

## CHAPTER VII

### PUBLIC SECTOR OPERATIONS<sup>1</sup>

#### 1. THE PUBLIC SECTOR<sup>2</sup>—CONSOLIDATED ACCOUNT

THE SCOPE of public sector operations<sup>3</sup> rose by approximately IL 780 million in 1962 and totalled IL 3,130 million. The rate of increase, 33 per cent, was much higher than that in the two preceding years—14 per cent in 1961 and 11 per cent in 1960.

The exceptionally large increase in expenditure was the combined result of the alteration of the exchange rate, the rise in local prices, and an expansion in the volume of operations. In the wake of the devaluation, there was a two-thirds rise in the cost of direct foreign currency outlays—mainly on security, interest and principal payments on foreign loans, inventories, and transportation of immigrants to Israel. In addition, there was a real increase in almost all the main items of expenditure: current purchases, investment, the financing of residential construction through the development budget, and transfer payments and subsidies, except for premium payments to exporters and to persons transferring foreign currency, which were completely abolished upon devaluation.

On the receipts side, tax revenue expanded at a much slower rate than expenditure, since income from import duties did not rise at all following the

<sup>1</sup> After this chapter had already gone to press, the estimate of unrequited receipts from abroad was revised: IL 13 million (\$7.3 million) which was recorded in 1961 as unrequited receipts should have been recorded as long-term loans. On the other hand, IL 13 million (\$4.7 million) was recorded in 1962 as long-term loans from abroad, while in fact it constituted unrequited receipts. This revision, however, does not affect the main conclusions reached in this chapter.

The data cited here are based mainly on financial reports of the public sector authorities, and partly on material prepared by the Central Bureau of Statistics, and for the most part refer to calendar years. Data for the year under review are based on provisional monthly summaries, since financial reports for fiscal 1962/63 have not yet been published. Data for 1960 and 1961 have been revised.

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

<sup>3</sup> With long-term loans recorded on a gross basis and short-term loans on a net basis; excluding changes in the outstanding balance of liabilities or assets arising from the change in the exchange rate. Had long-term loans been recorded on a net basis, operations would have risen by IL 665 million, or 30 per cent, and totalled IL 2,865 million.

devaluation. Owing to the fall in transfers under the Reparations Agreement, unrequited receipts from abroad declined; the decrease occurred even in terms of local currency, despite the change in the exchange rate, while in terms of foreign currency it was very considerable. On the other hand, there was a substantial rise in receipts from foreign loans, not only because of the higher exchange rate, but also in terms of foreign currency. Net liabilities to the banking system contracted sharply, since the revaluation differentials of the Bank of Israel, which were transferred to the Government, were frozen and not utilized to expand current outlays.

The year 1962 posed a challenge to the fiscal policy of the Government, which constitutes the directing force in the operations of the public sector as a whole. In view of the mounting pressure of aggregate demand in the wake of the devaluation, there was need to create a considerable budget surplus to counterbalance this pressure—and to do so simultaneously with a steep and unavoidable rise in foreign currency expenditure by the public sector. These circumstances called for the adoption of special measures to absorb excess purchasing power and for abstention from non-essential expansion of expenditure.

A number of steps were, indeed, taken toward these ends. Special compulsory payments were imposed on income, the public was encouraged to make advance repayments on mortgages, development budget loans for purposes other than housing were reduced, revaluation differentials of the Bank of Israel which had been transferred to the Government were frozen, and the Government's debt to the banking system was further reduced. However, the Government also substantially increased its expenditure—to an extent exceeding the rise in foreign currency costs directly attributable to the change in the exchange rate. Outlay rose on security, wages and salaries, immigrant housing, various development projects, and the building up of inventories of imported food and building materials. In addition, various bodies and sections of the population were compensated for the rise in the price level, while subsidies were enlarged and tax rates cut in an effort to reduce the increase in prices of certain goods and services. Moreover, the expenditure of the local authorities also exceeded the rise in their tax receipts; while in the case of the National Institutions, in addition to higher costs arising from the devaluation, there was a real rise in outlay on immigrant transportation and absorption.

In the light of the above trends in public sector expenditure, the absorption measures adopted by the Government proved inadequate to meet the needs of the Israel economy in 1962.

Some of the changes that occurred in the public sector during the year reviewed were directly due to the devaluation. The demand surplus of the public sector grew considerably, whereas its "saving" declined. Insofar as these changes reflect no more than the alteration of the exchange rate, they should be regarded as providing a more accurate picture—on the basis of a realistic exchange rate—of the situation actually prevailing before devaluation. They

Table VII-1

## "BALANCE OF PAYMENTS" OF THE PUBLIC SECTOR, BY TYPE OF RECEIPT AND PAYMENT, 1960-62

(IL million)

Receipts	1960	1961	1962*	Increase or decrease (-)		Payments	1960	1961	1962*	Increase or decrease (-)	
				1960 to 1961	1961 to 1962					1960 to 1961	1961 to 1962
<b>Transfer payments and transactions in goods and services</b>											
Taxes <sup>b</sup>	1,155	1,442	1,733	287	291	Purchases:					
Miscellaneous						On current account <sup>b</sup>	929	1,061	1,497	132	436
domestic receipts	230	238	294	8	56	On capital account	188	224	363	36	139
Total	1,385	1,680	2,027	295	347	Transfer payments and grants	238	269	313	31	44
Revaluation differentials						Subsidies	187	239	205	52	-34
from Bank of Israel <sup>c</sup>	—	—	162	—	162						
Unrequited receipts											
from abroad	228	261	244	33	-17						
Total	1,613	1,941	2,433	328	492	Total	1,542	1,793	2,378	251	585

Transactions in financial claims

Collections on account						Long-term loans granted					
of long-term loans	52	54	100	2	46	and participation in					
Long-term loans received:						share capital	374	412	492	38	80
Foreign	251	231	547	-20	316	Redemption of long-term					
Domestic	52	157	187	105	30	loans:					
Short-term credit (net):						Foreign	107	116	209	9	93
Foreign	36	21	19	-15	-2	Domestic	40	33	55	-7	22
Domestic <sup>d</sup>	63	-24	91	-87	115						
From the banking											
system <sup>e</sup>	-4	-26	-243	-22	-217						
Total	450	413	701	-37	288	Total	521	561	756	40	195
Total receipts	2,063	2,354	3,134	291	780	Total payments	2,063	2,354	3,134	291	780

<sup>a</sup> Excluding changes in the assets and liabilities of the public sector due to the alteration of the exchange rate. Receipts and payments have been recorded according to the exchange rate in force on the date of receipt or payment. A comparison between foreign transactions in 1962 and in previous years is given in Table VII-4.

<sup>b</sup> Excluding customs and purchase tax paid by Government offices or received in the form of bank guarantees.

<sup>c</sup> Revaluation differentials on the excess of the Bank of Israel's foreign currency assets over its foreign currency liabilities.

<sup>d</sup> Excluding credit from the banking system; including short-term securities.

<sup>e</sup> Including long-term loans and securities; excluding revaluation differentials on public sector deposits, but including debt redemption out of the revaluation differentials of the Bank of Israel which were transferred to the Government.

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

indicate the true extent of dependence on foreign financing, which the unrealistic exchange rate, previously used as a basis for computations, tended to conceal.

Particularly worthy of note is the effect of devaluation on the saving computation. While in terms of local currency, current foreign currency costs rose overnight by two-thirds, the increase in the IL return from foreign currency receipts was not taken into account for the purpose of calculating saving, since these receipts are not defined as current income. The cut in expenditure due to the elimination of premiums on exports and on the conversion of foreign currency only partly offset the rise in costs, especially in the light of the anticipated decline in revenue from import duties.

The effect of devaluation on saving is reflected in the distribution of receipts and expenditures in the ordinary and development budget. Devaluation disclosed that in recent years the Government had in fact financed part of its ordinary expenditure from development budget receipts: foreign currency outlays under the ordinary budget were recorded at the official exchange rate, while foreign currency receipts in the development budget in many instances yielded the Government a higher return, as a result of imposts which were recorded in the ordinary budget and which served only in part to cover payments of export premiums. The disclosure of the hidden deficit existing in the ordinary budget before devaluation may induce the Government to liquidate it by raising domestic revenue and streamlining its services.

#### (a) *Transactions of the public sector*

The "balance of payments" of the public sector for the years 1960 to 1962, by main types of receipts and payments, is shown in Table VII-1. This table distinguishes between transfers and transactions in goods and services—the "real account"—and transactions in financial claims—the "financial account".<sup>1</sup>

Payments in the "real account"—excluding revaluation differentials from the Bank of Israel, which were to all intents and purposes frozen—exceeded receipts from local taxes and local and foreign transfers by IL 105 million in 1962, as compared with a IL 150 million surplus of receipts in 1961. Parallel thereto, the increase in liabilities (plus the revaluation differentials from the Bank of Israel) exceeded, for the first time since the Sinai campaign, net loans granted to other economic sectors for housing and development purposes. This change was due to the recording of foreign loans according to the new exchange rate.

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

Table VII-2

## PUBLIC SECTOR OPERATIONS AND SOURCES OF FINANCING, 1960-62

(IL million)

	1960	1961	1962	Increase or decrease (-)	
				1960 to 1961	1961 to 1962
<b>A. Demand surplus</b>					
Purchases on current and capital account, transfer payments, and subsidies	1,542	1,793	2,378	251	585
Less: Taxes and miscellaneous revenue	1,385	1,680	2,027	295	347
<b>Demand surplus</b>	<b>157</b>	<b>113</b>	<b>351</b>	<b>-44</b>	<b>238</b>
<b>B. Credit granted to other local sectors<sup>a</sup></b>	<b>247</b>	<b>258</b>	<b>169</b>	<b>11</b>	<b>-89</b>
<b>Total, A + B</b>	<b>404</b>	<b>371</b>	<b>520</b>	<b>-33</b>	<b>149</b>
<b>Financing through receipts from abroad and from the banking system</b>					
<b>C. From abroad</b>					
Unrequited receipts	228	261	244	33	-17
Net loans and credit	180	136	357	-44	221
<b>Total</b>	<b>408</b>	<b>397</b>	<b>601</b>	<b>-11</b>	<b>204</b>
<b>Total in \$ million</b>	<b>(227)</b>	<b>(221)</b>	<b>(228)</b>	<b>(-6)</b>	<b>(7)</b>
<b>D. From the banking system</b>	<b>-4</b>	<b>-26</b>	<b>-81<sup>b</sup></b>	<b>-22</b>	<b>-55</b>
<b>Total, C + D</b>	<b>404</b>	<b>371</b>	<b>520</b>	<b>-33</b>	<b>149</b>

<sup>a</sup> Net transactions in financial claims, excluding transactions with the rest of the world and with the banking system.

<sup>b</sup> Made up of a decline of IL 243 million in the debt to the banking system and revaluation differentials in the sum of IL 162 million which the Bank of Israel transferred to the Government.

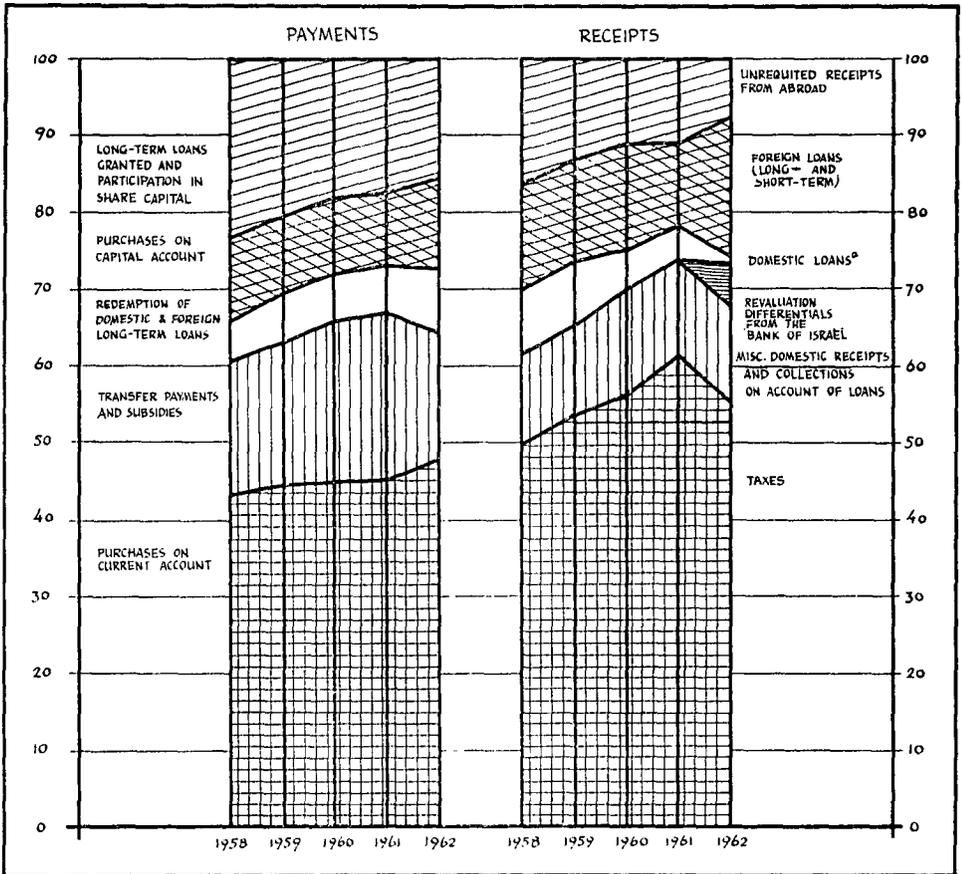
SOURCE: Table VII-1.

Had these loans been recorded at the former rate in 1962 as well, the net increase in liabilities would have roughly equalled the net increase in assets.

In order to measure the share of the public sector in the total increase in the demand surplus,<sup>1</sup> a further distinction has been made between net expenditure in the "real account" plus net credit granted to other economic sectors, on the one hand, and the financing of such expenditure by net receipts from abroad and from the banking system, on the other (see Table VII-2). Expenditure on current and capital account considerably exceed the sector's revenue from

<sup>1</sup> For an overall analysis, see Chapter XV, "Flow of Funds". An analysis of the Government sub-sector is presented below (see Table VII-8).

**Diagram VII-1**  
**RECEIPTS AND PAYMENTS OF THE PUBLIC SECTOR, 1958-62**  
 (percentages)



\* Long- and short-term loans and loans from the banking system.

domestic sources, mainly from taxation. In 1962 the gap between revenue and expenditure—which is defined as the demand surplus of the public sector—grew considerably, reaching IL 350 million as compared with IL 115 million in 1961. The demand surplus constituted approximately 19 per cent of the purchases on current and capital account, as against 9 per cent in 1961 and 14 per cent in 1960. In contrast to the expansion of the demand surplus, net credit granted by the public sector to other domestic sectors contracted by IL 90 million as compared with 1961, and totalled IL 170 million.

The demand surplus of the public sector and the net financing of other sectors thus totalled IL 520 million, as compared with IL 370 million in 1961 and IL 405 million in 1960. These amounts were not financed by the banking system—the public sector's net debt to the banks declined by IL 80 million,

even if the revaluation differentials are not taken into account—but through loans and unrequited receipts from abroad, which together totalled IL 600 million, as against IL 400 million in 1961 and 1960. The increase in these receipts reflects mainly the higher value of the foreign currency in terms of Israel pounds after devaluation, but even in terms of foreign currency, they rose somewhat.

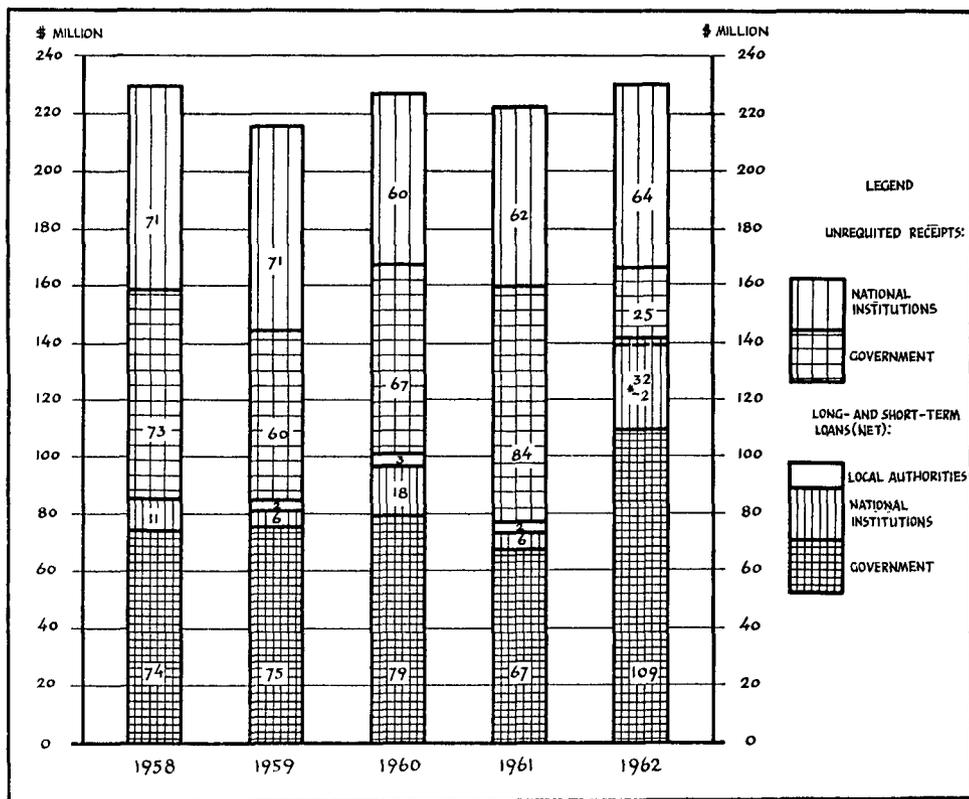
Diagram VII-1 shows the structure of the public sector's receipts and payments during the last five years, and clearly indicates the changes directly due to devaluation—the relative decline in taxes and subsidies, as against the relative increase in receipts from abroad, debt redemption, and current purchases.

The weight of taxes in total receipts and that of transfer payments and subsidies in total payments declined, after having risen in each of the preceding four years. With the alteration of the exchange rate, various tax rates were reduced, and the premiums previously paid to exporters and persons converting foreign currency—which served as a means of gradually raising the effective exchange rate during the pre-devaluation period—were abolished. During the year under review, the decrease in premium payments apparently exceeded that in tax revenue (see Table VII-5). The proportion of receipts from abroad (loans plus unrequited receipts) increased after devaluation. (Although unrequited receipts declined relatively owing to the smaller volume of receipts

**Table VII-3**  
**PUBLIC SECTOR RECEIPTS FROM ABROAD, 1958-62**

	1958	1959	1960	1961	1962
	<b>\$ million</b>				
<b>Loans</b>					
Long- and medium-term loans	117	126	139	128	198
Less: Redemption payments	40	54	59	64	73
<b>Total (net)</b>	<b>77</b>	<b>72</b>	<b>80</b>	<b>64</b>	<b>125</b>
Net short-term credit	8	11	20	11	15
<b>Total loans (net)</b>	<b>85</b>	<b>83</b>	<b>100</b>	<b>75</b>	<b>140</b>
<b>Unrequited receipts</b>	<b>144</b>	<b>131</b>	<b>127</b>	<b>146</b>	<b>88</b>
<b>Total receipts from abroad</b>	<b>229</b>	<b>214</b>	<b>227</b>	<b>221</b>	<b>228</b>
	<b>Percentages</b>				
<b>Loans</b>	<b>37</b>	<b>39</b>	<b>44</b>	<b>33</b>	<b>62</b>
<b>Unrequited receipts</b>	<b>63</b>	<b>61</b>	<b>56</b>	<b>67</b>	<b>38</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Diagram VII-2**  
**PUBLIC SECTOR RECEIPTS FROM ABROAD, 1958-62**



\* Local authorities.

from reparations, in terms of dollars the drop was much steeper.) Outlay on debt redemption, much of which is in foreign currency or linked to the exchange rate, also increased relatively (see Diagram VII-2 and Table VII-3).

The relative increase in current purchases was connected in no small measure with the higher prices prevailing after devaluation, but it likewise reflects a real increase, especially with respect to security and immigration expenses.

The relative decline in receipts from domestic loans was connected with the revaluation differentials of the Bank of Israel which, as already stated, were utilized for debt redemption. Even apart from this, the decline in the resort to credit from the banking system, which characterized the last few years, continued.

The relative share of total expenditure on investment and on the financing of investment by other sectors did not change,<sup>1</sup> but there was a change in the composition of this expenditure: the relative share of loans and participation

<sup>1</sup> The share of public sector investment in total domestic investment likewise remained stable. See Chapter V, "Domestic Investment", and Table V-5.

in share capital continued to decline, despite the substantial increase in outlays on immigrant housing, and, on the other hand, there was a relative rise in the public sector's own investment, including that in inventory. The relative contraction in the volume of loans granted was connected with the drop in transfers under the Reparations Agreement, and were it not for the devaluation—which increased the value of foreign currency receipts in terms of Israel pounds—the decline would have been even steeper.

(b) *Public consumption*<sup>1</sup>

Public consumption rose in 1962 to the considerable extent of 41 per cent, and totalled IL 1,480 million. In 1961 the rate of increase at current prices had been 14 per cent, and in 1960—12.5 per cent.

The steep rise in public consumption was due to a 25 per cent advance in prices (two-thirds of this directly attributable to devaluation), as well as to a real increase of some 13 per cent; the real increase in 1961 is estimated at 8 per cent.

A considerable expansion took place in the Government's expenditure on security and special budgets, which constituted 38 per cent of total public consumption in 1962. This increase too was partly a real one and partly connected with the alteration of the exchange rate.

Wage and salary payments, excluding those of the Ministry of Defense and trading enterprises, went up 22 per cent during the year reviewed, reaching IL 470 million. The increase in the number of employees is estimated at 6 per cent, and the average rise in wages per employee (including a rise of 6.3 per cent in the cost-of-living allowance, as well as "advances" and retroactive payments on account of pay raises) came to 15 per cent.

Interest payments totalled IL 210 million in 1962, of which almost 60 per cent were on foreign loans, and the remainder on domestic loans, including those linked to the dollar. Outlays on interest thus increased by the considerable amount of IL 80 million, owing chiefly to the devaluation.

(c) *Public sector saving*

The dissaving of the public sector, defined as the excess of consumption over current income, reached IL 65 million in 1962. Consumption—i.e. net current purchases in Israel and abroad—totalled IL 1,480 million, whereas current income—from taxes (net of subsidies), net local transfers, and interest received—totalled IL 1,415 million.

<sup>1</sup> Public consumption is defined as the current purchases of the public sector, after deduction of current sales. The data on public consumption in this chapter are slightly different from those of the Central Bureau of Statistics used in Chapter II, "Resources, Uses, and Incomes". The differences are as follows: (a) the data in this chapter include interest payments; (b) they do not include customs duty and purchase tax paid by the various offices of the public sector; and (c) they do not include the municipal expenditure of collective and cooperative settlements.

In nominal terms, the saving of the public sector declined by IL 115 million as compared with 1961: consumption increased by IL 435 million, or 41 per cent, while net income grew by IL 320 million, or only 29 per cent (see Table VII-4).<sup>1</sup>

**Table VII-4**  
**PUBLIC SECTOR SAVING, 1959-62**  
(IL million)

	1959	1960	1961	1962
(1) Net income on current account <sup>a</sup>	766	876	1,095	1,416
(2) Net purchases on current account <sup>b</sup>	815	917	1,046	1,481
(3) Saving or dissaving (-) of the public sector (1) - (2)	-49	-41	49	-65
Increase in saving (or decrease in dissaving) as against previous year		8	90	-114

<sup>a</sup> Taxes, including National Insurance contributions, net of subsidies; net transfers (receipts less payments); and income from property, including interest.

<sup>b</sup> Current purchases, including interest paid, less current sales.

The nominal decline in saving was almost wholly due to the alteration of the exchange rate, and affected all segments of the public sector. More than half the total decrease is attributable to the Government, about one-third to the National Institutions, and the remainder to the local authorities.

Although on the one hand the Government raised direct taxes during the year reviewed by imposing additional compulsory payments on income and at the same time reduced its expenditure on export premiums, on the other hand, it increased total outlay—especially on security, wages, and subsidies other than on exports—even beyond the amount which the devaluation entailed.

The dissaving of the National Institutions likewise increased. Under the circumstances this was inevitable: while a considerable part of the National Institutions' expenditure is in foreign currency, they have hardly any revenue from domestic sources, since they do not levy taxes. Moreover, rising immigration entailed an increase in their expenditure, especially in foreign currency.

There was also an increase in the dissaving of the local authorities, which had remained on a virtually constant level during the previous three years: while expenditure rose, owing to price increases and the growth of the population, there was no general rise in local tax rates.

It is not possible to establish exactly what part of the nominal change in

<sup>1</sup> Further details concerning Table VII-4 will be found in the Appendix to this report (in Hebrew only).

the public sector's saving in 1962 was directly due to devaluation. However, a provisional estimate shows that this factor accounted for almost the entire increase in the sector's dissaving.<sup>1</sup>

**Table VII-5**  
**IMPORT DUTIES, EXPORT SUBSIDIES, AND PREMIUMS ON**  
**CAPITAL TRANSFERS, 1959-62**  
(IL million)

	1959	1960	1961	1962	Increase or decrease (-)		
					From 1959 to 1960	From 1960 to 1961	From 1961 to 1962
1. Import duties <sup>a</sup>	297	336	434	427	39	98	-7
2. Less: Export subsidies	65	96	144	55	31	48	-89
3. Premiums on capital transfers	16	24	24	3	8	—	-21
4. Net receipts (1) - (2) - (3)	216	216	266	369	—	50	103

<sup>a</sup> For definition, see Table VII-10.

Devaluation disclosed that the level of public sector dissaving was in fact higher than it appeared to be, and that the gradual decline in dissaving during the years preceding devaluation had very largely been fictitious. During those years, current outlays in foreign currency were recorded at an increasingly unrealistic exchange rate, while the imposts designed to raise the effective exchange rate for other sectors increased the Government's tax revenue. (On the other hand, the Government also spent large amounts on premiums to exporters and persons converting personal restitution payments from West Germany.) Since devaluation, current expenditure is, of course, recorded at the new exchange rate. On the other hand, in the saving computation, no account is taken of the larger return from foreign currency receipts. Consequently, the sharp decrease in public sector saving in 1962 should be viewed as a correction of the picture presented in the preceding years—not only as regards the absolute level of the sector's saving, but also as regards the public sector's share in total domestic saving.<sup>2</sup>

<sup>1</sup> In this estimate, the increase in import duties, net of premiums, was deducted from net revenue for 1962 (see Table VII-5), while the rise in the prices of direct imports and in interest paid locally on debts linked to the dollar was deducted from the sector's consumption.

<sup>2</sup> For a discussion of this subject, see Chapter XIX, "Saving".

Table VII-6

PUBLIC SECTOR EXPENDITURE, BY FUNCTION<sup>a</sup> AND BY PUBLIC SECTOR AUTHORITY, 1961-62

	IL million		Per cent		Breakdown by public sector authority (per cent) <sup>b</sup>				
	1961	1962	1961	1962	Government	National Institutions	Local authorities	Intrasector transactions	Total
<b>General services</b>									
General administration	136	168	6.2	5.9	65.5	13.1	23.8	-2.4	100.0
Security and special budgets	366	571	16.6	19.9	99.8	—	0.2	—	100.0
Police and justice	57	63	2.6	2.2	100.0	—	—	—	100.0
Community services (n.e.s.) <sup>c</sup>	108	153	4.9	5.3	9.8	33.3	56.9	—	100.0
<b>Total</b>	<b>667</b>	<b>955</b>	<b>30.3</b>	<b>33.3</b>	<b>79.4</b>	<b>7.6</b>	<b>13.4</b>	<b>-0.4</b>	<b>100.0</b>
<b>Social services</b>									
Education, culture, and religion	253	318	11.5	11.1	60.7	9.7	34.0	-4.4	100.0
National Insurance and social welfare	175	222	7.9	7.7	86.0	7.2	15.8	-9.0	100.0
Health	90	112	4.1	3.9	83.0	0.9	17.0	-0.9	100.0
Housing	128	251	5.8	8.7	96.4	19.9	1.2	-17.5	100.0
<b>Total</b>	<b>646</b>	<b>903</b>	<b>29.3</b>	<b>31.4</b>	<b>79.6</b>	<b>10.8</b>	<b>18.3</b>	<b>-8.7</b>	<b>100.0</b>

**Economic services**

## Agriculture and water

development	300	334	13.6	11.6	77.3	33.2	1.2	-11.7	100.0
-------------	-----	-----	------	------	------	------	-----	-------	-------

Industry, mining, and electricity	194	162	8.8	5.7	96.9	0.6	2.5	—	100.0
-----------------------------------	-----	-----	-----	-----	------	-----	-----	---	-------

## Transport (including roads and

## oil pipelines) and

communications	180	175	8.2	6.1	84.6	—	16.6	-1.2	100.0
----------------	-----	-----	-----	-----	------	---	------	------	-------

## Other economic services

	49	37	2.2	1.3	94.6	5.4	—	—	100.0
--	----	----	-----	-----	------	-----	---	---	-------

## Total

	723	708	32.8	24.7	84.5	16.1	5.2	-5.8	100.0
--	-----	-----	------	------	------	------	-----	------	-------

**Unallocable services**

Interest payments	124	211	5.6	7.4	80.5	15.2	8.1	-3.8	100.0
-------------------	-----	-----	-----	-----	------	------	-----	------	-------

Miscellaneous <sup>d</sup>	45	93	2.0	3.2	137.6	—	—	-37.6 <sup>e</sup>	100.0
----------------------------	----	----	-----	-----	-------	---	---	--------------------	-------

## Total

	169	304	7.6	10.6	98.0	10.5	5.6	-14.1	100.0
--	-----	-----	-----	------	------	------	-----	-------	-------

## Grand total

	2,205	2,870	100.0	100.0	82.7	11.0	12.1	-5.8	100.0
--	-------	-------	-------	-------	------	------	------	------	-------

<sup>a</sup> Excluding debt redemption and current expenditure of public sector enterprises (such as Israel Railways, the Post Office, and municipal waterworks).

<sup>b</sup> Absolute figures appear in the Appendix to this report (in Hebrew only).

<sup>c</sup> Mainly strictly municipal services (such as sanitation and sewerage, street lighting, fire fighting, public gardens, etc.) and direct immigration services (transportation and initial absorption), as well as various other services such as the broadcasting service, the meteorological service, and general research.

<sup>d</sup> Mainly premiums paid to persons transferring capital, subsidies on imported commodities, and purchase of shares in international institutions.

<sup>e</sup> Grants-in-aid and loans to local authorities not allocated for specified purposes.

(d) *Functional composition of expenditure*

The most striking change that occurred in 1962 in the functional composition of public sector expenditure was the relative decline in the outlay on economic services (see Table VII-6). These services accounted for one-quarter of total expenditure (apart from debt redemption, which is excluded from this discussion), as compared with one-third in 1961; and, despite the higher price level, they even showed an absolute decrease.

In 1961 these services accounted for a larger share of the public sector's outlays than general services, including security, or social services, whereas in 1962 about IL 200 million less was spent on them than on either of the two other categories. Two factors were responsible for this change: the abolition of export premiums, and the reduction of development expenditure other than on residential housing.<sup>1</sup> The most striking decline was in funds channelled to industry, but there were also decreases in each of the other economic services—agriculture, transport, and other branches including hotels.<sup>2</sup>

As for the other items, there was an increase in the share of expenditures with a relatively high import component—such as security and special budgets, immigration, and interest—while the relative share of expenditures with a low import component—such as education, social welfare, health, general administration, police and justice—declined, with the exception of housing expenditure, which, as already mentioned, registered a substantial real increase.

The security and special budgets item is the largest of all (see also Diagram VII-3), constituting nearly 20 per cent of the public sector's total expenditure exclusive of debt redemption. Agriculture and water development was still in second place, though its relative importance has been declining in recent years. Third in order of size was education, which here includes also culture and religion.

A breakdown of expenditure on each item according to the financing authority—the Government, National Institutions, and local authorities—is shown in Table VII-6. The preponderant share of the Government is noticeable in almost all the functional categories, except for community services (which consist mainly of exclusively municipal services and also of services directly connected with immigration, which come under the province of the Jewish Agency).

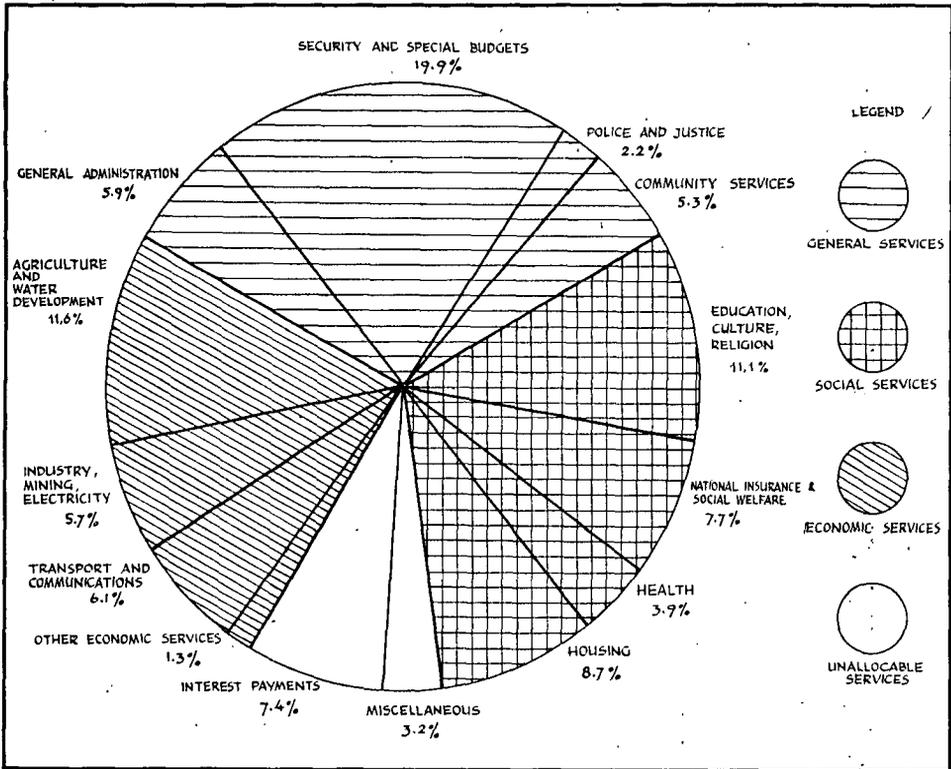
Expenditure on security and special budgets, National Insurance (which

<sup>1</sup> In accordance with the U.N. definition, housing is included among social services.

<sup>2</sup> It should be noted that the decrease in the relative share of industry and agriculture would have been even more marked, were it not for the relative rise in that of other branches bracketed with them—namely, mining and electricity in the first case, and water development in the second. On the other hand, were it not for the large decrease in loans and subsidies to shipping, there would have been a rise in the share of the transport and communications sector, which also includes postal services, harbors and roads, where public sector investment rose considerably in 1962.

Diagram VII-3

FUNCTIONAL BREAKDOWN OF PUBLIC SECTOR EXPENDITURE, 1962  
(percentages)



is classified together with social welfare expenses), and the stimulation of industrial development fall almost exclusively within the Government's sphere.

2. THE GOVERNMENT

The devaluation had a considerable impact on the financial operations of the Government in 1962, substantially affecting, directly or indirectly, all the major receipt and payment items. Moreover, devaluation imposed special tasks and objectives upon the Government's income and expenditure policies.

Payments, including the redemption of long-term liabilities and excluding transfers to National Institutions, rose in 1962 at the considerable rate of 34 per cent, and totalled IL 2,530 million.

Side by side with the rise in the Government's foreign currency outlays by two-thirds in terms of local currency, there was a considerable increase in the volume of Government imports, including those for security purposes and for

Table VII-7

## "BALANCE OF PAYMENTS" OF THE GOVERNMENT, BY TYPE OF RECEIPT AND PAYMENT, 1960-62

(IL million)

Receipts	1960	1961	1962 <sup>a</sup>	Increase or decrease (-)		Payments	1960	1961	1962 <sup>a</sup>	Increase or decrease (-)	
				From 1960 to 1961	From 1961 to 1962					From 1960 to 1961	From 1961 to 1962
<b>Transfers and transactions in goods and services</b>											
Taxes <sup>b</sup>	1,045	1,306	1,571	261	265						
Miscellaneous receipts	159	153	180	-6	27						
<b>Total</b>	<b>1,204</b>	<b>1,459</b>	<b>1,751</b>	<b>255</b>	<b>292</b>						
						<b>Purchases:</b>					
						On current account	738	837	1,187	99	350
						On capital account	84	102	221	18	119
						<b>Transfer payments</b>					
						and grants	188	212	243	24	31
						Subsidies	182	233	202	51	-31
Revaluation differentials from Bank of Israel <sup>c</sup>	—	—	162	—	162						
Unrequited receipts from abroad	120	151	65	31	-86						
<b>Total</b>	<b>1,324</b>	<b>1,610</b>	<b>1,978</b>	<b>286</b>	<b>368</b>	<b>Total</b>	<b>1,192</b>	<b>1,384</b>	<b>1,853</b>	<b>192</b>	<b>469</b>

Transactions in financial claims

Collections on account of long-term loans					Long-term loans granted and participation in share capital:						
	50	54	100	4	46						
Long-term loans received:											
Foreign	206	211	461	5	250	For housing	105	121	230	16	109
Domestic	22	107	105	85	-2	For other purposes	200	220	181	20	-39
Short-term credit (net):						Total	305	341	411	36	70
Foreign	29	9	-12	-20	-21	Redemption of long-term loans:					
Domestic <sup>d</sup>	43	-36	94	-79	130	Foreign	92	99	180	7	81
From the banking system <sup>e</sup>	-4	-48	-223	-44	-175	Domestic	21	16	30	-5	14
Total	346	297	525	-49	228	Total	418	456	621	38	165

Transactions with the National Institutions and local authorities

From National Institutions (net)					To local authorities (net)						
	-16	-15	26	1	41		44	52	55	8	3
Total receipts	1,654	1,892	2,529	238	637	Total payments	1,654	1,892	2,529	238	637

<sup>a</sup> Excluding revaluation differentials on the Government's assets and liabilities due to the alteration of the exchange rate. Receipts and payments have been recorded at the exchange rate in force when they were received or paid.

<sup>b</sup> Including collections on account of National Insurance, the War Risk Insurance Fund, the Absorption Loan, and compulsory saving, but excluding customs duties and purchase tax paid by Government offices.

<sup>c</sup> Revaluation differentials on the excess of foreign currency assets over foreign currency liabilities of the Bank of Israel.

<sup>d</sup> Excluding credit from the banking system; including short-term securities.

<sup>e</sup> Including long-term loans and securities. Excluding revaluation differentials on deposits, but including debt redemption financed out of the revaluation differentials of the Bank of Israel which were transferred to the Government.

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

enlarging stocks of food and building materials. Expenditure on wages and salaries, investments, and residential construction also rose, as did outlay on transfer payments and subsidies on local production and consumption. On the other hand, there was a decline in payments of premiums to exporters and to persons converting foreign currency (which were abolished after devaluation), and in development budget expenditure for purposes other than housing.

On the receipts side, revenue (including the special compulsory payments levied on income) rose by only 20 per cent, because of the reduction of import duties in the wake of the devaluation and also because of other tax concessions designed to prevent a price rise in certain products.

On the other hand, the Government benefited from special receipts connected directly or indirectly with the devaluation. These included the revaluation differentials of the Bank of Israel, as well as advance redemption of development budget loans. The renewal of the Jewish Agency's participation in the financing of immigrant housing may also be attributed to the alteration of the exchange rate. After February 9, 1962, receipts from abroad were recorded at the rate of IL 3 per dollar; but whereas the Government's foreign currency expenditure increased appreciably, as already stated, receipts fell, and consequently foreign currency payments exceeded receipts. While the volume of loans received from abroad expanded considerably, even in terms of foreign currency, there was a considerable fall in unrequited receipts, even in terms of Israel pounds.

The Government's debt to the banking system continued to decline, but as against this, there was an increase in proceeds from the issue of the Short-Term Loan, which served as a source of budgetary receipts.

#### (a) *Government transactions*

Table VII-7 shows the "balance of payments" of the Government for the years 1960 to 1962. This table distinguishes between transfers and transactions in goods and services (the "real account"), transactions in credit (the "financial account"), and transactions with other public sector authorities (the National Institutions and local authorities). Parallel to the trends characterizing the public sector as a whole, in which the Government's share is preponderant, the structure of the Government's transactions underwent a striking change as compared with the entire period from the Sinai campaign to the devaluation: net credit received by the Government—with loans from abroad recorded in Israel pounds according to the new exchange rate, and after deduction of the decline in the debt to the banking system as a result of the revaluation differentials of the Bank of Israel—exceeded the volume of credit granted by the Government. Expenditure on "real account" exceeded ordinary revenue (chiefly from taxes) plus unrequited receipts from abroad.

To examine the extent to which the Government contributed to the growth in excess demand in the economy in 1962, a further distinction was made as between net expenditure on "real account" plus net loans to other sectors of

Table VII-8

## GOVERNMENT OPERATIONS AND SOURCES OF FINANCING, 1960-62

(IL million)

	1960	1961	1962	Increase or decrease (-)	
				From 1960 to 1961	From 1961 to 1962
<b>A. Demand or supply (-) surplus</b>					
Purchases on current and capital account, transfers, and subsidies	1,192	1,384	1,853	192	469
Less: Taxes and miscellaneous revenue	1,204	1,459	1,751	255	292
Demand or supply (-) surplus	-12	-75	102	-63	177
<b>B. Credit granted to other local sectors<sup>a</sup></b>	211	232	142	21	-90
<b>C. Net payments to rest of public sector<sup>b</sup></b>	60	67	29	7	-38
<b>Total, A + B + C</b>	259	224	273	-35	49
<b>Financing through receipts from abroad and from the banking system</b>					
<b>D. From abroad:</b>					
Unrequited receipts	120	151	65	31	-86
Net loans and credit	143	121	269	-22	148
Total	263	272	334	9	62
Total in \$ million	(146)	(151)	(134)	(5)	(-17)
<b>E. From the banking system</b>	-4	-48	-61 <sup>c</sup>	-44	-13
<b>Total, D + E</b>	259	224	273	-35	49

<sup>a</sup> Net transactions in financial claims, excluding transactions with the banking system and the rest of the world.

<sup>b</sup> Net payments to the local authorities, less net receipts from the National Institutions.

<sup>c</sup> Made up of a decline of IL 223 million in the Government's debt to the banking system, and revaluation differentials in the sum of II 162 million which the Bank of Israel transferred to the Government.

SOURCE: Table VII-7.

the economy, on the one hand, and the financing of these outlays through receipts from abroad and from the banking system, on the other (see Table VII-8).<sup>1</sup>

The demand surplus of the Government, measured by the gap between its revenue from domestic sources and its expenditure on "real account", increased to the considerable extent of IL 175 million as compared with 1961. The demand surplus constituted some 7 per cent of purchases on current and capital account—as compared with supply surpluses of 8 per cent in 1961 and of 1 per cent

<sup>1</sup> For a corresponding analysis of the public sector as a whole, see Table VII-2.

in 1960. On the other hand, there was a decline of some IL 90 million in net domestic credit granted (net credit extended less net credit received from sources other than the banking system), while the surplus of payments over receipts to other segments of the public sector likewise decreased, by IL 40 million. Financing from foreign sources and through the banking system,<sup>1</sup> which serves as an indicator of the effect of Government operations on the overall demand surplus and on the current deficit in the balance of payments, increased by IL 50 million, or 22 per cent. Though financing from the banking system continued to contract, this was more than counterbalanced by the higher return in terms of Israel pounds from funds received from abroad, even though in terms of foreign currency the latter were smaller than in 1961.

## (b) Receipts

### 1. Taxes

In 1962 Government revenue from taxes rose by IL 265 million, or 20 per cent, as compared with 1961, and totalled IL 1,570 million. In 1961 the rate of increase had been greater—25 per cent.

In the wake of the devaluation, income from import taxes, which in previous years had constituted approximately one-third of all taxes levied, showed no rise at all; on the other hand, special compulsory payments were imposed on income. These changes, which brought about an increase in the relative share of direct taxes in total taxation, constitute a reversal of the trend in the preceding years.

Taxes rose somewhat faster than national income. During the years preceding the devaluation, when taxes on imports constituted a substitute for a higher exchange rate, tax revenue had increased much faster than the national income.

#### (i) Direct taxes and other compulsory payments levied on income

Revenue from direct taxes and other compulsory payments levied on income<sup>2</sup> rose by IL 185 million, or 37 per cent, in 1962, and totalled approximately IL 695 million. In 1961 the rate of increase had been much slower—21 per cent.

<sup>1</sup> For the purpose of this computation, receipts from the banking system are taken to consist of the net change in the Government's liabilities to the banks (excluding the revaluation of Government deposits) and of the revaluation differentials transferred by the Bank of Israel to the Government. The latter sum was utilized for the most part to repay Government debts to the Bank of Israel, while the rest covered exchange rate losses of importers in accordance with exchange rate guarantees given before the devaluation. While these revaluation differentials do not constitute credit from the banking system, nevertheless, had the Government used them for financing budgetary expenditure, their significance monetarily would have been no different from that of financing through bank credit; i.e. they would have generated an increase in the money supply.

<sup>2</sup> In accordance with the accepted national accounts definitions, non-tax compulsory payments levied on income—the Absorption Loan and compulsory saving—have been included in direct taxes, even though these are loans which will be repaid to the public with interest.

**Table VII-9**  
**GOVERNMENT TAX REVENUE, 1960-62**  
(IL million)

	1960	1961	1962	Increase or decrease (-)			
				IL million		Per cent	
				From 1960 to 1961	From 1961 to 1962	From 1960 to 1961	From 1961 to 1962
<b>Direct taxes</b>							
Income tax	316	376	490	60	114	} 20.2	43.9
Absorption Loan and compulsory saving	—	4	57	4	53		
National Insurance	103	126	146	23	20		
<b>Total</b>	<b>419</b>	<b>506</b>	<b>693</b>	<b>87</b>	<b>187</b>	<b>20.8</b>	<b>36.9</b>
<b>Indirect taxes</b>							
Customs duties	190	252	255	62	3	32.6	1.2
Purchase tax	122	164	203	42	39	34.4	23.8
Excise duties	88	104	112	16	8	18.2	7.7
Fuel tax	75	98	77	23	-21	30.7	-21.4
Property taxes	41	48	65	7	17	17.1	35.4
Stamp tax, security stamp, and entertainment tax	36	46	59	10	13	27.8	28.3
Current surplus of Post Office and ports	22	29	33	7	4	31.8	13.8
Surtax and tax on exchange rate differentials	—	—	30	—	30		
Vehicle license fees	12	17	20	5	3	41.7	17.6
Surpluses of Agricultural and Food Equalization Funds	35	37	17	2	-20	5.7	-54.1
Foreign travel tax	11	12	11	1	-1	9.1	-8.3
Licenses, fees, and misc. service charges	14	17	18	3	1	21.4	5.9
<b>Total</b>	<b>646</b>	<b>824</b>	<b>900</b>	<b>178</b>	<b>76</b>	<b>27.5</b>	<b>9.2</b>
<b>Grand total</b>	<b>1,065</b>	<b>1,330</b>	<b>1,593</b>	<b>265</b>	<b>263</b>	<b>24.9</b>	<b>19.8</b>
Less: Indirect taxes paid by Government offices	-20	-24	-22				
<b>Total taxes from the public</b>	<b>1,045</b>	<b>1,306</b>	<b>1,571</b>				
	<b>Percentages</b>						
Of which: Direct taxes	40.1	38.7	44.1				
Indirect taxes	59.9	61.3	55.9				
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				

NOTE: The definition of direct and indirect taxes in this table is based on accepted national accounting procedures and differs somewhat from that employed by the Accountant General. This table excludes compulsory payments which in the national accounts are defined as transfers—namely, the inheritance tax, the land betterment tax, fines, and certain fees and licenses (such as driving licenses and passport fees). On the other hand, this table includes the net profit of the Post Office and the ports (the deficits incurred by Israel Railways and the airfields are included with subsidies). Taxes levied through banks have been recorded on a cash rather than an accrual basis.

SOURCE: Accountant General and National Insurance Institute.

Joint collections on account of income tax, the Absorption Loan, and compulsory saving totalled IL 550 million—44 per cent more than in 1961 (see Table VII-9). The Absorption Loan, levied at a rate of 12 per cent of income tax, was imposed as early as October 1961 and extended at the beginning of the fiscal year 1962/63. Compulsory saving was first introduced in August 1962, not as a means of financing Government expenditure, but rather as a means of absorbing part of the economy's surplus purchasing power. Hence receipts on account of compulsory saving were deposited in a special account with the Bank of Israel. These receipts totalled IL 11 million by the end of the year under review.

Income tax revenue rose by 30 per cent. Tax rates remained unchanged, and the increase reflects the rise in incomes and improvements in collection.

Income tax collections from wage- and salary-earners<sup>1</sup> were up 26 per cent, while the total wage bill (including the cost-of-living allowance, which is tax-exempt) increased by 21 per cent. In 1961 as well, taxes rose faster than wages. This development reflects the rise in the average wage level: owing to the progressive method of taxation, the rate of taxation increases as income rises.

Collections from both companies and the self-employed rose by 21 per cent<sup>2</sup>—from the former by 27 per cent, and from the latter by 17 per cent. In recent years there has been a clear tendency among self-employed taxpayers in the higher income brackets to incorporate. This trend is due to changes in the income tax law which went into effect in April 1960 and under which the tax ceiling for the self-employed was set at 60 per cent, while on companies a flat rate of 46 per cent was imposed.

Tax collections at source on income derived from interest rose very steeply, totalling IL 15 million in 1962 as compared with only IL 3 million in 1961. There was a twofold reason for this: first, in 1961 collection at source began only in the month of April, and secondly, trading in promissory notes through the medium of the banks, where tax collection at source is assured, expanded considerably in 1962.

Collections of National Insurance contributions increased by 16 per cent compared with 1961. There were no changes in rates during the year.

#### *(ii) Indirect taxes*

Indirect tax revenue rose by only 9 per cent in 1962 as compared with 1961, and totalled IL 900 million. The increase in 1961 had been much larger—27.5 per cent. The change was mainly due to the cuts in import duties in the wake of devaluation and to the reduction of purchase tax and excise rates on a number of commodities, aimed at keeping prices from going up.

<sup>1</sup> Income tax only; excluding the Absorption Loan and compulsory saving.

<sup>2</sup> Excluding redemption of loans through banks on account of income tax debts, for which a breakdown by type of borrower was not available.

Revenue from customs and excise taxes remained virtually unchanged; collections of purchase tax and vehicle license fees rose to a smaller extent than in 1961, while revenue from fuel taxes and equalization funds declined considerably. Income from the foreign travel tax likewise decreased. On the other hand, there was a steep rise in revenue from property taxes and the stamp tax. Special compulsory payments—a surtax and a tax on exchange rate differentials—were introduced in the wake of devaluation:

The relative share of import taxes in total revenue declined from 33 per cent in 1961 to only 27 per cent in 1962, and there was even a slight absolute fall in the level of collections (see Table VII-10). This decline would have assumed even more serious proportions were it not for the fact that imports continued to rise during the first seven months following devaluation and were it not for the imposition of the above-mentioned extraordinary imposts.

The reduction of tax rates concurrent with devaluation affected that part of customs duties and fuel taxes which until then had served as a substitute for a higher exchange rate. The customs duties on equipment and spare parts for industrial and agricultural machinery, which had been imposed in April 1961, was abolished, as were duties on a long list of raw materials for the metal, chemical, leather, and textile industries. The tax on fuel oil and kerosene was likewise abolished. Customs tariffs on many consumer goods were reduced in order to prevent price increases on account of the alteration of the exchange rate. Thus, customs rates on foodstuffs imported for the free market were cut by IL 1.20 per dollar. Ad valorem duties on a number of other items which had been subject to particularly high rates before devaluation, were reduced by 60 per cent in order not to increase the absolute amount of tax due. Revenue from exchange equalization funds—on fuel, agricultural products, and foodstuffs—fell considerably; before the devaluation these funds had served as a means of establishing effective exchange rates higher than the official one. The tax on foreign travel, payable on ship and plane tickets purchased in local currency, was reduced from a rate of 50 and 55 per cent respectively of the price of the ticket (plus a fixed amount) just prior to devaluation to a flat rate of 5 per cent (plus the same fixed amount).<sup>1</sup>

Following devaluation a surtax and a tax on differential exchange rates were imposed on inventories of imported products and on goods in port or en route to Israel which had been purchased at the exchange rate of IL 1.80 to the dollar. In many cases, however, these duties were cancelled in return for an undertaking by the owners of the goods not to raise prices or change the conditions of sale during a given period of time. Furthermore, some of those liable to these taxes, such as dealers in diamonds, were permitted to pay them in

<sup>1</sup> Even prior to devaluation a 5 per cent tax was levied on tickets purchased in foreign currency. The fixed tax was raised by IL 40 as early as October 1961, with the abolition of exit visas.

Table VII-10

## INDIRECT TAX REVENUE, BY MAJOR CATEGORY, 1960-62

(IL million)

	1960	1961	1962	Increase or decrease (-)			
				IL million		Per cent	
				From 1960 to 1961	From 1961 to 1962	From 1960 to 1961	From 1961 to 1962
Taxes on expenditure:							
Import taxes <sup>a</sup>	336	434	427	98	-7	29.2	-1.6
Taxes on local output <sup>b</sup>	229	286	338	57	52	24.9	18.2
Taxes on property <sup>c</sup>	41	48	65	7	17	17.1	35.4
Licenses and fees <sup>d</sup>	40	56	70	16	14	40.0	25.0
Total	646	824	900	178	76	27.5	9.2
Of which: Percentage of import taxes	52.0	52.8	47.4				

<sup>a</sup> Including general customs duties, purchase and fuel taxes on imports, surtax and tax on exchange rate differentials, surpluses from equalization funds for imported agricultural and food items, and the foreign travel tax.

<sup>b</sup> Including purchase and fuel taxes on local production, excise levies, current surplus of the Post Office and ports, entertainment tax, security stamp on local travel, telephones, postage and telegrams, electricity and beer, as well as various levies on local producers.

<sup>c</sup> Including collections for the War Risk Insurance Fund, urban and rural property taxes, and land registration fees.

<sup>d</sup> Excluding land registration fees and including stamp tax and security stamp on documents and licenses.

installments over a period of one to two years. By the end of December 1962, cash collections on account of these taxes amounted to IL 30 million.

Receipts from levies on production rose by 18 per cent as compared with 1961. On ad valorem taxes, the amount of tax due rose automatically with the rise in prices. On the other hand, reductions were made in excise tax rates on a number of commodities, with a view to holding down the rise in prices and to protecting domestic production.

Collections of purchase tax on domestic production rose by one-third. Revenue on certain items—such as textile and leather products, building materials and plumbing equipment, electric refrigerators, and washing machines—increased even more, as a result of the rise in consumption and building. On the other hand, owing to cuts in rates, there was a smaller than average increase in collections on furniture, paper, and locally manufactured vehicles; the purchase tax on building woodwork was abolished as early as October 1961, while the tax rates on paper and on vehicles of the types manufactured in Israel were lowered after devaluation.

Collections of excise duties increased by only 8 per cent—or at a lower rate

than the real output of the goods concerned—as a result of tax cuts on cement, cigarettes, and beer.

Income from property taxes (less repayment of tax advances imposed in fiscal 1960/61) rose by 35 per cent, mainly as a result of changes in the property tax law which came into force in April 1961, and also because of the rise in the value of investments and equipment subject to tax.

Other indirect taxes yielded 25 per cent more than in 1961, chiefly because of the rise in rates of the stamp tax in April 1961. Revenue from vehicle license fees rose by 18 per cent—after having risen by 42 per cent in 1961 when, in anticipation of devaluation, imports of passenger vehicles rose very sharply. Total receipts from taxes grouped under the category “licenses, fees and miscellaneous service charges” showed practically no rise, owing to the abolition of exit visas in October 1961.

### *2. Miscellaneous domestic receipts*

Income from domestic transfers, sales, and interest totalled IL 180 million in 1962, as compared with IL 150 million in 1961. Income from interest,<sup>1</sup> which constitutes approximately one-third of these receipts, rose by IL 5 million, or by only 8 per cent, because of a substantial decline of IL 10 million in collections from public sector companies. Receipts other than interest rose by IL 25 million, or 25 per cent.

### *3. Unrequited receipts from abroad*

In 1962 a radical, but not unanticipated, change took place in Government income from unrequited receipts from abroad. A very substantial decrease occurred in receipts on account of the West German Reparations Agreement, while the food surpluses within the framework of the U.S. Grant-in-Aid were also reduced. In foreign currency, these receipts fell from \$85 million in 1961 to \$25 million in 1962.

### *4. Collections on account of loans<sup>1</sup>*

The Government's collections on account of development budget loans rose considerably in 1962 owing to the advance repayment of linked loans—especially on account of mortgages. These repayments totalled IL 60 million, including redemption of mortgages granted from non-governmental funds. Other collections reached only IL 40 million, i.e. IL 15 million less than in 1961. This decrease was chiefly due to the decline in collections from public sector companies.

After the devaluation, the Government announced that during a stipulated period borrowers of development budget loans would be permitted to liquidate

<sup>1</sup> Excluding collections from the National Institutions and local authorities.

Table VII-11

**INCREASE OR DECREASE (-) IN GOVERNMENT LIABILITIES, BY TYPE  
OF LOAN AND LENDING SECTOR, 1960-62**

(IL million)

	1960	1961	1962 <sup>a</sup>	Increase or decrease (-)	
				From 1960 to 1961	From 1961 to 1962
<b>Type of loan</b>					
Long- and medium-term <sup>b</sup>					
Gross	228	318	566	90	248
Less: Redemption	113	115	210	2	95
Net	115	203	356	88	153
Short-term credits (net) <sup>c</sup>	68	-75	-141	-143	-66
Total (net)	183	128	215	-55	87
<b>Lending sector</b>					
Rest of the world <sup>d</sup>	143	121	269	-22	148
Banking system	-4	-48	-223 <sup>e</sup>	-44	-175
Financial institutions, provident funds, and insurance companies	20	80	83	60	3
Rest of the economy	24	-25	86	-49	111
Total (net)	183	128	215	-55	87

<sup>a</sup> Excluding revaluation of liabilities following the alteration of the exchange rate. Loans and redemption of loans have been recorded at the exchange rate in force at the time of receipt or redemption.

<sup>b</sup> For periods of three years or more, except for loans to the banking system, which are included with short-term loans. Including liabilities arising from accrued interest on savings certificates of the Independence and Development Loans.

<sup>c</sup> Net change in end-year credit balances (less receivables and bank deposits), plus short-term securities.

<sup>d</sup> Figures in \$ million are: 1960—80; 1961—67; 1962—109.

<sup>e</sup> Including debt repayments to the Bank of Israel totalling IL 132 million (paid out of revaluation differentials of the Bank of Israel which were transferred to the Government), but excluding the net revaluation increment on the Government's own bank deposits in the amount of IL 72 million (see Table XIV-11).

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

all or part of their outstanding debt balances free of linkage. Special arrangements were offered in connection with mortgage loans.<sup>1</sup> In August 1962 it was decided to extend this arrangement to mortgages granted from non-govern-

<sup>1</sup> The arrangement also enabled the borrowers to convert the linkage of their debts from the dollar to the consumer price index within the stipulated period.

mental funds, on condition that the mortgage banks deposit the payments received with the Treasury; the Government, on its part, undertook to redeem the loans as they came due, under the original terms, including linkage differentials.

It was further decided that in the future, development budget loans would no longer be linked to the dollar, but only to the consumer price index. Moreover, as regards loans to productive enterprises, borrowers would be enabled to choose between linkage to the index and unlinked loans on which additional premiums of 4 per cent (and in the case of loans to farmers—3 per cent) would be levied.

##### 5. Increase in indebtedness

From the end of 1961 to the end of 1962, the Government's long- and medium-term obligations—other than obligations to the banking system and excluding revaluation differentials on debts contracted prior to devaluation<sup>1</sup>—rose by IL 355 million, while its net short-term debt<sup>2</sup> to the banking system and other lenders declined by IL 140 million. Total liabilities thus increased by IL 215 million<sup>3</sup> (see Table VII-11).

##### (i) Foreign loans

Receipts from long- and short-term loans from abroad totalled IL 270 million, or \$ 110 million, as compared with IL 120 million, or \$ 65 million, in 1961. Receipts on account of new loans amounted to \$ 170 million, but the Government also redeemed long- and medium-term loans to the amount of \$ 60 million.

In addition to the Development Loan, U.S. Government aid (which is largely repayable in local currency); and loans from the Export-Import Bank, all of which constituted important sources of credit in previous years as well, considerable amounts were obtained during the year reviewed from other sources, chiefly foreign banks.

Short-term credits to cover foreign currency expenditures, including imports for security purposes, rose, but on the other hand the Government also repaid short-term debts and increased its deposits with foreign banks.

<sup>1</sup> Owing to revaluation, the outstanding balance of foreign liabilities rose by approximately IL 900 million. Parallel figures on domestic dollar-linked liabilities are not as yet available.

<sup>2</sup> Net of short-term loans granted by the Government.

<sup>3</sup> In order to compare the rise in indebtedness in 1962 with that which occurred in preceding years, the direct effects of the devaluation should be discounted. If we deduct the difference in the IL counterpart of foreign loans received after devaluation, as well as the revaluation differentials of the Bank of Israel which were transferred to the Government and utilized by it for the repayment of debts to the Bank of Israel, the Government's liabilities will be found to have increased by IL 305 million, as compared with IL 130 million in 1961 and IL 185 million in 1960.

(ii) *Domestic loans*

The net debt to the banking system decreased once again in 1962, in line with the trend characteristic of recent years. After excluding revaluation differentials on the Government's own foreign currency deposits, and deducting revaluation differentials of the Bank of Israel which were transferred to the Government, the net decline came to approximately IL 65 million, as compared with decreases of IL 25 million in 1961 and IIL 5 million in 1960. If we take into account all the revaluation differentials, the decline in the Government's debt amounted to IL 295 million.<sup>1</sup>

Net receipts from long-term domestic loans declined compared with 1961, and totalled IL 75 million. Receipts from new loans remained constant, while redemption payments nearly doubled.

As in 1961, securities issued by other institutions—particularly mortgage banks and the Industrial Development Bank of Israel—provided the main source of long-term loans for the Government; these funds were used to finance development budget loans through the medium of the above institutions.

The Government also increased the volume of its own bond issues, but these were mainly short-term securities.<sup>2</sup> Net receipts from the issue of long-term debentures were smaller than in 1961 owing to the larger volume of redemptions, and totalled only IL 10 million. Most of these securities were purchased by provident funds as "approved investments", which are exempt from income tax.

Domestic short-term credits from sources other than the banking system, mainly from private investors, contractors, and suppliers, became an important source of financing in 1962—in contrast to 1961, when outstanding credit balances from these sources declined (see Table VII-7).

As already mentioned, there was a considerable expansion in the issue of short-term debentures. These securities are unlinked, but their yield is relatively high. The Government's revenue from these issues, net of redemptions, reached IL 75 million in 1962, as against only IL 10 million in 1961.

Credits from suppliers, contractors, and sundry creditors in connection with the implementation of the budget rose by IL 60 million from the end of 1961 to the end of 1962. During 1961, the outstanding balance of such debts had declined by over IL 20 million.

As against the large increase in credit received from private investors, contractors, and suppliers, net credit to the Government from public sector companies contracted by IL 30 million, including revaluation differentials paid on foreign loan funds deposited with the Treasury on the eve of devaluation.

<sup>1</sup> See Table XIV-11, and also a detailed analysis in Chapter XIV, "Money Supply, Credit, and the Banking Institutions".

<sup>2</sup> These securities are classified in this chapter as short-term credits, since their redemption period was less than one year. A detailed discussion of this subject is presented in Chapter XX, "The Securities Market".

## 6. Net receipts from the National Institutions

With the renewal of the Jewish Agency's participation in the financing of Government expenditure on immigrant housing, the National Institutions became a net source of credit for the Government. This was in contrast to the two preceding years when Government transfers to these Institutions for agricultural settlement and afforestation had exceeded the amounts the Government received from them.

### (c) *Payments*

Government outlay, other than on debt redemption and transfers to the National Institutions, rose by IL 540 million in 1962—or by 30.5 per cent compared with 1961—and totalled approximately IL 2,320 million. In 1961 the annual rate of increase had been 15 per cent. The high rate of increase in 1962 was in large part due to the higher cost of imports after devaluation.

#### 1. *Purchases on current account*

Current purchases of the Government rose by the very considerable amount of IL 350 million, or 42 per cent, and totalled IL 1,190 million. Prices rose by as much as 26 per cent during the year reviewed and of this, approximately two-thirds was a direct effect of the alteration of the exchange rate. At 1961 prices, purchases rose by 13 per cent, mainly because of higher security expenditure, and to a lesser extent, because of the expansion of other services. In 1960 and 1961 the nominal rate of increase had been 13 per cent.

Nearly 60 per cent of the total nominal increment in 1962 was spent on security and special budgets, 20 per cent on interest payments, and the remainder on wages and salaries and other purchases (see Table VII-12).

Expenditure on wages and salaries, excluding the Ministry of Defense and the postal and transportation enterprises, rose by IL 55 million, or 21 per cent, as compared with 1961, and totalled some IL 310 million. In 1961 the rate of increase had been 12 per cent. The number of employees rose by 6 per cent, and average pay per employee by 14 per cent.

As of April, employees on the administrative grade scale received an advance amounting to 7 per cent of their pay on account of future pay adjustments. This advance was granted after employees on professional grade scales had won raises in basic pay, and doctors and engineers had been awarded additional concessions (such as automatic promotion by years of service in the profession).<sup>1</sup> In addition, the cost-of-living increment rose by 6.3 per cent compared with 1961.

Outlay on employment projects for the aged and the handicapped rose owing to a 10 per cent increase in the number of persons employed, including new immigrants who arrived in Israel during the course of the year.

<sup>1</sup> For further details, see Chapter IX, "Wages".

Table VII-12

## GOVERNMENT PURCHASES ON CURRENT AND CAPITAL ACCOUNT, 1960-62

(IL million)

	1960	1961	1962	Increase or decrease (-)	
				From 1960 to 1961	From 1961 to 1962
<b>Purchases on current account</b>					
Wages and salaries of civilian staff <sup>a</sup>	230	259	313	29	54
Interest payments <sup>b</sup>	90	100	170	10	70
Other purchases (except for security) <sup>c</sup>	97	122	144	25	22
<b>Total</b>	<b>417</b>	<b>481</b>	<b>627</b>	<b>64</b>	<b>146</b>
Security and special budgets <sup>c</sup>	321	356	560	35	204
<b>Total on current account</b>	<b>738</b>	<b>837</b>	<b>1,187</b>	<b>99</b>	<b>350</b>
<b>Purchases on capital account</b>					
<b>Stockpiling:</b>					
Food Division of Ministry of Commerce and Industry	2	-2	20	-4	22
Ministry of Housing and miscellaneous	-4	-6	14	-2	20
<b>Total stockpiling<sup>d</sup></b>	<b>-2</b>	<b>-8</b>	<b>34</b>	<b>-6</b>	<b>42</b>
Postal and transport enterprises <sup>d</sup>	23	42	75	19	33
National Water Carrier	31	40	66	9	26
Road construction and oil pipelines	11	8	17	-3	9
Agriculture and Southern Negev development	6	3	3	-3	—
Public buildings and miscellaneous	15	17	26	2	9
<b>Total on capital account</b>	<b>84</b>	<b>102</b>	<b>221</b>	<b>18</b>	<b>119</b>
<b>Total purchases</b>	<b>822</b>	<b>939</b>	<b>1,408</b>	<b>117</b>	<b>469</b>

<sup>a</sup> According to the Central Bureau of Statistics; including unemployment relief projects.

<sup>b</sup> Excluding interest paid to National Insurance Institute and the War Risk Insurance Fund; including accrued interest on account of savings certificates of the Independence and Development Loans.

<sup>c</sup> Excluding payments of customs duties and purchase tax.

<sup>d</sup> Uninstalled equipment of the postal and transport enterprises is recorded in this table as investment by the enterprises and not as an investment in stocks.

Expenditure on security and special budgets rose by over 50 per cent, owing to a rise in both prices (especially of imports) and volume. These outlays accounted for almost half the Government's current purchases in 1962.

Interest payments on foreign and domestic loans amounted to IL 170 million, as compared with IL 100 million in 1961. Interest payments on foreign loans increased by 70 per cent (in terms of Israel pounds), and there was a similar rise in interest on domestic loans. Some IL 50 million of the total increase was directly attributable to the alteration of the exchange rate.<sup>1</sup> In the wake of devaluation, not only did interest due on foreign loans increase automatically by two-thirds (in terms of Israel pounds), but a not inconsiderable proportion of the interest on domestic loans also rose to the same extent. Part of the securities issued in the past by the Government are linked to the dollar, and the Government also pays interest on certain foreign currency deposits at the Bank of Israel.<sup>2</sup> Interest payments on index-linked securities also increased, with the rise in the index.

Since devaluation, interest paid on foreign loans has accounted for some 60 per cent of total interest payments. As to interest on the domestic debt, in 1962, for the third consecutive year, fully half of the total was paid on short-term credits and deposits.

### *2. Purchases on capital account*

Government investment expenditure, including stockpiling, more than doubled—from IL 100 million in 1961 to IL 220 million in 1962. Approximately one-third of the increase was spent on building up inventories, chiefly of imported goods, and pertaining especially to the Food Division of the Ministry of Commerce and Industry and to the Ministry of Housing. At fixed prices, investment other than in stockpiling increased by more than one-third as compared with 1961—a rate of expansion considerably faster than that for aggregate domestic investment.

The rise in investment covered all the major areas, except agriculture. There was a substantial increase in capital outlay by the Post Office, as part of the three-year plan for extending the telephone network. Investment in the construction of Ashdod harbor and in the National Water Carrier was stepped up, as was investment in road building, in improvements at Lod airport, in public buildings, and in vehicles and equipment for governmental institutions such as hospitals (see Table VII-12).

### *3. Transfer payments and subsidies*

Following devaluation, expenditure on premiums on exports and on capital transfers from abroad declined by IL 110 million as compared with 1961.

<sup>1</sup> Including interest paid on dollar-linked domestic loans.

<sup>2</sup> Moreover, the rate of interest paid on these deposits (Pazak and Tamam) was raised during the year in order to discourage their conversion into local currency.

However, outlays on other transfer payments and subsidies increased by about the same amount. The volume of expenditure on transfers and subsidies thus remained unchanged (see Table VII-13).

Subsidies contracted by IL 30 million as against 1961. Export premiums were abolished after the devaluation; payments in 1962 amounted to IL 55 million, or IL 90 million less than in 1961, and consisted mostly of premiums on exports implemented before February 9, and to a small extent of expenditure connected with the penetration of foreign markets.

Total subsidies on agricultural products increased very little. Whereas the subsidies paid on milk rose considerably—since output was expanded while prices were kept stable—and drought compensation payments increased as well, subsidies on eggs and poultry declined, and those paid to vegetable growers and on water for irrigation rose only slightly.

There was a substantial increase in other subsidies. Especially noteworthy is the payment of IL 35 million on account of exchange rate guarantees given to importers before devaluation.<sup>1</sup> There was a considerable increase in subsidies designed to check the rise in the prices of foodstuffs and essential services, particularly bread, edible fats, and public transportation. As a result of these subsidies, the price of bread remained unchanged for six months after devaluation, while the prices of cooking oil and margarine, as well as bus and railway passenger fares, remained practically constant from the day of devaluation until the end of the year.

Transfer payments rose by IL 30 million, or 15 per cent, as compared with 1961. This increase is made up of a decline of IL 20 million in premiums paid for the transfer of foreign currency, which were abolished when the exchange rate was altered, an outlay of IL 6 million on two special grants paid to low-income groups after the devaluation, and a rise of IL 45 million or 24 per cent in other transfer payments.

Benefit payments by the National Insurance Institute, which constituted some 40 per cent of all transfer payments, expanded by 20 per cent. Part of these payments are linked to a special price index.

Expenditure on social welfare grants to needy families rose by 30 per cent, despite the boom in the labor market. This rise was apparently due to the increased number of welfare cases among the new immigrant population.

A special cost-of-living allowance, exempt from income tax and amounting to 3 per cent of the gross monthly wage, was paid out by the Government during the months April-June to wage-earners in the lower income brackets in order to compensate them for price increases that occurred after devaluation and for which they were not compensated by the increase in the regular cost-

<sup>1</sup> This amount was largely paid out of the Exchange Rate Adjustment Fund, which was established with the funds received by the Government from the Bank of Israel on account of revaluation differentials.

Table VII—13

**GOVERNMENT TRANSFER PAYMENTS, GRANTS, AND SUBSIDIES, 1960-62**  
(IL million)

	1960	1961	1962	Increase or decrease (-)	
				From 1960 to 1961	From 1961 to 1962
<b>Transfer payments and grants</b>					
To households					
National Insurance benefits	74	84	101	10	17
Premiums on capital transfers from abroad	24	24	3	—	-21
Other transfer payments	48	54	77	6	23
Total transfers to households	146	162	181	16	19
To non-profit institutions	42	50	62	8	12
Total transfer payments	188	212	243	24	31
<b>Subsidies</b>					
On exports	96	144	55	48	-89
On agricultural production	63	73	78	10	5
On other goods and services	23	16	69	-7	53
Total subsidies	182	233	202	51	-31
<b>Participation in the ordinary budgets of the local authorities</b>					
	40	45	53	5	8
Grand total	410	490	498	80	8

of-living allowance, which fell due only in July. An additional temporary grant was paid to compensate for the rise in the price of bread, after the abolition of the wheat subsidy in August. Both grants were paid out through the National Insurance Institute.

Compensation for the rise in prices after devaluation in the form of increased allocations was also made to the local authorities, the sick funds, and—to a lesser extent—institutions of higher learning.

In continuation of the trend which has characterized recent years, further substantial increases took place in payments of pensions to civil servants and to victims of Nazi persecution.

Grants to local authorities were increased, chiefly owing to the devaluation.

#### 4. *Development budget financing*

The relative share of development budget loans in total Government expenditure and in total domestic investment continued to decline in 1962. The drop in 1962 was also connected with the sharp contraction in the acquisition of ships under the German Reparations Agreement, which had accounted for about one-sixth of total public financing in the years 1960 and 1961.

At current prices, development budget financing was IL 70 million larger in 1962 than in 1961, and amounted to IL 410 million. This increase was made up of a rise of IL 110 million in expenditure on residential construction, a decline of over IL 55 million in outlay on ships, and an increase of only IL 15 million in all other items. At 1961 prices, expenditure on housing rose by two-thirds, owing to the expansion of immigrant housing construction, while other expenditure—excluding investment in shipping—declined by 11 per cent.

Approximately IL 285 million was given in the form of loans, and some IL 125 million as participation in share capital of financial institutions and Government companies.<sup>1</sup> A further IL 55 million was transferred to the National Institutions and to local authorities (see Table VII-14).

A very substantial rise, in real and nominal terms alike, took place in Government financing of public sector companies. There was a particularly large increase in the financing of immigrant housing projects transferred to Amidar Ltd.—a rise of 67 per cent at 1961 prices. On the other hand, there was a sharp contraction in the financing of the Zim shipping company, with the cut in new shipping. Loans to other companies—including Mekorot, the Israel Electric Corporation, El Al, Negev Phosphates Ltd., and Israel Mining Industries—expanded by some 35 per cent, at 1961 prices. Loans to households likewise expanded, and this was, of course, related to the rise in publicly-financed residential construction.

On the other hand, there was a cut, even in nominal terms, in financing extended to private business enterprises, especially in shipping, agriculture, and industry. The Government's participation in share capital of financial institutions—especially the Industrial Development Bank of Israel and the Tourist Industry Development Corporation—likewise declined.

Loans to the National Institutions and to local authorities also decreased. The smaller volume of loans to the former was connected with the gradually declining expenditure on new agricultural settlement in recent years, when very few new settlements were established. As regards the local authorities, the loans granted to them in 1961 had been unusually large because in that year a special arrangement was made for the consolidation of their short-term debts.

<sup>1</sup> Excluding retroactive conversion of loans into share capital.

**Table VII-14**  
**DEVELOPMENT BUDGET FINANCING,<sup>a</sup> BY DESTINATION AND**  
**BY BORROWING SECTOR, 1960-62**

(IL million)

	1960	1961	1962	Increase or decrease (-)	
				From 1960 to 1961	From 1961 to 1962
<b>Sector of destination</b>					
Housing	105	121	230	16	109
Industry and crafts	69	86	80	17	-6
Transportation	62	70	15	8	-55
Agriculture and irrigation <sup>b</sup>	36	39	38	3	-1
Electricity	—	—	16	—	16
Mining, quarrying, and oil drilling	12	8	11	-4	3
Services and misc.	21	17	21	-4	4
<b>Total (excluding public sector)</b>	<b>305</b>	<b>341</b>	<b>411</b>	<b>36</b>	<b>70</b>
<b>Borrowing sector</b>					
Public sector companies	133	132	227	-1	95
Households <sup>c</sup>	72	73	110	1	37
Private business enterprises	65	82	42	17	-40
Public financial institutions	31	50	28	19	-22
Non-profit institutions	2	3	3	1	—
Foreign institutions	2	1	1	-1	—
<b>Total (excluding public sector)</b>	<b>305</b>	<b>341</b>	<b>411</b>	<b>36</b>	<b>70</b>
National Institutions	43	41	37	-2	-4
Local authorities	13	19	17	6	-2
<b>Total financing</b>	<b>361</b>	<b>401</b>	<b>465</b>	<b>40</b>	<b>64</b>

<sup>a</sup> Including loans and participation in share capital, but excluding Government investments (see Table VII-12). Loans through banks and other financial institutions are classified by the sector of final destination and not as loans to the financial sector.

<sup>b</sup> Excluding loans to the National Institutions (for agricultural settlement and afforestation) and loans for rural housing.

<sup>c</sup> For housing, except that remaining under Amidar ownership, which is classified as loans to public sector companies.

#### 5. Net payments to local authorities

Net payments to local authorities totalled IL 55 million, which was only IL 3 million larger than in 1961. The Government's participation in the ordinary budgets of local authorities increased by more than this amount, but on the other hand, loans within the framework of the development budget declined.

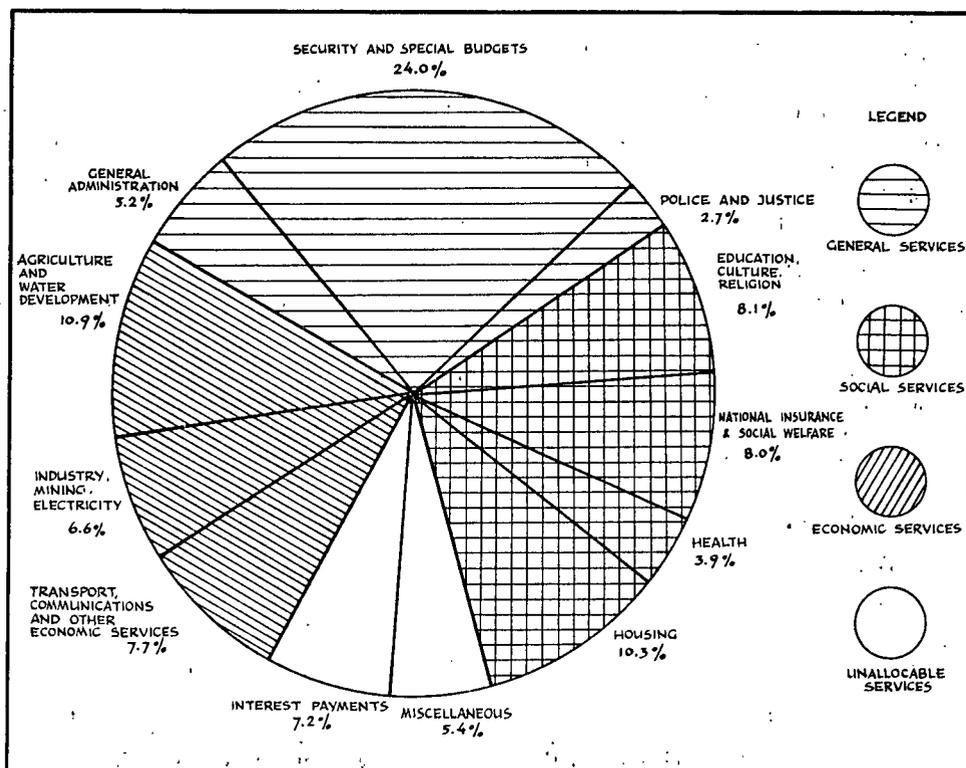
(d) *Functional composition of expenditure*

A breakdown of Government expenditure in 1962 by function is shown in Diagram VII-4.<sup>1</sup> This diagram brings out the multifarious nature of the Government's operations, which embrace many spheres of national life.

Diagram VII-4

FUNCTIONAL BREAKDOWN OF GOVERNMENT EXPENDITURE, 1962

(percentages)



The share of security and special budgets was even more striking than in previous years, rising from 20 per cent of total expenditure (exclusive of outlays on debt redemption) in 1961 to 24 per cent in 1962. The relative share of social services likewise increased, from 27 to 30 per cent—owing chiefly to the expansion of publicly-financed housing. In the wake of devaluation, there was also a relative rise in interest payments. On the other hand, the relative share of expenditure on economic services declined, with the abolition

<sup>1</sup> Absolute figures for the years 1961 and 1962 are presented in the Appendix to this report (in Hebrew only).

of export premiums and the reduction of development budget financing, from 35 per cent in 1961 to 25 per cent in 1962.

These developments closely resemble those of the public sector as a whole, because of the preponderant role of the Government in total public sector expenditure.

### 3. THE NATIONAL INSTITUTIONS<sup>1</sup>

Devaluation had a considerable effect on the financial operations of the National Institutions, since most of their receipts come from abroad. In terms of Israel pounds, the Institutions' foreign receipts<sup>2</sup> more than doubled in 1962, and constituted as much as 90 per cent of total receipts (other than receipts from the Government), as compared with approximately two-thirds in 1961. In current prices, total receipts<sup>3</sup> rose by IL 125 million, and amounted to IL 325 million. After deducting the difference arising from the calculation of foreign currency receipts at the new exchange rate, the increase amounted to IL 25 million, or about 13 per cent.

Devaluation also affected payments, since the Institutions' foreign currency outlay—on interest and principal, transportation of immigrants to Israel, as well as cultural and informational activities in the Diaspora—constitutes an appreciable part of the total. Payments, other than transfers to the Government and including repayment of long- and medium-term loans, increased by IL 85 million as compared with 1961, and totalled IL 300 million. After deducting the rise caused by higher prices, which were due mainly to the alteration of the exchange rate, the real increase in expenditure amounted to about IL 15 million, or 7 per cent. Real increases occurred in purchases, transfers, and debt redemption, while loans and subsidies to new agricultural settlements did not exceed the 1961 level.

The financial position of the National Institutions was improved by the devaluation, since the proportion of foreign currency in their overall receipts is greater than in their overall payments. They were therefore able to raise their participation in the Government's expenditure on immigrant housing, which they had virtually suspended in the preceding two years, as well as to reduce their net liabilities to the banking system, while raising the level of expenditure on the transportation and absorption of immigrants.

<sup>1</sup> The Jewish Agency for Israel, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod. For the sake of brevity, the National Institutions will, in this chapter, be referred to at times as "the Institutions".

<sup>2</sup> Unrequited receipts, long-term loans, and net short-term credit.

<sup>3</sup> With long-term loans recorded on a gross basis and short-term credits (less deposits) recorded on a net basis. Had all loans been recorded on a net basis, the nominal increase as compared with 1961 would have amounted to IL 110 million, and the rate of increase at the former exchange rate, to about 14 per cent.

Table VII-15

## "BALANCE OF PAYMENTS" OF THE NATIONAL INSTITUTIONS, BY TYPE OF RECEIPT AND PAYMENT, 1960-62

(IL million)

Receipts	1960	1961	1962 <sup>a</sup>	Increase or decrease (-)		Payments	1960	1961	1962 <sup>a</sup>	Increase or decrease (-)	
				1960 to 1961	1961 to 1962					1960 to 1961	1961 to 1962
<b>Transfers and transactions in goods and services</b>											
Unrequited receipts from						Purchases on current					
abroad	108	110	179	2	69	account:					
Various domestic receipts <sup>b</sup>	18	17	30	-1	13	Domestic <sup>c</sup>	49	54	71	5	17
						Foreign	18	21	54	3	33
						Purchases on capital					
						account <sup>c</sup>	19	22	33	3	11
						Transfer payments, grants,					
						and subsidies	27	28	30	1	2
<b>Total</b>	<b>126</b>	<b>127</b>	<b>209</b>	<b>1</b>	<b>82</b>	<b>Total</b>	<b>113</b>	<b>125</b>	<b>188</b>	<b>12</b>	<b>63</b>

## Transactions in financial claims

Transactions in financial claims											
Long-term loans received:						Long-term loans granted	69	71	78	2	7
Foreign	39	15	86	-24	71	Redemption of long-term					
Domestic <sup>a</sup>	9	22	44	13	22	loans:					
Short-term credit (net):						Foreign	14	15	24	1	9
Foreign	7	12	31	5	19	Domestic	10	5	10	-5	5
Domestic <sup>a</sup>	10	6	-9	-4	-15						
From the banking											
system	-1	19	-35	20	-54						
<b>Total</b>	<b>64</b>	<b>74</b>	<b>117</b>	<b>10</b>	<b>43</b>	<b>Total</b>	<b>93</b>	<b>-91</b>	<b>112</b>	<b>-2</b>	<b>21</b>
<b>Transactions with the Government</b>											
						Payments to the Govern-					
						ment (net)	-16	-15	26	1	41
<b>Total receipts</b>	<b>190</b>	<b>201</b>	<b>326</b>	<b>11</b>	<b>125</b>	<b>Total payments</b>	<b>190</b>	<b>201</b>	<b>326</b>	<b>11</b>	<b>125</b>

<sup>a</sup> Excluding changes in the National Institutions' assets and liabilities due to the alteration of the exchange rate. Receipts and payments have been recorded at the rate in force when they were received or paid.

<sup>b</sup> Including collections on account of principal.

<sup>c</sup> Excluding goods and services acquired for transfer to others as loans or grants.

<sup>d</sup> Excluding the banking system.

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

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

Table VII-15 shows the "balance of payments" of the National Institutions for the years 1960 to 1962, by main type of receipt and payment, with net money flows between the Institutions and the Government recorded separately. As a direct result of the devaluation, significant changes took place in the structure of this "balance of payments".

In the "real account" we find that the overall surplus of receipts (including unrequited receipts from abroad) over payments increased, whereas in the two preceding years it had declined almost to the vanishing point. The surplus of receipts in 1962 was entirely due to the alteration of the exchange rate; had receipts and payments been calculated on the basis of the former exchange rate and at 1961 prices, they would have been virtually equal.

A change in trend also occurred in the "financial account" and in transactions with the Government: in contrast to former years, receipts exceeded payments in the "financial account"; i.e. in 1962 the Institutions borrowed more than they lent (chiefly to agricultural settlers). By contrast, payments to the Government exceeded receipts from the Government, whereas in 1960 and 1961 the reverse had applied.

Following devaluation, there was a considerable increase in the "demand surplus"—the gap between expenditure in the "real account" and domestic income—which had always been very large, owing to the special structure of these Institutions. In 1962 outlay on purchases and transfers rose by approximately IL 65 million—of which some IL 45 million reflects price increases mainly due to the devaluation—and totalled IL 190 million. On the other hand, domestic income from sales, collections, and donations amounted to only IL 30 million, in spite of a substantial increase during the year. Thus the demand surplus totalled IL 160 million, as compared with IL 110 million in 1961 and IL 95 million in 1960.

### (b) *Receipts*

#### 1. *Unrequited receipts*

In terms of foreign currency, the rise in unrequited receipts in 1962 amounted to only 5 per cent, bringing the total up to \$ 65 million. There was a slight increase in receipts from the United Jewish Appeal, but on the other hand Reparations income remained at the 1961 level.<sup>1</sup> However, owing to the alteration of the exchange rate, the IL value was IL 70 million higher than in the previous year.

<sup>1</sup> Under the terms of the Reparations Agreement, the Government transfers to the National Institutions 22 per cent of the fixed reparations allocation. This amount did not change in 1962, though the Government's own receipts from reparations were actually smaller than the fixed annual quota, owing to advance utilization in previous years.

## 2. *Transfers and collections in Israel*

Local receipts, which include rents collected by the Jewish National Fund, local donations, payments for services rendered, and collections on account of principal and interest on loans granted by the Jewish Agency, constituted less than 10 per cent of the Institutions' total revenue during the year reviewed, even though they were considerably larger than in 1961.

Until April 1960, the loans granted by the Jewish Agency remained unlinked. As to loans granted after that date, which were linked 70 per cent to the dollar, it was decided to adopt the procedure recommended by the Gvati Committee and approved by the Government.<sup>1</sup>

## 3. *Increase in indebtedness*

Net receipts from borrowing amounted in 1962 to about IL 80 million (some IL 20 million of which are attributable to the change in the exchange rate), as compared with IL 55 million in 1961 and IL 40 million in 1960. Net long-term loans increased by IL 95 million, while short-term credits contracted by IL 15 million: short-term credit from domestic sources was reduced to the considerable extent of IL 45 million, while short-term credit from abroad was expanded by IL 30 million. In 1961 short-term credits had accounted for no less than 70 per cent of the Institutions' total loan receipts. This change reflects the considerable improvement in the financial position of the National Institutions in the wake of the devaluation.<sup>2</sup>

### (a) *Foreign loans*

There was a substantial increase in net receipts from foreign loans, both long- and short-term, even in terms of dollars. These receipts totalled \$ 30 million—about one-third of which was borrowed for periods not exceeding one year—as compared with \$ 7 million in 1961 and \$ 17 million in 1960. Net long- and medium-term loans increased by \$ 20 million, while the outstanding balance of short-term credit, net of deposits, rose by \$ 10 million. Credit receipts rose to a greater extent, but on the other hand the Institutions' deposits with foreign banks increased by \$ 8 million.

### (b) *Domestic loans*

The net debt to the banking system declined by IL 35 million. The Institutions repaid debts, most of which had been linked to the dollar, and augmented

<sup>1</sup> See Chapter X, "Agriculture", section 6, "Financing".

<sup>2</sup> A very considerable proportion of the Institutions' long- and medium-term debts, were linked to the dollar, whereas loans granted by the Institutions were, to all intents and purposes, unlinked. The rise in indebtedness due to the alteration of the exchange rate, net of the rise in the value of linked bank deposits, amounted to over IL 100 million. However, since so large a part of the Institutions' receipts is in foreign currency, there is no reason to view this as a deterioration in their position vis-a-vis the pre-devaluation period.

their deposits with local banks. In 1961 the Institutions' debt to the banking system had risen by approximately IL 20 million.

Net receipts from long- and medium-term loans were higher than in 1961, and amounted to IL 35 million. Most of the new loans were received through the issue of securities. Keren Hayesod issued a new series of debentures which was taken up by provident funds, while domestic sales of foreign currency securities issued by a Jewish Agency subsidiary called Hollis and which were purchased mainly by restitution recipients, also assumed greater proportions in 1962. Expenditure on debt redemption was doubled as compared with 1961, since all the securities issued by the Institutions in preceding years had been linked either to the dollar or to the consumer price index.

After having risen in both 1960 and 1961, the outstanding balance of short-term domestic credits<sup>1</sup> from sources other than the banking system declined by IL 10 million during the year reviewed.

### (c) *Payments*

Outlay of the National Institutions in 1962 was strongly affected by the devaluation and the intensified flow of immigration.

Current purchases in Israel and abroad totalled IL 125 million—IL 50 million more than in 1961. Almost IL 40 million of this increment was due to price rises—of which some 80 per cent was directly attributable to the change in the exchange rate,<sup>2</sup> and about 20 per cent was due to wage increases and other rises in local prices.

Current expenditure on wages and salaries rose by over 20 per cent owing to raises in pay (including the increase in the cost-of-living allowance). The number of employees, which was on the decline in 1960 and 1961, remained practically unchanged.

Interest payments in Israel and abroad, excluding interest paid to the Government, totalled approximately IL 30 million, as compared with IL 16 million in 1961. A considerable part of this increase was directly attributable to the alteration of the exchange rate.

Expenditure abroad and outlays on the transportation of immigrants rose, both because of devaluation and because of a rise in the volume of transactions.

Investment by the Jewish National Fund—chiefly in afforestation and land reclamation—rose but slightly. There was also a small increase in the Jewish Agency's investment in inventories, equipment, and construction.

The sum total of transfer payments and subsidies remained virtually unchanged as compared with 1961. There were increases in outlay on the preliminary absorption of immigrants, as well as on allocations to institutions of higher learning and immigrant organizations. But on the other hand, subsidies

<sup>1</sup> Credits received net of credits granted.

<sup>2</sup> Expenditure abroad and interest payments on domestic dollar-linked loans.

to new agricultural settlements declined. Outlay of Youth Aliyah increased somewhat.

Loans consist chiefly of equipment and cash allocations supplied to new agricultural settlements, and to a minor extent, housing for immigrants other than that erected through the agency of the Government. In the past several years, virtually no new agricultural settlements have been established, and all the loans granted by the Settlement Department of the Jewish Agency have been earmarked for the consolidation and expansion of existing settlements. At fixed prices, there was practically no increase in outlay on loans in 1962 as compared with 1961.

Net payments to the Government totalled IL 25 million in 1962. In 1961 and 1960, the National Institutions had received IL 15 million more from the Government than they paid out. The Institutions' expenditure on immigrant housing projects sponsored by the Ministry of Housing rose considerably. Interest and principal payments to the Government, including linkage differentials on foreign currency loans, also rose. On the other hand, allocations from the Government's development budget to the Settlement Department of the Jewish Agency and to the Jewish National Fund<sup>1</sup> declined.

(d) *Functional composition of expenditure*

A functional breakdown of the National Institutions' expenditure in 1962 is shown in Diagram VII-5.<sup>2</sup>

The Institutions operate chiefly in the spheres of agriculture, immigration, education, and housing. In 1962 approximately 35 per cent of total expenditure (apart from debt redemption payments, which are here excluded) was channelled to agriculture. This covers, *inter alia*, the operations of the Jewish Agency's Settlement Department and investment of the Jewish National Fund in afforestation and land reclamation. Social services—mainly education and housing—accounted for 30 per cent of the Institutions' expenditure, while the remaining third was spent on services directly connected with immigration, general administration, and interest payments. Outlay on immigration services, as here defined, includes only the transportation of immigrants to Israel and initial absorption requirements. Any departure from such a narrow definition would mean the inclusion of virtually the entire outlay of the Jewish Agency in this category, since immigration and absorption of immigrants are its *raison d'être*. Educational outlay includes the expenditure of Youth Aliyah, as well as educational activities in the Diaspora and among youth groups from abroad undergoing training in Israel. Housing outlay refers largely to the financing of immigrant housing projects sponsored by the Ministry of Housing.

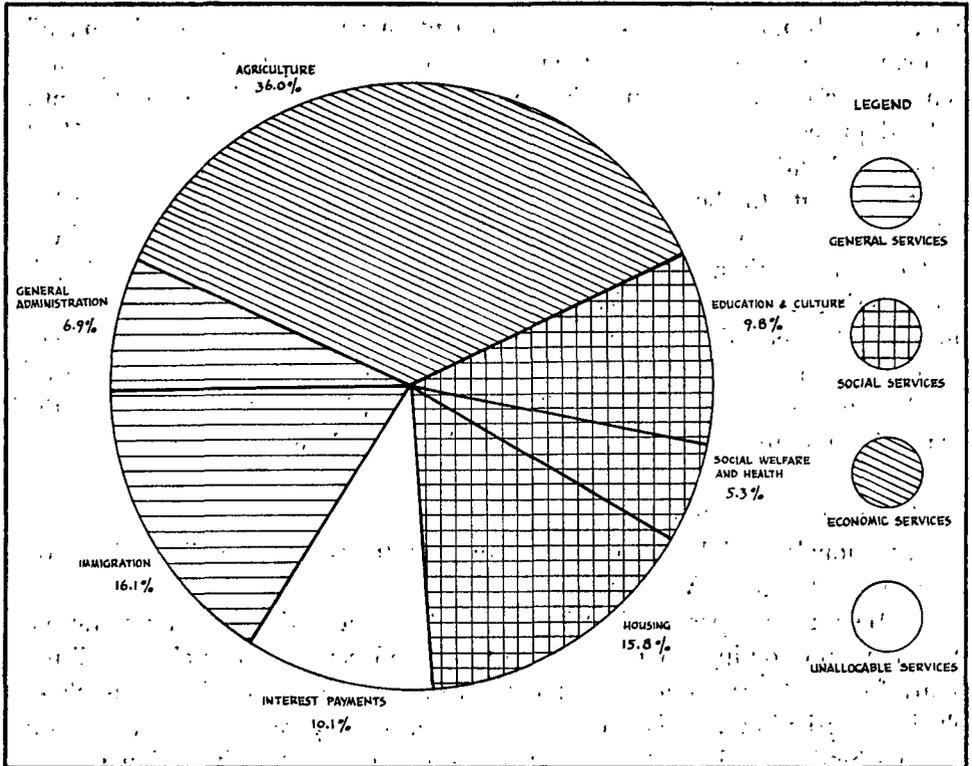
<sup>1</sup> See Table VII-14.

<sup>2</sup> Absolute figures for the years 1961 and 1962 are presented in the Appendix to this report (in Hebrew only).

Diagram VII-5

FUNCTIONAL BREAKDOWN OF EXPENDITURE OF THE NATIONAL INSTITUTIONS, 1962

(percentages)



As a result of devaluation and the second consecutive year of large-scale immigration, there was a rise in 1962<sup>1</sup> in the relative share of expenditure on immigrant services, interest payments, and housing, whereas the relative share of outlay on agriculture declined, accounting for 35 per cent of the total, as already noted, compared with 45 per cent in 1961.

#### 4. THE LOCAL AUTHORITIES<sup>1</sup>

The scope of operations of the local authorities<sup>2</sup> rose by IL 60 million as compared with 1961, and totalled IL 360 million. Nominal expenditure in-

<sup>1</sup> Municipalities, local councils, regional councils, and religious councils. For the sake of brevity, the local authorities will in this chapter be referred to at times as "the authorities".

<sup>2</sup> With loans received from the Government, the banking system, contractors, and suppliers recorded on a net basis, and other loans, on a gross basis.

creased by 21 per cent, the same as in 1961, while tax revenue rose by only 19 per cent, as compared with 24 per cent in 1961. Taking into consideration the rise in prices, there was a decline in the rate of real increase in expenditure—7 per cent as against 11 per cent in 1961. In real terms, consumption grew by 11.5 per cent, i.e. by 7 per cent per capita, while investment remained constant.

Since devaluation occurred before the start of the 1962/63 fiscal year, there were grounds for anticipating a rise in costs, especially with regard to wages and salaries, investments, and interest and principal payments on linked debts. Nevertheless, in its efforts to keep prices down, the Government opposed a general raising of local tax rates.<sup>1</sup> To ensure the maintenance of local services as planned, the Government promised to compensate the authorities for their higher costs in the form of enlarged grants.

Consequently, the rise in current revenue did not keep pace with the increase in current expenditure, and the dissaving of the local authorities grew. Likewise, overall budgetary outlay in 1962 exceeded receipts and a deficit was incurred, in contrast to the two preceding years when the authorities had succeeded in balancing their budgets and even creating a slight surplus.

With the deterioration in their financial position, the authorities resorted increasingly to credit from the banking system, and such credits constituted about one-third of total net receipts from loans in 1962.

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

Table VII-16 shows the "balance of payments" of the local authorities for the years 1960 to 1962, by type of receipt and payment, with net money flows between the local authorities and the Government recorded separately.

In the "real account" expenditure exceeded revenue to a considerable extent—i.e. the local authorities had a demand surplus. In 1962 this demand surplus was IL 15 million larger than in 1961, and amounted to IL 95 million. Income from rates, taxes, and other compulsory payments covered 70 per cent of the expenditure on current purchases, investment, and transfers, as compared with 72 per cent in 1961.

As in previous years, the 1962 demand surplus was financed half by Government grants and half by net borrowing. Total receipts from the Government—loans as well as grants—financed about 60 per cent of the authorities' demand surplus.

#### (b) *Receipts*

##### *1. Taxes*

Tax revenue of the local authorities, including the surplus on current account of municipal waterworks and transportation enterprises, rose by 19 per cent in

<sup>1</sup> Changes in rates of taxes levied by the local authorities are subject to approval by the Ministry of Interior.

Table VII-16

**"BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, BY TYPE OF RECEIPT AND PAYMENT, 1960-62**  
(IL million)

Receipts	1960	1961	1962 <sup>a</sup>	Increase or decrease (-)		Payments	1960	1961	1962 <sup>a</sup>	Increase or decrease (-)	
				1960 to 1961	1961 to 1962					1960 to 1961	1961 to 1962
<b>Transfers and transactions in goods and services</b>											
Rates and taxes <sup>b</sup>	110	136	162	26	26						
Miscellaneous income	55	68	84	13	16	Purchases on current account	124	149	185	25	36
						Purchases on capital account	85	100	112	15	12
						Transfer payments	28	35	43	7	8
<b>Total</b>	<b>165</b>	<b>204</b>	<b>246</b>	<b>39</b>	<b>42</b>	<b>Total</b>	<b>237</b>	<b>284</b>	<b>340</b>	<b>47</b>	<b>56</b>
<b>Transactions in financial claims</b>											
Long-term loans received						Redemption of long-term loans					
Foreign	6	5	—	-1	-5	Domestic	9	12	15	3	3
Domestic <sup>c</sup>	21	28	38	7	10	Foreign	1	2	5	1	3
Short-term credit (net)											
Domestic <sup>c</sup>	10	6	6	-4	—						
From the banking system	1	3	15	2	12						
<b>Total</b>	<b>38</b>	<b>42</b>	<b>59</b>	<b>4</b>	<b>17</b>	<b>Total</b>	<b>10</b>	<b>14</b>	<b>20</b>	<b>4</b>	<b>6</b>
<b>Transactions with the Government</b>											
Net grants	37	40	47	3	7						
Net loans	7	12	8	5	-4						
<b>Total</b>	<b>44</b>	<b>52</b>	<b>55</b>	<b>8</b>	<b>3</b>						
<b>Total receipts<sup>d</sup></b>	<b>247</b>	<b>298</b>	<b>360</b>	<b>51</b>	<b>62</b>	<b>Total payments<sup>d</sup></b>	<b>247</b>	<b>298</b>	<b>360</b>	<b>51</b>	<b>62</b>

<sup>a</sup> Excluding changes in the local authorities' assets and liabilities due to devaluation. Receipts and payment have been recorded at the rate of exchange in force when they were received or paid.

<sup>b</sup> Including net profit of waterworks and other enterprises.

<sup>c</sup> Excluding loans from the banking system.

<sup>d</sup> The above figures differ from total receipts and payments in the local authorities' reports in that current income from enterprises, loans from contractors, suppliers, and banks, and transactions with the Government have all been recorded on a net basis.

1962, compared, with an increase of 24 per cent in 1961, and totalled IL 160 million.

This increase reflects the rise in rates in fiscal 1961/62 and the widening of the tax base as a result of the addition of new residential units, which constitute the main basis for local taxes. As already mentioned, there was no general raising of rates in 1962/63, though a certain increase did occur through reassessment and transfer of residential buildings from lower to higher assessment areas. Some of the authorities also raised their building license fees. Water rates were in general not raised, and moreover consumption expanded at a reduced rate owing to the installation of water meters in recent years and the water shortage during the summer of 1962, which brought about cuts in the Tel Aviv water supply. As a consequence, there was a decline in the current surpluses of the waterworks. (In Tel Aviv the water rate was raised as from August 1962.)

### *2. Other compulsory levies*

Income from transfers and sales on current and capital account rose, as in 1961, by 23.5 per cent, and totalled IL 85 million. In 1962/63, a number of authorities, including the Tel Aviv Municipality, raised their school fees (on books and services provided in the elementary schools), and Jerusalem levied such a fee for the first time.

Approximately half the IL 85 million came from assessments on home- and land-owners for financing roads, sidewalks, and sewerage and from the installation of water meters. These receipts covered about one-third of local authority investment.

Approximately 40 per cent of the IL 85 million were fees for services rendered, including school fees in the elementary schools, tuition fees in kindergartens and secondary schools run by the authorities, hospitalization fees in municipal hospitals, and participation in the cost of meals provided to children at schools and summer camps. Rents on properties owned by the authorities and sales of land constituted the remaining sources of income.

### *3. Government grants*

Government allocations to local authorities, after deduction of interest payments and participation of local authorities in Government expenditure, totalled approximately IL 50 million in 1962. The annual rate of increase amounted to 17.5 per cent, as compared with 10 per cent in 1961.

The general grant-in aid, which constitutes approximately half the Government's net allocation, rose by some 25 per cent. This increase was intended chiefly to compensate the local authorities for not raising their tax rates after devaluation. The participation of the Ministry of Social Welfare rose by 30 per cent, while that of other Government departments—the Ministries of Education, Health, Religion, and Labor—was raised only slightly.

Government aid is granted mostly to local authorities other than the large municipalities. In 1962 the four main cities together received only 15 per cent of total Government grants, though they accounted for fully half of local authority expenditure. These cities have a relatively greater taxing capacity and are therefore less dependent on Governmental assistance; they accounted for as much as 60 per cent of total tax collections of the local authorities.

#### 4. Increase in indebtedness<sup>1</sup>

Net receipts of the authorities from loans, including loans received from the Government, amounted to IL 45 million, as against IL 40 million in 1961 and IL 35 million in 1960. Approximately one-third of the amount borrowed came from the banking system.

Loan receipts from the Government were smaller during the year reviewed than in 1961, when a special arrangement was made for the consolidation of the authorities' short-term debts. Government loans constituted approximately one-sixth of all the loans received by the authorities in 1962, as against one-third in 1961 and one-fifth in 1960.

As in previous years, loans from the State Lottery which are earmarked for the erection of school buildings increased and amounted to IL 8.5 million.<sup>2</sup> A number of large cities also received loans from popular secondary education saving schemes established in recent years. Another source of financing was the financial institutions—*inter alia*, the Jaysour Mortgage Bank, the Bank Leumi Investment Company, the Local Authorities' Bank, and Gmul Ltd.

No new loans were received from abroad during 1962. After devaluation redemption expenditure in connection with foreign loans obtained in previous years increased.

Total credits received from contractors and suppliers are estimated to have remained on the 1961 level. On the one hand, there was a decline in outstanding liabilities to contractors, while on the other, extrabudgetary open debts to suppliers rose to cover the budget deficit incurred following devaluation.

The banking system became a major source of financing for the local authorities in 1962. The outstanding balance of bank loans rose by some IL 14 million,<sup>3</sup> while bank deposits contracted by IL 1 million. Total receipts thus amounted to IL 15 million. In previous years, annual borrowing from this source had amounted to no more than IL 2–3 million.

On the basis of provisional estimates, it appears that during the 1962 calendar year an overall budgetary deficit was incurred which far exceeded any in recent years. As already stated, this led to a rise in borrowing from the banks and in open debts to suppliers.

<sup>1</sup> This discussion refers in all cases to net loans.

<sup>2</sup> The State Lottery transferred a further IL 1.5 million to local authorities in the form of grants for the erection of health institutions.

<sup>3</sup> Excluding loans from Government deposits and revaluation differentials.

The debt balances of the local authorities rose considerably more in 1962, than they had in previous years, because of the addition not only of new loans received, but also of linkage differentials on old loans. Although the Government waived its rights to linkage differentials on a substantial proportion of its loans to the authorities,<sup>1</sup> some of the authorities had contracted debts abroad, as well as dollar-linked or index-linked liabilities to banks, financial institutions, and the general public (in connection with joint securities issues).

Even before devaluation,<sup>2</sup> the authorities' debts, which at the end of March 1962 totalled over IL 260 million (excluding revaluation differentials), had already constituted a heavy burden on their ordinary budgets. Payments on account of interest and principal accounted for some 18 per cent of total expenditure in their ordinary budgets in fiscal 1961/62, and came to about 37 per cent of income from taxes.

### (c) *Payments*

In 1962 outlay of the local authorities, other than debt payment and current expenditure of the trading enterprises, rose by IL 55 million over the 1961 level, and totalled approximately IL 340 million. The annual rate of increase, in current prices, was 20 per cent. Two-thirds of the increment was due to higher prices, and one-third represented a real increase. The major part of the increase was spent on consumption, and only one-fifth on investment.

#### *1. Current purchases and transfer payments*

Payments of wages and salaries, which constitute approximately two-thirds of the authorities' current purchases, rose to the considerable extent of 25 per cent—of which about 16 per cent was due to a rise in the average pay per employee and 8 per cent to the rise in the number of employees. The authorities' total 1962 wage bill amounted to approximately IL 125 million.<sup>3</sup> In 1961 the wage bill had risen by 18 per cent—of which 13 per cent was due to higher

<sup>1</sup> Under the terms of a special arrangement, linkage clauses in Government loans to the local authorities for financing investment in road building, drainage, public gardens, electric power, and public buildings were cancelled completely, while a final decision regarding the linkage clause in loans earmarked for sewerage works, water meters, and sidewalks was deferred for two years. Only in the case of loans granted for certain specified economic purposes—such as the expansion of waterworks, the erection of slaughterhouses and commercial buildings, and the connection of homes to the electric power network—did the linkage clauses remain in force, and even in these instances the period of redemption was extended by one-third.

<sup>2</sup> In accordance with Ministry of the Interior regulations, payments on account of principal are recorded in the ordinary budget.

<sup>3</sup> Including wages and salaries paid by religious councils, but excluding those paid by the trading enterprises or on capital account. Also excluded are the salaries of teachers in elementary schools and kindergartens for children of compulsory school age, since these are paid directly by the Government.

average pay per employee and 5 per cent to staff expansion. Following the changes in rates of pay of Government workers during 1962, many local authorities raised wage rates in the administrative grade scale. Rates of pay in professional grade scales, which are fixed by country-wide labor agreements, also rose.

Transfer payments expanded by 23 per cent as compared with 1961, and amounted to IL 43 million. Social welfare allocations to needy persons accounted for more than half the total, while the remainder represented outlay on food dispensed in schools and in municipal institutions, grants to educational, cultural, and health institutions, and pension payments, as well as the share of the local authorities in graded secondary school fees.

## *2. Purchases on capital account<sup>1</sup>*

At fixed prices, there appears to have been no change in the volume of the authorities' investment as compared with 1961. With the rise in prices, nominal expenditure increased by 12 per cent, and amounted to IL 112 million. In the past two years, investment has been expanded at a declining rate, as a number of major development projects in the principal cities have been completed, while implementation of new large-scale projects has not yet begun. The major fields of investment are the erection of school buildings, the construction of roads and sidewalks, traffic and parking arrangements, sewerage, the extension of municipal water networks, and the installation of water meters in homes. A relatively new sphere for municipal investment is residential construction. In recent years, the large municipalities have begun to allocate funds for slum clearance as well as housing for young couples.

### *(d) Functional composition of expenditure*

A functional breakdown of the local authorities' expenditure (other than on debt repayment) is presented in Diagram VII-6.<sup>2</sup>

The local authorities operate chiefly in the fields of education, social welfare, and strictly municipal services. In the economic field their activities are limited to the transportation branch—mostly road maintenance and construction, and also traffic and parking arrangements—with the exception of the regional councils, which also supply agricultural services and in some instances electric power.

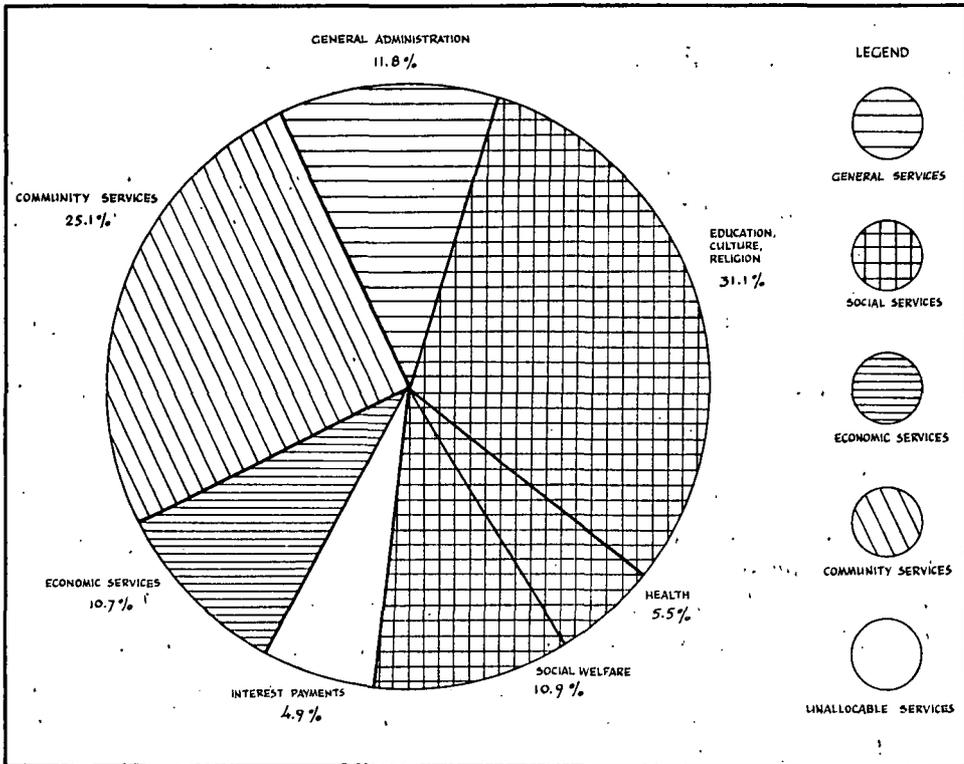
Approximately half of total expenditure was earmarked for social services (inclusive of outlays financed by the Government). Two-thirds of the expenditure on social services were devoted to education, one-fifth to social welfare, and the remainder to health and housing. In the large, well-established muni-

<sup>1</sup> Including loans for investment, especially to local councils.

<sup>2</sup> Absolute figures for the years 1961 and 1962 are presented in the Appendix to this Report (in Hebrew only).

Diagram VII-6

FUNCTIONAL BREAKDOWN OF LOCAL AUTHORITY EXPENDITURE, 1962  
(percentages)



cipalities, the relative share of social welfare is considerably less than in the smaller authorities and in development areas.

Community services account for one-quarter of total expenditure. These represent in the main outlay on sanitation and sewerage, waterworks,<sup>1</sup> public gardens, town planning and building licensing, street lighting, and fire-fighting services.

Expenditure on interest, including that paid to the Government, amounted to more than IL 15 million, or 5 per cent of total payments. General administration accounted for approximately 12 per cent of total expenditure.

<sup>1</sup> On capital account only.