In many ways, this approach to employment reinforced the essentially tribal nature of the participants, since the young men lived in dormitories and hostels, segregated by their tribe of origin; and inter-tribal disagreements were not unusual.

Recently, the mines have attempted to stabilize the work-force by encouraging permanent employment and by developing facilities so that families can live together on the mines. Beyond that, they have involved themselves in educational upgrading schemes for staff and their families and they have also made attempts at integrating the work-force, irrespective of tribal affiliations. It is a slow, expensive process but in the long term it is seen by many executives as making economic and social sense. Opportunities for advancement are being developed, but strong resistance is frequently presented by the white unions which in this industry are particularly recalcitrant to social change. When one considers that in 1980 over 700 000 people were employed in mining, of whom 90% were black, it will be seen that this industry faces an enormous task, irrespective of the degree of sympathy held by management for the concept of social and economic change amongst its workforce. Success in this area of South Africa's economy certainly bodes well for the country at large; failure could point to problems of cataclysmic proportions.

I have tried to summarize for you the challenges which face management in South Africa as pioneers of social innovation. It is evident from my talk that my thesis is that the type of society which businessmen and business academics in South Africa want, is one which is at least similar to a capitalist society with its concomitant free enterprise ethic. So management is bound to steer change in the direction of free enterprise.

Given the prevailing circumstances, particularly black attitudes and government involvement in the economy, it is questionable whether free enterprise is a marketable commodity to the majority of the country's inhabitants. In order to ensure that the system can offer benefits to the participants, it must be just, fair, colour blind and provide scope for equal opportunities.

Management's major task then is to ensure change in the constraints that exist at present — at both a macro level, and a micro level. It is evident that government — indeed most whites for that matter — resist the change which is so necessary, and management's task is therefore both vast and complex. It has been said that business alone cannot make a society flourish; I believe though, that in South Africa, without business's involvement in society in the broadest sense, it will progress very little. That management has a role to play in this regard must be unquestioned, and I do believe that management has already identified and tackled some of the areas where social and economic change is so necessary. But for the good of South African society, there is still so much to be done. It is at once a bewildering, complex and time-consuming task, and a critical challenge. I would like to close by quoting a prayer which Martin Luther King was wont to use. I believe that it is rather apt.

'Lord, we ain't what we ought to be,
we ain't what we'd like to be,
we ain't what we gonna be,
but thank God we ain't what we was.'

Israel and the problem of inflation

Yair Aharoni
Professor, Leon Recanati Graduate School of Business Administration, Tel-Aviv University, Ramat-Aviv, Tel-Aviv 69978, Israel

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Israel, although a small country, has big problems of which, aside from security problems, inflation is one of the most pungent. Before telling you something about how the business community in Israel lives with the problem of inflation — a few background details on trends in three major areas: defence expenditure, the expansion of social services and economic growth.

Defence expenditure has been growing exponentially since 1973 after a short remission in the early years of the seventies. The Peace Treaty with Egypt has brought no relief; in fact expenditure has increased to accommodate the deployment of the army and airport bases to new sites outside the Sinai.

Thirty-two years ago, when the State of Israel was established, the amount of money spent on social services was low. Since then it has been increasing in line with world trends. Also, the efflux of time coupled with good health services has changed the small proportion of population at the upper peak of the age pyramid into a sizeable and increasing segment of our society. Israelis, like their counterparts anywhere else in the world, make frequent calls on the national health service, which is rapidly growing more sophisticated, more equipment-oriented and therefore more costly. These trends are there to stay.

The high growth rate of 10% – 12% during the sixties made possible the high level of defence and social service expenditure. The war cost Israel the equivalent of the Gross National Product for one year, — plus an amount which still has to be paid. At the same time, the economic conditions were drastically affected by rising oil prices. These prices can be compared to a foreign tax on the economy, and like taxes, cannot be avoided.

By the end of the seventies, Israel had changed from a 'welfare' to an 'insurance' state: everybody became insured against every calamity — loss of job, loss of profit, movement to new jobs in new areas — everything. The state had taken onto its own shoulders the task of protecting the whole population against the effects of change. As a result, Israel is now left with very little room for manoeuvre. Everybody agrees that the government *should* cut expenditure, but it is impossible to name any specific cut without an outcry from somebody. Democratic societies breed a sense of entitlement: the 'why-should-I-lose-out' syndrome. Defence costs at 40% of the total budget are high but nobody believes they can be reduced; to effect even small cuts in the social programme demands a change in the law; and the social cost of large-scale unemployment is considered to be too high a price to pay for reducing inflation. The result is that the government is hamstrung when it comes to using the tools traditionally applied to restrain inflation with sufficient force.

In 1980, money supply increased by 97% and inflation, which was about 25% – 30% in the early seventies, reached 130%. This figure reflects an acceleration in the rate of inflation — an acceleration partially caused by growing expectations. Growth has declined, even stopped, but inflation continues to rise. Since some 50% of the product of the economy is excluded from market forces, it is more difficult to exercise Keynesian-type control.

Under conditions of inflation as rampant as these, people tend to borrow like mad and spend wildly because they expect prices to continue to rise. The government has resorted to various devices in an effort to change such expectations; for example, for the first time in 32 years the price of a commodity, in this instance television sets, was reduced over a certain period, so that people were left wondering what price would go down next; this made the public become more hesitant about buying.

Problems facing the business manager

High inflation causes managers three problems:

Uncertainty. No one knows, for example, what the price of goods will be in five or eight months' time, or the state of the foreign exchange market, or in fact the state of any contract which is concerned with money values.

Information. The financial accounts of companies cease to make any sense at all with inflation at 130%. People lose the feel for the meaning of cost. They are on the crest of the Money Illusion — which makes it impossible to appreciate either the rate at which the currency is losing its value, or the practical implications of the loss. At that stage in Israel, even the taxmen did not recognize inflation, with the result that taxpayers paid tax on incomes that did not exist.

Productivity. Efficient management, principles of sound marketing, and the importance of productivity are still being taught, but the business manager thinks only of one thing — money: collect today, pay tomorrow and beware the taxman. That sums up his approach to business.

Time is a manager's scarcest and most important resource: if it is spent on collecting money, or worrying about the taxman, there is just no time left for improving productivity. The stratagems employed in money manipulation are a legion: borrow at high interest, show this as an expense, invest tax free — there is no end to it. The examples I have given you are not anywhere near a full account of the pernicious effects of rampant price increase.

Learning to live with inflation

In Israel more and more companies must not only work to reduce inflation, but also to build systems that will enable them to live with it. This is achieved through indexation. For example, consider lending R100 to be repaid later: the interest must be real, not nominal, and return must take into account the fall in value of the principal as well. In consequence the uncertainty caused by inflation is taken out of the transaction: the level of inflation in x months' time is immaterial — the lender will be compensated.

Labour contracts were the first to use indexation, and wages are automatically indexed to the limit of 70% of the Cost of Living (COL) increase, at first adjusted every six months. One good effect has been an improvement in industrial relations and the virtual elimination of strike action.

Consider life insurance and bear in mind that a monthly salary of IP 6 in 1939 could have become IP 100 in 1952, and IP 100,000 today, for the same professional job. Life insurance should be dead in times of high inflation. In fact it stopped operating in the fifties; but it has been revived with the introduction of indexation.

Life insurance companies could not offer indexed insurance without the indexation of the asset side. Consequently, government was asked to issue long-term bonds linked to the COL index. These bonds were issued by the Electricity Company which could increase its regulated prices with the inflation. Other indexed bonds linked to specific prices (for example cement) were issued. Later most long-term mortgages and bonds were linked to COL. This may have complicated accounting, but on the credit side, uncertainty has been eased: savings, which without indexing would be zero, stand at 20% of GNP — an imposing figure compared with about 7% in the United States of America.

The number of linkages of this type have increased and with the high inflation of the seventies, adjustments have become more frequent. Wages are automatically adjusted every three months, not six, and they might be adjusted every month if the present inflation rate persists. Bonds and mortgages are adjusted monthly, social pensions, every three months. Of course the solution is not perfect: the way things are going, one can lose money even on a monthly adjustment; it is sometimes a question of days!

Large companies are gradually being forced by circumstances to present statements adjusted to the COL index. Personal income tax is now indexed, and the problem of companies is being tackled through regulations providing that company tax be paid on one generally adjusted statement. Today, the major distortion remains in the fields of retailing and wholesaling: retailers with high inventories pay high effective tax under highly inflationary conditions. The Government, however, proposed an inflation adjusted tax law designed to eliminate this distortion.

To sum up, indexation allows at least a partial solution to the three major problems discussed above.