

CHAPTER VII

PUBLIC SECTOR OPERATIONS¹

1. THE PUBLIC SECTOR²—CONSOLIDATED ACCOUNT

THE SCOPE of public sector operations³ rose in 1961 by IL. 290 million, or 14.1 per cent, above the 1960 level, and totalled IL. 2,350 million. In 1960 the annual rate of increase was lower—11.2 per cent.

The expansion covered all classes of expenditure and particularly current expenditure—wages and salaries and export subsidies. Public consumption went up by approximately 14 per cent, of which about 6 per cent was due to higher prices, while the remaining 8 per cent or so represented a rise in real terms. Outlay on investment and the financing of investment, including that in housing, increased by 13 per cent, of which about 8 per cent was due to the rise in prices and 5 per cent represented the real rate of growth; in 1960 there was no increase at all in these expenditures.

On the receipts side, there was rise in tax revenue, particularly from indirect taxes, of 25 per cent compared with 1960, or in the substantial amount of IL. 285 million. This was practically equal to the total growth of expenditure and, together with a marked increase in domestic long-term loans, made possible the contraction of short-term indebtedness. Outstanding short-term balances⁴ declined by IL. 20 million, as compared with a rise of IL. 90 million in 1960 and of IL. 85 million in 1959.

The marked increase in tax revenue also brought about an unprecedented development in public sector finances: For the first time, current income exceeded total current expenditure, including that of the National Institutions, and the

¹ The data in this chapter are based largely on financial reports of the public sector authorities and, in part, on data prepared by the Central Bureau of Statistics, and, generally speaking, refer to calendar years. Data for the year under review are based on provisional monthly summaries, since reports for the financial year 1961/62 have not yet been published. Data for the years 1959 and 1960 have been revised.

² The Government (including the National Insurance Institute), the National Institutions (the Jewish Agency, the World Zionist Federation, the Jewish National Fund, and the Keren Hayesod), and the local authorities (including the religious councils). Current income and expenditure of the trading enterprises (such as the Post Office, Israel Railways, and municipal waterworks) have been excluded, except for their surpluses or deficits.

³ With long-term loans recorded on a gross basis, and short-term loans on a net basis.

⁴ After deduction of deposits and receivables outstanding.

TABLE VII-1

The "Balance of Payments" of the Public Sector, by Type of Receipts and Payments, 1959-61
(IL. million)

Receipts	1959	1960	1961	Increase or decrease (-)		Payments	1959	1960	1961	Increase or decrease (-)	
				From 1959 to 1960	From 1960 to 1961					From 1959 to 1960	From 1960 to 1961
Transfer payments and transaction in goods and services											
Taxes ^a	989	1,155	1,439	166	284	Purchases:					
Miscellaneous domestic receipts	175	208	229	33	21	On current account ^a	825	924	1,055	99	131
Capital sales abroad	9	22	—	13	-22	On capital account	185	188	223	3	35
Total	1,173	1,385	1,668	212	283	Transfer payments and grants	187	238	268	51	30
Unrequited receipts from abroad	236	288	263	-8	35	Subsidies	153	187	239	34	52
Total	1,409	1,613	1,931	204	318	Total	1,350	1,537	1,785	187	248
Transactions in financial claims											
Collections on account of long-term loans	37	52	56	15	4	Long-term loans granted and participation in share capital	379	374	415	-5	41
Long-term loans received:						Redemption of long-term loans:					
Foreign	227	251	231	24	-20	Foreign	97	107	116	10	9
Domestic	93	52	149	-41	97	Domestic	25	40	33	15	-7
Short-term credit (net):											
Foreign	19	36	25	17	-11						
Domestic ^b	52	58	-17	6	-75						
From the banking system ^c	14	-4	-26	-18	-22						
Total	442	445	418	3	-27	Total	501	521	564	20	43
Total receipts	1,851	2,058	2,349	207	291	Total payments	1,851	2,058	2,349	207	291

^a Excluding customs and purchase tax paid by Government offices or received in the form of bank guarantees.

^b Excluding credit from the banking system; including short-term securities.

^c Including long-term loans and securities.

SOURCE: Tables VII-6, VII-15, and VII-17.

resulting surplus or "saving" amounted to IL. 50 million. Until 1961, the public sector had always been characterized by a dissaving.

In continuation of the trend which started after the Sinai Campaign, total public sector receipts from abroad—including loans (net of repayments) and unrequited transfers—declined relative to total receipts. They also declined in absolute terms; while unrequited transfers rose, this increase was more than offset by the contraction of receipts from long- and short-term loans and from the continued rise in redemption payments on long-term loans.

(a) *The transactions of the public sector*

The "balance of payments" of the public sector for the years 1959 to 1961, by types of receipts and payments, is presented in Table VII-1. In this table a differentiation is made between transfers and transactions in goods and services—the "real account"—on the one hand, and transactions in credit—the "financial account"—on the other.¹

In 1961 receipts from taxes and domestic and foreign transfers exceeded payments on current and capital account by over IL. 145 million, as compared with IL. 75 million in 1960 and IL. 60 million in 1959. Parallel thereto, net loans granted by the public sector to other sectors of the economy—for development and housing purposes—exceeded the increase in net liabilities incurred at home and abroad.

The surplus of receipts in the "real account" was derived entirely from unrequited transfers from abroad. Current expenditure and investment considerably exceeded local income, principally from taxes. While the gap between them—which constitutes the "demand surplus" of the public sector²—has tended to decline in recent years, in 1961 it still totalled over IL. 115 million.

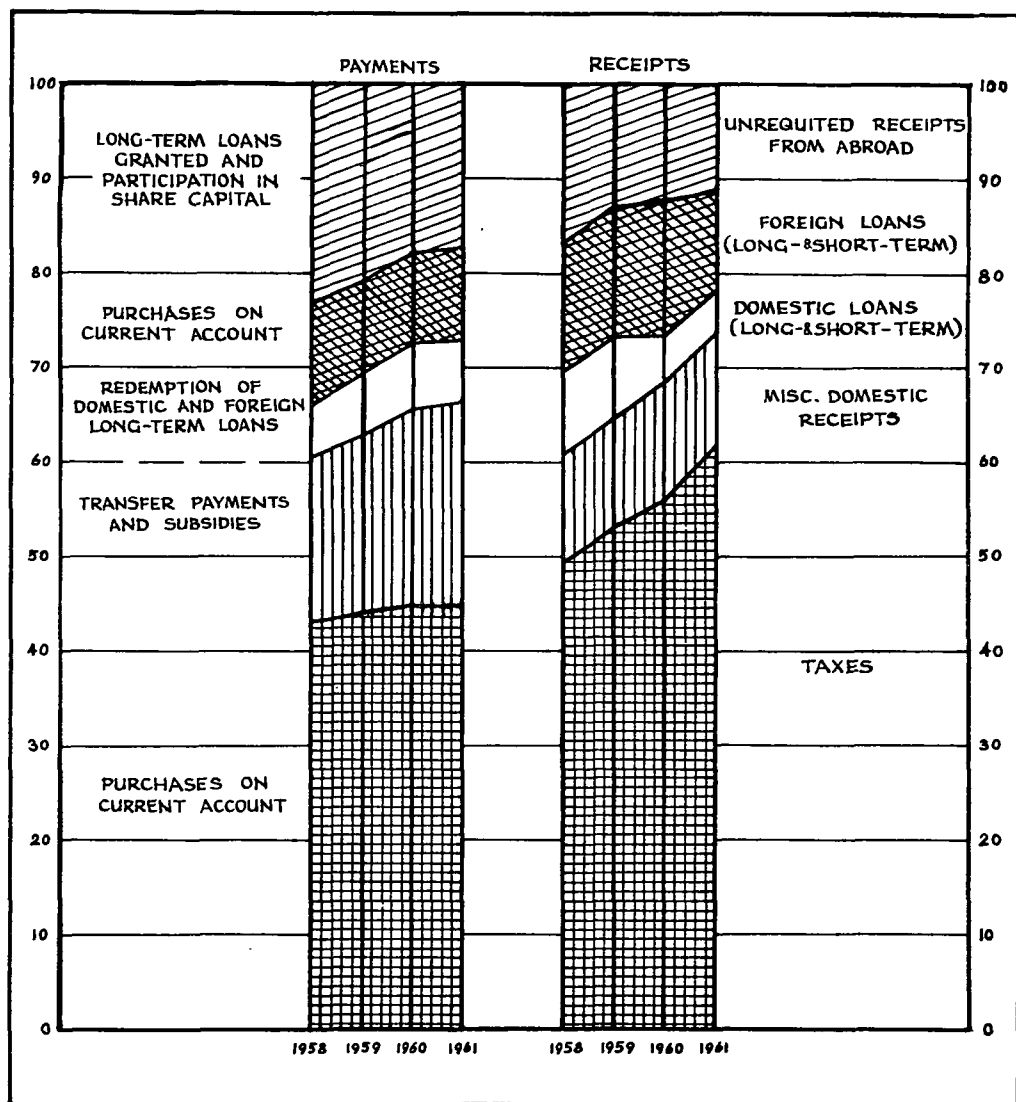
Diagram VII-1 shows the development of public sector receipts and payments in the last four years. On the receipts side, there was a relative increase during this period in taxes and miscellaneous domestic receipts, while receipts from domestic borrowing—and in 1961 borrowing from abroad as well—declined. There was also a gradual relative decline in unrequited transfers from abroad. It should be pointed out that the relative decrease in receipts from domestic borrowing was due to the gradually reduced resort to bank credit during this period, and in 1961 also to the contraction of short-term credit from

¹ The commodities and services account is chiefly a current one, since the public sector has not been directly debited for most of its capital outlay, the latter generally being classified as loans to other economic sectors (including the financing of residential construction through the Government's Development Budget and the financing of agricultural settlement by the Settlement Department of the Jewish Agency). Explanatory notes on the method of constructing the "balance of payments" in this chapter were given in the Appendix to the 1959 Bank of Israel Report (in Hebrew only).

² See discussion in Chapter XV—"Flow of Funds".

DIAGRAM VII-1

Receipts and Payments of the Public Sector, 1958-61 (percentages)



other domestic sources; the relative share of domestic long-term loans rose over these four years.

On the payments side, the diagram shows that during the period as a whole there was a relative rise in current outlay (purchases, transfer payments, and subsidies) and in debt redemption, while expenditure on investment and on the

financing of investment declined relatively, although in 1961 there was practically no change in the composition of payments as compared with 1960. The relative decline in investment outlay was related to the acquisition of new sources of finance outside of the Government's Development Budget for the investment requirements of public sector companies in the electric power, quarrying, and mining fields,¹ and also to the fact that in recent years no new settlements have been established by the Settlement Department of the Jewish Agency.

Taxes rose, not only relative to other receipts of the public sector, but also relative to total income in the economy. The tax burden, no matter how defined—whether as a percentage of total national income or as a percentage of private income (including domestic and foreign transfers)—was on the rise during the period under review. A similar trend is evident when net taxes (i.e. after deduction of subsidies) are taken as a percentage of net national product or of gross national product (see Table VII-2).

In this connection, there should be pointed out the particularly large increase in import levies and export premiums, both of which were linked with the rise in the effective exchange rate. About 35 per cent of the investment in tax revenue during the years 1958 to 1961 came from taxes on imports. At the same time, 85 per cent of the increase in subsidies was spent on exports. In absolute terms, import levies grew more rapidly than premiums on exports because imports were twice as large as exports.²

The composition of receipts and payments varies among the different bodies constituting the public sector (see Table VII-3). The Government and the local authorities depend largely on taxes and other domestic levies, and the National Institutions on unilateral transfers from abroad and on borrowing. The local authorities are also dependent to no small extent on grants and loans from the central Government, for over 90 per cent of all taxes are levied by the Government, while the local authorities levy only 9 per cent, though their share in the combined current outlay of the Government and the local authorities comes to as much as 12.5 per cent.

On the payments side, current expenditure of the Government is relatively greater than that of the rest of the public sector, largely because the burden of defense and subsidies is borne almost exclusively by it. All segments of the public sector devote a considerable part of their budgets to raising the investment level in the economy—in the case of the local authorities and the Jewish National Fund, by direct investment, and in the case of the Government and the Jewish Agency, largely by financing investments on the part of other sectors,³ whether in cash or in kind. The relative weight of long-term loan redemption is particularly large in the accounts of the National Institutions, because of the

¹ See the section dealing with financing from the Government's Development Budget.

² For developments in 1961, see the section dealing with indirect taxes of the Government.

³ See footnote 1 on page 82.

TABLE VII-2
The Tax Burden, 1958-61

	1958	1959	1960	1961
<i>IL. million</i>				
(1) Direct and indirect taxes ^a	810	989	1,155	1,439
(2) Subsidies ^a	112	153	187	239
(3) Net tax (1) - (2)	698	836	968	1,200
<i>Per cent</i>				
Taxes as a percentage of:				
National income	29.5	31.9	33.6	35.3
Private income ^b	27.0	29.0	30.0	31.8
Net taxes as a percentage of:				
Net national product ^c	21.5	22.3	23.4	24.5
Gross national product	19.8	20.6	21.5	22.5

^a The data on indirect taxes and subsidies in this chapter differ somewhat from those of the Central Bureau of Statistics which appear in Chapter II—"Sources, Uses, and Incomes"—in two respects: (1) customs duties and purchase tax paid by the public sector authorities have not been included here; and (2) the data here refer to cash income and expenditure during the calendar year. These differences, however, do not affect the percentages cited in this table.

^b National income plus net transfer payments to the public by the public sector and the rest of the world, less public sector income from property (interest and commission, dividends, and rent).

^c GNP less depreciation.

SOURCE: For taxes and subsidies—Table VII-1; other data—Central Bureau of Statistics (see Table II-12).

size and composition of their debts; whereas foreign loans received by the Government are for long periods, including the 30-year loans granted by the United States Government in the framework of the agricultural surplus program and 12-year loans in the framework of State of Israel Independence and Development Bonds, the greater part of the foreign loans received by the National Institutions are for a period not exceeding five years.

(b) *Public consumption*¹

Public consumption—current purchases of the public sector minus current sales—was 14 per cent larger in 1961 than in 1960 and totalled approximately IL. 1,045 million. In 1960 the rate of increase was 12.4 per cent. Prices rose

¹ The data on public consumption in this chapter differ somewhat from those of the Central Bureau of Statistics which are cited in Chapter II—"Resources, Uses, and Incomes". In this chapter customs duties and purchase taxes paid by the offices of the public sector have been deducted, all interest payments at home and abroad, other than payments within the sector, have been included, and municipal expenditure of collective and co-operative settlements (kibbutzim and moshavim) have been excluded.

TABLE VII-3

Composition of Receipts and Payments of Public Sector Authorities, 1961
(percentages)

	<i>Government</i>	<i>National Institutions</i>	<i>Local authorities</i>	<i>Total</i>
<i>Receipts</i>				
Taxes	68.5	—	45.6	61.3
Collections and miscellaneous receipts	10.6	7.8	22.6	12.1
Unrequited receipts from abroad	8.0	50.7	—	11.2
Long- and medium-term loans	16.7	12.9	11.3	16.2
Short-term credit (net)	-3.8	21.2	2.7	-0.8
Intrasector transactions (net)	—	7.4	17.8	—
<i>Total</i>	100.0	100.0	100.0	100.0
<i>Of which:</i>				
From domestic sources	(80.2)	(37.3)	(98.3)	(77.9)
From foreign sources	(19.8)	(62.7)	(1.7)	(22.1)
<i>Payments</i>				
Current purchases	43.7	34.6	50.0	44.9
Transfer payments and subsidies	23.3	12.9	11.6	21.6
<i>Total</i>	67.0	47.5	61.6	66.5
Purchases on capital account	5.4	10.6	33.6	9.5
Loans and participation in share capital	18.0	32.7	—	17.7
Redemption of long-term loans	6.1	9.2	4.8 ^a	6.3
Intransector transactions (net)	3.5	—	—	—
<i>Total</i>	100.0	100.0	100.0	100.0

^a Excluding repayment of debts to the Government.

by 6 per cent, mainly on account of increases in wages, and in real terms the growth therefore amounted to about 8 per cent. Public consumption constituted about 20 per cent of the gross national product in 1961, a rate that has remained practically unchanged during the past four years, whether calculated in current or in constant prices.

Wage and salary payments constituted 37 per cent of total public consumption; expenditure on defense and special budgets of the Government—34 per cent; interest payments—12 per cent; while the remaining 17 per cent was spent on purchases of goods and services for the current use of Government offices—including travel expenses of Government employees, postage, telephone

and office supplies, maintenance of vehicles, and current outlay of the Public Works Division.

Total wage and salary payments, other than those of the Ministry of Defense and the trading enterprises, increased by 13.3 per cent in 1961 as compared with 1960, and totalled over IL. 380 million.¹ The number of workers rose by 4 per cent, while the average wage per worker, including the increased cost-of-living allowance paid in the second half of the year, as well as advances and retroactive payments on account of wage revisions, rose by 9 per cent.

Interest payments in 1961 totalled IL. 125 million, of which over half was on account of foreign debts (at the exchange rate of IL. 1.80 per dollar) and the rest on account of domestic debts. These payments rose by only 10 per cent over the 1960 level, whereas in previous years they had gone up at an annual rate of 20 to 30 per cent.

From 1958 to 1961 public consumption grew by approximately 30 per cent in constant prices, and by 50 per cent in current prices. Wage payments during this period also rose by 50 per cent, of which about one-fourth was due to the increase in the number of workers and three-fourths to increases in average wages, including a 7 per cent increment in the cost-of-living allowance. Interest payments on foreign loans rose by 50 per cent, while domestic interest payments, largely on Government debentures and short-term credits, doubled.

Government consumption constituted nearly 80 per cent of total public consumption in 1961, whereas the National Institutions accounted for 7 per cent and the local authorities for 14 per cent. The relative distribution has changed somewhat in the last few years. The share of the National Institutions has declined, especially since April 1960, when part of their functions and obligations in the United States were transferred to a new organization established in New York. On the other hand, the relative importance of the Government and the local authorities has increased. The rate of increase in the consumption of the local authorities has been larger than that of the Government, reflecting the rapid growth of local government during this period.

(c) *Public sector saving*

An unprecedented development marked the year 1961—viz., the emergence of a surplus of receipts over payments on current account, i.e. positive saving, in the consolidated public sector account. This surplus amounted to IL. 50 million, compared with a dissaving of IL. 40 million in 1960. While public consumption rose by IL. 125 million, receipts from taxes (net of subsidies), net transfer payments, and interest rose even more—by IL. 215 million (see Table VII-4).

¹ All data on wages and salary payments in this chapter are from the Central Bureau of Statistics.

TABLE VII-4
Public Sector Saving, 1958-61
(IL. million)

	1958	1959	1960	1961
(1) Net income on current account from taxes, transfer receipts, and interest ^a	627	766	876	1,093
(2) Net purchases on current account, including interest ^b	691	815	916	1,043
(3) Saving or dissaving (-) of public sector (1) - (2)	-64	-49	-40	50
Increase in saving (or decrease in dissaving) as compared with previous year		15	9	90

^a Taxes, including National Insurance contributions, less subsidies; transfer receipts less current transfer payments; and income from property including interest received.

^b Current purchases, including interest paid, less current sales.

The considerable growth of IL. 100 million in Government saving is what made possible the formation of a net surplus in the overall account, in spite of the larger dissaving of the National Institutions (i.e. the growth in their current expenditure, since in fact they have practically no current income). As to the local authorities, current expenditure and current income rose by virtually the same amount, for the third consecutive year, and therefore they did not constitute a factor in the change in the saving of the public sector as a whole.

The progress in public sector saving in 1961 was considerable, but certain qualifications must be made regarding the absolute figures presented here. In the calculations made for Table VII-4, only the recorded depreciation on the property of the postal and transport enterprises of the Government was taken into account, while their real depreciation, as well as the depreciation of other public assets, was not taken into account at all.

In Chapter XIX—"Saving"—an attempt was made to estimate depreciation on a replacement-cost basis for all assets of the public sector, and this estimate exceeds the depreciation figure used in this chapter by IL. 40 million. On the basis of the revaluated depreciation, the net saving of the public sector totalled only IL.10 million in 1961. But on this same basis, dissaving in 1960 amounted to approximately IL. 70 million, so that, according to this revised calculation as well, the rise in income exceeded the rise in outlay by IL. 80 million.

Saving is not, of course, to be equated with a surplus in the Ordinary Budget; part of current income, including net receipts of the Government from the National Insurance Fund and the War Risk Insurance Fund, was earmarked

for financing Development Budget investments rather than for current outlay in the Ordinary Budget.¹ On the other hand, the savings calculation did not take into account the National Institutions' unrequited transfers from abroad, although part of them were earmarked from the outset for current use.

It should be pointed out that up to February 1962 current expenditure abroad (which includes imports of goods and services such as interest payments, as well as overseas expenditure of the Ministry for Foreign Affairs and the Ministry of Defense) was recorded at the official exchange rate of IL. 1.80 to the dollar.

(d) *Functional composition of expenditure*

The operations of the public sector in the Israel economy embrace many spheres—defense, economic, and social. The expenditure of the consolidated public sector by major functions and by the constituent authorities—the Government, the National Institutions, and the local authorities—is presented in Table VII-5. The data refer to the fiscal year 1960/61, as distinguished from the data in the rest of this chapter which refer to the calendar year.

Expenditure here includes both direct activities of the public sector and the financing of other sectors, either in the form of grants or in the form of loans.² Expenditure by major functions was as follows: 31 per cent—general services, which are exclusively governmental services, such as defense; 29 per cent—social services, such as education, health, welfare, and housing; 32 per cent—economic services; and the remaining 8 per cent—expenditures which cannot be allocated to specific functions, such as interest payments. Debt redemption (on account of principal) and current outlay of public sector trading enterprises³—the posts, railways, etc.—are not included in this discussion (see Diagram VII-2).

The largest sub-group was defense and special budgets, which accounted for over one-sixth of total expenditure. The second largest was agriculture, where public sector expenditure totalled approximately IL. 280 milion, or one-seventh of the total. Ten per cent was spent on educational, cultural, and religious services. The items welfare (including National Insurance), industry and mining, and transportation (including roads and investment in the Post Office) each accounted for 8 per cent of the total, and expenditure on housing for 6 per cent. General administration constituted only a small part of total expenditure, since most of the administrative outlay was classified according to the service provided by the unit concerned. Thus, for example, the total administrative

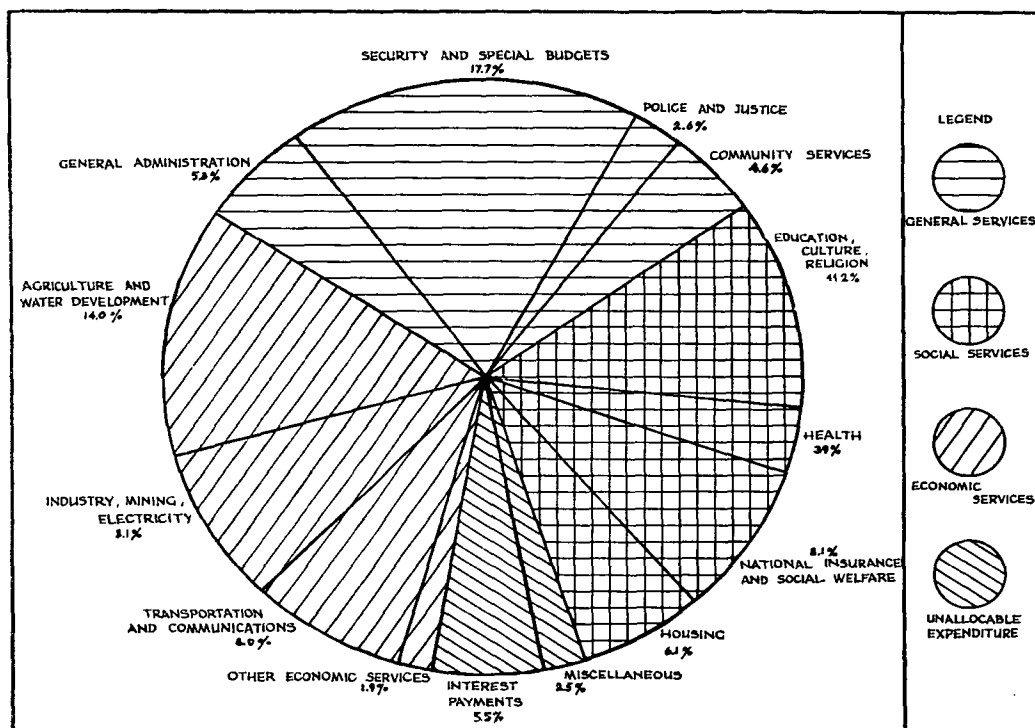
¹ On the expenditure side, the local authorities record all debt service payments, including principal, in their ordinary budgets.

² The functional classification is in accordance with the definitions of the U.N. See "A Manual for Economic and Functional Classification of Government Transactions". Further details appear in the Statistical Appendix to this report (in Hebrew only).

³ Other than deficits on current account; surpluses are recorded among receipts from indirect taxes.

DIAGRAM VII-2

Functional Breakdown of Public Sector Expenditure, 1960/61



expenditure of the educational system was included in expenditure on education, and the total outlay of the staff of the Settlement Department of the Jewish Agency, in expenditure on agriculture. Hence the item "general administration" includes primarily purely governmental activities such as the levying of taxes, maintenance of embassies abroad, and expenditure of the Knesset and the local councils. These activities accounted for only about 6 per cent of total expenditure, or 8.5 per cent if outlay on police and justice is added. Approximately IL. 110 million, or 5.5 per cent of the total, was spent on interest. The remaining 8 per cent was divided between community services and unallocable services other than interest; the former consist primarily of municipal services, such as street cleaning and lighting, as well as direct expenditure on immigration (the transport and care of new immigrants immediately after their arrival).

Among the social services, welfare and National Insurance and housing¹ con-

¹ In accordance with the U.N. definition, housing is included among social, rather than economic, services.

stituted close to half the total outlay, whereas health expenditure accounted for only one-eighth. In Israel the public sector constitutes a secondary factor in the health field; most of the hospitals and clinics were founded and are maintained by various public bodies outside the public sector, principally Kupat Holim (the Workers' Sick Fund) and Hadassah. The public sector's share in educational services is larger. Though its direct operations are confined largely to education for children of compulsory school age, it is also a major factor in the financing of post-elementary education—secondary, vocational, agricultural, and higher education—and its importance in these fields is increasing.

Expenditure on economic services was divided as follows: agriculture—over 45 per cent; industry and transportation—about 25 per cent each; and the remaining 6 per cent—the services branch (principally hotels) and general economic services, such as the operation of the Investment Authority and the Productivity Institute. Particularly noteworthy was the large share of agriculture, including the development of water resources intended primarily for irrigation. In addition to loans and direct operations, this item includes subsidies on agricultural products, such as milk and eggs, which might have been classified as consumption subsidies, as well as premiums on exports. Also worthy of note was the large share of the transportation branch, for most of the direct economic operations of the public sector are concentrated in this branch—including the railroad, highways, posts, and airfields; the public sector also owns a controlling interest in the two dominant companies in the shipping and aviation fields. Expenditure on industry consisted of loans and investment in share capital on the one hand, and of export premiums, on the other.

Table VII-5 shows the share of the authorities constituting the public sector—the Government, the National Institutions, and the local authorities—in each of the functions. It brings out clearly the preponderant share of the Government in each and every category, both in direct operation and in financing,¹ with the exception of community services, which consist primarily of typically municipal services and also direct immigration services, which fall under the exclusive jurisdiction of the National Institutions. In the educational field the local authorities account for one-third of total expenditure, since they operate the elementary school system, though teachers' salaries are paid directly by the Government. In the field of agriculture, the National Institutions were responsible for one-third of total expenditure in 1960/61, but nearly half the amount they spent was derived from the Government's Development Budget.

General administrative and interest expenses are, of course, incurred by all branches of the public sector. It appears that Government expenditure on general administration was relatively smaller than that of other segments of

¹ The amounts in column (6), "intrasector transactions", are practically all transfers of the Government to other segments of the public sector, and they represent that part which was financed by the Government and carried out by other authorities.

TABLE VII-5

Public Sector Expenditure,^a by Function and by Public Sector Authorities, 1960/61

	<i>Consolidated public sector</i>		<i>Breakdown by public sector authorities (in percentages)</i>				
	<i>IL. million</i>	<i>%</i>	<i>Government</i>	<i>National Institutions</i>	<i>Local authorities</i>	<i>Intrasector transactions</i>	<i>Total</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>General services</i>							
General administration	115	5.8	60.0	13.0	27.0	—	100.0
Security and special budgets	352	17.7	99.7	—	0.3	—	100.0
Police and justice	51	2.6	100.0	—	—	—	100.0
Community services (n.e.s.) ^b	91	4.6	14.3	15.4	70.3	—	100.0
<i>Total</i>	609	30.7	79.5	4.8	15.7	—	100.0
<i>Social services</i>							
Education, culture, and religion	222	11.2	61.7	10.8	34.2	-6.7	100.0
Health	78	3.9	82.1	1.3	17.9	-1.3	100.0
National Insurance and social welfare	161	8.1	87.0	5.6	16.8	-9.4	100.0
Housing	122	6.1	86.1	13.1	0.8	—	100.0
<i>Total</i>	583	29.3	76.5	8.6	20.2	-5.3	100.0

Economic services

Agriculture and water development	278	14.0	80.9	33.5	1.1	-15.5	100.0
Industry, mining, and electricity	161	8.1	96.3	0.6	3.7	-0.6	100.0
Transportation (including highways and oil pipelines) and commu- nications	159	8.0	88.7	—	11.3	—	100.0
Other economic services	38	1.9	97.4	2.6	—	—	100.0
<i>Total</i>	636	32.0	87.7	14.9	4.3	-6.9	100.0

Unallocable services

Interest payments	108	5.5	81.5	14.8	9.3	-5.6	100.0
Miscellaneous	50 ^c	2.5	154.0	—	—	54.0 ^d	100.0
<i>Total</i>	158	8.0	104.4	10.1	6.3	-20.8	100.0
<i>Grand total</i>	1,986	100.0	83.2	9.6	12.6	-5.4	100.0

^a Excluding debt repayment and current expenditure of public sector enterprises, such as the Post Office, the railways, and the waterworks of the local authorities. The data in this table refer to the fiscal year and therefore differ from those in Table VII-1, which refer to the calendar year.

^b Mainly sanitation and sewerage, investments in waterworks, the transport and initial care of immigrants, street lighting, public gardens, city planning, the broadcasting service, meteorological service, and general research.

^c Premiums to persons transferring capital, subsidies on imported commodities, and the acquisition of shares in international institutions.

^d Transfers and loans to local authorities not allocated for specified purposes.

SOURCE: Tables VII-14, VII-16, and VII-18.

the public sector. The share of the local authorities in total expenditure was 12 per cent, whereas their share in general administration was over 25 per cent. The data in Table VII-5 do not constitute a basis for an exact analysis of the relative efficiency of the constituent bodies of the public sector, but there is no doubt that the administrative expenditure of the local authorities is particularly high. To some extent this is inevitable, since there are 184 separate local authorities, each with an elective council, treasury, and tax-raising apparatus of its own. Interest payments constituted a particularly heavy burden for the National Institutions; their debt balances have been relatively large, and in order to cover deficits, they have for many years resorted to short-term credits, the interest rate on which is especially high.

2. THE GOVERNMENT

Total Government outlay,¹ including the redemption of long-term loans, rose by about 14.5 per cent from 1960 to 1961 and reached the level of IL. 1,910 million.

There was an increase in nearly every type of expenditure. The largest rise in current expenditure was in wages and export premiums. The main increase in Development Budget expenditure was in the financing of residential housing and industry (including Israel Shipyards Ltd.), as well as investment in the National Water Scheme and in equipment for the Post Office. Expenditure on the redemption of domestic loans declined somewhat after the sharp rise in 1959 and 1960, when several series of debentures fell due.

On the receipts side, there was a very marked rise in tax collections during the year under review. The increased income from this source, together with the rise in receipts from domestic long-term loans, enabled the Government to simultaneously cover the increase in expenditure, redeem short-term debts, and expand its bank deposits.

The relative share of receipts from abroad—unrequited remittances and net loans—declined for the fourth successive year, although in absolute terms they showed an increase. Unrequited remittances rose, while net receipts from loans declined.

(a) *The Government's "balance of payments"*

Table VII-6 shows the "balance of payments" of the Government for the years 1959 to 1961, by principal types of receipts and payments. Net money flows between the Government and other parts of the public sector have been recorded separately.

Total receipts and payments rose by IL. 240 million as compared with 1960. Receipts in the "financial account"—from loans and collections on account of

¹ Including that of the National Insurance Institute.

loans—declined compared with previous years, while receipts from taxes and unrequited transfers advanced markedly. Hence the surplus of income over expenditure in the “real account” increased—and there was even a surplus of domestic revenue over expenditure on current and capital account. Parallel thereto, there was an increase in the surplus of payments over receipts in the “financial account”—i.e. loans granted exceeded receipts from long- and short-term borrowing. Allocations to other public sector authorities also rose somewhat.

(b) *Receipts*

1. *Taxes*

In 1961 Government revenue from taxes¹ rose by IL. 260 million, or 25 per cent, as compared with 1960, and totalled IL. 1,300 million. In 1960 the rate of increase was 16.4 per cent.

Taxes rose relatively faster than national income, which went up by 18.5 per cent. For several years now tax revenue has been growing faster than national income.

There was no rise in the rates of direct taxes, while indirect tax rates rose considerably—and this was true of practically every tax; this represented a continuation of the trend which has characterized recent years (with the exception of 1960), namely, a relative increase in indirect as opposed to direct taxes.

There was a marked increase in revenue from taxes levied on motor cars and other durable consumer goods, which are largely imported. This increase was mainly due to the considerable expansion of consumption, which in turn was a reflection of the rise in incomes and the increasing fear of devaluation and of the levying of additional taxes. In each of the past four years taxes on imports constituted more than half of total indirect taxes, and in part—such as the import duty levied on equipment in the year under review—these may be regarded as a substitute for a more realistic exchange rate than the official one.

(i) *Direct taxes*

Income tax revenue rose by 18.5 per cent as compared with 1960, totalling IL. 380 million. There was no change in tax rates in the fiscal year 1961/62 following the lowering of rates in April 1960,² but taxes on income from interest began to be deducted at source, and in the final months of the year the

¹ Including National Insurance fees and excluding customs and purchase taxes paid by Government offices. For the definition of taxes in this chapter, see footnote * in Table VII-7.

² A detailed description of these changes appeared in the 1960 Bank of Israel Annual Report, pp. 77-78.

TABLE VII-6

The "Balance of Payments" of the Government, by Type of Receipts and Payments, 1959-61
(IL. million)

Receipts	1959	1960	1961	Increase or decrease (-)		Payments	1959	1960	1961	Increase or decrease (-)	
				From 1959 to 1960	From 1960 to 1961					From 1959 to 1960	From 1960 to 1961
Transfer payments and transactions in goods and services											
Taxes ^a	896	1,045	1,306	149	261	Purchases:					
Miscellaneous domestic receipts	114	137	148	23	11	On current account	649	734	834	85	100
Capital sales abroad	9	22	—	13	-22	On capital account	93	84	103	-9	19
Total	1,019	1,204	1,454	185	250	Transfer payments and grants	145	188	212	43	24
Unrequited receipts from abroad	109	120	153	11	33	Subsidies	150	182	233	32	51
Total	1,128	1,324	1,607	196	283	Total	1,037	1,188	1,382	151	194
Transactions in financial claims											
Collections on account of long-term loans	34	50	54	16	4	Long-term loans granted (including housing expenditure)	249	235	243	-14	8

Long-term loans received:						Participation in share				
Foreign	197	206	212	9	6	capital	72	70	101	-2 31
Domestic	47	22	107	-25	85					
						<i>Total</i>	321	305	344	-16 39
Short-term credit (net):						Redemption of long-term				
Foreign	17	29	13	12	-16	loans:				
Domestic ^b	45	39	-37	-6	-76	Foreign	79	92	99	13 7
From the banking						Domestic	12	21	16	9 -5
system ^c	5	-4	-48	-9	-44					
<i>Total</i>	345	342	301	-3	-41	<i>Total</i>	412	418	459	6 41
<i>Transactions with the National Institutions and the local authorities</i>										
						To the National				
						Institutions (net)	-15	16	15	31 -1
						To local authorities (net)	39	44	52	5 8
<i>Total receipts</i>	1,473	1,666	1,908	193	242	<i>Total payments</i>	1,473	1,666	1,908	193 242

^a Including collections of the National Insurance Institute and the War Risk Insurance Fund; excluding customs duty and purchase tax paid by Government offices.

^b Excluding credit from the banking system; including short-term securities.

^c Including long-term loans and securities.

SOURCE: Based on data of the Accountant General (Ministry of Finance), the National Insurance Institute, and the balance of payments of Israel.

Absorption Loan—which in effect constituted a 12 per cent rise in the tax rate—was levied.

Tax revenue from wage- and salary-earners rose by 20.5 per cent—of which 2 per cent was on account of the Absorption Loan¹—whereas the total wage bill rose by 19 per cent, including a rise in the cost-of-living allowance, which is exempt from income tax. Tax revenue from the self-employed and companies, exclusive of the Absorption Loan, rose more slowly than that from wage-earners—by about 17 per cent.² This difference in the rate of growth apparently reflected the reduction of tax rates and the various concessions which went into effect in 1960.

National Insurance collections rose by 22 per cent compared with 1960. There was no change in rates during the year under review; in April 1960 there had been a rise both in rates and in the ceiling subject to tax.

(ii) *Indirect taxes*

There was a general rise in revenue from indirect taxes, both as a result of the many increases in tax rates in the second half of 1960 and the early months of 1961, and as a result of the growth in the volume of purchases subject to tax. The increase in tax rates accounted for about 40 per cent of the additional tax revenue.

Revenue from general customs and purchase taxes, which together accounted for half the total revenue from indirect taxes, rose by one-third compared with 1960; this included an increase of 50 per cent in taxes levied on imports for the “parallel market”. Fuel levies rose by 30 per cent, and revenue from vehicle license and stamp fees, as well as net profits on current account from the postal and telephone services, increased even more.

Revenue from excise taxes and miscellaneous fees and licenses also went up by over 20 per cent. Revenue from property taxes, net of repayments on account of the compulsory advance levied in the fiscal year 1960/61, rose by 17 per cent. Revenue from the foreign travel tax and the entertainment tax rose moderately relative to other taxes—by only 8 per cent (see Tables VII-7 and VII-9).

The major part of the increases in tax rates in 1961 occurred before the start of the new fiscal year. In 1960 indirect tax revenue lagged far behind the budget estimate, while current outlay did not, and in order to prevent the incurring of a large deficit, many tax rates were raised even before the end of the fiscal year 1960/61. These increases covered many items of customs and purchase tax, as well as the fuel tax, radio and vehicle license fees, and excise levies on tobacco, beverages, and cement.

¹ Deductions on account of the Absorption Loan were begun in November on October salaries, while payments from the self-employed and companies fell due somewhat later.

² Excluding collections on account of interest income from both wage-earners and non-wage-earners, which amounted to IL. 4.5 million in 1961.

TABLE VII-7
Government Tax Revenue,^a 1959-61
(IL. million)

	1959	1960	1961	Increase or decrease (-)			
				IL. million		Percentage	
				From 1959 to 1960	From 1960 to 1961	From 1959 to 1960	From 1960 to 1961
<i>Direct taxes</i>							
Income tax ^b	269	320	379	51	59	19.0	18.4
National Insurance	81	103	126	22	23	27.2	22.3
<i>Total</i>	350	423	505	73	82	20.8	19.4
<i>Indirect taxes</i>							
Customs duties	176	190	253	14	63	7.9	33.2
Purchase tax	96	122	164	26	42	27.1	34.4
Excise tax (tobacco, alcoholic beverages, cement, and tires)	80	84	104	4	20	5.0	23.8
Fuel tax (including Price Equalization Fund)	62	75	98	13	23	21.0	30.7
Property taxes	26	41	48	15	7	57.7	17.1
Stamp tax, security stamp, and entertainment tax	36	36	46	—	10	—	27.8
Surpluses of Food and Agricultural Equali- zation Funds	40	35	37	-5	2	-12.5	5.7
Current surplus of postal enterprises and ports	16	22	29	6	7	37.5	31.8
Vehicles license fees	10	12	17	2	5	20.0	41.7
Foreign travel tax	8	11	12	3	1	37.5	9.1
Licenses and fees for other services	11	14	17	3	3	27.3	21.4
<i>Total</i>	561	642	825	81	183	14.4	28.5
<i>Grand total</i>	911	1,065	1,330	154	265	16.9	24.9
<i>Less: Indirect taxes paid by Government offices</i>	-15	-20	-24				
<i>Total tax revenue</i>	896	1,045	1,306				
Of which:	<i>Percentages</i>						
Direct taxes	39.1	40.5	38.7				
Indirect taxes	60.9	59.5	61.3				

^a The definition of direct and indirect taxes in this table is based on accepted national accounting procedures and differs somewhat from that employed by the Accountant General and that in Table VII-3 in the 1960 Bank of Israel Annual Report. Those compulsory payments which in the national accounts are defined as transfers are not included here; these consist of estate tax, land betterment tax, fines, and license and service fees such as driving licenses and passport fees. On the other hand, this table includes the net profit earned by the postal enterprises and ports (the deficits incurred by the railways and the airfields are classified as subsidies).

^b Net of refunds and taxes received in the form of bank guarantees; including collections on account of the Defense Levy (back payments) and the Absorption Loan (as from the final months of 1961).

SOURCE: The Accountant General and the National Insurance Institute.

At the beginning of the fiscal year 1960/61, additional tax changes were introduced, as a result of which revenue was further increased. A 20 per cent duty was imposed on imported equipment, which till then had been largely exempt from duty. The three property taxes—War Risk Insurance Fund, urban property tax, and rural property tax—were unified, and at the same time rates were raised and the tax base broadened. Taxes on documents (stamp tax and security stamp) were also unified and their rates raised considerably. The rates of the foreign travel tax levied on the value of tickets were lowered and a flat rate imposed, aimed at making up to the Treasury for the loss of tax revenue resulting from the shift to shorter and cheaper trips. With the abolition of the exit permit in October, the foreign travel tax was raised to offset the loss of revenue. In the course of the year, new levies were imposed on bus travel and vehicle licenses, which were earmarked for the Road Safety Fund, and on changes in vehicle ownership.

TABLE VII-8
Revenue from Indirect Taxes, by Major Categories, 1959-61

	1959	1960	1961	Increase			
				IL. million		%	
				From	From	From	From
				1959 to 1960	1960 to 1961	1959 to 1960	1960 to 1961
Taxes on expenditure							
Imports ^a	297	336	435	39	99	13.1	29.5
Local production ^b	201	225	286	24	61	11.9	27.1
Property taxes ^c	26	41	48	15	7	57.7	17.1
Licenses and fees ^d	37	40	56	3	16	10.8	40.0
<i>Total</i>	561	642	825	81	183	14.4	28.5
<i>Percentages</i>							
Of which:							
Percentage of taxes on imports	52.9	52.0	52.7				

^a Including general customs and purchase tax on imported commodities, fuel tax, surpluses of the Food and Agricultural Equalization Funds, foreign travel tax, and exit permit fees. Also includes taxes paid by Government offices. No separate data are available as to excise levies on foreign goods and entertainment tax receipts from appearances of foreign artists in Israel, but the amounts are insignificant.

^b Includes purchase tax and fuel tax on local production, excise levies, current surplus of the postal enterprises and the ports, entertainment tax, security stamp on domestic fares, telephones, post and telegrams, electricity, and beer, as well as various levies on local production.

^c Comprising general war risk insurance collections (including net revenue from the special advance), urban property tax, rural property tax, and land registration fees.

^d Excluding land registration fees (see footnotes ^a and ^c above), and including stamp tax and security stamp on documents and licenses.

Among the commodities on which taxes were raised in 1961, special mention should be made of passenger cars and other durable consumer goods, including electric and gas appliances; building materials—all the way from the basic items such as cement, lumber, and steel, to distinctly luxury items; fuel; and various food commodities, such as coffee, cocoa, and alcoholic and non-alcoholic beverages.

On the other hand, tax rates were reduced on a number of items, including transistor radios, parts for the production of air conditioners, and building wood-work.

(iii) *Taxes on imports*

Revenue from import taxes—as defined in Table VII-8—rose by IL. 100 million as compared with 1960. This constituted 37 per cent of the total increment in tax revenue, including both direct and indirect taxes. Part of these taxes may be regarded as a substitute for an official devaluation of the Israel pound, and it should therefore be pointed out in this connection that Government outlay on export premiums also rose markedly—by about IL. 50 million compared with 1960. Total premiums paid to exporters and to transferers of personal restitution payments—which were also connected with the *de facto* devaluation of the Israel pound—amounted in 1961 to IL. 170 million, which was equivalent to 40 per cent of the revenue from import taxes.

Over 60 per cent of the rise in import tax revenue was due to an increase in imports subject to tax, and less than 40 per cent to increases in tax rates, including the levying of customs duties on equipment which had previously been tax-exempt. Imports which rose appreciably included heavily taxed items, such as private passenger cars and other durables, the import of which rose by 30 per cent.¹ The expansion of imports was in part due to fears of devaluation and of further rises in tax rates, and in part was a concomitant of the rise in incomes.

There was also a marked growth of imports for the “parallel market”; this apparently resulted from the rise in private incomes, since these commodities—which include, *inter alia*, dried fruit, nuts, certain spices, coconut, alcoholic beverages, and foreign cigarettes—are largely considered luxury goods in Israel. Half the imports for the “parallel market” consisted of food and tobacco products, and the other half of manufactured goods, such as transistor radios, photographic film, laminated plastic sheets (formica), and electrical appliances for home use. In spite of a marked decline in tax rates on transistor radios—from IL. 7 to IL. 5 per dollar—revenue went up owing to the increased import. In 1961 Government revenue from taxes on the “parallel market” averaged IL. 7 per dollar and totalled IL. 17 million, as against IL. 11.5 million in 1960.

¹ Total private purchases of passenger cars, including locally produced cars, rose by 40 per cent compared with 1960.

Revenue from fuel taxes rose by 30 per cent, while the volume of imports rose by only 5 per cent.

With the decline in the import of foodstuffs as compared with 1960, when they rose sharply because of the drought, there was a corresponding reduction in income from the Agricultural Price Equalization Fund. On the other hand, net profits of the Food Division's Equalization Fund rose.

Revenue from the foreign travel tax increased by less than IL. 1 million, or by only 8 per cent, compared with 1960, although the number of passengers rose by 20 per cent. Average tax per passenger declined because of an increase in lower-priced trips,¹ a decrease in the average length of the journeys, and a rise in the number of tax-exempt passengers, especially recipients of personal restitution payments.

(iv) *Taxes on local production*

Taxes on locally produced goods consist principally of purchase taxes and excises. In 1961 revenue from taxes on electric and gas appliances and household goods, which constituted the largest source of purchase tax revenue, rose by 40 per cent above the 1960 level. Although the tax on building woodwork was abolished in the summer of 1961, revenue from building materials, plumbing equipment, and furniture went up by one-third, owing partly to the expanded volume of building. With the resumption of the local production of passenger cars in 1961, revenue from purchase taxes on this item reached the level of IL. 6 million, compared with IL. 3 million in 1960; the greater part of such revenue is collected on imported cars. The rise in the consumption of clothing and shoes in 1961 was relatively smaller than that of private consumption as a whole, and the revenue from taxes on these locally produced products went up by only 14 per cent, in spite of the higher rates.

Excise collections on beverages and tobacco rose following an increase in consumption, especially of the more expensive brands, and in the rates. Revenue from excise taxes on cement also increased; rates were raised at the outset of 1961, while the amount of cement marketed locally grew as a result of the expansion of building operations.

Revenue from the defense levy on domestic travel rose with the imposition of an additional tax earmarked for the Road Safety Fund and as a result of the rise in the number of passengers.

(v) *Property taxes*

In the fiscal year 1961/62 property tax rates were raised substantially. The increase will be fully felt only after the Government has completed repayment of the special advance levied in the previous fiscal year.

¹ As the combined result of an increase in organized trips, which enjoy lower rates, the penetration into the Mediterranean market of foreign shipping companies providing cheap passenger service, and the shift from air to sea travel.

TABLE VII-9

*Revenue from Purchase Tax, by Type of Commodity, 1959-61**(IL. million)*

<i>Type of commodity</i>	<i>1959</i>	<i>1960</i>	<i>1961</i>	<i>Per cent increase or decrease (-)</i>		<i>Distribution of increment in 1961</i>	
				<i>From 1959 to 1960</i>	<i>From 1960 to 1961</i>	<i>IL. million</i>	<i>%</i>
Electric, gas, and household appliances	30.9 ^a	33.0	46.5	6.8	40.9	13.5	32.0
Vehicles and parts	10.2	17.1	27.3	67.6	59.6	10.2	24.2
Textile and leather products	18.0	20.5	24.0	13.9	17.1	3.5	8.3
Building and plumbing materials	10.7	17.1	20.3	59.8	18.7	3.2	7.6
Furniture	5.9	6.8	8.8	15.2	29.4	2.0	4.7
Paper	4.5	5.0	7.7	11.1	54.0	2.7	6.4
Radios and musical instruments	4.4	4.8	6.2	9.1	29.2	1.4	3.3
Cosmetics and detergents	3.0	3.5	4.4	16.7	25.7	0.9	2.1
Non-alcoholic beverages	2.5	2.8	3.7	12.0	32.1	0.9	2.2
Stationery	2.0	2.3	3.6	15.0	56.5	1.3	3.1
Watches and clocks, jewelry and photographic and optical equipment	2.2	2.5	3.1	13.6	24.0	0.6	1.4
Toys and sports equipment	5.2	5.8	7.8	11.5	34.5	2.0	4.7
Total	99.5^a	121.2	163.4	21.8	34.8	42.2	100.0

^a For purposes of comparison, revenue from imposts on refrigerators, which were replaced by purchase tax as from the beginning of the fiscal year 1959/60, have been included in the figures for the months January to March.

SOURCE: State Revenues Administration, Ministry of Finance.

Revenue from land registration fees grew considerably, as the result of an increase both in the number of transactions and in land prices.

1. Other indirect taxes

These consist mostly of vehicle license fees, radio license fees (including the defense levy), and stamp taxes. The rates of all these taxes were greatly increased, with a consequent growth of revenue. The rise in revenue from vehicle license fees was particularly marked, amounting to as much as 40 per cent. This was due to a 26 per cent increase in the number of vehicles registered and to a rise in rates, including additional levies on the transfer of vehicle ownership and for the Road Safety Fund.

2. Miscellaneous domestic revenue

Income from transfer payments, sales, and interest totalled about IL. 150 million. Interest collections on account of loans from the Development Budget¹ totalled IL. 60 million, of which 45 per cent was from public sector companies. Profits of the Bank of Israel, which are transferred to the Government, amounted to IL. 20 million. Other income was derived from various sources: compulsory non-tax payments,² hospitalization fees in Government establishments, sales of commodities produced by agricultural schools, prisons, etc., sales of Government property by the Development Authority, and depreciation charges of the postal and transport enterprises.

3. Unilateral receipts from abroad

Unilateral receipts from abroad rose by over IL.30 million compared with 1960, and totalled approximately IL. 150 million. There was a rise both in Reparations receipts and in the U.S. grant-in-aid.

4. Collections on account of loans

Government collections on account of Development Budget loans¹ totalled IL. 54 million in 1961 as against IL. 50 million in 1960 and only IL. 34 million in 1959. Over 40 per cent of this sum came from public sector companies. Collections constituted about 4.4 per cent of outstanding loan balances at the end of March 1961 (excluding Government investment in share capital). On part of these loans, payments on account of principal have not yet begun to be paid.

In 1961, as in 1960, repayments of loans constituted about 16 per cent of total Development Budget financing in that year, whether in the form of loans or participation in share capital.

In pursuance of a resolution adopted by the Government in August 1960, all loans earmarked for the financing of foreign purchases were linked to the dollar; in the case of other loans, the borrower was given the choice between linking 80 per cent of the value of the loan to the cost-of-living index or linking the entire amount of the loan to the dollar. By the end of 1961, half the outstanding balances of Development Budget loans (excluding Government investment in share capital) were linked to the dollar.

5. Increase in indebtedness

From the end of 1960 to the end of 1961, long- and short-term obligations of the Government at home and abroad rose by IL. 130 million, compared with a rise of IL. 180 million in 1960 and of IL. 220 million in 1959.

¹ Except for collections from the National Institutions and the local authorities.

² Land improvement tax and estate tax, driving license fees, passport fees, and fines.

While receipts from long-term loans, net of repayments, totalled IL. 205 million, short-term loans were reduced by IL. 70 million, IL. 48 million of it in the net debt to the banking system. In the two preceding years, short-term credit balances rose by IL. 65 million annually, and constituted one-third of total credit receipts in those years (see Table VII-10).

TABLE VII-10

Increase or Decrease (-) in Government Liabilities, by Type of Loan and by Lending Sector, 1959-61

	IL. million					Percentages		
	1959	1960	1961	Increase or decrease (-)		1959	1960	1961
				From 1959 to 1960	From 1960 to 1961			
<i>Type of loan</i>								
Long- and medium-term ^a								
Gross	244	228	319	-16	91			
Less: redemption	91	113	115	22	2			
Net	153	115	204	-38	89	69.5	64.2	154.5
Short-term credit (net) ^b	67	64	-72	-3	-136	30.5	35.8	-54.5
Total (net)	220	179	132	-41	-47	100.0	100.0	100.0
<i>Sector</i>								
Rest of the world ^b	135	143	126	8	-17	61.4	79.9	95.5
Financial institutions, provident funds, and insurance companies	36	20	86	-16	66	16.3	11.1	65.1
Banking system	5	-4	-48	-9	-44	2.3	-2.2	-36.4
Rest of the economy	44	20	-32	-24	-52	20.0	11.2	-24.2
Total (net)	220	179	132	-41	-47	100.0	100.0	100.0

^a Granted for a period of three years or more. Excluding loans to the banking system (which are included in short-term credit), bond conversion, and unpaid linkage differentials on dollar-linked bonds. Including liabilities arising from accrued interest on savings certificates of the Independence and Development Loans.

^b Net change in end-of-year credit balances (less receivables and bank deposits), plus short-term securities.

SOURCE: Based on the debt statement and "Statement of Current Assets and Liabilities", published by the Accountant General, and on the "balance of payments" of the various sectors.

6. *Foreign loans*

Receipts from long- and short-term loans from abroad declined by IL. 20 million compared with 1960, but still amounted to IL. 125 million. As in previous years, the Development Loan (State of Israel Bonds) and United States Government assistance, which is repayable in Israel currency, constituted the major sources of foreign loans. New long-term loans did not decline, but there was a rise in redemption payments, while receipts from short-term credit fell off. Credit from foreign banks was reduced. Deposits of the United States Government in the framework of the agricultural surplus program rose once again, but to a smaller extent than in 1960.

7. *Domestic loans*

Net receipts from the issue of long-term debentures¹ advanced from IL. 4 million in 1960 to IL. 17 million in 1961, but the Government's major source of loans in 1961 was securities issued by other bodies, including a number of mortgage banks and the Israel Industrial Development Bank. These funds were raised in order to finance loans in the framework of the Development Budget, which were granted through these financial institutions² and were earmarked for public housing and industrial development. Under the conditions prevailing in the security market, these institutions could not have extended such loans had it not been for the mediation of the Government, since the terms they granted (interest rates and duration of the loan) were more favorable than those under which they themselves borrowed from the public, and in some instances the linkage terms also differed. The Government, for its part, preferred this means of raising capital to issuing its own securities.

The net debt to the banking system contracted, as already noted, by IL. 48 million, principally as a result of the increase in the Government's foreign currency deposits. Part of these deposits constitute a fund for the redemption of the Independence and Development Loans (State of Israel Bonds) which will fall due in the next few years. Debts to suppliers and contractors also declined, as did those to public sector companies and financial institutions which had deposited funds with the Accountant General in previous years.

(c) *Payments*

Government outlay, other than on debt redemption, amounted to IL. 1,795 million in 1961, as against IL. 1,555 million in 1960—an increase of 15.5 per cent. In 1960 the rate of increase had been 12.2 per cent.

¹ Other than Housing Loan savings certificates and the Short-Term Loan, which are included in short-term credit (see Chapter XX—"The Security Market"—for a discussion of Government issues).

² And through Amidar Immigrants Housing Corporation.

1. Purchases on current account

Current purchases of the Government, which consist largely of wage and salary payments, security expenditures, and interest payments, rose by 13.5 per cent. In 1960 the rate of increase had been 13 per cent. While outlay on wages and miscellaneous purchases rose faster than in 1960, that on security and interest payments increased at a somewhat lower rate.

Expenditure on wages and salaries (other than those of the Ministry of Defense, the postal and transportation enterprises, and for unemployment relief work) rose by IL. 30 million, or 14 per cent, compared with 1960, and totalled approximated IL. 245 million. The number employed increased by more than 6 per cent and the average wage per worker by over 7 per cent. In the second half of the year the cost-of-living allowance was raised, and in August special advances were granted on account of future wage adjustments. Moreover, towards the end of the long drawn-out wage negotiations on teachers' salaries, the teachers were granted interim advances and retroactive payments.¹ As against this, expenditure on unemployment relief projects decreased by 12 per cent,² following the decline in unemployment.

Outlay on security and special budgets rose by 11 per cent, and constituted over 40 per cent of total purchases on current account.

Interest expenditure on foreign and domestic loans rose by 11 per cent—a low rate compared with previous years. While interest payments on long-term loans continued to rise rapidly, payments on short-term credits declined by IL. 10 million as against 1960. Even then, interest payments on short-term loans and amounts deposited with the Government³ constituted over one-fourth of total interest payments. Up to February 1962 interest payments on foreign loans and debentures linked to the dollar were recorded at the exchange rate of IL. 1.80 to the dollar; since the devaluation, these payments have risen by two-thirds.

2. Purchases on capital account

In current prices, purchases on capital account rose by 20 per cent compared with 1960. In fixed prices, the increase was 12.5 per cent. The main increase was in investment in the National Water Scheme and in the posts and ports. On the other hand, other investments in agriculture declined, as did investment in oil pipelines and in building material inventories in Government warehouses.

¹ For details, see Chapter IX—"Wages".

² Unemployment relief projects classified as current purchases are mainly those for the aged and the handicapped. Total expenditure by the Government on unemployment relief work, including transfer payments to the local authorities and the Jewish National Fund, as well as investment projects in agriculture, declined by 25 per cent as compared with 1960 and totalled IL. 19 million.

³ As well as on foreign currency deposits in the Bank of Israel of personal restitution payment received by Israel residents.

TABLE VII-11
Government Purchases on Current and Capital Account, 1959-61
(IL. million)

	1959	1960	1961	<i>Increase or decrease (-)</i>	
				<i>From 1959 to 1960</i>	<i>From 1960 to 1961</i>
<i>Purchases on current account</i>					
Compensation of civilian employees ^a	193	213	243	20	30
Unemployment relief projects ^b	17	17	15	—	-2
Interest payments ^c	67	90	100	23	10
Other purchases (other than security) ^d	85	93	120	8	27
<i>Total</i>	362	413	478	51	65
Security expenditure and special budgets ^d	287	321	356	34	35
<i>Total purchases on current account</i>	649	734	834	85	100
<i>Purchases on capital account</i>					
Postal and transport enterprises					
Investment	25	30	33	5	3
Net change in stocks	14	-7	9	-21	16
<i>Total</i>	39	23	42	-16	19
National Water Scheme	11	31	40	20	9
Other investment in agriculture and Southern Negev development ^e	8	6	3	-2	-3
Oil pipelines and road construction	17	11	8	-6	-3
Public buildings and miscellaneous	13	15	18	2	3
Stockpiling					
Food Division ^f	16	2	-2	-14	-4
Housing Division and miscellaneous	-11	-4	-6	7	-2
<i>Total purchases on capital account</i>	93	84	103	-9	19
<i>Total purchases</i>	742	818	937	76	119

^a According to data of the Central Bureau of Statistics.

^b Includes only part of the Government's total expenditure on unemployment relief projects. An additional part of these outlays is recorded in this chapter as transfers to the National Institutions or to the local authorities, and the remainder is classified as purchases on capital account (see footnote ^e below).

^c Excluding interest payments to the National Insurance Institute and the War Risk Insurance Fund; including accrued interest on account of savings certificates of the Independence and Development Loans.

^d Excluding customs duty and purchase tax payments.

^e Including—in addition to direct investment by the Ministry of Agriculture—expenditure on unemployment relief work in soil reclamation and conservation, drainage, etc.

^f Including stocks bought on credit.

Investment in the National Water Scheme increased by 20 per cent, at fixed prices. Work on the expansion of Haifa port and Lod airfield was speeded up, and construction of the new port of Ashdod got under way. Equipment for the extension of the telephone network was imported, though not all of it was installed by the end of the year. There was also a rise in investment in the road network, with the launching of a comprehensive plan for increased safety on the highways, and in the erection of Government office buildings.

With the decline in unemployment, the volume of unemployment relief work in soil conservation and reclamation fell off. Investment in oil pipelines contracted following the completion of the Eilat-Haifa line. Inventories of the Housing Division declined, and those of the Food Division rose only slightly.

3. Transfer payments and subsidies

Total subsidies and transfer payments of the Government, including allocations to the local authorities, rose by 20 per cent over the 1960 level and reached IL. 490 million (see Table VII-12). Of the total increment of IL. 80 million, close to IL. 50 million was due to larger expenditure on export premiums, which increased by 50 per cent, or at a similar rate as in 1960. Export premium payments totalled IL. 145 million—of which half was for industrial exports, about one-quarter for agricultural exports, including citrus, and the remaining quarter for indirect exports, including premiums to shipping and aviation companies and to tourists for the exchange of foreign currency. (at the rate of 20 per cent above the official exchange rate). In 1961 the export premium paid on citrus was equalized with that granted for other exports—85 agorot on each dollar of added value. There was practically no change in the premium rates paid on industrial exports.

Transfer payments showed a relatively modest rise in 1961—10 per cent as compared with 30 per cent in 1960. There was no increase at all in Government outlay on premiums paid over and above the official rate of exchange to those transferring capital from abroad, although transfers of personal restitution payments from Germany continued to rise. With the growing expectation of devaluation, an increasing number of restitution recipients preferred not to exchange their foreign currency. Expenditure on social welfare benefits, which are largely distributed through the local welfare offices, rose only slightly owing to the improved employment situation and to the fact that there was no change in the rates paid. Allocations for post-primary school education, including participation in graded secondary school fees and subventions to institutions of higher learning, continued to rise at a rapid rate.

Other transfer payments also went up, though at a lesser rate than in previous years. These included, among other things, National Insurance premiums, benefit payments to victims of Nazi persecution and to disabled veterans of the Israel Defense Forces, pensions to civil servants, subventions to health institutions, and participation in the outlay of the local authorities on meals for children

TABLE VII-12
Government Transfer Payments, Grants, and Subsidies, 1959-61
(IL. million)

				<i>Increase or decrease (-)</i>	
	<i>1959</i>	<i>1960</i>	<i>1961</i>	<i>From 1959 to 1960</i>	<i>From 1960 to 1961</i>
<hr/>					
<i>Transfer payments and grants</i>					
To households					
National Insurance benefits	56	74	84	18	10
Premiums to persons transferring capital from abroad	16	24	24	8	—
Other transfer payments	38	48	54	10	6
<hr/>					
<i>Total transfer payments to households</i>	110	146	162	36	16
To non-profit institutions	35	42	50	7	8
<hr/>					
<i>Total transfer payments</i>	145	188	212	43	24
<hr/>					
<i>Subsidies</i>					
For export promotion	65	96	144	31	48
Drought compensation	6	15	9	9	-6
For production and consumption	79	71	80	-8	9
<hr/>					
<i>Total subsidies</i>	150	182	233	32	51
<hr/>					
<i>Participation in the ordinary budgets of the local authorities</i>					
	32	40	45	8	5
<hr/>					
<i>Grand total</i>	327	410	490	83	80

in elementary schools, kindergardens, and summer camps. Old-age benefits, which account for half the total benefits paid out by the National Insurance Institute, went up by 17 per cent following a rise in benefit rates to compensate for the increase in the cost of living in recent years.

There was practically no change in total payments of domestic subsidies as compared with 1960. Drought compensation payments, which had risen sharply the previous year, decreased in 1961. Vegetable subsidies also declined with the disappearance of surpluses. Milk subsidies, which had gone up appreciably in previous years, did not increase. On the other hand, there was a further rise in payments on egg subsidies—part of them apparently on account of the previous year. There was also an increase in subsidies paid to cotton growers, owing to the expansion of the cotton crop.

4. Development Budget financing

Financing in the framework of the Development Budget rose in 1961 by 13 per cent over the 1960 level and 6 per cent over the 1959 level, totalling IL. 345 million. Taking into account the rise in prices in 1961, the real increase is estimated at no more than 5 per cent. Of the total sum, about IL. 245 million was in the form of loans and IL. 100 million participation in share capital of public financial institutions and Government companies,¹ including Amidar. An additional IL. 60 million was allocated to the National Institutions and the local authorities. Over half the credit increment in 1961 was earmarked for public housing and the erection of the Israel Shipyards.

In the past few years there has been a decline in the relative share of the Development Budget in total financing of investment in the economy. In real terms, Development Budget financing in 1961 and 1960 was below the level of 1959, in spite of the marked growth in the financing of ships from Reparations funds in these two years. This development was connected in no small measure with the acquisition of alternative means of financing for part of the Government companies which had previously been totally dependent on Government financing. This was particularly true of the Israel Electric Corporation, the Dead Sea Works, Fertilizers and Chemicals Ltd., and Negev Phosphates Ltd. Development Budget financing of the electric power and mining branches declined from over IL. 40 million in 1958 to IL. 30 million in 1959 and only IL. 8 million in 1961. This was not accompanied by a decline in the volume of investment of these companies, but only by a change in the method of financing. In the past few years these enterprises have issued and sold to the public bonds and shares linked to the dollar or cost-of-living index and bearing a Government guarantee. The change in the form of financing was due to deliberate Government policy and was made possible by the expansion of the security market.²

Table VII-13 shows the breakdown of Development Budget financing by economic branch and by borrowing sector.

Government expenditure on residential construction rose in 1961, after having declined in 1960. There was an increased expenditure on new immigrant housing in particular, owing to the growth of immigration. Financing of industry and crafts rose by 15 per cent at constant prices, with close to half the increment earmarked for the construction of the shipyard at Kishon Harbor. Credit to the shipping branch increased once again following a sharp rise in 1960. In 1961 the last ships constructed under the Reparations Agreement

¹ Excluding the conversion into share capital of deposits made in previous years for the purpose of granting loans.

² In the year under review large-scale credit from abroad was also secured for the Dead Sea Works (from the World Bank) and for Fertilizers and Chemicals Ltd. (from private investors); this will reduce the Government's share in the financing of these companies' expansion plans.

TABLE VII-13
*Government Financing through the Development Budget, by Destination
 and Borrowing Sector,* 1959-61*
 (IL. million)

	1959	1960	1961	Increase or decrease (-)	
				From 1959 to 1960	From 1960 to 1961
<i>Sector of destination</i>					
Housing	135	105	121	-30	16
Industry and crafts	68	69	86	1	17
Transportation	27	62	70	35	8
Agriculture and irrigation ^b	45	36	39	-9	3
Mining, quarrying, and oil drilling	14	12	8	-2	-4
Electricity	18	—	—	-18	—
Services and miscellaneous	14	21	20	7	-1
<i>Total (excluding public sector)</i>	321	305	344	-16	39
<i>Borrowing sector^c</i>					
Public sector companies	125	134	120	9	-14
Households	90	71	86	-19	15
Private business enterprises	67	65	81	-2	16
Public financial institutions ^d	35	31	50	-4	19
Non-profit institutions	2	2	3	—	1
Foreign institutions	2	2	4	—	2
<i>Total (excluding public sector)</i>	321	305	344	-16	39
National Institutions ^e	43	43	41	—	-2
Local authorities	13	13	19	—	6
<i>Total financing</i>	377	361	404	-16	43

* Including loans and participation in share capital, but excluding Government investments (see Table VII-11). Loans granted through banks and other financial institutions are classified by the sector of final destination and not as loans to the financial sector.

^b Excluding loans to the National Institutions and those for housing purposes.

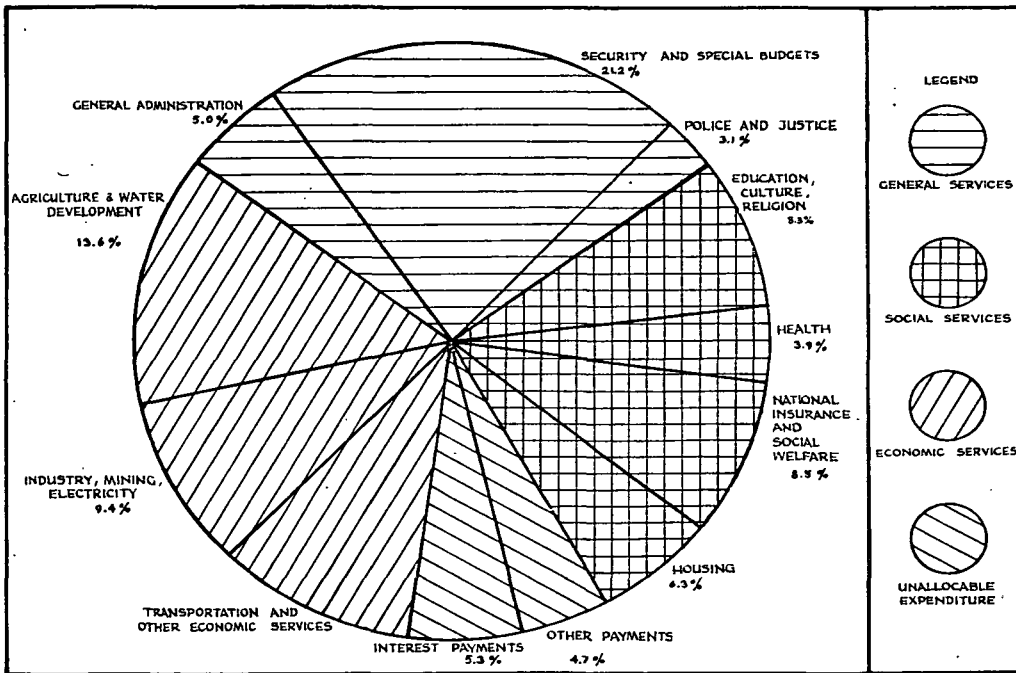
^c This classification differs from that in Table XVI-9 in the 1960 Bank of Israel Annual Report; the data for the years 1959 and 1960 have been reclassified accordingly. The financing of housing which remained under Amidar ownership has been recorded here as loans to public companies rather than loans to households, as was the former practice. Furthermore, a revision has been made in the division of allocations to the Industrial Development Bank as between participation in share capital (recorded as financing to the public financial institutions) and deposits earmarked for loans (recorded in the private business enterprise sector, as stated in footnote ^a above). The revision was made in accordance with the balance sheets of the companies.

^d Participation in the share capital of the Industrial Development Bank, the Tourist Industry Development Corp., and the Israel Bank of Agriculture. The data have been obtained from the balance sheets of these institutions, and are recorded net of conversions into share capital of loans granted in previous years.

^e For new settlements and afforestation.

DIAGRAM VII-3

Functional Breakdown of Government Expenditure, 1960/61 (percentages)



were delivered, as were a number of freighters purchased outside the framework of the Agreement. Government loans to oil-drilling companies also rose, while financing of mining and quarrying declined. The electric power branch received practically no Government credits for the second consecutive year. In the service branch, Government financing of hotels rose, while that for other purposes contracted.

An analysis of Development Budget financing by the various sectors of the economy shows that in 1961 loans were granted as follows: public sector companies (principally Amidar, Zim, Mekorot, El Al, and the Israel Shipyards Ltd.)—IL. 120 million; households (construction of dwelling units other than those which remained under Amidar ownership)—IL. 85 million; and private firms (in industry, agriculture, and shipping)—IL. 80 million. In addition, the Government invested IL. 50 million in the share capital of public financial institutions.

Total loans to private firms rose compared with 1960; this was due to a marked increase in the financing of shipping companies, which was only partly

offset by a decrease in loans to industry¹ and agriculture. There was also a rise in loans to households for housing purposes and to financial institutions—principally as participation in the share capital of the Israel Industrial Development Bank and the Tourist Industry Development Corporation. On the other hand, loans to public sector companies contracted in spite of the sharp rise in the financing of Israel Shipyards. This was largely due to the decline in loans to Zim as compared with the record amount granted it during the previous year, when a large number of ships purchased with Reparations funds were delivered. As already stated, there was a marked decrease in the financing of the companies operating in the electric power, mining, and quarrying fields and, compared with 1959, also of Amidar.²

Loans to the National Institutions for settlement and afforestation purposes declined, while loans to local authorities—in part for repayment of short-term debts—rose sharply.

5. Net payments to the local authorities and National Institutions

As already pointed out, the Government allocates funds to the local authorities and the National Institutions either as grants or as loans. These payments, net of the Government's receipts from these bodies,³ totalled IL. 67 million in 1961 as against IL. 60 million in 1960. The entire increment stemmed from the increase in transfers and loans to the local authorities.

Further details of the transactions between the Government on the one hand and the National Institutions and the local authorities on the other are given later on in this chapter in the sections dealing specifically with these bodies (see also Tables VII-11 and VII-13).

(d) Functional composition of expenditure

A breakdown of Government expenditure in the fiscal year 1960/61 by function is presented in Table VII-14 and Diagram VII-3. They point up the large share of expenditure devoted to security and special budgets, which amounted to over 20 per cent of the total. Economic services accounted for one-third of aggregate expenditure, and social services for 27 per cent.

The functional composition of Government expenditure closely resembles that of the public sector as described above, because of the preponderant role of the Government in total public sector expenditure.

¹ Although total financing of industry, including Government participation in the share capital of the Israel Industrial Development Bank, increased.

² The above analysis is based on the provisional balance sheet of the company as at the end of 1961, which takes into account new immigrant housing units completed and delivered to the company during the year; therefore, in a year of rapid construction, such as 1961, it cannot reflect the entire growth of construction.

³ On account of principal and interest, sales of the Development Authority, and participation in certain expenditures.

TABLE VII-14

Functional Breakdown of Government Expenditure,^a 1960/61

	<i>IL. million</i>	<i>%</i>
<i>General services</i>		
General administration	69	4.2
Security and special budgets	351	21.2
Police and justice	51	3.1
Broadcasting service and general research	13	0.8
<i>Total</i>	484	29.3
<i>Social services</i>		
Education, culture, and religion	137	8.3
Health	64	3.9
National Insurance and welfare	140	8.5
Housing	105	6.3
<i>Total</i>	446	27.0
<i>Economic services</i>		
Agriculture and water development	225	13.6
Industry, mining, and electricity	155	9.4
Transportation (including highways and oil pipelines) and communications	141	8.5
Other economic services	37	2.2
<i>Total</i>	558	33.7
<i>Unallocable services</i>		
Interest payments	88	5.3
Others ^b	77	4.7
<i>Total</i>	165	10.0
<i>Grand total</i>	1,653	100.0

^a Excluding debt repayment and current expenditure of the postal and transportation enterprises; including total expenditure of the National Insurance Institute. The data in this table refer to the fiscal year and therefore differ from the data in Table VII-7, which refer to the calendar year.

^b Including grants and loans to the local authorities, premiums to persons transferring capital from abroad, subsidies on imported commodities, and the acquisition of shares in international institutions.

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

3. THE NATIONAL INSTITUTIONS¹

Total payments of the National Institutions, including redemption of long-term loans,² rose in 1961, as in 1960, by IL. 10 million, or by a mere 5.5 per cent. With the speeding up of immigration, expenditure on the transport and initial absorption of new immigrants rose. On the other hand, unrequited transfers remained practically constant, while receipts from long-term loans from abroad declined. As a result, there was a greater resort to short-term credit, principally from the banking system.

Expenditure other than for the initial needs of new immigrants was frozen or even reduced. Expenditure on the financing of new agricultural settlements, the investment of the Jewish National Fund, and the activities of Youth Aliyah did not rise above the 1960 level, in spite of higher prices.

(a) *The "balance of payments" of the National Institutions*

Table VII-15 shows the "balance of payments" of the National Institutions by type of receipts and payments for the years 1959 to 1961. Net money flows between the National Institutions and the Government are recorded separately.

Because of their unique set-up in being largely financed by funds from abroad, the National Institutions are characterized by a very large "demand surplus"; that is to say, their expenditure on goods, services, and transfers on current and capital account overwhelmingly exceed their independent domestic income.

Another characteristic of the National Institutions has been a surplus of receipts over expenditure in the overall "real account"; i.e. unilateral receipts from abroad plus local income have exceeded expenditure on current and capital account. This surplus has enabled the Institutions to lend to the rest of the economy—principally to new agricultural settlers—amounts exceeding those which they themselves have borrowed, and also, up to 1960, to make a not insignificant contribution to the Government budget.

During the past three years, unrequited receipts have been declining, while consumption and investment prices have been rising; consequently, the surplus of receipts over expenditure in the "real account" dropped from IL. 35 million in 1959 to IL. 15 million in 1960 and to only IL. 2 million in the year under review. The loans which the Institutions granted through the Settlement Department and for housing purposes were still larger than net receipts from loans. For the second consecutive year this difference was in effect covered by net allocations from the Government budget. It should be noted that throughout

¹ The Jewish Agency for Israel, the World Zionist Organization, the Jewish National Fund (Keren Kayemet) and the Keren Hayesod. In this chapter, the National Institutions will at times be referred to as "the Institutions" for the sake of brevity.

² Except for payments of principal and interest on account of loans due to the Government.

The "Balance of Payments" of the National Institutions, by Type of Receipts and Payments, 1959-61
(IL. million)

Receipts	1959	1960	1961	Increase or decrease (-)		Payments	1959	1960	1961	Increase or decrease (-)	
				From 1959 to 1960	From 1960 to 1961					From 1959 to 1960	From 1960 to 1961
Transfer payments and transactions in goods and services											
Foreign:						Purchases on current account:					
Unrequited receipts	127	108	110	-19	2	Domestic ^b	42	48	53	6	5
Domestic:						Foreign	25	18	22	-7	4
Miscellaneous receipts ^a	18	18	17	—	-1	Purchases on capital account ^b	19	19	22	—	3
						Transfer payments, grants, and subsidies	24	27	28	3	1
Total	145	126	127	-19	1	Total	110	112	125	2	13
Transactions in financial claims											
Long-term loans received:						Long-term loans granted	58	69	71	11	2
Foreign	27	39	14	12	-25	Redemption of long-term loans:					
Domestic ^c	28	9	14	-19	5	Foreign	18	14	15	-4	1
Short-term credit (net):						Domestic	7	10	5	3	-5
Foreign	2	7	12	5	5						
Domestic ^c	-3	9	15	12	6						
From the banking system	9	-1	19	-10	20						
Total	63	63	74	—	11	Total	83	93	91	10	-2
Transactions with the Government											
From the Government (net)	-15	16	15	31	-1						
Total receipts	193	205	216	12	11	Total payments	193	205	216	12	11

^a Including collections on account of loans to the amount of IL. 2-3 million per annum.

^b Excluding goods and services acquired for transfer to others as loans or grants.

^c Excluding loans from the banking system.

SOURCE: Based on data from the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod.

the entire period from the end of July 1958 up to February 1962, the Institutions exchanged their foreign currency receipts at the rate of IL. 1.80 to the dollar.¹

Receipts from abroad, including contributions, loans (net of repayments), and credits, covered about 60 per cent of total payments. These receipts declined in 1961 by about IL. 20 million as compared with 1960 and 1959.

(b) Receipts

1. Unrequited transfers

Unrequited transfers from abroad are composed mainly of contributions from the various appeals and of the Jewish Agency's share in German Reparations. In 1961 and 1960 these transfers amounted to IL. 110 million, i.e. IL. 20 million less than in the years 1959 and 1958. At the end of March 1960 part of the receipts from the United Jewish Appeal, as well as part of the expenditure and liabilities of the Institutions abroad, were transferred to a new body established in New York.

2. Transfers and other receipts in Israel

The Institutions' collections in Israel—from rents and leases of the Jewish National Fund, contributions and payments for various services, as well as collections on account of principal and interest on loans granted by the Settlement Department—constituted only 8 per cent of total receipts.

In the year under review, the Jewish Agency signed an agreement with the Government, which provided that part of the debts owed by the new settlers to the Jewish Agency were to be repaid directly to the Government in return for the latter's cancellation of part of the Jewish Agency's debts to it.

3. Increase in indebtedness

Receipts (net of repayments) from long- and short-term loans amounted to approximately IL. 55 million in 1961 as compared with less than IL. 40 million in each of the two preceding years. The major part of these receipts in 1961 was in the form of short-term credit.

(i) Long-term loans

The medium-term loans received from abroad in 1961 (actually the National Institutions do not receive long-term loans from abroad) were sufficient only to cover redemption payments. The major source of such loans was Ampal (American-Palestine Trading Corp.).

A major source of domestic long-term loans was foreign currency debentures issued overseas by a subsidiary of the Jewish Agency called Hollis, but which were sold to Israel residents—mostly to beneficiaries of personal restitution payments from Germany. The amount sold in 1961 was IL. 10 million. This

¹ And previous to that, at the rate of IL. 1.50 per dollar.

was the third consecutive year in which the Jewish Agency issued such debentures; up to 1961, IL. 4 million worth had been sold.

(ii) Short-term credits

These receipts amounted to IL. 45 million in 1961, which constituted 20 per cent of total expenditure, including redemption of long-term loans.

Over 40 per cent of these credits came from the banking system, one-quarter from abroad, and the rest from various domestic sources.

Receipts from the banking system included drawings on foreign loans which were received by the Jewish National Fund at the end of 1960 and deposited temporarily with the Bank of Israel. They also included foreign currency loans put at the disposal of the Jewish Agency abroad by the Bank of Israel.

In the year under review loans for a period of less than three years constituted half the total amount of new loans received from abroad, whereas in the two preceding years most of the loans received from abroad were for a longer period.

4. Participation of the Government

Allocations from the Government's Development Budget to the Settlement Department of the Jewish Agency and from the Ministry of Labor for forestry activities of the Jewish National Fund exceeded, for the second consecutive year, transfers from the Institutions to the Government on account of debt redemption (interest and principal).

Before the fiscal year 1960/61 the participation of the Jewish Agency in Government expenditure on immigrant housing and absorption exceeded the amounts transferred to it by the Government, but as a result of the organizational changes which took place in April 1960, this participation was halted, while the Government's allocations continued.

In 1961, as in 1960, net receipts from the Government amounted to approximately IL. 15 million.

(c) Payments

The Institutions' expenditure in 1961 reflected the impact of the rise in immigration. The number of new arrivals was larger than in any of the three previous years, and hence there was a marked increase in the outlay of the Jewish Agency on the transport of new immigrants to Israel and their initial absorption.

Current outlay on wages rose by only 6.5 per cent; average wages—including the enlarged cost-of-living allowance paid after July—rose more rapidly, while the number of workers again declined somewhat. Wage payments, including salaries of the agricultural extension agents of the Settlement Department and of the Absorption Department personnel, accounted for close to 40 per cent of current consumption. An additional 20 per cent went for interest payments on foreign and domestic loans.

Investments of the Jewish National Fund did not expand in 1961, as the Government cut down the volume of unemployment relief work in afforestation. Since prices rose, the volume of investment actually contracted. Jewish Agency inventories continued to decline.

Practically no change took place in total transfer payments and subsidies as compared with 1960. There was a rise in outlay on the initial settlement of new immigrants and in allocations to institutions of higher learning, but other allocations declined, except those for the Youth Aliyah program, which remained unchanged.

Loans are granted chiefly to new settlers in the form of equipment and cash, and to a smaller extent, for immigrant housing. In the past few years no new agricultural settlements were established and consequently all the loans granted

TABLE VII-16

Functional Breakdown of Expenditure of the National Institutions, 1960/61*

	<i>IL. million</i>	<i>%</i>
<i>General services</i>		
General administration	15	7.9
Immigration ^b	14	7.4
<i>Total</i>	29	15.3
<i>Social services</i>		
Education, culture, and religion	24	12.6
Health	1	0.5
Welfare	9	4.7
Housing	16	8.5
<i>Total</i>	50	26.3
<i>Economic services</i>		
Agriculture	93	48.9
Other economic services	2	1.1
<i>Total</i>	95	50.0
<i>Unallocable services</i>		
Interest payments	16	8.4
<i>Grand total</i>	190	100.0

* Excluding debt repayment. The data in this table refer to the fiscal year and therefore differ from those in Table VII-15 which refer to the calendar year.

^b The transport and initial care of immigrants.

SOURCE: Based on data of the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod.

by the Settlement Department were devoted to helping some 50 existing settlements become self-supporting and another 30 to expand. These expenditures showed practically no rise compared with 1960, while prices of agricultural investment went up by some 9 per cent. Loans earmarked for the promotion of citrus cultivation in new settlements and for regional water works increased, while other loans declined.

(d) *Functional composition of expenditure*

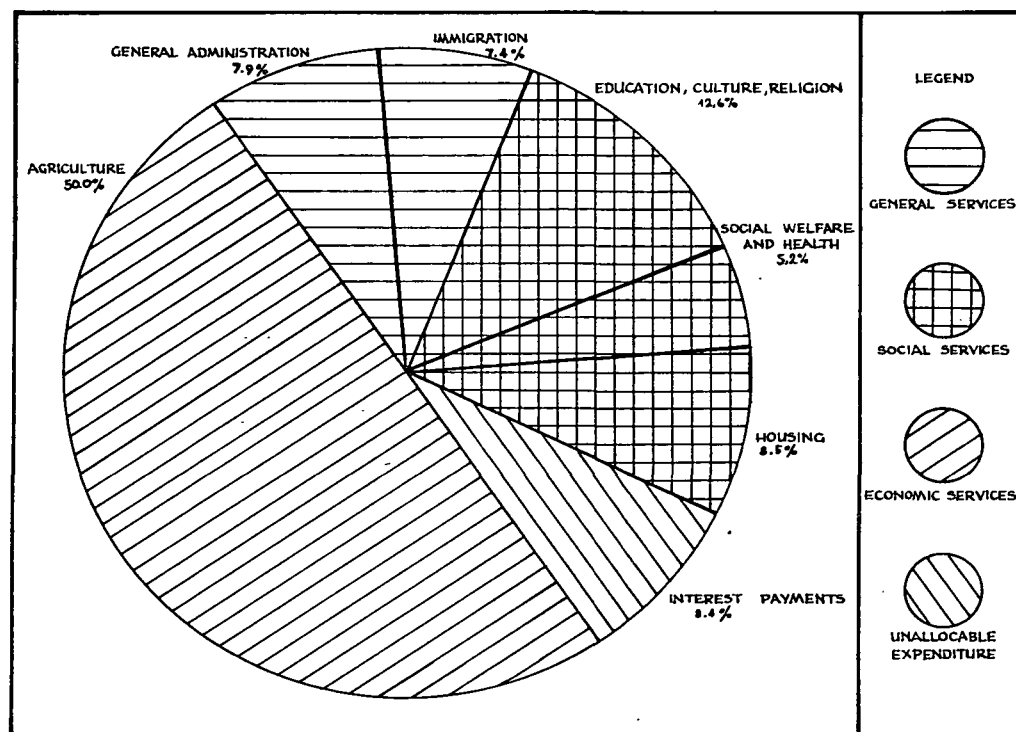
A functional breakdown of the National Institutions' expenditure (other than on debt redemption) in the fiscal year 1960/61 is presented in Table VII-16 and Diagram VII-4.

In contrast to the heterogeneous activity of the Government, the National Institutions today operate in a limited number of fields only—agriculture and afforestation, immigration, education, and housing.

The largest item of outlay—accounting for as much as 50 per cent of the total—is agriculture, including the entire expenditure of the Jewish Agency's Settlement Department and the Jewish National Fund's investment in affor-

DIAGRAM VII-4

Functional Breakdown of Expenditure of the National Institutions, 1960/61



estation and soil reclamation. One-quarter of total expenditure is devoted to social services—principally education and housing—and the remaining quarter to direct immigration services, administration, and interest payments. Outlay on immigration services includes only expenditure on the transportation of new immigrants to Israel and their initial needs on arrival. If a wider definition were applied, then practically the entire outlay of the Jewish Agency could be included here, since immigration and absorption of immigrants is its *raison d'être*. Educational outlay includes the expenditure of Youth Aliyah, as well as educational activities in the Diaspora and among youth groups from abroad studying in Israel.

Interest payments form a relatively large part of the Institutions' total expenditure, because of the frequent resort to loans, especially short-term credits, which are granted at relatively high interest rates. Outlay on general administration includes—in addition to the ordinary administrative expenses of the Jewish Agency, such as the maintenance of the general secretariat and the financial department—the expenditure of the secretariat of the World Zionist Organization, the maintenance of offices abroad, and the administration of land owned by the Jewish National Fund.

4. THE LOCAL AUTHORITIES¹

The scope of operations of the local authorities rose by IL. 45 million in 1961 and totalled IL. 290 million. In current prices, the rate of growth amounted to 18 per cent—the same as in the previous two years. However, inasmuch as the rise in consumption and investment prices was double that in 1960, the real rate of growth slowed down—9 per cent as against 13.5 per cent.

The increase in current receipts, especially from taxes, matched the increase in current expenditure, so that there was no rise in the dissaving of the local authorities. Total budget receipts even exceeded total expenditure, resulting in a modest budgetary surplus.

At the end of 1960, a special IL. 10 million fund was created jointly by the Ministry of Finance, the Histadrut, and certain financial institutions for the benefit of the local authorities, especially for debt repayment. This fund was placed at the disposal of the local authorities in the year under review, and enabled them to pay part of their short-term debts.

(a) *The "balance of payments" of the local authorities*

Table VII-17 shows the "balance of payments" of the local authorities for the years 1959 to 1961, by type of receipts and payments. Net money flows between the local authorities and the Government are recorded separately.

In spite of the rapid growth in the "balance of payments", there was practi-

¹ Municipalities, local councils, district councils, and religious councils.

TABLE VII-17

The "Balance of Payments" of the Local Authorities, by Type of Receipts and Payments, 1959-61
(IL. million)

Receipts	1959	1960	1961	Increase or decrease (-)		Payments	1959	1960	1961	Increase or decrease (-)	
				From 1959 to 1960	From 1960 to 1961					From 1959 to 1960	From 1960 to 1961
Transfer payments and transactions in goods and services											
Taxes ^a	93	110	133	17	23	Purchases on current account	109	124	146	15	22
Miscellaneous receipts	46	55	66	9	11	Purchases on capital account	73	85	98	12	13
						Transfer payments	21	28	34	7	6
Total	139	165	199	26	34	Total	203	237	278	34	41
Transactions in financial claims											
Long-term loans received:						Redemption of long-term loans					
Foreign	3	6	5	3	-1	Domestic	6	9	12	3	3
Domestic ^b	18	21	28	3	7	Foreign	—	1	2	1	1
Short-term credit (net)											
Domestic ^b	10	10	5	—	-5						
From the banking system	—	1	3	1	2						
Total	31	38	41	7	3	Total	6	10	14	4	4
Transactions with the Government											
Grants (net)	30	37	40	7	3						
Loans (net)	9	7	12	-2	5						
Total from the Government	39	44	52	5	8						
Total receipts ^c	209	247	292	38	45	Total payments ^c	209	247	292	38	45

^a Including net profits from waterworks and other enterprises.

^b Excluding loans from the banking system.

^c These figures differ from total receipts and payments in the local authorities' reports in that current income from enterprises, loans from contractors, suppliers, and banks, and transactions with the Government are recorded on a net basis.

SOURCE: 1959 and 1960—Central Bureau of Statistics; 1961—Bank of Israel estimates, based on partial data.

cally no change in its composition. In each of the three years represented in the table, taxes and other compulsory payments covered only 70 per cent of outlay in the "real account" (i.e. purchases and transfers on current and capital account); of the remainder, one-third was financed by grants and loans from the Government, and two-thirds by net loans and credits from other sources.

(b) Receipts

1. Taxes

Tax revenue of the local authorities grew by 21 per cent in 1961, compared with a rise of 18 per cent in 1960 and 16 per cent in 1959, and totalled approximately IL. 135 million. The increase was due both to a rise in tax rates and to the widening of the tax base as a result of the addition of new dwelling units, which constitute the principal base for local taxes.

In the fiscal year 1961/62, local rates were raised by 10 per cent or more in many communities, including the three main cities. Taxes on vacant lots were raised even more steeply, either by an outright change in the tax rate or by an increase in assessments. Revenue from the business tax rose both because of increases in tax rates in Tel Aviv and Jerusalem and because of the establishment of new businesses. Income from building licenses also grew, owing to the expansion of building operations and to a general rise in license fees, for which special local ordinances were passed.

2. Other compulsory levies

Income from transfers and sales on current and capital account rose by 20 per cent over the 1960 level and totalled IL. 65 million. About half this sum came from assessments on home- and land-owners for financing roads, sidewalks, and sewerage, as well as from payments for the installation of water meters; these receipts covered close to one-third of all local authority investment. About 40 per cent of the non-tax levies were fees for services rendered, including school fees, hospitalization fees in municipal hospitals, and participation in the cost of meals provided to children in schools and summer camps. Other sources of income were rental fees on property owned by the local authorities and sales of land.

3. Government grants

Government allocations to the local authorities—after deduction of interest payments and the participation of local authorities in Government outlay—totalled IL. 40 million in 1961. The rate of increase over the previous year amounted to only 10 per cent, as compared with an increase of 20 per cent in 1960.

The general grant-in-aid, which constitutes half the Government's net allocation, rose by 20 per cent, after an unusually large increase in 1960 as the result of a change in the method of calculation. The participation of the Min-

istry of Education and Culture also increased by 20 per cent. On the other hand, there was a further cut in expenditure by the Ministry of Labor on locally-sponsored unemployment relief projects, as unemployment continued to decline, while the participation of the Ministry of Social Welfare, which constitutes a large portion of total Government participation, rose only slightly. The participation of the Ministry of Health remained unchanged, since the municipality of Tel Aviv assumed responsibility for part of the Government's expenditure in that city.

The Government's share in the local authorities' expenditure on education health, welfare, religion, and unemployment is determined on a different basis from the general grant-in-aid. The amount of participation in the various services is fixed for each local authority principally on the basis of the number of children of compulsory school age, the number of welfare cases, etc. On the other hand, the grant-in-aid is determined after taking into account the individual circumstances of each local authority, particularly in respect to its taxing capacity and the make-up of the population. Hence the smaller authorities, particularly those in which new immigrants are concentrated, receive a larger subsidy per resident than the large, well-established cities.

The four largest municipalities, which accounted for half the total purchases on current and capital account, received only 20 per cent of total Government grants, even though the share of Jerusalem was particularly large.¹ These cities are less dependent on Government aid than the other localities, since their taxing capacity is larger (they levy over 60 per cent of all local taxes). Moreover, in recent years the Government reduced its grant to these municipalities (other than Jerusalem), simultaneously with the relinquishment of its share of the taxes imposed on cinema tickets in these cities.

4. Increase in indebtedness

Net income from long- and short-term loans, including loans from the Government, amounted to approximately IL. 40 million in 1961, as compared with IL. 35 million in 1960 and in 1959. Credit from suppliers and contractors constituted a smaller part of loans received than in the previous two years. Among the loans were those granted from the special fund established at the end of 1960 by the Government, financial institutions, and banks in order to enable the local authorities to consolidate their debts.

As in previous years, the Government Development Budget constituted the major source for long-term loans. Additional sources were financial institutions (including the Bank Leumi Investment Company and the local authorities' bank), the National Lottery, and overseas factors. The loans of the National

¹ The case of Jerusalem, the capital, is unique. Part of the Government's participation in its budget is in fact compensation for the tax-exemption granted to Government offices concentrated in this city.

Lottery, which are earmarked for the construction of schools, have been increasing every year, and in 1961 they amounted to IL. 7 million

Until a few years ago, the local authorities had practically no foreign debts. In the past two or three years, however, the large municipalities and Beersheba have received overseas loans for the execution of development works—such as loans from Ampal and credit from foreign contractors and suppliers.

Loans from banks, including withdrawals from the newly established fund, increased as compared with previous years and totalled IL. 6 million, net of repayments. Deposits also grew, and at the end of 1961 were IL. 3.5 million larger than at the end of 1960. The net debt to the banking system therefore rose by approximately IL. 2.5 million during the year under review.

New credits from suppliers and contractors continued to increase, but because of the larger volume of repayments, outstanding debt balances rose to a smaller extent than in previous years.

According to preliminary estimates, it appears that in the fiscal year 1960/61, as well as in 1961 as a whole, there was a modest budgetary surplus. Consequently, open debts to suppliers declined and bank deposits, as already noted, rose, as did investment in inventories.

Outstanding debt balances of the local authorities have been rising from year to year and are beginning to constitute a heavy burden on the ordinary budget.¹ According to provisional data of the Municipal Research Bureau of the Ministry of Interior, outstanding debts of the local authorities at the end of the fiscal year 1960/61 amounted to IL. 194 million, and expenditure on account of principal and interest in that year, to IL. 36 million—which represented 17 per cent of total payments in the regular budget and one-third of the income from taxes.

(c) Payments

In 1961 outlays of the local authorities, other than redemption of long- and short-term loans and the current expenditure of trading enterprises, rose by IL. 40 million over the 1960 level, and totalled approximately IL. 280 million. As in 1960, the annual rate of increase, in current prices, amounted to 17 per cent. The division of the increase as between current expenditure and investment was also similar in both years, being two-thirds and one-third respectively. But prices rose much faster in 1961, and hence the real rate of increase was smaller, although the population expanded at a faster rate in 1961 than in 1960.

1. Current purchases and transfer payments

Wage and salary payments, which constitute about two-thirds of total current purchases, rose by 5 per cent, in constant prices, compared with a rise of 6.5

¹ In accordance with Ministry of Interior regulations, payments on account of principal are recorded in the ordinary budget.

per cent in 1960. But as the result of a considerable increase of 13 per cent in average wages per worker, total wage payments went up more rapidly than in 1960—by 18 per cent—and totalled approximately IL. 100 million.¹ In addition to the rise in the cost-of-living allowance, the appreciable increase in the average wage was due to widespread upgrading, as well as salary increases granted to teachers in municipal high schools and to doctors in municipal hospitals. In Tel Aviv-Jaffa, for example, about one-fourth of the permanent municipal staff were upgraded in the summer of 1961.

As in every other year, educational services rose with the increase in the number of children of compulsory school age. There was also an increase in health expenditure following the opening of a new municipal hospital in Tel Aviv. Expenditure on welfare services expanded only slightly, since part of the persons on relief were absorbed into the expanding labor market. Nevertheless, transfer payments rose by 20 per cent, for in addition to relief grants, this item includes outlay on food served in educational and health institutions, as well as the participation of the municipalities in graded high-school fees. In 1960 transfer payments had risen much more—by 33 per cent—although price increases in that year were smaller.

2. Purchases on capital account

Purchases on capital account rose in 1961 by 15 per cent over the previous year's level. After taking into account the rise in prices, the real increase amounted to only 5 per cent, as against approximately 12 per cent in 1960. As already noted, in 1961 part of the loans received by the local authorities was earmarked for debt repayment rather than for development projects.

These expenditures amounted to close to IL. 100 million, and included mostly investments in educational services, roads, and sewerage—which in the fiscal year 1960/61 constituted 70 per cent of total outlay in the extraordinary budget—as well as purchases of land and existing buildings.

For a number of years now the local authorities have been spending considerable sums on the construction of elementary schools in order to eliminate the second shift and to replace buildings no longer fit for use. At the end of 1961 work was completed on the sewage purification plant in the Haifa area, which had taken two years to erect and cost IL. 8 million. Implementation was begun of the scheme for cleaning up the Tel Aviv seashore, and the installation of water meters in homes, which is designed to promote economy in private water consumption, went on apace. In the three major cities, slum-clearance plans were launched. Additional fire-fighting equipment was imported; following a resolution adopted by the Knesset two years ago, fire-fighting

¹ According to the Central Bureau of Statistics. The sum includes wages paid by the religious councils, but excludes wages paid by trading enterprises and those on capital account; it also excludes salaries of teachers in elementary schools and kindergartens for children of compulsory school age, as these are paid directly by the Government.

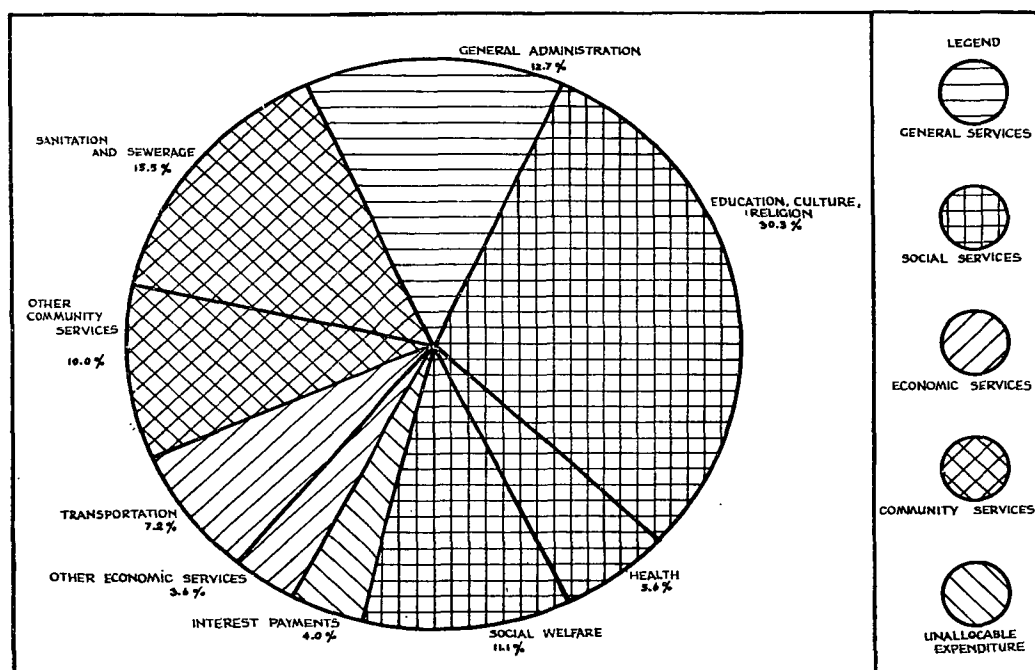
services, which in many localities were in the hands of volunteer fire brigades, have been brought under the direct responsibility of the local authorities.

(d) *Functional composition of expenditure*

A functional breakdown of local authority expenditure (other than on debt repayment) in the fiscal year 1960/61 is presented in Table VII-18 and Diagram VII-5.

DIAGRAM VII-5

Functional Breakdown of Expenditure of the Local Authorities, 1960/61



The local authorities operate mostly in the fields of education, welfare, and the typical municipal services such as street cleaning and lighting. In the economic field they operate only in the transportation branch.

Nearly half the total expenditure was devoted to social services, primarily education. Outlay on education, culture, and religion totalled IL. 75 million, and included the cost of maintaining elementary schools, kindergartens for children of compulsory school age, and summer camps; maintenance of and subventions to secondary, vocational, and agricultural schools, as well as continuation schools for working youth; and the total outlay of the religious councils.

TABLE VII-18
*Functional Breakdown of Local Authority
 Expenditure,* 1960/61*

	<i>IL. million</i>	<i>%</i>
<i>General services</i>		
General administration	31	12.3
Security	1	0.4
<i>Total</i>	32	12.7
<i>Community services (n.e.s.)^b</i>		
Sanitation and sewerage	39	15.5
Water supply ^c	8	3.2
Public gardens	7	2.8
City planning and supervision of building	4	1.6
Other services ^d	6	2.4
<i>Total</i>	64	25.5
<i>Social services</i>		
Education, culture, and religion	76	30.3
Health	14	5.6
Welfare	27	10.7
Housing	1	0.4
<i>Total</i>	118	47.0
<i>Economic services</i>		
Transportation (including roads)	18	7.2
Industry and electricity	5	2.0
Agriculture and other economic services	4	1.6
<i>Total</i>	27	10.8
<i>Unallocable services</i>		
Interest payments	10	4.0
<i>Grand total</i>	251	100.0

* Excluding debt repayment and current expenditure of waterworks. The data in this table refer to the fiscal year and hence differ from those in Table VII-17, which refer to the calendar year.

^b Not elsewhere specified.

^c Investment only (see footnote *).

^d Mostly street lighting and fire fighting.

SOURCE: Based on summary data prepared by the Central Bureau of Statistics.

Social welfare accounted for close to one-quarter of total expenditure on social services and over 10 per cent, on the average, of aggregate expenditure; the figure was smaller for large, established cities (other than Jerusalem), and bigger for the small, undeveloped communities.

Community services constitute one-quarter of total expenditure; these mainly include payments for sanitation and garbage disposal, investment in water-works, public parks, city planning and supervision of building, street lighting, and fire-fighting services.

The remaining quarter was divided between purely administrative expenses and the maintenance and paving of roads and sidewalks, which is the only economic service (as defined here) provided by the local authorities.

Administrative expenditure accounted for one-eighth of the total. These services include the outlay of the local councils, treasuries, and tax-collection bureaus, upkeep of the city or council hall, land administration, and the erection of office facilities for the local authorities. As already pointed out, these expenditures are relatively high compared with the rest of the public sector.

Outlay on interest, including interest payments to the Government, came to IL. 10 million, and constituted some 4 per cent of total expenditure.