Opinion&Analysis

QUOTE OF THE DAY

Once you accept the fact that you're not perfect, then you develop some confidence. – Rosalynn Carter, former first lady of the US

TopTV flights adult entertainment chance again

BUSINESS WATCH

TOPTV'S parent company On Digital Media (ODM) will today plead its case for the industry regulator to grant it three new channels on which the broadcaster will flight adult entertainment content.

Meanwhile, the company, which filed for business rescue under the new Companies Act last October, is in discussions to sign up a potential strategic equity partner by the end of the month, according to ODM chief executive Eddie Mbalo.

TopTV, South Africa's second subscription-based TV provider, is in a precarious position.

With no rights to offer popular local and premium sports content, it hopes that offering adult content will reel in new subscribers and its content sourced from international outfit Playboy Entertainment will be to its viewers what rival DStv's SuperSport is to die-hard sports enthusiasts.

Mbalo, who spoke yesterday ahead of the public hearings, which are hosted by the Independent Communications Authority of SA (Icasa), said the processes mentioned above were not interlinked.

"TopTV is not looking at this application as the saviour of the business," he said, adding that two recognised key drivers of subscription uptake in the payTV business were sport and adult content and that the latter would serve a "currently underserved customer segment".

ODM, which was humiliated after Icasa rejected a similar application by the company last year, said it was confident that the application would succeed this time.

The same religious and civil groups will be in attendance at the hearings to jeer the application, but TopTV has enlisted psychologist Dr Eve, who will present research to support the application.

Cosatu, which is invested in TopTV through Kopano Ke Matla, its investment arm, said it would also oppose this application. Cosatu spokesman Patrick Craven said: "In principle we would still oppose it because we feel pornography is a form of attack on women."

Media

Peter Bruce, the publisher and managing director of BDFM Publishers which includes Financial Mail and Business Day, sent an e-mail to staff yesterday advertising "two key jobs" at the company.

The first was for editor of Financial Mail. "We are looking for a visionary individual with a plan for the Financial Mail that takes it confidently (and affordably) into its next 10 years. Not only do I want a plan, I want the successful candidate to be open to new ideas. Once we have a successor to Barney Mthombothi, we will begin a consultation within and outside the FM on the way forward.

> The same religious and civil groups will be in attendance but TopTV has enlisted psychologist Dr Eve to present research in support of the application.

"This is a chance for everyone in BDFM to get involved in a critical way with a critical part of our stable. The job reports to the editor-in-chief."

Regarding the group executive editor (GEE), Bruce, who said recently that he would be both publisher and editor of Business Day, said there was a need for a "group executive editor". This was "another visionary job, upon which rests the success or otherwise of the integrated newsroom.

The GEE will, ultimately, be a "Super News Editor" with control over the entire integrated newsroom, including graphics, online and pictures, but who must pay particular attention to the contents of the news pages of Business Day… and ensure that the Financial Mail and BDlive (the publishing firm's website) are adequately resources for whatever tasks they set themselves. "This is about the worst job I could give anyone. It will demand long hours, wrenching choices and almost no emotional reward." He said the company would advertise these jobs "formally" in the next few days "but I thought it best to tell you all informally too, what it is I'm looking for".

Maybe the publisher, managing director, editor-in-chief and editor of Business Day, should take on these two posts as well.

Just a thought.

Labour

The battle lines have been drawn between non-compliance companies and the South African Clothing and Textile Workers' Union (Sactwu) after the Pietermaritzburg High Court ruling, which sets aside the extension of the 2010 wage agreement. The agreement was extended to all factories by the Department of Labour, including those that were not members of the bargaining council.

One of the applicants, the United Clothing and Textile Association (UCTA) celebrated the ruling, saying its voice has been heard and the court directive meant many manufacturers will not be able to continue to trade. In response, the union had developed a hardened attitude towards non-compliance factories.

Although they do not have much power to force UCTA to pay minimum wages, they do still believe that writs of execution might be the next step to take.

In real essence, the ruling does not favour any of the two parties instead it could give opportunity to clothing retailers to further exploit the non-complying factories by paying less for the manufacturing of garments. Or it could also rob Sactwu of a much wanted membership.

The ruling has obviously added salt to Sactwu's wounds after the Centre for Development and Enterprise (CDE) paper, which condones non-compliance factories.

Southern African Labour Research Institute researcher Simon Eppel has criticised the report for supporting sweatshops employment.

UCTA deputy chairman Alex Liu said yesterday that Eppel's statements were slanderous and there had been many improvements in the factories.

He said the CDE report, together with the ruling, would set a fresh start to revitalising the clothing and textile industry.

UCTA said the judgment would have a huge impact on the future of all bargaining councils throughout the country who might be affected in the same as the clothing council. page 18

Edited by Peter Delonno. With contributions from Asha Speckman Donwald Pressly and Nompumelelo Magwaza

State acts to root out 'embezzled inflation'

UNDERSTANDING COMPETITION

Pierre Heistein

INFLATION is the economic indicator that will define the South African economy in 2013. Electricity and fuel prices are set to increase, the growing current account deficit will cause the rand to fluctuate on a devalued mean and increase the price of imports, and the decrease in manufacturing activity will put upward pressure on local prices.

In this context, consumers should warmly welcome President Jacob Zuma's announcement to grant formal powers to the Competition Commission to engage in market inquiries as of April 1.

In economic theory there are two types of inflation: cost-push inflation, caused when the price of key inputs of production increase, leaving the producer no option but to pass these costs on to the consumer; and demand-pull inflation, when the growth of demand accelerates faster than the growth in supply, causing consumers to bargain up the price of available goods.

These factors are often a necessary evil of the market economy and a consequence of economic growth.

I propose a third: embezzled inflation, where firms alter the market to centralise power in their favour and allow them to inflate prices. There is no economic benefit from this inflation and it is the kind that Zuma, in this instance, is out to target.

In a market where there are no artificial barriers to competition, all firms should make a profit only high enough to incentivise them not to switch to another industry. If firms earn in excess of this, other firms enter the market to share in the profits, supply increases and prices fall. Where a firm earns less than this base level of profit, it will shut down or switch industries, increasing profit share for the remaining firms and re-establishing a stable market.

The kinds of excessive long-run profits earned by many South African firms is indicative that the competition mechanism has broken down and consumers are paying prices inflated far above acceptable market levels. The commission's powers of market inquiry are to establish where and why this is taking place.

There are many ways firms can alter the market. The most blatant, and illegal, is active collusion with a competitor to either fix prices above a certain level, or to segment the market such that true competition does not take place. A common way that large firms legally get around this is by simply buying their competitor through mergers and acquisitions, although the commission is good at keeping an eye that this process does not go too far.

A more subversive way of strangling competitors is to force a loss-making situation and outlast them with deeper pockets. Starbucks used this to great effect by identifying a successful local coffee shop and opening three extra Starbucks stores in the same area. All four would make a loss but Starbucks had the resources to wait until the local store closed and then shut two of its own stores, leaving it as the sole coffee retailer in the neighbourhood.

Even firms that sell in highly competitive markets can engage in uncompetitive behaviour by controlling their suppliers. A retailer can force its supplier to sign an exclusivity contract disallowing them to simultaneously supply anyone else, and thus affect the competitiveness of its rival.

A certain level of inflation is necessary and inevitable and caused by factors far beyond the South African economy. But a large portion is not and it is promising to see the government taking active steps to address the problems that lie domestically.

Pierre Heistein is the convener of UCT's Applied Economics for Smart Decision-Making course. Follow him on Twitter @PierreHeistein.

Brazil shows the way to end extreme poverty sustainably

SOCIAL PROTECTION

Rogério Studart

EXTREME poverty causes enormous human suffering and still afflicts over one in every five people on earth, according to figures from the World Bank.

The goal of combating extreme poverty is the bedrock of the entire development community and has been embraced by legions of World Bank presidents. The institution's new president, Jim Yong Kim, speaks of the need to "bend the arc of history in order to eliminate extreme poverty and achieve shared prosperity".

At a time when his bank's resources, as well as the budgetary resources of governments around the world, are more limited than he might wish for, Brazil offers important lessons on how to eliminate extreme poverty and reduce inequality.

Perhaps the biggest lesson to be learned from Brazil is that real progress on reducing poverty levels can be achieved in a very cost-effective manner – if the programmes pursued are well-targeted.

Brazil is an unlikely success story in that regard. My home country has long been known for having one of the most unequal levels of income distribution on the planet. And it had often been cast as the "country of the future" – a place where the poor rarely saw the benefits of the industrialisation and economic growth.

This changed when former president Luiz Inácio Lula da Silva was elected in 2002. He ran on a platform not only to boost social and economic inclusion and to fight poverty and inequality, but also to achieve that goal within a single generation.

Building on the economic basis established under his predecessor, Fernando Henrique Cardoso, Lula's strategy was not aimed at doing the typical politician's thing – to spend more on social programmes. Instead Lula, a man who had experienced long bouts of poverty first-hand, made the fight against poverty and inequality the central organising principle for his entire presidency.

In fact, all other of the government's policymaking areas were of secondary importance, in the sense that they had to support his main policy plank. At long last, the fight against poverty was not just an add-on, as it so often is, even in very poor countries around the globe.

It is well-known that Lula's programme initially did not receive a warm welcome from the financial markets. They were concerned that his commitment to what they perceived as a utopia would lead him to implement irresponsible, populist and unsustainable policies. They were wrong.

But there were plenty of doubters within Brazil as well. They were convinced that, after 500 years of a national history marred by exclusion and inequality, bending the arc of history would certainly take far more than a single generation. They, too, were wrong.

> Lula's strategy was not… typical. He made the fight against poverty and inequality the central organising principle for his entire presidency.

By the end of Lula's two-term mandate, Brazil's results were already impressive. Income inequality, measured by the Gini coefficient, had declined sharply, from 0.553 in 2002 to 0.5 in 2011. Household per capita income had increased by 27 percent between 2003 and 2011. And unemployment rates reached a record low, falling from 9.1 percent in 2002 to 6.8 percent in 2011.

When President Dilma Rousseff, Lula's former chief of staff, was elected as his successor from January 1, 2011, she upped the ante, running on a platform to eliminate extreme poverty not in a generation, but in just five years.

The world of politics is full of scepticism, if not cynicism. Considering the lofty speeches by endless reams of politicians declaring big goals (usually without ever intending to meet or come close to meeting them), there is good reason for doubt.

And yet, in Brazil's case, the target of eliminating extreme poverty is surprisingly close to being achieved. The reform agenda's cornerstone was a determined expansion of the social protection programmes by making sure that all poor households would be reached.

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The two key programmes are, first, the Bolsa Familia (a conditional cash transfer programme that aims at increasing income for the poorest families while promoting health and education) and, second, the Brasil sem Miséria (an extension of the former aimed at people living in extreme poverty, with elements for inclusion in the productive sector and access to public services).

The two programmes now reach 100 percent of all Brazilians that are listed in the national database used to manage and monitor the social programmes of the country. At this moment, there still are 700 000 people that live under the poverty line, who do not yet receive payments from either of the support programmes because they have not been included in the registry. It must be noted that Brazil is a continent-sized nation, with a landmass of 8.5 million square kilometres, very close to that of the US, and some of the extremely poor live in completely isolated areas.

Most people, when they look at the development challenges, believe that poverty alleviation may well be a moral obligation, but that it is expensive and, even if started successfully, may not be sustainable financially. Brazil's case shows that this does not need to be so. The cost of Bolsa Familia has been extremely low. In 2012, the programme cost the Brazilian government less than 1 percent of its Budget.

On the social front, the results are solid. While much more needs to be done, Brazil has seen a marked decline in violence and an increase in political activism and cultural movements. In many of the urban areas, ambitious programmes were launched to "pacify" areas previously associated with drug trafficking and violence.

A key part of the improved urban environment is that the urban poor now have a sense of destiny and direction. They welcome the government's focus on investment in families' futures and especially the smart focus on the young and their education. There is a quiet confidence in the eyes of young children living in the *favelas* that has never been there before. Without knowing it, they can sense that their government is giving them a true head start.

The real fruits to be harvested from the Bolsa Familia may still be a generation away. But here you have a rigorously implemented social programme that has nothing to do with consumption and the usual instant-gratification handouts that too many politicians over the world like to specialise in – and not just in poor countries.

As the World Bank's new president visits Brazil this month, he can obtain plenty of inspiration for what can be done on the poverty front globally, even in budgetarily lean times.

Luiz Inacio Lula da Silva

Dilma Roussef

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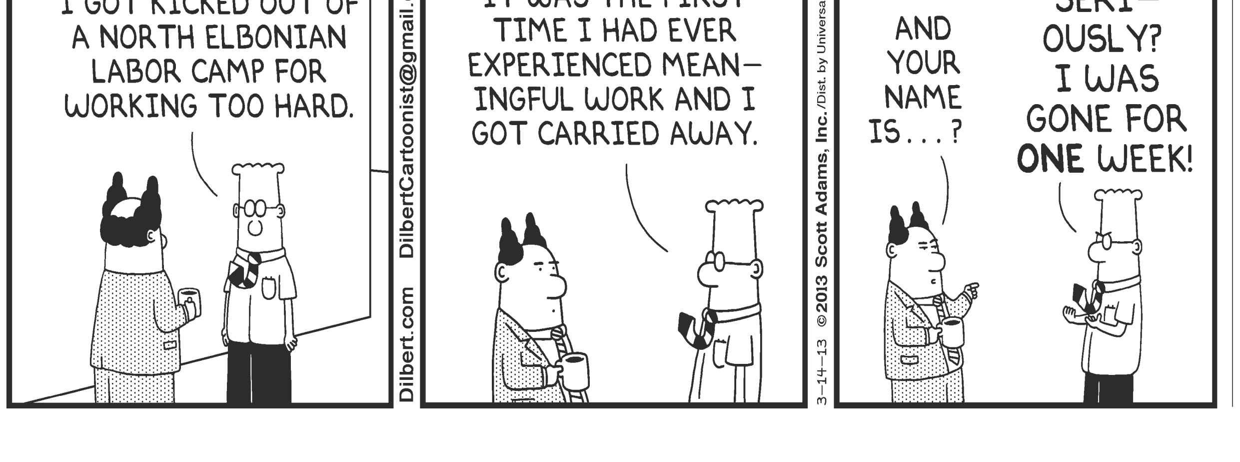

DIARY

Maths abilities alarmingly bad among British adults

A FIFTH of adults in the UK are so bad at maths that they struggle to perform basic mental arithmetic, a survey has revealed.

A third can only manage sums that total less than 100 and use a calculator for anything larger. One in 50 people were stumped by adding or subtracting in their head if the total was more than 10. And one in three parents believed their children's ability exceeded their own. But older people had a far better grasp of the subject.

Recent school leavers were the most likely to rely on calculators.

One-third of 18 to 24-year-olds used them, compared with one in eight people 55. And while just 13 percent of over-55s struggled with the 11 times table – rated the most difficult in the survey for BAE Systems – this rose to 22 percent in the under 45s. Over 55s reported feeling the most confidence with maths skills, with just one in 10 saying they struggled.

This rose to a quarter of people under 25. And Londoners were the most comfortable with maths, with 85 percent performing simple sums without a calculator. Just 75 percent could do so in Wales.

Nigel Whitehead of BAE Systems said: "Maths and science are crucial to the success of Britain's youth and our nation's future but it appears that we… lose arithmetic skills as we grow up. Good maths skills open up to opportunities… personally and professionally." – Daily Mail