

CHAPTER XIX

SAVING¹

1. MAIN DEVELOPMENTS

THE PROPENSITY to save apparently did not change substantially in 1962, either in respect of the economy as a whole, or in respect of the household and private business sector.² The public sector and public sector companies either did not change their saving or decreased it quite significantly, depending on the concept of saving employed. In terms of the rate of saving out of domestic sources of income, no sector's behavior changed greatly, but in terms of saving out of all unborrowed receipts (i.e. domestic income plus unilateral transfers from abroad), some distinct changes did occur. The most extreme was a fall in public sector saving from 20 per cent of all unborrowed receipts to 7 per cent. This is attributable to a marked decline in the Government's transfers from abroad and an increase in current expenditure owing to the considerable rise in security outlay.

Other significant changes in the percentage of unborrowed receipts saved were a considerable decline by the non-profit institutions and a much less extreme rise by the household and business sector together.³ Although the separation of these two crucial sectors is not at all perfect, the available data suggest that private business increased its retained earnings or saving out of earned income more than any other sector, while households, although expanding their consumption somewhat more than domestic income alone, put the greater part of the very large increase in their unrequited transfers (in Israel pounds) into additional assets—i.e. they increased saving out of all receipts.

This description of saving trends should be accepted with some reservation, for

¹ After this chapter had gone to press, a change was made in the public sector's estimate of unrequited receipts from abroad: IL 13 million (\$ 7.3 million) which was recorded in 1961 as unrequited receipts should have been recorded as long-term loans; while IL 13 million (\$ 4.7 million) which was recorded in 1962 as long-term loans should have been recorded as unrequited receipts. This revision changes somewhat the method of financing the demand surpluses of the public sector, but does not invalidate the main conclusions of this chapter.

² Including banking and financial institutions.

³ These conclusions are based on a comparison between 1962 and 1961, after the 1961 figures have been recomputed on the basis of the 1962 exchange rate (the method of computations is explained below and is elaborated on in the Appendix to this Report—in Hebrew only). Without this adjustment and on the basis of the official exchange rates, the saving of the non-profit institutions remained unchanged, while that of the household and business sector was still slightly higher.

Table XIX-1
THREE CONCEPTS OF NATIONAL SAVING, 1955-62
(IL million, at current prices)

Year	Depre- ciation	Net national product ^a	Current transfer receipts ^b	Disposable income (2) + (3)	Capital transfer receipts	All transfer receipts ^b (3) + (5)	Total unbor- rowed receipts (2) + (6)	Net saving from:					
								Net national product		Disposable income		Total unborrowed receipts	
								IL million	%	IL million	%	IL million	%
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)				
At the rate of IL 1.80 per dollar													
1955	174	2,043	100	2,143	279	379	2,422	27	1.3	127	5.9	406	16.8
1956	214	2,439	152	2,591	280	432	2,871	-120	-4.9	32	1.2	312	10.9
1957	253	2,854	177	3,031	259	436	3,290	39	1.4	216	7.1	475	14.4
1958	283	3,284	189	3,473	334	523	3,807	98	3.0	287	8.3	621	16.3
1959	316	3,813	197	4,010	302	498	4,312	206	5.4	403	10.0	705	16.3
1960	364	4,252	196	4,848	361	557	5,209	208	4.9	404	8.3	765	14.7
1961	430	5,016	209	5,225	424	639	5,649	307	6.1	516	9.9	940	16.6
At the rate of IL 2.88 per dollar^c													
1961	494	5,087	334	5,421	678	1,012	6,099	16	0.3	350	6.5	1,028	16.9
1962	616	5,986	328	6,314	611	939	6,925	82	1.4	410	6.5	1,021	14.7

^a National product as defined in this chapter has been adjusted for the data on public consumption presented in Chapter VII, and therefore the national product figures here differ somewhat from those in Chapter II, "Resources, Uses, and Incomes". This adjustment, however, has only a slight effect on the saving estimates.

^b The breakdown of current and capital components in total transfer receipts from abroad is highly tentative and approximate (it is perhaps impossible even in principle to make a fully satisfactory breakdown), and is only intended to suggest the disposable income, which actually lies somewhere between earned and unborrowed receipts and affects behavior even if it is not unambiguously measurable.

^c The average official rate in 1962; the 1961 figures adjusted to this rate are at an intermediate general price level between that of 1961 and that of 1962.

the comparison between 1962 and 1961 is complicated by conceptual, accounting, and statistical problems connected with the devaluation of February 1962.

The most pronounced changes in the national saving figures for 1962 were not real changes at all, but rather accounting changes brought about by the application of a new exchange rate to the computation. Important changes were also made in the measurement of investment and national product. The accounting change resulting from devaluation substantiates a point made in earlier years, namely, that most of the upward trend noted in net saving out of national income resulted from the use of the official but increasingly unrealistic IL 1.80/\$ 1 rate of exchange.

The effect of the higher exchange rate on nominal measured saving is expressed in an increase in the IL cost of consumption goods (by raising the price of their import component), while not greatly affecting earned or domestic income. On the other hand, the IL value of unilateral foreign transfer receipts is raised to a very appreciable extent.¹ If, after the alteration of the exchange rate, real consumption remains constant, it takes a larger part of earned (or domestic) income, leaving less for saving. The enlarged transfer receipts and capital gains from dollar-linked assets enabled various sectors (households, non-profit institutions, and the National Institutions) to continue consuming at the old real level and even to exceed it, without causing a change in the ratio between consumption expenditure and total receipts.² Thus we find that each sector's unadjusted saving out of national income is lower in 1962 than in 1961, both absolutely and as a per cent of domestic income. For the most part, this decline does not reflect a change in their behavior, but a change in definition, which changes the weight of domestic income within total receipts. This redefinition is of major significance. If we consider the new rate of exchange to more realistically reflect the value to Israel of foreign resources and receipts not only in 1962 but even in the immediately preceding period (at least in 1961), then the redefinition shows us how we have been exaggerating "earned" saving in 1961 and in earlier years. If we apply this new yardstick to the situation in 1961, we find that in actual fact earned saving was at least as low in 1961 (perhaps even lower) than it was in 1962 (see Tables XIX—1, 2, and 3).

In addition to the purely accounting changes, the devaluation also had certain real effects on the economy which undoubtedly influenced saving behavior. The chief of these was a shift in resources to the private sectors following an increase

¹ Another way of putting this is that the IL value of resource uses increased owing to an increase in the price of the import component and not to an increase in the national product. The result was a growth in consumption without there being a rise in domestic income.

² This applies to households, non-profit institutions, and the National Institutions; the Government, whose unrequited transfer receipts fell sharply as compared with 1961 while its expenditure rose following the increase in consumption and investment prices, found it necessary not only to increase its borrowing but also to use part of its development budget receipts to cover its current expenses, including security.

in the IL value of unilateral transfers from abroad.¹ There was reason to expect this change to increase private consumption and reduce the ratio of real saving to earned income, but the figures do not show such a change. The private sector put the whole of its additional transfer receipts into additional assets, at least temporarily.²

The existence of dollar-linked obligations and assets also led to some intersectorial redistribution of capital following the devaluation. However, it is not possible at this stage to summarize the net effect of this development on each sector's wealth.

A further real impact of devaluation on saving was the raising of investment prices relative to those of consumption or prices in general. This resulted from the higher import component and the greater rise in the effective exchange rate for investment. This, in effect, eliminated a hidden form of subsidization of investment (and of depreciation). As a result, a greater amount of saving will be needed, even at constant general prices, to command the same purchasing power over investment goods (i.e. to finance the same real investment). It should be stressed that a low exchange rate for equipment was one of the least rational ways of encouraging investment, for the subsidy it distributed was in direct proportion to the reliance on import components.

Apart from other and smaller adjustments in the national account measurements (such as generally occur from year to year), two very sizeable changes were made in the year reviewed, both of which directly affected the saving figure. For the first time national inventory investment estimates were included in the total of investment, and a substantial upward adjustment was made in the estimates for investment in private housing and other private constructive activity.³ These two enlargements of the national investment figures contribute directly to the saving residual (based on national product less consumption) and explain the very substantial rise in the series of net saving figures given from 1955 onward. The annual changes in saving, however, are not greatly affected by this adjustment. These two adjustments add to the private sector's saving—the adjustment of inventory investment to the saving of private businesses, and that in housing, mainly to the saving of the household sector. Thus it appears that the reputation for low saving in Israel has been partly due to measurement bias in the national accounts.

¹ In addition to the increase in the volume of private foreign currency transfers.

² We should not ignore the fact that this "real" result is based on the comparison of 1962 with the 1961 figures adjusted to the new exchange rate. This adjustment, although logical in principle, contains several sources of additional possible error in the resulting estimates. An alternative technique of adjustment for 1961 suggests a fall in the saving-earned income ratio from 1961 to 1962.

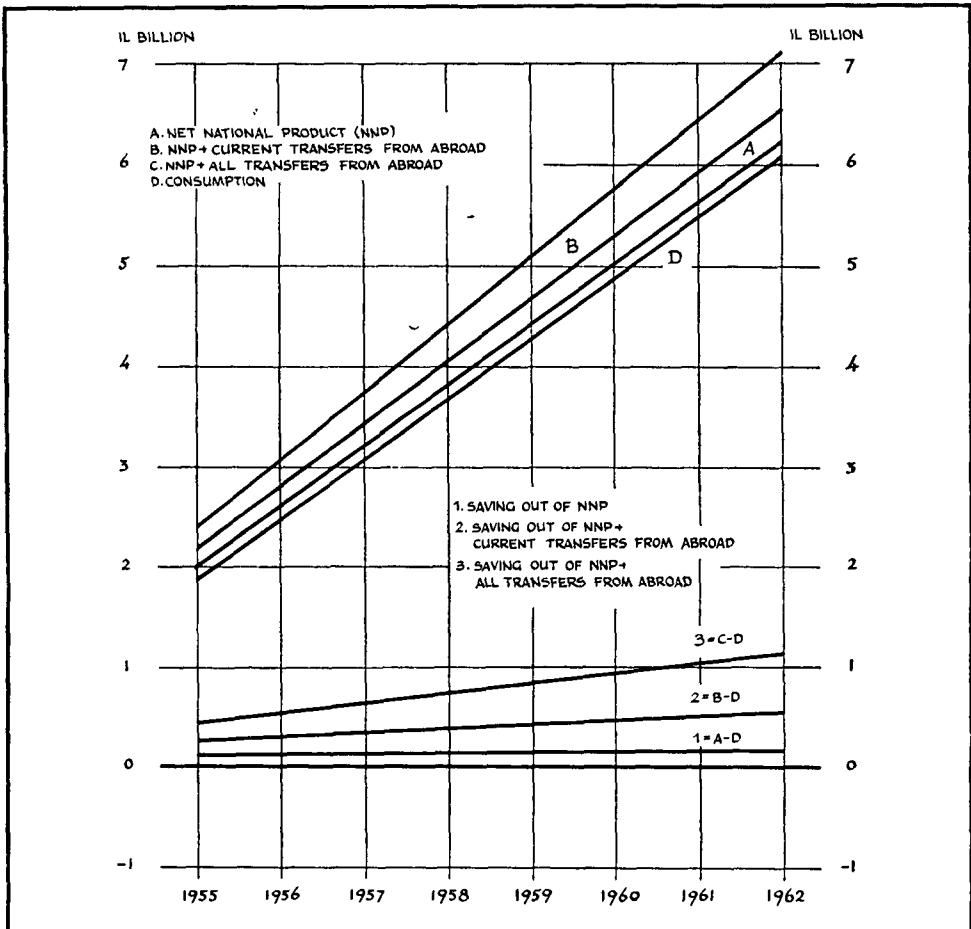
³ Estimates of inventory changes were not made hitherto owing to insufficient data. The adjustment of the estimated investment in private construction was based on the finding that private construction in the areas previously not included in the sample area was considerably greater than was assumed.

2. THREE SAVING CONCEPTS

Despite the changes in estimating procedures, the national net saving-earned income ratio is low, and has not changed significantly since 1955—if measured according to a realistic exchange rate. But this does not mean that Israel has not saved more or less normally, in the everyday sense of the word (i.e. that of consuming less than total unborrowed receipts). This seeming paradox is attributable to the special circumstances prevailing in the country. Israel does save in this sense, and has even increased its saving, but nearly all of the increase has been accounted for by the growth in unearned receipts, i.e. unrequited transfers from abroad. Throughout this entire period consumption was only slightly below net earned income or product, while saving (in the broader sense) slightly exceeded

Diagram XIX-1

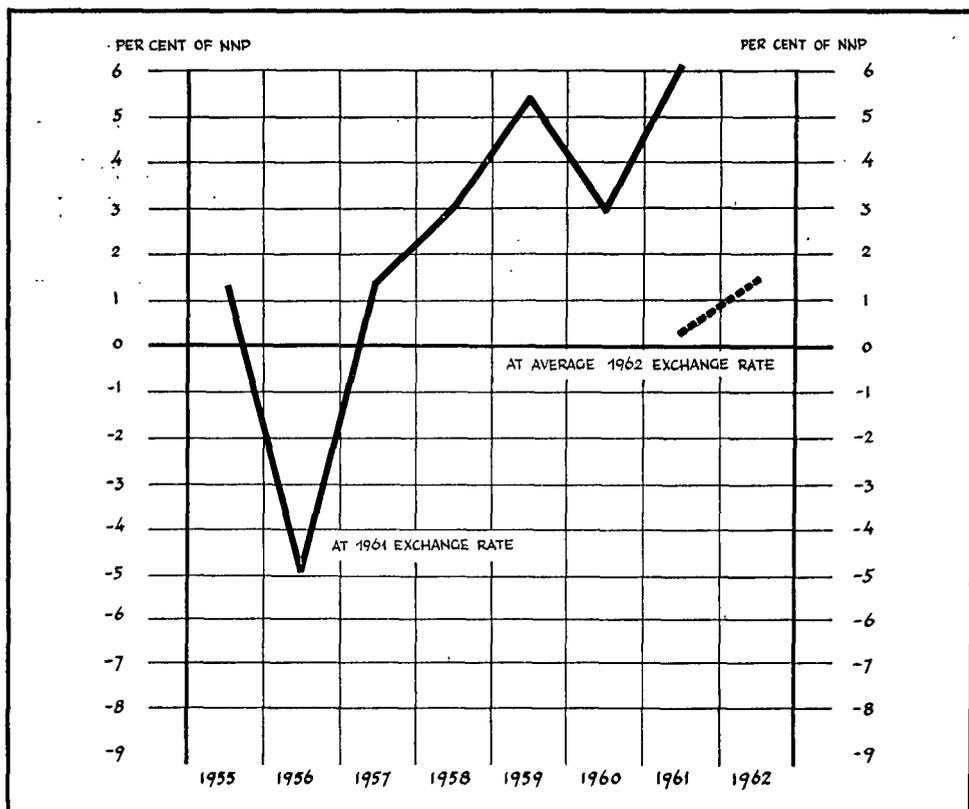
SAVING ACCORDING TO DIFFERENT CONCEPTS, 1955-62^a



^a Measured at gradually rising exchange rates.

Diagram XIX-2

RATE OF SAVING FROM NET NATIONAL PRODUCT, 1955-62



transfer receipts. Thus, although absolute saving has grown, no very significant change can be detected in the rate of saving in either sense.

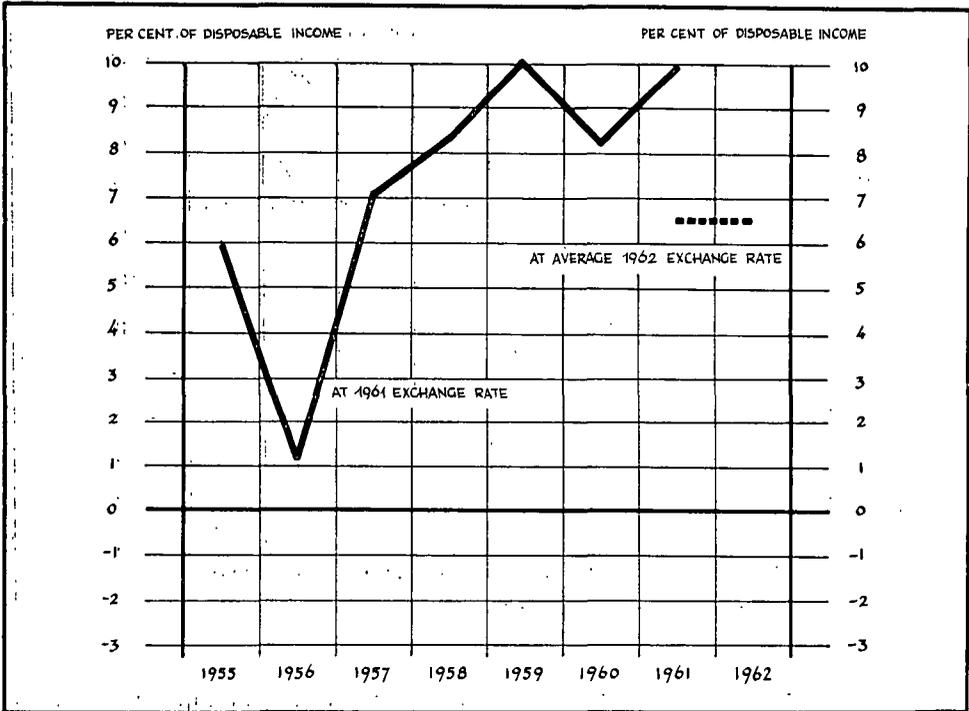
Saving is measured here according to three different criteria. The first is based on the narrowest concept of saving—that out of earned income (or product); the second, on a broader concept, which regards current transfers from abroad as part of the income affecting saving behavior (disposable income); and the third, on the broadest concept, which includes all unilateral transfers from abroad.

All three definitions of saving are reasonable for different purposes. No doubt they complicate the saving picture in Israel, but this follows very directly from the existence of an exceptionally large gap between total unborrowed receipts and earned national income. In countries without such a gap, earned income, disposable income, and total unborrowed receipts are all practically equal, and the three definitions yield almost identical results.

The first concept—saving out of earned income—is the conventional one for national saving as a whole, but it has only limited application for this country—namely, to measure the proportion of investment financed from domestic

Diagram XIX-3

RATE OF SAVING FROM "DISPOSABLE INCOME", 1955-62^a



^a Net national product plus current transfers from abroad.

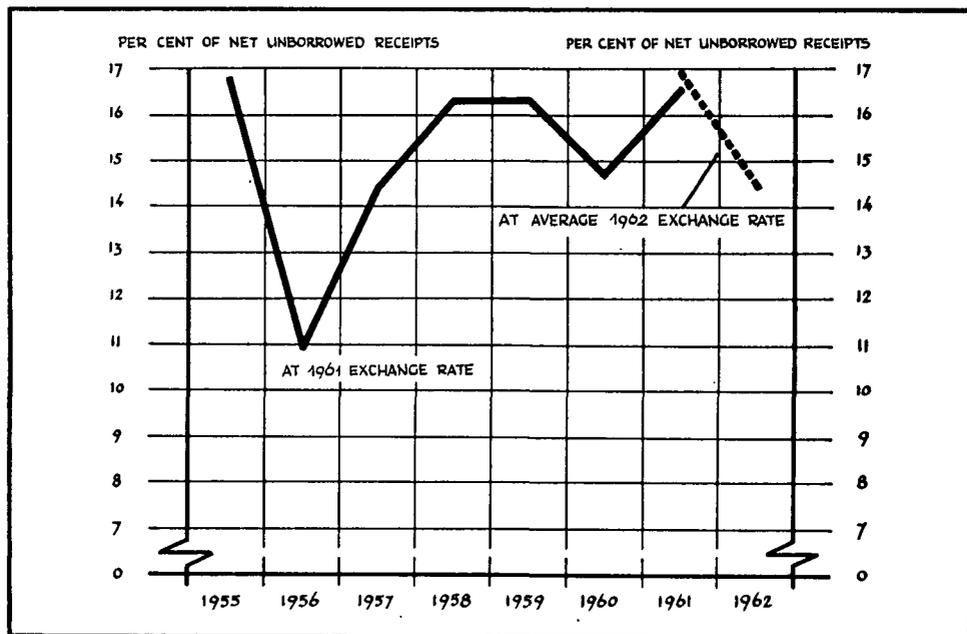
resources. To evaluate the developments in our saving behavior, it is necessary to resort to the second concept. This concept, which includes current transfers from abroad in saving, comes closest to showing saving out of disposable national income (i.e. the same sense in which household saving is conventionally defined). But because of the difficulties of correctly dividing foreign transfer receipts for this purpose, it is necessary to show as an outer extreme saving measure the third concept of saving—that out of all unborrowed receipts (i.e. earned income plus all transfers, including those on capital account).

Diagrams XIX-2, 3, and 4 reveal that, according to all three saving concepts, there was no significant change in the rate of saving.¹ Any slight difference which may appear depends too largely on the single point for 1955 to provide any foundation to the conclusion that there was an increase in the rate of saving. The rate of saving whose measurement is least affected by the alteration of the

¹ To see this, we must ignore the upward bias due to the use of the official but increasingly unrealistic IL 1.80/\$1 exchange rate, which is reflected in the gap between the two 1961 points. The year 1956 was an exception owing to the large growth in public current expenditure on security.

Diagram XIX-4

RATE OF SAVING FROM NET UNBORROWED RECEIPTS



exchange rate is saving out of national income (or product) plus all transfers from abroad (i.e. total unborrowed receipts). The gap between saving as calculated at the older and at the new rate is negligible. This is understandable when it is recalled that the main effect of the rise in the exchange rate was to increase the IL value of transfers relative to earned national income. Basically, it represents a reallocation of part of national receipts from the earned to the unearned category.

The second concept, that of saving out of earned income plus current or regular transfers from abroad, is affected to a greater extent by a change in the exchange rate. The increase in the IL value of foreign transfers after devaluation has a smaller weight here than the decline in product (or earned income).¹

Most drastically affected by devaluation is the first concept—saving out of earned income (or product). In this case income does not include any of the resources reallocated to unearned foreign sources. For this concept, the corresponding graph based on a gradually rising rate would show an almost horizontal line, indicating constant saving at absolute values (see Diagram XIX-1).

¹ It should be noted that the attempt to estimate the current or income portion of foreign transfer receipts is very difficult even in principle, and more so in practice owing to data limitations. This year, for the first time, rough estimates were made in order to approximate the concept of saving out of disposable income—the measure which is most comparable from a behavioral standpoint with that of saving abroad (especially of the private sector).

3. PUBLIC AND PRIVATE SAVING

The adjustment of the 1961 calculations to the 1962 level of exchange rates permits a more meaningful comparison between the two years, but it also increases the range of statistical error. Because of the lack of sufficient data, the possibility of error increases still further when we attempt a sectorial breakdown. Hence, changes in the sectorial figures from the adjusted 1961 to the 1962 level can be considered significant only if they are quite large, or have strong theoretical backing.

This sectorial breakdown of the adjusted changes from 1961 to 1962 is presented in Table XIX-2. The table shows a slight rise¹ in saving from earned national income, and within this total a constant rate of public sector dissaving, together with a slight rise in the rate of saving of all the other sectors together (households, private business, and public sector companies).²

The adjusted 1961 figures show a much steeper drop from the unadjusted figures in the case of net than of gross saving; the same holds true for the drop from the unadjusted 1961 figures to the 1962 figures. This reflects the relatively greater impact of devaluation on depreciation than on other national accounts components. Replacement cost depreciation essentially depends on the price level of investment goods, which, as explained above, rose faster than the average rise in prices after devaluation (both because of the relatively high import component of investment goods and because of the relatively low rates of customs duties imposed on them before devaluation). This result again points up the earlier indirect subsidization of investment goods, and brings out the undervaluation of depreciation in the past (by IL 64 million in 1961)—another example of how an unrealistic exchange rate can distort the national accounts.

The rate of net saving of the public sector out of all unborrowed receipts dropped sharply (see Table XIX-2). This obviously reflected in large part the decline (by about two-thirds in terms of dollars) in unilateral transfers to the Government as the German reparations neared their end. Yet even the rate of saving out of "disposable income" (i.e. local income plus current foreign transfers) declined. Current transfers (largely the transfers of the National Institutions) hardly changed in terms of dollars, but it was just this constancy, together

¹ The increase indicated in Table XIX-2, from IL 16 million to IL 82 million, could be considered as of significant magnitude if we were dealing with unadjusted figures. But after adjustment, the increase is still not large enough to place it beyond all possible doubt.

² But the possibility of a fall in private saving suggested by theoretical considerations and alternative approaches should be kept in mind. Moreover, the change depends to some extent on the allocation of various items of consumption to the public or private categories (e.g. interest). Public saving is of course very much affected by the definition of such items as military expenditure as current expenditure.

Table XIX-2
INCOME ACCOUNT APPROACH TO SECTORIAL SAVING, 1960-62

(at current prices)

	Households and business		Non-profit institutions		Total private sectors		Public sector		Total domestic sector		Rest of the world
	IL million	Per cent of gross income	IL million	Per cent of gross income	IL million	Per cent of gross income	IL million	Per cent of gross income	IL million	Per cent of gross income	IL million
1. GNP (in respect of the rest-of-the-world-sector—imports)											
1960	3,502	100	213	100	3,715	100	901	100	4,616	100	1,254
1961	4,082	100	238	100	4,320	100	1,126	100	5,446	100	1,513
1961 (adjusted) ^a	4,183	100	244	100	4,427	100	1,154	100	5,581	100	2,420
1962	4,884	100	273	100	5,157	100	1,445	100	6,602	100	2,681
2. Consumption (in respect of the rest-of-the-world sector—exports)											
1960	2,844	81.2	263	123.5	3,107	83.6	937	104.0	4,044	87.6	643
1961	3,347	82.0	292	123.1	3,639	84.2	1,070	95.0	4,709	86.5	756
1961 (adjusted) ^b	3,564	85.2	311	127.4	3,875	87.5	1,196	103.6	5,071	90.9	1,210
1962	4,060	83.1	341	124.9	4,401	85.3	1,503	104.0	5,904	89.4	1,416
3. Gross saving from local income (in respect of the rest-of-the-world sector—import surplus)											
1960	658	18.8	-50	-23.5	608	16.4	-36	-4.0	572	12.4	611
1961	735	18.0	-54	-23.1	681	15.8	56	5.0	737	13.5	757
1961 (adjusted)	618	14.8	-66	-27.4	552	12.5	-42	-3.6	510	9.1	1,210
1962	824	16.9	-68	-24.9	756	14.7	-58	-4.0	698	10.6	1,265

4. Depreciation											
1960	312	8.9	13	6.1	325	8.7	39	4.3	364	7.9	
1961	367	9.0	16	6.7	383	8.9	47	4.2	430	7.9	
1961 (adjusted) ^a	421	10.1	19	7.8	440	9.9	54	4.7	494	8.9	
1962	530	10.9	22	8.1	552	10.7	64	4.4	616	9.3	
5. Net saving from local income (3)-(4)											
1960	346	9.9	-63	-29.6	283	7.7	-75	-8.3	208	4.5	611
1961	368	9.0	-70	-29.4	298	6.9	9	0.8	307	5.6	757
1961 (adjusted)	197	4.7	-85	-34.8	112	2.6	-96	-8.3	16	0.2	1,210
1962	294	6.0	-90	-32.0	204	4.0	-122	-8.4	82	1.3	1,265
6. Net saving from disposable income ^b											
1960	387	10.9	3	1.1	390	10.2	14	1.4	404	8.4	
1961	415	10.0	1	0.3	416	9.4	100	8.2	516	9.1	
1961 (adjusted)	272	6.4	28	7.8	300	6.5	50	3.8	350	5.9	
1962	383	7.7	0	—	383	7.2	27	1.7	410	5.9	
7. Net saving from all unborrowed receipts											
1960	575	15.4	23	7.7	598	14.8	167	14.8	765	14.8	
1961	648	14.9	22	6.7	670	14.3	270	19.5	940	15.5	
1961 (adjusted)	644	13.9	62	15.9	706	14.1	322	20.5	1,028	15.6	
1962	875	16.0	24	6.2	899	15.2	122	7.2	1,021	13.5	
8. Net investment in consumer durables ^c											
1960	125	3.6	—	—	125	3.4	—	—	125	2.7	
1961	182	4.5	—	—	182	4.2	—	—	182	3.3	
1961 (adjusted)	187	4.5	—	—	187	4.2	—	—	187	3.4	
1962	226	4.6	—	—	226	4.4	—	—	226	3.4	

^a GNP figures for 1961 in the column "Total domestic sector" have been recalculated on the basis of the exchange rate in 1962. The adjustment has been made for each individual sector by inflating its income by the implied rise in GNP prices ($\frac{5581}{5446} = 1.0248$).

^b Private and public consumption have been adjusted for the increase in the IL value of their respective import components, being inflated by the increase in the effective exchange rates due to devaluation and the subsequent change in customs duties.

^c Adjusted for the increase in private consumption prices due to devaluation (6.5 per cent).

^d Adjusted for the increase in investment prices due to devaluation (15.1 per cent).

^e The disposable income of each sector includes its share in GNP plus current transfer receipts from abroad.

^f The share of each sector in GNP plus all transfer receipts from abroad.

^g This item may be added to all three definitions of saving in the table, thereby broadening the concept of saving and treating purchases of consumer durables as investment rather than consumption.

Table XIX-3

FINANCING OF DOMESTIC INVESTMENT,^a 1960-62

(at current prices)

	1960		1961		1961		1962	
	IL million	%	IL million	%	IL million	%	IL million	%
Gross investment	1,183	100	1,494	100	1,720 ^b	100	1,963	100
Domestic sources:								
(1) Allowance for depreciation	364	30.8	430	28.8	494	33.8	616	31.4
(2) Net saving	208	17.5	307	20.5	16	0.9	82	4.2
(3) Total (gross saving)	572	48.3	737	49.3	510	29.7	698	35.6
Foreign sources:								
(4) "Current" transfers ^c	196	16.6	209	14.0	334	19.4	328	16.7
(5) Capital transfers	361	30.4	424	28.4	678	39.4	611	31.1
(6) Private long-term credit and investment ^d	78	6.6	94	6.3	150	8.7	246	12.5
(7) Other credit (net) ^d	-24	-2.0	30	2.0	48	2.8	80	4.1
(8) Total (net capital imports)	611	51.7	757	50.7	1,210	70.3	1,265	64.4

Total from earned income (3)	572	48.3	737	49.3	510	29.7	698	35.6
Total from di-posable income (3) + (4)	768	64.9	946	63.5	844	49.1	1,026	52.3
Total from own resources (3) + (4) + (5)	1,129	95.3	1,370	91.7	1,522	88.5	1,637	83.4
Total from foreign loans (6) + (7) ^a	54	4.6	124	8.3	198	11.5	326	16.6
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Total financing of gross investment	1,183	100	1,494	100	1,720	100	1,963	100
Nct investment	819	100	1,064	100	1,226	100	1,347	100
Domestic sources (net saving)	208	25.4	307	28.9	16	1.3	82	6.1
Foreign sources (net capital imports)	611	74.6	757	71.1	1,210	98.7	1,265	93.9
Total from earned income (2)	208	25.4	307	28.9	16	1.3	82	6.1
Total from disposable income (2) + (4)	404	49.3	516	48.5	350	28.5	410	30.4
Total from own resources (2) + (4) + (5)	765	93.4	940	88.4	1,028	83.9	1,021	75.8
Total from foreign loans (6) + (7)	54	6.6	124	11.6	198	16.1	326	24.2
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^a Includes inventory investment estimates.

^b Adjusted (as in general 1961 adjustments of Table XIX-2) by IL price rise in investment import component due to devaluation.

^c The estimates of current (or long-term) transfer receipts are included in "Total (net capital imports)", even though they are referred to here as "current".

^d Line 6 alone is taken from the balance of payments, while line 7 is the residual of gross investment less all other sources of financing (lines 1 through 6). Line 6 plus 7 equals net credit to and investment in Israel by the rest of the world. The fact that other net credit may be negative (i.e. Israel may lend short-term to the rest of the world) is explained by the fact that increases in foreign currency reserves count as capital export (i.e. purchase of a foreign asset).

with the considerable rise in both local income and consumption, that caused the rate of saving in this sense to drop.¹

The percentage of investment in 1960 and 1961 covered from earned national saving is now computed to have been considerably higher than indicated by previous estimates (see Table XIX-3). According to the revised estimates, net saving in 1961 (based on the old exchange rate) covered 29 per cent of net investment.²

Analysis of the sources of investment finance clearly reveals the far-reaching accounting effect of adjusting 1961 results to the 1962 exchange rate. Gross earned saving, which appeared to be about half of gross investment, was found to be less than one-third. Correspondingly, the share of total foreign sources (net capital import) rises from half to over two-thirds. The effect on the proportion covered by net saving is of course much greater still: it is found to cover only 1 per cent of gross and 1.3 per cent of net investment. There is a considerable relative rise in 1962 in the percentage covered by net saving (from 1 to 5 per cent), but both figures are so small that this increase cannot be considered very significant.³

Some of the other changes seem more certain (there is less possibility of error in directly recalculating the IL value of a known foreign currency receipt item). Among foreign sources of financing, private long-term credit and direct investment (more or less equivalent to capital import based on economic and profit-seeking considerations) seem to have increased the most. They expanded from IL 150 million to IL 246 million at the 1962 exchange rate, and at the end of the year covered 12.5 per cent of total gross investment and constituted a quarter of all net capital imports. Other net credit rose from IL 48 million to IL 80 million.⁴ This reflects the reliance of the public sector on increased borrowing in order to cover even current expenses. Altogether, the share of financing through transfer receipts declined, while that of credit and equity investment from abroad increased.

¹ Table XIX-4 (Balance Sheet Approach to Sectorial Saving) shows what has already been mentioned above: the increased expenditure of the public sector, which was accompanied by a decline in transfer receipts, resulted in dissaving by the sector, and caused it to change from a net lender to net borrower in relation to the other sectors.

² This compares with 17 per cent in the previous year's estimate. The difference is of course due mainly to the addition of estimated inventory investment and the increased estimate of private residential construction. This raised the series of saving and investment figures by the same absolute amount, but raised the saving figures far more in percentage terms.

³ The exact statistical degree of significance is even less computable for saving than for other national accounts aggregates.

⁴ According to Table XIX-4 this increase is larger, and the level of saving is lower in both years.

4. BALANCE SHEET APPROACH TO SAVING, BY SECTOR

Table XIX-4 presents the summary calculations of changes in the assets and liabilities of the different sectors during 1961 and 1962. The sectorial figures for 1961 are shown only at the existing official exchange rate, as the necessary data are not available for a breakdown of the adjustment to 1962 exchange rates in the case of balance sheet items. Adjusted figures are presented only for all the domestic sectors together and for the rest-of-the-world sector.

Since many of the internal obligations were dollar-linked, devaluation led to a series of capital gains and losses. These changes in the wealth of the domestic sectors possibly affected their saving behavior as well. On the other hand, the capital gain or loss of the economy as a whole in relation to the rest of the world has less significance.¹ None of these gains or losses, however, may be considered part of the "earned" increase in net worth, and hence are not part of saving. The capital gains must therefore be deducted and the losses added back to the net change in financial assets in order to calculate the saving. It would be interesting to show the net change in the sectors' wealth resulting from the linkage arrangements in the same way that the net change resulting from domestic and foreign capital transfers is shown, but the data available do not permit this.²

It was also impossible to make a complete division between households and the non-financial business sector as regards either their intra-sector credit flows, or (to a lesser degree) their real asset changes (for instance, the share of each sector in the increase of housing under construction is unknown).

Table XIX-4 clearly brings out certain points suggested above. For example, it shows that the public sector reversed its position from a net lender in 1961 to that of a net borrower in 1962. The other sectors remained roughly in the same position in this respect. The outstanding changes are an increase in net credit by the household sector and an increase in net obligations of public sector companies. It will be noted, however, that the additional credit (i.e. financial assets) of the household sector is offset by the larger increase in the IL value of their foreign transfer receipts. Hence their saving, insofar as it can be separated from

¹ At least it can be assumed that the increase in the IL value of foreign currency balances held by the public sector and the Bank of Israel does not necessarily affect their spending and saving behavior. Changes in private foreign currency balances or obligations affect, of course, the behavior of the domestic holders. The effect on foreign private creditors is smaller, although their investments in Israel are liable to be affected.

² However, since these gains and assets are (on the whole) excluded from the net changes in the financial assets column of Table XIX-4, this does not detract from the sectorial saving calculations made in this table.

Table XIX-4

BALANCE SHEET APPROACH TO SECTORIAL SAVING, 1961-62

(IL million, at current prices and exchange rates)

	Change in real assets	Transfer receipts from abroad	Domestic capital transfer receipts	Change in financial assets, less liabilities ^a	"Identified" gross saving (1)-(2) -(3)+(4)	Depre- ciation	"Ident- ified" net saving (5)-(6)	"Uniden- tified" saving and errors ^b
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1961								
(1) Public sector	204	261	35	148	56	47	9	—
(2) Non-profit institutions	55	92	2	-17	-56	16	-12	2
(3) Public sector companies	278	—	-5	-193	90	82	8	
(4) Banks and financial institutions	8	—		16				
(5) Provident funds and insurance companies	8	594	-11	-1	-374	231	37	34 ^b
(6) Private business enterprises	578	—		-389				
(7) Households	363	280	-21	276	380	93	287	
Total, households and business ^c (items 3 to 7)	1,235	280	-37	-291	701	367	334	34 ^b
Total, private sector ^d (items 2 to 7)	1,290	372	-35	-308	645	383	262	36 ^c
Total domestic sector ^e (unadjusted)	1,494	633	—	-160 ^d	701	430	271	36 ^d
Total domestic sector (adjusted to 1962 exchange rate)	1,720	1,013	—	-256	451	494	-43	59

Rest of the world ^a (unadjusted)	—	-633	—	160 ^d	793	—	793	-36 ^d
Rest of the world (adjusted to 1962 exchange rate)	—	-1,013	—	256	1,269	—	1,269	-59
1962								
(1) Public sector	341	244	46	-112	-61	64	-125	3
(2) Non-profit institutions	53	114	—	-7	-68	22	-90	—
(3) Public sector companies	372	—	-6	-331	-49	126	-79	
(4) Banks and financial institutions	13	—		27				
(5) Provident funds and insurance companies	5	774	—	5	-438	348	290	58
(6) Private business enterprises	756	—		-470				58 ^b
(7) Households	423	581	-28	501	371	114	257	
Total, households and business ^c (items 3 to 7)	1,569	581	-46	-268	766	530	236	58 ^b
Total, private sector ^d (items 2 to 7)	1,622	666	-46	-275	698	552	146	58 ^d
Total domestic sector ^e	1,963	939	—	-387 ^e	637	616	21	61 ^d
Rest of the world ^e	—	-939	—	387 ^e	1,326	—	1,326	-61 ^d

^a Excluding capital gains and losses due to linkage. These are not part of the "saved" increase in assets.

^b Net saving as computed in Table XIX-2, less net saving as computed here.

^c This subtotal corresponds to the "Household and business" sector in Table XIX-2. The income approach yields higher figures for gross and net saving from local income (items 3 and 5)—greater by IL 34 million and IL 58 million in 1961 and 1962 respectively.

^d This subtotal corresponds to the "Total private sectors" column in Table XIX-2. That table shows a result for gross and net saving from local income (items 3 and 5) that is IL 36 million greater in 1961 and IL 58 million greater in 1962.

^e The excess of total domestic saving (and the correspondingly smaller import surplus) of Table XIX-2 over this table (IL 36 million in 1961 and IL 32 million in 1962) results entirely from the difference in the net foreign borrowing estimates in the two tables. In Table XIX-2 this is computed as the real import surplus less unrequited transfers. In this table it is based on the flow-of-funds summation of net borrowing by domestic sectors. The two estimates are independent and the latter shows greater borrowing than the former. The net borrowing (including foreign equity investment) consistent with Table XIX-2 is shown in Table XIX-3 (item 6+7). For 1961 it is IL 124 million, and for 1962, IL 326 million.

that of businesses, declined slightly.¹ From the standpoint of the household sector, these current exchange figures are the relevant ones in determining behavior. The fact that foreign receipts were worth more to the national economy than what was received for them by the individual recipients did not increase the purchasing power of the latter. Hence it is surprising that the figures show such a slight fall in saving out of local income and such a large increase in investment in real and financial assets.² From the standpoint of value to the national economy (i.e. on a constant exchange rate basis), household saving out of local income apparently rose from 1961 to 1962. This conclusion seems even more justified for the household and private business sectors taken together; the latter is the only sector whose unadjusted saving figure shows an absolute, even if slight, rise in 1962.

The financial sectors increased their assets more than their obligations, thereby increasing their saving. Although their depreciation and domestic transfers were not calculated, these could hardly offset the rise in their net gain in real and financial assets in 1962. The public sector companies show an opposite tendency: their assets rose less than their net financial liabilities plus depreciation (despite a very large increase in finished immigrant housing transferred to Amidar), thus giving them negative net saving in 1962, in contrast to a very slight positive saving in 1961. Their drop in saving and that of the public sector itself are the main ingredients in the overall (unadjusted) decline in the national total.³

¹ The reference is to saving out of local income alone, which is the only saving concept presented in this table. Saving out of disposable income can be computed for households by adding current household transfers (IL 47 million in 1961 and IL 89 million in 1962, at current exchange rates) to the net saving shown. This gives measured saving of IL 334 million in 1961 and IL 346 million in 1962. To calculate the saving out of unborrowed receipts, the balance of unilateral transfers must be added.

² This may reflect to some degree a lag in the adjustment of consumption to the increased receipts.

³ The "unidentified saving and errors" column shows the difference in saving computed through the balance sheet approach and that arrived at in Table XIX-2 (the income approach). The estimates are different because they are based on two different and independent sources of data as to net capital imports (or net borrowing from the rest of the world). In Table XIX-2 the estimate is derived by subtracting unilateral transfers from the real import surplus (which gives IL 326 million in 1962—the net foreign finance figure of Table XIX-3). Table XIX-4 uses the flow-of-funds sum of the domestic sectors' net borrowing. This is based on each sector's balance sheet, and in theory includes a larger share of the "errors and omissions" in the balance of payments (i.e. the excess of financial resources over uses). It is impossible to say for certain which result is preferable. If these errors and omissions were due to an understatement of real imports, then the data in Table XIX-4 would more closely approximate the correct capital import estimate, and its saving results would be the better of the two.

5. BALANCE SHEET APPROACH TO HOUSEHOLD SAVING

Table XIX-5 presents the information available about changes in the balance sheet items of the household sector. Owing to the lack of certain data and the unreliability of others, it is impossible to derive the saving estimate from the table.

The incomplete or missing items include the households' share in private housing under construction (as a result of either formal ownership or financial advances or borrowing), and other credit flows between households and businesses, primarily household holdings of securities and consumer credit from business. The net identifiable saving totals are not shown in this table, largely owing to the fact that all the items are not available for each of the years shown.¹ Such a comparison is shown in Table XIX-4.

Among the items available, we find the following outstanding changes in 1962. Housing assets held by households grew significantly (at current prices; at constant prices the change was more moderate). No such increase is discernible for 1961 as against 1960, the rise in housing investment being offset by a large rise in work under construction.

Investment in durables was similar to that of the previous year.

Net credit extended by mortgage banks to households increased by only IL 4 million in 1962, as compared with IL 85 million in 1961. (The household sector's debt to these institutions rose by a further IL 47 million owing to dollar linkage.) This surprising development, in a year when housing investment was on the rise, is partly explained by the advance repayment of mortgages under the special arrangements made after devaluation to avoid activation of the linkage clauses. But even without such advance repayments, the net credit extended in 1962 would have been considerably smaller than in the previous year (at the most IL 55-60 million vs. IL 85 million). This may be attributable to the banks' reluctance to lend during the period of uncertainty about linkage terms which prevailed after devaluation.

Other notable changes tending to suggest greater saving were substantial rises in claims on provident and pension funds and in most types of bank deposits and cash. The rise in dollar-linked deposits reflects the general tendency noted above to put increased transfers into additional assets.

The estimates of changes in public sector and financial institutions' securities held in 1962 are not as reliable as most of the other items in the table. They are

¹ Although the financial items presented in the table add up to approximately the net financial gain of households according to the flow-of-funds data, this sum is broken down differently from the other (derived in Chapter XV). Analysis of money flows relates the asset or liability to the ultimate debtor or the original creditor, as the case may be (e.g. mortgages financed by Government deposits in mortgage banks are included in credit from the public sector to households, rather than in credit from mortgage banks). Table XIX-5, on the other hand, attempts to identify the forms of asset and liability changes as they appear to the households.

Table XIX-5

DETAILED BALANCE SHEET APPROACH TO HOUSEHOLD SAVING, 1960-62

(IL million, at current prices and exchange rates)

	Increase or decrease (-) during year			
	1960	1961	1962	
			Excluding capital gains	Capital gains from dollar linkage
Changes in real assets				
1. Gross investment in housing	359	453	617	—
2. Less: Dwellings held by public housing companies ^a	27	57	159	—
3. Purchase of older rented units ^b	11	11	16	—
4. Less: Other public housing under construction ^c	-30	44	51	—
5. Private housing under construction	*	*	*	—
6. Measured holdings of households (1)-(2) + (3)-(4)	373	363	423	—
7. Gross investment in consumer durables	214	292	368	—
8. Total change in real assets	587	655	791	—
Changes in financial assets				
9. Cash	26	30	44	—
10. Demand deposits	60	29	78	—
11. Approved saving schemes	12	14	19	—
12. Dollar-linked deposits (Pazak)	18	43	89	66
13. IL time deposits	23	-4	-9	1
14. Other IL deposits ^d	*	*	17	—
15. Deposits in Post Office Bank	1	1	5	—
16. Time deposits in foreign currency (Tamam)	34	36	45	75
17. Claims on provident funds ^e	90	112	165	19
18. Claims on insurance companies ^f	6	10	13	*
19. Deposits in other financial institutions	-14	5	-2	1
20. Saving-for-Housing deposits ^g	*	11	15	—
21. Foreign securities ^h	13	12	17	12
22. Domestic securities:				
(a) Public sector ⁱ	*	*	70 [†]	* [†]
(b) Banks (shares)	*	*	13	—
(c) Financial institutions	*	*	24	8
(d) Public sector companies and private business ^j	*	*	*	*
23. Credit to non-profit institutions	6	5	7	—
24. Direct credit to private business	*	*	*	*
25. Credit to Government ^k	*	*	7 ^k	—
26. Total measured change in financial assets	275 ^o	304 ^o	617 ^o	182

Table XIX-5

DETAILED BALANCE SHEET APPROACH TO HOUSEHOLD SAVING, 1960-62

(continued)

(IL million, at current prices and exchange rates)

	Increase or decrease (-) during year			
	1960	1961	1962	
			Excluding capital gains	Capital gains from dollar linkage
Changes in liabilities				
27. Debt to banking institutions	14	12	37	—
28. Debt to provident funds	11	21	29	—
29. Debt to insurance companies	4	3	6	—
30. Debt to mortgage banks	61	85	4	47
31. Debt to other financial institutions	-4	-32	-4	—
32. Debt to public sector companies ¹	15	11	16	9
33. Debt to private business ^m	*	*	*	*
34. Debt to non-profit institutions	8	4	3	—
35. Debt to public sector—direct ^a	9	14	22	*
36. Total measured change in liabilities	118 ^o	118 ^o	113 ^o	56
Transfers				
37. All transfers from abroad	243	280	581	
38. Foreign capital transfers ^p	202	233	492	
39. Capital transfers to public sector	17	21	28	
40. Net identified gain from dollar linkage (26)-(36)	*	—	—	126 ^r
Depreciation				
41. Depreciation on housing	79	93	114	—
42. Depreciation on consumer durables	89	110	142	—
43. Total depreciation	168	203	256	
Net saving ^o	0	0	0	

* Unknown.

^a Amidar, Rassco, and Shikun u-Pituach.^b From abandoned Government-held property (Development Authority).^c Total value of change in stock of public housing under construction is estimated as follows (in IL million): 1960-32; 1961-64; and 1962-71. Of these amounts, part is included in the companies' holdings under item 2, and the balance in item 4.^d Includes some (roughly estimated) deposits against guarantees or liabilities, or for loans, etc.^e Increase in assets of these funds, except for employers' severance pay funds.^f Increase in life insurance funds of companies operating in Israel.^g This item shows net increase in balance of withdrawable deposits in this scheme (i.e. it equals gross deposits during year less withdrawals and less payments from deposits for housing received). The total saving through the scheme may be considered as simply gross deposits less withdrawals (IL 27 million in 1961 and IL 37 million in 1962), but in this table the real housing asset increase already includes that part of the housing received under the Saving-for-Housing scheme which was paid for from these deposits.^h Mainly paid for from Tamam accounts.¹ Mainly short-term Government bills (IL 65 million); some non-security credit to the National Institutions may also be included. Linkage differentials of households on Govern-

presented to show the way in which the net increase in the households' financial assets breaks down into the various types of assets and liabilities, on the basis of flow-of-funds data. If these and some other smaller items not estimated for 1961 are excluded from the totals, the measured saving of households shows a somewhat steeper drop in 1962 than is suggested by Table XIX-5, which uses the flow-of-funds net financial figures for both years.¹

6. AGRICULTURAL SAVING

Data concerning changes in assets and liabilities of the agricultural sector (excluding other sources of income or types of investment) show a continued drop in saving. Table XIX-6 even suggests a continued dissaving, or net capital consumption, in this sector. This is not certain, of course, considering the missing items (changes in financial assets and liabilities to unidentified creditors), but it seems more likely in 1962 than in the previous year.

¹ This is supported by data from other sources, which suggest that additional investments of households in securities of all types were smaller in 1962 than in 1961, whereas security investments by the rest of the world were larger.

ment securities were apparently of considerable magnitude, but it was not possible to distinguish between their capital gains from such securities and those of other sectors.

^j There is some evidence of a smaller increase in 1962 than in 1961, although this is not conclusive.

^k Includes such short-term credit as the change in unpaid wages and salaries.

^l Includes, *inter alia*, direct mortgage debt to Amidar.

^m Includes, conceptually, hire-purchase debt.

ⁿ Mainly credit to households in agricultural settlements in connection with housing.

^o Any of the three saving concepts presented in Table XIX-2 could in principle be computed from the items included in this table. However, the measured results for the three years based on known items will not be comparable owing to the fact that not all estimates included here for 1962 are included for the preceding two years. Table XIX-4 gives a comparison of net saving and net financial gains of households. The 1961 and 1962 net financial gains shown there are comparable for the two years, but several credit flows in the 1961 figures cannot be broken down into specific assets, such as securities, loans, etc.

Theoretically the main saving concepts are computable from this table, as follows:

Saving from local income = (6) + (26) - (36) - (37) + (39) - (41).

Saving from disposable income = (6) + (26) - (36) - (38) + (39) - (41).

Saving from all unborrowed receipts = (6) + (26) - (36) + (39) - (41).

The inclusion of consumer durables implies substituting item 8 for 6 and 43 for 41 in each of these computations.

^p Excludes 20 per cent of restitution payments from Germany (roughly the pension part of restitution payments) and a conservative estimate of regular private transfers.

BALANCE SHEET APPROACH TO AGRICULTURAL SAVING, 1960-62^a

(IL million)

	1960	1961	1962
1. Change in assets			
Real investment by farms (including inventory)	113.5	96.3	105.0
Financial assets	*	*	*
Total known change in assets	113.5	96.3	105.0
2. Change in liabilities			
Bank credit (short-term)			
Controlled (net)	13.9	4.1	15.0 ^b
Uncontrolled (net)	-0.5	9.6	4.2
Total short-term bank credit	13.4	13.7	19.2
Long-term credit ^c			
Credit received	70.0	62.0	75.6
Less: Repayments	9.0	12.0	13.0
Total long-term credit	61.0	50.0	62.6
Other credit	*	*	*
Total known change in liabilities	74.4	63.7	81.8
3. Gross "identified" saving (1)-(2)	39.1	32.6	23.2
4. Depreciation	48.6	51.0	62.8
5. Net "identified" saving (3)-(4)	-6.5	-23.0	-39.6

* Unknown.

^a Figures are adjusted to represent asset and liability changes related to operations, and not total activity of farmers (which have, in addition, an industrial and "household" economic role).

^b Excluding capital loss of IL 3.8 million.

^c From Israel Bank of Agriculture, local authorities, and the National Institutions.