

CHAPTER II

RESOURCES, PRODUCT AND NATIONAL INCOME

THE DATA in this chapter are provisional and subject to change upon the receipt of additional information. The estimates on which the system of national accounts is based are still not very accurate and hence reflect only the principal tendencies.

The series of national accounts included in this chapter have, in general, been computed by the same method as that used for the Annual Report for 1956¹.

The data on national income, imports, exports and the accounts of the public sector, with the exception of those for 1957, have been prepared by the Central Bureau of Statistics; the other calculations have been prepared by the Bank of Israel.

The values of imports and exports have been calculated at the official rate of exchange of \$1.00=IL. 1.800. Although a number of import goods and services were sold in the domestic market at prices which included imposts, these imposts have not been included in import values, but under indirect taxes. On the other hand, the calculation of subsidies, which are deducted from indirect taxes in the national accounts, include subsidies on import goods which lower the price of these commodities as compared with the prices based on the official exchange rate. Similarly the export premiums granted by the Government were not included in the value of exports; they, too, form part of Government subsidies.

In the absence of an effective price ratio of domestic prices to import and export, allowing for imposts and subsidies on imports and for premiums on exports, it has not been possible to estimate correctly the percentage shares of imports and exports in total resources and their use. As a result, the following calculations may underestimate the relative share of import and export in the gross national product on the one hand, and in consumption and investment on the other hand.

1. TOTAL AVAILABLE RESOURCES: GROSS NATIONAL PRODUCT AND IMPORTS

The gross national product rose in 1957 by IL. 290 million in real terms and amounted to IL. 3,060 million. The rate of increase in 1957 was similar to that in 1956, when it was about 10-11 per cent. On the other hand, there was no

¹ The sources and methods of calculation of the national accounts will be published separately.

TABLE II-1
Israel's National Accounts, 1955-1957
(at current prices—millions of IL.)

	1955		1956		1957	
	Million IL.	Percentages .	Million IL.	Percentages	Million IL.	Percentages
(1) National income	1,752		2,113		2,513	
(2) Indirect taxes	285		340		435	
(3) <i>less</i> : subsidies	57		73		98	
(4) Indirect taxes net of subsidies	228		267		337	
(5) Net national product	1,980		2,380		2,850	
(6) Depreciation ^a	123		148		176	
(7) Errors and omissions	+ 11		+ 15		+ 38	
(8) Gross national product	2,114	73.4	2,543	72.6	3,064	75.2
(9) Imports ^b —goods and services	768	26.6	962	27.4	1,008	24.8
(10) Total available resources	2,882	100.0	3,505	100.0	4,072	100.0
(11) Public consumption	428	14.9	675	19.3	618	15.2
(12) Private consumption	1,644	57.0	1,855	52.9	2,213	54.3
(13) Total consumption ^c	2,072	71.9	2,530	72.2	2,831	69.5
(14) Gross investment ^d	551	19.1	655	18.7	840	20.6
(15) Exports ^b —goods and services	259	9.0	320	9.1	401	9.9
(10) Total use of resources	2,882	100.0	3,505	100.0	4,072	100.0

SOURCE: Central Bureau of Statistics and the Bank of Israel.

Note: Bracketed figures are intended to facilitate the comparison of data shown in the tables to this Chapter.

^a In the absence of data on depreciation, it has been calculated at 7 per cent of national income.

^b Converted into Israel pounds at the rate of exchange IL.1:800=\$1.00.

^c Households and non-profit institutions.

^d Excluding stock changes which are mostly included in the items: public consumption, private consumption, investment and exports.

real increase in aggregate imports of goods and services. Although real imports of goods rose by 11 per cent, this increase was offset by a decline in the import of services, mainly due to the reduction in defence expenditure.

Inasmuch as in 1957 aggregate imports, which in recent years have been about one-quarter of total resources, did not increase, total resources rose at a slower rate than the gross national product. Thus, in 1957, total resources in real terms rose by 8 per cent (see Table II-2).

The increase in the gross national product was rendered possible by an increase in the supply of domestic raw materials, mainly from agriculture, mining and industry, as well as from imported raw materials. The decline in the outlay of foreign exchange for defence purposes rendered possible an increased supply

TABLE II-2
Israel's National Accounts, 1955-1957
 (millions of 1957 IL.)

Constituent items	1955		1956		1957		Percentage increase or decrease (-)			
	Million IL.		Million IL.		Million IL.		1955 to 1956		1956 to 1957	
	IL.	Percentages	IL.	Percentages	IL.	Percentages	Value	Quantity	Value	Quantity
(1) National income										
(a) Net national product at market prices	2,086		2,309		2,513		8.9	10.7	9.3	8.8
(b) At prices of national expenditure ^a	2,056		2,290		2,513		8.3	11.4	8.4	9.7
(5) Net national product ^b	2,370		2,617		2,888		8.9	10.4	9.3	10.4
(6) Depreciation ^c	145		157		176		11.1	8.3	6.2	12.1
(8) Gross national product	2,515	74.6	2,774	73.3	3,064	75.2	9.1	10.3	9.1	10.5
(9) Imports ^d —goods and services	856	25.4	1,010	26.7	1,008	24.8	6.1	18.1	5.0	- 0.2
(10) Total available resources	3,371	100.0	3,784	100.0	4,072	100.0	8.3	12.3	8.0	7.6
(11) Public consumption	515	15.3	724	19.1	618	15.2	12.3	40.5	7.2	-14.7
(12) Private consumption	1,914	56.8	2,029	53.6	2,213	54.3	6.4	6.0	9.4	9.1
(13) Total consumption	2,429	72.1	2,753	72.7	2,831	69.5	7.7	13.3	8.8	2.8
(15) Imports ^d —goods and services	650	19.3	695	18.4	840	20.6	11.1	6.9	6.2	20.8
(15) Export ^d —goods and services	292	8.6	336	8.9	401	9.9	7.5	15.0	5.1	19.0
(10) Total use of resources	3,371	100.0	3,784	100.0	4,072	100.0	8.3	12.3	8.0	7.6

SOURCE: Table II-1. Price indices—Bank of Israel.

^a National expenditure is equal to the net national product plus the import surplus, or total consumption plus net investment.

^b Including errors and omissions.

^c Constant prices have been derived from the index of investment prices.

^d The index of import and export prices refers to values in foreign exchange.

of imported raw materials intended to increase the national product. Imports of raw materials amounted in 1957 to about \$195 million, a real increase of 12 per cent as compared with 1956. Furthermore, output in sectors with a relatively low import input was considerably increased in 1957. This was particularly marked in building construction, in non-building construction and in these branches which supply these industries with goods and services. In agriculture there was a relative increase in the use of raw materials of domestic rather than of imported origin. Domestic supplies of agricultural raw materials to industry were also increased.

The maturing of investments made in previous years, the higher degree of utilization of existing equipment and the rise in the numbers of employed were additional factors responsible for the increase of output in 1957. Following the expanded economic activity in 1957 about 55,000 additional workers were absorbed, an increase of about 9 per cent over 1956. Part of the additional workers arrived in Israel in 1957, and the occupational distribution of these immigrants facilitated their integration in the different economic sectors. In some sectors, particularly in industry, there was also an increase in output per worker.

2. OUTPUT¹ AND NATIONAL INCOME

The increase in the gross national product was accompanied in 1957 by an increase in the national income of about 19 per cent. National income amounted to IL. 2,510 million as against IL. 2,110 million in 1956. At current prices, national income per capita rose from about IL. 1,160 in 1956 to IL. 1,300 in 1957, or by about 13 per cent. At constant prices of national expenditure, the per capita increase in national income was about 4 per cent as compared with 7 per cent in 1956.

According to preliminary estimates there was a rise in salary and wage payments (including fringe benefits) of 17.4 per cent in 1957. The rise amounted to about IL. 1,480 million. The reason for this increase was the addition of about 35,000 to numbers employed and a rise in average gross earnings of about 8 to 9 per cent.

In the absence of a direct estimate of income from other than government services—commerce, banking, insurance and other services—income from these sources has been calculated on the assumption that the percentage share of services in national income remained the same in 1957 as in 1956, that is, 31.7 per cent. It is not possible, therefore, to verify whether the relative share in national income of agriculture, industry, building construction and transport actually increased following the increase in output which occurred in these sectors (see Table II-3).

¹ Output equals national income plus purchases from other sectors and firms at home and abroad.

TABLE II-3
National Income by Industrial Origin, 1956-1957
(at current prices—millions of IL.)

	1956		1957 ^a		Percentage increase
	Million IL.	Percentages	Million IL.	Percentages	
Agriculture	250	11.6	299	11.6	19.6
Industry and mining	469	21.7	560	21.8	19.4
Contract construction	130	6.0	165	6.4	26.9
Utilities ^b	37	1.7	43	1.7	16.2
Transport	168	7.8	182	7.1	8.3
Public sector	420	19.5	505	19.7	20.2
Trade, services, banking etc. ^a	684	31.7	814	31.7	19.0
(16) Net domestic product	2,158	100.0	2,568	100.0	19.0
(17) <i>less</i> : net payments to factors abroad	45		55		
(1) National income (16)-(17)	2,113		2,513		18.9

SOURCE: Central Bureau of Statistics.

^a Preliminary estimate.

^b Mainly water and electricity.

The rate of increase in output was not uniform for all sectors. The main increase was in building construction which expanded by about 32 per cent in real terms. This was mainly the result of investment in public housing for immigrants which doubled in 1957 as against 1956. Although in 1956 the number of immigrants who arrived in Israel was 55,000, as compared with 71,000 in 1957, the rate of dwelling construction for immigrants was accelerated only in 1957 following the decline in defence expenditure.

The large increase in building and non-building construction led to a rise in income from contract construction from IL. 130 million in 1956 to IL. 165 million in 1957, an increase of 27 per cent at current prices.

Output in industry rose by about 23 per cent at current prices. According to the partial data available, the increase in numbers employed in industry was estimated at 5 to 6 per cent; while the real increase in output was around 15 per cent. According to these figures, output per worker rose by about 8-9 per cent. This increase was rendered possible by new investment, by the intensified utilization of existing equipment and by an improvement in skill.

During the period under review, national income originating in industry rose by at least 19 per cent¹.

¹ Output and income have been estimated independently. Hence there is a difference between the increase in real output at current prices and the increase in added value. See also Chapter X, Industry.

Agricultural output which is subject to fluctuations due to weather conditions, had bumper years in 1956 and 1957¹. At current prices, agricultural output was about 20 per cent higher in 1957 than in 1956. This increase was due to an increase in output of 10 per cent in real terms, and to an increase in producer prices² of about 9 per cent. National income originating in agriculture rose in 1957 to IL. 300 million³. The income of farmers rose in 1957. The rise in the input of working days is estimated at 5 to 6 per cent. Hence, in 1957, the average money income per working day increased by 13–14 per cent.

The outstanding increase in agriculture in real terms was in output of capital goods of about 23 per cent (mainly of livestock, of fruit plantations, of irrigated areas), and in the output of raw materials for agriculture which rose by about 14 per cent. The real increase in agricultural output for domestic food consumption was smaller, about 7 per cent. Agricultural exports rose by about 12 per cent in real terms as compared with an increase of 14 per cent in 1956.

The output of the transport sector rose by 9 to 10 per cent in real terms. This increase was partly the result of intensified activity in other economic sectors—agriculture, building construction, and industry—and partly of the expansion in the international transport branches—shipping and aviation. The increase in income from transport amounted, at current prices, to 8 per cent. This rise was smaller than the rise in output of the transport sector, as there was a greater relative rise in those transport branches using more material inputs, say fuel. However, in the face of the large increase in building construction, the provisional figure for the increase in income from transport may be an underestimate.

In spite of a decline in public consumption expenditure in 1957, by about 15 per cent at current prices, national income originating in transactions of the public authorities rose by about 20 per cent. Following the alleviated burden of defence expenditure in 1957, the purchases of the public sector from abroad and from other sectors of the economy declined in 1957. However, the volume of civilian services rose and, therefore, wage and salary payments by the public sector increased.

3. THE USE OF RESOURCES

As a result of the reduction in 1957 of public consumption expenditure, the value of real resources freed was IL. 105 million. Resources made available from the reduction in public consumption, plus an increase in real resources of IL. 290 million as a result of the increase in the gross national product, brought

¹ These years refer to the crop years 1955/56 and 1956/57. It has been assumed that changes in output, input and in income originating in agriculture during the crop years were parallel to those in the calendar years.

² Prices received are market prices plus subsidy payments less marketing costs.

³ This figure refers to the calendar year. The corresponding figure for the crop year 1956/57 is IL. 318 million.

the amount of additional resources available for other uses to nearly IL. 400 million. The increase in the use of resources at 1957 prices was as follows: exports—IL. 65 million; private consumption—by about IL. 180 million; and gross investment—by about IL. 150 million (see Table II-4).

TABLE II-4
Constituent Items of Resources and Their Use, 1955-1957
(millions of 1957 IL.)

	<i>Increase or decrease (-)</i>			
	<i>1955 to 1956</i>		<i>1956 to 1957</i>	
	<i>Million IL.</i>	<i>Percentages</i>	<i>Million IL.</i>	<i>Percentages</i>
(8) Gross national product	259	62.7	290	100.7
(9) Import—goods and services	154	37.3	- 2	- 0.7
(10) Total available resources	413	100.0	288	100.0
(11) Public consumption	209	50.6	-106	- 36.8
(12) Private consumption	115	27.8	184	63.9
(13) Total consumption	324	78.4	78	27.1
(14) Gross investment	45	10.9	145	50.3
(15) Export—goods and services	44	10.7	65	22.6
(10) Total use of resources	413	100.0	288	100.0

SOURCE: Table II-2.

As a result of these increases, the distribution of the use of resources was modified. The share of public consumption expenditure in the total use of resources, which rose in 1956 to 19.1 per cent, declined in 1957 to 15.2 per cent, the same share as in 1955. The share of private consumption rose to 54 per cent, exceeding somewhat that of the previous year, but falling slightly below that of 1955. The share of gross investment rose from 18.4 per cent in 1956 to 20.6 per cent in 1957. There was also an increase in the share of exports—from 8.9 per cent in 1956 to 9.9 per cent in 1957 (see Table II-2).

In conclusion, the share of aggregate consumption in the use of resources declined not only as compared with 1956, but also as against 1955, while the relative share of export and of investment increased.

(a) *Public consumption*

Real public consumption expenditure was reduced by about 15 per cent in 1957 as compared with 1956, or by IL. 105 million at 1957 prices. As a result of this decline, the share of public consumption in total resources declined in

1957 and returned to the relative level of 1955. The decline in public consumption was the result of the reduction in Government defence expenditure. Consumption expenditure of local authorities and national institutions rose by about 4 per cent in real terms.

In spite of the real decline in public consumption expenditure, in 1957 as against 1956, there was an increase of about 9 per cent in real per capita public consumption compared with 1955. Public consumption rose as a result of the increase in immigration and the expenditure on immigrant absorption and also due to the expansion in public services.

TABLE II-5

Private Income, Private Consumption, Direct Taxes and Private Saving, 1955-1957
(at current prices—millions of IL.)

	1955		1956		1957	
	Million IL.	Percentages	Million IL.	Percentages	Million IL.	Percentages
(26) Private income before tax	1,885	100.0	2,268	100.0	2,731	100.0
(18) less: direct taxes	178	9.4	175	7.7	222	8.1
(24) Private disposable income	1,707	90.6	2,030	89.5	2,435	89.2
(25) less: private saving	63	3.4	175	7.7	222	8.1
(12) Private consumption at market prices	1,644	87.2	1,855	81.8	2,213	81.1

SOURCE: Table II-6.

(b) *Private consumption*

Private consumption rose in 1957 and amounted to IL. 2,200 million at current prices, an increase of 19 per cent as compared with 1956. The increase was about 9 per cent, in real terms. Allowing for the population increase, the rise in real per capita consumption, which had remained almost unchanged in 1956, was about 3-4 per cent. The greatest increase in private consumption was in durable consumer goods.

Table II-5 shows the share of private consumption in total private income and in total private disposable income (i.e. after deduction of direct taxes). In 1956, the share of direct taxes in private income was somewhat increased over 1955. No marked change took place in this respect in 1957.

At current prices, the rate of increase in private consumption in 1957 corresponded more or less to that of disposable income. In this respect there was a change as compared with 1956, when private consumption rose at a slower

rate than disposable income (see Table II-6). In 1956, private disposable income rose by about 19 per cent, and consumption at current prices by about 13 per cent. It may well be, that this was due to the tense security situation prevailing at that time, which led part of the public, from precautionary motives, to keep their assets liquid, while refraining from increased consumption. This restraint led to an increase in private savings of about IL. 110 million in 1956 as compared with 1955; private savings rose in 1957 by a smaller amount. The outstanding change from 1956 was that, whereas in 1957 the rise in private disposable income per capita was the same as in 1956 (about 5 per cent), at constant prices (see Table II-7), almost no change occurred in 1956 in real per capita consumption; while in 1957 there was a rise of about 3 to 4 per cent.

TABLE II-6
National Income, Consumption and Private Saving, 1955-1956
(at current prices—millions of IL.)

	1955	1956	1957	Percentage increase or decrease (-)	
				1955 to 1956	1956 to 1957
(1) National income	1,752	2,113	2,513	20.6	18.9
(18) Less: direct taxes	178	238	296	33.7	24.4
(19) Disposable national income	1,574	1,875	2,217	19.1	18.2
(20) Current transfers from the public sector to the public	58	73	97	25.9	32.9
(21) Less: current transfers from the public to the public sector	22	29	24	31.8	-17.2
(22) Plus: private transfers from abroad	97	111	145	14.4	30.6
(23) Net transfer payments to the public from the public sector and from abroad	133	155	218	16.5	40.6
(24) Private disposable income	1,707	2,030	2,435	18.9	20.0
(12) Private consumption	1,644	1,855	2,213	12.8	19.3
(25) Private saving	63	175	222	177.8	26.9

SOURCE: Central Bureau of Statistics and the Bank of Israel.

Note: National income values and direct taxes include data for limited companies. Data for transfer payments do not include transfers from limited companies to the public.

(c) *Investment*

The real increase in investment in 1957 was 21 per cent, or IL. 145 million at 1957 prices. Of this increase, about IL. 94 million went to the sectors of residential building construction and to services whose contribution to the reduction in the balance of payments deficit is almost negligible. There was a marked increase in investment in ships and in aircraft. Investment in agriculture and industry was also somewhat increased.

TABLE II-7
Income: Private, Disposable and Per Capita, 1955-1957
(at current and at 1957 prices)^a

	1955		1956		1957	Real increase percentages	
	Current prices	1957 prices	Current prices	1957 prices		1955 to 1956	1956 to 1957
<i>Income (million IL.)</i>							
(26) Private income (18) + (24)	1,885	2,212	2,268	2,458	2,731	11.1	11.1
(24) Private disposable income	1,707	2,003	2,030	2,200	2,435	9.8	10.7
<i>Per capita income (IL.)</i>							
Private income	1,077	1,264	1,240	1,344	1,415	6.3	5.3
Private disposable income	975	1,144	1,110	1,203	1,261	5.2	4.8

SOURCE: Table II-6.

^a Values have not been deflated by the price index of private consumption in view of the fact that private consumption as such was measured in 1956 by the consumers' price index, whereas in 1957, it was measured by another index, derived from the real changes in consumption. Since it has not been found possible to obtain a continuous and comparable series for private consumption, the price indices of national expenditure (also weighted by the consumers' price index of 1956) reflect more correctly the changes in the real purchasing power of the public as derived from disposable private income.

The increase in private investment was partly financed by private savings which were invested in apartments, and partly through the depreciation reserves and through undistributed profits of enterprises made in agriculture and industry.

The Government considerably increased their investment in public residential building construction, and resorted to bank credit for this purpose. On the other hand, certain receipts from abroad were delayed, which in turn postponed the implementation of the Government's development projects in agriculture and in industry.

(d) *Export*

At current prices, exports of goods and services amounted in 1957 to \$223 million as against \$178 million in 1956. As a result, the share of export in total resources increased from 8.9 per cent to 9.9 per cent, at constant prices. The increase of \$45 million in exports reflects a volume increase of 19 per cent, and an increase of 5 per cent in world market prices.

The increase applied to all types of export. Exports of agricultural products rose by \$6 million, at constant prices. The main reason for this was a volume increase of 7 per cent in citrus exports, as a result of higher output owing to favourable weather conditions. Furthermore, citrus prices in foreign markets rose by 11 per cent.

The exports of industrial goods, excluding diamonds, rose by \$12 million at constant prices. There was also a slight rise in world market prices. The increase in exports was partly the result of the maturing of investment made in enterprises mainly working for the export trade. It was also due to the export promotion policy of the Government, and to the penetration of Israel goods into new markets. A marked increase, of about 30 per cent, was also shown by diamond exports.

As to the exports of services, receipts from shipping, aviation and to a certain extent from tourism were responsible for the increase in this item.

4. THE IMPORT COMPONENT

In the Israel economy, changes in the import component assume particular importance. The import component is reflected by imports of manufactured goods as well as by imports of raw materials, fuel, and other inputs for domestic production necessary for the maintenance of a given level of consumption and investment. Insofar as the import component remains static, the level of production and employment on the one hand, and the level of consumption and investment on the other hand, are to a great extent determined by the volume of imports. Since exports have so far accounted for only one-third of imports, and sources of capital import are necessarily limited and will even decline considerably in the future, changes in the import component assume particular importance, with respect both to short-term and to long-term developments.

The changes which have occurred in the import component of public consumption in recent years were mainly the result of the varying volume of imports for defence purposes. In 1956, imports for defence purposes considerably increased the import component in public consumption; in 1957 these imports declined.

In line with the tendency of the last few years, the import component in private consumption continued to decline, and it fell from 19 per cent in 1956 to 17.5 per cent in 1957. There were several factors responsible for this. Although the considerable increase in the level of private consumption in 1957 led to in-

creased imports of goods and services for consumption by about \$19 million at current prices, the main increase was in imports of raw materials, liquid fuel and other input for the production of consumer goods. The rate of increase of imports of manufactured consumer goods was smaller.

The decline in the import component in private consumption was mainly the result of the changed consumption pattern. This is particularly striking for food consumption. Here, the Government was successful, largely through imposts, in restraining the consumption of imported foodstuffs. As a result, there was an increase in the consumption of domestic food products.

The import component in investment varies in accordance with changes in the composition of investment. Imports of ships and aircraft, whose installation requires practically no domestic input, increased considerably in 1957. On the other hand, there was a notable increase in building and non-building construction which have a relatively low import component. This was the reason for the decline in the import component of total investment from 43 per cent in 1956 to 39 per cent in 1957 (see Table II-8).

The large increase in industrial exports and in exports of diamonds, whose import component is higher than that of agricultural exports, caused an overall increase of the import component in exports, from 45 per cent in 1956 to 47 per cent in 1957.

The decline in the import component in private consumption and in investment resulted in a decline of the relative share of imports in total use of resources (excluding public consumption) from 27.6 per cent in 1956 to 26.3 per cent in 1957.

5. SAVING

As pointed out earlier in this Chapter, investment increased in 1957, particularly in building construction, while the deficit on current account somewhat declined. As a result, net investment exceeded capital import by IL. 57 million¹. Gross national product exceeded the sum of private consumption, public consumption and depreciation by this amount.

It was pointed out in previous years, that one of the most striking phenomena of the Israel economy was the fact that the volume of net investment was lower than that of capital import. This phenomenon has been termed "disaving". Dissaving so defined amounted to IL. 80 million in 1955 and to IL. 135 million in 1956. In 1957 there was no dissaving; on the contrary, there was a certain saving.

The comparison of the volume of net investment with capital import as an indicator of the contribution of domestic savings to investment, or of the use of capital imports for consumption purposes, is indeed accepted in other countries

¹ It should be stressed that these data are based on the official exchange rate of \$1.00=IL.1.800.

TABLE II-8
The Use of Resources and the Import Component^a, 1955-1957
 (at current prices)

	1955			1956			1957		
	<i>Use of resources</i>	<i>Import component^b</i>		<i>Use of resources</i>	<i>Import component^b</i>		<i>Use of resources</i>	<i>Import component^b</i>	
	<i>Million IL.</i>	<i>Million IL.</i>	<i>Percentage share of import component in use of resources</i>	<i>Million IL.</i>	<i>Million IL.</i>	<i>Percentage share of import component in use of resources</i>	<i>Million IL.</i>	<i>Million IL.</i>	<i>Percentage share of import component in use of resources</i>
(12) Private consumption	1,644	338	20.6	1,855	353	19.0	2,213	387	17.5
(14) Gross investment	551	239	43.4	655	282	43.1	840	330	39.3
(15) Export	259	123	47.5	320	146	45.6	401	190	47.4
Total use of resources excluding public consumption	2,454	700	28.5	2,830	781	27.6	3,454	907	26.3
(11) Public consumption	428	77	18.0	675	190	28.1	618	89	14.4
(10) Total use of resources	2,882	777	27.0	3,505	971	27.7	4,072	996	24.5

SOURCE: Bank of Israel.

^a Imports as shown in this table differ from the figure in Table III-2, The Balance of Payments, as they do not include changes in liquid fuel stocks. A note on methods and sources referring to the calculation of these data will be published shortly.

^b According to the official exchange rate \$1=IL. 1,800.

within the national accounts. However, in Israel such a comparison is not very meaningful.

In Israel, capital import, and in particular public capital import, is largely composed of reparations, long-term loans and grants clearly designed for investment. This inflow of capital finances the investment of the Government and of the Jewish Agency. These institutions are the central bodies financing either directly or indirectly investment in agriculture, building construction, industry and transport. However, capital import also includes large amounts of transfers destined for the financing of consumption and, insofar as they are actually spent on current expenditure, they constitute a permanent source of dissaving.

Thus, for example, many public institutions, including the Jewish Agency as well as health and educational organizations, received considerable transfer payments for current expenditure from abroad, either for the absorption of immigrants after their arrival in Israel or for expenditure on welfare services. A considerable part of the capital import received by individuals from abroad is in the form of personal restitution payments from Germany, made up of annuities and other current transfers. Furthermore, capital import also includes the personal effects of immigrants, gifts, and other personal transfers. It may, therefore, be said that, since part of the capital inflow finances current public and private consumption, the contribution of domestic savings to investment is larger than that shown by the calculation of national "saving" and "dissaving".

The addition of net transfer payments received by the private sector from the public sector and from abroad to disposable national income (i.e. national income less direct taxes), yields total private disposable income. If private consumption is deducted from this, it transpires that private saving in 1957 was about IL. 220 million as against IL. 175 million in 1956 and IL.65 million in 1955 (see Table II-6).

In order to evaluate this sum correctly, it should be borne in mind that private savings invested in dwellings and the savings of firms out of undistributed profits are included in the amount of private saving. At any rate, the share of private saving in the financing of essential investment in agriculture, industry and transport is still very small as compared with the level prevailing in other countries.

In 1956, the consumption expenditure of the public sector exceeded the amount of taxes collected from the public by IL. 170 million, largely owing to the increased defence expenditure. This difference was partly financed by special import and partly by credit from the banking system.¹ Expenditure on public consumption declined in 1957, while the amount of taxes collected increased. As a result, the amount of public consumption expenditure was lower than the total collected in taxes (see Table II-9). Even though in 1957 the public sector

¹ In this report the banking system refers to commercial banks, credit co-operative societies and the Bank of Israel.

resorted to inflationary financing through credit from the banking system, it cannot be said that, in 1957, the receipts of the public sector from abroad were diverted to the financing of public consumption. This was one of the main causes of national saving in the sense outlined above.

TABLE II-9
Direct Taxes, Indirect Taxes and Public Consumption, 1955-1957
(at current prices—millions of IL.)

	1955	1956	1957
(18) Direct taxes	178	238	296
(4) Net indirect taxes	228	267	337
(27) Total taxes	406	505	633
(11) less: public consumption	428	675	618
(24) Excess of taxes over consumption	- 22	-170	+ 15

SOURCE: Tables II-1 and II-6.

It should be emphasized that the fact that the gross national product exceeded the amount of private and public consumption plus depreciation in 1957 does not mean that the Israel economy will be able to maintain its consumption level without the help of capital import. A statistical comparison of the national product and of consumption does not prove that there is a functional relationship between them. It should be remembered that under the economic conditions prevailing in Israel there is, in the short run, a rather rigid relationship between the level of the gross national product and that of import. Owing to technical factors, the economy cannot produce the goods it is now manufacturing without a large volume of imports. The present level of production and employment is, therefore, based on large-scale imports. For the time being, the value of exports constitutes only one-third of the value of imports; hence, large-scale capital import is essential for the maintenance of a reasonable level of production and employment.

TABLE II-10

Gross and Net National Product, National Income and Private Income, 1955-1957
(at current prices—millions of IL.)

	1955	1956	1957
(28) Gross domestic product	2,151	2,588	3,119
(17) <i>less</i> : Profits, wage and salary earnings, interest etc., paid to the rest of the world, after deduction of payments received for these items from the rest of the world	37	45	55
(8) <i>equals</i> : Gross national product	2,114	2,543	3,064
(6) <i>less</i> : Depreciation	123	148	176
(7) <i>less</i> : Errors and omissions	11	15	38
(5) <i>equals</i> : Net national product at market prices	1,980	2,380	2,850
(2) <i>less</i> : Indirect taxes	285	340	435
(3) <i>plus</i> : Subsidies from the public authorities	57	73	98
(1) <i>equals</i> : National income at factor cost	1,752	2,113	2,513
(29) Undistributed profits	a	a	a
(21) <i>less</i> : Current transfer payments from the public to the public sector	22	29	24
(22) <i>plus</i> : Transfer payments from the rest of the world to individuals	97	111	145
(20) <i>plus</i> : Current transfer payments from the public authorities to the public	58	73	97
(26) <i>equals</i> : Private income	1,885	2,268	2,731
(18) <i>less</i> : Direct taxes	178	238	296
(24) <i>equals</i> : Private disposable income	1,707	2,030	2,435
(12) <i>less</i> : Private consumption	1,644	1,855	2,213
(25) <i>equals</i> : Private saving	63	175	222

SOURCE: Tables II-1, II-3 and II-6.

* Not available.