

CHAPTER V

DOMESTIC INVESTMENT

GROSS INVESTMENT in fixed assets totalled IL 2,126 million in 1963, while investment in inventories reached IL 118 million. The real increase in gross investment was only 1 per cent, as compared with an average of 9 per cent per annum for the 1955-62 period.

Table V-1

GROSS AND NET INVESTMENT, 1958-63

	1958	1959	1960	1961	1962	1963
	IL million					
At current prices						
Investment in fixed assets	961	1,057	1,124	1,465	1,973	2,126
Investment in inventories	63	78	86	92	125	118
Gross investment	1,024	1,135	1,210	1,557	2,098	2,244
Less: Depreciation	283	316	364	430	601	716
Net investment	741	819	846	1,127	1,497	1,528
At 1962 prices						
Investment in fixed assets	1,319	1,436	1,475	1,754	1,973	2,006
Investment in inventories	69	81	91	94	125	113
Gross investment	1,388	1,517	1,566	1,848	2,098	2,119
Less: Depreciation	399	440	485	532	601	675
Net investment	989	1,077	1,081	1,316	1,497	1,444
	Percentages					
Real increase						
Gross investment	..	9	3	18	14	1
Depreciation	..	10	10	10	13	12
Net investment	..	10	0.4	22	14	-4
Increase in prices						
Gross investment	..	1	3	9	19	6

The volume of construction in the economy was approximately on a level with 1962.¹

The slower expansion of investment was due to the smaller scale of immigrant housing construction and the slower increase in inventories. Other types of investment expanded by 6 per cent.

Discarded assets amounted to 15 per cent of the gross investment in fixed assets, except for housing, where the proportion was only 1 to 2 per cent.

Net investment declined in 1963, since the incremental gross investment was smaller than the incremental depreciation.

Some 42 per cent of gross investment was financed this year out of gross domestic saving, as against 34 per cent in 1962.

The nondwelling capital stock increased by 11 per cent during the year reviewed, and the dwelling capital stock by 9 per cent. Capital stock per gainfully employed expanded by 6 per cent, and the dwelling capital stock per capita by 5 per cent.

The average rise in the prices of investment goods during 1963 was 6 per cent, less than in 1961 or 1962. This moderate increase encompassed all types of assets, including imported equipment.

The proportion of investment financed by the public sector came to 41 per cent, the same as in the two preceding years, though the direct investment of this sector in the economy has been increasing.

Capital investment from abroad totalled \$ 147 million in 1963, as compared with \$ 89 million in 1962. The appreciable growth in this item thus continued in the year reviewed. This capital augmented the financial resources available to the economy, thereby indirectly affecting the volume of domestic investment.

Table V-2
FOREIGN CAPITAL INVESTMENT IN ISRAEL,^a 1957-63
(\$ million)

Year	Foreign investment in Israel	Increase or decrease (-) as against previous year	
		\$ m.	%
1957	19
1958	14	-5	-26
1959	25	11	79
1960	55	30	120
1961	63	8	15
1962	96	33	52
1963	152	56	58

^a Gross.

¹ See Chapter XIII, "Construction and Housing", p. 246, footnote 1.

1. INVESTMENT, BY TYPE OF ASSET

Investment in nonresidential construction and equipment other than ships and aircraft expanded by 8 per cent during the year reviewed. The low rate of growth in total fixed capital formation—2 per cent—was due to the contraction of residential construction, smaller purchases of ships and aircraft, and the smaller investment in assets produced by the agricultural sector.

An analysis of investment components showing a decrease discloses that the slower expansion of aggregate fixed capital formation should not be regarded as an undesirable development. The acquisition of ships and aircraft is very irregular, and the fluctuations in this item from year to year are of little significance. The decline in residential construction was due to the contraction of publicly financed building for immigrants, which in turn was motivated by the accumulation of a reserve of empty housing units by Amidar Ltd. The smaller investment in afforestation, land reclamation, and orchards represents the continuation of a trend in evidence for some years past, and can be attributed to the fact that the economy has reached a certain degree of satiety as regards these assets. Other investments expanded quite appreciably, as already mentioned.

Table V-3

DOMESTIC INVESTMENT, BY TYPE OF ASSET, 1962-63

(IL million)

Type of asset	At current prices		1963 at 1962 prices	Per cent increase or decrease (-) in 1963	
	1962	1963		Real investment	Prices
Nonresidential construction	549	595	563	3	6
Residential construction	663	665	630	-5	6
Total construction	1,212	1,260	1,193	-2	6
Assets produced by agriculture	70	64	59	-16	9
Equipment other than ships and aircraft					
Imports	414	473	443	7	7
Local production	212	278	266	25	5
Total equipment other than ships and aircraft	626	752	709	13	6
Ships and aircraft	66	51	51	-23	0
Total fixed capital formation	1,974	2,126	2,012	2	6

SOURCE: Central Bureau of Statistics.

Investment in equipment

Whereas in 1962 investment in local and imported equipment (other than ships and aircraft) expanded at approximately the same rate—despite the big rise in the effective exchange rate for imported equipment following the devaluation—the data for 1963 indicate a tendency toward import substitution. This of course was a positive development, but part of the increased weight of local production in aggregate investment in equipment was in fact due to the expanded assembly of automobiles (a real increase of 36 per cent), which has a low value added.

Data on local equipment production show that the expansion in 1963 was not caused by the manufacture of items previously imported, but by the bigger output of equipment already made in the country. Labor-saving equipment for the construction and industrial sectors (intraplant transport equipment) was among the items whose output grew.

There was further substitution of equipment for labor in the domestic production of investment goods in 1963. Investment in assets whose production is labor-intensive, such as buildings and items produced by agriculture, did not expand in 1963, while the manufacture of equipment advanced 25 per cent. Moreover, the degree of labor intensity in the construction sector has been diminishing in recent years. These developments helped to reduce the pressure of demand in the labor market.

The import component of investment rose by 4 per cent in 1963 as compared with 1962. This was due to the larger weight in aggregate investment of local equipment, which has an above-average import component, and the reduced weight of construction investment, which has a low import component.

Diagram V-1

INDEX OF THE PRICE OF LABOR RELATIVE TO THE PRICE OF EQUIPMENT, 1951-63 (1951 = 100)

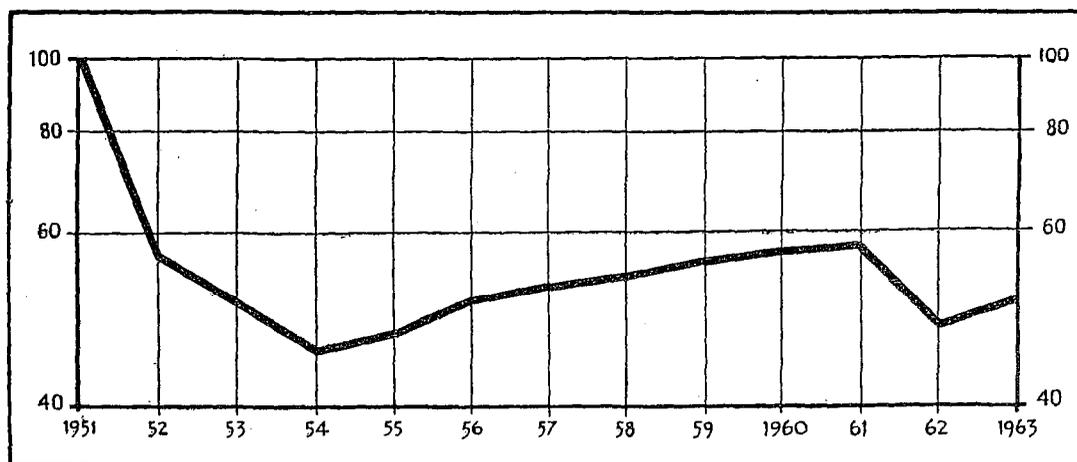


Table V-4

INVESTMENT IN EQUIPMENT, 1961-63

(IL million, at 1961 prices)

	1961	1962	1963	Increase or decrease (-) as against preceding year	
				1962	1963
Investment in equipment other than ships and aircraft					
Imported equipment	252	298	320	18	7
Locally manufactured equipment	160	186	233	16	25
Total investment in equipment other than ships and aircraft	412	484	553	18	14
Investment in ships and aircraft	100	40	30	-60	-25
Total investment in equipment	512	524	583	2	11

SOURCE: Central Bureau of Statistics.

2. INVESTMENT PRICES

The rise in the prices of the various types of investment was fairly uniform in 1963, amounting to 5 to 6 per cent in construction and 6 per cent as regards imported and locally manufactured equipment. Only the prices of assets originating in agriculture rose more—by 9 per cent. Most of the increase in construction prices was due to the higher wages paid by the sector during the year reviewed.¹

In 1963 wages rose faster than equipment prices. The relative price of equipment was pushed up steeply by devaluation; consequently, the comparatively faster increase in wages in 1963 reflects a *weakening in the influence of devaluation on relative prices*, the more so since interest rates on loans did not change during the year reviewed. This development was in line with the pattern prevailing before past devaluations: *the rise in the prices of imported equipment was normally slower than the rise in other import prices*, and since the devaluations led to a unification of the exchange rates, they were invariably accompanied by a steep rise in the prices of imported equipment. On the other hand, in the periods between one devaluation and the next, wages increased at a faster rate and caught up with the rise in equipment prices.

¹ The estimate is based on changes in the input prices of the construction sector.

This development explains the tendency to invest in labor-saving equipment which was evident in the construction and industrial sectors during the last two years.

3. INVESTMENT, BY ECONOMIC SECTOR

(a) *Agriculture and irrigation*

The declining trend in investment goods produced by agriculture itself, namely land reclamation, orchards, and livestock, continued in 1963. The nonexpansion of investment in afforestation and land reclamation was primarily due to the full employment situation prevailing in the country, which obviated the need for stepping up relief work. The smaller investment in orchards is attributable to the limiting of new planting.

The livestock herd was not enlarged, owing to the production curbs on cattle farming. Construction and purchases of equipment for this type of farming also declined.

Approximately IL 130 million was invested in water projects during 1963—mainly in the National Water Carrier, the initial stage of which was virtually completed. This stage will connect the water sources in the North to the Yarkon-Negev pipeline, permitting the channelling of some 150 million cubic meters of water per annum from the North to the South.

(b) *Industry*

The distribution of investment between the various branches of industry in recent years, as compared with the distribution of the capital stock in 1958 (see Table XII-3), shows that during the last two years expansion proceeded at an above-average rate in the textile and clothing, chemical and petroleum, and machinery and electrical equipment branches. In contrast, there was a downtrend in the wood, paper, leather, rubber and plastics, and metal branches.

In 1963 investment in industrial buildings contracted while that in equipment rose; this indicates that investment in this sector was chiefly intended for the expansion of existing enterprises rather than the establishment of new ones.

(c) *Mining and quarrying*

The lower investment in this sector in 1963 is attributable primarily to the Dead Sea Works Ltd., where the construction of dams and evaporation pans slowed down. On the other hand, purchases of equipment for the new potash refinery were appreciably larger.

(d) *Electricity*

Of the IL 65 million invested in electric power generation in 1963, some IL 20 million went for the completion of the second power station at Ashdod. This

GROSS DOMESTIC INVESTMENT, BY SECTOR AND TYPE OF ASSET, 1962-63

(IL million)

	At current prices												Per cent increase or decrease (-) in 1963 as against 1962, at constant prices			
	1962				1963				1963 at 1962 prices				Con- struction	Equip- ment	Agricul- tural output	Total
	Con- struction	Equip- ment	Agricul- tural output	Total	Con- struction	Equip- ment	Agricul- tural output	Total	Con- struction	Equip- ment	Agricul- tural output	Total				
Agriculture	31	42	70	143	31	41	64	136	30	38	59	127	-3	-10	-16	-11
Irrigation	101	11		112	115	13		128	110	12		122	9	9		9
Industry	85	261		346	82	319		401	77	299		376	-9	15		9
Mining and quarrying	32	34		66	21	42		63	19	40		59	-41	18		-11
Electricity	26	51		76	28	37		65	26	35		61	0	-31		-20
Transp. & com. (excl. ships & aircraft)	66	145		211	86	195		281	81	188		269	23	30		27
Ships & aircraft		66		66		51		51		51		51		-23		-23
Business services	41	16		57	45	20		65	43	19		62	5	19		9
Public services	167	66		234	187	84		271	177	78		255	6	18		9
Total invest- ment excl. housing	549	692	70	1,311	595	802	64	1,461	563	760	59	1,382	3	10	-16	5
Public housing	321			321	272			272	258			258	-20			-20
Private housing	342			342	393			393	372			372	9			9
Total invest- ment in housing	663			663	665			665	630			630	-5			-5
Total invest- ment in fixed assets	1,212	692	70	1,974	1,260	802	64	2,126	1,193	760	59	2,012	-2	10	-16	2
Inventory				125				118				113				-10
Total gross invest- ment				2,099				2,244				2,125				1

SOURCE: Central Bureau of Statistics.

station boosts the capacity of the sector by 13 per cent—from 560 to 635 megawatts. Approximately IL 5 million was invested during the year in the power station at Eilat, which is being built in conjunction with a sea-water desalination plant.

Other investments were earmarked for the erection of transformer stations and the extension of the national grid.

(e) *Transportation and communications*

Investment in this sector advanced by 16 per cent, chiefly because of the 24 per cent increase in the volume of port (especially at Ashdod) and highway construction.

Purchases of equipment other than ships and aircraft expanded by 16 per cent. Investment in transport vehicles was doubled, while purchases of equipment for the Post Office and Israel Railways declined.

There was no new investment in aircraft in 1963, after the purchase of three Boeing jets by El Al in 1962.

The shipping industry acquired four additional cargo vessels, costing nearly IL 50 million.

(f) *Services*

The services sector showed a 9 per cent growth in investment in 1963—an increase of 18 per cent in equipment purchases and 6 per cent in the volume of construction.

In business services, investment rose despite a decline in hotel construction. The expansion took place in the construction of commercial premises.

Investment in public services increased, chiefly owing to the bigger investment in health institutions and institutions of higher education.

(g) *Residential construction*

Public residential construction declined in 1963. This was due to the smaller volume of building for immigrants, owing to the stock of empty dwellings accumulated by Amidar. Nonimmigrant public residential construction did not fall off. The volume of private building increased by 9 per cent—a high rate compared with the average for the 1955–62 period, which came to 5 per cent.

4. CAPITAL STOCK

The rates of increase in the economy's capital stock during the last 12 years exceeded those for output. All sectors except agriculture showed a rise in the capital-output ratio during this period.

Over the same years there was also a steady growth in the amount of capital stock per gainfully employed and a decrease in the labor input per unit of output. In other words, there was a tendency to substitute capital for labor.

Table V-6
INDICES OF CAPITAL AND OUTPUT, 1962
(1955 = 100)

	Capital	Output	Change in capital/output ratio
Private sector	432	388	111
Public services	1,125	350	321
Total economy	474	381	124

Table V-7
CAPITAL STOCK, BY SECTOR, 1962-63

Sector	Capital stock* at 1962 prices		Real increase		Weight in incremental capital stock in 1963	Real increase in capital stock per gainfully employed ^b	
	1962	1963	Average 1955-62	1963		Average 1955-62	1963
	IL million		Percentages				
Agriculture	2,023	2,124	9	5	5	} 6	9
Irrigation	1,119	1,238	7	11	6		
Industry and mining	3,074	3,424	12	11	18	5	6
Electricity	766	823	12	7	3	—	—
Transportation and com.	2,101	2,361	13	12	14	8	8
Services	2,176	2,466	16	13	15	11	8
Total non-dwelling capital stock	11,259	12,436	12	11	61	7	6
Dwelling capital stock	6,696	7,318	10	9	33	5	5
Total fixed assets	17,955	19,754	11	10	94	—	—
Inventories	1,073	1,186	11	10	6	—	—
Total capital stock	19,028	20,940	11	10	100	—	—

^a At end of year.

^b Stock at beginning of year divided by number of gainfully employed during the year.

^c Dwelling capital stock at end of year divided by population at end of year.

SOURCE: A. L. Gaathon, *Capital Stock, Employment and Output in Israel, 1950 to 1959*, Bank of Israel, Jerusalem, 1961.

The rise in the capital-output ratio was more pronounced in public services than in the other sectors, which together constitute the private sector.

The stock of productive capital in the economy expanded between the beginning of 1962 and the beginning of 1963 at a rate matching the average for the 1955-62 period—i.e. by 12 per cent. The number of gainfully employed increased by 5 per cent in 1963, and the capital stock per person gainfully employed by 6 per cent. The latter rate likewise approximates the average for the 1955-62 period.

As regards the amount of capital per gainfully employed, trends were not uniform. In agriculture, employment contracted during 1963, side by side with an increase in capital; this raised the capital stock per gainfully employed by 9 per cent, as compared with an average rise of 6 per cent for the 1955-62 period. A considerable proportion of this sector's capital increment in recent years has come from investment in the National Water Carrier, which will be put into operation only in 1964.

In industry and mining and quarrying, the capital stock grew faster than employment, thus resulting in a growth of 5 per cent in the amount of capital per gainfully employed.

In services and commerce the capital stock per gainfully employed expanded at a rate below the average for the 1955-62 period because of a bigger increase in employment, which far exceeded the average for this period.

5. INVESTMENT IN INVENTORIES

In 1963 the economy invested IL 113 million (at 1962 prices) in inventories. The rise in the average prices of commodities showing an increase in stocks reached 5 per cent.

Table V-8
INVESTMENT IN INVENTORIES, 1963
(IL million)

Sector	Weight in total inventories at end of 1962	Increase or decrease (-) in inventories		
		At current prices		1963 at 1962 prices
		1962	1963	
Agriculture	27	13	4	4
Industry and construction	40	55	86	83
Commerce	26	51	29	27
Others	7	-6	-1	-1
Total	100 ^a	125	118	113

^a The value of inventories at the end of 1962 at current prices was IL 1,260 million.

SOURCE: Central Bureau of Statistics.

Most of the inventory accumulation was in the industrial and construction sectors.

6. PUBLIC FINANCING

As in the two preceding years, gross financing from public sources expanded in 1963 at the same rate as gross capital formation, and its share in total sources of investment finance remained unaltered. The net percentage of such financing (less repayments of debts by the various sectors) likewise held steady.

Table V-9

PUBLIC FINANCING OF DOMESTIC INVESTMENT, BY SECTOR, 1962-63

	1963		Share of public financing	
	Total investment	Public financing	1962	1963
	IL million		(percentages)	
Agriculture and irrigation	264	221	77	84
Industry	401	97	23	24
Mining and quarrying	63	16	10	25
Electricity	65	15	26	23
Transportation and com.	332	142	48	43
Services	336	155	43	46
Housing	665	219	37	33
Total	2,126	865	41	41

The composition of gross public financing from the aspect of sectorial destination showed no significant changes in 1963. In agriculture and irrigation taken together, the weight of public financing increased; this was due to a rise in the relative share of irrigation investment, which is almost wholly financed by the Government. In the mining and quarrying sector, Negev Phosphates Ltd. and Israel Mining Industries received loans from the public sector, thereby increasing the share of public financing.

As regards the composition of investment from the aspect of types of investors and the proportion financed with public funds, the year 1963 exhibited marked changes. The weight of the private business sector in total fixed capital formation rose from 31 per cent to 35 per cent; at the same time the sector resorted less to public sources of investment finance, the net share of such sources shrinking from 15 to 11 per cent.

Public sector companies reduced their investment by IL 45 million, bringing

Table V-10

**FIXED CAPITAL FORMATION, BY TYPE OF INVESTOR AND
NET SHARE OF PUBLIC FINANCING,^a 1962-63**

(percentages)

Investor	Investment in fixed assets		Share of public financing	
	1962	1963	1962	1963
Public sector	16	18	100	100
Households (housing)	28	26	13	19
Nonprofit institutions	3	3	7	23
Private business	31	35	17	12
Public sector companies ^b	22	18	50	50
Total	100	100	36	36
Total in IL million	1,974	2,126	719	774

^a Less repayment of loans.^b Including housing companies.

down their share of aggregate investment from 30 to 24 per cent. As in 1962, the public sector financed half the investment of these companies.

Despite the stable level of residential construction, at current prices, households invested proportionately more in housing in 1963 than 1962, owing to the decline in the investment of the public sector housing companies.

The public sector itself increased its investment in roads, public services, irrigation, and ports, and its share of total financing of domestic investment rose from 45 to 49 per cent.

Table V-11

NET PUBLIC FINANCING,^a BY TYPE OF INVESTOR, 1962-63

(percentages)

Investor	1962	1963
Public sector	45	49
Households (housing)	10	14
Nonprofit institutions	—	2
Private business	15	11
Public sector companies ^b	30	24
Total	100	100
Total in IL million	719	774

^a Less loans repaid.^b Including housing companies.