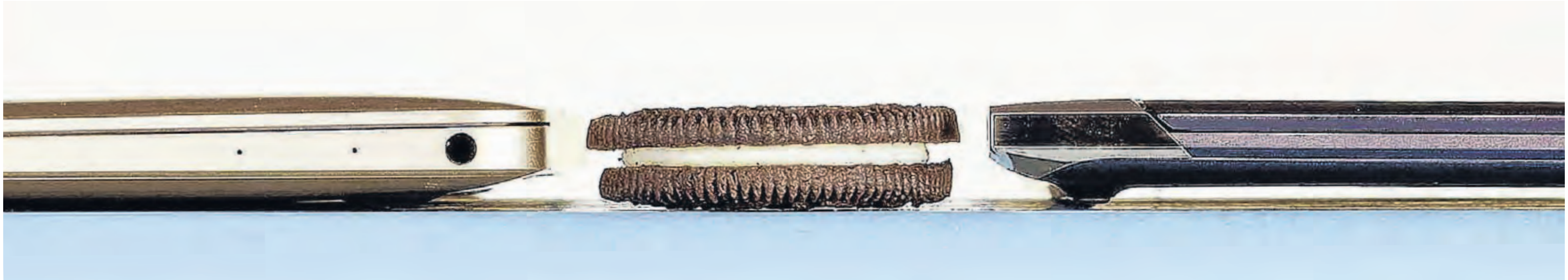
At this week's press view, the empty galleries and echoing stairwells of Tate Modern's magic kingdom felt like a deserted airport. The resemblance is not accidental. An airport is a shopping mall masquerading as a transport hub; Tate Modern is a social space masquerading as an art museum. Herzog & de Meuron have designed a beautiful building, full of soft indirect light. But they have designed it as much for large and constant flows of people as for the contemplation of art.

Visitors enter the airy Turbine Hall via a long, shallow ramp. The Boiler House and the Switch House are linked by air bridges. The exhibition floors contain wide spaces for transit, but hardly anywhere to sit, unless you buy overpriced food or drink. Visitors are funneled into galleries that, like the shops in a terminal, compress distinct "brands" into novel but disorienting medleys.

An art lover might find Tate Modern too atomized in content. A tourist might find it too distracting in form. Both are likely to be defeated by the mileage involved and the incoherence of the galleries.

Nevertheless, tourism continues apace, and museums remain popular destinations. Tate Modern has turned itself into an international attraction, with an appetite as insatiable as those of the visitors in its cafés. So you can be sure that someone somewhere is already sketching its next bigger thing.

Mr. Green is a historian and critic.



How Thin a Laptop Do You Need?

As laptops go on extreme diets, ask yourself what you're willing to sacrifice

By Joanna Stern

Apple MacBook
It may not be the most powerful option on the block, but it's got a sharp screen, a fine design and a battery that lasts most of the day.

HP Spectre
The 'world's thinnest laptop' has the power of most full-size laptops—but you've got to live with shorter battery life and more fan noise.

F. MARTIN RAMIN/THE WALL STREET JOURNAL (3)

How do I put this nicely? Your laptop could stand to lose a few...ounces.

It's the truth: Compared with the new wave of insanely thin laptops, even your once-svelte MacBook Air or Dell XPS 13 looks like Garfield after a lasagna lunch. Apologies if this causes them any self-esteem issues.

Earlier this month, HP began selling the Spectre, "the world's thinnest laptop," according to the company. At 0.41 inches thin, it's as flat as a single breakfast pancake—bananas not included. More impressive, it doesn't skimp on processing power, like Apple's new MacBook does.

HP executives have focused their efforts on out-innovating the premium laptop maker. Yes, the MacBook is 0.1 inches fatter than the Windows 10-powered Spectre. To the naked eye, that means nothing. Even with a 5X magnifying glass and tape measure, I could barely spot the difference.

It's why I've long felt technology's thinolympics has been a waste of time. "Our new product is so much thinner than the competition that you can fit in one more sheet of paper in your messenger bag! You'll need to make room for the charger, though, since we cut out some battery. Sorry!"

The equation has long been: Thinner + lighter = poorer performance + shorter battery life. Both the Spectre and the MacBook, updated in April, still require you to make some sacrifices. But the trade-offs no longer outweigh the benefits of owning a laptop that could double as a cheese knife—if that's what you want.

All-Important Ports

Ports are to laptops what ice cream is to people. Limit them, and you'll be shocked by the Before and After shots.

Other than the headphone jack, the MacBook has just one USB port—and it's not even the kind you're familiar with. The size of a Tic Tac, the USB Type-C port is used to charge the laptop and attach peripherals, including an external display.

We'll get over the limited port situation just like we got over the disappearance of DVD drives. (Remember those?) But in the here and now, there are two issues.

First, since the port is uncommon, you can't do things you take for granted, like plugging an iPhone into your computer with the regular USB cable. Second, one port just wasn't enough for me. The best solution? Purchase a hub with full-size USB ports and an SD card slot, like the $50 Hyperdrive USB Type-C 5-in-1 Hub.

> A thinner laptop could be great on the road, but requires trade-offs in battery life and power.

Apple should take a page from HP's port playbook: The Spectre has three USB Type-C ports along its back, two of which are capable of handling more power than the MacBook's. And if you buy the Spectre from Best Buy, a USB-Type-C-to-regular-USB adapter is included in the box.

The Key(s) to Comfort

The MacBook and the Spectre represent the laptop stripped to its barest parts: screen and keyboard. Yet they're not like the tablet-keyboard combos, which fail at the whole sitting-on-your-lap thing. The traditional clamshell design makes these a pleasure to use—if you can get used to a few ergonomic shortcomings of their own.

The MacBook's sturdier, more attractive build is tarnished by a keyboard that looks like it's been flattened by a dough roller. To make the underside razor-thin, the keys were chopped off and redesigned with a mechanism that aims to recreate the feedback and bounce of real keys. It took some getting used to, but three months in, my hands were so comfortable, it felt a little weird going back to the MacBook Air.

From the start, I loved the MacBook's large trackpad. Though it's just a flat, fixed piece of glass, small vibrations and a clicking sound fool you into thinking you're physically pressing down. It messes with your mind—in a good way.

With the Spectre I felt at home on the keyboard in an instant. The keys are a normal height, with more surface area thanks to a 13.3-inch screen (versus the MacBook's 12-inch display). HP's trackpad, on the other hand, feels claustrophobic. I also repeatedly encountered issues with it, including jumping cursors and unregistered clicks. HP says it is working on a software update to fix the problems.

The unfixable issue with the Spectre? The fact that it looks like it was designed by Kanye West. The only color option includes a gaudy gold logo and hinge that instantly attract fingerprints. On the other hand, I am entranced by HP's trippy new logo. It's like a Magic Eye optical illusion. Does it say HP? Lip? Fiji?

Prioritizing Performance

Since thinner laptops have less room for battery, they tend to have less powerful chips. Yet the newest chips found in the MacBook and Spectre amp up the processing while remaining relatively efficient.

Apple recently updated the MacBook with the new Intel Core M processor, which is 20% faster than last year's chip. I noticed it. The previous model took too long to open apps and multitask. The new one's snappier at my usual routine of juggling multiple browser tabs and apps like Spotify, Microsoft Word and Slack. Slowdowns only start occurring when I throw more graphics-intensive jobs at it in Photoshop. (I've changed my mind. It could now potentially replace my three-year-old MacBook Air, though I'd like to see what's next for the MacBook Pro before deciding.)

The Spectre is available with Intel's big-boy Core i5 and i7 processors. These can provide up to 25% more power than the Core M processors. In my tests, the Spectre was just as snappy as the MacBook at surfing the web and launching apps, but when it came to editing multiple, large images in Photoshop, the HP was far more cooperative.

That speed has some downsides. The Spectre's fan periodically sounded like it was preparing to cool down an office building. A software fix quieted it down a bit, though it still acts up at times. (The MacBook has no fan, which caused it to get warm at times.)

The Spectre also trails behind the MacBook on battery. In my test, which loops a series of websites with brightness set at around 80%, the Spectre ran for 6.5 hours. The MacBook lasted for 8.5 hours, an hour beyond last year's model. And it pulls that off while driving over a million more display pixels than the HP. In daily use, I found the MacBook still outlasted the Spectre, though both fell short of the 11-hour endurance of the larger MacBook Air and Dell XPS 13.

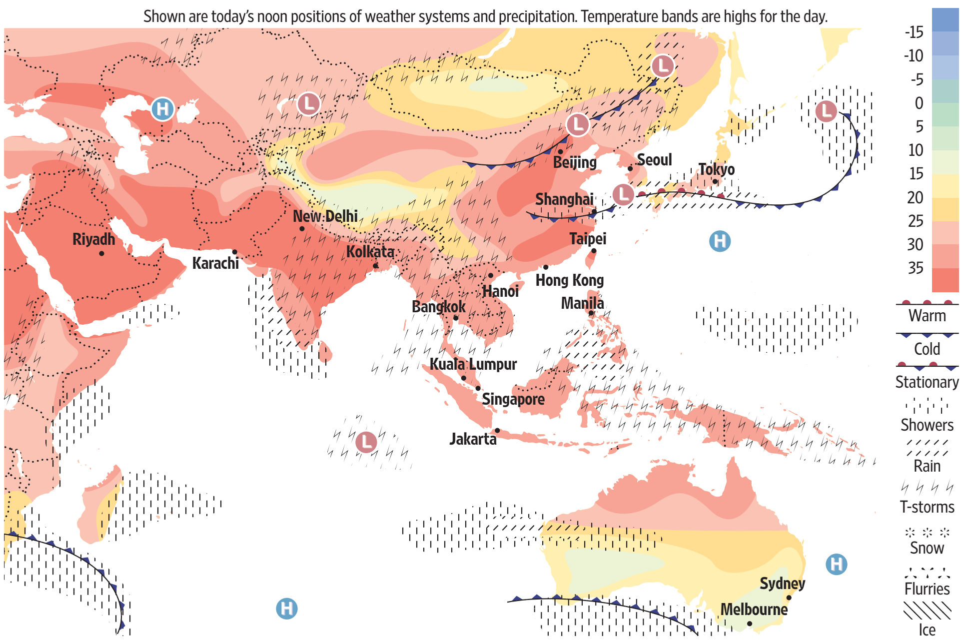
The Spectre and the MacBook are symbols of computing progress, and good news for people shopping for Windows or Mac hardware. Just look how much the MacBook's performance and battery life improved in one year.

Still, before you are seduced by thinness, ask yourself how much you value portability over ports, performance and battery life—and how much you'd pay for the compromise. The Spectre starts at $1,170 and the MacBook at $1,300. Meanwhile, for under $1,000, you can buy one of their, uh, huskier counterparts.

Weather

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

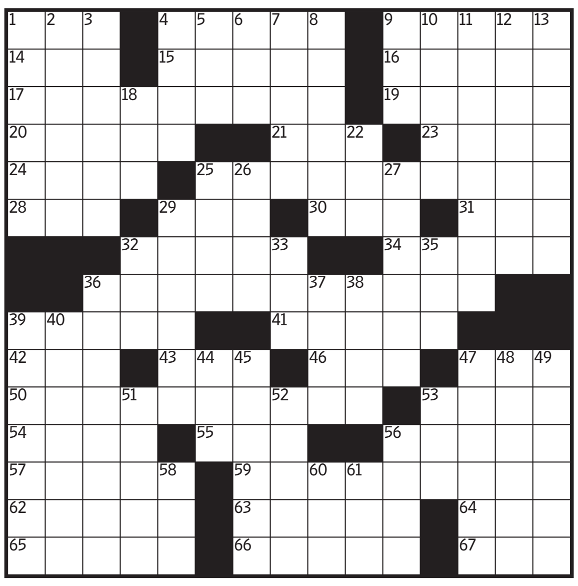


Global Forecasts

s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	24	19	t	26	19	t
Anchorage	21	14	s	20	13	s
Athens	34	25	pc	33	25	pc
Atlanta	33	22	pc	34	25	s
Baghdad	44	28	s	45	28	s
Baltimore	30	19	s	31	17	t
Bangkok	33	26	c	32	26	t
Beijing	37	22	t	37	23	c
Berlin	25	15	pc	29	20	pc
Bogota	19	10	pc	19	9	c
Boise	33	15	s	31	14	s
Boston	26	15	pc	22	14	r
Brussels	26	19	t	29	19	t
Buenos Aires	15	5	pc	17	7	pc
Cairo	39	24	s	39	25	s
Calgary	24	10	s	24	11	s
Caracas	31	25	pc	31	26	pc
Charlotte	34	23	pc	35	24	pc
Chicago	25	19	t	23	14	pc
Dallas	36	25	s	35	25	s
Denver	28	17	pc	32	17	pc
Detroit	27	19	t	25	14	pc
Dubai	43	32	s	42	31	s
Dublin	19	10	c	19	10	sh
Edinburgh	18	11	c	19	10	sh
Frankfurt	26	16	pc	30	20	s
Geneva	28	17	t	30	18	s
Hanoi	34	27	t	34	27	pc
Havana	32	23	pc	33	23	pc
Hong Kong	34	27	pc	34	28	pc
Honolulu	29	23	pc	29	23	sh
Houston	32	23	sh	33	22	s
Istanbul	30	22	s	31	23	s
Jakarta	32	25	t	32	24	t
Johannesburg	16	4	s	17	4	s
Kansas City	37	22	pc	33	20	pc
Las Vegas	45	29	pc	44	28	pc
Lima	22	16	pc	22	16	pc
London	22	17	t	23	14	t
Los Angeles	28	16	pc	28	15	pc
Madrid	36	19	s	34	18	s
Manila	33	26	t	34	27	t
Melbourne	15	11	pc	14	6	sh
Mexico City	22	12	t	23	12	t
Miami	32	26	t	32	26	t
Milan	31	19	s	33	21	s
Minneapolis	26	14	t	25	16	pc
Monterrey	33	20	pc	35	20	s
Montreal	23	17	t	25	14	pc
Moscow	24	14	pc	24	15	c
Mumbai	31	26	r	31	26	sh
Nashville	35	24	pc	34	24	c
New Delhi	38	29	t	37	28	pc
New Orleans	32	24	s	33	24	s
New York City	29	18	s	25	16	r
Omaha	34	18	pc	31	20	pc
Orlando	34	23	s	34	24	t
Ottawa	22	13	t	27	13	pc
Paris	28	20	t	30	18	s
Philadelphia	31	20	s	28	17	t
Phoenix	45	31	pc	45	31	pc
Pittsburgh	28	19	pc	26	16	t
Port-au-Prince	35	22	t	34	22	t
Portland, Ore.	24	14	pc	19	13	sh
Rio de Janeiro	24	19	sh	24	18	c
Riyadh	42	29	s	43	31	s
Rome	29	18	s	29	19	t
Salt Lake City	35	22	pc	35	21	pc
San Diego	25	19	pc	24	19	pc
San Francisco	22	13	s	23	14	s
San Juan	31	26	pc	32	26	pc
Santiago	17	3	pc	14	1	pc
Santo Domingo	31	22	t	31	22	t
Sao Paulo	19	13	r	18	12	c
Seattle	21	13	pc	18	11	sh
Seoul	31	22	pc	31	20	pc
Shanghai	33	26	c	33	26	t
Singapore	31	26	t	31	26	c
Stockholm	23	14	pc	23	15	sh
Sydney	20	10	s	18	12	s
Taipei	35	27	t	34	26	t
Tehran	34	22	s	33	21	pc
Tel Aviv	33	24	s	33	24	s
Tokyo	26	20	c	25	21	r
Toronto	24	14	pc	24	14	s
Vancouver	19	13	c	18	13	c
Washington, D.C.	31	21	s	30	19	t
Zurich	27	16	s	29	18	s

The WSJ Daily Crossword | Edited by Mike Shenk



BOTH SIDES NOW | By Kurt Krauss

Across
1 Lickety-split
4 "Tell me!"
9 Like a morning person?
14 Outstanding indication
15 They may bear crowns
16 Admit
17 "Remember the Maine," for one?
19 Run off the page, as an ad
20 Pop, in Portsmouth
21 Stripling
23 Herr's spouse
24 Bad time for Caesar
25 Stock up on laundry detergent?
28 Silent assent
29 Fragrant ring
30 Garden pond swimmer
31 Boot part
32 A beatnik may beat it
34 Competitors in a slam
36 Evaluation criteria, and the puzzle theme
39 "Borstal Boy" author
41 French toast
42 GI morale booster
43 "___ Over" (Roy Orbison hit)
46 Pic on a pec
47 Co. component
50 Moratorium on sweepstakes?
53 Caulk container
54 Upper, in German names
55 Trouble
56 Change from a Hamilton
57 "Deep Impact" director Mimi
59 Item pulled by some Central African oxen?
62 NBA Hall of Famer Thomas
63 1988 Olympics site
64 Course position
65 Note sung by the Folsom Prison Glee Club?
66 Compact
67 Indulgent

Down
1 Musical set in "the Holy Roman Empire and thereabouts"
2 Golden-bodied fish
3 Like Wilde, often
4 Regulus or Sirius
5 ___ Arann (Irish carrier)
6 "Absolutely!"
7 Writer Calvino
8 Hit with a paddle
9 Outlawed toxic compound
10 John who married Pocahontas
11 Runs
12 Made a pig of oneself
13 Software subsections
18 "The Grand Budapest Hotel" director Anderson
22 Many a comedy team
25 Stock holders
26 Baltic capital
27 Remove, as a magazine page
29 Canadian dollar
32 Support provider
33 Walk-___ (minor roles)
35 Mich. neighbor
36 Like a job that's performed perfunctorily
37 Black box contents
38 Brood
39 Pastoral
40 Paul Anka hit subtitled "That Kiss"
44 Org. providing travelers' checks
45 Boonies
47 Oscar winner for "Tender Mercies"
48 Peninsula north of Morocco
49 One of a triangle trio
51 Radial pattern
52 Stop for a honeybee
53 Idiosyncrasy
56 Ranch newborn
58 Density symbol
60 Org. of piece keepers
61 Salon stuff

▶ Solve this puzzle online and discuss it at **WSJ.com/Puzzles.**

Previous Puzzle's Solution

OPINION

REVIEW & OUTLOOK

Britain and Europe's Fate

The British people go to the polls Thursday in their most important vote since they elected Margaret Thatcher in 1979. While we hope Britain votes to remain in the European Union, the reasons have less to do with the sturdy British than with the damage an exit could do to a Europe that is failing to meet the challenges of the 21st century.

A faltering Continent needs the U.K. more than vice versa.

America's interests lie in a free and prosperous Europe, and we've long thought this is best served with Britain as part of the European Union to balance France and Germany. The British look west across the Atlantic more than continentals, and the Brits have largely been a voice of reason in Europe's councils.

This is especially valuable today given the manifest failures of Europe over the past decade. With rare exceptions like Spain and Ireland, the EU and eurozone have failed to restore the economic growth the Continent so desperately needs. Its leaders can't, or won't, ask their citizens to sacrifice to reform their creaky welfare states or solve the turmoil in the Middle East and North Africa. They have bungled the migrant crisis in a way that has undermined public confidence and increased support for nativist right-wing parties.

* * *

Many British watching this from across the Channel understandably think they can do better on their own. And in many respects they have. They never joined the euro, despite predictions of doom at the time, yet Britain has prospered. Its growth rate since the financial panic is among the strongest in Europe. The British are also exempt from the Schengen rules of passport-free travel, which has spared them from the migrant fiasco.

Yet the main arguments for Brexit are less persuasive on close examination. The first—near and dear to our heart—is the promise of freedom from regulation by Brussels. No one has mocked the EU's diktats more than we have. Yet the Brexiteers aren't exactly promising a return to Thatcherism. Boris Johnson, the most prominent Tory supporting Leave, is happy with the National Health Service and subsidies for British business. Nigel Farage's UKIP is protectionist.

EU rules aren't stopping Britain from becoming the free-market beacon that Tory Michael Gove so brilliantly espouses. London could cut its corporate tax rate to Ireland's 12.5% at any time. The obstacle is British politics.

For all of its faults, the EU has often been a stronger voice for free trade than its member nations. If it leaves the EU, Britain will have to renegotiate its trading terms and that would mean accepting most EU rules in any case, as Norway now does as a nonmember. It's true this would be a decision made in London, but Britain would also have little say in what happens in Brussels going forward.

Count us skeptical of the predictions of economic disaster by those who support Remain, though there would be new uncertainty and market volatility. Germany ran a $46 billion trade surplus with the U.K. in 2015, and Berlin's exporters will want access to the world's fifth-largest economy. But we'd rather have London inside the EU negotiating financial regulations, tempering German mercantilism, and generally promoting freer global commerce.

Even less persuasive is the pro-Brexit anxiety over immigration, especially the EU rule that anyone with an EU-nation passport can live in the U.K. This year Prime Minister David Cameron negotiated new flexibility in limiting welfare payments to migrants, and if Brexit wins one reason will be the EU's refusal to make more such concessions to self-government.

But young Europeans are flocking to London for economic opportunity, and the U.K. economy needs them. End all benefits and they'd still come. If the Brexiteers think shutting down immigration is a competitive advantage, consider Japan's stagnation with its aging population.

The most compelling Brexit argument is national sovereignty and democratic accountability. Too often the EU's grandees have ignored national referenda to impose their vision of closer political union. The European Court in Luxembourg can overrule some British laws, including the deportation of some criminals, though it hasn't often done so.

Mr. Cameron's response is that he secured an EU promise that Britain is exempt from further political union. Every nation in the modern world also gives up some sovereignty in return for other benefits—as the U.S. does to the World Trade Organization. But trusting the EU's promise is a gamble, and Americans can appreciate the desire of a proud people with 800 years of self-government since the Magna Carta to change their own laws.

* * *

The other Brexit risks are political, and not minor. In Britain it would split the Tory majority and probably require the resignations of Mr. Cameron and Chancellor George Osborne (a bigger loss). Can Messrs. Johnson and Gove pick up the Tory pieces? That question would be less worrisome if the Labour Party were prepared to govern, but its current leader, Jeremy Corbyn, wants to leave NATO and is to the left of Bernie Sanders.

Brexit would also be a blow to the confidence and coherence of Europe at a dangerous moment when the U.S. is retreating from world leadership. The implications for the EU are hard to predict, but it's no accident that Vladimir Putin is hoping for Brexit. The Russian authoritarian would like to foment more nationalist and secessionist movements across the Continent (including Scotland) so he won't face unified opposition to his ambitions for regional hegemony.

None of this means we support the failing EU status quo. Brexit or not, Europe should heed the close British polling as a warning. Either growth and democratic accountability improve, or support for a common and free Europe will erode. More extreme political voices will rise to power.

If Britain does vote to exit, the U.S. should move its steadfast ally to the front of the queue for a bilateral trade deal or to join Nafta. The British have been conducting an exemplary show of democracy, and Americans should support their popular judgment.

The Trump Disorganization

Donald Trump seems to be trying to pack as many self-created crises as he can into the 20 weeks until Election Day, and a new installment arrived Monday as he suddenly fired his campaign manager. Campaigns ultimately reflect the candidate and his leadership, or lack thereof, and the shake-up will only make a difference if Mr. Trump recognizes how badly he is harming his own prospects.

He needs more than a new campaign manager to save his candidacy.

Perhaps the termination of Corey Lewandowski, heretofore Mr. Trump's most loyal aide who was present at the campaign's creation, is his concession that his operation is dysfunctional. He allowed competing power centers to emerge, with Mr. Lewandowski anchoring one camp and the veteran Beltway operative Paul Manafort the other.

Their divisions over strategy and filling key positions have left Mr. Trump far behind Hillary Clinton on campaign basics like organization, staff, fundraising, digital voter outreach, policy development and much else.

Every campaign has its dark nights of the soul, though few make them such a recurring feature. Mr. Trump appears to be convinced he can win the general election the same way he won the GOP primaries—namely, out of his hip pocket. The last month-and-a-half jump since Mr. Trump secured the nomination should disabuse him of the notion that the White House can be won with only a mass rally a day, free cable media and a lively Twitter feed.

Instead of driving a disciplined message about the economy, national security and Clinton corruption, Mr. Trump has caromed on his own day-to-day instincts, from the federal judge hearing the Trump University trial to his own alleged prescience about the attack in Orlando. He's neglected to campaign in the battleground states he needs to flip to win, and he told NBC News over the weekend that the race won't begin until after the Republican convention. That isn't how politics works.

As recently as late May Mr. Trump was tied with Mrs. Clinton nationally in the Real Clear Politics polling average, but he's since slid to a six-point deficit. A Washington Post-ABC survey last week found that 70% of Americans have an unfavorable view of Mr. Trump, up 10 points from May. The same figure for Mrs. Clinton is merely 55%. There's a reason Mr. Trump doesn't talk about his poll numbers any more.

The danger is that Mr. Trump's negative public image is becoming fixed in the public mind even before Democrats drop hundreds of millions of dollars in negative television ads. The Clinton machine and her super PAC have reserved about $30 million in air time in swing states this month. Mr. Trump and company have reserved $0. He hasn't aired a single TV spot since he won the Indiana primary on May 3—and several GOP Senators running for re-election have more cash on hand than he does.

Mr. Manafort reportedly has been trying to professionalize the campaign. But it isn't an optimistic signal that Mr. Trump fired Mr. Lewandowski only after a family intervention that included Mr. Trump's son, his daughter Ivanka and son-in-law Jared Kushner.

Mr. Trump still has time to reverse his fortunes, even if the hour is late. If he wants to run a national campaign, he'll allow Mr. Manafort to fill out his shoestring apparatus and put together a coherent hierarchy with delegated responsibilities and clear lines of accountability.

But the hard reality is that the problems with the Trump campaign aren't Mr. Lewandowski's fault. They are Donald J. Trump's. If he wants to avoid a historic loss like 1984 or 1972 that costs the GOP its House and Senate majorities, he'll take more instruction from political professionals.

If he doesn't, don't be surprised if unbinding the GOP delegates to choose another nominee at the July convention starts to seem like an urgent and attractive option to a growing number of Republicans.

A Brexit Fantasy

GLOBAL VIEW
By Bret Stephens

If only the U.K. had a Margaret Thatcher—and the U.S. a Ronald Reagan—as a leader, Britons might be well-advised to vote to leave the European Union in Thursday's Brexit referendum.

Let's imagine it's the fall of 1988. The Cold War is coming to an end, and the West has won it. Thatcher has just delivered her famous speech on Europe in the Belgian town of Bruges.

"Britain does not dream of some cozy, isolated existence on the fringes of the European Community," she said. "Our destiny is in Europe, as part of the Community." But, she added, "we have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level with a European superstate exercising a new dominance from Brussels."

Now a moment of fantasy.

After delivering the speech, Thatcher takes a secret call from Reagan, who tells her that if she can't stop a European superstate, no prime minister ever will, and that it's useless to hope that you can couple France's obsession with bureaucracy with Germany's obsession with rules and give birth to a British sense of pragmatism, modesty and enterprise.

Europe, Reagan tells Thatcher, will become everything she fears: politically high-handed and self-infatuated; economically sclerotic, culturally hidebound and militarily defenseless. So, he continues, why not join an association better suited to Britain's interests and traditions?

A free-trade association between the U.S. and the U.K., to which Ireland, Canada, Australia, New Zealand—first-world, English-speaking countries—would also be invited. The right of citizens of each country in the association to live, work, invest and study in the other countries. Closer military ties based on a commitment from each partner to spend at least 3% of GDP on defense.

And nothing else. No central technocracy to "harmonize" regulations or taxes or the spelling of words. No joint legislature to supersede national ones. No super-foreign minister to represent the association at international gatherings. No superior courts to overturn the rulings of national ones or dictate the forms of justice deemed morally permissible.

Such an association—held together by a common tongue, sympathetic cultures, a shared belief in the virtues of free enterprise and the rule of law, generally like-minded political leaders—would have become the world's largest and most dynamic trading area, with a population of 450 million and a GDP close to $25 trillion. It would have served as a model for the benefits of free trade, and as a solid economic and military bulwark for the West.

It didn't happen.

History is a tangle of what-ifs, and this particular what-if illuminates all that we missed. But history doesn't rewind.

The U.S. chose Nafta. Britain remained in the EU like a disgruntled spouse. Reagan and Thatcher gave way to Barack Obama and David Cameron. The era of bipartisan consensus regarding free trade has given way to a new vogue for protectionism. The special relationship went, under Mr. Obama, to the back of the queue. What George H.W. Bush famously called, in 1989, "a Europe whole and free," is now a Europe fractured and fearful, threatened by Russia and the Middle East.

This is the fraying world in which Britain is making its Brexit choice. It may be that a "leave" vote won't have such dire consequences as the "remain" campaign predict, and that the U.K. will join the happy ranks of Switzerland and Norway as a rich, European, non-EU state. In normal eras, the benefits of disruption often outweigh the costs.

Rarely do nationalist politics not end in statist economic prescriptions.

But this is not a normal era. If the U.K. leaves the EU, why shouldn't Scotland secede from the former to rejoin the latter? If Britain jilts Brussels, why shouldn't Brussels return the favor when Britain returns to Europe seeking new terms of trade? If the world is taking a protectionist turn, why would an island country dependent on trade abandon the economic security of the one immense free-trade bloc to which it already has access?

And if Britain leaves the Union, what guarantees that future governments will have a Thatcherite bent? It was Thatcher who in 1975 spearheaded the Conservative Party's campaign to remain in Europe the last time the membership question was put to British voters. Rarely do nationalist politics not end in statist economic prescriptions.

Like every country, Britain has its share of cultural anxieties and economic problems, some of which are connected to Europe. But not all of them. Britain's housing bubble isn't Europe's fault, nor is the poor quality of its health services, or its high taxes and cost of living. It's always easier to blame a marriage's difficulties on your spouse than on yourself. And as in many marriages, the temptations of a single life can sometimes seem irresistible. They're worth resisting.

It may be that one day Britain will have another Thatcher, and the U.S. another Reagan, and another Brexit referendum could be a flight to safety and not a leap in the dark. Till then, Brexit would be that most un-British of acts: Imprudent.

LETTERS TO THE EDITOR

Why Jews, Asians Tend to Vote Democratic

Regarding Tevi D. Troy and Lanhee J. Chen's "The Mystery of Jewish and Asian-American Democratic Loyalty" (op-ed, June 16): I am a naturalized American and British-born Jew. In as much as there is a single cause, I believe that the Jewish majority's liberalism is a result of history, not proselytizing at elite universities as Messrs. Troy and Chen state.

When the major Eastern European Jewish immigration occurred, the Jews moved to improve their economic lot and to flee religious persecution, and as underdogs naturally empathized with other underdogs, making them more likely to be on the left. Parents' beliefs were transmitted at the dinner table and elsewhere.

In political Newtonism, what starts Democratic tends to stay Democratic. Remember that in "Gentlemen's Agreement" America, Jews were still outsiders. The professions were restricted, with the top law firms and hospital posts unavailable to Jews, as were many residential areas, hotels and clubs. Elite colleges put a lid on Jewish (and Asian) attendance. So it continued for several generations.

Now there's no Jewish cap at these universities. But the vast majority of young Jews don't go to the Princetons or Stanfords. I believe a majority of young Jews enter and exit college nominally Democratic, having avoided proselytization (or any political thought altogether). Some students' minds may be changed, but any influence by professors would be a reinforcement of existing liberal beliefs, and a failure to turn students to conservatism by rightist professors.

Of course, I have not included the Hasidim, the Orthodox Jews who, like their Christian evangelical cousins, are in the main, conservative, particularly in social politics.

STEVEN CHINN
New York

Release GOP Delegates, Commit Party Suicide

Eric O'Keefe and David B. Rivkin Jr. ("Release the GOP Delegates," op-ed, June 14) couldn't have provided any clearer road map for the destruction of the Republican Party. Their advice to delegates to disregard all of the criteria and process that resulted in their election to represent their fellow voters, represents exactly what the voters are rebelling against.

Messrs. O'Keefe and Rivkin see the way forward through the manipulation of existing rules and procedures, writing rules after the fact and exercising free will above personal obligation. Each of the delegates to the Republican convention accepted a personal obligation to vote for a specific candidate, at least on the first ballot.

How does abandoning personal honor and integrity and denying an obligation, freely accepted, satisfy the basic characteristics of being a conservative?

JACK HAMILTON
Silverdale, Wash.

It makes sense that rules binding delegates to candidates before the convention aren't, well, binding. What if, for example, a candidate were to run into trouble with the law and be charged with a crime between the time he or she got delegates to commit and the time of the convention vote? Being forced to vote for an indicted felon might prove embarrassing—not that something like that could ever happen. But if a candidate continues to embarrass himself and his party, breaking such commitments might be a brave and appropriate thing for conscientious delegates to do.

JOHN TRICKETT
Charleston, Ark.

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The Business Case for Brexit

By Matt Ridley

In voting Thursday on whether to leave the European Union, the British people face perhaps the most momentous decision since Henry VIII broke from the Roman Catholic Church in the 16th century so he could marry as he pleased. Though lust is not the motivation this time, there are other similarities. The Catholic Church five centuries ago was run by an unelected supranational elite, answerable to its own courts, living in luxury at the expense of ordinary people, and with powers to impose its one-size-fits-all rules despite the wishes of national governments. We were right to leave.

Outside the Union, Britain will have more freedom to innovate and trade.

The European Union is quite unlike any of today's international organizations and has never been emulated elsewhere. Britain has no desire to withdraw from NATO, the United Nations, the International Monetary Fund, the Council of Europe or, for that matter, the Olympics. These bodies are agreements between governments. The EU is a supranational government run in a fundamentally undemocratic, indeed antidemocratic, way. It has four presidents, none of them elected. Power to initiate legislation rests entirely with an unelected commission. Its court can overrule our Parliament.

This was deliberate. In the mid-20th century, French and German politicians, with bad memories of brief and chaotic democratic interludes between autocracies, designed a way to ensure that power would shift gradually to a technocratic elite.

Britain's history of democracy is happier. Long ago we had a "glorious revolution" to establish the principle that laws cannot be passed or taxes raised except by the consent of the people as represented in Parliament.

A centrally planned, regional customs union—though not one run with a colonial mind-set, chaotic accounts, a bureaucratic surplus and a democratic deficit—might have made some sense in the 1950s. That was before container shipping, budget airlines, the internet and the collapse of tariffs under the World Trade Organization made it as easy to do business with Australia and China as with France and Germany.

But today, Britain—the most outward-facing of the major European economies—will thrive if it leaves. Europe's GDP has only just staggered back up to where it was before the 2008 financial crisis.

This is because the EU's obsession with harmonization (of currency and rules) frustrates innovation. Using as an excuse the precautionary principle or the need to get 28 countries to agree, the EU gets in the way of the new. "Technological progress is often hindered or almost impossible in Europe," says Markus Beyrer, director general of BusinessEurope, a confederation of industry groups. Consequently, we've been left behind in digital technology: There are no digital giants in Europe to rival Amazon, Apple, Facebook and Google.

AFP/GETTY IMAGES

The EU is also against free trade. It says it isn't, but its actions speak louder. The EU has an external tariff that deters African farmers from exporting their produce to us, helping to perpetuate poverty there, while raising prices in Europe. The EU confiscated Britain's right to sign trade agreements—though we were the nation that pioneered the idea of unilateral free trade in the 1840s. All the trade agreements that the EU has signed are smaller, as measured by the trading partners' GDP, than the agreements made by Chile, Singapore or Switzerland. Those the EU has signed usually exclude services, Britain's strongest sector, and are more about regulations to suit big companies than the dismantling of barriers.

Even worse than in Westminster or Washington, the corridors of Brussels are crawling with lobbyists for big companies, big banks and big environmental pressure groups seeking rules that work as barriers to entry for smaller firms and newer ideas. The Volkswagen emissions scandal came from a big company bullying the EU into rules that suited it and poisoned us. The anti-vaping rules in the latest Tobacco Products Directive, which will slow the decline of smoking, came from lobbying by big pharmaceutical companies trying to defend the market share of their nicotine patches and gums. The de facto ban on genetically modified organisms is at the behest of big green groups, many of which receive huge grants from Brussels.

In a fine speech in 2013, David Cameron, the British prime minister, called for fundamental reform, but this year he settled for far more modest demands in a travesty of a "renegotiation." He has since campaigned for a vote to Remain, making increasingly implausible claims about the wars, depressions and plagues of Egypt that will follow if the world's fifth-biggest economy tries to survive in a world where Japan, Norway, Singapore and Switzerland seem to manage fine.

His latest claim is that the leaders of Islamic State would welcome Brexit, for which he has adduced no evidence. George Osborne, his chancellor of the exchequer, has bizarrely promised a punitive budget of tax rises and spending cuts to deepen any recession after our departure.

The most striking feature of the campaign is that nobody on the Remain side is prepared to make a positive case for the European Union and its further integration. By contrast, the Leave campaigners, led by Boris Johnson, the former mayor of London, and Michael Gove, the justice secretary, talk of Britain's escaping a regional backwater and getting into the global mainstream, while remaining an ally and friend of Europe. I shall be voting Leave.

Mr. Ridley is a columnist for the Times (U.K.) and a member of the House of Lords.

Trump's Pro-Growth Path to Victory

By Donald L. Luskin

Can Donald Trump make America grow again? His record-breaking number of GOP primary voters—more than 13 million—seem to think so. And Americans overall strongly prefer Mr. Trump over Hillary Clinton on the economy, and on employment and jobs, according to Gallup's latest polling.

But according to the orthodoxy of the economically sophisticated on both the left and the right, Mr. Trump's signature agenda—his hostility to global trade, especially with China and Mexico—is antigrowth know-nothing protectionism. More trade is axiomatically better than less, say the sophisticates, and Mr. Trump is tempting the angry masses into a suicidal trade war.

Yet consider the potentially axiom-breaking speed and magnitude of the rise of U.S. trade with China after China's entry into the World Trade Organization in 2001. By 2015, compared with 2000, American trade with China (adjusted for inflation) almost tripled to a $577 billion annual rate, and now represents 3.2% of U.S. gross domestic product.

The advantages of such trade are well known, and need no recounting here. But as Mr. Trump's fellow reality-TV star Dr. Phil might ask: "How's that been working for you?" Not so well, actually.

Since 2000—the last year before the great expansion of U.S. trade with China began—real per capita U.S. annual GDP growth has fallen, on average, to less than 1%. In the five years before 2000, growth averaged more than 3%. We can't blame the Great Recession for this dismal "new normal"—it began right after 2000 when trade with China took off, not in 2008 when Lehman Brothers failed.

The year 2000 was also the peak for the U.S. labor market. Labor-force participation hit an all-time high then, with 67% of adult Americans either working or in the market for a job, according to the U.S. Bureau of Labor Statistics. By year-end 2015, labor-force participation had fallen to 62.6%, the lowest in two generations. So today's seemingly low unemployment rate is nearly meaningless, because so many Americans have given up even trying to get a job. We can't blame demographics—the "graying" of America isn't at fault when labor-force participation has fallen sharply among Americans still in their prime working years.

But can we blame trade with China? Mr. Trump and his masses do. And now new research by MIT's David Autor and colleagues might begin to move elite opinion in the same direction. In a series of landmark papers, Mr. Autor has shown that the adjustment by U.S. workers to the post-2000 China trade shock has been far slower than predictions by the standard models used by labor and trade economists, and that new

After 16 years of malaise, voters are responding to his call to make America competitive again.

jobs in new industries have not materialized as expected. He also demonstrates that regions most affected by trade with China have contributed to today's political polarization by sending far-right conservatives and far-left liberals to Congress.

Mr. Trump's solution? If he carries out his threat to build a massive tariff wall against Chinese exports, it is Americans who would pay for it, with another shock to our economy. But Mr. Trump has been clear that the purpose of such threats is to "bring China to the bargaining table."

Mr. Trump is right that America could get a more artful deal with China for granting access to the massive U.S. consumer and business market. America should insist that China open its markets symmetrically, and protect U.S. intellectual property. Even the staunchest advocates of trade ought to support that.

But the core of Mr. Trump's growth agenda isn't just about China, or Mexico, or any other trade partner. It's about America—making it more competitive and dynamic in an increasingly globalized world, and more able to profitably adapt to trade shocks.

For example, the U.S. 35% corporate-tax rate is the highest in the developed world. Since taxes are simply a cost of doing business, a high U.S. tax rate means U.S. companies face higher costs than foreign competitors. Mr. Trump has proposed to abolish this competitive disadvantage by slashing the top U.S. business tax rate to 15%.

Mr. Trump's sharply lower business-tax rate would be an immediate boost to after-tax earnings, and thus a boost to equity values. It would remove the barrier that prevents U.S. firms from repatriating foreign profits and putting them to work at home. It would give firms an incentive to expand, and enable new ones to be born—both of which would drive more jobs. With Mr. Trump's proposal to sharply lower personal tax rates, workers would also have a big incentive to return to the labor force, and would be able to spend or invest more of what they earn.

For the presumptive GOP nominee a key target for deregulation is the U.S. energy industry. Oil prices have fallen over the past two years thanks to the U.S. shale revolution, but they are still well above historical norms, with frackers held back by what Mr. Trump calls "massive new bureaucratic barriers."

Hillary Clinton vows to add new regulations until there won't "be many places in America where fracking will continue." Mr. Trump, it seems, remembers that the oil crisis of the 1970s was solved by the deregulation of the 1980s.

Call Mr. Trump a know-nothing if you must. But after 16 years in the new U.S. millennium of malaise, voters are responding to his diagnosis that something has gone unexpectedly wrong with trade, and his proposals to make America more dynamic in order to adapt. Don't forget the last know-nothing who came along and showed America how to pull out of a malaise, with an agenda quite similar to Mr. Trump's, to cut taxes and slash regulations on businesses and energy. His name was Ronald Reagan.

Mr. Luskin is chief investment officer at Trend Macrolytics LLC.

Germany's Wobbly Middle

EYE ON EUROPE
By John Vinocur

Winfried Kretschmann (who's that?) is now Germany's most popular politician, running ahead of a fourth-place Angela Merkel. As political epiphanies go, little could better demonstrate the country's crumbling consensus and the deepening instability in its halls of power than the unexpected, chart-topping arrival of the Green Party's president of the state of Baden-Württemberg.

Mrs. Merkel's mainstream establishment took a wider whack. Her Social Democratic (SPD) foreign minister, Frank-Walter Steinmeier, and her Christian Democrat (CDU) finance minister, Wolfgang Schäuble, finished two and three behind Mr. Kretschmann.

"Many thought for a long time that the chancellor was unbeatable" in national elections next year, Olaf Scholz, vice president of the Social Democratic Party, told a German reporter. "That can't be the case anymore after her party's fall in the polls."

This is about more than a snapshot from monthly popularity rankings. A study released by the respected Allensbach Institute research group last week went to a basic issue: whether the electorate believes it has political parties that provide a convincing plan for Germany's future. Over the past two years, it reported, Mrs. Merkel's CDU sank to a confidence level of 27% from 31%, while the SPD, as junior partners in the governing coalition, tumbled to 9% from 17%.

When Allensbach asked Germans this month what divides them most, 60% said political differences. In 2009, the figure was 30%. That response shattered the conceit of a basic German political consensus giving the country a unique core-strength among democracies.

The institute also reported only 13% of poll respondents think that the Christian Democrats have a good concept for resolving the Muslim refugee crisis, and only 6% think the Social Democrats do. Germans regard this as the biggest national problem. Concerning the big parties' notions that "Islam belongs in Germany," only 13% of respondents share it.

Alongside the damage done to the reputation of German probity through the failings of Deutsche Bank and Volkswagen, this jars the narrative of a special German moderation and communality making Berlin *the* middleman on the world's stage. If Britain leaves the European Union, Germany hardly has the internal unity needed to serve as Europe's political backstop.

Yet Mr. Steinmeier stuck to the self-aggrandizing pitch last week. He wrote in Foreign Affairs that "by remaining stable as the world around it changed," Germany had emerged as a global arbitrator. The article, which hardly sought to portray Germany as a pillar of the West, was otherwise notable because it failed to mention Mrs. Merkel—a graceless illustration of Berlin's mounting political tensions.

The same day, Renate Köcher, Allensbach's director, drew a contradictory picture of disappearing German public confidence in the major parties. With big gains on the extremes, she saw signs of a German polarization similar to that of America's politics, and wrote that this must "be taken with special seriousness."

Voters no longer trust the parties of the center to solve their problems.

All of this is to the disadvantage of Mrs. Merkel's probable campaign for a fourth term in the second half of 2017.

The SPD is already running against her, cozying up to Russia in search of the 54% of German voters who don't see it as a threat and expecting no rebuke from a chancellor who looks away from confrontation. The Greens, seen by the CDU as its best potential coalition ally, refuse to make commitments, protecting their independence. Most destructive are constant internal attacks from the largely autonomous Bavarian wing of the party, which detests the chancellor's y'all-come position on refugees. The Bavarian wing blames Mrs. Merkel for the rise of the hard-line Alternative for Germany (AfD) party, rivalling the CDU from the far right.

How dead is Germany's consensual stability? Over the weekend, while German troops took part in NATO maneuvers in Eastern Europe, Mr. Steinmeier mocked them as "tank parades" involving "saber rattling" and "war cries" that must be replaced by cooperation with Russia.

Although Mrs. Merkel could choose to shoot the Social Democrat down on the deterrent value of the exercises—while Russia doubtless has been encouraged to see a NATO heartland country infected by a significant strain of appeasement—she didn't. Her foreign minister's remarks will stand, testifying to Germany's dilapidated consensus.

The real possibility of a politically paralytic Europe exists. Ahead of next year's presidential vote in France, Germany's choice of a chancellor, and beyond this week's British referendum, Europe's reach and resolve are likely to be smothered by the petty tactics of national election campaigns. Ukraine, Syria? Nothing doing. For a rival whose increasing scorn for Europe's postwar order has been basically ignored by the Obama administration, the instinctive play of Vladimir Putin's Russia is to reinforce Germany's unmistakable political weakness.

A bet: Before the Germans vote in 2017, Barack Obama's successor will have to consider a level of renewed European engagement that requires the U.S. to serve actively as its allies' patron and sentry.

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Notable & Quotable

Sportscaster Vin Scully commenting on air Friday, with the Milwaukee Brewers' Hernan Perez up at bat:

Perez, 25 years old, originally drafted by the Tigers. Lives in Venezuela. Boy, can you imagine, you're a young kid playing in the United States, you're from Venezuela, and every time you look at the news it's a nightmare. A bunt attempt is missed—runners are holding, 0-and-2. Socialism failing to work, as it always does, this time in Venezuela. You talk about giving everybody something free and all of a sudden, there's no food to eat. And who do you think is the richest person in Venezuela? The daughter of Hugo Chavez. Hello! Anyway, 0-and-2.

BUSINESS & TECH.

Shake-Up at Rio Tinto

New CEO revamps top ranks amid price slump BUSINESS NEWS | B2

INSIDE:
MONEY & INVESTING

A Rival to Bitcoin Is Gaining Steam

MARKETS | B5

Tencent to Buy Mobile-Game Firm

By Juro Osawa

HONG KONG—**Tencent Holdings** Ltd. and its partners will pay $8.6 billion to buy the Finnish maker of the "Clash of Clans" mobile game, a deal that will catapult the Chinese internet giant to the global top of the fast-growing mobile game industry.

The deal for Finland's **Supercell** Oy, announced Tuesday, is Tencent's biggest-ever acquisition, helping the Chinese company reinforce its position as the world's largest video-game publisher and highlighting its ambitions to expand far beyond China's borders.

Tencent and its partners will together buy an 84.3% stake in Supercell from Japanese telecommunications firm **SoftBank Group** Corp. and the startup's current and former employees, the companies said Tuesday. The deal values the closely held Supercell, maker of some of the world's highest-grossing mobile games, at $10.2 billion, nearly double its valuation a year ago.

"We are very bullish on the [mobile games] market," Tencent President Martin Lau said on a conference call.

By bringing Supercell under its umbrella, Tencent is stepping onto the world stage. The Shenzhen-based company may be little known in the West, but its WeChat service is China's most popular messaging application with 762 million monthly active users. Tencent makes money by using WeChat as a major distribution platform for games in China, where Alphabet Inc.'s Google Play app store is inaccessible.

Online games accounted for more than half of Tencent's approximately $15 billion in revenue last year. The company's market capitalization is about $207 billion based on Tuesday's closing price, more than Oracle Corp. and Intel Corp. Supercell earned €693 million ($779.1 million) last year, on revenue of €2.11 billion.

Tencent, founded in 1998 by former engineer and now Chief Executive Ma Huateng first found success with a personal computer instant messenger forum called QQ, which later became a platform for online games. Since WeChat was launched in 2011, it has evolved from a simple communication tool into a full-service mobile platform where people play games, hail rides, order food and even invest in money-market funds, attracting the envy of companies like Facebook Inc.

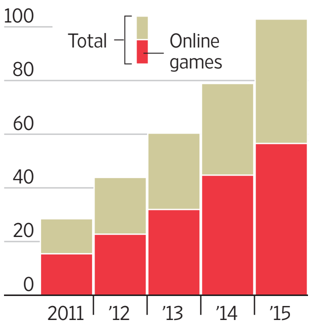
But Tencent's mobile success has largely been domestic. Its decision to buy Supercell hooks it into the burgeoning number of mobile-game players around the world. This year, revenue from mobile games is expected to rise 21% to about $37 billion, surpassing revenue from more traditional games played on consoles and PCs, according to market research firm Newzoo.

Please see DEAL page B3

Betting on Games

Tencent is a global leader in personal-computer and mobile games.

Tencent's revenue
In billions of yuan



100 billion yuan = $15.2 billion
Source: the company
THE WALL STREET JOURNAL.

Apple May Hold Off On iPhone Changes

By Daisuke Wakabayashi And Eva Dou

Apple Inc. plans to break with its recent pattern of overhauling the design of its flagship iPhone every two years, and make only subtle changes in the models it will release this fall, according to people familiar with the matter.

Among other things, those people said, Apple's newest phones will maintain the current 4.7-inch and 5.5-inch displays. Those are the sizes of the larger-display models Apple introduced in 2014, and refreshed with newer models last fall.

The biggest planned change in this year's phones is the removal of the headphone plug, which will make the phone thinner and improve its water resistance, said people with that matter.

The Lightning connector will serve double-duty as a port for charging the phone and for connecting headphones, they said. KGI Securities analyst Ming-Chi Kuo said he expects the new iPhone, without the headphone plug, to be one millimeter thinner than the current iPhone.

New model, to be released this fall, will see removal of the headphone plug.

Apple plans bigger design changes for 2017, the 10th anniversary of the original iPhone. Those changes could include an edge-to-edge organic light-emitting diode, or OLED, screen and eliminating the home button by building the fingerprint sensor into the display, according to people familiar with the matter.

An Apple spokeswoman declined to comment.

In the past, Apple has introduced new iPhones on a "tick-tock" cycle. Apple delivers major design changes every other year—the "tick" years—followed by software improvements and hardware refinements in the "tock" years.

It isn't clear whether this year's shift is a temporary or permanent departure from this pattern. Either way, it comes at a precarious moment for the iPhone, Apple's most important product, accounting for two-thirds of the company's revenue.

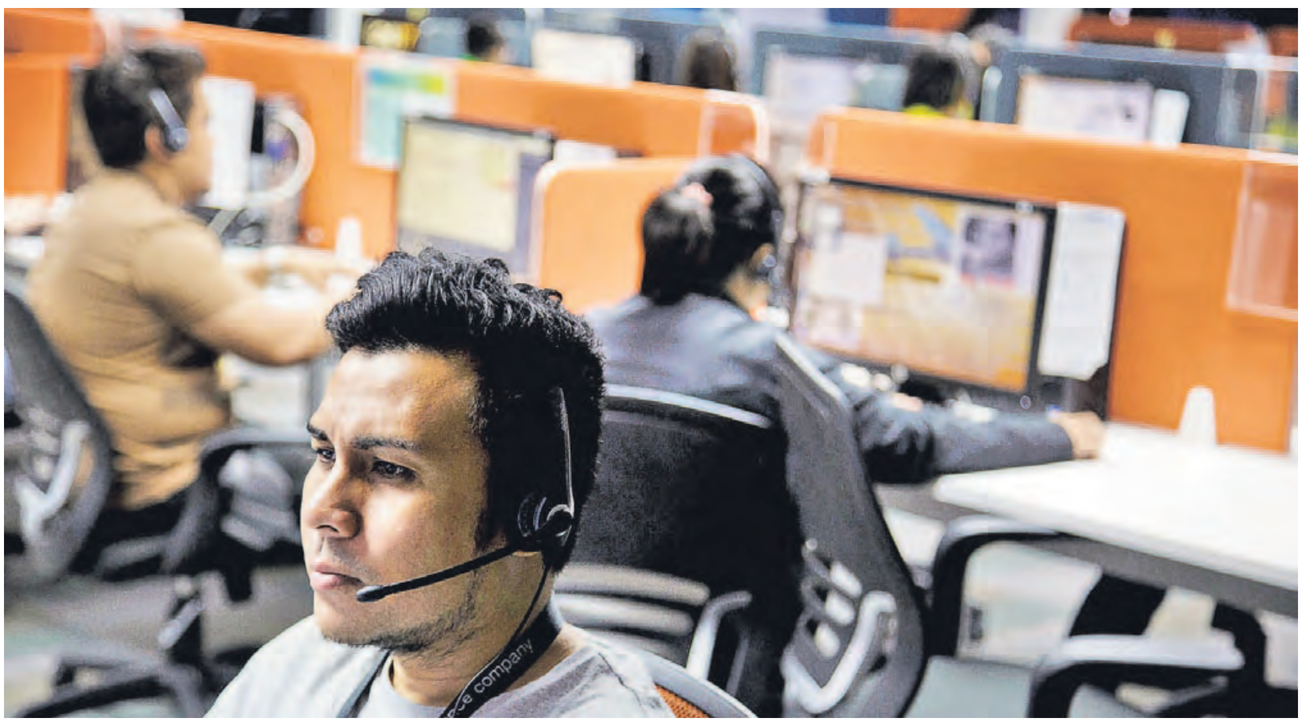
Apple is dealing with the first decline in iPhone sales in the product's history as demand slows and once-torrid markets such as China cool.

The introduction of larger-display phones in 2014 triggered a surge in sales.

Call-Center Jobs Face Danger From Robots

To deflect automation, outsourcing industry in Philippines looks to upgrade its skills

By Trefor Moss



KUNI TAKAHASHI/BLOOMBERG NEWS

Experts say robots are likely to be smart enough in five years or so to replace many of the Philippines' 1.2 million call-center workers.

MANILA—The Philippines' economically important call-center industry has joined the growing list of businesses at risk of being gobbled up by automation.

In recent years, the Philippines, like India, has capitalized on its relatively large pool of English speakers to attract Western companies eager to cut costs by shifting customer service and other tasks to lower-wage countries.

But, as technology improves, an increasing number of the Philippines' 1.2 million call-center workers, whose pay is modest by U.S. standards, are likely to have their outsourcing jobs outsourced to customer-service robots.

Robots already are starting to displace some humans from low-end tasks such as monitoring the performance of digital networks, according to Benedict Hernandez, an executive at the IT and Business Process Association of the Philippines, the industry trade group. And, while robots aren't yet smart enough to replace the human phone operators who do jobs like fielding calls from bank clients or helping people reset their modems, they will be within five years or so, according to Mr. Hernandez and other outsourcing specialists.

That means the industry needs to upgrade its skills—and fast.

Automation has taken a significant toll on India's outsourcing industry, which is heavily involved in networking and information-technology services, and industry executives fear the disruption will only increase. Not long ago, some of those services, such as network monitoring, required dozens of human network engineers, but can now be done with a handful of people who oversee a largely automated system.

Those types of services account for just a small slice of the Philippines' outsourcing business. But Mr. Hernandez's group, fearing that call centers may be next, is mapping out a plan to move the industry more toward upscale services, such as health-care management, animation, game development and engineering. Some call-centers here already are providing these higher-end services, along with rivals in India and Vietnam.

How the Philippine industry fares will have big implications for the economy. The industry generated $21.3 billion in revenue last year and was the country's biggest foreign-exchange earner. Its fate also will affect the job outlook for a demographic bulge of young peopleentering the workforce.

Industry insiders say the outlook depends on whether the incoming government of President-elect Rodrigo Duterte can help develop enough of the tailored education programs needed to produce skilled for a more sophisticated range of tasks.

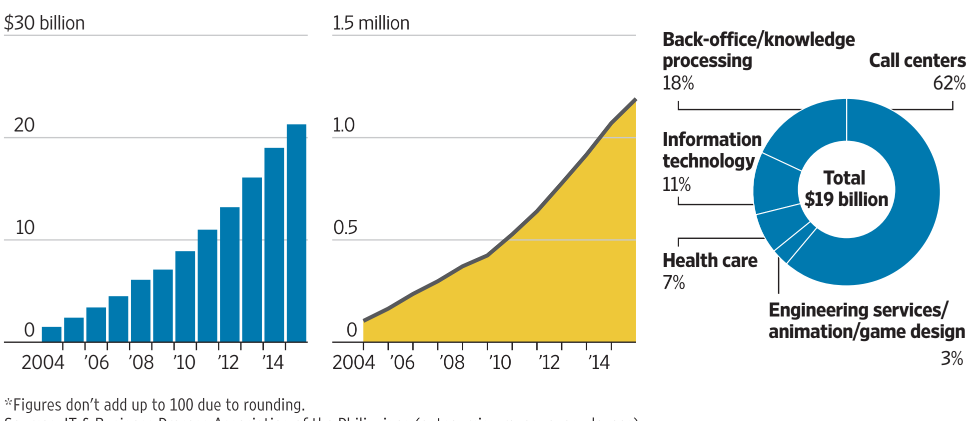
Climbing the value ladder won't be easy. **TaskUs**, a U.S.-based outsourcing with operations here, is among those that are trying. Innovation is the key to survival, said Bryce Maddock, chief executive of the company, which provides a range of back-office functions for tech startups, including the mobile dating site Tinder and the message service Whisper.

"We're trying to 'un-call center' the call center," said Mr. Maddock, who tries to battle the endemic turnover in industry hotspots like Manila by offering a modern workspace modeled on the casual vibe of Silicon Valley.

Please see ROBOTS page B3

Outsourcing Upgrade

To sustain its momentum, the Philippines' outsourcing sector is branching into higher-value services.



*Figures don't add up to 100 due to rounding.
Sources: IT & Business Process Association of the Philippines (outsourcing revenue, employees); Philippine Software Industry Association (revenue by sector)
THE WALL STREET JOURNAL.

Retro Sneakers Give Shoemakers a Boost

G. PAUL BURNETT/ASSOCIATED PRESS

Nike reissued Air Jordans when Michael Jordan, right, twice retired.

By Ellen Emmerentze Jervell

T-shirts and bluejeans have company among casual clothes gone Establishment: sneakers.

Athletic shoes have become core lifestyle footwear, not only in street culture but also for fashionistas and corporate types. Sneakers are more commonly being paired with men's suits. And it's the retro styles that are raising the game for shoe makers.

Skaters, celebrities and brides are posting pictures of themselves on social media in sneakers such as the signature styles Kareem Abdul-Jabbar and Billie Jean King wore.

"They've finally been around long enough to become classic," says Russ Bengtson, senior editor at urban-culture site Complex.com.

Reissued or "heritage" shoes were the fastest-growing footwear category in the U.S. last year, according to analysts **NPD** Group, which estimates sales rose more than 50% and accounted for about 20% of the $17.2 billion U.S. athletic footwear market.

It is good news for Germany's venerable **Adidas** AG and **Puma** SE, which are working to reprise their classics. Both companies have struggled to regain their disco-era cool in today's highly competitive market, and each has seven decades of products to mine.

At Adidas, the world's second-largest sportswear maker after **Nike** Inc., the cash cow is a range of leather tennis and basketball shoes dating back to the 1960s. Now part of the

Please see RETRO page B2

Nissan Protests Use Of Logo for U.K. Vote

By Megumi Fujikawa

TOKYO—**Nissan Motor** Co. said it has taken legal action in the U.K. to stop the "Vote Leave" campaign from using its name and logo in materials backing a British departure from the European Union.

Nissan said Tuesday that it asked Britain's High Court on Monday for an injunction against Vote Leave, just ahead of the Thursday vote.

The auto maker said in a statement that Vote Leave was using its name and logo on its website and in promotional materials without permission, and in ways that misrepresent its views on a possible "Brexit." Vote Leave, which is the most prominent group campaigning for a Brexit, hasn't stopped doing so despite repeated requests, it said.

The Japanese auto maker isn't the only global company protesting the use of its corporate identity in Vote Leave promotional materials. Multinationals like General Electric Co., **Unilever** PLC and **Airbus Group** SE have also complained that their logos were used by the campaign without their permission.

Nissan, which employs about 8,000 people in the U.K., has said it opposes a Brexit.

Toyota Motor Co. said this month that it had also repeatedly warned Vote Leave to stop the unauthorized use of the company's trademark, and was considering legal action.

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

INDEX TO PEOPLE

ROBERT DEAR/ASSOCIATED PRESS

Boris Becker in Pumas in 1985.

RETRO

Continued from the prior page

company's 'Originals' business, the line is "the backbone of our success," says Arthur Hoeld, Originals general manager.

Originals' surge was a top reason Adidas last year achieved sales growth of almost 20% from 2014, the company says. Overall revenue for 2015 was €16.9 billion ($19.12 billion); Originals grew at a "double digit" percentage rate. The rise included a strong rebound in the U.S., where Adidas has struggled.

Adidas says it sold 8 million pairs of its Stan Smiths last year—compared with about 50 million pairs sold in the past half-century. The company also sold 15 million pairs of Superstars in 2015, with Adidas's signature triple stripe. Both models average about $70. "They're the crown jewels," says Mr. Hoeld of the heritage shoes.

Older sneakers from Adidas and Puma are displacing dress shoes.

Puma CEO Bjørn Gulden is more circumspect.

"Heritage sneakers are an important part of our business," but perhaps not for long, he says. "Trends come and go." He noted that retro basketball shoes are hot now, while retro running shoes were recently trendier.

Puma's 2015 revenue was €3.4 billion, up from €2.9 billion a year earlier.

The retro-style trend has been decades in the making. In 1982, rap duo Run-DMC's hit "My Adidas" breathed life into the company's decade-old Superstar line. "I wanted to bring a positive representation to the sneakers that break dancers, DJs, MC's and the graffiti writers were wearing," says Darryl McDaniels, who goes by DMC and still wears Adidas. When Madonna a decade later performed in old Adidas Gazelle sneakers, the company upped production of past best-sellers.

Nike jumped on Michael Jordan's retirement in 1994 to reissue its Air Jordan basketball shoes from the 1980s. It did so again in 1998 when he retired a second time.

Today, sport shoes are generally split between "performance" models aimed at serious athletes and "lifestyle" footwear for people who don't necessarily aim to break a sweat. Many of today's lifestyle shoes are yesteryear's performance models.

Nike, whose most popular back-catalog items stem from the 1980s and '90s, has long been more aggressive at marketing and capitalizing on its retro products than Adidas or Puma, says John Guy, an analyst at MainFirst bank. Nike still sells more heritage sneakers than any rival, says NPD analyst Matt Powell. Nike says it saw "strong value in celebrating our heritage," according to a spokesman, though reissued models use new materials and construction. Today's Nike's Air Max and Air Jordan retail for about $150 and $100, respectively.

What distinguishes today's renaissance is who's sporting sport shoes. Older sneakers from Adidas and Puma are kicking aside traditional dress shoes and opening new sartorial frontiers. When Adidas relaunched Stan Smiths in 2014, it wooed the fashion world. High-end designers Phoebe Philo, Raf Simons and Marc Jacobs all wore the white-and-green leather sneaker. U.S. designer Alexander Wang presented catwalk outfits inspired by the shoe.

Nike's retro sales, such as past resurgences of Adidas and other heritage brands, largely have focused on young and athletic buyers. "Adidas is targeting a broader range of consumers," says Matt Halfhill, founder of sneaker site Nicekicks.com.

Adidas appears to have a leg up on Nike in respectable retro, observers say, because its sneakers date back to when baby boomers were babies. Stan Smith played tennis when rackets were made of wood and sportswear essentially was modified casual attire. Adidas's retro models are "kind of 'pre-style,'" says Mr. Bengtson at Complex.com. "People aren't going to stop you on the street and say 'Ew, that's awful.'"

A delicate issue brands face managing the current fad is avoiding overexposure. Adidas executives admit they mishandled their Run-DMC lift by flooding the market and killing their own cachet. Mr. Hoeld says the company is managing retro popularity in "a very cohesive manner."

BUSINESS NEWS

Rio Tinto Overhauls Leadership

BY ALEX MACDONALD AND SCOTT PATTERSON

LUKE MACGREGOR/BLOOMBERG NEWS

Rio Tinto CEO Jean-Sébastien Jacques in London earlier this year.

LONDON—**Rio Tinto**'s incoming chief executive shook up the mining giant's top ranks in an effort to steer the company through a prolonged slump in prices for the commodities it sells.

Jean-Sébastien Jacques, the deputy CEO who takes over the company on July 2, installed Chris Salisbury to run the company's core iron-ore operations. Mr. Salisbury, currently acting chief of Rio's copper and coal division, succeeds Andrew Harding, a 25-year veteran of the company who had been widely seen as a potential CEO candidate.

Mr. Salisbury's appointment was the most important move in the management overhaul at the world's second-largest diversified mining company, announced Tuesday.

Attempts to reach Mr. Harding, who is leaving the company July 1, were unsuccessful. Mr. Salisbury declined to comment through a company spokesman. In a written statement, Mr. Jacques said Rio will be "well positioned for delivering returns and building growth."

Rio's board in March named Mr. Jacques, formerly head of the copper and coal unit, as successor to the current CEO Sam Walsh, who plans to retire. Experts said Mr. Jacques's appointment showed that the company was focusing on a growth-oriented strategy centered on industrial commodities such as copper.

Large mining companies including Rio have been racked by the fall in prices for resources such as iron ore, copper and coal, as demand from China cools and the huge supplies the mining companies built up over the years weigh on the market. The price of iron ore, Rio's leading earnings driver, dropped to a decade-low in December. Copper and coal, two other crucial earnings drivers, tumbled to multiyear lows recently.

The yearslong commodity slump in February pushed Rio Tinto to slash its dividend, a move widely seen as a concession that it had misread the strength of China's commodities demand.

Other big mining companies have also been forced to retrench. **Anglo American** PLC, which posted a $5.6 billion loss for 2015, has suspended its dividend and said it plans to sharply reduce its mining operations and workforce. Swiss mining company and trader **Glencore** PLC also suspended its dividend and has embarked on a plan to cut its debt by more than $10 billion. **BHP Billiton**, the world's largest diversified mining company by market capitalization, slashed its dividend in February after recording a $5.67 billion first-half loss.

Rio Tinto appears to have been better positioned than rivals such as Anglo and Glencore, which have been selling assets to raise capital. BHP and Brazilian iron-ore company **Vale** SA have been working to respond to last November's catastrophic dam collapse at their jointly run Samarco Mineração SA operation, which killed 19 people.

Rio Tinto said Mr. Jacques restructured the management team based on four groups: aluminum, copper and diamonds, energy and minerals, and iron ore. He also created a fifth group that will focus on asset growth and innovation. Under the new structure, the iron-ore division will be reshaped to focus on Rio's iron-ore operations in the Pilbara region of Western Australia.

Alfredo Barrios will remain CEO of the aluminum division, while Alan Davies, currently the head of diamonds and minerals, will become head of energy and minerals.

Arnaud Soirat, currently CEO of Rio's aluminum primary metal business, will become head of the copper and diamonds division.

Stephen McIntosh, acting Technology & Innovation Group executive, will take up the role of Growth & Innovation Group executive, based in Brisbane, Australia. The division will manage project development.

U.S. Issues Rules on Unmanned Craft

BY ANDY PASZTOR AND GEORGIA WELLS

The federal government issued long-awaited rules authorizing businesses to start using small drones, but they don't resolve some of the biggest safety issues: flying them safely over people or beyond the visual sight of designated pilots.

Without approval to operate in such conditions—current prohibitions left untouched by the regulations—industry officials say some of the most promising applications of unmanned aircraft remain years away.

The Federal Aviation Administration decision, as expected, limits approval to drones weighing less than 55 pounds, and operating in daylight under 400 feet. Operations are allowed during twilight only if the drone has anti-collision lights.

The drone's speed must not exceed 100 miles an hour. The new rule takes effect in late August. Reflecting escalating industry frustration over the slow pace of opening airspace for drones, the FAA established a procedure for requesting a wide range of exemptions. Those could involve night operations, extended flights beyond visual range and a single pilot controlling more than one drone.

"Our focus here is to make this as streamlined as possible," said FAA administrator Michael Huerta.

Modest revisions from agency proposals in early 2015 lower the maximum altitude to 400 feet from 500 feet and lower the age limit for operators to 16 from 17.

The response from lawmakers was mostly positive. Rep. Peter DeFazio of Oregon, the ranking Democrat on the House Transportation Committee, said the rules are "intended to create certainty and predictability for safe, authorized operations—to protect all users of the airspace as well as those of us on the ground."

"The new rules codify common sense," said Jon Resnick, policy lead for the world's largest drone maker, **SZ DJI Technology** Co. of China.

Even as drone advocates welcomed the culmination of a drawn-out process establishing the first formal, industry-wide safety standards, manufacturers, users and industry consultants said the rules stop far short of what is necessary to exploit the full capabilities of drones.

Europe Tries to Hammer Out Drone Rules

BY ANDY PASZTOR

European air-safety regulators are scrambling to adopt regionwide rules for flying unmanned aircraft, but the effort is whipsawed between political limits on their power and escalating industry demands for swift but lenient regulation.

Those crosscurrents were evident during an international safety conference in Washington last week, with senior **European Aviation Safety Agency** officials repeatedly inviting manufacturer and drone users to take the lead in developing consensus technical and operational standards.

The stakes are significant because Europe's budding drone industry—seeking to fend off restrictive oversight—wants to ensure it can keep pace with rivals in the U.S., where regulators are further along in implementing comprehensive rules for small drones flying at low altitudes and weighing under 55 pounds.

At this point, the European Union is still in the process of giving EASA clear-cut legal authority to regulate drones of any size, and 18 countries already have enacted individual national rules.

"It's late, but not too late" to impose common-sense regional requirements, according to Patrick Ky, EASA's executive director, who said he expects the political and technical debates to be resolved by the end of the year. "There is a strong willingness, particularly from the operators" to have common European rules, he said in an interview during the conference.

The agency is developing proposed rules that for smaller drones, will leave some important details and enforcement to national aviation authorities. A draft is expected to be available as early as July.

"I wish we had started before," Mr. Ky said, though he still expects the rules to become final around the end of the year, roughly the same time frame in which European Union leaders are looking to grant EASA power to implement them.

Luc Tytgat, the EASA official in charge of drones, emphasized the agency's eagerness to mandate rules the industry finds acceptable. One concept under consideration is to have multinational teams assessing prototypes and considering ways to integrate lessons learned into future standards.

Korean Battery Makers Stumble in China

BY IN-SOO NAM

HUANG ZONGZHI/XINUA/ZUMA PRESS

A motorist charged an electric car in Hangzhou, China, last week.

SEOUL—South Korea's two biggest electric-vehicle battery makers—**LG Chem** Ltd. and **Samsung SDI** Co.—have failed to get battery certifications from China, dealing a blow to their plans to expand capacity in the world's largest auto market.

LG and Samsung, which control one-third of the world's battery market for electric vehicles, said Tuesday their recent applications for certification were rejected.

The decision by China's Ministry of Industry and Information Technology means that electric cars that use LG or Samsung batteries might be at risk of becoming ineligible for government subsidies. Chinese authorities recently said they are considering limiting the state subsidies presently offered for the purchase of electric cars to only those vehicles with certified batteries, starting as early as 2018.

Without state subsidies, which can account for as much as 40% of the price of an electric vehicle in China, battery suppliers will have trouble finding buyers, analysts said.

Thirty-one Chinese battery makers that also applied for certification in the same round have made it to the list.

LG and Samsung said they haven't been notified of the reasons for their exclusion.

Both companies said they would resubmit their applications later this year.

"This is a big uncertainty for the Korean players in their EV battery business in China," said a Seoul-based NH Investment and Securities analyst, Hwang Yoo-sik.

China has already suspended its consumer subsidies for electric buses using batteries like the ones Samsung, LG and other global competitors make—a combination of nickel, cobalt and manganese.

To increase their share of the rising electric-vehicle batteries market, LG and Samsung have been counting on demand from China, which last year made up one-third of the global market.

The Chinese government aims to have five million electric cars and buses on the road by 2020 as part of efforts to reduce air pollution and dependency on imported oil.

LG Chem and Samsung SDI each built a battery factory in the eastern city of Nanjing and in Xian, in central China, respectively, in October last year to start their full-fledged advancement into the Chinese electric-car market. The LG unit produces batteries that can run 50,000 pure electric vehicles each year, while the Samsung factory can power 40,000 such vehicles annually.

LG provides batteries to about 20 global makers of electric vehicles, including General Motors Co., Ford Motor Co. and Hyundai Motor Co. In China, the company counts SAIC Corp., China's biggest car company, and Chery Automobile Co. as its clients. Samsung's Chinese customers include Zhengzhou Yutong Bus Co. and Beiqi Foton Motor Co.

SK Innovation Co., the flagship unit of Korea's third-largest conglomerate, SK Group, said in April it is also considering building an electric-vehicle battery plant in China.

Samsung Bets on 'Internet of Things'

By Christopher Mims

WASHINGTON—**Samsung Electronics** Co. said Tuesday that it will invest $1.2 billion in the U.S. over four years to boost technologies aimed at adding computing power to everyday devices, a movement dubbed the "internet of things."

The South Korean electronics giant said the funds would be split evenly between internal research and development and investments in other startups. Executives said the funding announcement marked a continuation of Samsung's increasing openness to partnerships and strategic investments, which it long shunned.

Samsung had announced prior initiatives around the internet of things. But executives said the new funding represents an acceleration of the company's attempt to compete with **Intel** Corp., **Qualcomm** Inc. and others to create chips and other hardware that manufacturers can incorporate into gadgets to make them internet-connected.


CHRIS RATCLIFFE/BLOOMBERG NEWS

Samsung's investments will be aimed at a variety of applications. Above a display on a refrigerator.

Predictions vary widely, but IDC has forecast that the global internet of things market will be worth $1.7 trillion by 2020.

Samsung's investment will be aimed at a variety of internet-of-things applications, including digital health; "smart machines," such as drones, robots and autonomous vehicles; and companies making software to process the massive data produced by these devices, said Young Sohn, Samsung's president and chief strategy officer.

Samsung last week said it would acquire Joyent Inc., a San Francisco company that rents the use of computer servers and data centers to other companies. Last year, Samsung announced a set of technologies, called Artik, to connect objects and computing power to support those objects.

The $600 million in internal investment will go to Samsung's two U.S. research facilities in Silicon Valley, where it will focus on technology for powering the internet of things—such as chips and products—for existing markets. Samsung is the world's leading maker of smartphones, televisions and memory chips, but has been seeking new markets as its growth has slowed and its market share in mobile devices eroded.

Samsung's outlay for the internet of things is large by industry standards but a fraction of the electronics giant's $14.1 billion in R&D spending in 2015, second only to Volkswagen AG's $15.3 billion R&D outlay, according to PricewaterhouseCoopers.

Facebook Still Seeks An Entry Into China

By Deepa Seetharaman

REDWOOD CITY, Calif.—**Facebook** Inc. executives Monday reiterated interest in entering China, where the world's largest social network is banned, as they answered questions at the company's annual shareholder meeting.

"We're learning, we're studying about the Chinese market and we'll see what happens," Chief Operating Officer Sheryl Sandberg said, adding that she was in China last week.

Ms. Sandberg said she met many of Facebook's top clients in China, who use the platform to show ads to users outside the country. Facebook doesn't maintain an office in China, but sells ads to some Chinese companies.

Facebook's interest in China is well-documented, though the company isn't expected to win approval to offer its network there soon. In March, Facebook Chief Executive Mark Zuckerberg jogged through Tiananmen Square—without a pollution mask, sparking a lot of debate on his Facebook page.

In the business portion of the meeting, shareholders approved a company plan to create a new class of shares and re-elected all eight directors including Peter Thiel, the Silicon Valley entrepreneur who recently disclosed that he had covertly backed lawsuits against Gawker Media. They also rejected five shareholder proposals, on subjects ranging from giving shareholders more of a voice at the company to gender pay equity.

The outcomes were no surprise, as Mr. Zuckerberg holds majority voting power and, therefore, has the vote that matters most.

Chinese Hacking Activity Appears to Be Declining

By Robert McMillan

Chinese hacking of corporate and government networks in the U.S. and other countries appears to be declining, according to computer-security experts at companies hired to investigate these breaches.

The drop-off is stark and may date back two years. Hackers operating out of China were linked to between 50 and 70 incidents that the cybersecurity company **FireEye** Inc. was investigating on a monthly basis in 2013 and the early part of 2014, said Laura Galante, the company's director of global intelligence. Starting in October 2015, however, this tally dropped below 10 incidents and hasn't recovered, she said.

"We saw this decline start in 2014 and then another dip in 2015," she said.

FireEye rival **CrowdStrike** Inc. says that it, too, has noticed a drop in China-based hacking incidents. Co-founder and Chief Technology Officer Dmitri Alperovitch said the decline occurred this year and may be caused by a sweeping reorganization of China's military, announced earlier this year.

The U.S. government has long accused Chinese hackers of widespread espionage into both corporate and government networks. In 2013, security researchers at **Mandiant**, later acquired by FireEye, published a report detailing a widespread computer-espionage campaign, called "APT1," that the company linked to the Chinese military.

The U.S. government has long accused Chinese hackers of espionage.

The U.S. government ramped up the pressure in 2014, when it indicted five Chinese military officers on charges of hacking into U.S. companies to steal trade secrets. None of those charged has appeared in the U.S.

In March, Su Bin, a Chinese aviation executive, pleaded guilty to cyberespionage charges for attempting to steal data on Boeing Co.'s C-17 Globemaster III aircraft.

Ahead of a visit to the U.S. by Chinese President Xi Jinping in September 2015, news leaked that President Barack Obama was considering sanctions against Chinese companies that benefited from hacking.

China's top security czar flew to Washington to hammer out an agreement, later announced by the two presidents, that China would stop supporting cyberespionage for commercial purposes.

The White House continues to make "slow and steady" progress with China on cyberissues but has no assessment on whether China's behavior has declined, a senior administration official said Monday. "Certainly there is a much greater Chinese awareness that this is an issue that they have to deal with in the bilateral relationship," he said.

A spokesman for the Chinese embassy in Washington said the two countries are working together to combat cybercrime. "China firmly opposes and is committed to combating all forms of cybercrimes," the spokesman said.

DEAL

Continued from page B1

"For Tencent, it's a big step towards truly global dominance, from being a Chinese market leader. Supercell can become a stepping stone to grow its position in the West," said Newzoo Chief Executive Peter Warman.

With the Supercell deal, Tencent is trying to replicate its success in PC games, where it became a global player thanks to its 2011 acquisition of Los Angeles-based Riot Games Inc., the developer of the hit combat game "League of Legends." Last year, "League of Legends" was the world's top-grossing PC game, generating $1.63 billion in revenue, according to research firm SuperData.

Just as "League of Legends" has become a hit in China, Tencent said it would help Supercell's games find more users in China. Supercell Chief Executive Ilkka Paananen said on a conference call Tuesday that his company is currently working on integrating its gaming platforms into Tencent's WeChat and other social platforms in China.

"We are expecting to launch very soon on those platforms," he said.

The Supercell acquisition follows smaller moves by Tencent over the past few years to expand its mobile-games business abroad. The company last year bought a minority stake in Glu Mobile Inc., a San Francisco-based mobile-games publisher, for an undisclosed amount. In 2014, Tencent bought a minority stake in Japanese mobile-game developer Aiming Inc.

At Tencent's biannual management meeting in April, Mr. Lau told several hundred managers that the company would make attempts to gain assets that would help raise its international profile, according to people who heard the speech. At that time, only a handful of people at the meeting knew that Mr. Lau was already working on the Supercell deal.

Earlier this year, Mr. Lau flew to Helsinki to persuade Supercell's founders to support a sale, according to people briefed on the matter.

On Tuesday, Mr. Lau said that Tencent had been interested in Supercell even before SoftBank bought its first stake in 2013. "At that time, the deal didn't work out," Mr. Lau said.

Whether the deal can really become a springboard for its global expansion depends on how well Tencent can work with Supercell, given the different cultures of the two companies, analysts say.

"Under SoftBank we enjoyed a great deal of independence," said Mr. Paananen on Tuesday. "I'd like to think of Supercell as a group of 190 entrepreneurs rather than a company," he said.

Tencent, by contrast, is a sprawling internet group with over 30,000 employees, many of them based in China. But Mr. Lau on Tuesday promised to preserve Supercell's culture and give the company "all the independence it wants."

Supercell's headquarters will remain in Helsinki.

—Rick Carew and Wayne Ma in Hong Kong and Matthias Verbergt in Stockholm contributed to this article.


LI JIZHI/XINHUA/ZUMA PRESS

Game players walk by a circular screen displaying a scene in the game 'Clash of Clans' in Helsinki last October.

ROBOTS

Continued from page B1

He says just a 10th of the company's 5,000 employees are actually answering phones. Most are managing content on websites or handling customer relations via online chat.

TaskUS reflects an industrywide trend. A decade ago, nearly all Philippine outsourcing work was phone-based. Now, it is just 60%, a figure that is bound to keep declining, outsourcing executives say, even as the industry as a whole continues to expand.

"The industry can keep growing. The demand will be there for well-educated people," said Mr. Maddock. "The question is whether the Philippines can produce enough of them."

Chicago-based law firm **Baker & McKenzie** employs 900 people in Manila performing tasks from billing to marketing, said Gabriel Pardo, executive director of the company's outsourcing operation. Automation is an opportunity, not a threat, Mr. Pardo says, as it drives outsourcing up-market and allows workers to advance their careers and demand higher salaries.

He said that as automation frees Manila employees from low-end jobs, the law firm is entrusting them with more challenging work, such as managing clients' intellectual-property portfolios.

But the Philippines also needs to keep up with emerging rivals in places like Indonesia and Vietnam, who are developing their own business-process-outsourcing industries.

Mr. Duterte, who takes office as president at the end of June, has already outlined plans to fund education programs tailored to the needs of employers, raising hopes that the new government will help the outsourcing sector fend off the robots' challenge.

"The answer is upscaling, to keep developing your people," Mr. Pardo said.

MANAGEMENT

WORKAROUNDS

Gender Wage Gap Widens at Age 32, Report Finds

The wage gap between male and female workers widens at around age 32, the same time that women start to become underrepresented in managerial ranks, finds a new report from workforce analytics firm Visier.

At that age, women earn approximately 90% of their male counterparts' incomes, a share that declines to 82% by age 40. During that same period, men are more likely to be promoted into managerial roles.

According to Visier's database of 165,000 employees from 31 companies, managers earn on average twice as much as nonmanagers, so as men climb into management at a higher rate—because of factors that include women leaving the workforce or taking time out for maternity leave, as well as possible discrimination in promotion—the gender wage gap increases.

If the same proportion of male and female workers were managers, approximately one-third of the wage gap for workers over age 32 would disappear, Visier found. How to correct the "manager divide"? Visier recommends that firms implement the Rooney Rule to be sure women and underrepresented minorities are on promotion slates; use blind screening to remove gender identifiers when selecting candidates for interviews; and support equal-paid parental leave for men and women.

—Lauren Weber

Performance of Workers Varies Over Time: Study

If you think the workforce can be divided into high achievers, slackers, and a big crowd in the middle, think again.

It turns out that workers' performance varies over time—much more so than previously thought, according to a new research paper from Peter Cappelli of the University of Pennsylvania's Wharton School and Martin Conyon of Bentley University.

The authors analyzed seven years of performance-review data from a Fortune 50 retailer, and concluded that the chance of an employee receiving the same rating from one year to the next was 33%—meaning the practice of "managing out" workers who rate low in annual rankings could result in companies firing next year's solid B players or even stars.

"Jack Welch's 'vitality curve'? No evidence for that at all," said Mr. Cappelli, referring to the system popularized by Mr. Welch at General Electric Co. in the 1980s, in which employees were segmented into a bell curve with 20% rated as high performers, 10% rated as low performers, and the majority in between.

In the system's most rigid form, low performers were fired each year, under the premise that they would never deliver value to the business. "The variation [in performance] is much closer to random," Mr. Cappelli said. Performance can improve and the authors say "how employees are managed matters."

—Lauren Weber

New Corporate Strategy: Empathy

More companies are emphasizing the trait in developing both managers, products

By Joann S. Lublin

Ford designers strap on devices that stimulate old age, above, and pregnancy, left, to incorporate empathy in auto design.

JEFF KOWALSKY FOR THE WALL STREET JOURNAL (2)

BRIDGEVILLE, Pa.—Until recently, Aaron Gibson wouldn't have called himself an empathetic boss. He considered himself a "no-nonsense" leader with high standards. But some employees cited his blunt and brusque manner when they quit the three local YMCAs he runs.

Mr. Gibson changed his style after a recent leadership workshop at a consultancy here, where he and other leaders got a crash course about leading with empathy.

The YMCA regional executive director realized he didn't understand his staffers' needs. "You never know what someone is feeling unless you ask," he says.

Corporate empathy may sound like an oxymoron, but more businesses are emphasizing the trait in developing managers and products. **Cisco Systems** Inc., Breakthru Beverage Group and **Ford Motor** Co., have invested in empathy training to improve management, retain employees, or guide design decisions.

Individuals who master listening and responding to others are the most successful leaders, and this skill outranks all others, concluded a study released this year by human-resources consultancy **Development Dimensions International**. The finding reflects assessments of more than 15,000 leaders in 18 countries.

A 2011 study of 6,731 managers from 38 countries by the Center for Creative Leadership also uncovered strong performance by empathetic bosses, saying they "effectively build and maintain relationships."

About 20% of U.S. employers offer empathy training as part of management development, up significantly from a decade ago, estimates Richard S. Wellins, a DDI senior vice president. He expects that percentage will double in 10 years. Contemporary workers "want a sense of connection," which empathetic managers offer, says Adam Waytz, an empathy researcher and associate professor at Northwestern University's Kellogg School of Management. Yet, few companies scientifically measure outcomes from this training, he adds.

At least one measure suggests that empathy boosts corporate results, too. The top 10 businesses among 160 in a 2015 Global Empathy Index generated 50% more net income per employees than the bottom 10. The index analyzed such factors as how well those companies treat workers and communicate with customers.

The Empathy Business—the consultancy that produces the index—also advises businesses such as **Aston Martin Lagonda** Ltd., a British sports car maker eager to attract more female buyers. Treating customers empathetically "differentiates our business," says Chief Executive Andrew Palmer.

Encouraged by Empathy Business, Aston Martin created an all-female panel to advise on design of the DBX, a spacious new model. This international customer board can veto engineering decisions and will eventually weigh in on marketing.

Ford also incorporates empathy into vehicle design. Newly hired engineering graduates must don an "empathy belly" shortly after they join design teams. The weighted garment makes a wearer feel like an expectant mother—including extra pounds, back pain and bladder pressure. Engineers personally experience challenges facing pregnant drivers, who need "a little more room to get in and out of the car," says Katie Allanson, a Ford ergonomics specialist.

After 30 minutes of simulated pregnancy, male colleagues often ask Ms. Allanson when they can take off the belly. ("Three more months to go," she jokes.) The practice has influenced ergonomic features in certain models, such as easier automatic adjustments of the driver seat.

DDI and several rivals strongly emphasize empathy during broader leadership training for clients. Many bosses lack the skill, its studies show. In self-assessments before their DDI session this spring, a third of 19 first-line supervisors and senior managers from local businesses and nonprofits scored lower on empathy than other leadership traits.

Mr. Gibson, raised in a tough Pittsburgh neighborhood, has practiced empathy extensively since the workshop, listening harder and dropping his intimidating, constant stare during employee encounters.

"It's a 180-degree difference," Mr. Gibson says.

Some Tips on Job Security in the Robot Age

By Lauren Weber

BOOK REPORT

The latest waves of automation threaten professional workers who have long felt safe from job-destroying robots. But that's not a new fear.

The prospect of automating jobs has haunted workers for centuries, going back at least to the Luddites said to have destroyed textile looms in the early 19th century, write Tom Davenport and Julia Kirby in their new book "Only Humans Need Apply" (Harper Business).

Mr. Davenport, a management professor at Babson College, spoke to The Wall Street Journal about how knowledge workers can thrive in a robot age.

WSJ: Some people say that robots will take all of our jobs, and others say that new jobs will emerge to suit a more automated economy. Where do you fall?

Mr. Davenport: We're more on the optimistic side but it's dangerous to be totally sanguine. We believe job loss won't be catastrophic but there will be some on the margins, and it's a nasty experience for the people who do lose their jobs. They tend to lose them for the rest of their lives. But the fear is overstated. Computers don't tend to replace whole jobs; they replace specific tasks. Also, it's a relatively slow process to eliminate jobs. There are just as many bank tellers now as there were in 1980. It's not a profession that's growing and no one would recommend it for their child, but it takes quite a while to replace jobs.

WSJ: Give an example of someone who is transitioning well.

Mr. Davenport: One of my heroes is a guy named Alex Hafez. He was a lawyer who didn't go to a top law school. He got a job at a law firm but fell off the partner track during the financial crisis and lost his job, so he ended up doing contract document review. He became an expert on e-discovery, and now he's a solution architect for a prominent e-discovery software and services firm. He said, why fight these machines? He became entirely marketable.

WSJ: What would you advise a person graduating college?

Mr. Davenport: You're going to have to work closely with computers or do your best to avoid them. If you do the former, you need to get familiar with the logic of computers, what they do well and what they don't. If you choose the alternative, choose something unlikely to be done well by computers any time soon, like creative or empathetic work, or something so narrow that no one is likely to automate it any time soon. We heard about a lawyer who focuses on cases about malfunctioning automatic garage door openers. That is pretty narrow.

TOM DAVENPORT

Babson's Tom Davenport

WSJ: How would you advise a midcareer professional on creating some job security for the next few decades?

Mr. Davenport: Hopefully you'll get some help from your organization on this and they'll let you know the areas most likely to be done by machine. One of my Babson students was a financial adviser and he heard the footsteps of robo advisers. He said his client conversations were getting more scripted. So he focused on behavioral finance, doing things like reconciling the diverse risk perspectives of husbands and wives. Behavioral finance is unlikely to be automated any time soon.

WSJ: Which skills pair well with the growing functionality of machines?

It is the ability not only to understand how [technology] works and thinks, but also to communicate about it. Some people call this 'purple people,' half red and half blue, one side being technical, the other side able to communicate effectively.

WSJ: How should education and social policy change if machines and humans are working together more closely?

Mr. Davenport: It starts you thinking along the lines of guaranteed basic incomes for people who can't make it.

In terms of educational policy, there is often a blind advocacy of [science, technology, engineering and mathematics] education. But we shouldn't be educating people to do things computers do best. We ought to be careful before channeling everybody into STEM fields.

Business Watch

UNITED CONTINENTAL

Target of $3.1 Billion In Revenue Outlined

United Continental Holdings Inc. outlined plans to boost profitability with another round of cost cuts and efforts to win back corporate fliers that have deserted the third-largest U.S. airline by traffic.

United aims to lift revenue, improve efficiency and trim expenses by a cumulative $3.1 billion between 2015 and 2018 as part of a broader effort by Chief Executive Oscar Munoz to reshape a company that some analysts have said requires bigger reforms to close its profit gap with rivals.

United also said its closely watched average fare metric will be at the higher end of prior guidance in the second quarter, though investors will have to wait until the fourth quarter for an investor day with potentially more wide-ranging moves that analysts said could include changes to its route network and long-term financial goals.

Mr. Munoz had set a nine-month time frame for a strategic review following his appointment as CEO last September, but this slipped after he suffered a heart attack the following month. A spat with activist investors this year that concluded with the turnover of half its board has added to the delay.

Alongside the efforts to boost revenue, United aims to cut $1.3 billion in costs over the next three years, the majority of it from continuing to shift more flying to larger planes from less-efficient regional jets.

—Doug Cameron

United aims to boost profitability with a new round of cost cuts.

DAVID J. PHILLIP/ASSOCIATED PRESS

HYUNDAI MOTOR, KIA

China Management To Be Combined

Hyundai Motor Co. and its affiliate **Kia Motors** Corp. are combining the management of their respective production and sales activities in China, to better compete with rivals in their largest global market.

"This is not a merger of production facilities of the two companies. But we're now managing plans for our auto production and sales in China under a single leadership. That way, we'll be more responsive to demand in China," a Hyundai spokeswoman said.

The move comes as the Hyundai Motor Group has been struggling with weak sales in the world's largest auto market for more than a year, but there are signs of an improved performance. Hyundai's China auto sales rose 25% in May from a year earlier—the highest and first double-digit growth this year. Kia returned to growth, with a 2.3% rise, after posting four straight months of declines.

—In-Soo Nam

FIAT CHRYSLER

Car Maker to Stop Using Takata Air Bags

Fiat Chrysler Automobiles NV said it would stop equipping new vehicles with certain faulty Takata Corp. air bags, a few weeks after some U.S. lawmakers raised concerns that the rupture-prone safety devices were still making their way to dealerships.

The air bags Fiat Chrysler cited can currently be sold legally but will eventually be recalled in coming years as part of an order from U.S. car-safety regulators. Customers will be alerted to any unsold vehicles with the air bags and to pending recalls, Fiat Chrysler said.

The 2016 Jeep Wrangler is the company's final model using an ammonium-nitrate design without a drying agent, in a passenger-side air-bag inflater, Fiat Chrysler said. The company isn't aware of any failures with that Jeep's air-bag inflater, which will migrate to a different design. Fiat Chrysler said tests were performed on nearly 6,300 older versions of the component in adverse environmental conditions without any incidents.

The Italian-U.S. auto maker said most of its vehicles now use air bags with propellants that don't contain ammonium nitrate.

—Mike Spector

THAILAND

Automotive Industry Continues Recovery

Thailand's automotive industry continued its slow recovery in May as general business environment picked up from the previous month, according to the Federation of Thai Industries.

A report from the FTI's Automotive Club showed the country's automotive production in May rose 24.69% from last year and increased 21.82% sequentially to 168,394 units.

The FTI's auto club said the rise in production could be attributed to the higher assembly of pickup trucks for local buyers, when compared with last year.

—Noppart Chaichalearmmongkol

TOP GLOVE

Rubber-Glove Maker Sets Expansion Plan

Malaysia's **Top Glove** Corp. Bhd., the world largest rubber-glove maker by volume, targets to expand by acquiring at least one peer before the end of the year, Chairman Lim Wee Chai said.

The company aims to expand its global market share to 30% by 2020 from 25% currently, Mr. Lim said without specifying how much the company plans to spend on acquisitions. Top Glove has a net cash position of 378.5 million ringgit ($93.2 million) as of May 31, according to the company.

—Yantoultra Ngui

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MONEY & INVESTING

REIT Shareholders Balk at Pay Plans

THE PROPERTY REPORT | B6

ASSOCIATED PRESS

After JD's Wal-Mart Pact, Still Plenty to Do

HEARD ON THE STREET | B10

As of 12 p.m. ET EUR/GBP 0.7676 ▼ 0.35% YEN/DLR ¥104.56 ▲ 0.60% GOLD 1271.20 ▼ 1.46% OIL 48.31 ▼ 2.15% 3-MONTH LIBOR 0.64185% 10-YR TREAS ▼ 4/32 yield 1.683%

A Rival to Bitcoin Is Gaining Steam

By Paul Vigna

With a rising market value and a roster of high-profile patrons, Ethereum in recent months has become the next hot thing in cryptocurrencies.

Ethereum is an open software platform, comprising a currency called ether, a public "blockchain" ledger for keeping track of transactions and tools for building so-called smart contracts that automatically make payments when their terms are fulfilled. Anyone can develop applications that make use of its code.

More ambitiously, the currency's inventors and users are revolting against the growing centralization of the internet under big companies like **Google** and **Facebook** by creating financial structures that can run themselves.

Much like its older cousin bitcoin, however, ether is subject to fits of speculation, scandal and questions about whether it can ever be more than a niche project for developers.

On Friday, a startup called the DAO, created to back Ethereum projects, said it had suffered a theft of roughly $55 million worth of the virtual currency when a hacker rewrote some of the startup's code and funneled the money into a private account. The price of ether has dropped about 43% since the hack was disclosed.

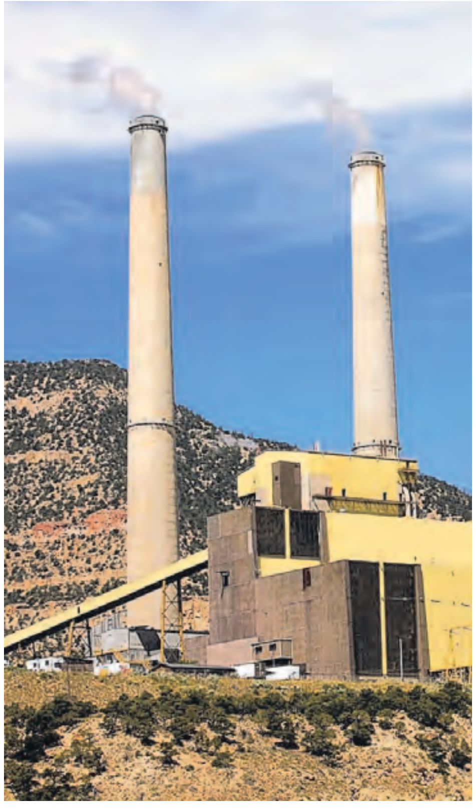
The value of ether had jumped from about 70 cents in January to more than $21 on Friday. After news of the hack broke, it fell sharply, and was trading around $12 on Tuesday, according to currency exchange Kraken. Bitcoin, on the other hand, is up only about 56% this year.

To many, the world of cryptocurrencies is an opaque niche or an investment fad. But the technology underpinning those currencies—open and immutable transaction ledgers—could transform a wide variety of commerce for millions of consumers, in particular in finance and banking.

Ethereum plays into the enthusiasm about that technology, taking the decentralized network that powers bitcoin and repurposing it for broader use. It works like a web-hosting and data-storage service, but not one run by a single company like **Amazon Web Services**.

Instead, Ethereum services work across a far-flung, decentralized network of interconnected

Please see ETHER page B9



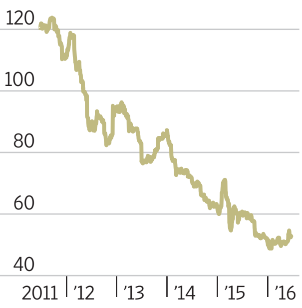
GEORGE FREY/GETTY IMAGES; CHINAFOTOPRESS/GETTY IMAGES; ANDREY RUDAKOV/BLOOMBERG NEWS (CLOCKWISE FROM UPPER LEFT)

Power Down

The thermal-coal sector has endured a deepening price downturn in recent years.

Newcastle coal futures

$140 a metric ton



Source: FactSet

THE WALL STREET JOURNAL.

Coal prices have plunged in recent years amid a global glut. Clockwise from top left: A coal-fired power plant in Utah; workers load coal onto railcars in China; steel pipe in production in Russia.

Citi, BofA Gear Up For Next Stress Test

The banks have lagged behind U.S. rivals on share gains, dividends, buybacks

By Christina Rexrode

There is a $24 billion reason why **Bank of America** Corp. and **Citigroup** Inc. shareholders should care about bank "stress tests," results of which are expected this week.

That figure is the additional money combined the two banks theoretically could have returned to shareholders over the past three years if their levels of dividends and share buybacks were similar to those of **Wells Fargo** & Co., according to Wall Street Journal calculations. That they weren't is partly due to the annual stress tests administered by the Federal Reserve. Bank of America and Citigroup each have stumbled on these in recent years.

For an investor with 1,000 Bank of America shares, that could have translated to nearly $500 in dividend payments last year versus an actual $200. A Citigroup investor with the same number of shares might have gotten more than $1,900 versus $160.

The Fed will release the first round of this year's stress-test results this Thursday. These will show how capital at 33 banks held up in severe market and economic conditions.

The following week, banks will find out whether the Fed has approved their capital-return plans.

To calculate capital returns that Bank of America and Citigroup shareholders have theoretically missed, the Journal examined how much they would have paid out or they had returned capital at the same rate as Wells Fargo. For example, Wells Fargo paid out

ROBERT GALBRAITH/REUTERS

Bank of America, under CEO Brian Moynihan, has failed the Fed's stress test three times.

dividends and bought back stock equal to 75% of its net income last year. Bank of America was at about 31%, while Citigroup was around 36%.

Over the past three years, the two banks returned a combined $19 billion to shareholders via dividends and buybacks.

At Wells Fargo's payout levels, they would have returned about $43 billion.

Bank of America and Citigroup declined to comment.

Nowhere are these tests more important than at Bank of America, which has flubbed the exam three times, and Citigroup, which has failed twice.

These banks have lagged behind Wells Fargo and **J.P. Morgan Chase** & Co. on metrics affected by the stress tests directly and indirectly, including dividends, share-price gains and valuation.

Money Manager Is Found Dead

By Pervaiz Shallwani And Christopher M. Matthews

Hedge-fund manager Sanjay Valvani, charged last week in one of the most significant insider-trading prosecutions in recent months, was found dead in his home Monday evening from an apparent suicide, authorities said.

Mr. Valvani, 44 years old, was found by his wife in the bedroom of their Brooklyn home with a slash wound to his neck, said a New York Police Department spokesman.

It will be up to the New York City Office of Chief Medical Examiner to determine the exact cause of death, but responding officers recovered a knife and a suicide note near Mr. Valvani's body, the NYPD spokesman said.

"This is a horrible tragedy that is difficult to comprehend," Mr. Valvani's attorneys, Barry Berke and Eric Tirschwell, said in a statement. "Sanjay Valvani was a loving father, husband, son and brother and committed friend, colleague and mentor. We hope for the sake of his family and his memory that it will not be forgotten that the charges against him were only unproven accusations and he had always maintained his innocence."

It will be up to the New York City Office of Chief Medical Examiner to determine the exact cause of death, but responding officers recovered a knife and a suicide note near Mr. Valvani's body, the police official said.

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BHP Keeps Faith in Coal Despite the Hard Times

By Rhiannon Hoyle

SYDNEY—Coal still has at least one major supporter amid the misery in a market strained by bankruptcies, mine closures and mass worker layoffs.

BHP Billiton Ltd., the world's biggest mining company, on Tuesday sounded a bullish note on future coal demand and the company's role as a major exporter. In an investor briefing, it said the world's appetite for coking coal, used in steelmaking, and thermal coal, which is burned to generate electricity, will rise as developing economies demand more steel and energy.

"We expect that thermal coal will remain front and center in Asia's energy portfolio into the foreseeable future because it is the cheapest and most readily available source for power generation," said Mike Henry, BHP's head of Australian mining.

The miner said thermal-coal demand will increase 10% to 15% from 2015 levels by the mid-2020s, aided by strong buying in India and Southeast Asia, even as the fuel accounts for a declining share of global electricity generation. It expects demand for coking coal to be robust as well, as it predicts that steel output in China won't peak until the middle of the next decade.

This isn't a universally accepted view, even within the

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Markets Ignore Possibility of a Sterling Crisis

STREETWISE
JAMES MACKINTOSH

Markets have fixated for the past week on whether Britain is about to vote to leave the European Union. Sterling, the euro, gold, global shares and even the yen have had synchronized swings as the prospects of such a "Brexit" rise and fall ahead of Thursday's referendum.

Amid the speculation, little attention has been paid to the core assumptions investors are making. In particular, moves in sterling and in British government bonds, known as gilts, demonstrate a broad belief that the pound's fall will be pronounced but not catastrophic, and that the Bank of England will ignore any imported inflation.

Britain's postwar history involved a sterling crisis every decade, with the Bank of England having to jack up rates to defend the pound, often unsuccessfully, and the International Monetary Fund dispatched in 1956, 1961 and 1976. The authorities typically wanted to avoid a depreciation because of the higher prices for imported goods it brings, which in decades past quickly led to demands for higher wages and risked an inflationary spiral.

Investors mostly are brushing aside the prospect of a repeat. In the one sterling crash since the Bank of England gained operational independence over monetary policy in 1997—the post-Lehman depreciation when the pound fell by almost one-third—policy makers ignored the inflation that resulted. Instead, they cut interest rates to a record low, where they remain, to support the economy.

"Nothing in markets suggests a current-account crisis whereby a sharp fall in sterling is met by big increases in [interest] rates," says Toby Nangle, head of multiasset allocation at Columbia Threadneedle Investments.

Sushil Wadhwani, a former Bank of England policy maker who runs a hedge fund, is concerned that after several years of stability a big fall in the pound could lead to more selling and feed on itself to cause a sterling crisis. "This time round there's a very good chance it becomes a vicious move [in the pound] at some stage because of the lack of hedging," he said.

If a fall in the pound turns into a downward spiral, the Bank of England could appeal to foreign central banks to help. But coordinated intervention would surely require the Bank of England to raise rates to help support sterling, too. This would be an extreme outcome, a true loss of confidence in the U.K. Even those who worry about it think it unlikely, just not as unlikely as markets suggest.

A handful of very small bets have been placed in the options market which would profit immensely from such a sterling crisis. The biggest was placed in April, an option with a face value of $100 million that would be in the money if the pound falls below 95 cents next month, from $1.467 on Tuesday. The previous record low was $1.05, hit in 1985 amid a crisis that forced the Bank of England to lift rates to 13.875% from 9.5% within a month to keep sterling above parity with the dollar.

There is a far more likely outcome, which also is being ignored: The Bank of England might raise rates sooner than the market expects if Brexit happens—not because it is forced to by a sterling crisis, but because leaving the EU damages investment and restricts immigration, making Britain more inflationary.

If there is a vote for Brexit, inflation won't be the first concern. Many investors expect a rate cut at the Bank of England's July meeting to limit damage to consumer confidence, which would hit demand in the economy.

It is only later that worries voiced by Bank of England Gov. Mark Carney would kick in. Those concern the supply side of the economy. Uncertainty about trade could hurt investment and therefore productivity, while tighter immigration controls could restrict the flow of workers, and thus push wages higher. Both would exacerbate the inflationary

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LUKE MACGREGOR/BLOOMBERG NEWS

Many expect the Bank of England to cut rates if 'Brexit' wins.

THE PROPERTY REPORT

REITs Get Lower Marks on Pay Plans

Shareholders reject more compensation programs this year; General Growth denied

By Esther Fung

The real-estate investment trust industry, which has gotten high marks in recent years for adopting compensation programs that investors like, has sustained a bit of slippage in 2016.

So far this year, four REITs including mall giant **General Growth Properties Inc.** have had pay plans rejected by shareholders in nonbinding votes. By comparison, only one REIT received such a drubbing in 2015.

Proxy-advisory firm **Institutional Shareholder Services** Inc. pointed out that there is still more room for improvement, especially among some externally managed REITs. ISS recommended that investors vote against the compensation programs of 25 REITs this year, up from 14 last year.

"The REIT industry as a whole has taken somewhat of a black eye because of a number of bad-acting, smaller companies that have not provided transparency at all," said John Roe, head of advisory at ISS Corporate Solutions.

Other REITs on the wrong side of the nonbinding "say on pay" votes this year included residential-mortgage firm Hatteras Financial Corp.; commercial-property owner Consolidated-Tomoka Land Co.; and Senior Housing Properties Trust. Hatteras Financial and Senior Housing Properties Trust are externally managed REITs.

Mark Collinson, a Hatteras Financial spokesman, said that investor unhappiness about pay is "not relevant" anymore because the firm is currently in the middle of a merger that would result in management changes. Senior Housing Properties Trust and Consolidated-Tomoka Land didn't respond to emailed requests for comment.

The REIT industry has been more aggressive than others in addressing concerns over executive pay. The sector is among the five industries with the best compensation programs, according to ISS.

But average total pay for chief executives of the top 100 REITs reached an all-time high last year at $5.2 million, up 9% from a year earlier, according to a report in May by FPL Associates, a Chicago-based real-estate compensation consultancy. The pace of growth in executive compensation also has grown faster than their firms' stock performance, marking the first time since 2011 where compensation among these REITs rose at a higher rate than stock returns for the year.

SL Green Realty Corp.'s CEO Marc Holliday made $23 million last year, up 24% from 2014, making him the second-highest paid REIT executive. Shares of New York's largest office landlord fell 5.1% in 2015. ISS recommended investors vote against SL Green's compensation plan, for the second year in a row.

SL Green sent a letter to shareholders saying ISS's recommendation on its say-on-pay proposal was unwarranted. It said that Mr. Holliday's 2015 reported compensation should be $14.8 million rather than $23 million, after adjustments over valuation on equity awards and other bonuses are made.

SL Green's compensation proposal garnered support from 54.8% of its shareholders during a vote held early June.

SL Green has a pay-for-performance structure and Mr Holliday is paid in a manner consistent to his peers, said John Alschuler, chairman of the firm's compensation committee. "SL Green is a very, very frugal company," he said, adding that the firm also has low administrative costs that benefit shareholders.

The poor investor vote on General Growth's plan was surprising because the company got yes votes the past three years.

ISS recommended a no vote this year for General Growth CEO Sandeep Mathrani because his pay package was oversize compared with peers. There were "several problematic features" in the employment agreement with Mr. Mathrani, including an annual incentive of at least $2 million in 2015 and 2016; a $25 million five-year equity retention grant; and an excise tax provision that would increase potential termination agreements, giving executives a possible incentive to cut merger deals that may not be in the best interests of shareholders, ISS said.

Mr. Mathrani's total compensation for 2015 was $39.2 million, making him the highest paid REIT executive. General Growth pointed out, in response to queries, that after spreading the retention grant over five years, his compensation for 2015 totaled $17.7 million.

General Growth's proxy statement filed in April with the Securities and Exchange Commission said Mr. Mathrani received an incentive package in February 2015 in exchange for signing a five-year employment agreement. His "leadership skills and demonstrated ability to drive business results are critical to the long-term success of the company," it said.

The proxy statement added that peer group data isn't a determining factor in setting compensation for its executives due to differences in role and experience and that compensation for comparable peers may be the result of the firm's own under performance or overperformance for that year.

Analysts say other REITs have continued to make improvements in compensation. As a whole, across 147 REITs that already had shareholders cast their votes, there was a 95.8% acceptance rate, compared with 96.2% across the Russell 3000, according to ISS data.

"Consistent with previous years, companies have continued to make positive enhancements to broader corporate governance and compensation-related provisions," said Jeremy Banoff, a senior managing director with FPL.

Real-estate CEOs generally got better pay increments last year compared with their peers in other sectors. This was partly because their stock returns generally outperformed the broader stock indexes such as the S&P 500 and Russell 3000 in 2015. Shareholder returns from REITs rose 3% in 2015, compared with the 0.7% decline and 0.5% rise recorded by S&P 500 and Russell 3000, respectively, over the same period.

L.E. BASKOW/LAS VEGAS SUN/ASSOCIATED PRESS (LEFT); JIN LEE/BLOOMBERG NEWS

General Growth Properties had its pay plan rejected by shareholders in a nonbinding vote this year. It owns the Fashion Show Mall in Las Vegas, above. General Growth CEO Sandeep Mathrani, at right

Rising Supply Puts Pressure on Boom in Urban Rents

By Laura Kusisto

The largest U.S. apartment landlords are betting that hordes of millennials streaming into cities will keep pushing rents sky-high.

But an expected spike in new supply in some key markets suggests their wager might be shakier than they thought.

After a five-year boom in which rents have jumped by about 20% nationwide, some of the nation's biggest cities—New York, San Francisco, Seattle and Boston among them—are beginning to see slower increases. Annual rent growth for high-end urban apartments peaked at nearly 8% at the end of 2011 and has since slowed to just over 3%, according to MPF Research, which tracks the apartment market.

The downdraft is likely to become more pronounced as many of these cities see increases in the number of new apartments being delivered in 2016 and 2017. In 25 of the largest U.S. cities, multifamily permits in urban areas were up 39% in 2015 compared with a year earlier, according to a study by housing-research firm Zelman & Associates.

New York, for example, is poised to see 2.6 times more apartments come online in the next year than the historical average, according to the analysis. Boston is likely to see 2.5 times as much supply growth as usual, while Philadelphia is bracing for twice the usual supply increase.

When a number of new buildings compete to attract renters in a neighborhood, developers often offer generous concessions to help lure them, such as one or two months of free rent. That forces owners of existing buildings to lower rents or risk losing tenants, placing downward pressure on rents across the market.

After the recession, "everyone rushed into the cities, land prices got bid up, construction got more expensive, so what you're seeing is a lot of new supply coming on at the high end," said Alexander Goldfarb, an analyst at Sandler O'Neill + Partners. "You throw on a bunch more supply and the market really feels it."

The slowdown already is beginning to be reflected in company results. This month, Equity Residential, the nation's largest publicly traded landlord, lowered expectations for revenue growth this year, saying it was seeing more sluggishness than expected in New York and San Francisco. The company said it expects revenue to increase between 4% and 4.5% for the full year of 2016, down from previous expectations of 4.5% to 5%, because it isn't getting the rents it anticipated on new leases.

The company's stock plunged 9% in the days following the announcement and has since recovered to about 5% below where it was trading before.

Essex Property Trust Inc. saw revenue decline 2.2% for the San Francisco area compared with the fourth quarter, as the market in the Bay Area proved softer than expected, although overall revenue still increased 1.1%.

AvalonBay Communities Inc. said New York rents grew by about 2% in the first quarter, half the pace at the same time last year. Rents in Northern California grew by 6%, compared with 11% in 2015. Overall, the company said rents grew 3.7% in the first quarter and 4.2% in April, below expectations of 4.5% rent growth this year.

Economists say the overall apartment market remains solid. Rents are continuing to rise quickly for more moderately priced apartments in the suburbs, tempering the urban slowdown.

While average rent growth in the U.S. stood at 5% in the first quarter, it is expected to cool to 4% by the end of the year, according to MPF.

The largest apartment companies, which have enjoyed strong rent growth in big-city markets over the past five years, are likely to see rents in those areas grow tepidly or flatten, analysts say, which hurts them because their portfolios are disproportionately concentrated in areas with the most supply coming online.

According to Zelman & Associates, new apartment completions in the neighborhoods where Equity Residential's portfolio is concentrated, such as Manhattan's Midtown West, are forecast to increase 57% in 2016 compared with 2015. AvalonBay is likely to see a 50% increase in new supply in the neighborhoods where it has the strongest presence.

"You can lean on the millennial argument...you can spin a story of how demand will absorb all of this," said Dennis McGill, director of research at Zelman & Associates. "Demand is not going to change by 50% in a year."

Overall, shares of publicly traded apartment companies are down 6% in 2016, according to Mr. Goldfarb at Sandler O'Neill. Student-housing companies, in comparison, are up 17%, while mall owners are up 4% and office companies are up 2%.

Analysts say it could take markets like New York years to recover. Washington saw a surge in apartment completions four years ago and rent growth remains nearly flat. Some analysts are urging apartment companies to place more emphasis on close-in suburbs with good job growth.

Equity Residential is especially exposed to a slowdown. The company sold a $5.4 billion chunk of its suburban portfolio last year to Starwood Capital Group, choosing to focus on cities, where executives say there is more demand from young, affluent renters and higher construction barriers. Equity Residential has no intention of switching course.

"The demand to live in these high-density urban markets remains very strong from both millennials and aging baby boomers," wrote David Neithercut, president and chief executive of Equity Residential, in an email message. "This gives us great confidence that we are right where we want to be for the long term."

MICHAEL NAGLE/BLOOMBERG NEWS

New apartment completions in Manhattan's Midtown West are set to surge this year.