

## CHAPTER VI

### PRICES

THE PRICE LEVEL of commodities and services at the disposal of the economy rose by an average of 14 per cent in 1962. This increase, which is greater than what the higher price of the import component in the final domestic uses should have entailed, is a definite indication of demand inflation, and should be viewed against the background of the accelerated monetary expansion. Devaluation was a decisive factor in the rise in investment and public consumption prices, whereas with regard to private consumption it had a smaller effect, from the aspect of both the level and structure of private consumption prices. In respect of timing as well, we do not find any special influence of devaluation on private consumption, the rise being gradual throughout the year.

Table VI-1

AVERAGE INCREASE IN PRICES OF RESOURCES AVAILABLE  
TO THE ECONOMY, BY FINAL DOMESTIC USE, 1958-62  
(percentages)

	1958	1959	1960	1961	1962	Weight in 1962
Private consumption	4	3	3	6	10	59
Public consumption	6	7	3	6	21	18
Investment	3	1	4	8	20	23
Total	4	3	3	7	14	100

SOURCE: Central Bureau of Statistics.

#### 1. GENERAL PRICE LEVEL

A certain rise in prices—that connected with the higher cost of imports—is intrinsic to devaluation. Insofar as the upward movement in the price level is in proportion to the weight of the import component and its increased cost,<sup>1</sup>

<sup>1</sup> That is, the rate of price increase on the assumption that the rise in costs is fully reflected in the price. For example, if the weight of the import component is 10 per cent and import prices climb by 10 per cent, the price of the final commodity should be 1 per cent higher. This rate is the upper limit of the price increase stemming from devaluation, being based, as indicated, on the assumption of the full reflection of increased costs in the price. In theory, it is true, a drop in the price of output is conceivable as a counterweight to the rise in the import price, so that the general price level remains unchanged; but in view of the inflexibility of prices as regards a downward movement—and even more so in respect of wages—such a development can hardly be anticipated.

it must be regarded as an inevitable consequence of devaluation. On the other hand, the mounting of prices beyond these limits is evidence of demand pressure resulting from monetary expansion.

A rise in prices to the full extent which the higher costs should have involved is the price paid by the economy for the existence of full employment. The increase in import prices explains 70 per cent of the rise in the general price level (see Table VI-2), but the weight of this factor varies among the final uses: the rise in investment prices was 25 per cent higher than what it should have been as a result of the dearer import, while in respect of private and public consumption it was 30-40 per cent higher.

**Table VI-2**  
**INCREASE IN PRICES OF FINAL USES DUE TO DEVALUATION AND**  
**COST-OF-LIVING ALLOWANCE\***

(percentages)

	Rise due to dearer import	Rise due to dearer import and higher c-o-l allowance <sup>b</sup>	Actual price rise in 1962	Rise due to dearer import relative to actual price rise (1) ÷ (3)	Rise due to dearer import and higher c-o-l allowance relative to actual price rise (2) ÷ (3)
	(1)	(2)	(3)	(4)	(5)
Private consumption	6.0	7.0	9.5	61	72
Public consumption	14.5	16.0	21.0	69	76
Investment	15.0	16.0	20.0	75	80
<b>Total</b>	<b>9.5</b>	<b>10.5</b>	<b>14.0</b>	<b>69</b>	<b>75</b>

NOTE: Figures have been rounded to the nearest half per cent.

\* For private consumption the measurement of price changes was made directly; for public consumption and investment no indexes of market prices are available and therefore the measurement was made from the cost side.

<sup>b</sup> The rise in wages resulting from the cost-of-living allowance increment amounted to about 5 per cent, but it applied only as from July 1962 onward.

SOURCE: Central Bureau of Statistics and Bank of Israel.

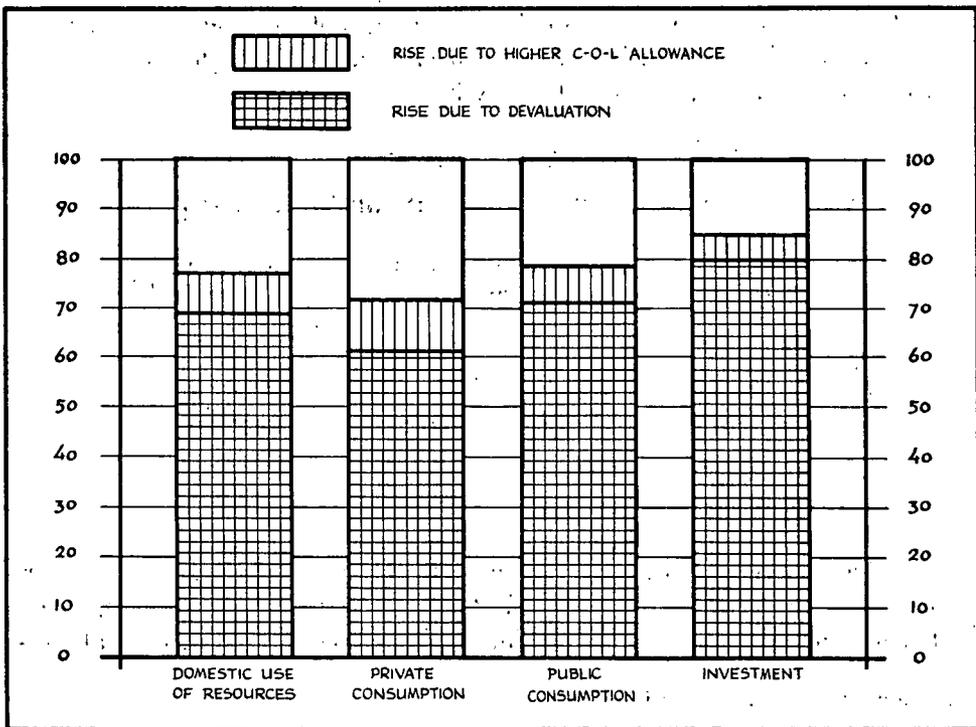
This difference in the weight of the increase attributable to the devaluation can be partly explained by the method of measurement, since for public consumption and investment, unlike the case with private consumption, there is no direct measurement, and hence the measurement of price changes is based on cost indexes. Under such a system, the price rises stemming from demand pressure are only partly expressed; and in a period when demand pressure is the decisive factor, this discrepancy is of considerable importance.

In the Israel economy an increment to the cost-of-living allowance may also be regarded as an increase in costs stemming from devaluation, since the cost-of-living allowance system ties wages to the consumer price indexes, and a rise in import prices, which is reflected in that index, automatically brings about an increase in the allowance. When the c-o-l allowance is taken into account, the price rise attributable to devaluation amounts to 75 per cent of the actual increase (see Table VI-2).

The rise in prices beyond what should have resulted from dearer import and the cost-of-living allowance increment connected therewith must be viewed against the background of the monetary expansion which occurred in 1962. This expansion, too, was essentially an outgrowth of the devaluation: the alteration of the exchange rate led to an increase in foreign currency transfers, a higher rate of conversion of current transfers and existing deposits, and an increase in the Israel pound value of foreign currency. In the second half of 1962 the expansion of credit also constituted a source of monetary growth. Price rises ensuing mainly from demand pressure were more pronounced in respect of private consumption.

Diagram VI-1

RISE IN PRICES OF FINAL USES DUE TO DEVALUATION AND COST-OF-LIVING ALLOWANCE



## 2. RELATIVE CHANGES IN PRICES

### (a) *Import prices*

The change in import prices in 1962 was primarily due to the devaluation. Only slight changes occurred in the foreign prices of imports as compared with the change in the rate of exchange. The rise in the effective rate of exchange amounted to 44 per cent,<sup>1</sup> as against the official rise of 67 per cent, since after devaluation the customs duties were reduced. The increase in the prices of imports for domestic use came to 42 per cent.

One of the results of devaluation was the substantial narrowing of the exchange rate differentials between the various import commodities, the relative inter-quartile range<sup>2</sup> contracting from 0.33 to 0.16. This favorable development was achieved by raising the exchange rate for imported investment goods—which before devaluation enjoyed a low effective exchange rate (IL 2.30/\$ 1)—to a greater extent (46 per cent) than was done for imported consumption commodities (33 per cent), on which a high effective exchange rate had previously applied. As a result of these increases, the relative domestic factor prices approached a more realistic pattern, and the discrimination against locally produced investment goods as regards the degree of protection afforded was reduced somewhat. In the past, the low effective exchange rate for imported investment goods spurred the replacement of manpower and local equipment by cheaper imported equipment. This exchange rate artificially made investment projects that were unprofitable from the standpoint of the economy profitable from the standpoint of the individual producer. The correction effected with the devaluation may well lead to a greater degree of selectivity in investment.

Table VI-3

#### EFFECTIVE EXCHANGE RATES, BY DOMESTIC USE, 1961-62

	1961 exchange rate (IL)	Per cent increase in 1962 over 1961
Private consumption	2.58	32.6
Public consumption	2.01	56.2
Investment	2.30	45.7
Total	2.36	41.5

SOURCE: Bank of Israel.

Considerable exchange rate differentials still exist in the import of consumption goods, where the inter-quartile range declined from 0.62 in 1961 to 0.44. These exchange rate variances reflect the differential protection afforded local pro-

<sup>1</sup> Including small increases during the year.

<sup>2</sup> The range comprising that half of imports found in the middle of the exchange rate scale.

duction: a high rate for finished goods is accompanied by a low rate for raw materials—a situation which tends to encourage the local production of finished goods. Thus, the average duty on food products comes to nearly IL 2 per dollar, as against less than IL 0.50 per dollar on raw materials for the food industry. Most of the customs are apparently designed for the protection of domestic products; where the aim is purely fiscal, purchase taxes are preferable, since they apply equally to imports and to local products. To be sure, this system of protecting domestic goods has administrative advantages, but economically it is defective. Unlike protection by means of subsidies, it does not involve current expenditure or impose a burden on the State budget, so that a tendency is created to continue with this system.

Agriculture was not included from the very start in the policy of gradually eliminating the protection of domestic products, and here there are still many items where domestic production is protected through an absolute ban on imports. Such an approach means pricing agricultural products beyond an economically profitable level.

Contrary to the principle of eliminating distortions, which is one of the foundations of the New Economic Policy, the protective tariff was raised on various commodities which even before had enjoyed a large degree of protection. The effective exchange rate for canned fruit, sugar and candy, cigarettes and tobacco, and other products was over IL 6 per dollar prior to devaluation; after devaluation the duty on these items was raised still further. It is true that in cases such as these imports are generally of limited proportions. However, the extent of the distortion is to be measured not according to the size of the actual import, but rather the size of local production, since the very purpose of the customs duties is to reduce imports.

A special problem is presented by those commodities the import of which is administratively prohibited or which are subject to quantitative restrictions. During the year reviewed a policy of liberalization was introduced, but it is still difficult to evaluate its results. It must be remembered that a process of this kind is by its very nature a gradual one; nevertheless, it would appear that in not a few cases all that has been done was to replace administrative measures with fiscal ones, while retaining the same degree of protection by raising the customs duties.

#### (b) *Investment prices*

Of the 20 per cent rise in investment prices, devaluation accounted for 75–80 per cent. Most of the component prices went up by 10–15 per cent—which is in line with the rise in the prices of the other resources available to the economy. A particularly large increase—45 per cent—occurred in the prices of imported equipment, as a direct result of devaluation. The weight of devaluation in the price rises of the other investment components ranged between 10 and 36 per cent.

The change in the relative investment prices in a way corrected prevailing distortions, for as already stated, the price of imported equipment had been artificially low, a fact which tended to make investment projects that were unprofitable from the viewpoint of the economy worthwhile as regards the individual investor.

**Table VI-4**  
**RISE IN INVESTMENT PRICES, 1961-62**  
(percentages)

Component	Rise in 1961	Rise in 1962	Rise due to dearer import	Rise due to dearer import and higher c-o-l al- lowance	Rise due to dearer import relative to actual price rise (3) ÷ (2)	Rise due to dearer import and higher c-o-l al- lowance relative to actual price rise (4) ÷ (2)	Weight in 1962
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Construction	11	12 <sup>a</sup>	3	4	25	33	58
Imported equip- ment	6	45 <sup>b</sup>	45	45	100	100	28
Local equipment	5	14	5	5.5	36	39	10
Agricultural output	9	10	1	2.5	10	25	4
Total	9	20	15	16	75	80	100

<sup>a</sup> This figure has a downward bias since it does not include real estate prices, which rose steeply.

<sup>b</sup> According to a later estimate—42 per cent.

SOURCES: Central Bureau of Statistics and Bank of Israel.

This change also tended to end discrimination against locally produced equipment, which had to compete with imports enjoying an artificially low exchange rate. The situation here was the opposite of that prevailing in private consumption, where local production enjoyed excessive protection.

The artificially low price of imported equipment stimulated the substitution of equipment for local factors of production to an extent that was uneconomic.

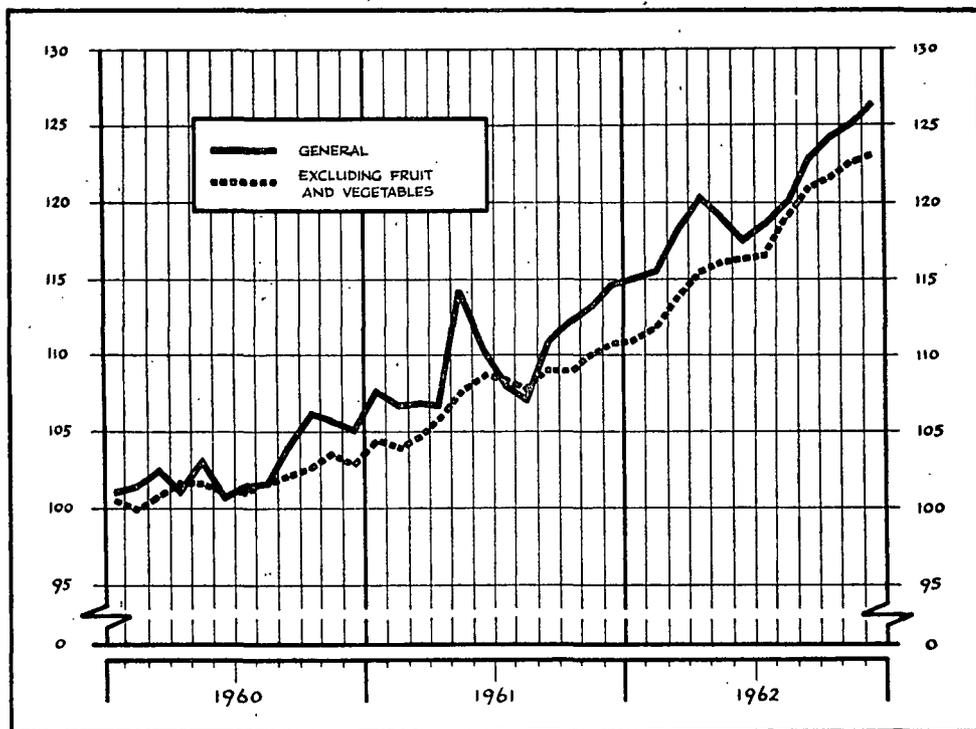
In respect of investment prices, devaluation thus brought about changes which in some measure eliminated distortions and to a large degree restored normal economic evaluation criteria.

(c) *Private consumption prices*

In contrast to the situation in investments, where devaluation played a decisive role, in private consumption the rise in prices was 40 per cent higher than what should have resulted from devaluation. The main reason for this disparity lies, as has been noted, in the system of measurement: private consumption prices are measured directly, whereas investment prices are measured indirectly—from the cost side—and thus do not reflect the full degree of demand pressure.

On the basis of the weight of the import component, there were grounds for expecting a rise of 6 per cent in the prices of private consumption, whereas it actually amounted to 9.5 per cent. Even taking the cost-of-living allowance increment into account, the price increase attributable to devaluation did not exceed 7 per cent.<sup>1</sup>

Diagram VI-2  
CONSUMER PRICE INDEX, 1960-62



<sup>1</sup> The wage increase resulting from the higher cost-of-living allowance came to 5 per cent. But since the rise took place in July and the weight of wages in private consumption amounted to 36 per cent, the increase in private consumption prices attributable to the wage rise was 1 per cent.

It is not the rise in prices *per se* that is decisive here—this is an integral part of devaluation—but the ratio between the actual rise and that attributable to devaluation, on the assumption that the full rise in costs is shifted onto the price. Another question in this context, connected with the first, is that of the composition of the price increase: did it occur principally in commodities where the import component is high, or were other factors operative which had no direct connection with devaluation.

Immediately after devaluation the Government began to exert pressure on the producers to refrain from raising prices and made a number of arrangements with them toward this end. However, under conditions of demand pressure stemming from monetary expansion, administrative measures can be resorted to in order to prevent a rise in the prices of individual commodities, but not in the general price level. Moreover, these measures were intended to avert a price increase following the rise in the cost of the import component; and insofar as they were successful they led to a decline in the relative prices of those commodities which devaluation by its very nature aimed to make more expensive. The prevention of rises beyond what should have resulted from the dearer import could have been done in one way alone: by putting a brake on the monetary expansion. There was also room for steps aimed at decelerating the price rises resulting from devaluation, so as to prevent panic which might have led to speculative buying and increased pressure on the demand side. Thus, discussions were begun regarding the permitting of competitive imports as pressure on the producers to avoid putting up their prices following devaluation, while at the same time encouraging increased efficiency and curtailing monopolistic profits. To some extent these measures eliminated distortions which had existed before devaluation, but they could not be expected to prevent a general price rise unless the monetary expansion were restrained. In the absence of this condition, all that they accomplished was to shift the demand pressure onto the prices of the other commodities.

Insofar as even before devaluation the low exchange rate was not reflected in retail prices but was swallowed up by monopolistic profits, what was required after devaluation was not an increase of retail prices in order to curtail imports, but an effort to improve efficiency and curb monopolistic profits. There were grounds for permitting competitive imports as pressure on the producers to avoid raising prices following devaluation. Devaluation provided a good opportunity to achieve this goal of improved efficiency and reduced monopolistic profits, both because it is easier to prevent price rises than to bring about price cuts, and because of the favorable climate created with the country's girding itself to make a success of the New Economic Policy.

It should be emphasized that there is no contradiction between these measures and the policy of changing relative prices by raising import prices. In those cases where pressure was exerted, it was in order to correct distortions in the

allocation of resources and to prevent monopolistic profits, and did not constitute an end in itself.

An analysis of the prices increases shows that the highest rates did not necessarily occur in those commodities where devaluation had a decisive influence (see Table VI-5). The coefficient of the weighted correlation of actual price rises and those due to devaluation testifies to the absence of a close connection between the two. This is in contrast to what might have been expected in the wake of devaluation with regard to the change in relative prices.

In order to shed more light on this matter, a further analysis was made. Private consumption goods were divided into two groups, one comprising all those commodities whose prices rose faster than average, and the second taking in all the rest. In the first group the increase in prices due to devaluation might have been expected to be of decisive importance. But the calculation shows that it came to only 6 per cent as against an actual increase of 14.7 per cent. Thus we find that in this group, which comprises about 50 per cent of the consumption basket, the influence which can be attributed to devaluation amounts to only 40 per cent.

The products whose relative prices went up are not necessarily those where an increase was to be expected. It is a fairly varied group as regards the factors operating therein; it includes such services as domestic help (a rise of 18 per cent) and hairdressing (9 per cent), where the price increases stemmed from greater demand and inadequate expansion of supply. These services have a high income elasticity of demand, whereas employment conditions, such as those obtaining in the economy for the past two years, have not been conducive to expanding the supply. A substantial rise also occurred in the prices of other services, such as the repair of radios, electric appliances, and watches (14-18 per cent), and various entertainment services (10-20 per cent).

The 18 per cent advance in the prices of health services resulted from a 20 per cent increase in Histadrut dues and an 11 per cent increase in the price of private health services. Since 1960 the latter has shown a steady upward trend, which is apparently due to the high income elasticity of demand. Although the number of physicians has expanded considerably in the past few years, this is reflected mainly in the services of the hospitals and the sick funds, since the possibilities of new or immigrant doctors entering private practice are limited. Thus the increase in the general supply of health services apparently has not been accompanied by a corresponding increase in the supply of private medical services. Another factor which may explain this development is the fact that the demand for private medical services is apparently of a selective nature, being directed principally to established physicians.

In educational services there was an increase of 13.8 per cent, as a result of an almost general rise in the prices of the various components. In the course of the year, tuition fees were increased for vocational and secondary schools as well as for kindergartens.

Table VI-5

**ACTUAL RISE IN PRIVATE CONSUMPTION PRICES AND RISE WHICH  
DEVALUATION SHOULD HAVE PRODUCED, BY COMMODITY, 1962**

(percentages)

	Weight in index	Actual rate of increase, end of 1961 to end of 1962	Rate of increase which should have followed devaluation
Bread, cereals, legumes, and flour products	45.8	31.0	20.0
Beef, milk, and milk products	69.8	6.5	3.5
Eggs and poultry	73.1	7.0	9.0
Fish, and canned fish and meat	25.2	11.5	3.0
Fresh fruit and vegetables	78.4	12.0	3.0
Coffee, tea, cocoa, spices, and canned fruit and vegetables	21.8	9.5	24.5
Margarine and oil products	13.2	2.5	5.5
Sugar and sweets	17.1	1.0	3.5
Beverages and ice	24.0	5.5	4.5
Cigarettes and tobacco products	17.4	—	3.5
Textiles and clothing	72.0	3.0	10.0
Furniture and home equipment	78.7	8.5	8.0
Footwear	22.7	7.0	6.5
Chemical products	20.8	13.5	8.5
Electricity, fuel, and water	34.3	3.5	15.0
Housing	116.9	20.0 <sup>a</sup>	3.5
Education, culture, and entertainment	71.7	12.5	0.5
Transportation	51.6	13.5	2.5
Health services	31.4	18.0	—
Domestic help	48.3	15.0	—
Personal services	45.2	10.0	—
Total	97.9	10.0	6.0

NOTE: The changes in world market prices were very small in proportion to the change in the effective exchange rate. There is significance in the picture drawn from the aggregate change rather than in the individual items, where it was difficult to arrive at a precise calculation.

<sup>a</sup> According to a later estimate, which is not included in the consumer price index.

Table VI-6

RISE IN PRICES, BY CONSUMER PRICE INDEX ITEM AND WEIGHT  
THEREOF IN TOTAL RISE, 1962

Item	Per cent average rise or decline (-) in 1962	Weight in index	Weight in total rise in index <sup>a</sup>
Bread, cereals, and flour products	14.8	45.8	7.5
Eggs, meat, poultry, and fish	1.9	131.8	3.0
Fats, milk, and dairy products	2.0	52.3	1.0
Sugar, jam, sweets, and beverages	2.4	40.1	1.0
Fruit and vegetables	6.7	84.7	6.5
Various food products	11.6	15.1	2.0
Meals away from home	8.8	18.6	2.0
Housing	18.6 <sup>b</sup>	116.9	24.0
Housing maintenance and personal services	9.4	109.0	11.0
Furniture and home equipment	8.9	84.4	8.5
Clothing, footwear, and jewelry	7.1	112.4	8.5
Health and education	14.1	63.4	10.0
Culture and entertainment	12.3	51.5	6.5
Transportation and postal services	12.6	56.6	7.5
Cigarettes and tobacco	-0.3	17.4	—
Total		1,000.0	100.0

<sup>a</sup> Rounded to the nearest half per cent.

<sup>b</sup> According to a later estimate, the rise in this item amounts to 23 per cent.  
SOURCE: Central Bureau of Statistics and Bank of Israel.

### 1. Public transportation

Public transportation fares were raised by 13 per cent in February without any connection with devaluation.<sup>1</sup> It appears that the transport cooperatives are succeeding in exploiting their monopolistic position, and fares have been going up steadily over the past few years. Recently, they have even caught up with taxi fares, which previously were much higher than bus fares. Although there are no relevant data, one may safely assume that the cost of supplying bus service is lower than in the case of taxis; and if taxi fares cover costs, this indicates that the cooperatives are clearly taking advantage of their monopolistic position.

<sup>1</sup> This occurred before devaluation. The rise stemming from increased costs as a result of devaluation occurred in 1963.

**Table VI-7**  
**RISE IN INTER-URBAN BUS AND TAXI FARES, 1960-62**  
 (percentages)

	From 1959 to 1960	From 1960 to 1961	From 1961 to 1962	From 1959 to 1962
Bus	11.4	15.5	12.7	45.0
Taxi	2.8	5.3	7.9	16.8

SOURCE: Central Bureau of Statistics.

## 2. Housing

In 1962, as in 1961, the price of housing services climbed steeply. The average price level rose by 23 per cent during the year, while the increase between the beginning and the end of the year came to 20 per cent.

The import component in construction costs amounted to 12 per cent, and therefore the rise in the effective exchange rate should have pushed up the price of housing services by 3-4 per cent. The actual rise, however, averaged 21-23 per cent. In 1961 it came to 14 per cent. Although the wage component in construction costs is high—48 per cent—in view of the full employment situation prevailing in the branch, the rise in wages can be attributed mainly to the existing demand pressure. The competitive nature of the market for construction workers considerably reduces the importance of the cost-of-living allowance agreement as a source of actual wage hikes. Distinct signs of demand pressure on prices are the large increase in land prices, the rise in prices of finished dwellings which was twice as great as the rise in the index of building costs (21-23 vs. 14 per cent), and the fact that despite the large increase in building costs and real estate prices, housing acquisitions were up 12 per cent.<sup>1</sup>

The appreciable growth in the demand for dwellings was due, among other things, to the higher local currency value of personal restitution receipts following devaluation. From saving surveys<sup>2</sup> we learn that about 40 per cent of all such receipts are used to buy dwellings. In the first half of the year the expectation of a substantially enlarged immigration and proposals to limit private building for this reason also had an effect. These circumstances apparently led to an accentuation of the speculative demand for dwellings, which could have been prevented.

Further impetus came from the anticipation of a rise in prices. For those who are not in a position to make a direct commercial investment, investment in housing is one way of protecting their money against price rises. It should be noted that in those years in which there was a steep increase in prices, the

<sup>1</sup> As indicated by data on building completions (m<sup>2</sup>) in respect of residential construction by private individuals and by public bodies for non-immigrants.

<sup>2</sup> Conducted by the Central Bureau of Statistics for 1957/58 and 1958/59.

Table VI-8

**RISE IN CONSUMER PRICE INDEX AND  
INDEX OF HOUSING PRICES, 1961-62**

(percentages)

Year	Consumer price index, excl. housing	Index of housing prices <sup>a</sup>
1961	6.6	15
1962	8.1	23
1962 compared with 1960	15.2	41

<sup>a</sup> A later estimate, differing from the housing item in the consumer price index.

SOURCE: Central Bureau of Statistics.

index of housing prices rose much more rapidly than did the consumer price index.<sup>1</sup>

The considerable monetary expansion of 1962 engendered an increase in the effective demand for housing from another aspect as well. In many cases the purchase is partly financed through loans, and the level of demand is thus dependent on the possibilities of obtaining credit. Therefore, an increase in the liquidity of the economy and easy credit terms accentuate the demand for housing.

### 3. Food

Food prices, including fruit and vegetables, showed an increase of 6.3 per cent, as compared with one of 6.4 per cent in 1961. Since the prices of the other items rose by 11.5 per cent, this means there was a decline in the relative price of food. This decline is attributable to a substantial expansion of supply (11 per cent), which was made possible by a growth of 29 per cent in imports and of 9.5 per cent in local production. A further factor was the reduction of the tax rate.

The rise in food prices was not uniform. There was a large increase (15 per cent) in bread and cereals following the abolition of the subsidy after devaluation. This corrected the previous artificially low price, which led to waste and the use of bread as animal feed. The subsidy on cereals is a typical example of the improper use of subsidies: it was granted indirectly, through the product, so that all who used the product benefited, including those whom the Government had no interest in aiding. The replacement of the indirect subsidy by a direct one was called for, without any connection with the question of the

<sup>1</sup> In respect of the individual, the consumer price index is the yardstick for comparing the real value of money.

degree of outright compensation required in order not to affect those for whom the bread subsidy was intended.

A large increase (7.8 per cent) also occurred in fish prices, mainly owing to the rise in the prices of imported inputs. Vegetable prices went up by 8 per cent,<sup>1</sup> and this was accompanied by sharp fluctuations, which were 35 per cent greater than in 1961.<sup>2</sup> This irregularity generally characterizes vegetable prices, and to a large extent it undoubtedly stems from the objective supply conditions; but it would appear that this is not the main reason. This is particularly true of potatoes, where the monthly fluctuations were more than 50 per cent higher.<sup>3</sup> This fact is doubly significant, since it applies to a storable commodity.

There was practically no increase in fruit prices: as against a substantial rise in citrus, there was a marked decline in other fruit. The relative decline in the prices of fruit other than citrus was due to a 32 per cent expansion of supply. The rise in citrus prices stemmed from the higher prices fetched abroad, which led to the curtailment of local marketing.

The rise in the item "various food products" derived mainly from the increased price of the import component.

### 3. CHANGES IN THE CONSUMER PRICE INDEX, BY INCOME GROUP<sup>4</sup>

The tendency for the prices of the various income groups' consumption basket to increase at slightly different rates continued during the year reviewed. In spite of the fluctuations in the relative prices over the years, the long-range

Table VI-9  
INCREASE IN PRICES OF CONSUMPTION BASKETS OF  
VARIOUS INCOME GROUPS, 1958-62

(percentages)

Net monthly per capita income (IL)	Increase over previous year				
	1958	1959	1960	1961	1962
0- 49.9	2.4	0.7	1.0	6.0	7.8
50- 69.9	2.6	0.9	1.5	6.0	7.9
70- 99.9	2.7	1.0	1.8	6.1	8.1
100-149.9	2.8	1.0	2.2	6.3	8.3
150 and over	3.2	1.7	2.6	6.5	8.8

<sup>1</sup> According to the Bank of Israel estimate.

<sup>2</sup> The coefficient of variation in vegetable prices rose from 0.200 in 1961 to 0.272 in 1962.

<sup>3</sup> The coefficient of variation rose from 0.07566 in 1961 to 0.12 in 1962.

<sup>4</sup> A detailed study on this subject will appear in Bank of Israel Bulletin No. 19.

trend toward a somewhat greater increase in the cost of the consumption basket of the high income groups has persisted.

This development is not the outcome of a single factor or special price structure in any of the years, but characterizes the entire period since 1954. The differences, however, are small and have no actual significance as regards the distribution of real income among the various income groups. It can therefore be stated that, from the viewpoint of its effect on the distribution of income, the relative price development was neutral.