

CHAPTER II

RESOURCES, PRODUCT AND NATIONAL INCOME¹

THE DATA in this chapter are provisional, especially as regards 1956; in part, they are extrapolations from data pertaining to the two previous years.²

National income statistics are not sufficiently developed in Israel to provide a satisfactory degree of accuracy. Hence, the estimates given below are merely intended to reflect the general trends in the economy. Despite this, absolute figures and not ranges are given in order to avoid an unnecessarily cumbersome presentation.

The value of imports and exports has been computed according to the official exchange rate of IL.1.800=\$1.00. This rate does not necessarily reflect the prices of imported goods or services on the local market, or the equivalent received in Israel currency for exports. A certain proportion of imported goods is sold in this country at prices which include imposts appearing within the framework of the national accounts, e.g. indirect taxes collected by the Government. Other imported goods appear to be sold by importers at relatively high prices. This applies especially to imports under the "Pamaz" system,³ and the additional profits earned through this system are included in the national income. Yet another part of imports is sold at lower prices than the official exchange rate warrants, as a result of Government subsidies. In the national accounts, such subsidies are included under the item "subsidies" which are deducted from "Indirect Taxes".

As adequate and comprehensive data concerning the actual price ratio

¹ The various magnitudes shown in this chapter and their interrelationships are summarized in table II-12.

² The extrapolations are based on the studies of Dr. Daniel Creamer and others on National Income in 1954, of Dr. Harold Lubell on National Expenditure in 1954, and of Dr. Michael Barkai on the Public Sector in 1954, all of which are to be published by the Falk Foundation for Economic Research in Israel. The provisional estimates of National Income in 1955 and 1956 prepared by the National Accounts Unit of the Central Bureau of Statistics were also used.

Estimates made in this chapter are explained in greater detail in a statistical appendix, to be published shortly. Differences between certain figures quoted in this chapter and the corresponding data published in the Bank of Israel Annual Report for 1955, Jerusalem, May 1956, are due to the changed base and the receipt of more up-to-date statistics.

³ The "Pamaz" is a foreign currency deposit enabling exporters to use the counterpart of the added value produced by their exports to import raw materials destined for production for the local market, in their normal line of business.

between imports and local products are not available, we cannot measure the weight of imports relative to the gross product or other magnitudes expressed in terms of local prices, except by computation on the basis of the official exchange rate. In some subsequent calculations, an attempt has been made to measure the weight of imports in total resources in 1956 as compared with 1955, at 1956 prices.

1. A SUMMARY OF THE NATIONAL ACCOUNTS

The composition of total gross resources of the Israel economy and their use in 1955 and 1956, are summarized in table II-1.

2. TOTAL GROSS RESOURCES AND NATIONAL INCOME

Total resources of the Israel economy in 1956 were estimated at IL.3,460 million, as compared with IL.2,890 million in 1955. Of this 20 per cent rise, approximately 8 or 9 per cent represent price increases, while resources at constant prices rose by some 10 to 11 per cent.

The real increase in resources in 1956 approximately equalled that of 1955, but the distribution of the increment as between the national product and imports differed. The value of gross national product at constant prices rose by 8 or 9 per cent in 1956, while the rate of increase was higher in 1955, amounting to 10-11 per cent. On the other hand, the volume of imports grew by 17 per cent in 1956, as against a rise of only some 7 per cent in 1955.

National income in 1956 was estimated at IL.2,090 million, as compared with IL.1,750 million in 1955, and IL.1,480 million in 1954—all at current prices. National income thus grew at a rate of nearly 20 per cent in 1956 and approximately 18 per cent in 1955.

Payment of wages, salaries and social benefits by employers rose from IL.1,040 million in 1955 to IL.1,240 million in 1956, i.e. by 19 per cent. This increase was due to the raising of the average daily wage by 13 per cent, some improvements in social benefits, not included in the average wage, and to the growth in the number of wage-earners.

The breakdown of national income by origin showed few changes in 1956. The most important change was the increase in the share of agriculture and the public authorities as against the decrease of building. At current prices, national income originating in agriculture, industry (including electricity, mining and water), building and communications increased by approximately 19 per cent during 1956. On the other hand, the value of gross output in these sectors, at current prices, rose by 17 per cent. This difference indicates a certain increase in the share of added value in the output of these sectors. The causes of this phenomenon partly stem from development trends which will be analyzed below. (A more detailed analysis of developments in the main branches of the economy will be found in the second part of this report).

TABLE II-1
The National Accounts in 1955-1956
 (in IL. millions)

	1955				1956			
	<i>at current prices</i>		<i>at 1956 prices</i>		<i>at current prices</i>		<i>as against 1955</i>	
	<i>in IL.</i>	<i>in per cent</i>	<i>in IL.</i>	<i>in per cent</i>	<i>in IL.</i>	<i>in per cent</i>	<i>change in prices</i>	<i>real change</i>
National Income	1,752	60.6	—	—	2,092	60.4	—	—
Indirect Taxes	271	—	—	—	336	—	—	—
<i>less: Subsidies</i>	- 35	—	—	—	- 60	—	—	—
Net Indirect Taxes	236	8.2	—	—	276	8.0	—	—
Depreciation	120	4.1	133	—	150	4.3	—	—
Errors and Omissions	+ 14	0.5	—	—	- 9	-0.2	—	—
<i>Total Gross National Product</i>	2,122	73.4	2,317	74.0	2,509	72.5	+9.2	+8.3
Imports (Goods and Services)	768	26.6	815	26.0	953	27.5	+6.1	+16.9
<i>Total Gross Resources</i>	2,890	100.0	3,132	100.0	3,462	100.0	+8.4	+10.5
Public Consumption	436	15.1	496	15.8	689	19.9	+13.6	+38.9
Private Consumption	1,644	56.8	1,749	55.9	1,850	53.4	+ 6.4	+ 5.8
Gross Investment ^a	551	19.1	612	19.5	615	17.8	+11.1	+ 0.5
Exports (Goods and Services)	259	9.0	275	8.8	308	8.9	+ 6.2	+12.1
<i>Total Resources Used</i>	2,890	100.0	3,132	100.0	3,462	100.0	+ 8.4	+10.5

^a Gross Investment in the economy includes only investments in capital goods and housing. Excluding stock changes, corresponding data not being available.

Agriculture

The income originating in agriculture increased by some 37 per cent in 1956 at current prices, while the value of agricultural output rose by only about 25 per cent. This discrepancy had two main causes:

First, the real volume of output grew by 16 per cent, while real input—i.e. the agricultural sector's purchases of raw materials, spare parts and fuel from other sectors of the economy and from abroad—rose by only 10 per cent. The considerable growth of output was largely due to favourable weather, contrasting sharply with the drought of 1955.

Secondly, the prices received by farmers for agricultural produce rose by 7 per cent, while the prices of production materials purchased by them increased by only 2 per cent. Thus, an improvement occurred in the "terms of trade" as between agriculture and other sectors of the economy or markets abroad. This phenomenon was the result of a considerable increase in the price of Israel citrus in foreign countries, a particularly marked expansion of production of goods the local prices of which had risen (e.g. beef cattle), the higher prices

TABLE II-2
National Income by Industrial Origin, 1955 and 1956, at Current Prices

	1955		1956	
	<i>in IL. millions</i>	<i>in per cent</i>	<i>in IL. millions</i>	<i>in per cent</i>
1. Agriculture	213	11.9	281	13.1
2. Industry and Mining	372	20.8	438	20.5
3. Building	129	7.2	130	6.1
4. Public Supply of Electricity and Water	30	1.7	37	1.7
5. Transport	140	7.8	164	7.7
6. <i>Total, 1-5</i>	884	49.4	1,050	49.1
7. Commerce	208	11.6	248	11.6
8. Banking, Finance, Insurance and Real Estate	152	8.5	188	8.8
9. Other Services	207	11.6	231	10.8
10. Government, Local Authorities and Public Institutions	338	18.9	420	19.7
11. <i>Total, 7-10</i>	905	50.6	1,087	50.9
12. <i>Total Domestic Income</i>	1,789	100.0	2,137	100.0
13. <i>Less: Net Payments to Production Factors Abroad</i>	-37		-45	
14. <i>Total National Income</i>	1,752		2,092	

SOURCE: Provisional estimates of the National Accounts Unit, the Central Bureau of Statistics.

obtained for agricultural crops sold to local industry, and the larger Government subsidies paid on some crops.

The above development led to an increase in the income of the agricultural sector (which includes wage and interest payments made by this sector) not only *in toto* but also per unit of output.

Industry

The real value of industrial output (including industry, crafts, mining, electricity and water) rose by some 8 to 10 per cent during 1956, while the rise in prices has been estimated at 8 per cent. The value of output in this sector at current prices thus increased by approximately 16 to 18 per cent. On the other hand, the income originating in industry expanded by about 19 per cent. In so far as this difference is not due to inaccuracies in the estimates, it would appear that in industry also the share of added value in total output has increased, although to a modest extent.

During the year under review, the trend towards vertical production continued in some branches of industry; that is, these branches began to process raw materials or semi-manufactures, instead of importing the processed materials. The following may serve as examples of this tendency: the increased use of local minerals in the chemical industry; the production of wool and cotton yarn, previously imported; and the greater use of agricultural products, such as cotton, sugar-beet, oil-seeds and hides. This vertical expansion tends to increase the national product.

While the real output of industry expanded, as already stated, to the considerable extent of 8 to 10 per cent, employment in this sector increased by only 2 per cent. The growth of output was chiefly made possible by the installation of improved equipment in many plants during recent years.

Building and Construction

The value of construction⁴ at current prices rose by about 7 per cent in 1956. As building costs increased considerably, the real volume of building declined by some 5 per cent. This decline mainly affected the public construction of housing schemes for persons other than new immigrants.

A tendency to restrict building was apparent during the year, the area of buildings commenced being smaller than that of buildings completed. For every 4 square metres of building completed in 1956, only 3 square metres were commenced.

As regards non-building construction, activities connected with mineral exploitation, oil-drilling and the work of local authorities were expanded, while those connected with irrigation, land reclamation, road construction and the laying of railway lines contracted.

⁴ Including building and non-building construction.

Transport

The real output of transport services increased by 6 to 7 per cent. Most of this rise was due to the 33 per cent increase in the value of shipping services, and to the larger output of the railways, which exceeded the 1955 level by more than 25 per cent. The increase in the output of road haulage is estimated at 7 per cent, while the output of the bus services decreased owing to the strike of the bus co-operatives and the mobilization of vehicles during the period of the Sinai campaign.

The average increase in the prices of transport services was about 6 per cent, while the prices paid for purchases from other sectors and from abroad rose by about 7 or 8 per cent.

During 1956, the various transport branches were affected by the results of the tendency evident in recent years to modernize equipment, such as the renewal of the merchant fleet, the substitution of diesel locomotives for steam locomotives and of diesel for petrol-driven motor vehicles. Hence, current purchases of materials such as fuel increased to a lesser extent than the output of the sector.

3. THE USE OF RESOURCES

The most striking change in the use of resources was the big expansion of public consumption, which increased by 39 per cent at constant prices. The proportion of resources diverted to public consumption rose from 15 per cent in 1955 to 20 per cent in 1956. The major part of this increase was due to heavier security expenditures. The share of exports remained unchanged. On the other hand, the weight of private consumption and of gross investment in the total use of resources declined. (See table II-1).

The changes which occurred in the composition of resources and in their distribution according to use will be put more clearly in focus if marginal changes, rather than aggregates for 1955 and 1956, are considered.

Approximately 60 per cent of the real increase in resources was due to the growth of the national product, while the remainder was the result of increased imports. The expansion of public consumption, to which nearly 60 per cent of the additional resources were diverted, thus equalled the increment to the national product during the year. Approximately 30 per cent of the year's increment to resources was used to enlarge private consumption. On the other hand, only one-tenth of the additional resources was used to expand exports, and virtually none was directed to investment.

For the evaluation of the composition and distribution of the net resources actually at the disposal of the economy for its current consumption, and for the expansion of its future production capacity by net investment, a computation is given below of "Resources Available", after deduction of depreciation both from

gross national product and from gross investment, and after deducting exports from imports to obtain the import surplus.

The figures of table II-4 underline the tendencies apparent from table II-3.

TABLE II-3
Changes in the Composition and Use of Resources, 1955 and 1956
(in IL. millions—at 1956 prices)

	Change from 1954 to 1955		Change from 1955 to 1956	
	in IL. millions	in per cent of increase	in IL. millions	in per cent of increase
Gross National Product	+228	81	+192	58
Imports	+ 52	19	+138	42
Total Resources	+280	100	+330	100
Public Consumption	+ 54	19	+193	58
Private Consumption	+122	44	+101	31
Gross Investment*	+101	36	+ 3	1
Exports	+ 3	1	+ 33	10
Total Use of Resources	+280	100	+330	100

* Due to the lack of satisfactory data concerning stock changes estimates have been based on the assumption that stocks increased in 1956 to the same extent as in 1955. If stock increase to a greater extent, the investment is larger than that shown in the table, while consumption is smaller;—and *vice versa* if stocks increase to a lesser extent than in 1955.

SOURCE: Table II-1.

TABLE II-4
Resources Available and Their Use, 1955-1956
(in IL. millions)

	1955		1956	Increment in 1956 at current prices	
	at current prices	at 1956 prices		in IL. millions	in per cent of increase
National Product net of Depreciation	2,002	2,184	2,359	+175	62.5
Imports less Exports	509	540	645	+105	37.5
Total Resources Available	2,511	2,724	3,004	+280	100.0
Public Consumption	436	496	689	+193	69
Private Consumption	1,644	1,749	1,850	+101	36
Net Investment	431	479	465	- 14	- 5
Total Domestic Use of Resources Available	2,511	2,724	3,004	+280	100

SOURCE: Table II-1.

Some of the more important aspects of the use of resources i.e. consumption, investment and export, are dealt with below.

4. PRIVATE CONSUMPTION

The value of private consumption at current prices increased by 12 to 13 per cent in 1956. The growth of private consumption at constant prices is estimated at about 6 per cent. Taking into consideration the population increase of some 4.5 per cent, it appears that average *per capita* consumption expanded by only about 1 or 2 per cent. (It should be noted that this refers to the increase in the average consumption for the whole population,—within which there may be a considerable spread. It is possible that the consumption level of some consumers rose considerably, while that of other strata of the population declined.) In contrast to the small increase during the year under review, private *per capita* consumption had grown by about 4 per cent between 1954 and 1955.

Real food consumption expanded to a greater extent than that of other goods and services. This was made possible entirely by the growth of agricultural output, as regards both final products (the quantity of which rose by about 13 per cent) and materials for the food industry. Imports of foodstuffs and raw materials for the food industry remained at the 1955 level, and—if calculated *per capita*—even contracted. Consumption of clothing and footwear rose slightly, and *per capita* consumption apparently declined. Sales of durable consumer goods, such as electric refrigerators and wireless sets, expanded at a faster rate than the population during the year under review. The average standard of housing also improved, especially as regards private residential building.

5. EXPORT AND INVESTMENT

Export accounted for approximately 9 per cent of the use of resources both in 1955 and in 1956. But for the rise of export prices on foreign markets—and particularly the prices of citrus fruit—the share of exports might have declined to some extent. On the other hand, the diversion of a larger proportion of exports to hard-currency countries resulted in some increase in the real value of exports. This fact is not reflected in the national accounts due to difficulties of computation.

The share of gross investment in the use of resources shows some contraction—from 19 per cent in 1955 to 18 per cent in 1956. However, in so far as it is possible to regard the proportion of investments in agriculture, industry and transport (in contrast to investments in residential building and services) as a very general indicator of the percentage of “productive” investment, there seems to have been some improvement in the composition of investments, since the share of residential buildings and services in total investments fell slightly during 1956. On the other hand, the real volume of gross investment in agriculture, industry

and transport showed no increase, and net investment in these sectors even contracted.⁵

6. SAVING

One of the most important indicators of the performance measurement of an economy is the volume of savings, since it indicates the proportion of the national product allocated, through investment, to the expansion of future productive capacity. In the national accounts, the magnitude of saving appears as the total of net domestic investment and net foreign investment (which is the surplus of export over import) or the difference between net domestic investment and the import surplus. Saving also equals the difference between net national product and total private and public consumption. Aggregate saving, and its breakdown between the public and private sectors,⁶ are detailed in table II-5.

In 1956, therefore, dissaving totalled IL.180 million, as compared with a dissaving of IL.78 million during 1955. This means that the net national product was not only insufficient to finance part of net investment, but was even considerably smaller than the total consumption of the economy,—the difference being covered by net capital import. The larger volume of dissaving was mainly due to an increase in the public sector, the consumption expenditure of which considerably exceeded the amount of direct and indirect taxation levied by it. On the other hand, dissaving in the private sector appears to have diminished in 1956.

The concept of saving used in table II-5 is that commonly accepted in national accounting. However, the special structure of the Israel economy, and in particular the absorption of large numbers of immigrants, calls for certain conceptual modifications.

First of all, the dissaving of the public sector is due not only to higher Government expenditure, unaccompanied by a parallel expansion of its revenue from other sectors of the economy, but also to the fact that almost all the revenue of the national institutions consists of donations from abroad and is therefore included in table II-5 under item 2 "Net Foreign Investment", while their current expenditure forms part of public consumption. Within the accepted framework of national accounting, therefore, these institutions constitute a factor of constant dissaving in the public sector. The current spending by the national institutions represented about 9 per cent of public consumption in 1955 and between 6 and 7 per cent in 1956.

⁵ This conclusion is presumably not affected by the fact mentioned in the footnote to table II-1, namely that the estimate of investment does not include stock changes. If any increases occurred, it may be assumed that they approximately paralleled the increase in private consumption.

⁶ The public sector comprises, in this connection, the Government, local authorities and national institutions.

TABLE II-5
Capital Import, Net Investment and Saving, 1955 and 1956
(in IL. millions—at current prices)

	1955	1956	Change
A. Net Investment by the Economy			
1. Net Domestic Investment	431	465	
2. Net Foreign Investment ^a	-509	-645	
3. Net Investment by the Economy (1. less 2.) ^b	-78	-180	-102
B. National Saving			
4. The Public Sector			
(a) Direct Taxes	167	243	
(b) Net Indirect Taxes	236	276	
<i>Total Taxes</i>	403	519	
<i>less: Public Consumption</i>	-436	-689	
	-33	-170	-137
5. National Income	1,752	2,092	
<i>less: Direct Taxes</i>	-167	-243	
<i>Disposable National Income</i>	1,585	1,849	
<i>less: Private Consumption</i>	-1,644	-1,850	
	-59	-1	+ 58
6. Errors and Omissions	+14	-9	- 23
7. National Saving	-78	-180	-102

^a Financing of the import surplus through foreign loans, repatriation of foreign investments, donations and grants from abroad, etc.

^b This item is identical with item 7—National Saving.

SOURCE: Table II-1 and estimates of the Bank of Israel.

Moreover, the Government, too, receives from abroad certain resources destined for consumption, such as the maintenance of immigrants and the supporting of education, health and social welfare services.

Secondly, a part of the financing of the import surplus actually constitutes private income. This applies, for example, to the personal restitution payments from Western Germany.

Net transfer payments from abroad increase the total income of the private sector above its share in national income. If private consumption is related not to national income but to the sum total of private income, private saving will be positive.

For the purpose of computing private saving, it is first necessary to ascertain the amount of transfers from abroad which—in whole or in part—were destined to finance private consumption. As shown in table II-6, transfers from abroad received by individuals in 1956, totalled IL.109 million, as compared with IL.97 million in 1955.

TABLE II-6
Foreign Transfer Payments to Individuals, 1955 and 1956*
(in \$ millions and in IL. millions)

	1955	1956
Net Private Transfers	24.3	26.3
Personal Restitution from Germany	18.7	25.7
Gifts	10.8	8.3
<i>Total, in \$ millions</i>	53.8	60.3
<i>Total, in IL. millions</i>	96.8	108.5

* The figures include current and capital transfers. While capital transfers should not be included in private income, the inadequacy of the data makes it impossible to distinguish between these two types of transfer receipts.

SOURCE: Estimates of the Bank of Israel.

Table II-7 gives an estimate of private income and private saving⁷ in 1955 and 1956. This estimate includes under private income all foreign and local net transfer payments. Private saving, as here defined, thus totalled IL.163 million in 1956, as against IL.88 million in 1955. Though this calculation may overestimate the saving of the public, since some of the transfer payments included in private income actually constitute capital transfers and not current transfers, it is clear that positive saving out of private income has not been insignificant. A large percentage of this private saving financed the building of dwelling houses. Total saving does, however, not exceed the aggregate of the various transfer payments from abroad and from the public to the private sector.

In order to assess the full significance of private saving, it must also be recalled that the population of Israel is extremely heterogenous as regards countries of origin and thus habits of consumption and saving. The degree of saving in the various segments of the population seems to be affected not only by income but also by far-reaching differences in spending habits. There are indications that a part of the population is dissaving on a substantial scale, while another has not inconsiderable positive savings.

In table II-7 estimates are given of private income and private saving—in addition to the preceding estimates of national income and national saving—because each of these two sets of concepts has its special significance. Private income and private saving are of importance in connection with tax policy, the capital market or the relationship between supply and consumers' effective demand. National income and national saving, on the other hand, constitute measuring rods of the economy's achievements: they show how much the economy

⁷ Private saving—as defined in this paragraph—includes both personal saving and undistributed profits, as data on undistributed profits are not available.

has contributed to net investment, and the extent to which current consumption has been financed by resources from abroad.

TABLE II-7
Income, Consumption and Private Saving, 1955 and 1956
(in IL. millions—at current prices)

	1955	1956	Change in 1956, as against 1955	
	in IL. millions	in IL. millions	in IL. millions	in per cent
The National Income	1,752	2,092	+340	+19.4
less: Direct Taxes ^a	- 167	- 243	- 76	+45.5
plus: Current Transfers from Public Sector to Private Sector ^b	+ 67	+ 74	+ 7	+10.4
less: Current Transfers from Private Sector to the Public Authorities ^c	- 17	- 19	- 2	+11.8
plus: Transfers from Abroad to the Private Sector	+ 97	+ 109	+ 12	+12.4
Total Disposable Private Income	1,732	2,013	+281	+16.3
Private Consumption	-1,644	-1,850	-206	+12.5
Private Saving	+ 88	+ 163	+ 75	+85.2

^a Direct taxes include income tax, defence tax (in so far as it is levied on income), as well as payments to National Insurance and the Equalization Fund for persons serving in the Defence Forces Reserves. Property taxes are not included in this item, but in indirect taxes. The inheritance tax is likewise excluded, as it is considered a capital transfer.

^b Current transfers from the public to the private sector include social welfare payments, pensions, severance pay, educational grants, grants to non-profit-institutions, etc.

Current transfers from enterprises to private persons (e.g. pension payments) should also have been included, but no comprehensive data are available. The national income includes the wage supplements, such as contributions to national insurance as mentioned above. Other supplement components may, in effect, be classified as various forms of saving. This applies to contributions to provident funds. The remaining supplements are payments for services such as health insurance. Savings should not be deducted from income, precisely because it is desired to arrive at total private saving, regardless of whether it appears, for example, in the bank deposits of individuals or constitutes institutional saving. Contributions to the Workers Sick Fund, etc., are likewise not deducted from income, since they are payments for consumer services and therefore must be included in private consumption.

^c Current transfers from the private sector to public authorities include—according to the U.N. definition—various non-tax payments and payments other than for the use of public services; e.g. contributions to the Defence Fund, fines, passport fees and licence fees of all kinds, or education and hospital fees. The figures include current donations to the national institutions from the public.

SOURCE: Table II-1, and estimates of the Bank of Israel.

7. PRIVATE INCOME, SAVING AND THE TAX BURDEN

Table II-8 shows the distribution of private income as between consumption, saving and taxes.

It appears from this table that two-thirds of the private income as defined in table II-7 were used to purchase goods for private consumption (at factor prices). Slightly less than a quarter constituted payments of direct and indirect taxes net of subsidies, which were used to finance public consumption, while the remaining 7 per cent were saved. Compared with 1955, the situation in 1956 is marked by a striking increase in the burden of direct taxes in relation to disposable income.

A computation of the real changes in total and disposable private income, based on the inflation of current income by the consumers' price index, is given in table II-9 on page 40. The real income of the private sector increased by

TABLE II-8

*Private Income, Private Consumption, Taxes and Private Saving^a 1955 and 1956
(in IL. millions and per cent, at current prices)*

	1955		1956		Change in 1956 as against 1955
	<i>in IL. millions</i>	<i>in per cent</i>	<i>in IL. millions</i>	<i>in per cent</i>	<i>in per cent</i>
Private Income before Direct Taxes	1,899	100	2,256	100	+18.8
less: Direct Taxes	-167	-9	-243	-11	+45.5
Disposable Private Income	1,732	91	2,013	89	+16.2
less: Private Saving	-88	-5	-163	-7	+85.2
Private Consumption at Market Prices	1,644	86	1,850	82	+12.5
less: Indirect Taxes Net of Subsidies	-236	-12	-276	-12	+17.0
Private Consumption at Factor Cost	1,408	74	1,574	70	+11.8

^a The figures in this table are subject to reservations which in part have been explained above. First, private disposable income includes transfers from abroad to the amount of approximately IL.100 million, an unknown part of which is destined for investment; this part should be deducted. Secondly, undistributed profits should be deducted from the national income. These two deficiencies give an upward bias to private income. Thirdly, direct taxes include corporate income tax. Fourthly, indirect taxes include taxes which are not levied on private consumption (e.g. the excise on cement, the customs duties on wood and iron, etc.) On the other hand, the subsidies which are deducted from indirect taxes comprise some which are of no benefit to private consumers, such as subsidies to exports and subsidies to farmers. Fifthly, private income does not include transfers from enterprises to individuals.

The qualifications two to five give a downward bias to the figure of private income in table II-8.

These qualifications are to a certain extent mutually offsetting, and it may be assumed that the general picture given in table II-8 adequately reflects the order of magnitude of the amounts concerned.

SOURCE: Estimates of the Bank of Israel.

11–12 per cent. After deduction of taxes, the increase of disposable income amounts to 9 per cent, and per capita disposable income to 4–5 per cent.

TABLE II-9
Total and Disposable Private Income, 1955 and 1956
(at current prices and at 1956 prices)

	1955		1956	<i>Real change in per cent, at 1956 prices</i>
	<i>at 1955 prices</i>	<i>at 1956 prices^a</i>		
1. Totals, in IL. millions				
Private Income	1,899	2,021	2,256	+11.6
Disposable Private Income	1,732	1,843	2,013	+ 9.2
2. Per Capita Figures, in IL.				
Private Income	1,085	1,155	1,234	+ 6.8
Disposable Private Income	990	1,053	1,101	+ 4.6

^a Inflated by the consumers' price index, which rose by 6.4 per cent between 1955 and 1956.
SOURCE: Estimates of the Bank of Israel.

8. THE IMPORT COMPONENT AND THE USE OF RESOURCES

In an economy largely dependent on net capital import, the share of the import component in the various uses of resources is highly important. In certain branches of production there is, in the short run, a more or less rigid relationship between the import component and output. Hence, as long as the structure of consumption, investment or export remains unchanged, the volume of imports is likely to be a main determinant of the levels of production and employment. In fact, important changes in the import component occurred in 1956—partly because of changes in the composition of investments and exports, and partly because of the process of further vertical development of local production. The import components of consumption, investment and exports, including input for domestic manufacture and finished goods, are given in table II-10. In order to facilitate comparison between 1956 and 1955, the calculations are based on 1956 prices.

The import component of gross investment increased between those two years from 35 to 41 per cent. This increase was almost entirely due to a change in the structure of investments: There was a higher proportion of investments in industry—the import component of which is relatively high—and a lower proportion of investments in building, public works and irrigation—which have a smaller import component. An additional reason is that no customs duties or other imposts are levied on mechanical equipment, tools, etc., and that the purchase of equipment is facilitated by the Government's granting credit on easy terms. The decrease in the import component of private consumption was the result of good harvests, the extension of production processes, and the rise in prices during the year through the imposition of additional indirect taxes, in particular on imports.

TABLE II-10
The Use of Resources and their Import Component, 1955 and 1956
(in IL. millions and in per cent)

	1955			1956		
	<i>at 1956 prices</i>			<i>at current prices</i>		
	<i>Total use, in IL. millions</i>	<i>Import component</i>		<i>Total use, in IL. millions</i>	<i>Import component</i>	
	<i>in IL. millions</i>	<i>in per cent</i>		<i>in IL. millions</i>	<i>in per cent</i>	
Private and Public						
Consumption	2,245	463	20.6	2,539	552	21.7
Gross Investment	612	214	35.0	615	254	41.3
Exports	275	138	50.2	308	147	47.7
<i>Total</i>	3,132	815	26.0	3,462	953	27.5

SOURCE: Calculations of the Bank of Israel.

The 2.5 per cent decline in the import component of exports (goods and services) was caused chiefly by the higher proportion of citrus exports, the import component of which is low, and—to a lesser extent—by the higher percentage of locally added value in industrial exports.

The small increase in the import component of total consumption was due to the higher proportion of this component in public consumption. The import component of private consumption was actually reduced, because of the tendency to substitute local products for imports—both as regards manufactures and semi-finished goods or raw materials.

By deducting the import components from the aggregates of consumption, gross investment, and export, the contribution of gross national product to these three final product aggregates can be brought out. Table II-11 shows the distribution of the national product between these uses in 1955 and 1956, at 1956 prices.

TABLE II-11
Distribution of Gross National Product between the Various End Uses
of Resources, 1955 and 1956
(in IL. millions and in per cent, at 1956 prices)

	1955		1956		Change	
	<i>in IL. millions</i>	<i>in per cent</i>	<i>in IL. millions</i>	<i>in per cent</i>	<i>in IL. millions</i>	<i>in per cent of increment</i>
Private and Public						
Consumption	1,782	77	1,987	79	+205	107
Gross Investment	398	17	361	14.5	- 37	- 19
Exports	137	6	161	6.5	+ 24	12
Gross National Product	2,317	100	2,509	100.0	+192	100

SOURCE: Calculations of the Bank of Israel.

The contribution of gross national product to private and public consumption and to exports thus increased somewhat, but its contribution to gross investment declined both relatively and absolutely. These changes are, of course, due to the very same causes that resulted in variations in the import components of the various uses of available resources, in addition to the factors which influenced the total volume of private and public consumption, investment and exports.

In so far as, in the short run, the import component appears to be rather rigid, and as long as the relative scarcity of foreign currency for imports will be greater than that of other resources, it appears desirable to encourage changes in the pattern of consumption and investment so as to reduce the average import component and to make the level of employment and the national output less dependent on the extent of capital imports. This may be done with the aid of surcharges on imports, or by encouraging changes in consumption habits that will cause a preference for local products. But it should be pointed out that there is a risk of an exaggerated, artificial protection of local production causing the diversion of the economy's limited resources to the production of goods in which Israel has no comparative advantage. This would result in an inefficient use of factors of production.

TABLE II-12
*Interconnections of Gross and Net National Product, National Income,
and Private Income, 1956*
(in IL. millions)

	<i>Estimate</i>	<i>Table</i>
<i>Gross Domestic Product</i>	2,554	—
<i>less</i> Profits, salaries, interest, etc. transferred abroad, after deduction of corresponding amounts received from abroad	- 45	II-2
= Gross national product	2,509	II-1
<i>less</i> Depreciation	- 150	II-1
= Net national product at market prices	2,359	II-4
<i>plus</i> Errors and omissions	+ 9	II-1
<i>less</i> Indirect taxes	- 336	II-1
<i>plus</i> plus Subsidies from public authorities	+ 60	II-1
= National income at factor cost	2,092	II-1
<i>less</i> Undistributed profits	a	—
<i>less</i> Current transfers from individuals to public authorities	- 19	II-7
<i>plus</i> Transfers to individuals from abroad	+ 109	II-7
<i>plus</i> Current transfers from public authorities to individuals	+ 74	II-7
= Personal income	2,256	II-8
<i>less</i> Direct taxes	- 243	II-5
= Disposable personal income	2,013	II-7
<i>less</i> Private consumption	-1,850	II-1
= Private saving	163	II-7

^a Not available.