

CHAPTER II

RESOURCES, USES, AND INCOMES

IN 1961 THE GROSS national product increased by approximately 9 per cent, at constant prices. The rate of expansion was thus slightly faster than in 1960 (when it reached 7 to 8 per cent) and equal to the average for the years 1956-60 (see Table II-6). The increase in the national product was accompanied by an accelerated rise of GNP prices, which amounted to more than 8 per cent as against 3 to 4 per cent during 1959 and 1960, and by the expansion of imports at the unprecedented rate of 20 per cent, at constant prices.

The growth of GNP by 9 per cent was made possible by an increase of 4 to 5 per cent in the number of gainfully employed and a 10 per cent increase in the economy's capital stock.

The year 1961 witnessed the beginning of a considerable expansion in local demand. The liquidity of the economy had been increased by large-scale conversions of foreign currency and the expansion of credit. This created a higher level of demand for consumption and investment. Real consumption grew at

TABLE II-1

Resources and their Uses, 1960-61
(IL. million)

	1960 at current prices	1 9 6 1		Per cent increase over the previous year		
		at 1960 prices	at current prices	Quantity	Price	Value
<i>Resources</i>						
Gross national product	4,506	4,913	5,323	9.0	8.3	18.1
Imports	1,245	1,498	1,474	20.3	-1.6	18.4
<i>Total resources</i>	5,751	6,411	6,797	11.5	6.0	18.2
<i>Uses</i>						
Private consumption	3,166	3,469	3,686	9.6	6.3	16.4
Public consumption	913	986	1,043	8.0	5.8	14.2
Gross investment	1,036	1,221	1,328	17.9	8.8	28.2
Exports	636	735	740	15.6	0.7	16.4
<i>Total uses</i>	5,751	6,411	6,797	11.5	6.0	18.2

SOURCE: Central Bureau of Statistics.

about the same rate as output, i.e. by 9 to 10 per cent. The expansion of investment proceeded particularly fast, reaching the unprecedented rate of nearly 20 per cent, as compared with an average increase of 6 to 7 per cent during the years 1956-60. The large expansion of investment must be viewed against the background of the relatively low level of investment prevailing in 1960. The difference between the two years was partly due to changes in the volume of public building, but partly derived from the timing of certain investment projects which must be regarded as accidental.

The rate of increase in public consumption was slow as compared with other uses. Simultaneously, there was a big increase in the current revenues of the

TABLE II-2
Additional Resources and their Uses, 1959-61
(at 1958 prices)

	<i>Additional resources</i> (IL. million)			<i>Additional uses</i>					
				<i>As percentage of</i> <i>previous year's</i> <i>resources</i>			<i>As percentage of</i> <i>additional</i> <i>resources</i>		
	1959	1960	1961	1959	1960	1961	1959	1960	1961
<i>Gross national product</i>									
Private consumption	203	168	208	5.7	4.3	5.0	50	58	55
Public consumption	47	73	31	1.4	1.9	0.7	12	25	8
Gross investment	86	-37	83	2.4	-1.0	2.0	21	-13	22
Exports	68	88	58	2.0	2.2	1.3	17	30	15
<i>Total increase in GNP</i>	404	292	380	11.5	7.4	9.0	100	100	100
<i>Imports</i>									
Private consumption	34	46	79	3.4	4.1	6.1	37	28	30
Public consumption	11	15	36	1.0	1.3	2.8	11	9	14
Gross investment	-15	48	95	-1.5	4.3	7.5	-16	30	37
Exports	63	53	50	6.2	4.8	3.9	68	33	19
<i>Total increase in imports</i>	93	162	260	9.1	14.5	20.3	100	100	100
<i>Total resources</i>									
Private consumption	237	214	287	5.2	4.2	5.2	48	47	45
Public consumption	58	88	67	1.3	1.7	1.1	12	19	10
Gross investment	71	11	178	1.5	0.3	3.2	14	3	28
Exports	131	141	108	2.9	2.8	2.0	26	31	17
<i>Total increase in resources</i>	497	454	640	10.9	9.0	11.5	100	100	100

public sector and in its saving, which, however, was not enough to offset the demand surplus of business enterprises and households.

The experience of recent years shows that a big increase in demand does not necessarily involve a parallel increase in the real product, but may be reflected in price increases and a larger import surplus. The possibilities of expanding the national product are linked with the maturing of investments made in former years, the available manpower reserve, and the raising of productivity. Owing to the limitations imposed by the available production factors, it proved impossible to satisfy the soaring demand by expanding local output. Consequently, the demand pressure was reflected in price increases and a big expansion of imports. Import prices in the international market declined somewhat in 1961, while import duties were raised slightly. These two developments offset each other, so that the prices of imports in the local market remained unchanged. GNP prices rose, as already mentioned, by more than 8 per cent, and the change in their level relative to import prices caused a growing preference for imported goods and contributed to the increase in the volume of imports. In certain spheres, there was a deliberate Government policy of permitting imports competing with local products in order to prevent further price increases.

It should be noted that not all the additional imports were due to a circumstantial rise in demand. This must be said in particular concerning the imports of ships and aircraft, which formed part of a long-term investment program. However, even if these imports are disregarded, there was an increase in the import component of all uses. The weight of fully manufactured imported goods within total final demand increased, as did the weight of imported raw materials within local output (see Table II-9).

The growth of local demand also proved harmful to the development of exports. The competition of the local market and higher prices were undoubtedly the reasons why industrial exports expanded more slowly.

As a result of the accelerated expansion of imports and the slower expansion of exports, the import surplus rose from \$ 335 million in 1960 to over \$ 400 million in 1961, despite the improvement in Israel's terms of trade caused by a rise in citrus prices abroad and the lower prices of imported raw materials.

An analysis of the utilization of additional resources available to the economy in 1961 shows that private consumption was a much more potent factor in increasing the volume of imports than in previous years, while its influence on the expansion of the national product does not appear to have changed as compared with 1959 and 1960. The investment boom, reflected by larger imports of ships, aircraft, and equipment, was responsible for increasing imports by 7.5 per cent and GNP by 2 per cent. On the other hand, in 1960 investments did not contribute at all to the increase in GNP—indeed the volume of GNP channelled to investment was lower than in 1959 (see Table II-2).

The slower expansion of exports decreased its weight within additional re-

sources somewhat. At the same time, the high import component of exports made the latter an important factor in the import expansion, though in this respect too there was a decline as compared with 1960.

Of the additional imports, 37 per cent were channelled to investment, 30 per cent to private consumption, and some 20 per cent to exports. More than half the total GNP increment was channelled to private consumption, and nearly a quarter to investments. The remainder was divided between public consumption and exports.

1. INPUT, OUTPUT, AND THE NATIONAL PRODUCT

The increase in the gross national product was made possible by increases in the economy's capital stock and in the number of gainfully employed. The number of gainfully employed persons rose by 4 to 5 per cent, while capital stock was some 10 per cent larger at the beginning of 1961 than at the beginning of 1960. There was thus no change in the output per unit of capital. On the other hand, the amount of capital per worker increased by 4 to 5 per cent, and there was a similar increase in the output per worker.

TABLE II-3

Capital and Labor Input, 1955-61
(at 1958 prices)

	<i>Unit of measure</i>	1955	1956	1957	1958	1959	1960	1961
Gross domestic product — at factor prices	IL. million	2,465	2,700	2,942	3,156	3,511	3,785	4,130
Fixed capital ^a	„	5,437	6,102	6,776	7,526	8,320	9,205	10,088
Employment	thousands	577	604	638	655	680	702	735
Product per person employed	IL.	4,272	4,470	4,611	4,818	5,163	5,392	5,619
Capital per person employed	IL.	9,423	10,103	10,621	11,490	12,235	13,113	13,725
Capital-product ratio	IL.	2.21	2.26	2.30	2.38	2.37	2.42	2.45
<i>Per cent increase or decrease (—) as compared with previous year</i>								
Gross domestic product	—	—	9.5	9.0	7.3	11.2	7.8	9.1
Fixed capital	—	—	12.2	11.0	11.1	10.6	10.6	9.6
Employment	—	—	4.7	5.6	2.7	3.8	3.2	4.7
Product per person employed	—	—	4.6	3.2	4.5	7.2	4.4	4.6
Capital per person employed	—	—	7.2	5.1	8.2	6.5	7.2	4.7
Capital-product ratio	—	—	2.3	1.8	3.5	-0.4	2.5	0.6

^a At the beginning of the year.

TABLE II-4

Increases in Gross Output, by Economic Sectors, 1960-61
(at 1958 prices)

Sector	Per cent increase as compared with previous year	
	1960	1961
Agriculture	8	4
Industry	13	12
Building ^a	10	—
Transportation	11	10
Public sector	5	5
Commerce and services	10	10

^a Including building activities not regarded as investment.

TABLE II-5

Changes in Resources and Uses, 1956-61

		Per cent increase or decrease (-) as compared with previous year					
		1956	1957	1958	1959	1960	1961
Gross national product	Value	21.1	16.5	14.5	15.1	11.1	18.1
	Quantity	9.8	8.7	7.2	11.5	7.4	9.0
	Price	10.3	7.1	6.9	3.3	3.4	8.3
Imports	Value	25.3	4.3	3.1	5.9	14.4	18.4
	Quantity	17.7	-0.5	13.2	9.1	14.5	20.3
	Price	6.5	4.9	-8.9	-2.9	—	-1.6
Private consumption	Value	17.5	16.6	13.5	12.2	11.0	16.4
	Quantity	8.2	7.9	9.8	9.3	7.7	9.6
	Price	8.6	8.0	3.4	2.6	3.2	6.2
Public consumption	Value	50.8	-10.2	11.0	15.8	15.3	14.2
	Quantity	33.6	-11.3	3.6	8.5	11.9	8.1
	Price	12.9	1.2	7.1	6.7	3.1	5.7
Investment	Value	13.0	22.1	9.3	9.6	4.3	28.2
	Quantity	2.1	15.3	6.6	7.8	1.1	18.0
	Price	10.7	5.9	2.5	1.6	3.2	8.6
Exports	Value	23.3	25.0	7.7	21.7	24.5	16.3
	Quantity	16.0	19.3	13.2	31.2	25.6	15.6
	Price	6.3	4.8	-4.9	-7.3	-0.9	0.6

NOTE: Quantities and prices have been computed on the basis of resources and uses at 1958 prices.

SOURCE: Central Bureau of Statistics.

DIAGRAM II-1

Product, Consumption, and Investment, 1955-61

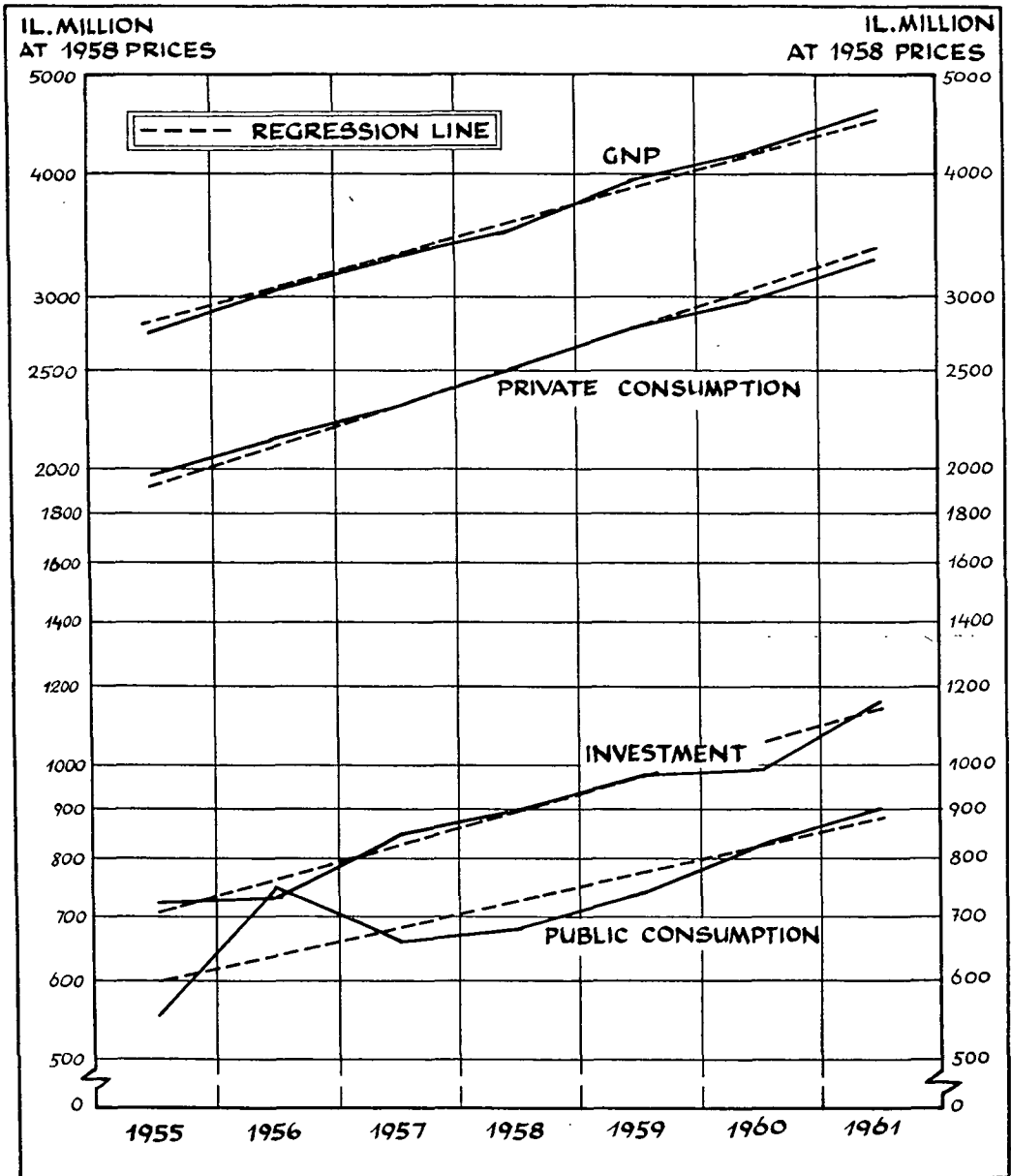
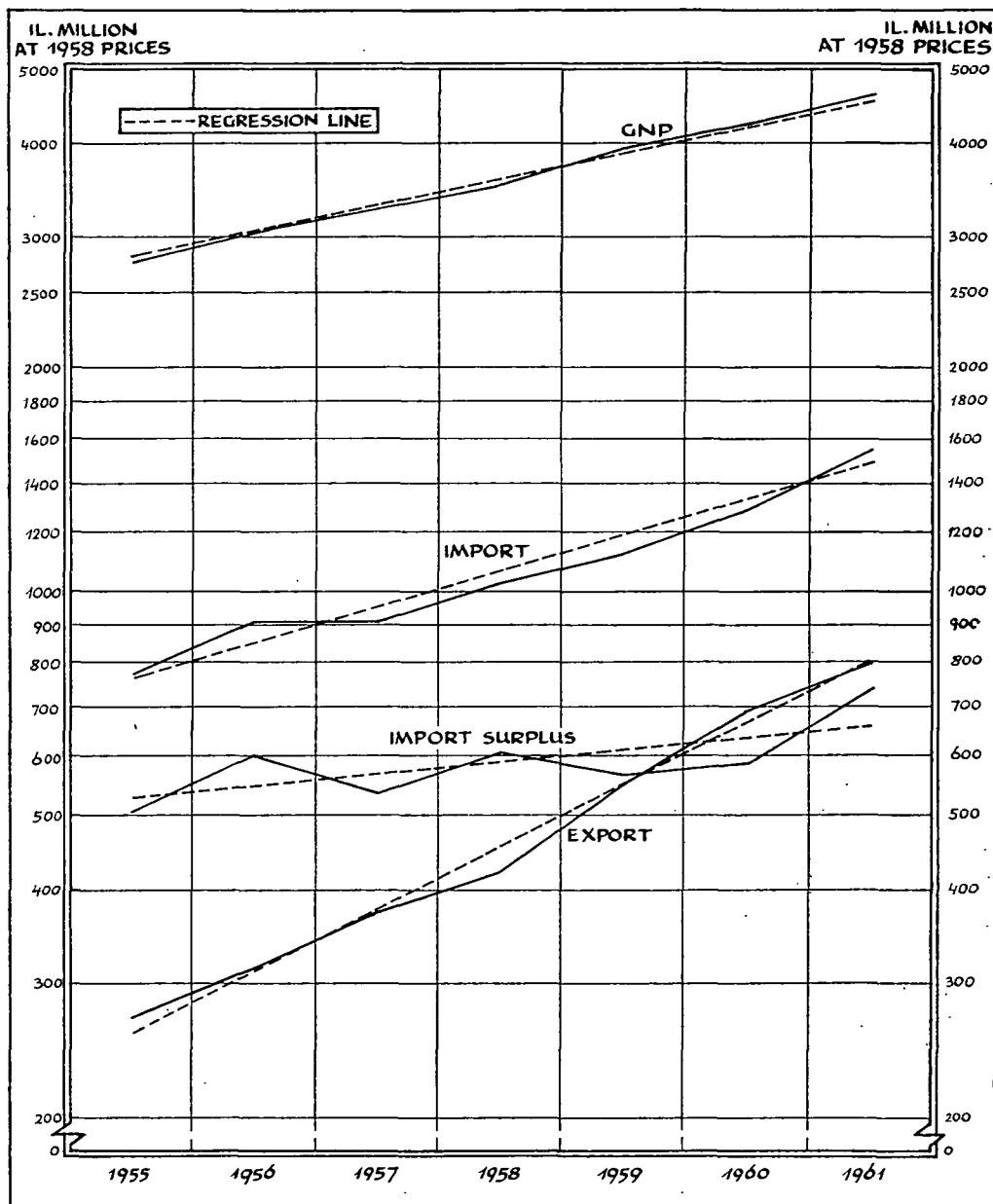


DIAGRAM II-2

Product, Exports, Imports, and Import Surplus, 1955-61



Favorable weather conditions caused an improvement in the ratio between product and gross output in agriculture. Input in this sector increased by only 5 per cent, while output expanded by 8 per cent. In consequence, there was a still bigger increase in the agricultural product—13 per cent.

The rapidly growing demand for housing, which was due partly to larger immigration and partly to expectations of devaluation, created a boom in the building sector which spread to branches of industry connected with building. The large demand for investment goods caused a big expansion in the metal and machinery branches. On the consumption side, the increase was greatest as regards durable consumer goods, causing an expansion of the industrial branches manufacturing these commodities.

In the transportation, commerce, and services sectors the expansion paralleled the overall increase in GNP. The rise in the output of the public sector was more moderate, but public consumption increased more slowly than other uses.

2. DEVELOPMENT TRENDS, 1955-61

Despite some yearly fluctuations, the development of resources and uses has been following a fairly consistent course ever since 1955. Only the year 1956 was an exception, both public consumption and imports being especially large owing to the Sinai campaign. It may be assumed that the failure of investment to expand during that year was due to the same causes. In general, it would appear that the development of investment has been the least steady among all resources and uses, as sharp changes in the rate of expansion have frequently occurred in this item. If the development of investment in 1961 is viewed against the background of former years, it becomes clear that the substantial increase of 18 per cent in 1961 was connected with the relatively low level of investment in 1960. The volume of investment did not increase at all in 1960, being adversely affected by the decline in public building, the lower profitability of agriculture (which reduced investments in this sector), and the timing of the completion of big projects, such as the Eilat-Haifa oil pipeline and the Haifa underground railway, which was purely fortuitous.

Investments in agriculture continued to decline in 1961, but there was a renewed expansion of public building, totalling almost 20 per cent. The expansion of private building likewise proceeded faster than in 1960. Investments in ships and aircraft were nearly doubled, and a start was made on new investment projects—e.g. harbor construction. Moreover, there was a big increase in private investments in industry and in services, presumably because profitability had risen during previous years and was expected to rise further in the future.

During the years 1956 to 1960, the gross national product increased at an average rate of 9 per cent per annum. The average annual increase in private consumption, public consumption, and investment was somewhat smaller, but exports expanded more than twice as fast. The rapid growth of exports has

been increasing their weight within total uses from year to year, but their size as compared with imports is too small to allow this rate of expansion to decrease the import surplus. Indeed, throughout most of the years the import surplus was actually increasing (see Tables II-6 and II-7).

TABLE II-6
Rates of Increase—Resources and Uses, 1955-61
(in percentages—at 1958 prices)

	<i>Annual average 1955-60</i>	<i>1961</i>	<i>Regression coefficient 1955-61</i>
<i>Resources</i>			
Gross national product	9.0	9.0	8.9
Imports	10.6	20.3	11.1 (13.6) ^a
<i>Total resources</i>	9.3	11.5	..
<i>Uses</i>			
Private consumption	8.6	9.6	8.7
Public consumption	8.3	8.0	6.4 (8.1) ^a
Gross investment	6.6	17.9	8.1
Exports	20.8	15.6	20.7
<i>Total uses</i>	9.3	11.5	..
Import surplus	3.1	25.3	4.0
<i>Total domestic uses</i>	8.1	11.0	..

^a 1957 to 1961.

The average rate of expansion of imports during the period 1955-59 matched the growth of GNP, so that the proportion of imports within the total resources available to the economy remained unaltered. However, during 1960 and 1961 imports expanded faster than GNP.

The fact that the share of imports within total resources did not change between 1955 and 1959 and that it rose in 1960 and 1961, indicates that there was no general process of import substitution throughout this period.

Some import substitution did take place in various branches, but simultaneously there was an opposite trend of an increase in the weight of products with a high import component in the final demand basket. An important factor in the latter development was the rapid expansion of exports, since they have a high import component. The weight of exports within total uses has been increasing steadily.

TABLE II-7

*Import Component of Resources and Uses, 1955-61**(IL. million—at 1958 price)*

	1955	1956	1957	1958	1959	1960	1961
Gross national product	2,754	3,024	3,288	3,524	3,928	4,220	4,600
Imports	775	912	907	1,027	1,120	1,282	1,542
<i>Total resources</i>	3,529	3,936	4,195	4,551	5,048	5,502	6,142
Private consumption	1,982	2,144	2,314	2,541	2,778	2,992	3,279
Public consumption	557	744	660	684	742	830	897
Gross investment	722	737	850	906	977	988	1,166
<i>Total domestic uses</i>	3,261	3,625	3,824	4,131	4,497	4,810	5,342
Exports	268	311	371	420	551	692	800
<i>Total uses</i>	3,529	3,936	4,195	4,551	5,048	5,502	6,142
Import surplus	507	601	536	607	569	590	742
Imports as a percentage of total resources	22.0	23.2	21.6	22.6	22.2	23.3	25.1

SOURCE: Central Bureau of Statistics.

3. THE IMPORT COMPONENT OF ECONOMIC USES

The overall import component amounted to 22-23 per cent in 1958 and 1959, rose slightly in 1960, and increased still more in 1961 when it reached 25 per cent (see Tables II-7 and II-9).

In order to analyze the changes in the import component, imports must be divided into two categories—those destined directly for their final use, and those undergoing a process of production. Changes in the overall import component derive from changes in the import component of local output and in the proportion of imported manufactures within final uses.

The import component of local output tended to rise during the years 1959 to 1961 (see Table II-9). In 1960 and 1961 the increase was chiefly due to changes in the structure of output, and especially to the greater weight of export branches with a high import component, such as diamonds, shipping, and civil aviation. The imported services component of local output, which includes foreign shipping, aviation, financing, insurance, etc., likewise increased. In 1961 the trend was reinforced by an increase in the import component of various branches of the Israel economy. One example is the textile and clothing branch, where the proportion of imported raw materials was expanded for both export production and that intended for the local market.

TABLE II-8

*Imports and Product, by Economic Destination, 1958-61**(IL. million—at 1958 prices)*

	<i>Year</i>	<i>Private consump- tion</i>	<i>Public consump- tion</i>	<i>Gross invest- ment</i>	<i>Exports</i>	<i>Total</i>
Imports of finished products	1958	82	124	176	—	382
	1959	74	131	160	—	365
	1960	88	144	209	—	441
	1961	104	172	285	—	561
Imports of raw materials	1958	346	28	106	165	645
	1959	388	32	107	228	755
	1960	420	34	106	281	841
	1961	483	42	125	331	981
Total imports	1958	428	152	282	165	1,027
	1959	462	163	267	228	1,120
	1960	508	178	315	281	1,282
	1961	587	214	410	331	1,542
Gross national product	1958	2,113	532	624	255	3,524
	1959	2,316	579	710	323	3,928
	1960	2,484	652	673	411	4,220
	1961	2,692	683	756	469	4,600
Total final uses	1958	2,541	684	906	420	4,551
	1959	2,778	742	977	551	5,048
	1960	2,992	830	988	692	5,502
	1961	3,279	897	1,166	800	6,142

Imports of finished products tended to fluctuate more from year to year than imports of raw materials. This was particularly noticeable in the sphere of investments, where the import component is affected by the annual changes in the imports of ships, aircraft, and various types of equipment.

The weight of imported manufactures within private consumption declined in 1959 owing to the suspension of food surpluses from the United States, but rose again in 1960 and 1961. This was partly the result of larger imports of electrical appliances and household utensils, but mainly of the bigger volume of tourism.

The increase in the import component during 1961, especially the larger proportion of imported raw materials in local output, was apparently caused by the excess demand and the price increases that occurred during that year which made imports relatively cheaper (see Table II-10).

It must be stressed that the calculation of import components was made at constant 1958 prices. Changes in these import components thus reflect the real

fluctuations in the proportion of imports within total uses. However, since GNP prices rose faster than import prices during these years, the import component at current prices was smaller.

TABLE II-9
Import Components of Final Uses, 1958-61
(in percentages—at 1958 prices)

	Year	Private consump- tion	Public consumption	Gross investment	Exports	Total
Overall import component	1958	16.8	22.2	31.1	39.3	22.6
	1959	16.6	22.0	27.3	41.4	22.2
	1960	17.0	21.4	31.9	40.6	23.3
	1961	17.9	23.9	35.2	41.4	25.1
Percentage of imported raw materials in national output ^a	1958	14.1	5.0	14.5	39.3	15.5
	1959	14.3	5.2	13.1	41.4	16.1
	1960	14.5	5.0	13.6	40.6	16.6
	1961	15.2	5.8	14.2	41.4	17.6
Percentage of imported finished products in final uses	1958	3.2	18.1	19.4	—	8.4
	1959	2.7	17.7	16.4	—	7.2
	1960	2.9	17.3	21.2	—	8.0
	1961	3.2	19.2	24.4	—	9.1

^a The national output = GNP plus imported raw materials.

4. PRICES

GNP prices rose in 1961 by more than 8 per cent. Since import prices fell, the rise in average consumption and investment prices was slightly smaller, totalling some 7 per cent. The biggest increase (over 8 per cent) took place in investment prices. This was due chiefly to the particularly steep rise in building prices, which in turn was caused by the greater demand for residential housing and the inelastic supply in the building sector, which was short of manpower. The prices of private consumption rose by 6 to 6.5 per cent. The rise in public consumption prices was similar.¹

¹ It must be noted that public consumption prices only seemingly reflect the prices of services provided by the public sector, since there are no market prices for such services. Indeed, these prices are merely costing estimates based on the weighting of the increases in the prices of the public sector's purchases as well as of increases in the wage and salary rates paid by this sector.

The main factor increasing the prices of local output was probably the rapid pace of monetary expansion, which was caused by the conversion of foreign currency and the extension of bank credit. The money supply already began to expand rapidly in 1960, and continued to do so until the middle of 1961. The additional demand created by this expansion caused a steep rise in the prices of commodities which did not have to face competition from imports, such as certain agricultural produce, buildings, and services.

There was virtually no change in import prices. In the case of some imported goods, their cost abroad declined while the effective exchange rate went up somewhat (see Table II-10).

TABLE II-10

Changes in Import and GNP Prices, 1959-61

	<i>Per cent increase or decrease (-) as compared with preceding year</i>		
	<i>1959</i>	<i>1960</i>	<i>1961</i>
Import prices (in foreign currency)	-2.9	-0.1	-1.6
Effective rate of exchange	2.8	2.3	1.8
Import prices in IL.	-0.2	2.2	0.2
GNP prices	3.5	3.4	8.3
Relative change in level of GNP prices as compared with import prices	3.7	1.2	8.1

5. INCOMES

The real increase of 9 per cent in the gross national product and the 8 per cent rise in GNP prices produced an 18 per cent increase in the value of GNP and in the national income. The rate of increase in direct tax revenue exceeded the rate of increase in the national income during the period 1959-61. Nevertheless, the weight of taxes in the national income is not so large as to create a sizeable difference between the rate of expansion of national income and that of disposable income (see Table II-11).

The rate of increase in private disposable income was similar to the rate of increase in consumption at current prices. There is thus reason to assume that there were no changes in the rate of saving from disposable income.

TABLE II-11
National Income, by Economic Sectors, 1960-61
(IL. million)

<i>Sector</i>	<i>1960</i>	<i>1961</i>	<i>Per cent increase over preceding year</i>
Agriculture, afforestation, and fishing	413	477	15.5
Industry, mining, and minerals	810	963	20.2
Building	240	308	28.3
Public services	75	94	25.3
Transport and communications	269	317	17.8
Finance, insurance, real estate, and rent (net)	338	409	21.0
Government, local authorities, National Institutions, and non-profit institutions	783	899	14.8
Commerce and other services	701	833	18.8
<i>Sub-total</i>	3,620	4,300	18.8
Less: Depreciation adjustment	111	132	18.9
Net domestic product	3,509	4,168	18.8
Less: Net payments to production factors abroad	73	93	27.4
National income at factor cost	3,436	4,075	18.6

SOURCE: Central Bureau of Statistics.

6. THE RETURN ON PRODUCTION FACTORS

In 1961 there appears to have been a slight increase in the wage-earners' share of total income,¹ in contrast to the years 1956 to 1960 when their share decreased. This decline indicates that income per worker has been rising more slowly than the average output per worker.

Income not deriving from wages or salaries is partly payment for work and partly return on capital. The growing gap between the income of wage-earners and that of other gainfully employed persons during the period

¹ The basis for estimating the total income of the economy was not the direct estimate of national income but an estimate of the net national product based on an estimate of economic uses. The reason for this procedure was that there seems to be a smaller margin of error in the series of national product estimates. In the national accounts there is almost invariably a big "errors and omissions" item, which fluctuates considerably from year to year.

TABLE II-12

*National Income, Private Income, and Disposable Income, 1958-61**(IL. million)*

	1958	1959	1960	1961	<i>Per cent increase over preceding year</i>		
					1959	1960	1961
Gross national product	3,524	4,058	4,506	5,323	15.2	11.0	18.1
Less: Depreciation	283	316	361	430			
Net national product	3,241	3,742	4,145	4,893	15.5	10.8	18.0
Less: Errors and omissions	73	127	152	72			
Net national product (adjusted)	3,168	3,615	3,993	4,821	14.1	10.5	20.7
Less: Net indirect taxes	421	510	557	746	21.1	9.2	33.9
National income	2,747	3,105	3,436	4,075	13.0	10.7	18.6
Transfers to the public from the public sector	161	179	231	262			
Transfers to the public from abroad	180	232	313	347			
Less: Transfers by the public to the public sector	30	39	46	58			
Income of the public sector from property	60	71	93	97			
Private income	2,998	3,406	3,841	4,529	13.6	12.8	17.9
Less: Income tax	243	269	320	379 ^a	10.7	19.0	18.4
National Insurance	73	81	103	126	11.0	27.2	22.3
Private disposable income	2,682	3,056	3,418	4,024	13.9	11.8	17.7
Private consumption	2,541	2,850	3,166	3,686	12.2	11.1	16.4

^a Including Absorption Loan.

1956-60 was partly due to an increase in the capital stock per worker. As the economy became more capital-intensive, the relative contribution of capital to output rose, with the result that income representing return on capital grew more rapidly than income representing return on labor. To analyze the changes in the return on capital, one must first isolate that part of total income which represents the return on capital (inclusive of the part deriving from the increased quantity of capital). To isolate the share of capital in total income, it is necessary to deduct from the latter not only income from wages and salaries, but also that part of the income of self-employed persons which constitutes the return on their work. This deduction was made here on the assumption that the average return on the work of a self-employed person

TABLE II-13

Income from Wages and Income Other than Wages, 1955-61

		1955	1956	1957	1958	1959	1960	1961
Income from wages and salaries ^a	IL. million	977	1,165	1,323	1,441	1,617	1,778	2,115
Incomes other than wages and salaries	IL. million	833	1,029	1,198	1,432	1,671	1,883	2,125
Net domestic product at factor prices ^b	IL. million	1,810	2,194	2,521	2,873	3,288	3,661	4,240
Percentage of wages within total income of the economy		54.0	53.1	52.5	50.3	49.1	48.7	49.7
Number of wage-earners	Thousands	372	393	416	428	450	465	495
Number of self-employed	Thousands	205	211	222	227	230	237	240
Total number of gainfully employed persons	Thousands	577	604	638	655	680	702	735
Percentage of wage-earners among gainfully employed persons		64.5	65.1	65.2	65.3	66.2	66.2	67.3
Average annual income per wage-earner	IL.	2,626	2,964	3,180	3,367	3,593	3,824	4,273

^a Total wages as shown here are smaller than the estimates published by the Central Bureau of Statistics since they exclude imputed payments to members of cooperatives, to persons providing services in kibbutzim, and to labor used for the maintenance of army camps, all of which are included in the C.B.S. estimates.

^b Gross national product, less net depreciation and net indirect taxes, plus net payments to production factors abroad.

is equal to the average return on the work performed by a wage-earner (see Table II-14). The ratio between the remaining income and the economy's fixed capital¹ shows that the return on capital, which amounted to 8 per cent in 1955, gradually increased to 16 or 17 per cent during the years 1959 and 1960, but declined slightly in 1961.

Other sources likewise confirm that the general level of profits in the Israel economy has been rising. An analysis of industrial surveys covering the years 1955 to 1958 (within the framework of research carried out by the Falk Institute) indicates that there has been an increase in the profitability of industry.² The income of farmers rose by 150 per cent between 1955 and 1961, while the sum total of wage payments in the agricultural sector increased by only 80 per cent.

The exactitude of the above estimates should be accepted with some reservation. In particular, one should not draw conclusions as regards small fluctuations from year to year. Nevertheless, there appears to be some link between the tendency towards a declining return on capital in 1961 and the rise in wages in the middle of that year which was not accompanied by price increases. The higher wages were apparently paid out of profits accumulated in the preceding years.

It must be stressed that the conclusion concerning the rise in profits does not depend upon assumptions concerning the amount of income derived by the self-employed from their work, or upon the rate of interest. If, for instance, we assume that the income of the self-employed is 10 per cent higher than that of wage-earners, we find that the return on capital would have risen from 6 per cent in 1955 to 15 per cent in 1959, and declined to 14 per cent in 1961. In contrast to the general trend clearly established by these estimates, the absolute magnitudes must be accepted with some reservation, since there are possibilities of error in the estimates of income, employment, and capital alike. One should note that, owing to lack of data, a number of factors influencing the return on capital were not taken into account. One of these factors is stocks. If we include stocks in the total of invested capital, we reduce the rate of return on capital in every one of the years referred to. On the other hand, there is a factor which regularly reduces the statistical return on capital or the earnings of the self-employed from their work (which is shown as a residue in Table II-14). Here we have related the return on capital to the total volume of capital existing in the economy. This assumption is valid only if the residue was divided equally over all the capital. But in fact this did not happen. A large proportion of investments in the Israel economy is financed with the aid of

¹ Excluding capital invested in residential housing from total capital and excluding the imputed rent for such housing from total income. The value of capital has been calculated on the basis of replacement value.

² The Falk Institute for Economic Research in Israel, Fifth Annual Report, 1959 and 1960, pp. 160-162.

TABLE II-14
The Return on Capital,^a 1955-61
(IL. million)

	1955	1956	1957	1958	1959	1960	1961
Total wages paid	977	1,165	1,323	1,441	1,617	1,778	2,115
Imputed income from work of self-employed ^a	538	625	706	764	826	906	1,026
Total return on labor	1,515	1,790	2,029	2,205	2,443	2,684	3,141
Net domestic product, at factor cost	1,810	2,194	2,521	2,873	3,288	3,661	4,240
Total return on capital	295	404	492	668	845	977	1,099
Less: Rent	117	144	160	172	193	213	253
Total return on productive capital	178	260	332	496	652	764	846
Productive capital ^b	2,146	2,621	3,093	3,504	3,950	4,537	5,415
Rate of return on productive capital (%)	8.3	9.9	10.7	14.2	16.5	16.8	15.6

^a On the assumption that the average income from work is identical for the self-employed and wage-earners.

^b After deduction of investments in residential housing.

Government loans, the interest on which is normally less than 8 per cent and is certainly lower than the actual return on such capital. The difference between the income from invested capital and the interest paid on loans remains in the hands of the recipients of the loans who invested the balance of the capital required. In order to estimate the return on the capital invested by private investors, the residue must therefore be related not to the total amount of capital invested in the economy, but only to their paid-up capital, which is very much smaller. Owing to lack of data, this calculation was not made here, but there can be no doubt that the return on paid-up capital thus obtained would be higher than the return on capital calculated in relation to the economy's total capital.