

## CHAPTER V

### DOMESTIC INVESTMENT

GROSS DOMESTIC investment totalled IL. 1,327 million in 1961 as against IL. 1,036 million the year before. The real increase came to 18 per cent, whereas in 1960 the level of domestic investment hardly rose at all. Investment prices went up by 9 per cent in 1961, so that the increase at current prices amounted to about 28 per cent.

During the year under review 28 per cent of the additional resources at the disposal of the economy were channelled to investment, compared with only 3 per cent in 1960. Some 85 per cent of the increase in real investment, which in 1961 totalled IL.190 million, went to industry, transportation, and residential housing.

Net investment expanded by as much as 25 per cent in real terms, after having declined in 1960 owing to the non-growth of gross investment. At current

TABLE V-1  
*Domestic Investment, 1958-61*

	1958	1959	1960	1961
<i>IL. million</i>				
<i>Gross investment</i>				
At current prices	906	993	1,036	1,327
At 1958 prices	906	977	988	1,166
<i>Net investment</i>				
At current prices	623	677	675	897
At 1958 prices	623	666	649	811
<i>Per cent</i>				
<i>Real increase or decrease (-)</i> <i>as against preceding year</i>				
Gross investment	4	8	1	18
Net investment	2	7	-3	25
Share of gross investment in additional resources	16	14	2	28

SOURCE: Central Bureau of Statistics.

prices, the gain amounted to over 30 per cent. This growth was made possible by the 18 per cent increase in the import surplus and by a 380 per cent increase in the economy's net saving. As a result of the latter development, the weight of saving within net investment rose from 5 to 17 per cent. In view of the fact that saving declined in 1960, as did net investment despite the growth of the import surplus, the developments in 1961 must be regarded as encouraging. The increase in the volume of investment financed by the public sector did not keep pace with the overall rate of expansion, and hence the proportion of public financing declined from 53 per cent of the total in 1960 to 45 per cent in 1961. This decrease partly reflected Government policy, which was designed to reduce the weight of public funds in the security market so as to enable Government companies and other enterprises to increase their own capital by issuing securities.

The rise in investment prices in 1961 was greater than in 1960, when the stability prevailing in 1958 and 1959 had already been undermined. Prices of

TABLE V-2  
*Domestic Investment, by Sectors, 1960-61*

Sector	At current prices		1961 at 1960 prices	Increase or decrease (-) in real investment (%)	Percentage of total investment		Percentage of additional investment in 1961
	1960	1961			1960	1961	
	IL. million						
Agriculture	120	117	109	-9	12	9	-6
Irrigation <sup>a</sup>	56	71	66	18	5	6	6
Industry	184	244	222	21	18	18	20
Mining	14	16	14	—	1	1	—
Electric power	37	44	41	11	4	3	2
Transportation	155	239	232	50	15	19	41
Commerce and services	164	205	187	14	16	15	12
<i>Total investment other than housing</i>	730	936	871	19	71	71	75
<i>Investment in housing</i>							
Private building	166	202	182	10	16	15	8
Public housing projects	140	189	170	21	13	14	17
<i>Total</i>	306	391	352	15	29	29	25
<i>Total investment</i>	1,036	1,327	1,223	18	100	100	100

<sup>a</sup> National and regional water projects only.

SOURCE: Central Bureau of Statistics.

imported investment goods rose by 6 per cent in 1961, after having advanced by 1 per cent in 1960. This was due to the higher prices of investment goods in the international market, as well as to the imposition of duties on equipment. Prices of locally manufactured equipment rose by 5 per cent. A greater increase occurred in the prices of investment goods deriving from agricultural output (9 per cent) and in the cost of buildings and earthworks (11 per cent). The higher cost of construction was due to wage increases and higher building material prices, following a considerable growth in the volume of building.

## 1. INVESTMENT BY SECTORS

### (a) *Residential building*

The increase in the volume of residential construction during 1961 reached 15 per cent, following a decline of 5 per cent the year before. Most of the expansion took place in publicly financed building, the volume of which was 22 per cent larger than in 1961—owing mainly to the faster stream of immigration and the consequent expansion of immigrant housing. There was also an increase in private building, which totalled 9 per cent as compared with 1 per cent in 1960, and may have been partly due to expectations of devaluation.

Side by side with the fluctuations in the volume of residential building in recent years, especially in that of immigrant housing financed by public funds, there can be discerned a downward trend in the relative share of residential building in overall investments, from 33 per cent in 1956 to 29 per cent in 1961.

### (b) *Investment in productive sectors*

The most conspicuous investment growth in the productive sector during the year under review occurred in transportation, where there was an advance of 50 per cent. This was due to the large-scale purchase of commercial aircraft following El Al's changeover to jet planes, as well as to the acquisition of more ships. Some IL.70 million was invested in motor vehicles during the year, and a further IL.11 million in harbors (IL.5 million in Ashdod harbor and IL.6 million in Haifa harbor).

The rapid increase in the volume of investment in the transportation sector continued a trend characteristic of recent years. Between 1956 and 1961 the average annual growth amounted to 17 per cent, which considerably exceeded the rate of increase in total investment. The expansion in this sector was the result of a deliberate Government policy designed to develop Israel shipping and aviation.

Investments in agriculture declined in 1961, both absolutely and as a percentage of total investment. The decrease took place chiefly in farm buildings, afforestation, and land reclamation. On the other hand, investments in agri-

cultural equipment, which increase the degree of mechanization in this sector, were expanded, as were those in livestock. The lower investment in this sector was due to two main factors: (1) the scale of unemployment relief work on land reclamation and afforestation, which is financed from public funds, was reduced following the improvement in the overall employment situation, and (2) hardly any new investments were made in the poultry farming branch, owing to the policy of the Poultry Council which feared a decline in the profitability of this branch.

The contraction of agricultural investment thus continued for the third year running. The main reason for this was the smaller degree of immigrant absorption in agricultural settlements, immigrants being sent mainly to the development towns since farm production had reached saturation point. The volume of unemployment relief work has been declining in recent years, and this has also tended to reduce investments in agriculture.

Investments in irrigation increased by 18 per cent in 1961. As in former years, they were mainly connected with the national water project, which is designed to channel surplus water from the north of the country to the south and to create a unified national irrigation system.

Investments in industry continued to grow rapidly in 1961, at the rate of 21 per cent. No reliable data are available as yet concerning the expansion of investments in the various sub-branches of industry or the relative volume of investment in existing and new enterprises.

During the period 1958–61 the average rate of increase in industrial and mining investment was faster than that in the other productive sectors. This was due to the industrialization policy, which was expressed in the allocation of a considerable proportion of Development Budget funds to these two sectors, the granting of tax concessions, the permitting of accelerated depreciation, the provision of vocational training, efforts to attract foreign capital, and the imposition of high customs duties on competing imports. Until 1961 imports of industrial equipment were largely exempt from customs duty; this encouraged the expansion of investments in this sector, but at the same time it denied protection to local equipment factories against foreign competition. In April 1961 the situation changed with the imposition of a 20 per cent customs duty on equipment.

The greater demand for industrial products caused by the steady rise in incomes likewise helped the development of industry.

In the electric power branch, the building of a second power station at Ashdod was begun, while work continued on a second station at Haifa. Investment in this branch was larger than in 1960, though it has been tending to decline in recent years, owing to the fact that most of the investments in the national electricity network were completed by 1956 and because technological progress has caused a certain reduction in the investment required to produce one unit of electric power.

TABLE V-3

*Investments and Average Rates of Expansion, by Sectors, 1956-61*  
(in percentages)

<i>Sector</i>	<i>Composition of investments</i>		<i>Average annual increase or decrease (-)</i>
	<i>1956</i>	<i>1961</i>	
Investments in housing	34	29	7
Investments in productive sectors	66	71	11
<i>Total investment</i>	100	100	10
<i>Investments in productive sectors</i>			
Agriculture	20	12	1
Irrigation	9	8	8
Industry and mining	23	27	16
Electric power	11	5	-1
Transportation	19	26	17
Commerce and services	18	22	16
<i>Total investment in productive sectors</i>	100	100	11

SOURCE: Central Bureau of Statistics.

The expansion of investment in the commerce and services sector was due to the intensified construction of hotels and business premises. On the other hand, investments in public buildings increased only slightly.

In recent years the commerce and services sector has been expanding continuously, owing to investments in the hotel branch, as well as to those connected with the erection of the Hebrew University, the Hadassah Medical Center, and various Government buildings in the capital.

## 2. INVESTMENTS BY TYPE OF ASSETS

In 1961 there was a real increase of 33 per cent in investment in equipment, as compared with an increase of 18 per cent in total domestic investment; consequently, the share of equipment in total investment rose during the year. Most of the additional assets were channelled to the industrial and transportation sectors—approximately IL. 90 million out of a total of IL. 107 million. Local production of equipment was expanded by only 22 per cent; hence the relative share of imported equipment went up, reaching 63 per cent of the total investment in equipment. The faster rate of increase for imported equipment was caused by the larger proportion of aircraft and ships within total investments in equipment.

TABLE V-4  
Domestic Investment, by Type of Asset, 1960-61  
(IL. million)

Type of asset	1960	1961	1961 at 1960 prices	Increase or decrease (-) in real investment (%)	Percentage of total investment	
	at current prices				1960	1961
Agricultural output of capital goods	62	62	57	-8	6	5
Buildings and earthworks	620	770	696	12	60	57
Equipment	354	495	470 <sup>a</sup>	33	34	38
<i>Total investment</i>	1,036	1,327	1,223	18	100	100
<i>Investment in equipment</i>						
Locally manufactured equipment	90	115	110	22	26	24
Imported equipment	209	298	289	38	61	63
Installation costs	46	62	60	30	13	13
Taxes	9	20	—	—	—	—
<i>Total investment in equipment</i>	354	495	459 <sup>b</sup>	33	100	100

<sup>a</sup> Including taxes.

<sup>b</sup> Excluding taxes.

SOURCE: Central Bureau of Statistics.

The expansion of investment in buildings and earthworks was due to the larger amounts invested therein by the commerce and services sector, as well as to the expansion of residential building.

As already stated, the proportion of equipment (particularly that obtained from abroad) in total investment rose during 1961. This development reduced the pressure of demand for labor during a year when the economy was, generally speaking, experiencing conditions of full employment and a certain shortage of supply was even felt. However, this development also led to a serious worsening of the balance of payments. It should be noted that the weight of investment goods such as ships and aircraft, the operation of which will not lead to a significant rise in the demand for labor during the coming years, was increased.

### 3. CAPITAL STOCK

The capital stock of the productive sectors was 12 per cent larger at the beginning of 1961 than at the beginning of the previous year. The number of gainfully employed persons rose by 5 per cent, so that the capital stock per

worker increased by only 6 per cent. The latter figure represents the increase in the capital intensity of the Israel economy during 1961.

In agriculture, the increase in capital stock was smaller than average, but since the number of gainfully employed in this sector did not rise, the capital stock per worker increased to the same extent as total capital stock.

In industry and mining, the rate of increase in capital stock per worker was small, owing to the large growth of 8 per cent in the number of gainfully employed. One of the factors responsible for this may have been the exploitation of the sector's surplus production capacity.

Dwelling capital stock per head rose by 4 per cent in 1961, reflecting the continued trend towards better housing conditions despite the stepping-up of immigration.

TABLE V-5  
Capital Stock,<sup>a</sup> 1960-61

Sector	1960	1961	Real increase		Real increase in capital stock per gainfully employed <sup>b</sup>	
	at 1960 prices	IL. million	Annual average 1956-61	From 1960 to 1961	Annual average 1956-61	From 1960 to 1961
			per cent		per cent	
Agriculture	1,328	1,410	8	6	6	6
Irrigation	843	927	8	10		
Industry and mining	1,626	1,819	12	12	5	2
Transportation	1,180	1,395	13	18	8	8
Electric power	437	475	10	9	13	13
Commerce and services	1,040	1,218	18	17		
<i>Total non-dwelling capital stock</i>	6,454	7,244	12	12	7	6
Dwelling capital stock	4,161	4,508	9	8	5	4
<i>Total capital stock</i>	10,615	11,752	11	11	Real increase in dwelling capital stock per person <sup>c</sup>	

<sup>a</sup> Capital stock at end of year.

<sup>b</sup> Capital stock at the beginning of the year divided by number of gainfully employed during the year. Total includes capital stock of electric power sector which, however, does not appear in the breakdown by sectors.

<sup>c</sup> Capital stock in housing sector at the end of the year divided by the population at the end of the year.

SOURCE: A. L. Gaathon, "Capital, Employment and Output in Israel, 1950 to 1959", Jerusalem, 1961.

#### 4. THE FINANCING OF INVESTMENT

The proportion of investment financed from public funds had remained stable for several years, at about 52-54 per cent, but in 1961 such investments accounted for only 45 per cent of the total. Although the nominal value of the public funds invested during the year under review rose by 7 per cent, there was no real growth, since prices also went up.

The decline in the proportion of public financing was largely due to the Government's policy of directing enterprises which formerly had been receiving Development Budget loans to the security market. This proved effective in 1961 as regards electric power, industry, and mining, and various enterprises in these sectors financed a larger share of their investments through the issue of securities. The increased profitability of industry also appears to have enhanced the possibilities of self-financing.

In the transportation sector, the shipping companies and El Al airline partly financed their purchases of ships and aircraft through direct loans from abroad, which were not reflected in the Government budget.

In the agricultural sector, the funds allocated for unemployment relief work were cut. On the other hand, the amount invested in irrigation projects from public funds was increased, so that the decline in the weight of public financing in this sector was relatively slight.

TABLE V-6

*Public Financing of Investments, by Sectors, 1958-61*  
(at current prices)

Sector	1960			1961			Share of public financing in investment	
	Total investment	Public financing	Share of public financing	Total investment	Public financing	Share of public financing	1958	1959
	IL. million		(%)	IL. million		(%)	(%)	
Agriculture and irrigation	176	148	84	189	155	82	74	72
Industry	184	72	39	244	81	33	42	32
Mining	14	7	50	16	3	19	75	71
Electric power	37	2	5	44	3	7	69	54
Transportation	155	119	77	229	123	54	59	68
Commerce and services	164	93	57	205	97	47	48	56
Residential housing	306	116	38	391	133	34	44	44
<i>Total</i>	1,036	557	54	1,318	595	45	54	52



The smaller weight of public financing within the investments of the commerce and services sector was due to the fact that the share of public services declined while that of hotels and business enterprises increased.

## 5. INVESTMENT IN STOCKS

The investment data appearing in this chapter do not include changes in stocks, except those in the livestock branch. A partial survey, which covered stocks valued at IL. 550 million, shows that industrial stocks expanded by some 8 per cent (at current prices) in both 1960 and 1961. Stocks of agricultural raw materials contracted, while those of fuel, food, and building materials remained virtually unchanged.