

## CHAPTER VI

### PRICES

THE PRICE LEVEL was estimated to have been 8 per cent higher in 1957 than in 1956. This price level is a weighted average of domestic prices of resources available to the economy for end use, i.e. prices of private consumption,<sup>1</sup> of public consumption expenditure and of investments.

#### 1. THE CAUSES OF PRICE INCREASES

Prices of most of the goods and services at the disposal of the economy, i.e. of private consumption and of building construction, were determined by the changes in domestic supply and demand. The prices of only a minor part of goods and services were not determined in this way.

(a) *Prices of private consumption and building.* The increase of prices in this group was largely the result of a general increase in monetary demand. Although the supply of goods and services from domestic output rose by about 12 per cent, this did not prevent the prices of these commodities from rising. For part of the consumer goods, excess demand was not reflected in prices, owing to the rationing and price fixing policy applied by the Government.

The subsidy and rationing policy of the Government had a moderating influence on the consumers' price index: it was exercised in the main with respect to food. Owing to the link between the consumers' price index and wages, this policy had a moderating influence on the general price level of the economy.

Domestic production costs, which increased as a result of the wage rise, the imposts on raw materials and the rise in import prices, represented in 1957 but a secondary cause of the price increases. This was also true for import prices and the levies imposed on finished goods.

The consumers' price index rose by 6.5 per cent and the price of building construction by 7 per cent.

(b) *Prices of public consumption expenditure.* Prices of public consumption are not reflected in market prices of goods and services. As a substitute for the

<sup>1</sup> Arrived at by dividing consumption at current prices by consumption in real terms (see Chapter IV, page 45, note 2). In the absence of measurement of prices of consumption for the economy as a whole, the discussion will be confined to the consumers' price index, reflecting consumer prices for urban wage earners in 1951.

estimated increase in the price of public consumption, these price changes have been measured by the changes in the average salaries of civil servants.

(c) *Prices of equipment.* The prices of most of the imported equipment are world market prices. Their value at home is determined in accordance with the official rate of exchange, as such equipment is allocated to applicants by the Government. The price movements of locally produced equipment vary in accordance with the price of imported equipment, owing to their interchangeability.

## 2. THE CONSUMERS' PRICE INDEX

In the absence of a more reliable yardstick, the consumers' price index serves as an indicator of the changes in the price trends for consumer goods. The limitations of the consumers' price index as a yardstick of consumer prices have been more fully explained in the Annual Report of the Bank of Israel for 1956<sup>1</sup>.

### (a) *Changes in the Index*

The average increase in the consumers' price index in 1957 was 6.5 per cent as compared with the annual average of 1956. This rate may be compared with the average increase of 6.4 per cent between 1955 and 1956 (see Table VI-1).

Between December 1956 and December 1957 the index rose by 13 points and stood at 263 (September 1951=100), an increase of 5.2 per cent. The index reached its peak—270 points—in May.

It should be borne in mind that the consumers' price index is affected by the Government subsidies paid for consumer goods and by the timing of the distribution of food rations at controlled prices. This Government policy should be interpreted in the light of the existing link between the consumers' price index and the level of the cost-of-living allowance paid to wage and salary earners. In the early part of 1957, a new collective wage agreement for the payment of the cost-of-living allowance came into force. This agreement provides for an increase in the cost-of-living allowance in June and December, if the index rises in these months at least by 3 per cent since the date the allowance was last raised. It also provides for an increase in the allowance in March and September if the index rises by at least 5 per cent.

After the new agreement came into force, Government policy was reflected during the year in the monthly fluctuations of the consumers' price index.

The "fruit and vegetables" component was mainly responsible for the major fluctuations in the index, the fluctuations of this component are due to changes in the quantities of fruit and vegetables supplied according to the changing seasons. Government subsidies were paid largely for the particular products covered by this item.

The fluctuations in this component were considerable, but at the same time

<sup>1</sup> Page 108.

helped to decelerate the rate of increase in the consumers' price index as a whole, in particular after the middle of 1956 (see Diagram VI-1).

It is difficult to trace distinct seasonality in the consumers' price index, in spite of the fact that there are seasonal movements in such items as "clothing and footwear" as a result of the change in seasons and of the end-of-season sales for the liquidation of stocks.

TABLE VI-1  
*The Consumers' Price Index, 1956-1957*  
(September 1951=100)

<i>Period</i>	<i>Index</i>
1956 Average	248
1957 Average	264
1956 December	250
1957 January	254
February	259
March	261
April	265
May	270
June	258
July	264
August	269
September	268
October	268
November	267
December	263

SOURCE: Central Bureau of Statistics.

According to the official index publications, the average increase in the items "food" and for "furniture and household goods" was smaller in 1957 than the average increase in the index as a whole. These items thus moderated its rise. The item "clothing and footwear" rose at the same rate as the index as a whole; however, the average increase in the items "rent and electricity", "taxes", "education and culture" and "miscellaneous" exceeded that of the index as a whole (see Table VI-2).

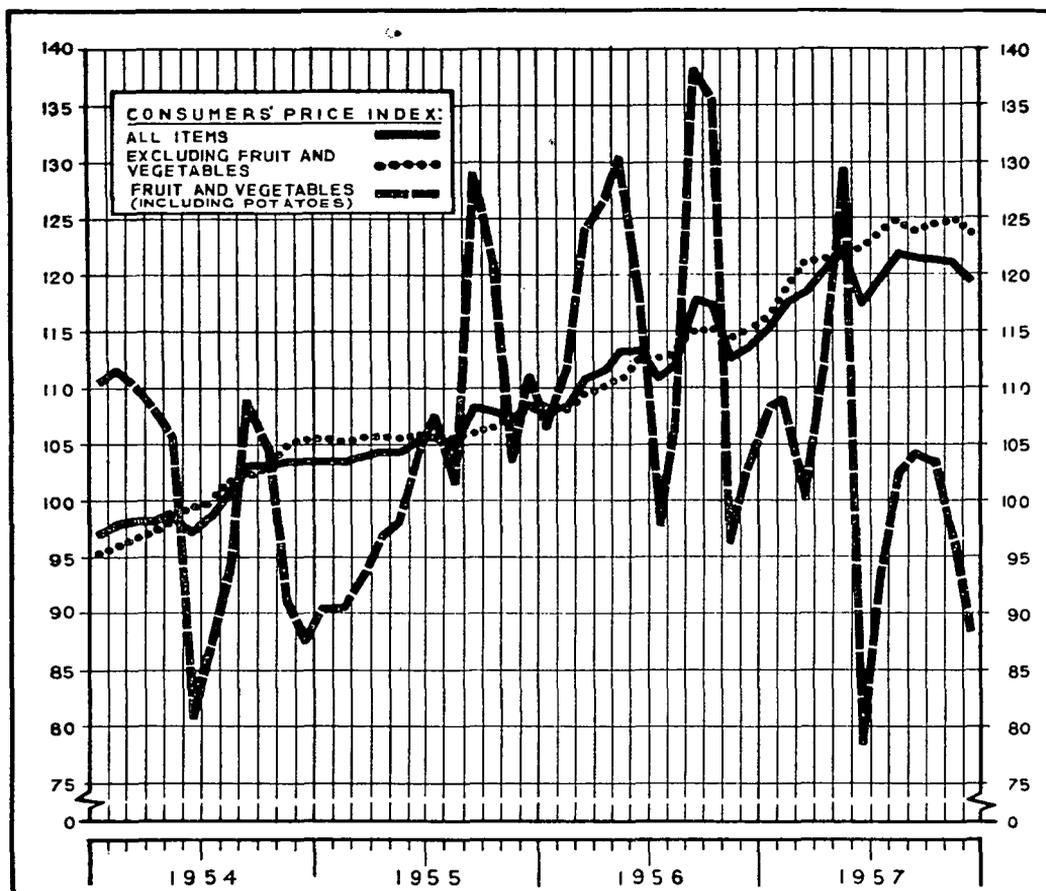
#### (b) *Changes in the Main Index Components*

To analyze the changes in the prices of consumer goods according to the source of the product, a new classification of the index items has been prepared. These items have been classified by groups that differ from those of the consumers' price index. Apart from the total, the new classification and that published by the Central Bureau of Statistics are not comparable. The main difference is

## DIAGRAM VI-1

### *The "Fruit and Vegetables", Component and the Consumers' Price Index, 1954-1957*

(Average 1954=100)



in personal services and in direct imports which have been excluded from the different branches.

The following comparison enumerates the price changes of commodities by source (see Table VI-3).

(i) **Foodstuffs.** The principal components of this item are locally processed food, including cigarettes and ice, agricultural produce and imported food. The average increase in food prices was 5.9 per cent in 1957 as against 1956, and 7.3 per cent in 1956 as against 1955.

The prices of locally processed food rose by an average of 8.4 per cent in 1957 over 1956, a similar rate of increase as in 1956. The data of the Ministry of

TABLE VI-2

## Annual Average Increase in the Items of the Consumers' Price Index, 1956-1957

Item	Percentage increase		Increase in points		Weight of the item in the index
	1955 to 1956	1956 to 1957	1955 to 1956	1956 to 1957	
Food	7.4	4.6	7.4	5.0	410
Clothing and footwear	2.2	6.5	0.7	2.1	130
Furniture and household goods	2.3	4.1	0.3	0.6	73
Rent and Electricity	4.1	10.2	0.7	1.7	76
Taxes <sup>a</sup>	13.4	7.5	1.8	1.1	65
Education and culture	9.0	8.8	0.9	1.0	40
Miscellaneous <sup>b</sup>	6.7	9.1	3.2	4.7	206
<i>All items</i>	6.4	6.5	15.0	16.0	1,000

SOURCE: Central Bureau of Statistics.

<sup>a</sup> Including municipal rates, water rates and union dues.<sup>b</sup> Including medical services and pharmaceuticals, apartment maintenance, household requirements, personal services, entertainment, cigarettes, travel and gifts.

TABLE VI-3

## Components of the Consumers' Price Index by Source, 1956-1957

Source	Increase or decrease (-)		Weight
	1955 to 1956	1956 to 1957	
Agricultural produce <sup>a</sup>	5.9	1.5	157
Fruit and vegetables	11.8	-12.0	97
Other agricultural produce	- 3.5	23.5	60
Industrial products <sup>b</sup>	5.4	7.4	450
Food	8.4	8.4	234
Textiles	- 0.1	6.5	73
Footwear	4.4	8.7	21
Other industrial goods <sup>c</sup>	3.9	6.2	122
Directed commodity imports <sup>d</sup>	4.6	11.4	40
Of which: food	5.2	9.1	34
Services <sup>e</sup>	8.8	8.7	230
Items not elsewhere specified <sup>f</sup>	8.1	7.6	123
<i>All items</i>	6.4	6.5	1,000

SOURCE: Bank of Israel based on data of the Central Bureau of Statistics.

<sup>a</sup> Including beef and poultry meat not included under "Marketed Agricultural Produce" in the Chapter on Agriculture which discusses direct marketing of agricultural produce for consumption.<sup>b</sup> Excluding electricity consumption.<sup>c</sup> Including furniture, metal, and chemical products, pharmaceuticals, plastic goods, electric equipment, glassware and ceramics.<sup>d</sup> Including in addition to food, kerosene and methylated spirit.<sup>e</sup> Mainly restaurant meals, repairs of clothing, footwear and watches; medical care, entertainment, travel, etc.<sup>f</sup> Mainly rent, electricity and municipal rates.

Commerce and Industry also show that the rate of increase in prices received by industrial enterprises for the consumer goods appearing under this component was 8.7 per cent.

The prices of domestic agricultural produce show an increase of only 1.5 per cent as compared with the rise of 5.9 per cent in 1956 shown in Table VI-3.

The relative stability of agricultural food prices in 1957 may be ascribed to two opposed tendencies. The prices of fruit and vegetables fell as a result of the Government's subsidy policy and of increased supplies, whereas the prices of other agricultural produce rose.

The prices of directly imported foodstuffs rose by 9.1 per cent in 1957 as against 1956, and by 5.2 per cent in 1956 as against 1955.

This increase reflects mainly the price-fixing policy of the Government, either in the form of direct price control when the Government is the direct importer, or in the form of imports. It does not necessarily reflect a change in world market prices.<sup>1</sup>

(ii) **Textiles and footwear.** This item rose in 1957 by an average of 7.0 per cent, against a rise of about 1 per cent in 1956. The reason for this rise was the considerable increase in demand for these products towards the end of 1956 and in the early part of 1957. The rising demand was reflected by an increase in the volume of sales of about 6 per cent.<sup>2</sup> The average increase in textile prices was 6.5 per cent; for footwear it was 8.7 per cent.

(iii) **Other industrial products**<sup>3</sup>. This item shows a price increase of about 4.6 per cent in 1957 against 3.6 per cent in 1956. There was a notable increase in the prices of consumer goods made of metal, glass and ceramics.

(iv) **Services**<sup>4</sup>. A series of prices for personal services appear under this heading which, in the classification of the Central Bureau of Statistics, have been classified under different items. Price changes mostly reflect the changes in the labour factor.

In 1957, this item rose at a rate of 8.7 per cent, which was similar to the rise of 8.8 per cent in 1956.

(v) **Passenger transport**<sup>5</sup>. In addition to the bus travel included in the consumers' price index under (iv) above, an index reflecting price changes for all sectors of surface travel is shown in Table VI-4.

<sup>1</sup> It should be borne in mind that these price changes do not include consumer prices of imports for the "grey" market. There, prices were estimated to have risen by 30 per cent according to the data of "Amisan" Israel Food Corporation Ltd. These prices are also fixed by the Government.

<sup>2</sup> Based on the real change in consumption in 1957 as against 1956; see Chapter IV, Private Consumption.

<sup>3</sup> Furniture, metal, chemical and plastic goods, electric equipment, glassware and ceramics.

<sup>4</sup> See note (e) to Table VI-3.

<sup>5</sup> Passenger transport as defined here includes urban and inter-urban travel by bus, rail and taxi companies. It excludes inland aviation traffic and special and regular (sherut) urban taxi transport.

The prices of passenger transport rose by 10 per cent in 1957 against 1956, while the corresponding increase for 1956 over 1955 was 12 per cent. Most of the price increases took place in the latter half of 1956 and in the early part of 1957 following the end of the bus strike and the imposition of an indirect tax in the form of a defence stamp. No price increases occurred in 1957.<sup>1</sup>

TABLE VI-4

*Annual Percentage Increase in Prices of Surface Transport, 1956-1957*

	1955 to 1956	1956 to 1957	Weight <sup>a</sup>
Interurban bus transport <sup>b</sup>	10.3	5.3	57
Urban bus transport	16.2	16.9	33
Rail transport	15.4	8.2	5
Interurban taxi services	5.0	16.7	5
<i>Total</i>	12.2	9.8	100

SOURCE: Interurban bus transport—Ministry of Transport and Communications;  
 Urban bus transport—Central Bureau of Statistics;  
 Rail transport—Israel Railways;  
 Interurban taxi services—Bank of Israel.

<sup>a</sup> The weight has been fixed in accordance with the percentage turnover of every type of transport in total transport turnover in 1956.

<sup>b</sup> "Eshed" only—including urban journeys in Haifa, Tiberias and a number of provincial towns.

(vi) Items not elsewhere specified<sup>2</sup>. The rate of increase for these items was 7.6 per cent in 1957 as against 1956. The corresponding increase for 1956 was 8.1 per cent.

### 3. DOMESTIC INVESTMENT PRICES

Four indicators are available for determining the changes in investment prices: the index of building costs published by the Central Bureau of Statistics which reflects the cost of building chiefly in public housing; changes in the cost of non-building construction; changes in the prices of equipment and machinery imported through the Reparations Corporation, reflecting import prices in Europe; and the prices of locally manufactured machinery and equipment.

In 1957, the increase in total investment prices was estimated at 6 per cent.

<sup>1</sup> In point of fact, in 1956/57 bus transport co-operatives were paid subsidies of about IL. 2 million to prevent their prices from rising.

<sup>2</sup> This item includes mainly rent, electricity, municipal rates, handicrafts, souvenirs, newspapers, textbooks and other books.

### *Prices of building construction.*

To measure changes in the prices of construction, it is necessary to know the final price of the building, which includes the profit of the contractor in addition to the cost of construction and development expenses. No allowance is made for fluctuations in the price of land.

As an indicator, one may refer to the changes in the index of building costs published by the Central Bureau of Statistics, mainly reflecting the variations in the cost of public residential building. This indicator assumes a fixed rate of profit for the contractor.

The index of building costs rose by an average of 4.6 per cent in 1957 as against 1956, and of 14.8 per cent in 1956 over 1955.

The increase in total building costs for all types of building, including profits, was estimated at 7 per cent in 1957 against 1956, and at 14.3 per cent in 1956 over 1955.

### *Prices of non-building construction.*

The increase was estimated at about 10 per cent in 1957 as against 1956.

### *Prices of imported equipment and machinery.*

It has already been pointed out that these prices refer to f.o.b. prices in Western Germany. In general, they follow the Israel import prices of equipment and machinery from Western Europe. They rose on the average by 3.7 per cent in 1957 against 1956, while the corresponding rate of increase in 1956 was 4.2 per cent.

Transport prices, representing about 5 per cent of c.i.f. prices, fell by 1.5–2 per cent in 1957 against 1956. The change in f.o.b. prices can, therefore, be considered as reflecting the changes in the price to the buyer in Israel, as no imposts were levied on equipment during the period under review.

### *Prices of locally produced machinery and equipment.*

According to estimates prepared by the Ministry of Commerce and Industry, these prices rose by 3 per cent. This moderate increase is due to the hesitation of domestic producers to raise prices in view of the possible shift to the use of imported equipment. Furthermore, a price increase was prevented through the control of raw materials imported from abroad and intended for the manufacture of such equipment. It is well known that no imposts are levied on imported equipment.