

CHAPTER V

DOMESTIC INVESTMENT

IN 1962 GROSS DOMESTIC investment<sup>1</sup> expanded by 10 per cent in real terms. The nominal growth was much larger—32 per cent—since the prices of investment goods went up by 20 per cent, which greatly exceeded the rise in the prices of other final uses and in those of investment goods in previous years.

The increase in prices was mainly due to the devaluation. Before this event the effective exchange rate for imported equipment (which constitutes about 26 per cent of total investment) stood at IL 2.10 per dollar, and with devaluation import prices rose by 54 per cent, compared with a rise of 34 per cent for other import categories. A considerable increase also took place in the prices of building inputs.

Table V-1  
DOMESTIC INVESTMENT, 1958-62  
(at 1961 prices)

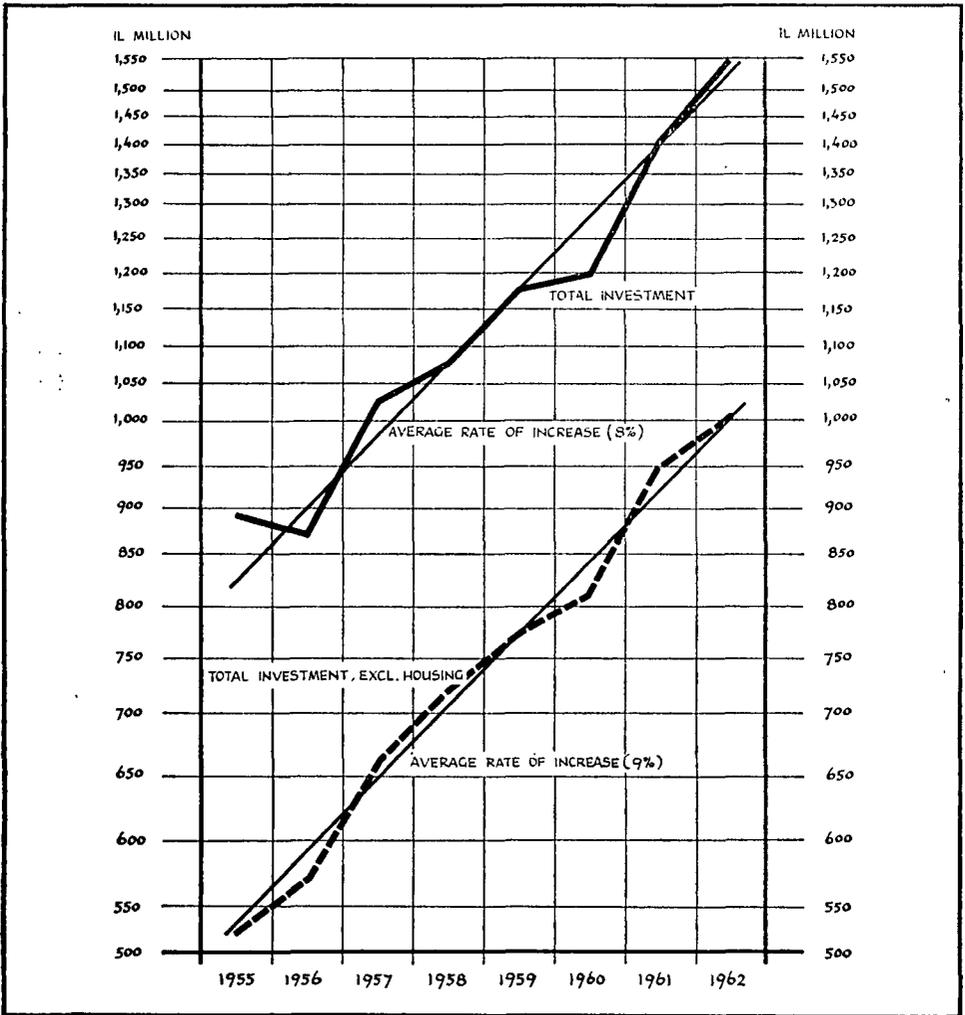
	1958	1959	1960	1961	1962
	IL million				
Gross investment	1,074	1,170	1,195	1,401	1,545
Net investment	758	821	811	971	1,059
	Percentages				
Increase in investment prices over previous year	3	1	4	9	20
Real increase or decrease (-) compared with previous year					
Gross investment	4	9	2	17	10
Net investment	2	8	-1	20	9

Gross capital stock at the disposal of the economy was 11 per cent larger in 1962. Of this addition, 63 per cent was directed to productive sectors and 37 per cent to residential housing.

<sup>1</sup> In fixed assets only; changes in stocks, apart from livestock, are not included.

Diagram V-1

DOMESTIC INVESTMENT, 1955-62



Net investment increased in 1962 at a similar rate as gross investment. As in other recent years, depreciation, the yardstick of consumption of capital services, again constituted about a third of total gross investment. On the other hand, the value of discarded assets was much lower in these years than depreciation charges, amounting to approximately 10 per cent of gross investment. The difference between depreciation and discards reflects the relatively low average age of the capital stock, which is a result of the constant growth of domestic investment.

Gross saving<sup>1</sup> in 1962 sufficed to finance 36 per cent of gross investment, and since depreciation amounted to 31 per cent of total gross investment, net saving covered 6 per cent of net investment. The share of investment financed from public funds remained stable at 43 per cent. In the years 1958–60, on the other hand, the share of public financing had come to more than 50 per cent. A marked change, however, took place in the composition of public financing: the relative share of households and private business enterprises diminished, while that of direct investments by the public sector and public sector companies increased considerably. The rise in the weight of the latter was principally due to the growth of the dwelling stock of public sector building companies (such dwellings are financed through the development budget). The reduced dependence of private business enterprises on public funds was accompanied by the necessity for finding alternative sources of financing, such as the securities market and foreign sources.

Financing from foreign sources expanded following devaluation. This was particularly so in the case of capital transfers in cash, which jumped from \$ 36 million to \$ 65 million and reached 70 per cent of total investment from abroad. Owing to the new exchange rate, these transfers grew threefold in terms of Israel pounds—from IL 65 million to IL 200 million. They were directed mainly to three sectors: hotels, industry, and residential construction and real estate.

### 1. INVESTMENT PRICES

The rise in investment prices<sup>2</sup> in 1962 was, as stated, 20 per cent. The increase which could have been expected as a result of devaluation—based on the weight of the import component and the rate at which its cost went up—amounted to 75 per cent of the actual price rise. The steepest rise was in imported equipment—about 42 per cent; the prices of locally produced equipment went up 14 per cent as the result of an increase in wages (which accounted for two-thirds of the increase in prices) and in the prices of other inputs. Construction costs also went up 14 per cent, mainly because of demand pressure rather than the new exchange rate. The price of investment goods originating in agriculture rose more slowly, owing to the different composition of inputs.

It appears from all these changes that the price of the capital input rose more steeply than that of the labor input. On the other hand, there was a drop in the rate of interest, primarily in the non-bank credit market, in consequence of the greater liquidity of the economy. This trend encouraged investment, particularly in dwellings.

<sup>1</sup> For purposes of calculating saving, changes in stocks were included in total investment.

<sup>2</sup> Changes in the prices of construction inputs and equipment are not measured directly but through changes in the costs of production.

## 2. INVESTMENT, BY TYPE OF ASSET

The share of equipment in total real investment declined in 1962, owing to the decrease in purchases of ships to one-tenth of the 1961 figure. The import of equipment other than ships and aircraft rose by 19 per cent, while purchases of locally produced equipment were up 28 per cent.

It is still difficult to judge how the higher prices of foreign equipment will affect such imports, since the investment figures for 1962 include imported equipment ordered before February 1962. It appears, however, that devalua-

**Table V-2**  
**DOMESTIC INVESTMENT, BY TYPE OF ASSET, 1961-62**

Type of asset	IL million			Per cent real increase or decrease (-) from 1961 to 1962	Per cent increase in prices from 1961 to 1962	Per cent of total investment	
	1961 (Current prices)	1962	1962 at 1961 prices			1961	1962
Non-residential construction	418	517	455	9	14	30	29
Residential construction	453	617	543	20	14	32	35
Total construction	871	1,134	998	15	14	62	64
Assets from agricultural production	61	65	59	-3	10	4	4
Imported equipment excl. ships and aircraft	252	418	301	19	39	18	19
Ships and aircraft	102	66	40	-61	65	7	3
Total imported equipment	354	484	341	-4	42	25	22
Locally produced equipment	115	167	147	28	14	9	10
Total equipment	469	651	488	4	33	34	32
Total investment	1,401	1,850	1,545	10	20	100	100
Investment in equipment							
Imported equipment	267	370 <sup>a</sup>	282	6			
Locally produced equipment	101	148	133	32			
Installation costs	55	82	73	33			
Taxes	46	51					
Total investment in equipment	469	651	488	4			

<sup>a</sup> Including IL 139 million in exchange rate differentials.

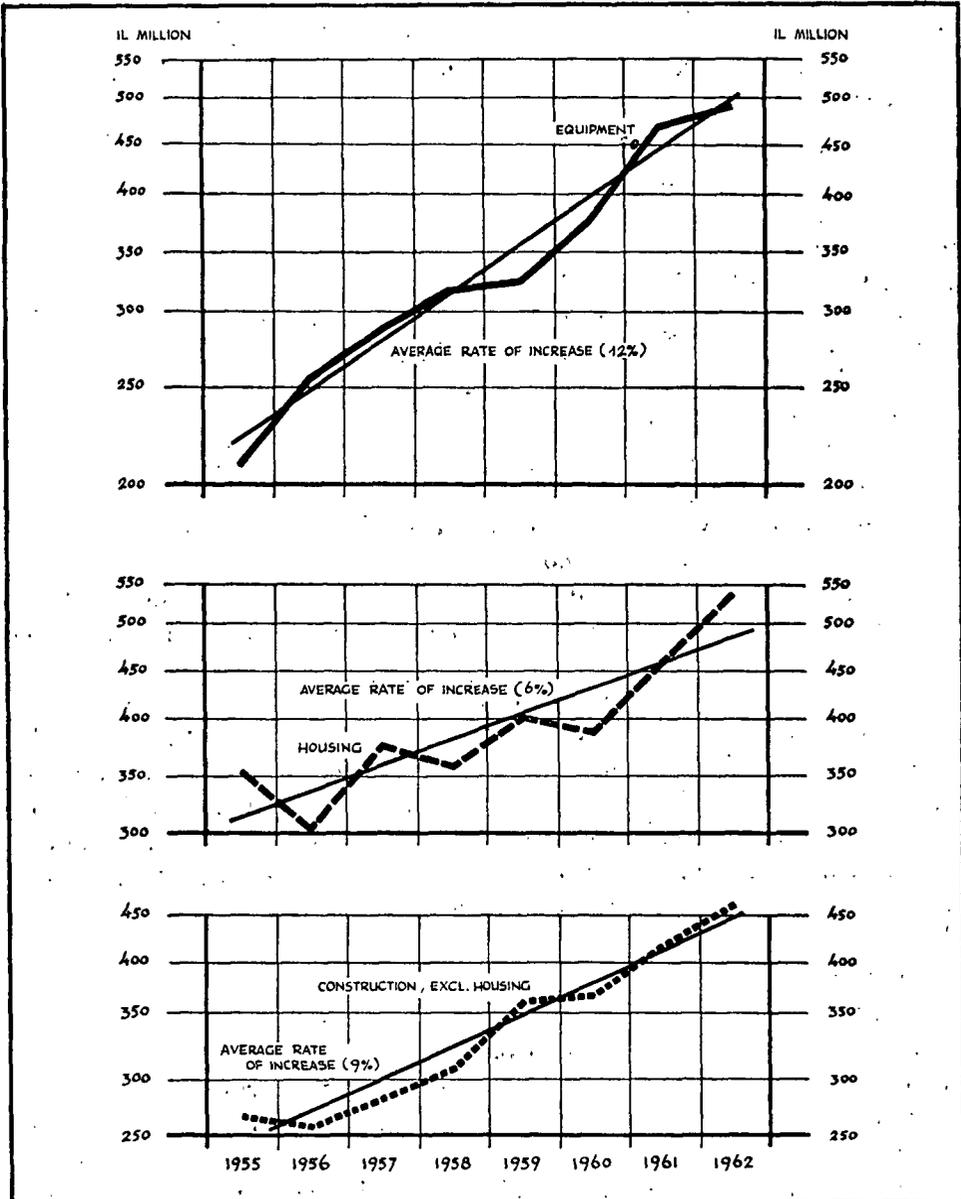
SOURCE: Central Bureau of Statistics.

tion did not cause importers to cancel their pre-devaluation orders. Moreover, the monthly figures on import licenses issued for equipment during 1962 show no downward trend.

Expanding the local production of equipment at the expense of imported

Diagram V-2

INVESTMENT IN CONSTRUCTION AND EQUIPMENT, 1955-62



equipment following the relative drop in local prices is a prolonged process, and it is as yet difficult to evaluate developments in this connection, even if the output of local equipment increased more rapidly in 1962 than did imports of equipment.

Investment in equipment grew during the year reviewed by only 4 per cent owing to the considerable drop in purchases of ships. On the other hand, investment in construction increased at a high rate—15 per cent—and helped expand employment in the economy. In some sectors—agriculture, industry, and services—the volume of construction either remained unchanged or fell off; in contrast, there was a marked increase in the other productive sectors and in housing. Investment originating in agricultural output declined during the year reviewed.

### 3. INVESTMENT, BY ECONOMIC SECTOR

Of the incremental gross investment in 1962, 62 per cent was destined for residential construction and the rest for the productive sectors.

In two productive sectors there was a drop in investment—in transportation and agriculture. In respect of the former it was due to smaller purchases of ships, while in the latter it represented the continuation of a trend characteristic of recent years. In industry there was practically no increase.

#### *1. Transportation*

Investment was expanded in 1962 in all sub-branches of this sector except shipping. Investment in ports amounted to IL 20 million—60 per cent of it in the construction of the Ashdod harbor, and most of the remainder in Haifa port. El Al added three Boeings to its air fleet, its total investment for the year coming to \$ 17 million.

Investment in land transportation increased, both in roads and in vehicles, and amounted to IL 115 million—85 per cent from imports and the remainder from local production. The investment in roads, most of it in the extension of the existing network, is part of a general expansion program which is being partly financed through a World Bank loan. Investment in the railway amounted to IL 3 million, and that in postal services reached IL 41 million, mainly in the development of the telephone network.

#### *2. Agriculture*

The reduced investment in this sector embraced both structures and investment originating in the production of the sector itself, and affected all sub-branches except livestock. The investment in equipment remained unchanged.

In orchards the contraction was due to the transition of young orchards to the fruit-bearing stage, which does not entail additional investment; this transition was not accompanied by a corresponding growth in the area of new plantings,

owing to the policy of limiting the planted area so as to prevent a decline in the profitability of the branch.

An increase took place in the livestock inventory; this derived from local breeding, mainly cattle.

About IL 100 million was invested in the National Water Carrier—now nearing completion thanks to the stepping up of work—and in other irrigation projects. Most of the investment was in construction work. The National Water Carrier accounted for 80 per cent of the total investment in water projects.

### *3. Industry*

Investment by this sector in equipment remained unchanged in real terms, while that in buildings fell off. Most of the investment was apparently devoted to expanding existing enterprises and not to establishing new ones.

### *4. Mining and quarrying*

The volume of investment in this sector had stood at IL 15-20 million (at 1961 prices) from 1956 to 1961. In 1962 there was an increase to IL 57 million. The bulk of the amount was in construction work, mainly the building of dams and reservoirs as part of the Dead Sea Works expansion program. This program, financed by loans for \$ 35 million granted by the World Bank and by private foreign banks, is aimed at enlarging the production of potash from 160,000 tons to 560,000 tons annually.

### *5. Electricity*

Investment in electricity amounted to IL 70 million, most of it in the completion of the second power station at Ashdod. The second Haifa station was finished at the beginning of the year, increasing total productive capacity from 480,000 kw. to 560,000 kw. The completion of the investment program in 1963 will add another unit with a 75,000 kw. capacity. Investments were also made in transformer stations and in extending the national grid.

### *6. Residential construction*

The 20 per cent increase in housing investment in 1962 arose both from the growth in the area of building starts during the year and from the large expansion of starts in 1961, which expressed itself in a bigger area of completions in 1962.

The increase in public construction came to 30 per cent, and was due to the accelerated pace of immigration. Private building was up 11 per cent—well above the 4 per cent average of the last six years. This can be ascribed both to speculative considerations—the expectation of devaluation at the end of 1961 and the beginning of 1962, and the desire to anticipate possible Government restriction of private building in view of immigrant housing needs—and

Table V-3

## DOMESTIC INVESTMENT, BY SECTOR, 1961-62

	IL million			Per cent increase or decrease (-), in constant prices				Weight in incremental investment in 1962 (%)
	Current prices		1962 in 1961 prices	Total investment	Buildings	Equip-ment	Assets from agricultural output	
	1961	1962						
Agriculture	119	132	112	-6	-16	0	-3	-5
Irrigation	70	103	91	30	30	33	—	15
Industry	227	286	221	-3	-10	1	—	-4
Mining and quarrying	28	70	57	104	209	35	—	20
Electricity	41	71	55	34	16	50	—	10
Transportation								
Excl. ships and aircraft	132	221	185	40	12	57	—	37
Ships and aircraft	102	66	40	-61	—	-61	—	-43
Total transportation	234	287	225	-4	12	-8	—	-6
Commerce and services	229	284	241	5	-1	26	—	8
Total investment excluding housing	948	1,233	1,002	6	9	4	-3	38
Investment in housing								
Public building	201	298	263	31	31	—	—	43
Private building	252	319	280	11	11	—	—	19
Total investment in housing	453	617	543	20	20	—	—	62
Total investment	1,401	1,850	1,545	10	15	4	-3	100

SOURCE: Central Bureau of Statistics.

Table V-4

## CAPITAL STOCK, BY SECTOR, 1960-62

	Capital stock <sup>a</sup> at 1961 prices			Real increase			Weight in addition to capital stock from 1961 to 1962	Real increase in capital stock per employed person <sup>b</sup>		
	1960	1961	1962	Average 1955-61	1960 to 1961	1961 to 1962		Average 1955-61	1960 to 1961	1961 to 1962
	IL million			Percentages						
Agriculture	1,428	1,532	1,626	8	7	6	6	6	6	9
Irrigation	917	983	1,068	8	7	9	6			
Industry and mining	1,790	1,998	2,272	12	12	14	19	5	2	3
Transportation	1,265	1,481	1,669	13	17	13	13	8	8	12
Electricity	472	509	560	10	8	10	3	—	—	—
Commerce and services	1,140	1,359	1,589	18	19	17	16	13	13	12
Total non-dwell- ing capital stock	7,012	7,862	8,784	12	12	12	63	7	6	6
Dwelling capital stock	4,617	5,064	5,598	9	10	11	37	Real increase in dwelling capital stock per capita <sup>c</sup>		
								5	6	6
Total capital stock	11,629	12,926	14,382	11	11	11	100	—	—	—

<sup>a</sup> Stock at end of year.<sup>b</sup> Stock at beginning of year, divided by number of employed during the year; capital stock of electricity branch is included in total but not in any of the individual sectors.<sup>c</sup> Dwelling stock at end of year divided by population at end of year.SOURCE: Dr. A. L. Gaathon, *Capital, Employment and Output in Israel, 1950-1959*, Bank of Israel, Jerusalem, 1961.

to the greater demand for dwellings resulting from the increased conversion of restitution monies following devaluation.

#### 7. Commerce and services

The increase in investment in commerce and services was smaller than the average for the economy as a whole. In commercial services (hotels and businesses) there was a decline of 20 per cent, while in public services (educational institutions, health, Government services, public buildings, and local authority services) the position did not change greatly.

### 4. CAPITAL STOCK

The stock of productive capital at the disposal of the economy was 12 per cent greater at the beginning of 1962 than at the beginning of 1961. The number of gainfully employed rose by 6 per cent, and capital stock per employed person therefore grew by 5-6 per cent. On the other hand, the ratio between capital stock and output remained stable.

The number employed in agriculture remained almost unchanged (a drop of 1 per cent), and consequently capital stock per employed person increased at a rate similar to that of capital stock (9 per cent).

**Table V-5**  
**INVESTMENT IN INVENTORY, 1955-62\***  
(at current prices)

Sector	1955	1956	1957	1958	1959	1960	1961	1962	Weight in total inventory
Agriculture	6	4	11	13	17	15	2	21	10
Industry and mining	33	28	36	38	49	64	80	127	47
Construction	19	13	-3	-16	-7	-6	13	12	5
Commerce and services	47	32	33	36	28	25	54	74	38
<b>Total investment in inventory</b>	<b>105</b>	<b>77</b>	<b>77</b>	<b>71</b>	<b>87</b>	<b>98</b>	<b>149</b>	<b>234</b>	<b>100</b>
<b>Total investment in fixed assets</b>	<b>616</b>	<b>676</b>	<b>846</b>	<b>906</b>	<b>990</b>	<b>1,043</b>	<b>1,401</b>	<b>1,850</b>	
<b>Value of inventory at end of year</b>									
Current prices	525	602	679	750	837	935	1,084	1,318	
Constant prices <sup>b</sup>	525	552	583	626	687	751	822	846	

\* According to company records.

<sup>b</sup> Based on price index of total resources.

SOURCE: Central Bureau of Statistics.

Capital stock in industry and in mining and quarrying grew by 12 per cent, but only by 3 per cent per employed person. A similar development took place in 1961. It appears that this lower rate of increase was due to the greater exploitation of productive capacity in several sub-branches.

Capital stock in transportation grew by 17 per cent, mainly as a result of the large-scale investment in aviation and shipping in 1961. The number of gainfully employed went up 4 per cent and capital stock per employed person by 12 per cent.

In commerce and services, capital stock increased by 19 per cent, and the number employed by 7 per cent. Capital stock per employed person thus increased considerably.

The improvement in housing conditions continued during 1962 owing, on the one hand, to the expansion of public building as required for the absorption of immigration, and on the other, to the bigger demand of the private sector.

## 5. INVESTMENT IN INVENTORY

Investment data presented in this chapter do not include changes in inventories apart from that of livestock in the agricultural sector. It is estimated that since 1955 the economy has been investing 2-3 per cent of the gross national product in the building up of stocks. During this period stocks have grown by about 60 per cent, in constant prices, while GNP has doubled. This indicates a more efficient utilization of inventory. A contributory factor has been the growing degree of liberalization in the import of raw materials since 1956.

Part of the relative decrease in inventory has been due to the decline in that of the construction sector, which was not connected with more efficient utilization but with the liquidation of public and Government stocks of building materials. However, this sector has accounted for only 5 per cent of the total inventory, and therefore the decrease here explains only a small part of the total contraction.

## 6. FINANCING OF INVESTMENT

Public financing<sup>1</sup> grew at the same rate as gross investment, and consequently its share in total sources of investment finance remained unchanged. However, considerable changes took place in its composition, as regards both economic destination and the type of investors; changes also occurred in the relative shares of the various types of investors in total investment.

<sup>1</sup> Includes capital expenditure of the Government, local authorities, the Jewish Agency, and the Jewish National Fund, as well as loans granted by these bodies and their participation in share capital intended to finance part of the investment of the non-public sectors: households, non-profit institutions, public sector companies, and private business enterprises.

**Table V-6**  
**NET PUBLIC FINANCING,<sup>a</sup> BY TYPE OF INVESTOR,**  
**1961-62**

(percentages)

Investor	1961	1962
Public sector	39	45
Households (dwellings)	13	4
Non-profit organizations	1	1
Private business enterprises	28	15
Public sector companies	19	35
Total	100	100

<sup>a</sup> Less repayment of loans.

Direct investments of the public sector—in roads, postal services, harbors, and public services—increased in 1962, as did their weight in total public financing. The relative share of the public sector in the financing of residential construction also increased, as a result of the expansion of public building at a more rapid rate than that of private building. This increase expressed itself mainly in the larger proportion of public funds in financing the investment of public sector companies—in consequence of the larger number of residential buildings held by them.

**Table V-7**  
**GROSS INVESTMENT, BY TYPE OF INVESTOR AND SHARE OF**  
**PUBLIC FINANCING, 1961-62**

	1961		1962			
	Gross investment		Share of public financing <sup>a</sup>	Gross investment		Share of public financing <sup>a</sup>
	IL million	%		IL million	%	
Public sector	215	15	100	308	16	100
Households (dwellings) <sup>b</sup>	396	28	18	458	25	6
Non-profit organizations	55	4	7	53	3	6
Private business enterprises	518	37	30	644	35	16
Public sector companies <sup>c</sup>	217	16	49	387	21	61
Total	1,401	100	39	1,850	100	37

<sup>a</sup> Less repayment of loans.

<sup>b</sup> Total investment in housing, less increase in stock of dwellings held by housing companies.

<sup>c</sup> Excluding housing companies.

The increased share of these two sectors in public financing was at the expense of the private business sector, which showed a decline from 28 to 15 per cent. The resort to alternative sources of finance—the securities market, own means, and foreign investments—was to be found mainly in the latter sector.

Table V-8

**PUBLIC FINANCING OF DOMESTIC INVESTMENT, BY SECTOR, 1960-62**  
(at current prices)

Sector	Share of public financing in total investment (percentages)		1962		Share of public financing in total investment (%)
	1960	1961	Total investment	Public financing	
			(IL million)		
Agriculture and irrigation	84	81	235	196	84
Industry	39	36	286	97	27
Mining and quarrying	50	10	70	6	10
Electricity	5	8	71	20	28
Transportation	77	56	287	127	44
Commerce and services	57	42	284	121	43
Housing	38	29	617	238	39
<b>Total</b>	<b>54</b>	<b>43</b>	<b>1,850</b>	<b>787</b>	<b>43</b>

The structural changes in the destination of public financing as regards the type of investors are also reflected in the changes that took place in the distribution of investments by economic sector. In industry, where the private sector is dominant, the downward trend in the share of public financing continued during the year reviewed.

Despite the large absolute growth in mining and quarrying investment, there was no increase in the proportion financed from public funds, since a direct loan was obtained from abroad for the expansion of the Dead Sea Works.

About a third of the Israel Electric Corp.'s investment was financed by the Government, as compared with 18 per cent in 1961. The increase was partly due to a large expansion in the volume of investment, which was not accompanied by a corresponding increase in the amount of capital mobilized through the securities market.

In transportation the share of public financing fell, despite the larger Govern-

ment investment in harbors, roads, and postal services. The reason is to be found in the smaller purchases of ships, where public funds account for a preponderant share, and in the larger investment in vehicles, which is financed mainly from private sources.

In commerce and services, gross investment contracted in those sub-branches financed principally from private sources (business and hotels). In contrast, there was some increase in public services, which are financed with public funds.