

## CHAPTER XV

### THE FINANCIAL ACTIVITIES OF THE PUBLIC SECTOR

#### 1. THE PUBLIC SECTOR—CONSOLIDATED ACCOUNT

THIS CHAPTER presents, for the first time, a consolidated account of the transactions of the public sector for the years 1957 and 1958.

The object of the consolidated account is to sum up the financial activities of all bodies of a governmental nature in the country, i.e., the Government, the National Institutions and the local authorities, with a view to examining the relationship between the public sector and other economic sectors, as reflected by the flow of reciprocal payments and receipts.<sup>1</sup>

This consolidated account is of great significance, since activities of a governmental character are executed not only by the Government, but also by the National Institutions and the local authorities. Consequently, any analysis confined to the impact of Government activities on the economy which does not take into account the other bodies of the public sector yields a picture necessarily incomplete. Moreover, the numerous monetary transfers between the various public bodies themselves tend to blur their relationship with the rest of the economy. The consolidated account makes it possible to eliminate such transfers and to obtain a clearer picture of this relationship.

The public sector is mainly active in two spheres. First and foremost, it supplies educational, health, welfare, police and security services, as well as various administrative and economic services, to the rest of the economy. These services are given free. The sector also is an important source of capital for investment and development projects. To obtain the funds required for these activities, the public sector levies taxes and other compulsory payments on households and business enterprises. It likewise receives long-term loans and unrequited receipts from abroad.

The effect of this structure of payments and receipts is that the expenditure on goods and services purchased by the sector exceeds the amounts it levies on households and business enterprises. A "purchase surplus" is thus created, which indicates the influence of this sector on the increased effective demand in the economy. (It must be emphasized, however, that no conclusions can be drawn concerning the overall change in effective demand, without taking into account

<sup>1</sup> The consolidated data are based on the tables included in this chapter, which detail the activities of the Government, the National Institutions and the local authorities. Further explanations will shortly be published in the Appendix to this Report.

other contributing factors as well). Moreover, the loans granted by the Government and the National Institutions to various economic sectors increase the amount of liquid assets held by households and business enterprises, thus helping to expand the effective demand of these sectors for goods and services. However, the impact on effective demand of the increase in liquidity is less direct than that created by the "purchase surplus".

Both in 1957 and in 1958, the public sector created a "purchase surplus", as well as increased the liquidity of other sectors through the granting of loans. However, whereas in 1957 the "purchase surplus" totalled IL. 109 million, it rose to IL. 166 million in 1958. Simultaneously, the purchases of the public sector abroad increased from IL. 144 million to IL. 183 million. The larger imports of the public sector partly offset the effect of its purchase surplus on the demand for locally produced goods and services. However, the net amount of loans granted by the public sector to the rest of the economy declined from IL. 325 million in 1957 to IL. 265 million in 1958. To finance these large-scale operations, the public sector disposed of considerable receipts from unrequited transfers and long-term loans from abroad. These receipts enabled it to create a surplus of purchases as well as loans, without drawing heavily on the resources of the banking system.

It is, therefore, difficult to determine the extent of the changes that took place between 1957 and 1958 in the public sector's impact on increased effective demand in the economy. The indicators computed in this chapter, however, warrant the assumption that this effect was not intensified.

#### *(a) The transactions of the public sector*

The "balance of payments" of the public sector for the years 1957 and 1958 is shown in Table XV-1.<sup>1</sup> A distinction has been drawn between the account of transfer payments and transactions in goods or services on the one hand, and the financial transactions account on the other. The first is mainly a current account, since most of the investment activities of the public sector were classified not as direct investment but as payments financing investment activities carried out by the rest of the economy.

The receipts of the public sector from transfers and business transactions in goods and services—i.e., mainly taxes and unrequited remittances from abroad—totalled IL. 1,235 million in 1958 as against IL. 1,100 million in 1957. This 12 per cent increase was mainly due to the IL. 107 million rise in taxes collected. On the payments side of this account, the increase was larger—amounting to 19 per cent—the total rising from IL. 960 million in 1957 to approximately IL. 1,140 million in 1958. There was an increase in each of the expenditure items in the account: purchases on the capital account rose by 75 per cent, mainly owing to the increase in stocks; transfer payments were 36 per cent higher—chiefly be-

<sup>1</sup> A breakdown of this table is given at the end of this chapter, in Tables XV-18 and XV-19.

cause of larger national insurance payments and premiums to personal restitution recipients; subsidies increased by 18 per cent, and purchases on current account by 8 per cent. As this last item—which accounts for 75 per cent of total expenditure—rose less than the others, the average increase in total outlay on goods and services did not exceed 19 per cent.

Total payments in the financial transaction account (chiefly long-term loans granted locally and redemption of foreign loans) remained virtually unchanged at an average level of IL. 470 million. On the other hand, the public sector borrowed and collected on account of loans IL. 70 million more in 1958 than in 1957—a rise of 13 per cent. The higher level of receipts was accompanied by a considerable structural change<sup>1</sup>: net credit from the banking system declined from IL. 68 million in 1957 to IL. 45 million in 1958—i.e., by 34 per cent, and short-term foreign loans were likewise contracted—by IL. 23 million. On the other hand, there was a marked rise of IL. 50 million, or 36 per cent, in long-term loans from abroad, and of IL. 52 million in short-term internal loans (mainly from suppliers, contractors and financial institutions other than banks).

The entire public sector increased its short-term obligations, but whereas the National Institutions incurred additional commitments of this kind both locally and abroad, the Government's short-term foreign debts declined by IL. 28 million, while its local debts rose by IL. 47 million.

Collections on account of long-term loans rose by IL. 15 million, or 50 per cent, the entire increment representing collections by the Government.

In conclusion, it would appear that most of the increase in outlays of the public sector was due to larger transfer payments and expenditures on goods and services. Tax revenue rose at the same time, though to a lesser extent, and consequently the indebtedness of the public sector increased. The major increase occurred in long-term foreign loans and short-term loans from local financial institutions and suppliers.

The overall picture that emerges is very similar to that discussed in the following section on Government activities, as the latter represents 75 per cent of the total activities of the public sector, and thus constitutes the decisive factor affecting the changes in the various income and expenditure items.

#### *(b) The monetary influence of the public sector*

The large-scale activities of the public sector inevitably influence the level of effective demand in the economy. In Israel the latter is affected by the public sector's sales and purchases of goods and services, as well as by its financial activities.

The public sector supplies services to the rest of the economy, while purchas-

<sup>1</sup> In analysing developments in the course of the year, data on credit should be treated with some reservation, since they are based on end-of-the-year balances and not on the average level of balances during the year.

TABLE XV-1  
*The "Balance of Payments" of the Public Sector, by Type of Receipts and Payments, 1957-1958*  
*(millions of IL.)*

Receipts	1957	1958	Increase or decrease (-) from 1957 to 1958		Payments	1957	1958	Increase or decrease (-) from 1957 to 1958	
			millions of IL.	percentages				millions of IL.	percentages
<i>Transfer payments and transactions in goods and services</i>									
Direct and indirect taxes <sup>a</sup>	709	816	107	15.1	Purchase on current account	642	691	49	7.6
Unrequited receipts from abroad	259	264	5	1.9	Purchase on capital account	97	170	73	75.3
Other transfer payments	67	72	5	7.5	Transfer payments	127	173	46	36.2
Sales, interest and miscellaneous receipts	68	83	15	22.1	Subsidies	87	104	17	19.5
<i>Total</i>	1,103	1,235	132	12.0	<i>Total</i>	953	1,138	185	19.4
<i>Transactions in financial assets</i>									
Net credit from the banking system	68	45	-23	-33.8	Long-term loans (including purchase of shares)	377	383	6	1.6
Other loans					Redemption of long-term loans:				
Long-term: Foreign	139	189	50	36.0	Foreign	78	81	3	3.8
Internal	51	50	-1	-2.0	Internal	7	9	2	28.6
Short-term: Foreign	17	-6	-23	-135.3					
Internal	3	55	52	1,733.3					
Collections on account of long-term loans	30	45	15	50.0	<i>Total</i>	462	473	11	2.4
<i>Total</i>	308	378	70	22.8					
<i>Total receipts from other sectors</i>	1,415 <sup>b</sup>	1,613	198	14.0	<i>Total payments to other sectors</i>	1,415	1,613 <sup>c</sup>	198	14.0
<i>Transactions within the sector</i>									
From the Government (net)	34	44	10	29.4	To the local authorities (net)	26	31	5	19.2
					To the National Institutions (net)	8	13	5	62.5
					<i>Total</i>	34	44	10	29.4
<i>Total receipts</i>	1,449	1,657	208	14.4	<i>Total payments</i>	1,449	1,657	208	14.4

\* These figures differ from the aggregate of direct and indirect taxes appearing in Chapter II—"Resources, Product and National Income", as in this table the amounts of customs duties paid by Government departments, the National Insurance premiums paid by the Government in its capacity as employer and the income tax and purchase tax received in the form of bank guarantees have been subtracted from the

ing goods and services on both current and capital account. In order to finance these purchases, it acquires large sums through taxes and net transfers from households and business enterprises,<sup>1</sup> thus reducing their disposable income and, in consequence, the real resources at their disposal for consumption or investment purposes. When the amounts withdrawn by the public sector from the other sectors are lower than the value of its purchases, a purchase surplus is created, which—unless offset by excess supply in the rest of the economy—must necessarily be covered by imports.

However, the purchase surplus of the public sector is not in itself a sufficient indicator of the import surplus in the economy's overall balance of payments, since the volume of the latter is also determined by the purchase surplus of other sectors.

TABLE XV-2  
*Purchase Surplus of the Public Sector, 1957-1958*  
(millions of IL.)

	1957				1958			
	Government	National Institutions	local authorities	total	Government	National Institutions	local authorities	total
(1) Net purchase of goods and services <sup>a</sup>	472	76	123	671	551	83	143	777
(2) Net withdrawal from income account of "the rest of the economy" <sup>b</sup>	502	-21	81	562	540	-22	93	611
(3) Purchase surplus or deficit (−) (1)−(2)	-30	97	42	109	11	105	50	166

<sup>a</sup> Purchase on current and capital account *less* sales.

<sup>b</sup> Net taxes (i.e., taxes *less* subsidies) *less* net transfer payments to "the rest of the economy".

Table XV-2 shows the purchase surplus created by the public sector, which totalled IL.109 million in 1957, and rose to IL.166 million in the year under review. It should be noted that this increase was accompanied by an expansion of the public sector's purchases from abroad.

<sup>1</sup> In this chapter, a distinction is made between *households* and *non-profit institutions*, which supply households with goods and services, at prices not reflecting their actual market value. A distinction has also been drawn between *public sector corporations*, i.e., trading and producing companies, in the ownership or management of which the Government participates (financial companies are included in the financial sector), and other *private business enterprises* (excluding banking and other financial institutions). These four sectors will be referred to in the chapter as "the rest of the economy".

Any discussion of the public sector's impact on the economy's total demand cannot be limited to analysing the effect of the sector's purchases and sales of goods and services, since the public sector also serves as an important source for the financing of investment activities carried out by the rest of the economy. (In many cases, the public sector not only finances, but also initiates, investment projects, and even acts occasionally as contractor in their execution. This applies, for example, to many housing schemes. For the purposes of the present analysis, these activities have been classified as loans and not as purchases, though such a classification is undoubtedly to some extent arbitrary. Hence, the importance of taking into account their impact on the effective demand in the economy.) Net loans extended by the public sector to other economic sectors increase the volume of liquid assets held by the latter. This increase in liquidity could serve as an additional, though indirect, indicator of the effect of the financial activities of the public sector on the effective demand for resources of "the rest of the economy". This second indicator's effect on effective demand varies in accordance with the composition of the loans granted by the Government. Loans of equal value but of different types would have quite a different effect on the liquidity of the sector receiving them. Hence, the influence on effective demand of the "liquidity indicator" (which does not differentiate between the various types of loans) is less clearly defined than that of the "purchase surplus" indicator.

TABLE XV-3  
*Net Loans Granted and Received by the Public Sector, 1957-1958*  
(millions of IL.)

	1957				1958			
	Government	National institutions	local authorities	total	Government	National institutions	local authorities	total
<i>Net loans granted (-)<sup>a</sup></i>								
To households and business enterprises	-144	-64	10	-198	-128	-59	10	-177
To public sector corporations	-118	-5	1	-122	-96	-2	1	-97
To non-profit institutions	-7	2	—	-5	9	—	—	9
<i>Total</i>	-269	-67	11	-325	-215	-61	11	-265
<i>Net loans received (+)<sup>b</sup></i>								
From the rest of the world	64	14	—	78	90	11	—	101
From the banking system	54	13	1	68	39	5	1	45
From other financial institutions	16	6	3	25	12	3	7	22
<i>Total</i>	134	33	4	171	141	19	8	168

<sup>a</sup> Net loans granted less net loans received.

<sup>b</sup> Net loans received less net loans granted.

Table XV-3 shows that in 1957 the liquidity of "the rest of the economy" increased by IL. 325 million as a result of loans received from the public sector. In 1958, the corresponding increase was only IL. 265 million.

It must, however, be emphasized again that these figures should not serve as a basis for inference concerning the total change in the liquidity of "the rest of the economy" between 1957 and 1958, since the latter is determined not only by Government financing, but also by credit received from banks and other financial institutions, as well as from foreign sources; another factor to be considered is the import surplus, which reduces the liquidity of the economy.

The public sector thus contributed to the expansion of effective demand in the economy during 1957 and 1958 both through its purchases and through the loans it granted. However, the impact of the former rose between 1957 and 1958, while that of the latter declined. From this it may be concluded that the increase in effective demand emanating from the overall effect of the public sector's activities was not greater in 1958 than in 1957.

It is of interest to compare the impact on effective demand of each of the bodies included in the public sector. Though the weight of Government activities is predominant, its share in the creation of the "purchase surplus" is small in comparison to that of the National Institutions and the local authorities. This is due to the difference in the structure of these receipts. In 1958, only 7 per cent of the purchase surplus were due to Government activities, as compared with 30 per cent created by the activities of the local authorities, and 63 per cent caused by the National Institutions.

On the other hand, some 80 per cent of the net loans extended by the public sector to "the rest of the economy" during the same period originated with the Government. The National Institutions accounted for 23 per cent of the loans granted. Since, unlike the Government and the National Institutions, the local authorities appear as a net borrower from other sectors, their activities reduced the overall amount of net loans granted to the public sector by 4 per cent.

### *(c) The balance of the public sector with other sectors*

The above analysis shows that the public sector's purchases exceed its receipts drawn from the income account of "the rest of the economy" and that the loans it extends exceed the loans it receives from the "rest of the economy". The overall excess of outlays over receipts is largely financed from net receipts from abroad,<sup>1</sup> to a lesser extent by funds obtained from the banking system, and to an even smaller degree from other financial institutions. If we take into account all transactions of the public sector in goods, services and financial assets during the years 1957 and 1958, there emerges a set-up of consistent financial relations between the public sector and the other sectors, which is shown in Table XV-4.

<sup>1</sup> Unrequited receipts *plus* long- and short-term loans *less* purchases (imports and interest) and redemption of long-term loans.

TABLE XV-4

*Financial Transactions between the Public Sector and  
Other Sectors, 1957-1958*  
(millions of IL.)

	1957				1958			
	Government	National Institutions	local authorities	total	Government	National Institutions	local authorities	total
<i>Net financing (-) of:</i>								
Households and business enterprises	32	-102	-28	-98	63	-113	-33	-83
Public sector corporations	-122	- 5	2	-125	-98	- 1	2	-97
Non-profit institutions	-31	- 12	- 4	-47	-22	- 16	- 5	-44
<i>Total</i>	-121	-119	-30	-270	-57	-130	-36	-224
<i>Net financing (+) by:</i>								
The rest of the world	89	97	- 1	185	58	112	- 3	167
The banking system	51	8	1	61	31	4	1	36
Other financial institutions	16	5	3	24	12	2	7	21
<i>Total</i>	156	110	3	270*	101	118	5	224

\* Discrepances in the totals are due to rounding.

This table shows that in its direct transactions with households and private business enterprises, the Government absorbs more through taxes, loans received and collections on account of loans, than it injects into the economy through purchases, transfers, subsidies and long-term loans granted. On the other hand, its net payments to non-profit institutions (which receive a considerable part of total transfer payments) and to Government corporations (which receive a significant share of Government loans) exceed the amounts which it absorbs from households and business enterprises. Payments made by the Government to the National Institutions and the local authorities likewise exceed its receipts from them. The Government has been able to carry out these financing activities because it has had at its disposal sufficient resources from the banks, from other financial institutions and from abroad, during each of the recent years.

The Jewish Agency, on the other hand, channels considerable amounts to households and business enterprises—mainly through loans and transfers for development purposes to agricultural settlements.<sup>1</sup> What is more, its receipts from this sector are insignificant. The position of the Jewish Agency vis-à-vis other sectors is similar to that of the Government.

<sup>1</sup> Which are defined as private business enterprises.

The local authorities maintain virtually no contacts abroad. Their financial relations with other economic sectors are characterized by a net surplus of payments to households and private business enterprises, which is counterbalanced by a roughly equivalent amount of net receipts from the Government. Their position is similar to that of Government departments supplying educational, welfare and similar services.

(d) *The saving of the public sector*

In the above calculations of purchase surplus, no distinction was made between the current account and the capital account of the public sector. If such a distinction is made, and the purchases on current account are set off against the amounts absorbed from the income account of the "rest of the economy", through taxes and current transfers, we obtain the "current purchase surplus". The latter is an indicator of the dissaving of the public sector, i.e., of the proportion of purchases on current account financed from unrequited transfers and foreign loans or by increasing the internal debt.

TABLE XV-5  
*Dissaving of the Public Sector, 1957-1958*  
(millions of IL.)

	1957				1958			
	Government	National Institutions	Local Authorities	total	Government	National Institutions	Local Authorities	total
(1) Taxes net of subsidies, <i>less</i> net current transfer payments to the rest of the economy	483	-19	67	531	529	-21	73	581
(2) Purchases on current account, <i>less</i> sales on current account	482	71	81	634	520	70	89	679
(3) Dissaving of the public sector								
(1)-(2)	1	-90	-14	-103	9	-91	-16	-98

Table XV-5 includes data on the dissaving of the public sector in the years 1957 and 1958. During each of these two years, its total was approximately IL. 100 million. This dissaving was mainly due to the activities of the National

Institutions, and to a lesser extent—to those of the local authorities.<sup>1</sup> The Government financed all of its current purchases from net tax receipts, a fact which in 1958 resulted in a small saving balance.

## 2. THE GOVERNMENT

Government expenditure in 1958 was approximately IL. 170 million higher than in 1957, despite the fact that housing expenditure declined and security outlays remained constant. The increase in Government expenditure was due mainly to the granting of premiums over and above the official rate of exchange to persons transferring capital from abroad and to exporters, to the expansion of social services and to a considerable increase in stocks of the Food Division of the Ministry of Trade and Industry.

The rise in expenditure was only partially financed through higher taxes, while receipts from other sources—unrequited payments from abroad and participation of the Jewish Agency—declined. Consequently, a larger part of total expenditure was financed by Government borrowing in 1958 than in 1957. There was an increase in long-term borrowing from abroad, as well as in short-term borrowing from various local sources; however, the Government borrowed less from the banking system than it had in 1957.

### (a) *The Government's "Balance of Payments"*

Table XV-6 shows the "balance of payments" of the Government in 1957 and 1958, by main types of receipts and expenditures. All money flows between the Government, on the one hand, and the National Institutions and local authorities on the other,<sup>2</sup> were recorded in a separate account, on a net basis.

Total receipts and payments rose by about IL. 170 million, reaching a level of approximately IL. 1,265 million.

Government expenditure on purchases, transfer payments and subsidies, and net payments to other bodies of the public sector, increased by some IL. 155 million. However, revenue from taxes and other compulsory payments levied on the general public increased by less than IL. 105 million, whereas unrequited receipts from abroad declined. Though the gap between increased revenue and expenditure was partly offset by the net increase in borrowing from abroad and by the reduced volume of Government loans from the Develop-

<sup>1</sup> The implications of the Jewish Agency's dissaving as measured here must be treated with reserve, as a considerable part of its unrequited receipts from abroad are earmarked for the financing of current expenditure in connection with the transportation and absorption of immigrants. It should also be noted that taxes received by the Government, but earmarked to cover the expenditure of the local authorities, are here included in the Government account. This reduces the significance of the distinction between Government saving and the saving of the local authorities.

<sup>2</sup> Including mutual grants and loans.

*The "Balance of Payments" of the Government, by Type of Payments and Receipts,<sup>a</sup> 1957-1958*  
(millions of IL.)

Receipts	1957	1958	Increase or decrease (-) from 1957 to 1958	Payments	1957	1958	Increase or decrease (-) from 1957 to 1958
	1957	1958			1957	1958	
<i>Transfer payments and transactions in goods and services</i>							
Direct and indirect taxes <sup>b</sup>	640.7	740.1	99.4	Purchase on current account	485.7	526.2	40.5
Transfer payments, interest, sales and income from property	95.4	100.0	4.6	Purchase on capital account	43.8	92.6	48.8
Unrequrited receipts from abroad	138.4	128.6	-9.8	Transfer payments and capital grants	89.6	130.3	40.7
<i>Total</i>	874.5	968.7	94.2	Subsidies	85.3	101.5	16.2
				<i>Total</i>	704.4	850.6	146.2
<i>Transactions in financial assets</i>							
Long-term loans: Foreign	112.7	175.0	62.3	Long-term loans (including housing expenditure)	285.8	269.2	-16.6
Internal	34.1	26.3	-7.8	Purchase of shares in corporations	18.1	38.6	20.5
Collections on account of long-term loans	27.8	42.3	14.5	Redemption of long-term loans: Foreign	49.3	58.1	8.8
Net short-term credit:				Internal	4.6	3.4	-1.2
Foreign	0.5	-27.2	-27.7				
Internal <sup>c</sup>	-7.2	39.5	46.7				
Bank	53.8	39.2	-14.6				
<i>Total</i>	221.7	295.1	73.4	<i>Total</i>	357.8	369.3	11.5
<i>The National Institutions and local authorities</i>							
				To the National Institutions (net)	8.1	13.0	4.9
				To the local authorities (net)	25.9	30.9	5.0
				<i>Total</i>	34.0	43.9	9.9
<i>Total receipts</i>	1,096.2	1,263.8	167.6	<i>Total payments</i>	1,096.2	1,263.8	167.6

<sup>a</sup> The classification in this table differs from that of Table XVII-2 in the Bank of Israel Annual Report for 1957. The data for 1957 have been revised and re-classified. Details will be given in the Appendix to this Report, to be published shortly.

<sup>b</sup> The amount of this item differs from the aggregate of taxes and compulsory payments appearing in Chapter XIV—"The Fiscal Policy of the Government", since it excludes customs duty paid by Government departments, National Insurance premiums paid by the Government in its capacity as employer, income tax and purchase tax received in the form of bank guarantees, and various compulsory payments (passport fees, inheritance tax, etc.) defined in the national accounts as transfer payments. On the other hand, the current profits of postal and transportation services are included.

SOURCE: Based on data of the Accountant General, Ministry of Finance.

ment Budget, it nevertheless entailed a considerable increase in short-term local borrowing.

The ratio of net loans granted by the Government to net loans received was considerably lower in 1958 than in 1957.

The fact that the Government lends more than it borrows (as was the case both in 1958 and in previous years) is an indication of the important role it plays in the Israel economy as a medium for the transfer of resources (mainly from abroad) to the business sector (private enterprises and public sector corporations) for development purposes.

#### (b) *Receipts*

Government revenue from taxes and imposts rose by 15.5 per cent.<sup>1</sup>

Unrequited receipts from abroad fell off somewhat, owing to a considerable reduction in the U.S. grant-in-aid. Total American aid did not decline, but its composition changed, a larger proportion being given in the form of a long-term loan repayable in local currency. In contrast, Government receipts from the Reparations counterpart fund rose.<sup>2</sup>

Collections on account of Development Budget loans rose considerably, by IL. 15 million, or 50 per cent more than in 1957. This revenue item is still a relatively minor one, but its importance is increasing each year.

#### *Increase in Indebtedness*

Table XV-7 summarizes the Government's receipts from increased borrowing in 1957 and 1958, by the type of loan and the lending sector.

Total receipts from borrowing rose considerably, from IL. 140 million in 1957 to IL. 190 million in 1958. The increase was caused mainly by the rise in long-term loans from abroad (part of them repayable in Israel currency) and in local non-bank credits.

The increase in long-term foreign loans is partly attributable to the change in the composition of U.S. aid, already referred to above, and partly to the French Government loan and the U.S. loan (from deposits accumulated in Israel within the framework of the assistance program) earmarked for Government purchase of shares in the Israel Industrial Institute. Receipts from Israel Government bonds sold abroad declined, though they continued to constitute an important part of total loans received.

<sup>1</sup> For a detailed discussion of the Government fiscal policy and the structure of taxation, see Chapter XIV—"The Fiscal Policy of the Government".

<sup>2</sup> In Chapter III—"The Balance of Payments and Foreign Trade" it is stated that Reparations receipts declined. The discrepancy is due to the fact that some of the amounts spent on the purchase of ships within the framework of the Reparations Agreement were recorded in the balance of payments for 1957, while in the accounts of the Accountant General they were recorded at the end of the fiscal year, in March 1958.

TABLE XV-7

*Increase or Decrease (-) in Government Indebtedness,<sup>a</sup> 1957-1958*  
(millions of IL.)

	1957					1958				
	long-term loans			net short- term credit (3)+(4)	total (5)	long-term loans			net short- term credit (8)+(9)	total (10)
	loans received (1)	loans repaid (2)	net (1)-(2) (3)			loans received (6)	loans repaid (7)	net (6)-(7) (8)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Households and business enterprises	13.1	4.6	8.5	-4.3	4.2	9.3	3.4	5.9	-4.3	1.6
Rest of the world	112.7	49.3	63.4	0.5	63.9	175.0	58.1	116.9	-27.2	89.7
The banking system <sup>b</sup>				53.8	53.8				39.2	39.2
Other financial institutions	21.0		21.0	0.6	21.6	17.0		17.0	22.6	39.6
Public sector corporations				2.5	2.5				10.0	10.0
Non-profit institutions				-6.0	-6.0				11.2	11.2
<i>Total</i>	146.8	53.9	92.9	47.1	140.0	201.3	61.5	139.8	51.5	191.3

<sup>a</sup> Excluding indebtedness to the National Institutions.

<sup>b</sup> Due to the special nature of Government borrowing from the banking system, all such borrowing has been classified as short-term credit, although in March 1957—and again in March 1959—part of the Government's current debt to the Bank of Israel was converted into a long-term loan.

Net income from local sales of Government securities<sup>1</sup> also diminished, and constituted a relatively minor source of revenue.

Total net short-term credit extended to the Government was somewhat higher in 1958 than in 1957. There was a contraction in short-term credit from abroad,<sup>2</sup> and the amount of credit received from the banking system was smaller in 1958 than in 1957. However, there was a considerable increase in short-term credit from other local sources. The latter included Government-guaranteed debentures issued by a number of financial institutions, bank loans to Government corporations, and Reparations funds earmarked for Jewish organizations, all of which were temporarily deposited with the Accountant-General, and towards the end of 1958 constituted an important source of short-term credit.

Short-term credit from the sector "households and business enterprises", calculated as a net item, is the result of the cancellation of opposing trends in a large number of accounts. Thus, while Government indebtedness to suppliers rose markedly, this rise was more than offset by the decline in its debt to depositors of the "Save to Build" project,<sup>3</sup> and there was an overall net decline in short-term borrowing from the sector as a whole.

### (c) *Payments*

Total Government payments,<sup>4</sup> excluding the redemption of long- and short-term loans, reached approximately IL. 1,260 million in 1958, i.e., IL. 170 million (or 15 per cent) more than in the preceding year. The increase was largely due to a rise in transfer payments and in export premiums, to the expansion of Government services necessitated by the growth of the population, and to a considerable increase in stocks held by the Food Division.<sup>5</sup> Expenditure on wages and salaries was likewise higher, since part of the wage increment "frozen" in 1956 was finally paid during the year under review. On the other hand, security expenditure remained at its 1957 level, and expenditure on housing declined, while other Development Budget outlays rose only slightly.

<sup>1</sup> In Table XV-7 receipts from local sales of Government securities are divided among the sectors purchasing them—the banking system, other financial institutions, and households and business enterprises. For a detailed analysis, see Chapter XVII—"The Stock Market".

<sup>2</sup> It should be noted, however, that credit from the banking system includes loans obtained abroad for the Government through Israeli banks.

<sup>3</sup> Deposits received from savers within the framework of this project are considered, for the purpose of this chapter, as short-term loans received from households and business enterprises. On the other hand, the erection of housing projects and the refunding of deposits have been regarded as redemption of the loan.

<sup>4</sup> Less participation of the Jewish Agency.

<sup>5</sup> Of the Ministry of Commerce and Industry.

(1) *Transfer payments and subsidies*

The considerable increase in transfer payments and subsidies during 1958 was mainly due to three factors:

(1) Enlarged premiums above the official exchange rate paid to persons transferring capital from abroad (chiefly recipients of personal restitution payments from Germany) and to exporters.

(2) A considerable increase in the volume of pensions paid out by the National Insurance Institute—particularly old age pensions, which were paid for the first time throughout the year.

(3) The growth of the population in recent years, which is reflected in higher transfer payments to individuals, non-profit institutions and the local authorities in the fields of educational, health and welfare services. These out-

TABLE XV-8  
*Transfer Payments, Grants and Subsidies, 1957-1958*  
(millions of IL.)

	1957	1958	Increase or decrease(—) from 1957 to 1958
<i>Transfer payments and capital grants to households and business enterprises</i>			
National Insurance <sup>a</sup>	26.7	43.3	16.6
Premiums to persons transferring capital from abroad <sup>b</sup>	7.3	21.6	14.3
Other transfer payments	23.5	27.7	4.2
<i>Total</i>	57.5	92.6	35.1
<i>To non-profit institutions</i>	29.9	34.9	5.0
<i>To public sector corporations</i>	2.2	2.8	0.6
<i>Total transfer payments and capital grants</i>	89.6	130.3	40.7
<i>Subsidies</i>			
For export promotion	20.2	37.4	17.2
For production and consumption <sup>c</sup>	65.1	64.1	-1.0
<i>Total subsidies</i>	85.3	101.5	16.2
<i>Grants-in-aid to the local authorities</i>	21.9	27.7	5.8
<i>Grand total</i>	196.8	259.5	62.7

<sup>a</sup> Excluding payments to hospitals, which are here recorded as transfer payments to non-profit institutions. Old age pensions began to be paid in April 1957.

<sup>b</sup> As from the middle of 1957, a 20 per cent premium was paid to persons transferring capital from abroad.

<sup>c</sup> Including mainly subsidies to reduce the prices of foodstuffs, medical supplies, raw materials for agriculture and transportation services, as well as the implementation of price stabilization agreements (eggs and vegetables).

lays rise each year with the rise in the number of births, of children reaching school age, etc. Moreover, the year under review witnessed the introduction of Government-subsidized graded school-fees in secondary schools, and an increase in the grant to the Hebrew University.

Table XV-8 compares Government expenditure on transfer payments and subsidies in the years 1957 and 1958, by major categories and by categories showing the sharpest increases.

Total outlay on subsidies granted to producers for the home market and to consumers remained at the relatively high level of 1957. On the one hand, subsidies designed to reduce consumer prices declined, while on the other, subsidies granted to producers of eggs, milk and vegetables rose.

#### *(2) Purchases on current and on capital account*

Security expenditure was virtually on the same level in 1958 as in 1957. In contrast, there was a 30 per cent increase in Government outlays on education and health services, for reasons already enumerated above. The total expenditure on wages and salaries of civilian employees—which represent some two-thirds of the Government's current purchases, exclusive of security expenditure, rose by about 14 per cent. This increase reflects the additional expenditure incurred through the repayment of 60 per cent of the "frozen third" due since 1956, the payment of higher cost-of-living allowances, and some increase in the number of employees. The expenditure on unemployment relief works<sup>1</sup> remained virtually unchanged.

A more detailed breakdown of Government purchases on current and on capital account during 1957 and 1958 is given in Table XV-9.

Purchases on capital account include a considerable increase in the stocks of the Food Division, due mainly to the accumulation of food surpluses of the American assistance program during the second half of the year.

#### *(3) Financing from the Development Budget*

Total outlays on loans and purchase of shares in public sector corporations from the Development Budget rose comparatively little. Table XV-10 gives a breakdown of the financing of such Development Budget expenditure, by type of borrower.

Expenditure on residential building declined, owing to the smaller volume of immigration and to reduced Jewish Agency participation in the financing of immigrant housing. There was also a decline in the amounts allocated to public sector corporations, especially to those engaged in mining. On the other hand, payments to the financial institutions sector rose significantly, because of the Government's purchase of shares in the Israel Industrial Institute with

<sup>1</sup> Part of this expenditure was recorded under purchases on current account, part under purchases on capital account, and part under transfers to local authorities.

TABLE XV-9

*Government Purchases on Current and Capital Account, 1957-1958*

	<i>Millions of IL.</i>			<i>Percentages</i>	
	<i>1957</i>	<i>1958</i>	<i>increase or decrease (-) from 1957 to 1958</i>	<i>1957</i>	<i>1958</i>
<i>Purchase on current account<sup>a</sup></i>					
Wages and salaries to civilian personnel <sup>b</sup>	147.9	168.9	21.0	30.4	32.1
Interest payments <sup>c</sup>	38.8	45.6	6.8	8.0	8.7
Other purchases (excluding security)	43.6	58.0	14.4	9.0	11.0
<i>Total</i> (excluding security)	230.3	272.5	42.2	47.4	51.8
Security expenditure and extraordinary budgets	255.4	253.7	-1.7	52.6	48.2
<i>Total</i>	485.7	526.2	40.5	100.0	100.0
<i>Purchase on capital account<sup>a</sup></i>					
Changes in stocks (Food Division)	0.5	26.7	26.2	1.1	28.8
Changes in stocks (Housing Division)	-7.8	1.0	8.8	-17.8	1.1
Investments in postal services, railways and ports	17.9	20.0	2.1	40.9	21.6
Agriculture <sup>d</sup> , the Jordan Canal and Southern Negev development	17.9	23.5	5.6	40.9	25.4
Other investments, mainly in public buildings and public works	15.3	21.4	6.1	34.9	23.1
<i>Total</i>	43.8	92.6	48.8	100.0	100.0
<i>Grand total</i>	529.5	618.8	89.3		

<sup>a</sup> Excluding current purchases by the postal services, railways and ports.<sup>b</sup> Less Government payments to the National Insurance Institute (in its capacity as employer).<sup>c</sup> Excluding interest payments to the National Institutions, the National Insurance Institute and the War Indemnity Tax Fund.<sup>d</sup> Including, in addition to direct investments of the Ministry of Agriculture, expenditure on land reclamation and conservation in the framework of the work relief program.

the U.S. Government loan earmarked for this purpose. Loans to new settlements through the National Institutions were likewise expanded.<sup>1</sup>

<sup>1</sup> The share of public financing within total investment, by economic sectors, is given in Chapter V—"Domestic Investment".

TABLE XV-10  
*Development Budget Financing*<sup>a</sup>, 1957-1958

	<i>Millions of IL.</i>			<i>Percentages</i>	
	1957	1958	<i>Increase or decrease (-) from 1957 to 1958</i>	1957	1958
<i>Households and business enterprises</i>					
Financing of housing	117.9	102.8	-15.1	33.6	27.7
Other financing	54.5	62.3	7.8	15.6	16.8
<i>Total</i>	172.4	165.1	-7.3	49.2	44.5
<i>Public sector corporations</i> <sup>b</sup>					
Financial institutions	124.5	113.2	-11.3	35.5	30.5
Non-profit institutions	5.9	27.6	21.7	1.7	7.4
National Institutions <sup>c</sup>	1.1	1.9	0.8	0.3	0.5
Local authorities	38.5	53.8	15.3	11.0	14.5
<i>Total</i>	350.4	371.4	21.0	100.0	100.0

<sup>a</sup> Including loans and purchase of shares in corporations. Excluding Government-guaranteed loans granted by other bodies. Loans through banks and other financial institutions are recorded in the sector of final destination.

<sup>b</sup> Corporations in the management or ownership of which the Government, the National Institutions or the local authorities participate. Excluding financial institutions, such as the Israel Bank of Agriculture and the Israel Industrial Institute Ltd., which for the purposes of this chapter constitute a separate sector.

<sup>c</sup> Earmarked for new settlements.

(d) *The Government's "Balance of Payments" with other sectors*

Table XV-12 shows the Government's "balance of payments" with the other sectors in 1957 and 1958. It shows no significant change between these two years, during both of which the Government financed some 70 per cent of its outlays by collections from households and business enterprises, over 20 per cent by unrequited receipts and loans from abroad, and the rest by loans from banks and other local financial institutions.

During both years, some 65 per cent of the Government's outlays went to households and business enterprises (in the form of purchases, subsidies and loans); over 15 per cent were spent abroad (for Government imports, food stocks and debt redemption); some 10 per cent went to public sector corporations; and the remaining 10 per cent, to the other sectors.

The picture that finally emerges is that the Government draws from the sectors households and business enterprises, the rest of the world, banks and other financial institutions more than it pays out to these sectors, and therefore finances its net payments to the public sector corporations, non-profit institutions, the National Institutions and the local authorities.

TABLE XV-11

*Net Government Payments (-) and Receipts, by Sector, 1957-1958*  
(millions of IL.)

<i>Sector</i>	<i>1957</i>	<i>1958</i>	<i>Percentage increase or decrease (-) in net receipts from 1957 to 1958</i>
Households and business enterprises	31.6	62.7	31.1
Rest of the world	88.9	58.0	-30.9
The banking system	50.3	31.0	-19.3
Other financial institutions	15.7	12.0	-3.7
Public sector corporations	-121.4	-97.7	23.7
Non-profit institutions	-31.1	-22.1	9.0
National Institutions	-8.1	-13.0	-4.9
Local authorities	-25.9	-30.9	-5.0

From households and business enterprises the Government receives mainly taxes and other compulsory payments, while it channels to this sector various payments, such as wages and salaries of civil servants, other local purchases of goods and services, transfer payments (including those of the National Insurance Fund), subsidies and Development Budget loans. In addition, the Government issues securities to the public and receives credit from contractors and suppliers, as well as various deposits (e.g., Post Office Bank deposits and deposits within the framework of the "Save to Build" project). On the other hand, the Government extends credit to various persons and bodies (such as advances in connection with foreign currency transactions). In 1958, net receipts from this sector were considerably larger than in 1957 (see Table XV-11). On the one hand, revenue from taxes and collections on account of loans rose, while on the other hand, Development Budget loans (mainly for housing) declined.

In contrast, the surplus of receipts over expenditure from "the rest of the world" sector declined, despite a rise in long-term loans. This was due to the considerable expansion of Government imports (including American food surpluses for stock) and to the net redemption of short-term loans. Unrequited receipts also declined, as a result of the change in the structure of the U.S. Grant-in-Aid, though the total amount of U.S. aid remained unchanged.

Total Government receipts from the banking system, less the interest paid out to this sector, was smaller in 1958 than in 1957.

There was a rise in receipts from financial institutions, in the form of purchases of Government securities by provident funds and temporary deposits with the Accountant General by these institutions of funds from the issuance of debentures. However, the Government's purchase of shares in the Israel In-

TABLE XV-12  
*The "Balance of Payments" of the Government, by Sector<sup>a</sup>, 1957-1958*  
*(millions of IL.)*

Receipts	1957	1958	Increase or decrease (-) from 1957 to 1958	Payments	1957	1958	Increase or decrease (-) from 1957 to 1958
<i>Households and business enterprises</i>							
Taxes, transfer payments and miscellaneous receipts	725.8	828.3	102.5	Purchase of goods and services			
Long-term loans	13.1	9.3	-3.8	on current and capital account	412.6	450.3	37.7
Collections on account of long-term loans	24.0	34.9	10.9	Transfer payments and capital grants		57.5	92.6
Short-term credit (net)	- 4.3	- 4.3	-	Subsidies	79.9	94.1	14.2
				Long-term loans	172.4	165.1	-7.3
				Redemption of long-term loans	4.6	3.4	-1.2
<i>Total</i>	758.6	868.2	109.6	<i>Total</i>	727.0	805.5	78.5
<i>Rest of the world</i>							
Unrequited receipts	138.4	128.6	- 9.8	Purchase of goods and services			
Long-term loans	112.7	175.0	62.3	on current and capital account	113.4	160.3	46.9
Short-term credit (net)	0.5	-27.2	-27.7	Redemption of long-term loans	49.3	58.1	8.8
<i>Total</i>	251.6	276.4	24.8	<i>Total</i>	162.7	218.4	55.7
<i>The banking system</i>							
Credit (net)	53.8	39.2	-14.6	Interest and commissions	3.5	8.2	4.7

<i>Other financial institutions</i>						
Long-term loans	21.0	17.0	-4.0			
Short-term credit (net)	0.6	22.6	22.0	Purchase of Shares	5.9	27.6
<i>Total</i>	<i>21.6</i>	<i>39.6</i>	<i>18.0</i>	<i>Total</i>	<i>5.9</i>	<i>27.6</i>
<i>Public sector corporations</i>						
Interest and dividends	4.4	8.3	3.9	Grants and subsidies	7.6	10.2
Collections on account of loans	3.8	7.4	3.6	Long-term loans	112.3	102.2
Short-term credit (net)	2.5	10.0	7.5	Purchase of Shares	12.2	11.0
<i>Total</i>	<i>10.7</i>	<i>25.7</i>	<i>15.0</i>	<i>Total</i>	<i>132.1</i>	<i>123.4</i>
<i>Non-profit institutions</i>						
Transfer payments	5.9	3.5	-2.4	Transfer payments and		
Short-term credit (net)	- 6.0	11.2	17.2	capital grants	29.9	34.9
				Long-term loans	1.1	1.9
<i>Total</i>	<i>- 0.1</i>	<i>14.7</i>	<i>14.8</i>	<i>Total</i>	<i>31.0</i>	<i>36.8</i>
<i>The National Institutions and local authorities</i>						
				To the National Institutions	8.1	13.0
				To the local authorities (net)	25.9	30.9
<i>Total receipts</i>	<i>1,096.2</i>	<i>1,263.8</i>	<i>167.6</i>	<i>Total payments</i>	<i>1,096.2</i>	<i>1,263.8</i>

\* The classification in this Table differs from that of Table XVII-3 in the Bank of Israel Annual Report for 1957. The data for 1957 have been revised and re-classified. Details will be given in the Appendix to this Report, to be published shortly.

TABLE XV-13

*The "Balance of Payments" of the National Institutions, by Sector, 1957-1958*  
(millions of IL.)

Receipts	1957	1958	Increase or decrease (–) from 1957 to 1958	Payments	1957	1958	Increase or decrease (–) from 1957 to 1958
<i>Households and business enterprises</i>							
Transfer payments	3.2	4.7	1.5	Purchase on current and capital account <sup>c</sup>	40.9	58.1	16.8
Sales of services and assets (including interest)	5.7	9.2	3.3	Transfer payments and subsidies	10.5	9.4	- 1.1
Long-term loans	3.0	4.8	1.8	Long-term loans	66.8	73.7	6.9
Short-term credit	- 0.9	10.6	11.5	Redemption of long-term loans	1.4	2.0	1.0
Collections on account of loans	1.9	1.7	0.9				
<i>Total</i>	12.9	31.9	19.0	<i>Total</i>	119.6	143.2	23.6
<i>Rest of the world</i>							
Unrequited receipts	120.2	135.0	14.8	Purchase on current and capital account <sup>a</sup>	30.9	22.5	- 8.4
Long-term loans	25.8	13.5	-12.3	Transfer payments and interest	9.5	12.2	2.7
Short-term credit	16.4	21.0	4.6	Redemption of long-term loans	28.6	23.2	- 5.4
<i>Total</i>	162.4	169.5	7.1	<i>Total</i>	69.0	57.9	-11.1

The banking system							
Long-term loans	4.9	6.0	1.1	Interest and commissions (net)	0.8	1.0	0.2
Short-term credit	8.9	- 0.4	- 9.3	Redemption of long-term loans	0.6	1.0	0.4
<i>Total</i>	13.8	5.6	- 8.2	<i>Total</i>	1.4	2.0	0.6
Other financial institutions							
Long-term loans	3.7	5.9 <sup>b</sup>	2.2	Interest and commissions (net)	0.8	1.0	0.2
Short-term credit	2.6	- 2.0	- 4.6	Redemption of long-term loans	0.2	0.7	0.5
<i>Total</i>	6.3	3.9	- 2.4	<i>Total</i>	1.0	1.7	0.7
Public sector corporations							
Loans, transfer payments and interest	0.8	0.9	0.1	Long-term loans	5.4	1.3	- 4.1
				Miscellaneous		0.8	0.8
<i>Total</i>	0.8	0.9	0.1	<i>Total</i>	5.4	2.1	- 3.3
Non-profit institutions							
Short-term credit	2.1	0.5	- 1.6	Transfer payments	12.5	16.2	3.7
				Miscellaneous	1.4	0.2	- 1.2
<i>Total</i>	2.1	0.5	- 1.6	<i>Total</i>	13.9	16.4	2.5
Government and local authorities							
From the Government	8.1	13.0	4.9	To the local authorities	0.2	0.4	0.2
Errors and omissions	4.1	—	- 4.1	Errors and omissions	—	1.6	1.6
<i>Total receipts</i>	210.5	225.3	14.8	<i>Total payments</i>	210.5	225.3	14.8

<sup>a</sup> Including collections on account of loans.

<sup>b</sup> Net loans from the banking system appearing in this table do not correspond to the figures cited in Chapter XIII—"The Money Supply, Credit and the Banking System". In this table, the item "Cash and Deposits in Banks" is included with short-term credit, and the bonds of the Keren Hayessod with long-term loans. On the other hand, this table excludes bank loans to the National Institutions in the form of bills sold to banks by suppliers.

<sup>c</sup> Excluding goods and services given as loans or transfers, the value of which (except for goods remaining in stock) is included under "transfer payments and subsidies" or "long-term loans".

dustrial Institute Ltd. (which is recorded as a payment to this sector) reduced the net aggregate receipts from the sector as a whole as compared to 1957.

Public sector corporations, as defined in this chapter<sup>1</sup> include *inter alia* "Dead Sea Works Ltd.", "Fertilizers and Chemicals Ltd.", "The Palestine Electric Corporation", "The Hula Development Authority", "El-Al", the oil pipeline companies, "Mekorot" and "Zim". Net outlay to public sector corporations declined from 1957 to 1958, chiefly because of reduced allocations from the Development Budget, while Government collections on account of principal and interest increased considerably. Nevertheless, total net Government outlay to this sector in 1958 amounted to nearly IL. 100 million.

### 3. THE NATIONAL INSTITUTIONS

#### (a) *The Structure of the National Institutions*

The "National Institutions", as here defined, comprise the Jewish Agency for Palestine, the Keren Hayessod and the Jewish National Fund. These institutions have for several decades constituted the central organs of World Jewry and the Zionist movement for the settlement of Palestine. In the course of time, their activities and functions underwent far-reaching changes. The following analysis, however, only covers the years 1957 and 1958.

During this period, the Jewish Agency attended to the transportation of immigrants to Israel and their initial absorption in agricultural settlements. It also concerned itself with education, culture and information—chiefly among Jewish communities abroad, but to a certain extent in Israel as well. The Agency further dealt with the education of immigrant youth ("Youth Aliya").

The Keren Hayessod is the financial arm of the Jewish Agency.

Most of the Jewish Agency's income accrued from appeals abroad (mainly the United Jewish Appeal). Additional sources of income were West German Reparations, donations to "Youth Aliya" (which is a department of the Jewish Agency), other receipts from Jewish institutions abroad, and collections on account of principal and interest on loans to settlers.

The Jewish National Fund, during the period under review, concerned itself mainly with land reclamation for agricultural purposes and with afforestation. It also acquired land in certain areas which was later leased to settlers, public housing companies and industrial enterprises. The income of the J.N.F. consists of direct donations, rent and transfers from the Jewish Agency.

In 1957 and 1958, the transportation of immigrants and their initial absorption were the exclusive responsibility of the Jewish Agency. In other important spheres, however, such as immigrant housing and agricultural settlement, both the Agency and the Government were active, without there

<sup>1</sup> See note <sup>b</sup> to Table XV-10.

TABLE XV-14

*The "Balance of Payments" of the National Institutions, by Type of Receipts and Payments, 1957-1958*  
*(millions of IL.)*

<sup>a</sup> Excluding imports of goods amounting to IL. 7.2 million in 1957 and IL. 6.1 million in 1958, the value of which is recorded as "investments" or "loans".

<sup>b</sup> The totals of receipts and payments in this table differ somewhat from the corresponding figures in Table XV-15, as some items were transferred from the payments to the receipts side and *vice versa*.

being any clear delimitation of their respective functions. A similar situation prevailed between the Government and the Jewish National Fund as regards afforestation and land reclamation.

(b) *The activities of the National Institutions*

In 1958, total receipts and payments of the National Institutions reached IL. 226 million (see Table XV-14). More than half the receipts were transfers from abroad, totalling IL. 135 million, most of which were received from the United Jewish Appeals. The remaining transfers included German Reparations and income from the heirless property of German Jews, "Youth Aliya" appeals and various Jewish organizations.

Internal and foreign long- and short-term loans and net receipts from the Government provided additional sources of income. Local donations and interest and rent payments received for the use of their property and capital form only a small part of the total receipts of the National Institutions. Net receipts from the Government totalled IL. 13 million in 1958.

Certain outlays of the National Institutions, and especially expenditure on immigrant transportation, information, education and culture by the Jewish Agency, interest payments and administration are chiefly incurred abroad. The total amount spent in connection with these activities in 1958 was IL. 33 million (see Table XV-16). The Jewish Agency also subsidizes Jewish educational institutions in the Diaspora.

TABLE XV-15  
*Transfer Payments, Subsidies and Loans Granted by the National Institutions, 1957-1958\**  
(millions of IL.)

	1957	1958
<i>Subsidies</i>	1.4	2.3
<i>Transfer payments to:</i>		
Households and business enterprises	9.1	7.1
Non-profit institutions	12.6	16.2
The rest of the world	1.3	1.6
<i>Total transfers payments</i>	23.0	24.9
<i>Long-term loans to:</i>		
Households and business enterprises <sup>b</sup>	66.8	73.7
Jewish Agency corporations	5.4	1.3
Non-profit institutions	0.6	0.2
<i>Total loans</i>	72.8	75.2

\* Excluding transfer payments and loans to the Government and to local authorities.

<sup>b</sup> This item includes the value of materials and work invested in new settlements, even prior to their being inhabited, on the assumption that such investments will eventually constitute loans to the settlers.

The expenditure of the National Institutions on the initial arrangements for new immigrants, the maintenance of youth institutions, educational and cultural activities in Israel, and administration is reflected in the items "local purchases on current account" (IL. 38 million in 1958), "transfer payments to households and business enterprises" (IL. 7 million) and "transfer payments to non-profit institutions" (IL. 16 million).<sup>1</sup>

Most of the expenditure of the Jewish Agency in connection with new agricultural settlement took the form of long-term loans to households, business enterprises and Jewish Agency corporations (see Table XV-15).

The major part of the loans granted by the Jewish Agency to new settlements was not given in cash, but in the form of farm buildings, dwellings and various services. Construction was carried out by special bodies set up by the Jewish Agency, which purchased the necessary material and executed the work directly or through contractors working under their supervision. These bodies dealt with the laying of irrigation pipes, supervised road construction, ordered equipment and extended agricultural guidance.

Loans extended to new settlers were not linked to the consumer price index or to the dollar exchange rate, despite the decline in the purchasing power of the Israel currency, and were granted at low interest for long periods. Collections of principal and interest payments yield the Agency about IL. 3 million per annum.

Most of the loans granted in 1957 and 1958 to corporations controlled by the National Institutions were channelled to Jewish Agency enterprises serving the new settlements, such as the Tractor Centre (which supplies tractor services to settlers), the "Tobacco Leaves" Co. (which guarantees minimum prices to tobacco growers), and the Company for the Marketing of Agricultural Produce. The Jewish Agency gives these enterprises loans on easy terms, similar to those accorded to new settlers, to enable them to purchase equipment.

The Jewish National Fund remains the perpetual owner of the lands it acquires and only leases them. It invests funds in their development, making them suitable for agricultural settlement, housing, industry, etc.

#### (c) *The "Balance of Payments" of the National Institutions*

The 1957 and 1958 balance of payments of the National Institutions with the sectors households and business enterprises, the rest of the world, the banking system, other financial institutions, public sector corporations, non-profit institutions, the Government and the local authorities is given in Table XV-13. As regards the last two, only the total of net receipts or payments has been recorded. During these two years, the National Institutions received net transfers from the Government, but on the other hand transferred net amounts to the local authorities.

<sup>1</sup> See Tables XV-15 and XV-16.

Total receipts and payments rose to IL. 225 million in 1958, as against IL. 211 million in 1957—an increase of about 7 per cent.

In 1958, the number of immigrants arriving in Israel was much smaller than in 1957 (26,000 as compared with 71,000). This, however, did not seriously affect the structure of payments, since most of the latter is not directly dependent on the volume of immigration in the year concerned. Examples illustrating this point are debt redemption, interest payments, expenditure on new settlements and on the absorption of immigrants who had arrived in previous years, as well as outlays on educational and cultural activities.

In 1957 and 1958, the National Institutions decreased their net long-term indebtedness abroad. This, however, increased their current financial difficulties. The value of local purchases on current and capital account did not rise

TABLE XV-16  
*Purchases by the National Institutions, 1957-1958*  
(millions of IL.)

	Millions of IL.		Percentages	
	1957	1958	1957	1958
<i>On current account</i>				
<i>Domestic</i>				
Interest and commissions <sup>a</sup>	3.1	4.4	3.7	4.6
Other purchases <sup>b</sup>	33.5	38.4	40.5	40.8
<i>Abroad</i>				
Interest paid	9.5	12.2	11.5	13.0
Salaries of Israeli delegates	2.1	2.7	2.5	2.9
Other purchases <sup>c</sup>	27.2	18.0	32.9	19.1
<i>Total purchases on current account</i>	75.4	75.7	91.3	80.4
<i>On capital account</i>				
Purchases <sup>b</sup>	16.7	19.8		
Changes in stocks	- 9.5	- 1.4		
<i>Total purchases on capital account</i>	7.2	18.4	8.7	19.6
<i>Total purchases</i>	82.6	94.1	100.0	100.0
<i>Wages, salaries and fringe benefits<sup>d</sup></i>				
On current account	20.0	19.7		
On capital account	10.2	10.7		

<sup>a</sup> Excluding payments to the Government and the local authorities.

<sup>b</sup> Purchases on current and capital account exclude commodities and services purchased and delivered to other sectors in the form of transfers and loans—among them imported goods valued at IL. 6.0 million in 1957 and IL. 4.9 million in 1958.

<sup>c</sup> Excluding imports of consumer goods, amounting to IL. 1.2 million per annum. The latter have been recorded as either local purchases on current account, stocks, transfers or loans.

<sup>d</sup> Total wages and salaries paid. This sum includes, in addition to payments recorded here as purchases on current account, payments recorded as transfers or loans.

to any considerable extent, though the reduction in the stocks of the National Institutions was less pronounced in 1958 than in 1957.

The volume of domestic long-term loans, transfers and subsidies made by the Institutions rose in 1958, but the increases were slight.

In 1957, for the first time since the establishment of the State, the National Institutions issued debentures for sale on the local market. The emissions were made by the Keren Hayessod. IL. 11 million worth of these debentures were sold in 1957 and IL. 14 million in 1958. These amounts constitute the major part of the long-term loans received by the National Institutions from banks and other financial bodies, as well as part of the long-term loans received from the rest of the economy (see Table XV-13).

Certain changes occurred in methods of financing between 1957 and 1958: Long-term loans from abroad declined from IL. 26 million in 1957 to IL. 14 million in 1958; on the other hand, short-term credit from abroad expanded from IL. 16 million to IL. 21 million. This indicates a deterioration in the financial position of the National Institutions. In 1958, the National Institutions' accrued debt to their local suppliers increased by IL. 10.6 million, whereas in 1957 it had declined by IL. 1 million. Against this, short-term credit from banks and other local financial institutions was contracted. In 1957, the net amount of such short-term loans from banks reached IL. 8.9 million, and from other financial institutions—IL. 2.6 million. In 1958, there was a net refunding of IL. 500,000 to the banking system, and of IL. 2 million to other financial institutions (see Table XV-13).

(d) *The relationship between the National Institutions and the Government*

As most of the activities of the National Institutions lie in the sphere of agricultural settlement and land reclamation, they receive Development Budget allocations from the Government for these purposes. The Jewish Agency, on its side, participates in Government expenditure on immigrant housing, health, education, employment and welfare services, as well as on security arrangements in settlements.

The co-operation between the National Institutions and the Government is further reflected in their joint participation in various funds created to assist immigrants and settlers, in agricultural educational institutions, and in institutions for agricultural research, planning and guidance.

The Government repaid to the Jewish Agency IL. 30.2 million in 1957, and IL. 13.5 million in 1958, on account of the Consolidation Loan raised by the Agency from Jewish communities abroad and transferred to the Government. The Consolidation Loan was first raised in 1954.

Prior to October 1957, the National Institutions (together with the Government and various non-profit organizations) were exempted from customs duty and purchase tax. The amount of such tax exemptions totalled approx-

ximately IL. 2 million per annum. By 1958, these concessions had been abolished and the National Institutions had to pay these taxes in full, though they received a partial refund in respect of that year. The tax exemption, or the tax refunds on the National Institutions' purchases, are tantamount to receipts from the Government, as the consumption, investments and loans of these Institutions are registered at prices which include the tax.

These various reciprocal payments between the National Institutions and the Government are indicative of overlapping spheres of action rather than of the existence of flows of payments between them for the financing of the various activities. Hence, it is chiefly the excess payments by the Government to the National Institutions which is of importance. In 1957, the Government financed the National Institutions to the extent of IL. 8.1 million, and in 1958 to the extent of IL. 12 million.<sup>1</sup>

#### 4. THE LOCAL AUTHORITIES

The level of financial activity of the local authorities rose by 17 per cent in 1958. As in 1957, the increase in budgetary revenue—from taxes, Government grants and loans—was roughly sufficient to cover the increase in outlays, but not to reduce the deficits accumulated in previous years. The structure of receipts and payments remained virtually unchanged, except for a larger increase in capital than in current expenditure.

Table XV-17 shows the “balance of payments” of the local authorities in the years 1957 and 1958. Receipts of grants and loans from the Government and from the Jewish Agency have been recorded in a separate account, on a net basis—i.e., after deduction of principal and interest payments made to the Government.

In each of these two years, tax revenue financed less than half of the total outlay. Even if we add other compulsory payments and transfer payments, the share of the general public in the financing of the local authorities' expenditure does not exceed 70 per cent. Two-thirds of the remaining 30 per cent were covered by Government grants and net loans, and one-third—by net loans from other sources.

Over half the total expenditure (excluding debt redemption) represented current purchases, i.e., mainly outlays on wages and salaries. Investment accounted for 33 per cent and transfers to households and non-profits institutions—for 10 per cent of total outlay.

<sup>1</sup> If, however, we were to exclude from the net account between these two sections of the public sector the redemption of the Consolidation Loan by the Government and consider it a delayed receipt from abroad, it would appear that during these two years there was a net flow of payments from the National Institutions to the Government.

TABLE XV-17

*The "Balance of Payments" of the Local Authorities, by Type of Receipts and Payments,<sup>a</sup> 1957-1958  
(millions of IL.)*

<i>Receipts</i>	<i>1957</i>	<i>1958</i>	<i>Increase from 1957 to 1958</i>	<i>Payments</i>	<i>1957</i>	<i>1958</i>	<i>Increase from 1957 to 1958</i>
<i>Transfer payments and transactions in goods and services</i>							
Taxes <sup>b</sup>	69.0	76.4	7.4	Purchase on current account	80.8	86.8	6.0
Other compulsory payments, transfer payments and sales	31.1	39.6	8.5	Purchase on capital account	46.3	61.2	14.9
<i>Total</i>	<i>100.1</i>	<i>116.0</i>	<i>15.9</i>	Transfer payments	15.3	18.4	3.1
				<i>Total</i>	<i>142.4</i>	<i>166.4</i>	<i>24.0</i>
<i>Transactions in financial assets</i>							
Net long-term loans	10.3	11.5	1.2				
Net short-term credit	5.9	7.6	1.7				
<i>Total</i>	<i>16.2</i>	<i>19.1</i>	<i>2.9</i>				
<i>Transfer payments and loans from the Government and the National Institutions</i>							
From the Government <sup>c</sup>	25.9	30.9	5.0				
From the National Institutions	0.2	0.4	0.2				
<i>Total</i>	<i>26.1</i>	<i>31.3</i>	<i>5.2</i>				
<i>Total receipts</i>	<i>142.4</i>	<i>166.4</i>	<i>24.0</i>	<i>Total payments</i>	<i>142.4</i>	<i>166.4</i>	<i>24.0</i>

<sup>a</sup> The classification in this table differs somewhat from that in Table XVIII-1 in the Bank of Israel Annual Report for 1957. Data for 1957 have been revised and re-classified. Details will be given in the Appendix to this Report to be published shortly.

<sup>b</sup> Including net profits from water works and other enterprises (income less current expenditure).

<sup>c</sup> Including grants and loans received from the Government, less redemption of loans and interest paid by the local authorities.

SOURCE: 1957—based on data of the Central Bureau of Statistics; 1958—Bank of Israel estimates, based on an analysis of a sample of financial reports of the local authorities.

(a) *Receipts*

(1) *Rates and taxes*

Tax revenue rose by about 7 per cent, totalling IL. 76 million. The increase was due to the higher rates levied by many local authorities.

Property taxes—i.e., the general property tax and the property war risk insurance tax—represents some 75 per cent of total tax revenue. This type of tax has a tendency to be inflexible, since it is based on the size of apartments, and does not reflect increases in the income level of the taxpayer.

Additional sources of revenue, albeit of secondary importance, are business taxes, imposts and fees. In 1958, the Government exempted tourists from the local catering tax earmarked for welfare purposes and compensated the local authorities for losses in tax revenue by increased grants. There was also a change in the distribution of entertainment tax receipts, which were formerly transferred to the Government and then redistributed by the latter among the local authorities. As of August 1958, a larger proportion of this tax is retained by the local authority in whose jurisdiction it originates.

As in previous years, the net income from municipal water works continued to rise in 1958.

(2) *Compulsory payments and other transfers*

Compulsory payments and various transfers—chiefly assessments on house- and land-owners in connection with local improvements, such as sewage and road building, and participation by the public in various services<sup>1</sup> supplied by the local authorities—accounted for over 20 per cent of the authorities' total receipts in 1958.

(3) *Government grants*

In 1958, as in 1957, Government grants increased by about 20 per cent, and amounted to IL. 28 million, or 16 per cent of total receipts. This amount excludes salaries paid directly by the Government to primary school teachers and to kindergarten teachers in kindergartens for children of compulsory school age.

Apart from the general grant-in-aid, the Government participates in the local authorities' expenditure on education, health and welfare services and unemployment relief works. All categories of Government assistance rose in 1958, except for the participation of the Ministry of Labour, which declined with the improvement in the employment situation.

The increase in Government grants to the local authorities during the last

<sup>1</sup> In the form of school rates, participation in summer camps, school fees in secondary and technical municipal schools, etc.

two years is one of the main reasons for the improvement in their financial position during this period, as compared to that of previous years. Government grants constitute an important source of revenue for each of the local authorities. However, their relative importance varies: the newer the settlement and the more limited the means at the disposal of the local authority, the larger the Government's participation. The average *per capita* Government participation in the budgets of the larger well-established cities,<sup>1</sup> which have at their disposal considerable sources of tax revenue, is much smaller than in the case of smaller or more recently created authorities, particularly when the latter have absorbed many new immigrants.

(4) *Loans*

Net income from loans (including Government loans) totalled IL. 26 million in 1958. The Government's Development Budget constitutes the main source of long-term loans, while the banking system is of relatively minor importance in this respect. Outstanding loans from banking institutions rose by less than IL. 1 million between the end of 1957 and the end of 1958. Additional sources of loan revenue are the State Lottery, various financial institutions and—during the last two years—debentures issued jointly by all the local authorities. The income from the sale of such debentures declined from IL. 4.1 million net in 1957 to IL. 1.2 million net in 1958. Though a second issue of IL. 7.5 million was floated in 1958, most of the proceeds will be transferred to the local authorities only in 1959. The same applies to the IL. 3 million raised through the special emission of the "Investment Corporation of the Bank Leumi le-Israel B.M.", towards the end of 1958 and earmarked for financing development projects of the local authorities.

Loans from contractors and suppliers (which are granted on less easy terms than those from the Government and financial institutions) continued to constitute an important source of funds for the authorities' development projects. According to the State Comptroller's Report, balances of loans from contractors and suppliers represented 10 per cent of the total outstanding debt of the local authorities at the end of 1958.

(b) *Payments*

The level of current expenditure by the local authorities rose by 7.4 per cent over that of 1957, and amounted to IL. 87 million. This increase is a moderate one compared to previous years, due to the smaller increase in the cost-of-living allowance. Wages and salaries represent a major part of current expenditure.

The sum total of wages and salaries paid by the local authorities rose from

<sup>1</sup> Except for Jerusalem.

IL. 65.4 million in 1957 to IL. 73.0 million in 1958,<sup>1</sup> an increase of 13 per cent. This increase reflects the additional outlays incurred by the payment of the "frozen third" owing since 1956, the somewhat higher cost-of-living allowance, and the increase in the number of employees.

Expenditure on capital account, mainly in connection with development projects, was 32 per cent higher than in 1957, amounting to some IL. 60 million. Capital outlays of the local authorities are largely in the fields of public works—road-building, sewage and waterworks—and the erection of schools, dispensaries, synagogues and other public buildings.

Transfer payments to households and non-profit institutions for educational, health, welfare and religious purposes, represented over 10 per cent of total expenditure in 1958, and amounted to approximately IL. 18 million. There was an increase in outlays on food provided in primary schools, kindergartens and summer camps, in relief payments, and in participation in graded secondary school fees and in the budgetary deficits of the religious councils.<sup>1</sup>

<sup>1</sup> According to the Central Bureau of Statistics. Where local authorities execute some of their investment projects themselves, this amount includes wages paid for such work.

As, however, development projects are usually executed by contractors, data on wages and salaries refer chiefly to current expenditure, including that of municipal enterprises.

<sup>2</sup> The rate of participation is fixed at two-thirds of the total deficit. The remaining third is covered by the Government.

APPENDIX: TABLE XV-18

The "Balance of Payments" of the Public Sector, by Type of Receipts and Payments, 1957  
(millions of IL.)

Receipts	Government	National Institutions	Local authorities	Total	Payments	Government	National Institutions	Local authorities	Total
<i>Transfer payments and transactions in goods and services</i>									
Direct and indirect taxes	640	—	69	709	Purchase on current account	486	75	81	642
Unrequited receipts from abroad	138	120	1	259	Purchase on capital account	44	7	46	97
Other transfer payments	38	3	26	67	Transfer payments	90	23	14	127
Sales, interest and miscellaneous receipts	58	6	4	68	Subsidies	85	1	1	87
<i>Total</i>	<i>874</i>	<i>134</i>	<i>100</i>	<i>1,103</i>	<i>Total</i>	<i>705</i>	<i>106</i>	<i>142</i>	<i>953</i>
<i>Transactions in financial assets</i>									
Net credit from the banking system	54	13	1	68	Internal long-term loans (including purchase of shares)	304	73	—	377
Other loans					Redemption of long-term loans				
Long-term: Foreign	113	26	—	139	Foreign	49	29	—	78
Internal	34	7	10	51	Internal	5	1	1	7
Short-term : Foreign	1	16	—	17					
Internal	— 7	4	6	3					
Collections on account of long-term loans	28	2	—	30	<i>Total</i>	<i>358</i>	<i>103</i>	<i>1</i>	<i>462</i>
<i>Total</i>	<i>223</i>	<i>68</i>	<i>17</i>	<i>308</i>	<i>Total payments to other sectors</i>	<i>1,063</i>	<i>209</i>	<i>143</i>	<i>1,415</i>
<i>Total receipts from other sectors</i>	<i>1,097</i>	<i>201<sup>a</sup></i>	<i>117</i>	<i>1,415<sup>a</sup></i>					
<i>Transactions within the sector</i>									
From the Government (net)	—	8	26	34	To the local authorities (net)	26	—	—	26
					To the National Institutions (net)	8	—	—	8
<i>Total</i>	<i>—</i>	<i>8</i>	<i>26</i>	<i>34</i>	<i>Total</i>	<i>34</i>	<i>—</i>	<i>—</i>	<i>34</i>
<i>Total receipts</i>	<i>1,097</i>	<i>209</i>	<i>143</i>	<i>1,449</i>	<i>Total payments</i>	<i>1,097</i>	<i>209</i>	<i>143</i>	<i>1,449</i>

<sup>a</sup> Including errors and omissions totalling IL. 4 million.

APPENDIX: TABLE XV-19  
*The "Balance of Payments" of the Public Sector, by Type of Receipts and Payments, 1958*  
*(millions of IL.)*

<i>Receipts</i>	<i>Government</i>	<i>National Institutions</i>	<i>Local authorities</i>	<i>Total</i>	<i>Payments</i>	<i>Government</i>	<i>National Institutions</i>	<i>Local authorities</i>	<i>Total</i>
<i>Transfer payments and transactions in goods and services</i>									
Direct and indirect taxes	740	—	76	816	Purchase on current account	526	76	89	691
Unrequited receipts from abroad	129	135	—	264	Purchase on capital account	93	18	59	170
Other transfer payments	32	5	35	72	Transfer payments	130	25	18	173
Sales, interest and miscellaneous receipts	68	10	5	83	Subsidies	102	2	—	104
<i>Total</i>	<i>969</i>	<i>150</i>	<i>116</i>	<i>1,235</i>	<i>Total</i>	<i>851</i>	<i>121</i>	<i>166</i>	<i>1,138</i>
<i>Transactions in financial assets</i>									
Nét credit from the banking system	39	5	1	45	Long-term loans (including purchase of shares)	308	75	—	383
Other loans					Redemption of long-term loans				
Long-term: Foreign	175	14	—	189	Foreign	58	23	—	81
Internal	26	11	13	50	Internal	3	4	2	9
Short-term: Foreign	-27	21	—	-6					
Internal	40	8	7	55					
Collections on account of long-term loans	42	3	—	45					
<i>Total</i>	<i>295</i>	<i>62</i>	<i>21</i>	<i>378</i>	<i>Total</i>	<i>369</i>	<i>102</i>	<i>2</i>	<i>473</i>
<i>Total receipts from other sectors</i>	<i>1,264</i>	<i>212</i>	<i>137</i>	<i>1,613</i>	<i>Total payments to other sectors</i>	<i>1,220</i>	<i>225*</i>	<i>168</i>	<i>1,613*</i>
<i>Transactions within the sector</i>									
From the Government (net)	—	13	31	44	To the local authorities (net)	31	—	—	31
					To the National Institutions (net)	13	—	—	13
<i>Total</i>	<i>—</i>	<i>13</i>	<i>31</i>	<i>44</i>	<i>Total</i>	<i>44</i>	<i>—</i>	<i>—</i>	<i>44</i>
<i>Total receipts</i>	<i>1,264</i>	<i>225</i>	<i>168</i>	<i>1,657</i>	<i>Total payments</i>	<i>1,264</i>	<i>225</i>	<i>168</i>	<i>1,657</i>

\* Including errors and omissions totalling IL. 2 million.