

## CHAPTER II

### RESOURCES, USES, AND INCOMES

DEVELOPMENTS IN 1963 cannot be analyzed, even less so than in former years, without noting the trends in the preceding and following periods. The first half of the year reviewed was generally marked by a continuation of the trends prevailing in the latter half of 1962 and which reflected the effects of the devaluation; the second half, on the other hand, saw the re-emergence of trends characteristic of the predevaluation period, and these carried over into the first months of 1964.

Gross national product advanced by 10 to 11 per cent, or by 6.5 per cent per capita. This was 1-2 per cent smaller than the figure for 1962, which was a year of accelerated economic expansion, but it approximates the average rate for the 1960-62 period. The slower increase principally reflects the marked contraction of publicly financed construction. In other sectors the general picture was one of further rapid growth. Following the decline in public construction, gross capital formation remained at virtually the same level, though most of the major items continued to move up at a similar rate as in former years.

The increase in GNP was accompanied by a 5 per cent rise in the number of gainfully employed, while unemployment declined. In most parts of the country, nearly all reserves of idle manpower capable of absorption into the labor force were exhausted, and the shortage of suitable workers effectively limited the possibilities of stepping up production in several industries.

The rate of increase in real private consumption also slowed down somewhat, especially as compared with the rapid expansion of 1962, but also relative to the average rate for the 1960-62 period. This deceleration was likewise reflected in the growth of per capita private consumption. As in 1962, private consumption increased more slowly during the year reviewed than the gross national product, a development which may indicate a certain rise in the rate of saving. Such a rise is also suggested by a comparison between private disposable income and private consumption.

Among price developments the most noteworthy were the slower increases in investment and public consumption prices. Private consumption prices went up by 8 per cent on the average, about the same as in 1962. But whereas the rise in 1962 was mainly due to higher import prices following the devaluation, that in 1963 can be attributed primarily to domestic prices, particularly wages and profits per unit of output (approximately 8 per cent as against 7 per cent in

1962). It should be noted that the rise in the average price level was largely due to increases that had occurred still in 1962. In 1963 prices climbed more slowly, the main thrust apparently coming from the excessive rate of monetary growth which created excess demand. This pressure found expression during the year not only in the mounting of prices of currently produced goods and services, but also in a much steeper rise in the prices of existing assets, in particular land, and financial assets, especially shares.

In the balance of payments there was a striking decrease of some 11 per cent in the deficit on current account, from \$ 455 million to \$ 407 million. Especially noteworthy is the fact that exports expanded only very slightly, both relative to the increase in the national product and as compared with the import increment of former years. The real increase in imports was only 4 per cent, as against 14 per cent in 1962 and an annual average of over 17 per cent during the 1960-62 period. Foreign currency proceeds from exports rose by 20 per cent, a rate similar to that of 1962 and to the average from 1960 to 1962. The relatively rapid expansion of export proceeds on the one hand, and the slow growth of imports on the other reduced the deficit on current account to an extent unprecedented since 1954.

Developments in the balance of payments were not uniform throughout the year reviewed: the downward trend in imports which marked the second half of 1962 came to an end in the first months of 1963, and as from March there was a sharp upturn which continued into the early months of 1964. Nevertheless, during the first half of 1963 imports were still relatively small—very little larger than during the corresponding period of 1962. During the second half of 1963 they expanded steadily. But over the year as a whole, their volume was only 4 per cent larger than in 1962.

A contrary trend prevailed in the case of exports. The rapid expansion of industrial exports that had marked the second half of 1962 continued during the first half of 1963. This was accompanied during the early months by an excellent citrus harvest, so that the volume of exports in the first half of the year was appreciably larger than during the corresponding period of 1962. The second half of 1963 witnessed a slowing down in the expansion of exports, and this trend carried over into the early months of 1964.

An analysis of balance of payments developments over a period of several years shows that at constant prices exports increased in 1959 by more than 30 per cent, in 1960 by over 25 per cent, and during the last three years at rates ranging from 16 to 19 per cent.

Imports are characterized by sharp fluctuations from year to year, though on the average they have expanded faster than the national product. The import component of the final uses has been rising, and import substitution in the productive sectors has been proceeding at a very slow rate.

## 1. INCOMES

The nominal national income increased in 1963 by more than 20 per cent,<sup>1</sup> which was somewhat faster than in 1962.

The data indicate that income from wages<sup>2</sup> rose at a slightly slower rate than other incomes; however, this conclusion must be qualified, since the estimate of other incomes is partly hypothetical, based on assumptions concerning the relationship between wage and nonwage incomes.

The number of wage earners<sup>2</sup> rose by 6 per cent in 1963, while average income per wage earner increased by 11.5 per cent, despite the fact that wage rates were not changed during the year. The rise in average wages partly reflects increases that had occurred in 1962. However, it was also caused by the raising of the cost-of-living allowance rate in January 1963 and the higher average wages paid during 1963, chiefly because of the pressure of demand for labor.

Although the national income rose more rapidly in 1963 than in 1962, revenue from direct taxes increased more slowly—by 30 per cent as against 37 per cent in 1962. Income tax collections expanded during both years by approximately 30 per cent. The weight of collections on wage income declined somewhat during the year reviewed, while the weight of collections on other incomes rose. This was due to the larger weight of the tax-free cost-of-living allowance in the wage increment. Nonwage incomes reflect this development only after a time lag.

Revenue from the Absorption Loan and compulsory saving rose during the year reviewed by 75 per cent, but the absolute increase was smaller than in 1962 when collection actually began. Collections on account of National Insurance expanded somewhat more slowly than in the previous year.

The increase in direct taxes absorbed 18 per cent of the incremental domestic income in 1963, as compared with 23 per cent the year before. Despite a certain slowing down as against 1962, direct tax revenue continued to grow in 1963 at a faster rate than national income. Consequently, disposable domestic income rose by 1 per cent less than national income; in 1962 it had risen by 2.5 per cent less.

Foreign currency transfers from the rest of the world to private individuals and nonprofit institutions in Israel continued to expand in 1963. There was also a slight rise in the exchange rate for such transfers as compared with the average rate for 1962 (when the official rate was IL 1.80=\$ 1 until February

<sup>1</sup> The national income is estimated by the Central Bureau of Statistics directly. According to this method, it shows a rise of 22.8 per cent. However, it can also be estimated from the value of total uses and GNP—a method which shows a rise of only 20 per cent. During the years 1960 to 1963 the increase in national income has consistently been larger when estimated directly than according to the second method. This may be due to improvements in the collection of data on incomes in general and profits in particular.

<sup>2</sup> Wages include salaries, and wage earners include salary earners.

**Table II-1**  
**RESOURCES AND USES, 1958-63**  
(IL million)

	1958	1959	1960	1961	1962	1963	Per cent increase or decrease (-)				
							1959	1960	1961	1962	1963
<b>At current prices</b>											
<b>Resources</b>											
Gross national product	3,574	4,112	4,612	5,536	6,652	7,929	15.1	12.2	20.0	20.2	19.2
Imports	1,046	1,106	1,258	1,564	2,802	3,080	5.7	13.7	24.3	79.2	9.9
<b>Total resources</b>	<b>4,620</b>	<b>5,218</b>	<b>5,870</b>	<b>7,100</b>	<b>9,454</b>	<b>11,009</b>	<b>12.9</b>	<b>12.5</b>	<b>21.0</b>	<b>33.2</b>	<b>16.4</b>
<b>Uses</b>											
Private consumption	2,463	2,766	3,095	3,634	4,364	5,148	12.3	11.9	17.4	20.1	18.0
Public consumption	711	802	920	1,145	1,558	1,811	12.8	14.7	24.5	36.1	16.2
Gross investment	1,024	1,135	1,210	1,557	2,098	2,244	10.8	6.6	28.7	34.7	7.0
Exports	422	515	645	764	1,434	1,806	22.0	25.2	18.4	87.7	25.9
<b>At 1963 prices</b>											
<b>Resources</b>											
Gross national product	4,766	5,330	5,793	6,366	7,160	7,929	11.8	8.7	9.9	12.5	10.7
Imports	1,681	1,829	2,077	2,605	2,966	3,080	8.8	13.6	25.4	13.9	3.8
<b>Total resources</b>	<b>6,447</b>	<b>7,159</b>	<b>7,870</b>	<b>8,971</b>	<b>10,126</b>	<b>11,009</b>	<b>11.0</b>	<b>9.9</b>	<b>14.0</b>	<b>12.9</b>	<b>8.7</b>
<b>Uses</b>											
Private consumption	3,224	3,533	3,833	4,216	4,701	5,148	9.6	8.5	10.0	11.5	9.5
Public consumption	1,085	1,142	1,267	1,492	1,652	1,811	5.3	10.9	17.8	10.7	9.6

Gross investment	1,470	1,607	1,659	1,958	2,222	2,244	9.3	3.2	18.0	13.5	1.0
Exports	668	877	1,111	1,305	1,551	1,806	31.3	26.7	17.5	18.9	16.4
<b>Quantitative increase with uses and imports weighted at previous year's prices</b>											
Gross national product							11.4	8.4	10.5	12.2	10.7
Total resources							10.8	9.5	13.7	12.6	8.7
<b>Price indices</b>											
<b>Resources</b>											
Gross national product	75.0	77.1	79.6	87.0	92.9	100.0	2.8	3.2	9.3	6.8	7.6
Imports	62.2	60.5	60.6	60.0	94.5	100.0	-2.7	0.2	-1.0	57.5 <sup>a</sup>	5.8 <sup>a</sup>
Total resources	71.7	72.9	74.6	79.1	93.4	100.0	1.7	2.3	6.0	18.1	7.1
<b>Uses</b>											
Private consumption	76.4	78.3	80.7	86.2	92.8	100.0	2.5	3.1	6.8	7.7	7.8
Public consumption	65.5	70.2	72.6	76.7	94.3	100.0	7.2	3.4	5.6	22.9	6.0
Gross investment	70.0	70.6	72.9	79.5	94.4	100.0	0.9	3.3	9.1	18.7	5.9
Exports	63.2	58.7	58.1	58.5	92.5	100.0	-7.1	-1.0	0.7	58.1 <sup>a</sup>	8.1 <sup>a</sup>
<b>Price increase with uses and imports weighted at previous year's prices</b>											
Gross national product							3.2	3.5	8.6	7.0	7.6
Total resources							1.9	2.7	6.4	18.2	7.2

<sup>a</sup> In 1962 the average exchange rate for imports and exports was IL 2.87 = \$ 1. The rise in the exchange rate thus totalled 59.5 per cent in 1962 and 4.5 per cent in 1963. C.i.f. import prices fell by 0.9 per cent in 1962, and rose by 1.2 per cent in 1963. F.o.b. export prices fell by 0.9 per cent in 1962, and rose by 3.4 per cent in 1963.

SOURCE: The table is based on data of the Central Bureau of Statistics, but as regards certain details other definitions were used:

1. Gross interest paid by the Government and the Jewish Agency is here included in public consumption and in the national product, while the CBS defines it as a factor-cost subsidy.
2. Factor payments to the rest of the world are here included in imports, and factor payments to the rest of the world in exports. The CBS classification enters the net figure as a special item.
3. Import taxes and export subsidies are here defined as ordinary taxes, and GNP includes taxes net of subsidies. CBS data show imports and exports at the effective exchange rate—i.e. import taxes are included with imports while export subsidies are included with exports, and neither are included in GNP.

**Table II-2**  
**PRIVATE SECTOR INCOME, 1958-63**  
 (IL million)

	1958	1959	1960	1961	1962	1963	Per cent increase or decrease (-)				
							1959	1960	1961	1962	1963
(1) National income	2,745	3,121	3,510	4,168	4,986	6,123	13.7	12.5	18.7	19.6	22.8
(2) Public sector transfers (net), less public sector income from property	70	56	93	104	109	139	-20.0	66.1	11.8	4.8	27.5
(3) Private income from domestic sources (1) + (2)	2,815	3,177	3,603	4,272	5,095	6,262	12.9	13.4	18.6	19.3	22.9
(4) Less: Income tax	243	269	316	376	490	641	10.7	17.5	19.0	30.3	30.8
(5) Absorption Loan and compulsory saving	—	—	—	4	57	100	..	..	..	..	..
(6) National Insurance contributions	73	81	103	126	146	162	11.0	27.2	22.3	15.9	11.0
(7) Total direct taxes (4) + (5) + (6)	316	350	419	506	693	903	10.8	19.7	20.8	37.0	30.3
(8) Disposable income from domestic sources (3) - (7)	2,499	2,827	3,184	3,766	4,402	5,359	13.1	12.6	18.3	16.9	21.7
(9) Private transfers and restitution from abroad <sup>a</sup>	183	177	242	280	575	695	-3.3	36.7	15.7	105.4	20.9
(10) Transfers to nonprofit institutions from abroad <sup>a</sup>	80	85	86	92	114	123	6.3	1.2	7.0	23.9	7.9
(11) Total transfers from abroad (9) + (10)	263	262	328	372	689	818	-0.4	25.2	13.4	85.2	18.7
(12) Total disposable income (8) + (11)	2,762	3,089	3,512	4,138	5,091	6,177	11.8	13.7	17.8	23.0	21.3

<sup>a</sup> Transfers have been computed at the official exchange rate, i.e. IL 1.80 = \$ 1 during 1958-61 and IL 3.00 = \$ 1 in 1963. In 1962 the average rate for transfers to households was IL 2.89 = \$ 1, and for transfers to nonprofit institutions—IL 2.42 = \$ 1.

9). The increase in the local currency value of such transfers came to 20 per cent.

The impact of foreign transfers on income growth, which had been very great in 1962, was much more limited in 1963. Disposable income from internal sources expanded by only 17 per cent in 1962, while transfers from abroad rose by 85 per cent, and incomes inclusive of such transfers by 23 per cent. In 1963 both domestic and aggregate income advanced by about 21 per cent.

## 2. PRICES

The monetary expansion and the growth of demand exceeded the real increase in the national product. Though the public apparently displayed a slightly greater propensity to save and a considerable part of the additional demand was channelled to financial assets and the real estate market, there was a sizeable demand surplus as regards consumption and investment, and this caused prices to rise.

The level of private consumption prices was about 8 per cent higher in 1963 than in 1962—similar to the rise between 1961 and 1962. The increase in investment prices reached 6 per cent, which was smaller than in 1962; the same applies to public consumption prices. The latter rise reflects both wage increases and the generally higher prices of goods and services purchased by the public sector.

It should be noted that the rise in the average price level of final uses during 1963 was largely due to increases that had occurred in 1962. The consumer price index, for example, was some 5 per cent higher at the end of 1962 than its average level for the year. During 1963 the index went up by 5 per cent. There appears to have been a similar development as regards other prices—i.e. their increase during 1963 was smaller than that in their average annual level.

The higher citrus prices fetched abroad pushed up the average foreign currency price of Israel's exports by 3.5 per cent, and this, together with a 4.5 per cent increase in the average exchange rate,<sup>2</sup> raised export prices by 8 per cent in terms of Israeli pounds.

The foreign prices of imports went up by approximately 1 per cent, and the average exchange rate by 4.5 per cent; import prices in Israeli pounds were thus 6 per cent higher.

The rise in the average price level of final uses was smaller in 1963 than in 1962. But whereas in 1962 some two-thirds of the total price increase reflected the higher effective exchange rate for imports, this factor was responsible for

<sup>1</sup> The Absorption Loan was actually imposed in November 1961, but only IL 4 million was collected in 1961. Compulsory saving was introduced in August 1962.

<sup>2</sup> The Israeli pound was devalued on February 9, so that part of the imports and exports of 1962 have been valued at the IL 1.80/\$ 1 exchange rate; the average exchange rate for 1962 was IL 2.87/\$ 1.

**Table II-3**  
**NATIONAL INCOME AND GROSS NATIONAL PRODUCT, AT CURRENT PRICES, 1958-63**  
 (IL million)

	1958	1959	1960	1961	1962	1963	Per cent increase or decrease (-)				
							1959	1960	1961	1962	1963
(1) National income	2,745	3,121	3,510	4,168	4,986	6,123	13.7	12.5	18.7	19.6	22.8
(2) Indirect taxes, net											
Indirect taxes on local production	301	358	417	537	640	761	18.9	16.5	28.8	19.2	18.9
Indirect import taxes, net	224	297	333	428	407	434	32.6	12.1	28.5	-4.9	6.6
Less: Subsidies on local production	74	79	88	72	98	128	6.8	11.4	-18.2	36.1	30.6
Subsidies on exports	41	67	105	148	44	28	63.4	56.7	41.0	-70.3	-36.4
Total indirect taxes, net	410	509	557	745	905	1,039	24.1	9.4	33.8	21.5	14.8
(3) Net national product (1) + (2)	3,155	3,630	4,067	4,913	5,891	7,162	15.1	12.0	20.8	19.9	21.6
(4) Depreciation	283	316	364	430	601	716	11.7	15.2	18.1	39.8	19.1
(5) Gross national product <sup>a</sup> (3) + (4)	3,438	3,946	4,431	5,343	6,492	7,878	14.8	12.3	20.6	21.5	21.3
(6) Errors and omissions	136	166	181	193	160	51	..	..	..	..	..
(7) Expenditure on gross national product <sup>b</sup> (5) + (6)	3,574	4,112	4,612	5,536	6,652	7,929	15.1	12.2	20.0	20.2	19.2

<sup>a</sup> GNP as calculated from direct estimates of national income.

<sup>b</sup> GNP as estimated by deducting imports from estimated total uses; this is the concept of GNP used throughout this Report.

SOURCE: Central Bureau of Statistics (see source for Table II-1).

only some 25 per cent of the price increase in 1963; most of it was due to the advance in GNP prices, which somewhat exceeded that in the previous year.

Import prices in terms of Israeli pounds rose by 6 per cent in 1963, mainly reflecting the fact that the IL 1.80/\$ 1 exchange was in force until February 1962. Customs duties and other import taxes averaged 45 agorot per dollar in both 1962 and 1963.

Export subsidies, which were small even in 1962, declined still further in 1963. They were mainly granted in the form of Government participation in publicity expenses abroad, international fairs, exhibitions, etc., primarily in connection with the penetration of new markets.

Government revenue from import taxes, net of export subsidies, rose by only 12 per cent in 1963, as against 30 per cent the year before. Taxes on local production, less subsidies, increased by 16–17 per cent in 1963, the same as in 1962. Total indirect taxes, less subsidies, thus rose less in 1963 than in the preceding year. The weight of taxes within the gross national product at market prices declined in 1963, after having gone up somewhat the year before. This is a reflection of the price stabilization policy, which *inter alia* involved the freezing of tax rates, and sometimes even their reduction or the granting of subsidies. If net indirect taxes are deducted for both years, the rise in GNP prices that can be ascribed to factor costs was greater in 1963 than in 1962—7.7 per cent as against 6.8 per cent.

Cuts in indirect taxation and the granting of subsidies may, of course, prevent a rise in the prices of individual products and even help to create an atmosphere of stability for a short period. However, such expedients expand incomes, and thus aggregate demand. Consequently, they intensify inflationary pressures, which find expression by pushing up other prices. Tax cuts during periods of full employment thus cause the general price level to move up.

The freezing of import tax rates while local prices are rising also has a direct detrimental effect on the balance of payments, since it reduces the relative price of imports. In 1963 the IL price of an import dollar, assuming the composition of imports to have remained as in 1962 and including indirect taxes, rose by 2 to 3 per cent. GNP prices<sup>1</sup> were 8 per cent higher than in 1962. Thus the relative price of a dollar's worth of imports fell by 4 per cent during the year reviewed, a development which tends to encourage the excessive use of imports in preference to local products.

### 3. USES

#### (a) *Private consumption*

The real increase in private consumption during 1963 was 9.5 per cent, a little less than in 1962 and 1961. This also reflects a slower growth of per

<sup>1</sup> Taxes on imports have been excluded from the national product for purposes of this calculation.

capita consumption, which came to 5.4. per cent. As in 1962, private consumption expanded more slowly than the national product.

The biggest increase occurred in purchases of durable goods, especially motor vehicles. The number of new cars bought for private use was 77 per cent higher than in 1962. The smallest rate of increase was in food consumption—7 per cent. This development was in line with the aforementioned downtrend in the percentage of food consumption and increase in the proportion of durable goods and services owing to the rise of living standards.

Since the import component is relatively high in durable goods and relatively low in foodstuffs, this change in the composition of consumption has raised the total import component of consumption. The increase has occurred mainly in the weight of imported manufactured goods. Despite the shift to products with a high import component, the import component of locally produced consumer goods has been declining because of import substitution in a number of productive sectors.

#### (b) *Public consumption*

The real increase in public consumption totalled some 9 to 10 per cent. Here too the rate of expansion was slower than during the preceding three years. Government imports contracted, and this caused a decline in the import component of public consumption. If imports are disregarded, the rise in public consumption came to almost 15 per cent. This is largely attributable to the increase in interest payments. The real increase in other Government purchases and wage and salary payments is estimated at 12 per cent.

#### (c) *Gross investment*

In real terms, gross investment expanded in 1963 by only 1 per cent. Investment in stocks was smaller than in 1962, while that in fixed assets was 2 per cent larger. Net investment—i.e. gross investment less depreciation—was below the 1962 figure. Nevertheless the capital stock, both of productive capital and of dwellings, showed a further growth of 9–10 per cent.

Investment in the productive sectors was 5 to 6 per cent higher, while that in residential housing apparently contracted somewhat, according to preliminary estimates, owing to a decrease of 20 per cent in construction financed with public funds.<sup>1</sup>

Following the trend of recent years, investment in agricultural output also declined. Investment in equipment, exclusive of ship and aircraft purchases, was 14 per cent higher in 1963. Most of the increase occurred in locally manufactured equipment, imports being only slightly larger than in 1962.

<sup>1</sup> Various indicators of the input of building materials and labor in this sector and of income originating in it differ from the estimates cited here, which are direct estimates of investment in construction, the former showing a rise of 5 per cent. The estimate here is probably too low and may have to be corrected; however, the indicators of inputs also point to only a limited rise.

(d) *Exports*

Exports at constant prices increased by 16.5 per cent in 1963, as compared with 19 per cent in 1962 and an average of more than 20 per cent over the 1960-62 period. Owing to the higher prices obtained abroad, the increase in export proceeds was larger, reaching 20 per cent—a rate similar to that of 1962 and the average for 1960-62.

Though the balance of payments shows income from exports in terms of foreign currency and at current prices, it would be wrong to examine the development of exports from this aspect only. The year 1963 was an especially favorable one as regards citrus. During the 1962/63 season, Israel enjoyed a record citrus harvest, while yields in competing countries were very low. This made possible a considerable expansion of citrus sales at appreciably higher prices, and income rose by over 50 per cent. This increase, which was greater than what the growth of capacity normally would have permitted, had a distinctly random element and only partly reflects the organic progress of the economy in expanding exports. And indeed, in the 1963/64 season the quantity of citrus shipped abroad declined by 8 per cent and prices tumbled by over 15 per cent, causing foreign currency citrus earnings to contract by almost 25 per cent. It should be pointed out, however, that the 1963/64 yield was below average.

Exports of commodities other than citrus were 17 per cent higher in 1963.

Exports of services grew rather more slowly than in 1962. Income from tourism continued to mount rapidly, but that from transportation services did not rise at all. El Al's earnings actually declined, while income from shipping rose only slightly.

Agricultural exports other than citrus contracted in all items.

Exports of industrial products, including diamonds, continued upward, expanding at about the same rate as in 1962. Especially noteworthy was the appreciable growth in citrus products and metal goods. Tires and clothing, which in the past had made an important contribution to industrial exports, fell off in 1963.

These comparative growth rates, which refer to calendar years, do not give a complete picture of export developments. A monthly breakdown shows that, after allowing for seasonal and chance fluctuations, exports expanded at an almost uniform rate of over 2 per cent per month between the devaluation and the end of 1962. There was a further acceleration during the first four months of 1963, but as of May 1963 export data adjusted for seasonal and random fluctuations reveal a downward trend, which carried over into early 1964.

This downturn gave cause for particular concern in 1963, the second year after devaluation. It might have been expected that this year at least exports would have received a distinct preference over the local market. In the condi-

tions actually prevailing in 1963—when wages rose more than productivity and the exchange rate remained stable—the profitability of exports, especially industrial, gradually diminished.

For most industrial branches the devaluation increased the returns on export to a limited extent only—by an average of some 15 per cent; in several branches the increase was even smaller, and in others there was no increase at all. The rise of the price level in the local market during 1962 and 1963 has already wiped out in most industrial branches the advantages conferred on exports by the devaluation, and their relative profitability continues to decline.

Moreover, among those branches where price increases were prevented are some which even after the devaluation sold their products at higher prices in the local market than abroad. Under such conditions, producers divert only their surplus output to export. The threat of competing imports in these cases can have an effect similar to the breaking of a monopoly, leading directly to a larger volume of marketing at home and to smaller surpluses available for marketing abroad. It should be noted that this process is basically desirable, despite the fact that it interferes with the expansion of exports, since the exports affected are those not profitable to the economy. The liberalization of imports puts production on a sounder basis, and thus may lead to larger exports in the long run, even though it tends to reduce certain exports in the short run.

A breakdown of imports and the national product according to final uses shows that in 1963—in contrast to former years—there was a decline in the import component of exports and a rise in the percentage of value added. The higher value added is even reflected by calculations at constant prices, and it was chiefly due to the larger relative weight of citrus exports, which have a high value added. Owing to the higher foreign prices obtained for exports, the increase in value added was even greater at current prices. The changes in the composition of overseas sales, especially the bigger weight of diamonds in total industrial commodities, had an opposite effect, tending to increase the import component of exports.

#### 4. RESOURCES

##### (a) *Product*

The real increase in the gross national product in 1963 was 10 to 11 per cent, about the same as the average for recent years, though smaller than in 1962. The slower rate of expansion as compared with 1962 was chiefly due to developments in the construction sector. The output of this sector, which had risen by almost 15 per cent in 1962, expanded only slightly in 1963, if at all.<sup>1</sup>

Expansion was also slower in the transportation sector, particularly as regards civil aviation. The air fleet did not grow at all during the year, and the average

<sup>1</sup> See footnote on p. 18.

rate of utilization declined somewhat. The shipping branch registered a small advance only. Nor was there a significant increase in the output of the trucking industry—a fact certainly connected with the slow expansion of construction.

In other sectors growth rates were similar to those of previous years.

**Table II-4**  
**INCREASE IN REAL PRODUCT AND GAINFULLY EMPLOYED,**  
**BY SECTOR, 1962-63**  
(percentages)<sup>a</sup>

Sector	Product <sup>b</sup>		No. of gainfully employed	
	1962	1963	1962	1963
Agriculture	8.0	10.5	-1.0	-2.0
Industry	14.0	14.5	9.5	8.0
Construction	14.5	0-4 <sup>c</sup>	10.0	6.0
Transportation	15.0	7.0	4.5	5.5
Services	12.0	11.0	6.0	5.5
<b>Total</b>	<b>12.2</b>	<b>10.7</b>	<b>5.7</b>	<b>4.9</b>

<sup>a</sup> Figures for individual sectors have been rounded to the nearest half per cent.

<sup>b</sup> For all sectors except agriculture, the figures actually refer to the rate of increase in output. But since the ratio between input and output is usually more or less constant, the data may be taken as an indicator of the growth of product.

<sup>c</sup> See footnote on p. 18.

SOURCE: Bank of Israel.

Net agricultural product advanced by more than 10 per cent, though output expanded by only 6 per cent. This was due to the excellent citrus yield, which did not involve a corresponding increase in inputs.

The rise in the product was made possible by a growth of 5 per cent in the number of gainfully employed and one of 10 per cent in the stock of productive capital. The amount of capital per gainfully employed person was thus approximately 5 per cent higher, and product per gainfully employed person, 5.5 per cent. In 1962 the product per gainfully employed expanded by more than 6 per cent.

#### (b) Imports

As already mentioned, imports expanded by only 4 per cent in 1963. This of course is in itself a positive phenomenon, but when considered in the light of developments during the period preceding 1963 and in 1964, it becomes

clear that this low growth rate was not essentially the result of self-restraint as regards imports or of the substitution of local products for imports, since the structure of economic activity shows only small changes in this respect. The fact that imports expanded more slowly in 1963 was mainly due to the expectations of devaluation in the pre-1963 period, which caused a big concentration of raw material imports in 1961 and the early months of 1962. During the last months of 1963 and in 1964, there was again a considerable increase in such imports. It would thus appear that throughout most of 1963 a certain proportion of the economy's import requirements was supplied from stocks of raw materials accumulated in 1961 and 1962, and that these stocks were subsequently replenished. Moreover, there was a contraction of Government imports in 1963, which must be regarded as fortuitous.

As the economy expands, the volume of imports can be expected to be governed by three factors: (1) The expansion itself, on the assumption that it proceeds at a uniform rate in the various sectors and branches, will entail an increase in imports corresponding to the growth rate in the national product. (2) Actually, however, the expansion is not equal throughout the economy, as the weight of exports, which has a high import component, is growing. As the consumption level rises, there is an increased demand for imported goods and services, such as foreign travel and automotive vehicles, or for local products with a high import component, such as durable goods. On the other hand, the weight of food, which has a relatively low import component, is on the decline. Consequently, the demand for imports expands more than the demand for local goods and services. In other words, any expansion of local demand and local production entails a relatively bigger expansion of imports. (3) As against these two factors, a third one must be noted—import substitution in the productive sectors. However, this is by its very nature a slow process. The technical import component of the various production processes is fairly constant, normally changing only with the development of new productive branches. Nevertheless, import substitution can be expected to increase during a period when imports become more expensive relative to local output, as actually happened after the devaluation.

Between 1958 and 1963 total resource use expanded by 70 per cent. Had this growth been uniform in all major categories and components, it would, of course, have involved a parallel increase in raw material imports. At 1963 prices, this increment should have totalled IL 730 million (see Table II-6). But owing to the changes in the composition of final uses—the larger weight of exports and the larger weight of products with a high import component within each of the uses—imports of raw materials could have been expected to rise by a further IL 300 million approximately.<sup>1</sup> The total increase in such imports could thus have been expected to exceed IL 1,030 million. In reality it

<sup>1</sup> According to input-output analysis.

Table II-5

## IMPORTS AND NATIONAL PRODUCT, BY FINAL DESTINATION, 1958-63

(IL million, at 1963 prices)

		Private con- sumption	Public con- sumption	Gross invest- ment	Exports	Total
Imports of finished goods and services	1958	108	200	322	—	630
	1959	122	215	283	—	620
	1960	136	218	379	—	733
	1961	147	355	438	—	940
	1962	200	448	423	—	1,071
	1963	285	427	424	—	1,136
Imports of raw materials	1958	556	53	181	261	1,051
	1959	613	59	189	348	1,209
	1960	679	66	195	404	1,344
	1961	783	80	243	559	1,665
	1962	804	85	296	710	1,895
	1963	816	86	289	753	1,944
Total imports	1958	664	253	503	261	1,681
	1959	735	274	472	348	1,829
	1960	815	284	574	404	2,077
	1961	930	435	681	559	2,605
	1962	1,004	533	719	710	2,966
	1963	1,101	513	713	753	3,080
Gross national product	1958	2,560	832	967	407	4,766
	1959	2,798	868	1,135	529	5,330
	1960	3,018	983	1,085	707	5,793
	1961	3,286	1,057	1,277	746	6,366
	1962	3,697	1,119	1,503	841	7,160
	1963	4,047	1,298	1,531	1,053	7,929
Total final uses	1958	3,224	1,085	1,470	668	6,447
	1959	3,533	1,142	1,607	877	7,159
	1960	3,833	1,267	1,659	1,111	7,870
	1961	4,216	1,492	1,958	1,305	8,971
	1962	4,701	1,652	2,222	1,551	10,126
	1963	5,148	1,811	2,244	1,806	11,009

was much smaller, totalling a little less than IL 900 million. The difference of about IL 140 million was apparently due to import substitution through the vertical expansion of production in certain branches, such as the cultivation of cotton for the textile industry, the establishment of a paper mill, the larger proportion of locally refined fuel in total fuel consumption, the vertical development of production in the metal industry and in industries manufacturing synthetic products, etc. The data indicate that this process was accelerated during the past two years. Nevertheless, hasty conclusions should not be drawn on the basis of one or two years, because of possible estimating errors, unknown changes in stocks, etc. There can, for instance, be no doubt that the negative import substitution of 1961 only reflected the expansion of imports for stock accumu-

Table II-6

CHANGES IN RAW MATERIAL IMPORTS DUE TO CHANGES IN  
FINAL USES AND THEIR COMPOSITION, 1959-63

(IL million, at 1963 prices)

	1959	1960	1961	1962	1963	Total 1959-63	Per cent of total increase in raw material imports
Changes in imports due to:							
Increase in final uses	114	112	176	185	141	728	70.5
Changes in composition of final uses:							
Changes in the relative weight of various uses	41	42	14	36	46	179	17.4
Changes within the various uses	10	-3	44	57	17	125	12.1
Total changes in composition of final uses	51	39	58	93	63	304	29.5
Total increase due to changes in final uses and their composi- tion	165	151	234	278	204	1,032	100.0
Actual increase in imports	158	135	321	230	49	893	86.5
Expected increase in imports, less actual increase	7	16	-87	48	155	139	13.5

lation in anticipation of the devaluation, and that these stocks were reduced in 1962 and 1963. Thus real import substitution during these two years was smaller than would appear from the figures.

Though there has undoubtedly been a moderate trend toward import substitution in the economy, it is on a very limited scale compared with the growing import requirements. The substitution of local products for imports to the extent of IL 140 million must be viewed in the light of the changes in the composition of domestic demand, which over the same period should have entailed an import increment more than twice as big—besides the IL 730 million increase in raw material imports connected with the expansion of economic activity. Despite import substitution during these years, raw material imports thus expanded at a faster rate than the national product.

Table II-7

INCREASE IN IMPORTS OF CONSUMER GOODS AND EQUIPMENT,  
1959-63

(IL million, at 1963 prices)

	1959	1960	1961	1962	1963	1959-63
<b>Consumer goods</b>						
Increase in imports expected on the basis of weight of imports in 1958	10	10	13	16	15	64
Actual increase in imports	14	14	11	53	85	177
Difference	4	4	-2	37	70	113
<b>Equipment<sup>a</sup></b>						
Increase in imports expected on the basis of weight of imports in 1960	..	..	54	48	42	144
Actual increase in imports	..	..	57	45	18	120
Difference	..	..	-3	3	24	24

<sup>a</sup> Excluding ships and aircraft.

Raw materials constituted some 60 per cent of total imports in 1963. The remaining 40 per cent represented imports of finished goods and services for final use.<sup>1</sup> Table II-5 shows the distribution of imports according to their final destinations. A comparison between imports of finished products and local output

<sup>1</sup> Services sold directly to the final consumer and not constituting input to production processes.

**Table II-8**  
**IMPORT COMPONENTS OF FINAL USES, 1958-63**  
 (percentages, at 1963 prices)

		Private con- sumption	Public con- sumption	Gross invest- ment	Exports	Total
Total import component	1958	20.6	23.3	34.2	39.1	26.1
	1959	20.8	24.0	29.4	39.7	25.5
	1960	21.3	22.4	34.6	36.4	26.4
	1961	22.1	29.2	34.8	42.8	29.0
	1962	21.4	32.3	32.4	45.8	29.3
	1963	21.4	28.3	31.8	41.7	28.0
Import component of output <sup>a</sup>	1958	17.8	6.0	15.8	39.1	18.1
	1959	18.0	6.4	14.3	39.7	18.5
	1960	18.4	6.3	15.2	36.4	18.8
	1961	19.2	7.0	16.0	42.8	20.7
	1962	17.9	7.1	16.5	45.8	20.9
	1963	16.8	6.2	15.9	41.7	19.7
Imported finished goods and services component of final uses	1958	3.3	18.4	21.9	—	9.8
	1959	3.5	18.8	17.6	—	8.7
	1960	3.5	17.2	22.8	—	9.3
	1961	3.5	23.8	22.4	—	10.5
	1962	4.3	27.1	19.0	—	10.6
	1963	5.5	23.6	18.9	—	10.3

<sup>a</sup> Output is here defined as the product plus imported raw materials.

for the various final uses is meaningful mainly in two spheres: private consumption and investment in equipment.

Table II-7 shows the incremental import of finished consumer goods that could have been expected if the import components had remained as in 1958, and the probable incremental import of equipment if its import component had remained as in 1960.<sup>1</sup>

The share of imports in private consumption remained stable during the 1958-61 period, but their weight increased in 1962 and 1963. During these two years private consumption expanded by 22 per cent, while imports for consumption were almost doubled. A considerable proportion of the increase

<sup>1</sup> No suitable data are available for equipment for 1958 or 1959.

in imports for consumption was accounted for by travel abroad and purchases of foreign cars. However, there was also a big growth in other items. The expansion of imports for consumption was connected on the one hand with changes in the composition of consumption—imported goods and services being preferred as incomes rose—and on the other hand with the liberalization of imports, which enabled items previously restricted to be imported into the country.

As regards equipment, the analysis covers only the years 1961–63. Estimates for these years show that the share of imports in total purchases of equipment remained in 1961 and 1962 at the same level as in 1960, but declined in 1963. The larger proportion of locally manufactured equipment in 1963 was due to the bigger share of locally assembled automotive vehicles and to a considerable growth in the output of certain equipment manufacturing branches, especially electrical appliances and labor-saving equipment for industry and construction. These two branches supply a considerable part of the domestic demand, and their relatively big expansion during 1963 was apparently due to the composition of the demand for equipment, which during the year reviewed was concentrated largely on equipment that could be manufactured in Israel. Moreover, the equipment manufacturing branches were encouraged by the raising of the effective rate for competing imports, which before devaluation was at most IL 2.16 to the dollar.