

CHAPTER X

AGRICULTURE

1. MAIN DEVELOPMENTS

ECONOMIC ACTIVITY in the agricultural sector expanded considerably during the year 1960/61.¹ Total agricultural output grew by 9 per cent, in real terms (see Table X-1), as compared with an increase of only 3 per cent in the year 1959/60, while the input of raw materials and services rose by 5 per cent as against 6 per cent the year before. As a result of these developments, net agricultural product went up by 13 per cent, in real terms; this was similar to the average annual rate of growth between the years 1953/54 and 1957/58 but less than in 1958/59, when it almost reached a record high, and more than in 1959/60, when there was no expansion whatever.

The higher output during the year under review was due to the favorable weather conditions, which resulted in a relatively large increase in the output of field crops and fruit, following the poor yields of the three preceding years, especially 1959/60, owing to the drought. At the same time, natural factors also had a restrictive effect on output, causing a marked reduction of the citrus crop. Economic factors—namely, an encouraging level of producer prices—contributed to the appreciable expansion of output in the industrial crop and poultry branches, as well as to the larger investment in dairy farming. On the other hand, the lower volume of relief work in agriculture due to the improved employment position acted to slow down the growth of output.

The development of output and input prices was favorable to agriculture, output prices rising by 5 per cent and those of input by only 3 per cent. National income originating in agriculture went up by IL. 75 million, or 20 per cent, to IL. 448 million. Of this increment, 13 per cent represented a real increase in net output, while 7 per cent stemmed from higher prices. In the previous year income originating in this sector rose by 6 per cent, all of it the result of price changes.

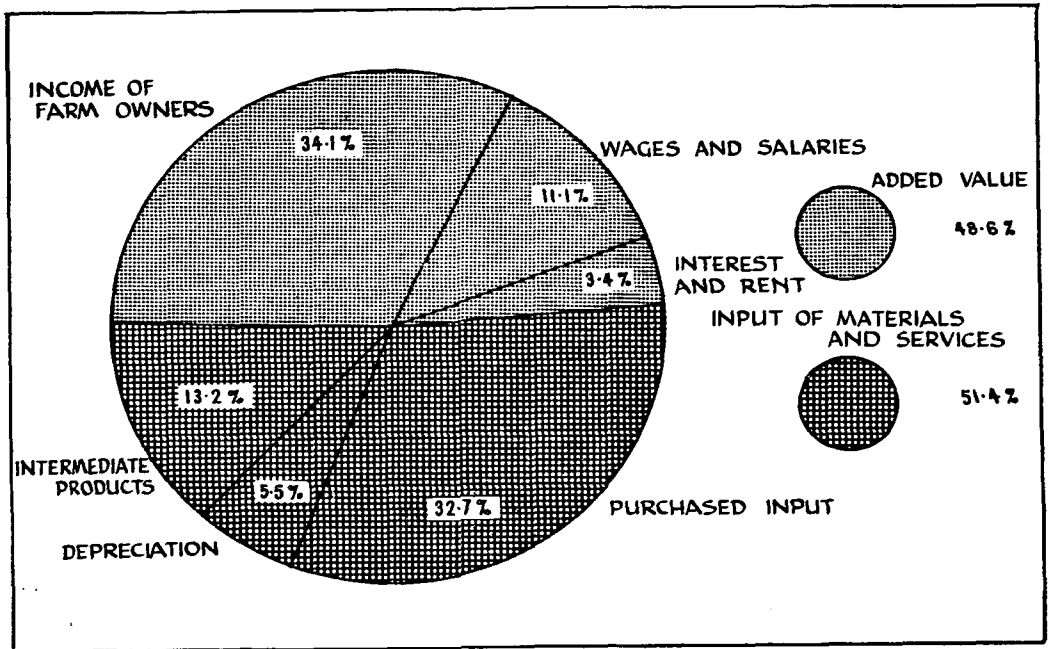
The increase in producer prices was due entirely to a rise in market prices, since farm subsidies were reduced. The value of total output, at producer prices, went up by 14 per cent, to IL. 920 million.

Inputs of materials and services to this sector rose by 9 per cent, to IL. 473 million (see Table X-11): Purchased inputs remained unchanged, but there was an increase in the quantity of intermediate products and in depreciation.

¹ October 1, 1960 to September 30, 1961.

DIAGRAM X-1

Composition of Total Agricultural Output, at Current Prices, 1960-61



Input prices were considerably higher, owing to the imposition of a tax on equipment and the raising of various other taxes.

Since drought compensation payments in the year 1960/61 were much lower than in the previous year, total income from agriculture rose by only IL. 57 million, or 14 per cent, to IL. 452 million.¹

After deducting wages paid to hired labor and interest and rent payments, the net income of the self-employed farmers in 1960/61 came to IL. 319 million, which represented an increase of IL. 52 million, or 20 per cent, as compared with an increment of only 8 per cent the previous year and no growth at all in the year 1958/59. The number of man-days worked by the self-employed farmers and their families was nearly 2 per cent higher; income per man-day went up by 17 per cent, which substantially exceeded the rate of increase in the other sectors of the economy.² As no change took place in the number of farm

¹ Drought compensation is defined here as a transfer payment to agriculture rather than a subsidy, but it constitutes part of total income from agriculture. In the 1960 Annual Report it was defined differently.

² It should be remembered that net income from agriculture includes not only compensation for labor, but also return on own capital. However, since the increase in own capital in this sector was apparently very small, the growth of net income must be attributed predominantly to labor.

TABLE X-1

Current Account of the Agricultural Sector, 1959/60 and 1960/61

	<i>Value at current prices (IL. million)</i>		<i>Per cent increase or decrease (-) from 1959/60 to 1960/61</i>		
	<i>1959/60^a</i>	<i>1960/61</i>	<i>Value</i>	<i>Quantity</i>	<i>Price</i>
Total agricultural output ^b					
at producer prices	808.5	921.0	13.9	8.5	4.9
Less: Agricultural raw materials (intermediate products)	98.5	121.4	23.2	20.1	2.6
Agricultural output, at producer prices	710.0	799.6	12.6	6.9	5.3
Less: Subsidies on agricultural output	51.1	48.1	-5.9	—	—
Agricultural output at market prices	658.9	751.5	14.1	—	—
Less: Purchased input (net of change in stocks)	291.8	300.7	3.0	-0.3	3.4
Gross agricultural product at market prices	367.1	450.8	22.8	—	—
Less: Depreciation	45.6	51.0	11.8	6.1	5.4
Net agricultural product at market prices	321.5	399.8	24.4	—	—
Subsidies on agricultural products	51.1	48.1	-5.9	—	—
National income originating in agriculture (net agricultural product), at producer prices ^c	372.6	447.9	20.2	12.7	6.6
Drought compensation payments	23.2	4.5	-80.6	—	—
Total income from agriculture	395.8	452.4	14.3	—	—
Less: Wages paid to hired labor	98.8	102.6	3.8	—	—
Interest and rent	30.6	31.3	2.3	—	—
Income of farm owners from agriculture	266.4	318.5	19.6	—	—

^a Revised figures.

^b This is identical with "gross agricultural output" appearing in previous Bank of Israel Annual Reports. Unlike last year, drought compensation damages have not been included here, as it was decided to regard this item as a transfer payment rather than a subsidy.

^c The figures cited here for this item are lower than those appearing in Table II-11, for three reasons: (1) the exclusion of drought compensation payments, (2) the exclusion of non-profit institutions, and (3) non-correspondence of the time periods.

SOURCE: Central Bureau of Statistics, Ministry of Agriculture, Bank of Israel estimates. (A detailed list of sources for the data cited in this and the following tables is given in the Appendix to this report—in Hebrew only.)

units (in fact there may have even been a decline), the 20 per cent increment in the farm-owners' net income also represented the increase in average income from agriculture per farm unit; this represented a real growth (i.e. allowing for the increase in consumption prices) of 13 per cent as compared with the previous year.

The downward trend in agricultural investment, which became apparent in the year 1959/60, continued during the year under review as well. The figure amounted to IL. 96 million, which was the same as in 1959/60; but taking into account the rise in investment prices, there was a decline of 5 per cent in real terms. This stemmed from the non-expansion of the production capacity of the poultry branch after it had increased at a fairly rapid pace for several years prior to 1960/61. In contrast, investment in public development projects, primarily the Jordan diversion scheme, was higher during the year reviewed; the figure came to IL. 92 million as against IL. 82 million the previous year, which represented a real growth of 4 per cent. Gross investment in agriculture increased by 7 per cent at current prices, but since investment prices rose at a similar rate, there was no change in the volume of investment.

Bank credit to agriculture went up by an average of 12 per cent during the year, and the outstanding balance at the end of 1961 amounted to IL. 170 million. Of the average increment of IL. 16 million, IL. 10 million was channelled credit and IL. 6 million unchannelled credit.

The financial position of the agricultural sector improved in 1960/61 as compared with 1959/60 owing to the marked rise in income, the expansion of bank credit, and the injection of public funds (in addition to those for financing new investment), which were made available on easy terms for the conversion of debts. This improvement was felt throughout most of the year. The changes in the bank liquidity regulations did not have a direct effect on the volume of agricultural credit granted during the year, but the situation changed at the end of 1961 when a number of factors, including the anticipation of devaluation, led to a decline in the liquidity of the banks and the economy as a whole, causing a temporary worsening of the financial position of this sector.

(a) Production trends

The average increase in the quantity of agricultural products marketed locally for consumption and industry exceeded the increase in local demand,¹ and on balance, producer prices rose less than the general price level. Nevertheless, there was a relatively large increase in farm income. This, however, does not indicate a balanced, coordinated growth of agricultural output as a whole or even of

¹ Owing to the growth of the population and income. Real consumption rose by 10 per cent, or 6 per cent per capita. At constant relative prices, a slower increase could have been expected in the demand for food, whereas the quantity produced went up by more than 10 per cent.

most of the products; rather, it was the result of contrary trends in the various sub-branches.

In a number of major items output declined or rose only slightly, as a result of which market prices went up appreciably; on the other hand, the output of some products was expanded beyond the limits considered desirable from the economic viewpoint.

Citrus output fell off, causing a loss of income to the producers and the national economy alike. Vegetable production declined, but the reduced supply actually led to an increase of IL. 5 million, or 10 per cent, in gross farm income, as well as to the reduction of farm subsidies and the destruction of the surpluses; at the same time, it pushed consumer prices up at the considerable rate of 18 per cent. Domestic meat supplies were lower while milk production rose very slowly. Since the Government took the farmers' views into account and refrained from expanding imports to the extent required for meeting the demand, market prices for meat and dairy products climbed by 17 per cent.

Production of eggs and fowls was over-expanded, and this led to an increase in the economically unprofitable export of these items. In several kinds of fruit, such as table grapes and plums, excess supply caused a decline in prices and profitability, which anyway was not too high, and consequently some of the growers incurred a loss on them. This development indicates that, at present production costs, the area of orchards and vineyards exceeds the domestic requirements.

The production capacity of the dairy farming branch was substantially enlarged during the year under review. This will lead to an increase in the production of dairy products at a cost exceeding IL. 3 for each dollar saved. The expanded production of industrial crops—cotton and sugar beet—was also made possible only thanks to the fact that the local costs in excess of IL. 3 for each dollar of added value were subsidized, either directly or indirectly, through local industry. Only the larger output of unirrigated field crops and the apparent non-growth in the number of laying hens could be regarded as desirable economic developments during the past agricultural year, in the existing circumstances.

Except in the case of citrus, where the lower yield was apparently due to natural factors, these developments can be attributed to the regulative measures which were instituted as well as to the economic circumstances created indirectly by the policy of the Government and the agricultural organizations. The decline in the vegetable yield stemmed from the excessive limitation of production, which was caused primarily by the activities of the Vegetable Production and Marketing Board. The expanded output of the poultry branch was made possible by the continued large-scale subsidization, which prevented a decline in profitability, and the establishment of new poultry installations and the fuller exploitation of those built previously as part of the Jewish Agency Settlement Department's plan for consolidating the new settlements. The developments in

the cattle farming branch arose from the decision reached in the preceding year to discontinue the import of meat, cheese, and butter. The restriction of meat and dairy imports throughout most of the year 1960/61 led to a sharp rise in meat prices and made possible a rise in the prices of dairy products; this increased the profitability of cattle farming and stimulated the expansion of investment in this branch. The high production quotas further stimulated investment and gave the producers incentive to meet their quotas as rapidly as possibly.

(b) Planning policy

During the year 1960/61 a system of quota arrangements designed to limit production took shape. This system aims at solving the problem of excess production capacity (which is likely to grow still larger with the consolidation of the new settlements) at the prevailing price level, by dividing up the market among the producers so as to regulate production. In this way it is hoped to prevent a decline in producer prices or even to raise them, thereby stabilizing the level of farm income. The system was introduced several years ago in connection with vegetables and in the year 1959/60 in poultry farming,¹ but it was actually put into operation in the poultry, cattle, and fruit branches only during the year under review.

The extension of the quota system, which has been accompanied by efforts to encourage the organization of the producers and marketing agencies within the framework of production and marketing boards, has given rise to various problems related to the implementation of agricultural policy as far as economic efficiency is concerned. In view of the present state of agriculture, active Government intervention in the planning of production and the regulation of marketing is inevitable. But the allocation of quotas administratively, rather than on the basis of economic efficiency only, raises the problem of the efficiency of production. The employment of subsidies to prop up producer prices is liable to encourage the expansion of output even when it is not warranted, for the granting of subsidies on output will probably result in net income being larger the greater the income which the farm is already earning (because of its larger volume of production). In the poultry and vegetable branches quotas have been set according to the principle of "past trade"; the volume of production of the farms has been frozen or reduced at a uniform rate, and only the marginal fluctuations in production are subject to allocations in accordance with the guiding principles of the planning.

The developments in the vegetable and poultry branches have led to a number of problems in regard to the scale of production. Vegetables were in short supply in 1960/61, partly because of the failure to meet the production quotas, while the output of the poultry branch exceeded the quota for the third year running,

¹ For full details, see the 1960 Bank of Israel Annual Report, p. 111.

in spite of the stringent measures taken to prevent such an occurrence. It appears that in fruit farming as well, the introduction of limitations failed to prevent, for the second consecutive year, the planting of certain kinds of fruit.

Besides the difficulties encountered in solving the problem of excess production capacity and in raising the level of farm income while paying heed to considerations of economic efficiency, a number of further thorny problems have arisen as a result of the activity of public institutions and organizations. The continued efforts of the Jewish Agency's Settlement Department to base the economy of the new settlements on agriculture—even those which do not enjoy favorable conditions for this—and its constant pressure to increase the production quotas of such settlements have hampered the Government's attempt to regulate production by restricting output in many settlements and by putting an end to farming in urban communities. In certain cases capacity and output were enlarged, rather than limited as planned. These activities have aggravated the problem of surplus production capacity.

In order to cope with this problem in the main branches in coordination with the farmers, production and marketing boards have been set up for certain branches or commodities. The establishment of such boards was actually started several years ago, patterned along the lines of those existing in other countries, but in the last two years they received considerable encouragement and stepped up their activity. The boards have been created first and foremost to deal with matters concerning the marketing of the products to the various destinations. But since the farmers and marketing agencies have a decisive representation in these bodies, they naturally tend to consider their main task to be the increasing of farm income—*inter alia*, by obtaining a greater degree of protection against competing imports and by obtaining larger subsidies. The boards have become a decisive factor in the setting of production targets and in determining planning methods in their respective branches, and they have a considerable influence on the Government's policy toward these branches. In the poultry and cattle farming branches their influence constitutes, directly and indirectly, a factor toward expansion, whereas in the vegetable branch there is a tendency to limit production so as to increase the proceeds from market sales and thereby end the farmers' dependence on subsidies.

As in other countries whose situation is similar to Israel's, one of the cardinal problems which has to be faced in agricultural policy is the equalization of producer prices to international prices (at the prevailing exchange rate), while resorting to direct subsidies in order to raise incomes.

The awareness of the limits to which agricultural production could be expanded prompted the kibbutz¹ movement several years ago to seek a solution through industrialization (which continued at a rapid pace in the year 1960/61). This has also left its mark on the activities of the Jewish Agency Settlement Depart-

¹ Collective settlement.

ment and the moshav¹ movement which, in cooperation with the Government, have begun to create the organizational tools for developing industrial enterprises in the moshavim. This trend, the actual results of which are still modest, constitutes a turning point in the effort to solve, in an efficient manner, the problems facing agriculture in general and the new settlements in particular—provided, of course, the investment in industrial undertakings is made according to economic criteria. In this way it will be possible to keep the settlements intact and raise the level of the settlers' income without increasing the surplus production capacity.

2. OUTPUT

Agricultural output grew by 9 per cent in the year 1960/61, as compared with an increase of 3 per cent the year before and an average of 15 per cent between the years 1953/54 and 1958/59. Since producer prices rose by 5 per cent on the average, the total value of production at such prices increased by 14 per cent, to IL. 920 million.

The output of intermediate products, which consisted largely of field crops, rose substantially, mainly as a result of the abundant rainfall as compared with the year 1959/60. Exclusive of such products, the increase in output came to 7 per cent. Farm subsidies were reduced by IL. 3 million, and consequently the increase in the value of output at market prices was a little larger than the value of total agricultural output to the producers.

(a) *The composition of output by economic destination*

The quantity of marketed agricultural produce increased more slowly in 1960/61 than in the previous year—9 per cent as against 10 per cent (see Table X-2). This was due to the decline in export (mainly of citrus). In contrast, the amount sold for processing and direct local consumption rose at a greater rate than in the previous year. Agricultural output remaining on the farm increased by 8 per cent during the year under review—as compared with a decline of 13 per cent the year before—chiefly because of the larger output of intermediate products and the continued decline in the output of capital goods. This expansion, however, still failed to bring the figure up to the level attained in the year 1958/59.

The quantity marketed, apart from citrus, rose more rapidly than in 1959/60, while producer prices went up by 3 per cent, which was a little higher than the rate of increase in the previous year. This, however, was not the result of a uniform development in the different commodities. The production of milk increased only slightly and that of meat and vegetables declined, causing a relatively

¹ Cooperative smallholders' settlement.

TABLE X-2

Total Agricultural Output, by Economic Destination, 1959/60 and 1960/61

Destination	Value at current producer prices (IL.million)		Per cent increase or decrease (—) from 1959/60 to 1960/61		
	1959/60 ^a	1960/61	Value	Quantity	Price ^b
<i>A. Output marketed</i>					
Direct local consumption	274.8	311.0	13.2	10.7	2.3
Processing ^c	186.6	231.4	24.0	16.5	6.4
Export ^d	133.1	137.1	3.0	- 6.5	10.2
<i>Total</i>	594.5	679.6	14.3	8.7	5.2
<i>B. Output retained on the farm</i>					
Own consumption	54.9	58.6	6.7	2.2	4.4
Capital goods ^e	60.6	61.5	1.5	- 5.8	7.8
Agricultural raw materials (intermediate products)	98.5	121.4	23.2	20.1	2.6
<i>Total</i>	214.0	241.5	12.9	8.2	4.3
<i>Total output</i>	808.5	921.1	13.9	8.5	5.0

NOTE: The data on output marketed are not identical with those appearing in Table IV-1, owing to conceptual differences and non-correspondence of the time periods.

^a Revised figures.

^b The price changes indicated for each economic destination taken individually are unreliable, since for many products the average change in the total amount marketed had to be used owing to the lack of more detailed data.

^c Including all industrially processed commodities, e.g. milk processed in dairies, meat processed in slaughter houses, wine grapes, and industrial crops including wheat, vegetables, and fruit.

^d Direct exports only, i.e. excluding processed products.

^e Including the increase in the value of orchards and livestock remaining on the farm, as well as investments in afforestation, land conservation and reclamation, and drainage and irrigation networks laid by the farmers themselves.

SOURCE: Central Bureau of Statistics and Bank of Israel.

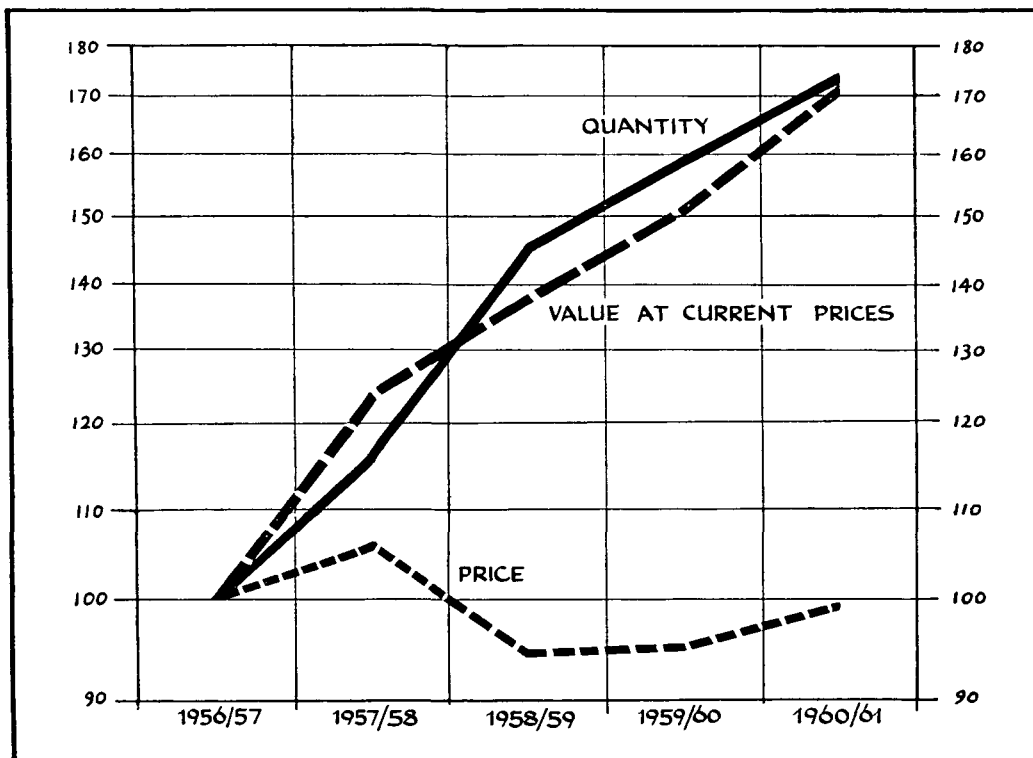
large rise in producer prices; on the other hand, sales of fruit and eggs rose appreciably, while the prices received for them by the farmers dropped.¹

The biggest price increase took place in export. The main cause of this was the rise in citrus prices—both f.o.b. prices, which went up by more than 8 per cent (apparently also because of the lower volume of export), and an increase of 10 per cent or more in the effective rate of exchange for citrus owing to the larger export premium granted by the Government.

¹ In a number of products the farmers do not receive outright the price obtained from their sales to the different economic destinations, but the average price from all destinations, owing to the pooling of prices by the marketing agencies or production boards. This applies, for example, to milk, eggs, and some vegetables and fruits.

DIAGRAM X-2

*Value, Quantity, and Price Indices of Marketed Agricultural Output,
1956/57 to 1960/61*



The prices of fresh eggs also rose by more than 20 per cent on the average.¹ This stemmed from the unexpected increase in the prices fetched abroad during the winter months, when exports of this commodity were at a peak. The higher average export price was obtained despite the physical expansion of export by 100 million units. Other export commodities whose prices went up were potatoes and bananas. There was also an increase in the quantity marketed abroad, especially of bananas which went up nearly three-fold—from 4,000 tons in 1959/60 to 11,000 tons during the year under review. In contrast, the export of wheat, vegetables, and various fruits was substantially lower.

The higher prices obtained for agricultural produce sold to industry were mainly accounted for by meat and milk, which constituted more than half of all products taken by industry, but they were also partly due to vegetables and citrus, whose prices went up together with those of unprocessed commodities.

¹ The higher prices reflect the considerable increase in the average size of the eggs; for eggs of the same size the price was actually lower.

TABLE X-3
Agricultural Output, by Branch, 1959/60 and 1960/61

Branch	Value at current producer prices (IL. million)		Per cent increase or decrease (-) from 1959/60 to 1960/61		
	1959/60 ^a	1960/61	Value	Quantity ^b	Price ^c
<i>Livestock</i>					
Poultry farming					
Current output	172.2	202.2	17.4	17.5	-0.1
Output of capital goods	3.1	0.0	-100.0	-100.0	—
<i>Total</i>	175.3	202.2	15.4	15.5	-0.1
Cattle farming					
Current output	138.1	148.2	7.3	-3.5	11.1
Output of capital goods	3.4	8.0	136.9	136.9	0.0
<i>Total</i>	141.5	156.1	10.4	-0.1	10.5
Other livestock					
Current output	54.8	60.3	10.0	5.6	4.2
Output of capital goods	-1.1	0.5	-52.3	-52.3	0.0
<i>Total</i>	53.8	60.8	13.2	8.6	4.2
All livestock					
Current output	365.1	410.7	12.5	7.8	4.3
Output of capital goods	5.4	8.5	57.2	57.2	0.0
<i>Total</i>	370.5	419.2	13.1	8.5	4.3
<i>Crops</i>					
Orchards					
Current output	190.4	212.0	11.3	5.2	5.8
Output of capital goods	29.3	30.7	5.0	-2.7	7.9
<i>Total</i>	219.7	242.7	10.5	4.2	6.1
Vegetables and melons	68.8	76.9	11.8	0.6	12.5
Field crops and misc.	123.6	159.9	29.4	28.0	1.1
Other capital goods	25.9	22.3	-13.9	-23.1	12.0
All crops					
Current output	382.8	448.8	17.2	11.5	5.1
Output of capital goods	55.2	53.1	-3.9	-12.0	9.2
<i>Total</i>	438.0	501.8	14.6	8.6	5.5
All types of output					
Current output	747.9	859.5	14.9	9.7	4.7
Output of capital goods	60.6	61.5	1.5	-5.9	7.9
<i>Total output</i>	808.5	921.0	13.9	8.5	4.9

NOTE: "Current output" includes consumer goods and raw materials for agriculture ("intermediate products") and for industry. "Output of capital goods" includes afforestation, soil reclamation, drainage and irrigation networks, changes in the value of livestock, and investments in orchards.

Discrepancies are due to rounding.

^a Revised figures.

^b The percentage changes in quantities are weighted averages, calculated on the basis of the change in the value to the producer at 1959/60 prices, rather than changes in the actual weight (tonnage).

^c In the tables in this chapter, the percentage change in price refers in most cases to the "average value", which also reflects the change in quality, and is not identical with the "average price".

SOURCE: Central Bureau of Statistics.

On the other hand, there was a decline in the prices of fruit (excluding citrus) and olives for processing, owing to the much larger supply. The substantial increase in the quantity of agricultural products diverted to industry was not accompanied by a drop in producer prices, because the growth was concentrated in those commodities for which the farmers were guaranteed fixed prices, such as cotton, sugar beet, wheat, and tobacco.

Producer prices for commodities marketed directly for consumption also rose somewhat, as a result of the reduction in the volume of sales of vegetables and certain fruits (citrus and grapes). The lower prices obtained for eggs and deciduous fruits did not offset these increases.

As to the products intended for use on the farm, the output of intermediate commodities rose very rapidly in 1960/61, by 20 per cent, surpassing the yield in the drought years 1957/58 to 1959/60 thanks to the favorable weather which prevailed. This large increase in output, which exceeded the growth of demand, was not accompanied by a drop in prices, as it reflected the substitution for imported goods and did not expand the total supply to a substantial degree. In contrast, there was a decrease, as in the previous year, in the output of agricultural capital goods, which stemmed from the further decline of investment in public works due to the improved employment position.

(b) *The composition of output by branches*

In 1960/61 the output of the livestock branch rose at the same rate as crop production (see Table X-3), thanks to the weather conditions which resulted in a large increase in the output of field crops. Thus, no change took place in the relative share of crops in total agricultural output as compared with livestock products, after the share of the latter had risen steadily over the preceding six years.

Field crops, especially grains and cotton, accounted for half the real growth in agricultural output (see Table X-4). The next largest branch in this respect was poultry farming, which also contributed nearly half the total increment. The small contribution of fruit farming was attributable to the relatively large decline in the citrus yield, which offset the substantial contribution of the other fruits. Vegetables and investments in afforestation, land reclamation and conservation, etc. had a contractive effect on output.

The branch mainly responsible for the higher prices was cattle farming, which accounted for more than a third of the total increase in the value of output to the producer. It was followed by the fruit branch (mainly citrus) and vegetables. On the other hand, the development of prices in the poultry branch reduced somewhat the contribution of output prices to the total increase in the value of output.

Poultry farming: The increase in the output of the poultry branch accelerated in 1960/61, reaching approximately 16 per cent, as compared with 11 per cent

TABLE X-4

Influence of Quantity and Price Changes on Changes in the Value of Agricultural Output, by Branch, 1960/61

Branch	Quantity		Prices	
	Change in value of output to producer, at 1959/60 prices (IL. million)	% ^a	Change in value of output (IL. million)	% ^a
Poultry	27.0	39.0	-0.1	-0.2
Cattle	—	—	14.8	34.2
Other livestock	4.6	6.6	2.4	5.5
Fruit	9.2	13.3	13.8	31.9
Of which:				
Citrus	-16.2		19.6	
Others	25.4		-5.8	
Vegetables and melons	-0.4	-0.6	8.5	19.6
Field crops	34.6	50.0	1.7	3.9
Miscellaneous (afforestation, soil conservation, etc.)	-5.8	-8.4	2.2	5.1
<i>Total</i>	69.2	100.0	43.3	100.0

^a Per cent of total net change.

SOURCE: Table X-3.

the previous year and about the same rate in the year 1958/59. Egg production was 17 per cent higher, while that of poultry meat went up by 20 per cent (see Table X-5). Although the supply expanded considerably, exceeding the increase in domestic demand, and there was a decrease in the average subsidy paid per egg, producer prices did not decline.¹ The total subsidy paid in 1960/61 was the same as in the previous year—IL. 19 million. Wholesale prices in the local market dropped by 6 per cent, while export prices (including the usual premiums) rose by more than 20 per cent. Taking into account the larger average size of the eggs,² the price received by the producer was actually 3 per cent lower.

In order to prevent a decline in such prices, the additional output last year

¹ The reference here is to the average prices received from the various economic destinations and through organized marketing channels. As regards individual producers, the prices depended on fluctuations in the volume of output over and above their quota or in the amount marketed through unorganized channels. These price data should be accepted with some reservation; according to other sources, egg prices declined by 3 per cent on the average.

² The relative share of the large eggs ("extra" and larger) rose from 51 per cent in 1959/60 to 59 per cent during the year reviewed.

TABLE X-5
Output of Eggs and Poultry Meat, 1960/61

Product	Units	Quantity	Value to producer in 1960/61 (IL. million)	Per cent increase or decrease (-) from 1959/60 to 1960/61		
				Value	Quantity	Price
Eggs	Million	1,290.0	109.8	16.5	16.5	0.0
Poultry meat	Thousand tons	54.6	86.2	20.1	19.8	0.2

SOURCE: Central Bureau of Statistics.

was diverted to export, which rose by 19 per cent, to 450 million eggs, including those from cold storage. Since production costs apparently decreased, it is fairly certain that the profitability of egg production increased, or at least did not diminish.

The expansion of output was due to the greater exploitation of the poultry installations and the investments made at the end of the 1959/60 agricultural year, the results of which were felt in the output of 1960/61. There was a large increase in the output of the new settlements, whose share of egg production rose from 35 to 38 per cent. In 1960/61 there was apparently no further growth in the number of laying hens or in the existing production capacity, but at the beginning of the year 1961/62 there were signs of a further growth of output.

The substantial expansion of egg and fowl production can partly be explained by the subsidies which the Government has had to grant for the past several years so as to prop up the level of earnings in this branch, which for part of the producers is quite low. The year reviewed was the second in which the administrative measures (control of hatching, withholding of subsidies, and rationing of fodder supplies) were applied with the object of restricting production to the limits set in the overall quota of 1.1. billion eggs—which was about the same as the previous year's volume.¹ But the restrictions proved inadequate, failing to prevent the expansion of production. The limitation of the number of laying hens by controlling hatching could be circumvented in various ways,² while the reduced feed supplies could be surmounted owing to the existence of a free market for most of the locally produced feed grains, and the withholding of subsidies failed to depress producer prices to an extent that would make marginal production unprofitable. Moreover, part of the expansion was directly due to the measures instituted by public bodies while attempting to shift part of the production from the veteran settlements to the new ones by cutting the quotas of the former and enlarging those of the latter.

¹ See 1960 Bank of Israel Annual Report, p. 122.

² *Inter alia*, by deferring the liquidation of pens.

But while no difficulty was experienced in raising the quotas of the new settlements, in view of the great interest displayed in the development of this branch by the Jewish Agency's Settlement Department and the settlers themselves (particularly those in the unirrigated hill regions), the expansion was carried out without ensuring a corresponding reduction in the older settlements.

Cattle farming: The output of this branch did not grow in 1960/61, for the first time since the establishment of the State; in the previous year there was an increase of 8 per cent. The 11 per cent rise in producer prices thus resulted in a corresponding growth in the value of production. Milk output was only slightly higher, while that of meat fell off considerably (see Table X-6). On the other hand, the size of the milch herd was enlarged, the number of milch cows and heifers rising by 8-10 per cent during the year, whereas in the previous year it remained constant. Since this expansion occurred in the second half of the year, it was reflected in an acceleration of milk production only toward the end of the year.

Milk production went up by only 2 per cent on the average, as against 7 per cent in the year 1959/60. This slower rate of growth was due to the greater selectivity applied to milch cows, the slaughter of heifers, and the liquidation of the urban cow barns in the year 1959/60.

TABLE X-6
Output of Milk and Beef, 1960/61

Product	Unit	Quantity	Value at producer prices in 1960/61 (IL. million)	Per cent increase or decrease (-) from 1959/60 to 1960/61		
				Value	Quantity	Price
Milk	Million liters	283.5	83.2	12.5	2.3	10.0
Meat	Thousands tons (live weight)	22.7	55.0	2.3	-12.0	16.2

SOURCE: Central Bureau of Statistics.

Developments in the milk and dairy products market led to an average increase of 15 per cent in retail prices for raw milk. Since the Government had restricted the import of dairy products, the rise in prices was primarily due to the fact that the increase in milk production lagged behind the growing demand for dairy products. The increase in demand was expressed particularly in the larger consumption of fluid products and cheese despite the increase in their prices to the consumer. The demand for butter and local hard cheeses grew considerably following the suspension of the import of these commodities; at the same time, there was a greater use of imported milk powder for making fluid products and soft cheese. Per capita consumption of milk for drinking declined, following the rise in its retail price.

Part of the larger average proceeds from the sale of milk and dairy products arose from a change in quality, i.e. a reduction in the butterfat content of milk and various dairy products.¹ This was partly due to the change in the forms of milk consumption² and partly to a rise (at varying rates) in the prices of nearly all dairy products.

The price obtained by the farmer for raw milk went up by 10 per cent, which was lower than the increase in the market prices. The difference was due to the reduction of the milk subsidy by IL. 2 million, which represented a decline from 5.3 agorot to 4.6 agorot per liter. Since the subsidy was cut, consumer prices rose, this being part of the policy to reduce the percentage of subsidies in the producer price while setting the consumer price at a level that would cover a larger part of the production costs.

As against the rise in the producer prices of milk, hardly any increase took place in the prices of feed, which is the primary input in cattle farming.³ There was no outbreak of cattle diseases in 1960/61, and in view of the greater productivity and higher meat prices, the profitability of the dairy farming branch was considerably enhanced. This encouraged the farmers to hold on to cows with a lower milk yield and slowed down the slaughter of milch cows, young female calves, and heifers, thereby accelerating the rate of growth in this branch. The reduced rate of slaughter further increased the profitability of the branch by causing a rise in meat prices.

The output of beef declined in 1960/61 by 12 per cent, as compared with a rise of 33 per cent the previous year and of 82 per cent in 1958/59. The lower output was caused by the reduced slaughter of milch cows and heifers, which was only partly offset by the larger sales of fattened calves. Beef prices climbed even when meat imports were resumed after having been suspended for a fairly long period, but the increase in imports failed to match the growth in demand. Producer prices went up 16 per cent, and consequently farm receipts rose by 2 per cent. A factor that apparently checked the rise in beef prices was the substantial expansion of poultry meat supplies, the average producer prices for which remained unchanged.

In the first third of 1960/61 there was a continued increase in the quantity of cattle slaughtered, but afterward a decline set in. This was accentuated toward the end of the year and caused prices to go up considerably—a development

¹ The percentage of butterfat in drinking milk was reduced from 3.08 to 2.83 per cent. This decline was equivalent on balance to a 2.5 per cent increase in prices.

² The decreased production of soft cheese from raw milk, the income from which is lower than that from fluid products.

³ The price of concentrated feed went up by less than one per cent, while that of green fodder apparently even declined if we take into account the larger yields and the saving on irrigation costs due to the termination of the drought. As for the other input prices—which are mainly depreciation on farm buildings and equipment, spare parts, insurance, and veterinary expenses—there were increases which did not exceed 6–7 per cent.

that forced the Government to resume the import of meat. But the drop in the local meat supply continued, and apparently there was even a tendency to hold on to fattened calves for a longer period, possibly with the intention of preventing a further decline in prices. At the start of the year 1961/62 there were signs of an increase in the local meat supply and a drop in wholesale prices, after the Government had guaranteed the farmers a minimum price.

Two factors connected with Government activity stimulated the expansion of cattle farming during the year under review: the planning of the branch and the Government's producer price policy. As already mentioned, the Government considerably reduced its milk subsidy, but as against this it confirmed an increase in the consumer prices of milk and dairy products which exceeded the cut in the subsidy. The Government acceded to the demand to guarantee a fixed price to the farmer, at a level of 30.1 agorot per liter for all milk marketed within the framework of the quota system. This guarantee of a fixed price prevented the low market price received for the additional milk sold following the increase in production¹ from being reflected in the producer price, and therefore it tended to encourage the expansion of production. This encouragement applied to milk marketed under the quota system, since the subsidy was reduced for milk sold otherwise. However, for many farmers the quotas, which were set on the basis of the projected demand in the year 1963/64, left room for expansion. Since many farmers had misgivings about the stability of the planning policy as regards cattle farming and were apprehensive lest the quotas be cut or frozen in the future, as happened in other branches, they were interested in completing their quotas as quickly as possible.

Vegetables: The output of vegetables and potatoes declined by 5 per cent in 1960/61, as compared with an increase of 7 per cent in the previous year. Vegetable production was 6 per cent lower, while that of potatoes rose slightly (see Table X-7). The prices received by the farmers for vegetables went up by 17 per cent as a result of the higher market price, the reduction of the surpluses, and the larger average subsidy paid on these surpluses. The raising of the subsidy also increased the consumer prices of potatoes by 12 per cent. The area under vegetables was reduced by 4 per cent, compared with an expansion of 4 per cent in the potato area. The volume of surpluses withdrawn from the market was 41 per cent lower than in 1959/60, while the relative share of the surpluses in total production dropped to 12 per cent as against 19 per cent the year before.²

Market developments were not uniform throughout the year under review. In the first seven months, during the winter season, the quantity supplied to

¹ All the additional milk was used in 1960/61 for making dairy products; the earnings from some of these items, such as butter and certain cheeses, came to no more than half, or even less than half, the amount that would have been obtained for raw milk under the guaranteed price.

² Including the quantities directly supplied to industry from the farms.

TABLE X-7

Output of Vegetables and Potatoes, 1960/61

Product	Quantity (thousand tons)	Producer prices in 1960/61 (IL. million)	Per cent increase or decrease (-) from 1959/60 to 1960/61		
			Value	Quantity	Price
Vegetables	277.1	54.3	9.7	-6.4	17.1
Potatoes	85.2	14.0	16.1	3.5	12.1

SOURCE: Central Bureau of Statistics.

the market fell off by 22 per cent as compared with the corresponding period in the preceding year, while in the other months there was an increase of 19 per cent. The reduced output in the winter was to some extent a reaction to the lower price received in the corresponding period the year before because of surpluses. At the beginning of the winter, however, it was due to the planned curtailment of the cultivated area of several vegetables with the aim of reducing the surpluses. A particularly conspicuous decline occurred in the output of tomatoes following the ban on the raising of all varieties except the "Money-maker". Other factors contributing to the vegetable shortage, which was particularly acute in the months of April and May, were diseases and the unfavorable weather conditions, which resulted in a lower average yield. During this period the surpluses were substantially reduced but did not disappear entirely. The removal of supplies from the market as "surpluses" during the period of shortage and high prices helped to safeguard the high level of prices. The rise in the average annual price largely reflected the steep increase in prices during this period. As compared with the short supply during the winter, there was an increase, as stated, during the summer, which was accompanied by a growth in the surpluses as well. This expansion of production reflected the farmers' anticipation of a high level of prices, such as prevailed in the winter months and the previous summer, as well as of an increase in the guaranteed prices.

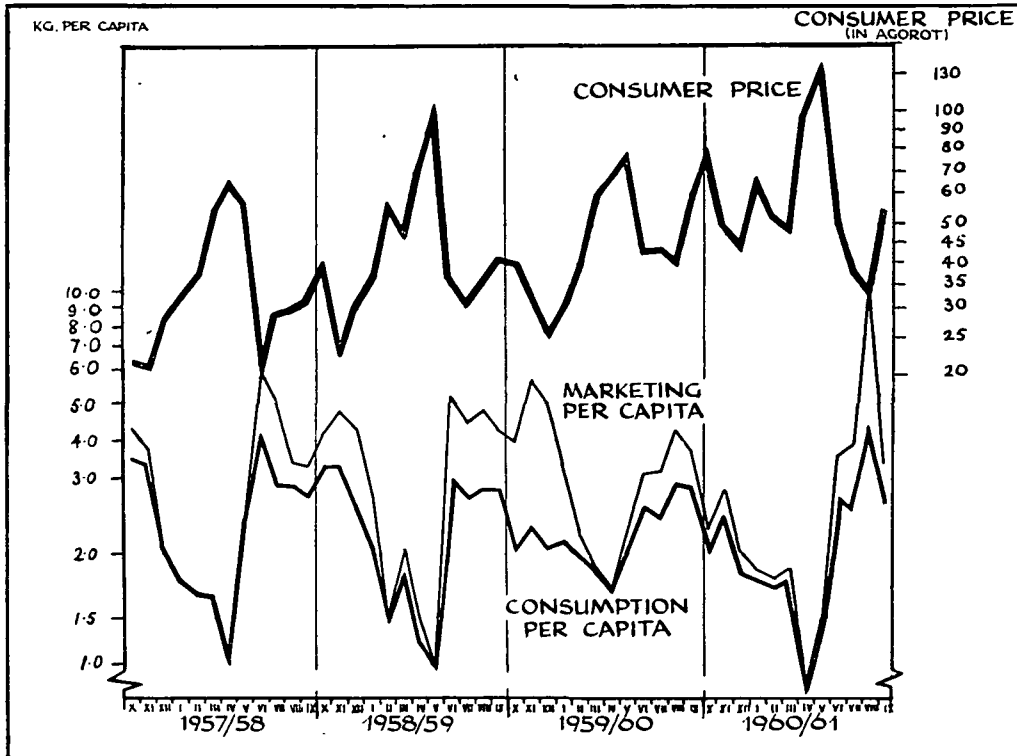
Vegetable exports totalled \$533,000 at f.o.b. prices, which was 20 per cent less than in the previous year. This reflected a decline both in the volume of export and in export prices. The plan for the large-scale export of the "Money-maker" tomato failed to materialize because of the contraction of output and the rise in the domestic prices. It appears that even at a low volume, such export was not profitable to the national economy, and entailed the grant of a particularly large subsidy.¹

The vegetable branch was the first in the agricultural sector in which the Government handed over (in 1953/54) the task of stabilizing the branch (with

¹ In addition to the usual export premium, some IL. 300,000 was allocated to cover losses incurred by the growers, this being equivalent to nearly IL. 3 per kg.

DIAGRAM X-3

*Consumer Price, Per Capita Marketing and Consumption of Tomatoes,
1957/58 to 1960/61^a*



^a Semi-logarithmic scale.

the aid of subsidies and other special legal powers) and of planning current production, to representatives of the producers and marketing agencies within the framework of production and marketing boards. However, the data on marketing, surpluses, and consumer prices as from the year 1958/59 indicate that during this period the Vegetable Board did not stabilize consumer prices for vegetables. Prices of tomatoes (the leading vegetable) climbed steadily and outpaced the rise in the general level of consumption prices (see Table VI-3). In 1960/61 as well, there were no signs of stability in tomato prices (see Table X-8). Between 1957/58 and 1959/60 the fluctuations were less pronounced (see the coefficient of variation in Table X-8), but during the year reviewed the position reverted to that which prevailed in 1958/59. There were no indications of a distinct regulative trend in production. The cyclical seasonal fluctuations continued, and the tomato surplus still amounted to about 20 per cent of the quantity marketed per capita, even though there was an absolute reduc-

tion in the surplus that year. In spite of the relative drop in the quantity marketed, the decline in consumption could have been avoided by withholding less of the surplus from the market, particularly during the seasons when prices were relatively high.

TABLE X-8
Marketing, Consumption, and Prices of Tomatoes, 1957/58 to 1960/61

Year	Kg. per capita			Coefficient of variation ^b in consumer prices
	Total amount marketed	Surpluses	Amount marketed for consumption ^a	
1957/58	38.0	7.6	30.4	0.53
1958/59	40.3	11.6	28.7	0.46
1959/60	40.7	13.5	27.2	0.33
1960/61	32.6	6.7	25.9	0.45

^a The quantity marketed, excluding surpluses.

^b This coefficient measures the relative change in prices during the year, and is in direct relation to the variation.

SOURCE: Data of the Ministry of Agriculture and calculations of the Bank of Israel.

Orchards: The real increase in the output of fruit amounted to only 5 per cent in the year 1960/61, as compared with 12 per cent in the previous year and 23 per cent in 1958/59. Since investment in new orchards had fallen off, the total output of the branch rose by only 4 per cent. This comparatively slow growth was caused to some extent by the smaller citrus yield, while that of the other fruits was considerably higher than in the previous year. The 6 per cent rise in consumer prices was also accounted for by citrus, the prices of the other fruits being lower.

Citrus: Although the area of fruit-bearing orchards was extended by nearly 11 per cent, the citrus crop decreased by 16 per cent in 1960/61 (see Table X-9), as compared with an increase of 3 per cent in 1958/59 and 7 per cent in 1959/60. The lower results were due to the 25 per cent decrease in the yield of the older plantations, apparently because of the protracted drought on the one hand, and the abundant crops in previous seasons, on the other. Since the output of the orchards just beginning to bear fruit was about one-fourth lower than the average figure, the expansion of the fruit-bearing area also contributed to the decline in the average output per dunam from 3.1 tons to 2.26 tons, and in the average value from IL. 603 per dunam to IL. 443, at 1959/60 prices, i.e. by nearly 30 per cent. Current producer prices rose by 20 per cent; consequently, the growers' proceeds did not contract as compared with the previous year, despite the lower volume of output.

Citrus exports decreased by 17 per cent, in physical terms, but since f.o.b. prices advanced 8 per cent, the foreign currency proceeds declined by only

10 per cent, to \$ 42 million, as compared with \$ 47 million in each of the four preceding years. The actual amount received by the growers from export was only slightly less than in the previous year, owing to the higher export premium granted. The average premium for each dollar of added value was raised 47 per cent, to 74 agorot.¹ The price fetched locally for citrus sold for eating purposes went up at a rate exceeding the decline in the supply. A similar development occurred in respect of sales to industry, the volume being lower and the price rising somewhat.

The cultivated area was extended by 27,000 dunams, as compared with an increase of 33,000 dunams in the previous year and 20,000 dunams in 1959/60. Thus the total planted area reached 375,000 dunams,² of which some 200,000 were fruit-bearing.³ A substantial part, about 80,000 dunams, had not yet reached full output during the year reviewed.

In 1960/61 it was decided to expand the planted area by 55,000 dunams within four years. The economic profitability of such an expansion depends on the degree to which the increased supply will influence the price obtained in the export markets—an aspect that has not yet been thoroughly examined.

Other fruit: The average real increase in the output of fruit other than citrus amounted to 34 per cent, as against a gain of 18 per cent in each of the two preceding years. All the different fruits advanced in output.

An especially large increase was attained in olives, the yield being more than tripled as a result of natural factors. The biggest contribution to the increase in output and farm turnover was made by deciduous fruits and grapes, which showed a gain of 24 per cent. The largest growth was in deciduous fruits—apples, plums, and peaches—as well as in wine grape, and was due to the fact that the young vineyards and orchards reached the fruit-bearing stage in 1960/61 and that more favorable weather conditions prevailed during the year.

In view of the large expansion of the supply, the 2–3 per cent decline in producer prices seems negligible, even taking into account the rise in demand resulting from the growth of the population and of incomes. There were three main reasons for this development:

1. Certain fruits, mainly apples, could be kept in cold storage and marketed throughout most of the year. Consequently, the full effect of the larger supply had not yet made itself felt on prices. Such storage also made it possible to regulate the supply, thereby preventing or slowing down a fall in prices:

¹ This is on the assumption that the percentage of added value remained unchanged at 70 per cent, since the allocation of the export premium for citrus was made on a global basis.

² Of this number, some 20,000 dunams were planted without licenses.

³ The estimate of the fruit-bearing area in 1959/60 was revised upward to 188,000 dunams, as compared with the figure of 160,000 dunams cited in the 1960 Bank of Israel Annual Report (p. 125).

TABLE X-9
Output of Fruit, 1960/61

<i>Product</i>	<i>Quantity (thousand tons)</i>	<i>Value to producer in 1960/61 (IL. million)</i>	<i>Per cent increase or decrease (-) from 1959/60 to 1960/61</i>		
			<i>Value</i>	<i>Quantity</i>	<i>Price</i>
Citrus					
For export	331.1	89.2	-2.8	-17.0	17.1
For industry	83.0	5.7	2.8	-17.8	25.0
For local consumption	101.6	16.7	24.2	-5.7	31.6
<i>Total</i>	515.7	111.6	0.8	-15.6	19.5
Grapes	64.6	22.1	22.1	17.2	4.2
Other deciduous fruit		50.6	17.5	26.7	-7.2
Bananas	44.1	18.2	26.8	29.1	-1.8
Olives	21.6	9.5	127.6	203.3	-25.0

SOURCE: Central Bureau of Statistics.

2. Most of the additional output of bananas was diverted to export, thus checking the drop in their prices.

3. The high vegetable prices apparently caused a shift in demand to fruit, which is a close substitute for vegetables.

The area of fruit orchards was extended during 1960/61 by 16,000 dunams, or 4 per cent. The rate of planting was similar to that in the previous year, but there were some changes in the composition, the share of apples and table grapes contracting and that of most of the other kinds of fruit—including wine grapes, apricots, peaches, and pears—remaining the same or increasing. About a third of the planted area had not yet begun to produce fruit. Hence a large increase in supplies is expected in the next few years, especially in grapes and deciduous fruits, and this will probably lead to a relative (and perhaps absolute) decline in prices. In 1960/61 fruit prices were still on a high level relative to production costs, but in several fruits, such as grapes and plums, they were at the level of production costs as regards a considerable part of the growers. There is therefore reason to fear that the anticipated increase in supplies will result in losses and lead to a crisis in several fruits.¹ The individual producers, who are influenced by the prevailing prices, are inclined to increase their plantings without taking into account the anticipated price decline. The Government therefore decided already in 1958/59 to limit new plantings, and in 1960/61 the order permitting only licensed planting went into force. However, the scale of the new plantings and their composition indicate that the rate was not curtailed, both because the regulation was circumvented

¹ About 5,000 dunams of plum orchards were already uprooted in the last two years.

and because the volume of authorized planting was not restricted to a sufficient extent. One of the main reasons for the latter situation was the failure to take into due account the large degree of substitution between the different kinds of fruit, as a result of which an increase in apricot planting, for example, is likely to affect the price of plums, or an increase in pear trees will probably influence the price of apples, etc.

Field crops: There was a real increase of 28 per cent in the output of field crops during the year reviewed, as compared with a reduction of 12 per cent in 1959/60. This was primarily due to the abundant rainfall in 1960/61, whereas the previous year had been a dry one. The increase was reflected in the cereal crop—primarily grains, the output of which went up 80 per cent (see Table X-10)—as well as in the tobacco crop, which was 37 per cent higher. There were also substantial increases in the output of the irrigated industrial crops, apart from groundnuts.

TABLE X-10

Output of Industrial Crops, 1960/61

<i>Product</i>	<i>Quantity (thousand tons)</i>	<i>Value to producer (IL. million)</i>	<i>Per cent increase or decrease (-) from 1959/60 to 1960/61</i>		
			<i>Value</i>	<i>Quantity</i>	<i>Price</i>
Raw cotton	37.5	34.5	34.6	36.2	-1.1
Groundnuts	14.5	8.3	-14.7	-14.7	0.0
Sugar beet	244.9	12.9	45.3	41.1	2.9
Tobacco	2.4	3.9	40.5	36.6	2.9
Cereals and pulses		43.6	83.3	79.5	2.1
Fodder and green manure		43.5	4.4	2.7	1.7

SOURCE: Central Bureau of Statistics.

The level of producer prices for field crops rose by 1 per cent on the average. The price of grains in the free market went up as a result of the increased demand for those available other than through the rationing program for the poultry and cattle farming branches. The average price for tobacco rose, while that for groundnuts remained unchanged even though production decreased by 15 per cent, apparently because of the relative decline in profitability. The average yield of these crops also expanded considerably. On the other hand, the average price received by the growers for cotton and sugar beet was lower.

The drop in sugar beet prices stemmed from a decline in the average sugar content from 16.8 per cent to 16.2 per cent, despite the fact that the standard

price (for 16 per cent sugar content) was raised by nearly 2 per cent. There was also an 8 per cent reduction in the average yield per dunam, so that the average proceeds per dunam contracted by more than 10 per cent. The decrease in the average yield and sugar content was partly attributable to the weather conditions, but primarily to the large expansion which took place in sugar beet production and the entry of new farmers into the branch. The expansion of sugar beet production was made possible by the operation of an additional refinery at Kiryat Gat, which boosted the local production capacity by 70 per cent. However, the beet supply amounted to only 75 per cent of the processing capacity of the local sugar industry. A tendency to reduce the cultivated area is apparent in the current year (1961/62), presumably because of more profitable alternatives.

The price of raw cotton to the producer declined by 1 per cent. This was caused by an increase in the proportion of the fiber output diverted to the export market, where the price was 8 per cent lower than that fetched locally,¹ as well as by the larger share of cotton picked mechanically, the price of which was 6 agorot less per kg. Another factor was the increase in ginning costs. The decrease in the price obtained for cotton would have been greater were it not for the fact that Government acceded to the growers' demands and at the beginning of the 1961/62 agricultural year raised the subsidy for the previous year's crop by IL. 1 million, as compensation for the additional costs incurred as a result of the levies imposed on equipment and machinery. Other factors in the higher outlays were the increase in crop-spraying costs and the decline of approximately 5 per cent in the average yield per dunam,² owing to damage caused by pests and to other reasons. On the other hand, there were also a number of factors working in the opposite direction, such as increased mechanization and the reduction of production costs.

The cotton subsidy made it possible to guarantee the growers a price for fiber that would earn them more than IL. 4 for each dollar of added value. In order to bring the cotton branch up to the international price level, the Government decided in 1959/60 to gradually reduce the subsidy by 10 agorot per kg. annually on that quantity which it estimated would be diverted to export (directly or after processing). However, since the subsidy is paid through the Cotton Marketing Board—which pools the prices and pays the producers at a uniform rate—this differential fails to channel to export only the output of those producers capable of meeting international prices, and it encourages export on a scale that is unprofitable to the national economy.

¹ The subsidy on such fibers amounted to 42 agorot per kg. as compared with 62 agorot for the rest of the cotton crop.

² The average yield per dunam was nearly 15 per cent lower, but approximately two-thirds of the decline was due to the increase in the relative share of the unirrigated area and that under auxiliary irrigation within the total cotton area.

3. INPUT

The real increase in the total input of raw materials and services (apart from labor, interest, and soil) amounted to nearly 5 per cent in 1960/61, which was about the same rate as in the previous year. The downward trend in

TABLE X-11

*Total Agricultural Input (excluding Labor, Interest, and Rent),
by Source, 1959/60 and 1960/61*

Source	Value at current producer prices (IL. million)		Per cent increase or decrease (-) from 1959/60 to 1960/61		
	1959/60 ^a	1960/61	Value	Quantity	Price
Purchases from other sectors					
Fodder	140.9	140.6	-0.2	-0.9	0.7
Fertilizers	16.9	16.3	-3.4	6.3	3.1
Grains	4.1	4.5	9.5	-0.1	9.6
Pesticides and pharmaceuticals	10.8	13.2	22.5	19.9	2.2
Water	34.4	33.6	-2.5	-8.0	6.0
Packing materials	24.7	22.2	-10.4	-12.0	1.8
Transport	16.9	18.8	11.3	9.4	1.7
Spare parts, repairs, and small tools	14.4	18.6	29.1	10.9	16.4
Fuel and electricity	9.3	10.6	14.0	8.9	4.7
Services	6.0	6.4	7.6	2.8	4.6
Taxes	10.7	12.9	20.3	5.2	14.4
Pipes and irrigation equipment	1.3	1.2	-8.5	-8.5	0.0
Miscellaneous	1.5	1.9	29.4	23.3	5.0
<i>Total</i>	291.8	300.7	3.0	-0.3	3.4
Intermediate goods	98.5	121.4	23.2	20.1	2.6
Depreciation ^b	45.6	51.0	11.8	6.1	5.4
<i>Total input</i>	435.9	473.1	8.5	5.0	3.4

^a Revised figures.

^b Calculated on a replacement value basis.

SOURCE: Central Bureau of Statistics.

the labor input continued, the decrease amounting to 2 per cent,¹ while interest and rent went up by 2 per cent. The increase in the total input² (raw materials, services, capital, and labor) amounted to 3 per cent, which was less than the increase in total output. This development was reflected in the 5 per cent growth of total productivity (the average real output per unit of input), whereas in the previous year the figure had remained constant.

The rise in the productivity of capital and labor (the average real product per unit of combined capital and labor input) came to 12 per cent in 1960/61, which was higher than the growth of total productivity; in the previous year there had been no increase at all. The big improvement in productivity shown by these indicators is explained primarily by the termination of the drought, and in part apparently by the greater efficiency in production and the changes in the composition of output.

The decrease in the input of labor was due to the larger degree of mechanization, greater efficiency in production, and the lower output of the labor-intensive branches (citrus, vegetables, groundnuts, and those based on relief projects), the effect of which on the labor input outweighed that of the increase in the output of the other branches.

Input prices (other than for labor, interest, and rent) went up by approximately 3 per cent, which was slower than the rise in output prices. The input of raw materials and services increased by IL. 37 million, or about 9 per cent, reaching IL. 473 million. Inputs including interest and rent went up by IL. 38 million, to IL. 504 million.

The termination of the drought in 1960/61 led to an increase in the percentage of added value on output. The main factors were the "deepening" of production following the large increase in the output of grains, which made possible a saving on purchases of imported food, and the increase in the output of unirrigated fruits and tobacco—two developments which entailed a relatively small increase in inputs other than labor. Other factors contributing to the larger percentage of added value were the saving on water and the smaller purchases of fertilizers. The real increase in depreciation was due to the growth of the capital stock in agriculture, and the rise in the price of this input reflected the increase in investment prices.

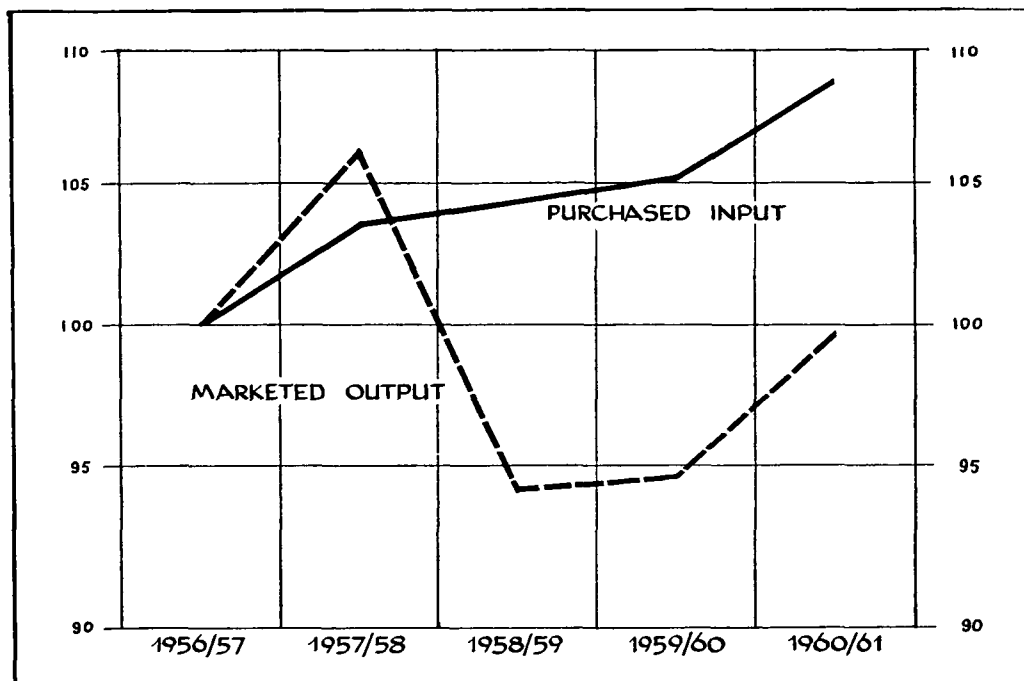
Purchased inputs did not go up at all in 1960/61, whereas there had been a real growth of 14 per cent in each of the preceding two years. This stability was due to the decline in purchases of feed and in the consumption of water,

¹ Measured on the basis of the estimated number of standard 8-hour working days in the agricultural sector (for details of the calculation, see the Appendix to the 1960 Bank of Israel Annual Report). This calculation does not take into account the improvement in the quality of work caused by changes in the composition of output, or the rise in the average level of skill, which also reflects an increase in the "quantitative" input of labor.

² For the manner in which changes in total input and productivity were calculated, see the Appendix to this report (in Hebrew only).

DIAGRAM X-4

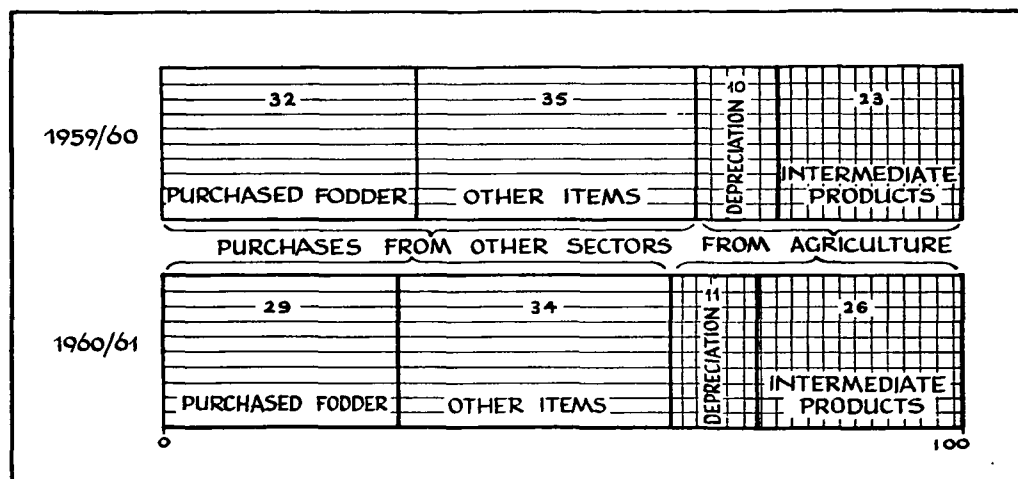
*Price Indices of Marketed Agricultural Output and Purchased Input,
1956/57 to 1960/61**



* Semi-logarithmic scale.

DIAGRAM X-5

Input of Materials and Services in Agriculture, 1959/60 and 1960/61



packing materials, and fertilizers. In contrast, there was a greater use of pesticides, spare parts, fuel, etc.; and since input prices rose by 3 per cent on balance, the expenditure on purchased inputs went up by IL. 9 million, to around IL. 300 million.

Feed purchases decreased by 1 per cent, compared with a real increase of 26 per cent in 1959/60. This occurred despite the fact that output in the livestock branches rose at the same rate as in the previous year, by 9 per cent, and is explained by the replacement of imported feeds by those grown locally. Water consumption dropped 8 per cent, even though the irrigated area was extended (see Table X-12). The input of water per dunam of irrigated land was even below the 1956/57 figure, the lowest recorded in the past decade. This can be attributed to the termination of the drought, the relatively long period of rainfall, and the more widespread enforcement of water rationing.

TABLE X-12

Irrigated Area and Water Input in Agriculture, 1956/57 to 1960/61

	Unit	1956/57	1957/58	1958/59	1959/60	1960/61
Irrigated area	Thousand dunams	1,100	1,185	1,230	1,300	1,365
Quantity of water	Million m ³	830	1,000	990	1,060	975*
Quantity of water per dunam	M ³	755	844	805	815	714
	Index	100	112	107	108	95
Rainy (+) or dry (-) year		+	—	—	—	+

* Provisional estimate.

SOURCE: Central Bureau of Statistics.

Consumption of chemical fertilizers contracted, owing to the residue accumulated in the soil during the drought years and to the deferment of purchases as a result of the farmers' strike in protest against a rise in fertilizer prices. The input of packing materials was lower because of the reduced export of citrus—a decline that was only partly offset by the greater amount used for other produce.

The increased consumption of insecticides was mainly due to the larger area under cotton, while the real increase in the input of haulage, fuel, and electricity resulted from the expansion of production.

All components of purchased inputs were more expensive in the year under review. The higher prices paid for spare parts, water, and purchased feed, as well as the higher tax rates, accounted for about 72 per cent of the total increase in the prices of purchased inputs.

The largest increase, which also contributed the most to the rise in the general level of prices, was in spare parts, and was due to the levies imposed on im-

ported parts and on tires. The raising of water rates was the next most significant item in this respect; it was due to the larger production costs resulting from a rise in wages and in the prices paid for fuel and equipment. The larger tax expenditure was caused by the substantial increase in rural property and local authority rates at the beginning of the 1961/62 fiscal year. The higher price paid for purchased feed was due to an increase in protein prices, while the prices of the other feed components remained constant.

TABLE X-13
The Cultivated Area, 1956/57 to 1960/61
(thousands of dunams)

	1956/57	1957/58	1958/59	1959/60 ^a	1960/61
<i>Unirrigated area</i>					
Field crops ^b	2,295	2,326	2,424	2,372	2,378
Vegetables, potatoes, and melons	89	72	87	66	73
Orchards	233	235	237	229	231
Miscellaneous	103	122	122	103	110
<i>Total</i>	2,720	2,755	2,870	2,770	2,792
<i>Irrigated area</i>					
Citrus groves	246	275	295	328	355 ^c
Other orchards	119	135	148	165	179
Field crops ^b	648	654	662	682	701
Fish ponds	41	42	42	45	48
Miscellaneous	46	79	83	80	82
<i>Total</i>	1,100	1,185	1,230	1,300	1,365
<i>Total cultivated area</i>	3,820	3,940	4,100	4,070	4,157
Index of cultivated area	100	103	107	107	109
Index of irrigated area	100	108	112	118	124

^a Revised figures.

^b Grains, feed, industrial crops, vegetables and melons, cultivated fallow, and others.

^c Does not include unlicensed planting, which is estimated at 20,000 dunams.

SOURCE: Central Bureau of Statistics.

Interest and rental payments went up by only 2 per cent in 1960/61, as compared with 10 per cent the year before, and totalled IL. 31 million. The main reason for this slow rise was the conversion of the short-term loans,¹ which resulted in a saving of nearly IL. 2 million in annual interest payments. This reduction stemmed from both a change in the sources of financing and

¹ See the section on financing, p. 186.

the effect this had on the prevailing interest rate in the money market. A further reason was apparently the slower increase in the farm debt due to the decelerated rate of farm investments. Interest payments constituted 6 per cent of the input of materials and services and 9 per cent of the purchased input.

Scarcely any change took place in the cultivated area during the year reviewed as compared with 1959/60. The irrigated area was enlarged by 65,000 dunams, or 5 per cent, thus increasing its relative share of the total cultivated area, and continuing a trend which started several years ago.

The ending of the drought was a factor in the expansion of the unirrigated area of field crops, particularly summer crops such as sorghum, the area of which was trebled in 1960/61. In contrast, the area under cultivated fallow was reduced by fully one-half.

The cotton area was expanded by 60 per cent, after having been extended at a rapid pace in previous years as well, and reached 167,000 dunams; of this, 33,000 dunams were unirrigated, as compared with only 7,000 dunams the year before. The sugar beet area was enlarged by 57 per cent and orchards by 44,000 dunams, most of them planted with citrus.

4. INCOME

Income originating in agriculture rose during the year under review by IL. 75 million, or 20 per cent, to IL. 448 million (see Table X-1); this compared with no growth at all the year before and was about the same as the average rate of growth between the years 1953/54 and 1957/58. Some two-thirds of this increase, i.e. approximately 13 per cent, represented a real increase in the added value (net agricultural product at farm prices), while the balance was due to a rise in the prices of farm products.

The growth of the net product at market prices was larger—IL. 78 million, or 24 per cent; but the decrease in the subsidies on agricultural products, which was generally accompanied by an increase in market prices, reduced the effect of the price rises on farm turnover.

Since drought compensation payments declined by nearly IL. 19 million in 1960/61, total farm income rose by around IL. 57 million, or 14 per cent, to IL. 452 million, as compared with an increase of 6 per cent in 1959/60.

The income of farm owners from agriculture in 1960/61 amounted to IL. 319 million, which represented a gain of 20 per cent over the previous year and increased their share of total income originating in this sector from 67 per cent to 70 per cent.

Wages paid to hired hands went up 4 per cent, while the real input of hired labor (measured in standard work-days) declined by approximately 6 per cent. The increase in wage payments was due to a 11 per cent rise in the average wage paid per work-day—from IL. 8.50 to IL. 9.50, including fringe

payments at the rate of 15 per cent. The smaller number of work-days, on the other hand, was due to the reduced scale of work in the citrus groves—chiefly harvesting and packing—as a result of the lower yield; in addition, there was a decrease in the volume of relief work in groundnut and vegetable farming, which was not completely offset by the increase in the fruit and industrial crop branches.¹

The intensification of employment in the agricultural settlements, which is reflected in a larger number of days worked by the self-employed (farm owners and unpaid family members)—a trend which has been in evidence for the past several years—continued in 1960/61 as well, when the increase amounted to 1–2 per cent.

The income of independent farm owners from agriculture therefore advanced by 17 per cent per work-day. Taking into account the 7 per cent rise in consumer prices, the real growth came to 9 per cent—which exceeded the rate of increase in the average wage paid per work-day (or work-hour) in the other sectors of the economy, where it amounted to 9.6 per cent in nominal terms and 2.5 per cent in real terms.² This increase in respect of the self-employed partly represented the replacement of hired labor, that is to say, a shift from the status of hired workers (in relief projects etc.) to self-employment on the farm. This was particularly true of the new settlements as their means of production and output expanded. But in part it indicated that there was a greater utilization of the available manpower in the settlements, a larger participation on the part of women and children, and a reduction in disguised unemployment.

Subsidies: Price supports on agricultural products were nearly IL. 3 million lower in 1960/61, amounting to IL. 48 million (see Table X–14). The decline in the total volume of subsidies granted to agriculture was larger, totalling nearly IL. 20 million, after taking into account the compensation for drought damage and the subsidy on water and fertilizers.³

¹ The data on the increase in the total wage bill and the employment of hired labor were based primarily on the payments made to the agricultural workers' insurance funds and on the increases granted in the wage rates. Since the actual increase in wages in 1960/61 was probably larger than the rise in the rates, and since the manpower surveys did not show a decline in the number of hired workers in agriculture, the estimated wage bill cited here may have an upward bias.

² See footnote 2 on page 152.

³ These figures do not reflect the full extent of Government aid in all its various forms to agriculture and the farm settlements. They do not include the value of tax concessions, discounts allowed on services, or other forms of subsidies which the farmers enjoy as producers or settlers, and for which no reliable data are available owing to the difficulty of assessing the value of such aid. Moreover, they do not include the higher prices resulting from the protection of local production against competing imports, the hidden subsidy in the purchase of sugar beet and wheat at relatively high prices, or price supports on the commodities processed from these crops, the benefit of which is actually shared by both industry and agriculture.

TABLE X-14

Subsidies Granted to Agriculture, 1958/59 to 1960/61
(IL. million)

	1958/58	1959/60	1960/61
Eggs ^a	11.9	19.4	19.2
Cow's and ewe's milk	16.2	12.5	10.7
Beef and poultry meat	0.8	3.3	1.1
Vegetables and potatoes	7.7	5.1	3.2
Cotton	4.8	6.8	8.7
Other products	0.2	1.1	2.4
Subsidies to new settlements ^b	2.6	2.9	2.8
<i>Total subsidies</i>	44.2	51.1	48.1
Drought compensation	6.2	23.2	4.5
Fertilizer and water	3.7	3.4	5.4
<i>Grand total</i>	54.1	77.7	58.0

^a Including tax rebate on exported eggs.

^b Granted by the Jewish Agency.

SOURCE: Ministry of Agriculture and Jewish Agency.

The decrease that occurred during the year under review in the subsidization of agricultural products reflected the replacing of subsidies by higher market prices, as most of the subsidies are linked in one form or another with such prices. The IL. 2 million decrease in the milk subsidy was connected, as already stated, with the rise in the consumer prices for this item. The IL. 2 million reduction in the meat subsidy was also connected with the rise in market prices, and was directly due to the discontinuation of meat purchases by the Government.

In vegetables too there was a considerable decline in the volume of price supports, which is explained by the lack of the need to resort to subsidies for guaranteeing fixed prices to the farmers following the large increase in market prices. The share of the total subsidy in the net income of farm owners from agriculture declined from 29 per cent in 1959/60 to 18 per cent in 1960/61.

Even though the subsidies are generally bound up with Government control of market prices, they lead to an increase in farm income as compared with the case where there are no subsidies.¹ This is also the primary object of the Government in respect of most of the subsidies, as price supports are the chief

¹ On the assumption that where no subsidies are granted, consumer prices would not vary, or, if the Government permitted a corresponding increase, this would result in the creation of surpluses in the short run and a relative decline in output in the long run—and consequently to a decline in the farmers' income in either event.

TABLE X-15

*Example of How Subsidies Influence Income
in Different Types of Farms, 1959/60*

(Main farm branches—poultry and cattle farming)

	Farm "A"	Farm "B"
Milk output (liters)	14,600	23,625
Egg production (units)	191,700	34,000
Subsidy on milk (IL. thousand)	0.8	1.3
Subsidy on eggs (IL. thousand)	4.4	0.8
<i>Total subsidy (IL. thousand)</i>	5.2	2.1
No. of days worked by farm owners and families	359	315
Net income (IL. thousand)	14.4	4.2
Net income, excluding subsidies (IL. thousand)	9.2	2.1
Net income per work-day (IL.)	40.1	13.3
Net income per work-day, excluding subsidies (IL.)	25.6	7.0

SOURCE: Farm "A"—from "An Economic Analysis of Old-Established Moshavim in 1959/60", by Dr. I. Lowe, of the Extension Authority. The analysis is based on a survey of veteran moshavim which was started in 1953/54. Farm "A" represents the upper 25 per cent income bracket (the sample includes 72 farms in 6 veteran moshavim).

Farm "B"—based on the farm plan prepared by the Agricultural Planning Center, which represents a new moshav farm in full development, and at 1959/60 prices ("A Proposed Master Plan for Types of Farms in the Moshav and Kibbutz", prepared by the Joint Planning Center for Agriculture and Settlement, September 1961).

The calculation of the subsidy for the two branches was made according to the average subsidy paid per liter of milk and eating egg in 1959/60.

means it has of quickly reducing the gap between the average income in agriculture and in other occupations. However, the method of allocating price supports to the producers does not result in a greater degree of equality in the distribution of income among the farmers. Table X-15 demonstrates how this system increases the income of those farmers whose earnings are anyway high. If the subsidies which farm "A" received were to be divided among five farms with an aggregate income equal to that of farm "B", this would raise the income of the five farms to over IL. 5,000 each, and thus the gap between their earnings and the average earnings in other occupations would be reduced or disappear entirely. In the table individual cases are given for illustrative purposes only, but the phenomenon in question has very wide implications. Although subsidies are most needed by new farm settlements (where the volume of production per farm

TABLE X-16

Estimate of Gross Investment^a in Agriculture, 1959/60 and 1960/61

	Value at current prices (IL. million)		Per cent increase or decrease (-) from 1959/60 to 1960/61		
	1959/60 ^b	1960/61	Value	Quantity	Price
<i>Investment in farms</i>					
Orchards	29.6	30.7	3.7	-3.9	7.9
Of which: citrus groves	(16.5)	(19.0)	(15.2)	(6.8)	(7.9)
Installation of irrigation networks	14.6	13.0	-11.0	-18.3	9.0
Livestock and farm buildings	27.0	24.6	-8.9	-14.1	6.0
Other investment	23.8	28.0	17.6	12.1	4.9
<i>Total</i>	95.0	96.3	1.4	-5.1	6.8
<i>Investment in public devel- opment projects</i>					
Irrigation and drainage	57.4	71.5	24.6	14.6	8.7
Afforestation, land reclama- tion, soil conserva- tion, and natural pasture	24.1	20.7	-14.1	-23.1	11.7
<i>Total</i>	81.5	92.2	13.1	3.6	9.2
<i>Total investment</i>	176.5	188.5	6.8	-1.1	8.0

^a Owing to measuring difficulties, investments in the replacement of obsolete equipment (included by definition in gross investment) were excluded from the estimate of investment in the irrigation network, farm buildings, and orchards.

^b Revised figures.

SOURCE: Central Bureau of Statistics.

unit is smaller than in the veteran settlements), their share of the total subsidy did not even come to 50 per cent.¹

The present system of granting farm subsidies arose from the linking of supports to farm commodities, which results in a situation where the larger the output on the farm, the bigger the subsidy received. There are two underlying assumptions in this method: first, subsidies have to ensure the profitability of production and not necessarily to raise the earnings of farmers in the lower brackets to the desirable minimum level; and second, an outright subsidy that is not linked to output is undesirable from the moral and educational viewpoint.

¹ The share of the new settlements in the output of the main subsidized branches in 1960/61 was as follows (in percentages of total output): groundnuts—39; poultry farming: eggs—38, fowl—44; cattle farming: dairying—53, meat 46; and cotton—41.

5. INVESTMENTS

The value of gross investment in agriculture rose during 1960/61 by 7 per cent, to IL. 189 million (see Table X-16). Investment prices went up by nearly 8 per cent on the average, so that there was hardly any change in the volume of real investment—after a decline of 5 per cent the year before.

The real investment in farms amounted to IL. 96 million, which was 5 per cent lower than in 1959/60; the real investment in public development projects, on the other hand, was expanded by 4 per cent, to IL. 92 million. The development in 1959/60 was along the same lines, but even more pronounced—investment in farms declined by 16 per cent and that in public development projects rose by 14 per cent.

The contraction of farm investment in 1960/61 occurred mainly in farm buildings, where there was a decline of 40 per cent. This was mainly due to the non-expansion of investment in the poultry branch, and to the greater utilization of the structures in the cattle farming branch. Investment in orchards other than citrus declined by 18 per cent; that in irrigation networks also

TABLE X-17

Agricultural Machinery on Farms, 1960 and 1961

(End of year)

	1960 ^a	1961	Increase or decrease (-)	
			Number	%
Tractors				
Tracked	1,825	1,852	27	1.5
Wheeled	5,600	6,003	403	7.2
<i>Total</i>	7,425	7,855	430	5.8
Grain combines	975	987	12	1.2
Bailers	845	875	30	3.6
Cotton pickers				
Single row	26	62	36	138.5
Double row	23	57	34	147.8
<i>Total</i>	49	119	70	142.9
<i>Per thousand dunams</i>				
Tractors	1.82	1.84		1.1
Tracked	0.45	0.43		-4.4
Wheeled	1.38	1.44		4.3
Cotton pickers ^b	0.61	0.93		52.5

^a Revised figures.

^b In terms of single row pickers per dunam of cotton.

SOURCE: Central Bureau of Statistics and Cotton Production and Marketing Board.

decreased, apparently following the institution of water rationing throughout most of the country. Investment in the citrus branch advanced by 7 per cent in the wake of the increased planting. There was an expansion of 88 per cent (from IL. 6 million to IL. 11 million) in livestock investment, which resulted from the larger import of cows and the diminished rate of slaughter, the reasons for which have already been pointed out. A gain of 12 per cent was registered in other investments, which stemmed, as in the previous year, from a large increase in the number of cotton pickers and tractors, mainly the wheeled type (see Table X-17). The trend toward the intensification of cultivation through mechanization continued during the year under review. Between 1958/59 and 1960/61 the number of tractors of all types per 1,000 dunams of cultivated land rose by 13 per cent; the number of wheeled tractors went up by 22 per cent, while the number of tracked tractors declined by 7 per cent. There was also a large advance in the number of cotton pickers relative to the cotton area.

A real increase of 4 per cent took place, as stated, in the volume of investment in public development projects, which was due to the accelerated execution of the irrigation projects, mainly the Jordan scheme. The real investment in these projects rose by 16 per cent. In contrast, a smaller amount was invested in drainage, afforestation, land reclamation and conservation, and natural pasturage. These investments are implemented within the framework of unemployment relief work, which declined by 24 per cent in 1960/61 following the increase in productive employment in agriculture and other sectors of the economy.

6. FINANCING

(a) *Financing of investments*

Agricultural investments financed from public funds¹ rose during the year under review by IL. 7 million, to IL. 159 million (see Table X-18). The Government's share in the total amount of public funds in 1960/61 came to IL. 79 million, that of the Jewish Agency to IL. 55 million, and that of the Jewish National Fund to IL. 18 million; the other sources were local authorities and the Israel Bank of Agriculture.

The proportion of total agricultural investment financed by public money amounted to 84 per cent in 1960/61, as against 86 per cent in 1959/60.

Investment in development projects financed entirely by public funds rose by IL. 11 million in 1960/61, to IL. 92 million, as compared with an increase of IL. 14 million in 1959/60. The lower rate of growth was due to the smaller investment in afforestation, soil reclamation and conservation, and natural pasturage, while investment in irrigation projects expanded greatly, as

¹ Credit granted for a period of over one year for development purposes.

already indicated. The remaining IL. 67 million of public funds (42 per cent) were used to finance farm investments. In 1959/60 the percentage of public funds used for this purpose was 46 per cent (IL. 70 million), and in 1958/59, 53 per cent (IL. 75 million). Thus the year reviewed saw a continuation of the downward trend in the public financing of farm investment which became apparent in 1959/60, while additional funds were channelled to investment in public development projects.

The remainder of the farm investments, which were financed by the farmers themselves from other sources (savings, depreciation funds, and credit from private sources), came to nearly IL. 30 million in 1960/61, compared with IL. 25 million in 1959/60. The increase in own financing was attributable chiefly to the larger investment in livestock and farm machinery, which do not benefit from public financing.

TABLE X-18

Sources of Financing Agricultural Investment, 1959/60 and 1960/61*

	1959/60 ^b		1960/61	
	IL. million	%	IL. million	%
Public institutions ^c	152	86	159	84
Other sources ^d	25	14	30	16
<i>Total</i>	177	100	189	100

* For definition of agricultural investment, see footnote * in Table X-16.

^b Revised figures.

^c The Government, Jewish Agency, Jewish National Fund, regional councils, and Israel Bank of Agriculture. This definition differs from that of public financing in Chapter V—"Domestic Investment".

^d Including farmers' current saving, depreciation funds, and commercial, bank, and private credit.

SOURCE: Jewish Agency Settlement Department, Jewish National Fund, Accountant General (Ministry of Finance), Ministry of Labor, and Israel Bank of Agriculture.

The volume of farm investment financed from non-public sources was considerably lower in 1960/61 (as it was in the preceding years) than the amount charged off to depreciation, which totalled IL. 51 million. In addition to the aforementioned sources, there were made available to farmers, at the initiative and with the participation of the Government, long-term credits to the amount of IL. 20 million, for the conversion of short-term debts on which the farmers have had to pay exorbitant interest.

(b) *Financing of current production*

The outstanding balance of bank credit to agriculture at the end of 1961 came to nearly IL. 170 million, which was IL. 14 million more than at the

TABLE X-19
Outstanding Balance of Bank Credit to Agriculture, 1960-61
 (IL. million)

	1960 ^a		1961		Increase or decrease (-) from 1960 to 1961			
	End of year	Annual average	End of year	Annual average ^b	End of year		Annual average	
					IL. million	%	IL. million	%
<i>Channelled credit^c</i>								
From banking institutions	74.4	63.5	81.8	73.4	7.4	10	9.9	16
Bank of Israel rediscounts								
In local currency	8.2	4.2	5.1	4.6	-3.1	-38	0.4	10
In foreign currency	0.4	0.2	0.2	0.2	-0.2	-50	0.0	0
From Government deposits in banking institutions—credit for working capital	12.5	12.5	12.5	12.5	0.0	0	0.0	0
<i>Total channelled credit</i>	95.5	80.3	99.6	90.7	4.1	4	10.4	13
<i>Unchannelled credit</i>								
From banking institutions ^d	60.7	59.4	70.3	65.1	9.6	16	5.7	10
<i>Total outstanding balance of credit to agriculture</i>	156.2	139.7	169.9	155.8	13.7	9	16.1	12
Of which: from banking institutions	135.1	122.9	152.1	138.5	17.0	13	15.6	13

NOTE: Discrepancies due to rounding.

^a Revised figures.

^b Calculated on basis of quarterly balances.

^c Credit granted within the framework of exemptions from the liquidity regulations and Bank of Israel rediscounts. Additional unchannelled credit totalling several million Israel pounds, which was not granted within this framework, has been included in unchannelled credit from banking institutions.

^d Including credit against Government deposits which was extended to persons owing income tax.

SOURCE: Bank of Israel.

end of 1960 (see Table X-19). The average annual increase amounted to IL. 16 million, and the aggregate balance to IL. 156 million. The average balance of short-term bank credit therefore rose by 12 per cent, compared with an increase of 9 per cent in the input of raw materials and services.

The source of the additional short-term bank credit in 1961 was the average increase of IL. 10 million in the volume of credit supplied from the banks' resources within the framework of the exemptions from the liquidity regulations, as well as an increase of IL. 6 million, on the average, in the volume of unchannelled credit. Credit from Government deposits in banking institutions and from rediscounts with the Bank of Israel showed hardly any change.

TABLE X-20

Outstanding Balance of Channelled Credit, by Destination, 1960 and 1961

(End of period)

<i>Destination</i>	<i>1960</i>		<i>1961</i>		<i>Increase or decrease (-) from 1960 to 1961</i>	
	<i>IL. million</i>	<i>%</i>	<i>IL. million</i>	<i>%</i>	<i>IL. million</i>	<i>%</i>
Cotton fibers	17.5	18.3	20.1	20.2	2.6	15
Citrus groves	25.6	26.8	26.9	27.0	1.3	5
Purchasing organizations	9.1	9.5	10.0	10.1	0.9	10
Field crops	8.0	8.4	7.1	7.1	-0.9	-11
Groundnuts	5.9	6.2	3.4	3.4	-2.5	-42
Miscellaneous	23.8	24.9	26.5	26.6	2.7	11
Loans to new settlements ^a	5.6	5.9	5.6	5.6	0.0	0
<i>Total</i>	95.5	100.0	99.6	100.0	4.1	4

^a For periods of one to three years.

SOURCE: Bank of Israel.

The outstanding balance of channelled credit¹ rose in 1961 by nearly IL. 10 million on the average, or by 13 per cent. As in the previous year, the volume of credit granted for cotton growing increased at a higher rate than that extended to the other branches (see Table X-20), and consequently its relative share of total channelled credit went up. The increase in credit did not parallel

¹ A plan for the channelling of agricultural credit is prepared every year by the Ministry of Agriculture in conjunction with the Bank of Israel. It is intended to encourage the expanded production of commodities that are essential and economically profitable to the national economy, by offering credit advances—at interest rates lower than usual and exempted from the liquidity regulations—in the form of rediscounts with the Bank of Israel, credit extended against Government deposits, and that from other sources.

the expansion of output in the cotton branch, since cotton stocks were sold at a more rapid pace than in 1959/60. There was also an increase in the amount of credit granted to finance butter and soft cheese stocks, while new branches, such as bananas, olives, etc., were included in the framework of channelled credit (see "miscellaneous" in Table X-20).

The large decline in the balance of channelled credit extended to the ground-nut branch was caused by the reduction of the cultivated area and production during the year reviewed, as well as by the reduction of stocks due to larger exports. The 11 per cent decline in respect of field crops was due to three factors: the reduction of the area sowed in the winter of 1961/62, owing to the fear of drought; the reluctance of some of the farmers to declare the full extent of the planted area because of the restricted supply of feed grains as part of the plan for the poultry branch; and the delay in granting channelled credit to this branch, which was completed only in January 1962 (at the end of which month the outstanding balance of channelled credit to the field crop branch stood at IL. 7.4 million).

The tendency of the farmers to demand less credit in the free money market, which was already apparent at the end of the year 1959/60 and which was accentuated in 1960/61, was caused by several factors: the higher incomes earned by the farm owners and the influence of other incomes, such as personal restitution payments and rehabilitation loans from Germany, the small increase in farm investment financed on other than a long-term basis, the expansion of bank credit, and the long-term loans granted for the conversion of short-term loans, to the amount of IL. 20 million. Unlike previous years, the conversion of loans in 1960/61 apparently had a significant bearing on the improved financial position of the agricultural sector.

These factors, especially the conversion of loans, led to a decline in the interest rates paid by the farmers in the free money market in the first half of 1960/61. But following the amendment of the income tax law—which provided for the deduction of tax at source on interest income and which came into force in the middle of the 1960/61 agricultural year, the interest rates again rose but did not reach the level prevailing prior to the conversion.

The increase in the liquidity ratio during the year had only an insignificant effect on the supply of short-term credit available to the agricultural sector, since most of this credit is granted for purposes agreed upon in advance.