

## CHAPTER II

### RESOURCES, PRODUCT AND NATIONAL INCOME

THIS CHAPTER presents provisional data for 1958 and revised data for 1957. The revisions are not only statistical (i.e., made possible by the availability of better data) but also reflect conceptual changes in the method of estimating depreciation (see note \* to Table II-1). These in turn have affected the estimates of national income, net investment and savings. The data used in this chapter are, therefore, not comparable with those appearing in previous Reports.

Apart from the depreciation estimates, the computing methods used are in general similar to those of former Reports. The value of exports and imports has again been calculated at the official rate of exchange, while import duties and export subsidies have been included under indirect taxes and subsidies granted by the Government.

#### 1. TOTAL RESOURCES: GROSS NATIONAL PRODUCT AND IMPORTS

The gross national product increased in 1958 by IL. 427 million, or 13.8 per cent, at current prices, i.e., from IL. 3,103 million in 1957 to IL. 3,530 million. This was the result of a real expansion of 8.5 per cent in national product, while prices of the input of factors of production—such as wages, profits, etc.—and indirect taxes, increased by 5.3 per cent.

Real imports rose by 9 per cent, i.e., slightly more than the national product, owing to higher imports of services by the Government (mainly for defence purposes), greater imports of foodstuffs, chiefly of agricultural surpluses from the United States, and changes in the composition of gross domestic investment.

The real increase in gross national product during 1958 may be primarily attributed to the considerable expansion in the output of agriculture, industry and transportation. However, the volume of building construction remained unchanged, while government services expanded relatively little.

Prices of resources rose only by 2.5 per cent in the year under review; this was the lowest annual increase since 1950. The rise was due to several conflicting trends: the 6 per cent drop in import prices tended to decrease prices, partly by lowering prices of producers' raw materials; it also enabled the Government to levy higher import duties, without markedly raising consumer prices or production costs. The maturing of past investments and higher productivity

TABLE II-1

*Israel's National Accounts (current and 1958 prices), 1957-1958*  
(millions of IL.)

	1957 (current prices)	Increase or decrease (-) in prices (per cent)	1957 (1958 prices)	1958 (current prices)	Increase or decrease (-) in volume (per cent)
(1) National Income <sup>a</sup>	2,409			2,728	
(2) Indirect taxes	440			528	
(3) Less: Subsidies	88			100	
(4) Errors and omissions	77			74	
(5) Net national product	2,838	5.6	2,997	3,230	7.8
(6) Depreciation	265	1.7	270	300	11.1
(7) Gross national product	3,103	5.3	3,267	3,530	8.1
(8) Imports of goods and services <sup>b</sup>	1,003	-6.0	943	1,030	9.2
(9) Total resources	4,106	2.5	4,210	4,560	8.3
(10) Private consumption	2,213	2.5	2,268	2,523	11.2
(11) Public consumption	625	6.8	668	683	2.2
(12) Gross domestic investment <sup>c</sup>	868	1.7	883	924	4.6
(13) Exports of goods and services <sup>b</sup>	400	-2.2	391	430	10.0
(9) Total use of resources	4,106	2.5	4,210	4,560	8.3

<sup>a</sup> This figure is based on the estimate of the Central Bureau of Statistics, adjusted for the revised depreciation estimate as shown in Table II-3. In previous years, depreciation was calculated as a function of national income (7 per cent of national income). In the year under review, an attempt was made to evaluate it more accurately by using a different method, which will be more fully described in a forthcoming Bank of Israel publication. This method classifies past investments into asset categories of uniform average depreciation rate, estimates their value at constant prices, and compiles time series based on the economic life span of each category. For instance, a 10 per cent depreciation category would need a 10 year time series. The depreciation obtained by this method is higher than that arrived at by the previous method used (7 per cent of the national income), and considerably exceeds the amount of depreciation computed by the Central Bureau of Statistics, which is based mainly on income tax data.

<sup>b</sup> Converted into Israel pounds according to the IL.1.800=\$1 exchange rate.

<sup>c</sup> Excluding changes in inventories.

*General Note:* Figures appearing in brackets in the tables of this chapter are intended to facilitate cross-reference.

*Source:* Central Bureau of Statistics and the Bank of Israel.

would also have been active in lowering domestic prices, had not inflationary pressures been generated following the rise in money incomes and, consequently, in effective demand. Government deficit financing likewise tended to push prices upwards. The overall outcome was that effective demand exceeded the real increase in national product, and prices thus rose by 2 to 3 per cent.

The number of employed persons increased by 2 to 3 per cent, while the real increase in national product amounted to 8 per cent; output per worker, therefore, rose substantially in 1958. Among the factors responsible for this increase were investments made in the past, the acquisition of "know-how" and experience by both workers and employers, and the higher degree of utilization of productive assets in certain economic branches. It would also seem that the average number of working hours per worker increased.

One of the main indicators of economic performance is the growth of real resources and the utilization of the increment.

The increase in the gross national product accounted for 75 per cent of the increase in resources in 1958, and imports—for 25 per cent. As regards the use of resources, private consumption expenditure absorbed 73 per cent of the additional resources, that is, practically the whole of the increment in the national product; public consumption absorbed 4 per cent of the increment, while investment and exports accounted for only 23 per cent, i.e., their share equalled that of imports.

TABLE II-2

*The Increase in Resources and in their Uses from 1957 to 1958  
(1958 prices)  
(millions of IL.)*

	<i>Increase from 1957 to 1958</i>	
	<i>millions of IL.</i>	<i>percentages</i>
(5) Net national product	233	66.6
(6) Depreciation	30	8.6
(7) Gross national product	263	75.2
(8) Imports	87	24.8
(9) Total resources	350	100.0
(10) Private consumption	255	72.9
(11) Public consumption	15	4.3
(14) Total consumption	270	77.2
(12) Gross domestic investment	41	11.7
(13) Exports	39	11.1
(9) Total use of resources	350	100.0

## 2. OUTPUT AND NATIONAL INCOME

Table II-3 shows the industrial origin of national income, as well as the changes in income from the various branches.

TABLE II-3  
*National Income, by Industrial Origin (current prices), 1957-1958*  
(millions of IL.)

	1957	1958		Increase from 1957 to 1958	
	millions of IL.	millions of IL.	percentages	millions of IL.	percentages
Agriculture	328.7	365.1	12.2	36.4	11.1
Industry and mining	546.2	616.7	20.6	70.5	12.9
Contract construction	179.3	193.5	6.5	14.2	7.9
Public utilities (water and electricity)	42.8	50.0	1.7	7.2	16.8
Transportation	203.3	239.3	8.0	36.0	17.7
Commerce	258.6	301.1	10.0	42.5	16.4
Finance and real estate (including imputed rent)	314.7	357.1	11.9	42.4	13.5
Other services	247.9	289.0	9.6	41.1	16.6
Public sector and non- profit institutions	522.2	583.9	19.5	61.7	11.8
(15) Total domestic income	2,643.7	2,995.7	100.0	352.0	13.3
Less: Net factor pay- ments to abroad	45.0	53.1			
(16) National income before adjustment for depreci- ation	2,598.7	2,942.6			
Less: Depreciation adjustment <sup>a</sup>	190.0	215.0			
(1) Adjusted national income	2,408.7	2,727.6		318.9	13.2

<sup>a</sup> In 1957, depreciation—as calculated by the Central Bureau of Statistics—totalled IL.75 million only, whereas the 1957 Bank of Israel Report estimates it at IL.176 million, and this Report at IL.265 million. In order to adjust this latter figure to the 1957 estimate of national income as calculated by the Central Bureau of Statistics (IL.2,599 million), the difference between IL.265 million and IL.75 million—i.e., IL.190 million—must be subtracted from the aggregate of national income. The latter thus amounts to IL.2,409 million. The IL.190 million represent that part of returns to capital and entrepreneurship, which owners of capital assets should have allocated to depreciation reserves, in addition to the IL.75 million actually allocated, according to income tax data. Owing to the absence of data for the various economic branches, only the aggregate figure for national income has been adjusted, and no corrections were made for individual branches. Had this been done, the national income originating in branches making heavy use of equipment, such as agriculture, industry and transportation, would have been considerably smaller.

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

The increase in national income, which at current prices came to IL. 320 million or 13 per cent, was chiefly due to the growth of agricultural and industrial real output. Agricultural output rose by 13 per cent, owing to larger yields of poultry, dairy and sugar beet products, while production of fodder and industrial crops declined. The input of raw materials plus depreciation apparently increased at a somewhat faster rate than output; moreover, the prices of certain commodities dropped. Income from agriculture thus rose by 11 per cent.

The real output of manufacturing increased by about 10 per cent, the main expansion taking place in the food, paper, printing, chemicals and oil, metals, machinery and electrical appliances branches. Prices of industrial commodities rose by 2 to 3 per cent, but c.i.f. prices of raw materials and industrial fuels declined, despite higher duties on some imported materials. The added value in industry probably rose more than the total value of industrial production.

The number of persons employed in manufacturing increased by 3 to 4 per cent. The total expenditure of this branch on wages and salaries was considerably higher—rising by 10 to 11 per cent, so that the average per capita income from wages and salaries also increased. This was mainly due to the higher cost-of-living allowance, to the increase in some fringe benefits and to longer hours worked. Productivity premiums may also have risen.

The output of residential building increased but slightly in 1958. The construction of industrial plants, public buildings, and dwellings (chiefly under public housing schemes for the established population)—expanded, while the construction of immigrant housing declined, following the slowing down of immigration. Building costs rose to a limited extent only, but the total income from contract construction (including erection of dwellings and earth-works) increased by 8 per cent. The increased added value of building was due partly to higher wages and profits and partly to the expansion of earth-works.

The real output of transportation increased by 12.5 per cent, mainly owing to the expansion of civil aviation, the output of which rose by two-thirds when the new "Britannia" aircraft were put into service. The activities of shipping and bus transport likewise expanded, but the output of road haulage rose to a lesser extent and that of the railways declined. The added value of the transport sector, including wages and salaries, seems to have increased more than real output. Although no comprehensive data are available on this point, it may be assumed that employment expanded less than added value, so that both output and income per worker were higher during the year under review.

### 3. THE USE OF RESOURCES

#### (a) *Public consumption*

Public consumption expenditure, at current prices, was 9.5 per cent higher in 1958 than in 1957, mainly as a result of an 11 per cent increase in the Government's current purchases. The purchases of the local authorities rose to a more limited extent, while those of the National Institutions declined. Government purchases rose chiefly in connection with the expansion of health and education services, other outlays rising more moderately. The decline in the purchases of the National Institutions was due to the reduced expenditure of the Jewish Agency, following the contraction of immigration.

If the purchases of the public sector are divided by the index of average Government wages (which rose by about 7 per cent), it will be found that real public consumption expenditure increased by 2.2 per cent—i.e., more slowly than the population.

According to the accepted national accounting definitions, the public sector of the Israel economy is dissaving, since public consumption expenditure is partly financed by transfers from abroad and foreign as well as internal loans. This applies in particular to the Jewish Agency, whose current expenditure on the transportation and initial settlement of immigrants is entirely financed by receipts from abroad. The dissaving of the public sector reached IL. 70 million in 1958, as against IL. 72 million in 1957.<sup>1</sup>

However, if expenditure on immigration, vocational training, etc., is regarded as an "investment in human resources" and deducted from the current expenditure of the National Institutions and the Government, the dissaving becomes smaller.

#### (b) *Private consumption and private income*

The growth of private consumption may be attributed to the rise in private disposable income, which in turn was due to higher wages, salaries and profits, as well as to larger transfer payments to private persons from the public sector and from abroad. Direct tax collection also increased, but owing to the abolition of the 'Defence Levy' and to higher income tax relief, this did not retard the increase in disposable income, some 85 per cent of which was channelled to private consumption. Private consumption expenditure thus rose by 14 per cent, while real consumption increased by 11 per cent. The real per capita increase was 7.3 per cent.

The consumption of food, and particularly of local agricultural produce, rose to the considerable extent of 13 per cent per capita. The per capita increase in the consumption of other commodities was relatively small. On the

<sup>1</sup> These figures are lower than those appearing in Chapter XV—"The Financial Activities of the Public Sector" owing to conceptual differences, which will be explained in the Appendix to be published shortly.

other hand, the consumption of personal services and of durable goods—such as furniture, electric refrigerators, etc.—appears to have risen. Improved housing conditions were responsible for the somewhat higher expenditure on housing (including imputed rent on owner-occupied flats).

Private savings rose by IL.58 million—from IL.142 million in 1957 to IL.200 million in 1958 (see Table II-4). In the same period, transfer payments from abroad to private individuals increased by IL.33 million, mainly owing to higher personal restitution payments from Germany. Consequently, there was a IL.13 million increase in premiums granted to recipients of these restitution payments.

TABLE II-4  
*Private Income, Direct Taxes, Private Consumption and Private Saving*  
(current prices), 1957-1958  
(millions of IL.)

	1957		1958	
	millions of IL.	percentages	millions of IL.	percentages
(17) Total private income	2,652	100.0	3,046	100.0
(18) Less: Direct taxes	297	11.2	323	10.6
(19) Private disposable income	2,355	88.8	2,723	89.4
(10) Less: Private consumption	2,213	83.4	2,523	82.8
(20) Personal saving	142	5.4	200	6.6

Transfers to households from abroad are included in private saving. On deducting these amounts (which in 1958 reached IL. 180 million) from the aggregate of private disposable income, private saving will appear to be much lower.

No direct data are available on corporate savings in the form of undistributed profits. However, there are indications that these were larger in 1958 than in 1957.

Transfers from the public sector to households increased considerably—by no less than IL. 46 million, or 37 per cent. This was due partly to the payment of premiums to persons transferring capital, and partly to the increase in the payment of national insurance benefits, mainly old age pensions.

Transfers from abroad to households rose by IL. 33 million—or 22.4 per cent—chiefly owing to the increased inflow of personal restitution receipts from West Germany.

Private disposable income rose from IL. 1,220 to IL. 1,362 per capita—an increase of 11.6 per cent. The real increase in per capita private disposable

**TABLE II-5**  
*National Income, Private Income and Private Saving*  
*(current prices), 1957-1958*  
*(millions of IL.)*

	1957	1958	Increase from 1957 to 1958	
	millions of IL.		percentages	
<b>A. Aggregate</b>				
(1) National income	2,409	2,728	319	13.2
(18) Less: Direct taxes	297	323	26	8.8
(21) Disposable national income	2,112	2,405	293	13.9
(22) Current transfers from the public sector to households	123	169	46	37.4
(23) Less: Current transfers from households to the public sector	27	31	4	14.8
(24) Transfers from abroad	147	180	33	22.4
(19) Private disposable income	2,355	2,723	368	15.6
(10) Less: Private consumption	2,213	2,523	310	14.0
(20) Private savings (including undistributed profits)	142	200	58	40.8
	IL.		percentages	
<b>B. Per capita</b>				
National income	1,248	1,364	116	9.3
Less: Direct taxes	154	162	8	5.2
Disposable national income	1,094	1,202	108	9.9
Net transfers to households	126	160	34	27.0
Private disposable income	1,220	1,362	142	11.6
Less: Private consumption	1,146	1,262	116	10.1
Private savings (including undistributed profits)	74	100	26	35.1

income was, however, 9 per cent, since domestic prices rose by 2.5 per cent (see Table II-1).

(c) *Domestic investment*

Expenditure on investment in fixed assets (excluding changes in inventories, for which there are no data, was 6.5 per cent, or IL. 56 million, higher in 1958 than in 1957, rising from IL. 868 million to IL. 924 million. Investment prices are estimated to have risen by 1.7 per cent; hence, the real expansion of investment was 4.6 per cent. If depreciation charges are deducted



from gross investment, the increase in net investment at constant prices is found to have been less than 2 per cent.

**TABLE II-6**  
*Gross and Net Domestic Investment (1958 prices), 1957-1958*  
(millions of IL.)

	1957	1958	Percentage increase from 1957 to 1958
(12) Gross domestic investment	883	924	4.6
(13) Less: Depreciation	270	300	11.1
(25) Net domestic investment	613	624	1.8

Investment in residential building remained at its previous level, while investment in services rose somewhat. Investment in transportation declined in 1958, since the acquisition of new "Britannia" aircraft and a number of ships was completed by 1957. Investment in agriculture and industry rose considerably.

As depreciation has been increasing at a rate of some IL. 30 million per annum (at constant prices), gross investment must be markedly expanded if the real value of assets is to be maintained.

The share of private financing in gross investment, through utilization of undistributed profits, mortgage loans, partnership capital, etc., rose from 43 per cent in 1957 to 50 per cent in 1958. The share of the public sector in the financing of investment declined accordingly.

When considering the level of investment, it should be borne in mind that in accordance with the accepted national accounting definitions this item includes only investment in real assets and not the amounts spent on improving the health and the educational standards of the population. Nevertheless, expenditures of this kind constitute an "investment in human resources", which may contribute no less to economic development than investment in real assets.

#### (d) *Export*

Exports of goods and services, at current prices, totalled \$239 million in the year under review, as against \$222 million in 1957, the increase being wholly due to larger exports of services, there being virtually no changes in the export of goods. At current prices, the value of exports rose by 10 per cent, as compared with increases of 19 and 15 per cent in 1957 and 1956 respectively.

Exports of services rose by 25 per cent. Income from tourism more than doubled and there was a big increase in income from transportation services.

The value of agricultural exports rose somewhat, while exports of diamonds declined, owing to the recession which affected the United States and several other countries in 1957 and at the beginning of 1958. Industrial exports fell somewhat, mainly because exports to Turkey shrank after the imposition of import restrictions in that country. However, industrial exports to Asian and African countries grew. The added value of industrial exports increased slightly.

#### 4. THE IMPORT COMPONENT OF THE USES OF RESOURCES

The total import component of consumption, investment and exports, calculated at constant prices, was much the same in 1958 as in 1957. However, some changes occurred in individual items. At current prices, the total import component fell from 24.1 per cent in 1957 to 22.6 per cent in 1958. The difference between the percentages at constant and current prices is due to the fall in world prices, while the prices of domestic production factors and indirect tax rates rose.

At constant prices (see Table II-7), the import component of public consumption showed the greatest increase, rising from 17.1 to 20.2 per cent. This was due to higher Government imports, mainly for defence purposes. The import component of private consumption remained virtually unchanged at constant prices, but declined considerably at current prices—from 18 per cent in 1957 to 15.5 per cent in the year under review, as the drop in import prices mainly affected consumer goods.

TABLE II-7

*The Import Component<sup>a</sup> in the Use of Resources (1958 prices), 1957-1958*  
(millions of IL.)

	1957			1958		
	<i>total use of resources</i>	<i>import component</i>		<i>total use of resources</i>	<i>import component</i>	
	<i>millions of IL.</i>	<i>millions of IL.<sup>a</sup></i>	<i>percent- ages</i>	<i>millions of IL.</i>	<i>millions of IL.</i>	<i>percent- ages</i>
(14) Total consumption	2,936	476	16.2	3,206	526	16.4
(10) Private consumption	2,268	362	16.0	2,523	388	15.4
(11) Public consumption	668	114	17.1	683	138	20.2
(12) Gross domestic investment	883	282	31.9	924	306	33.1
(13) Exports	391	177	45.3	430	198	46.0
(9) Total use of resources	4,210	935	22.2	4,560	1,030	22.6

<sup>a</sup> The import component in the use of resources is defined as the total value of direct and indirect imports of goods and services included in the prices of private and public consumption, gross investment and exports.

The import component of investment rose, at constant prices, from 31.9 per cent to 33.1 per cent, due to the higher proportion of investment in agriculture and industry (which have a larger import component than construction). This development was not wholly offset by the gradual shift from imported to locally produced equipment and by the smaller volume of investment in shipping and aviation, the import component of which is relatively high.

These calculations do not allow for possible changes in stocks of imported materials and finished goods, which may have bearing on the level of import components during the years under review.

By deducting the import component from consumption, investment and exports, we obtain the share of national product in the uses of resources, which may be taken as representing the approximate proportion of total employment which they supply. According to these calculations, some two-thirds of the working population were engaged in production of goods and services for private consumption, one-sixth was employed for investment, some 15 per cent for public consumption and less than 7 per cent in production for export (see Table II-8). The main change in the components of the gross national product in 1958 was the rise in private consumption.

TABLE II-8  
*The Gross National Product Component of the Uses of Resources*  
(1958 prices), 1957-1958  
(millions of IL.)

	1957		1958		Increment 1957 to 1958	
	millions of IL.	per- centages	millions of IL.	per- centages	millions of IL.	per- centages
(14) Total consumption	2,460	75.1	2,680	75.9	220	86.3
(10) Private consumption	1,906	58.2	2,135	60.5	229	89.8
(11) Public consumption	554	16.9	545	15.4	- 9	-3.5
(12) Gross domestic investment	601	18.4	618	17.5	17	6.7
(13) Exports	214	6.5	232	6.6	18	7.0
(9) Total use of resources	3,275 *	100.0	3,530	100.0	255	100.0

\* This total exceeds the corresponding figure in Table II-1 by IL. 8 million, because imports in 1957 included an increase in fuel stocks which was not treated as an import component. Hence, the gross national product components calculated by deducting the import component from the value of each final use of resources also includes the change in the value of these stocks. The resulting error is only about 0.25 per cent, and of no significance as regards this table.