

CHAPTER II

RESOURCES, USES, AND INCOMES

1. MAIN DEVELOPMENTS

TOTAL REAL RESOURCES available to the economy—the national product and the import surplus—were approximately 13 percent larger in 1964 than in the previous year. The average price of the resources went up by 4 percent; hence their value at current prices advanced by some 18 percent, to reach IL 10,990 million, as compared with IL 9,360 million in 1963.

The gross national product expanded by some 10 percent at constant prices. Average GNP prices rose by approximately 5 percent. The rise in GNP at current market prices thus came to 16 percent, bringing the figure up to IL 9,340 million. Growth rates were especially rapid in agriculture and industry; in transportation and communications and in construction they were close to the average.

In 1963 the gross domestic product constituted over 86 percent of total resources in the economy, while the import surplus accounted for the balance. During the year reviewed the weight of the product in total resources declined slightly to 85 percent. Some 23 percent of the incremental resources in 1964 originated in the larger import surplus, and the remaining 77 percent in the growth of the national product. About half the additional resources available in 1964 were utilized for private consumption, some 15 percent for public consumption, and approximately 35 percent for domestic investment.

The 16 percent increase in imports and the moderate 7 percent rise in exports caused the import surplus to expand by 30 percent at current prices, or by 25 percent at constant prices.

Real domestic capital formation was approximately 20 percent larger than in 1963, totalling some IL 2,900 million. Most of the increase was in inventories and equipment, especially ships and communication equipment.

Real private consumption rose by 11 percent, or 6.8 percent per capita, with the relative share of services and durable goods continuing upward. Expenditure on public consumption went up by 14 percent at current prices, or by 7 percent in real terms—moderate rises compared with the four preceding years.

Together with the marked growth of factor inputs—capital and labor—during the last ten years, there was an improvement in overall productivity. Product per unit of total productive factors went up by an average of some 4 percent, with

Table II-1
RESOURCES AND USES, 1963*-64
 (IL million)

	1963	1964	1964 at 1963 prices	Percent increase or decrease(-)		
				Quantity	Price	Value
Private consumption						
Households	4,797	5,556	5,355	11.6	3.8	15.8
Nonprofit institutions	438	495	462	5.5	7.0	12.9
Total	5,235	6,051	5,817	11.1	4.1	15.6
Public consumption						
Civilian consumption	875	1,019	—	—	—	16.5
Security and special budgets ^b	714	772	—	—	—	8.1
Interest payments	212	263	—	—	—	24.1
Total	1,801	2,054	1,939	7.7	5.9	14.1
Gross investment						
Housing	682	802	763	11.9	5.1	17.6
Other construction	732	823	783	6.9	5.1	12.4
Equipment	796	1,068	1,060	32.9	1.0	34.2
Inventories	103	192	183	78.1	4.4	85.9
Total	2,313	2,885	2,789	20.6	3.4	24.7
Total domestic demand	9,350	10,990	10,545	12.8	4.2	17.5
Less: Imports	3,091	3,592	3,516	13.8	2.1	16.2
Plus: Exports	1,814	1,943	1,902	4.9	2.2	7.2
Import surplus	1,277	1,649	1,614	26.3	2.2	29.1
Gross national product at market prices	8,073	9,341	8,931	10.6	4.6	15.7

^a Revised figures.

^b Source: Chapter VII, "Public Sector Operations".

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 net interest as a factor-cost subsidy.
2. Factor payments to the rest of the world are here included in imports, and factor payments from the rest of the world in exports.
3. Import taxes and export subsidies are here defined as ordinary taxes, and GNP includes taxes net of subsidies. CBS data include import taxes with imports, while export subsidies are included with exports, and neither are included in GNP.

most of the increase occurring in industry, agriculture, and the transportation and communications sector.

Nominal national income was 16 percent higher than in 1963, reaching IL 7,230 million. Direct taxes, after deduction of transfer payments, expanded by 26 percent, and disposable income from domestic sources by 15 percent. Private transfers from abroad increased by 3 percent, and private disposable income from all sources by 13 percent.

In 1964 income from wages and salaries¹ expanded more rapidly than income from other sources, but the relative return on labor per unit of product remained at the 1963 level. In the last ten years the rise in wages per employee failed to keep pace with the increase in product per gainfully employed, and the return per unit of capital went up correspondingly.

2. RESOURCES

(a) *Product*

Economic growth continued to be rapid in 1964, as reflected by the rate of real increase in the gross national product. GNP expanded by approximately 10.5 percent, a rate similar to the average for the period 1958–63, but lower than that in 1962 and 1963. GNP prices moved up 4.6 percent; at current prices, the product thus expanded by some 15 percent, reaching approximately IL 9,430 million. The population increased by an average of 4 percent in 1964; hence GNP per capita advanced by 6 percent at constant prices, as compared with an average of 7 percent per annum during the five preceding years.

In 1964, as in earlier years, the rapid growth of the national product was made possible on the one hand by increases in the number of gainfully employed and capital stock, and on the other by the existence of a high level of demand for consumer goods and capital assets—on the part of both the private and public sector.

The total number of gainfully employed was 4.6 percent higher than in 1963. Accordingly, the increase in real product per gainfully employed person amounted to 5.5–6.0 percent—less than the rate of some 7 percent attained in 1963 or the average for the last five years. Capital stock² at the beginning of 1964 was 11 percent larger than a year before, and consequently the amount of productive capital per gainfully employed went up by 6 percent during the year. Gross national product per unit of capital and labor rose by nearly 4 percent. This increase primarily reflects a more efficient utilization of available productive factors, and in part a higher utilization of the existing

¹ See note to Table II—10.

² Excluding the dwelling capital stock.

factors and a change in their quality. Productivity in agriculture was affected also by weather conditions.

1. *The national product, by economic sector*

The real product of the agricultural sector increased by 19 percent in 1964. This is a high rate compared with the three preceding years, and it can be mainly attributed to larger yields of deciduous fruit and field crops, the citrus harvest being only slightly bigger than in 1963. The accelerated rate of growth was apparently due in part to the maturing of investments made in past years and to favorable weather conditions. Agriculture contributed some 15 percent of the total increase in real GNP in 1964.

The industrial product continued to expand rapidly, by approximately 14 percent, accounting for nearly a third of the total increase during the year reviewed. Especially high growth rates were recorded in the following branches: mining and quarrying, plastics, household goods, transport vehicles, and wood and carpentry—all of which have been moving up at a faster-than-average rate in the last few years.

The real output of the transportation and communications sector advanced nearly 12 percent, which is similar to the average for the five preceding years. In 1964 the increase was concentrated in the motorized transport, communications, and civil aviation branches. On the other hand, the output of the shipping and railway branches expanded more slowly than in 1963.

The real output of the construction sector grew by 10 percent, compared with 5 percent in 1963. The expansion in residential construction was more rapid—12 percent—and its weight in total construction rose somewhat as compared with 1963. Low growth rates were registered in the commerce sector and in public and personal services—some 5 percent only.

2. *Developments in the structure of economic activity*

The real product of agriculture and industry, as already mentioned, increased at an above-average rate in 1964, but on the other hand there was an absolute decrease of some 10 percent in the prices of agricultural products, as well as a relative decrease in the prices of industrial products. In contrast, the real product of the services sectors increased at a comparatively moderate rate, which was connected with the appreciable rise in their relative prices. These developments represented the continuation of the major trends characterizing Israel's economy during the last decade.

The sectorial structure of the gross national product in Israel is in some respects similar to that of industrial states in Western Europe.¹ This is reflected by the small relative share of the agricultural sector (about 10 percent of total product), by the big weight of commerce and services, including those

¹ See United Nations' *Economic Survey of Europe, 1963*.

provided by the public sector (about 50 percent), and the relatively large weight of the construction industry (7–8 percent). The weight of the industrial sector stands at some 25 percent, and in this respect Israel resembles the countries of Southern Europe, such as Greece, Italy, Portugal, Spain, and Cyprus.

From 1955 to 1964 the value of GNP went up sixfold at current prices and threefold at constant prices. This expansion was accompanied by several changes in the sectorial structure: the share of agriculture in the total product declined from 12.3 to 10.0 percent, that of the industry advanced from 22.7 to 24.4 percent, that of the public sector declined from 19.3 to 17.9 percent, and that of the transportation and communications sector rose from 7.2 to 9.2 percent (see Table II–2).

These developments in the structure of economic activity are described in terms of the product at current prices, and do not indicate far-reaching changes. But the last decade also witnessed considerable changes in the relative prices of the product of the various sectors. There was a comparatively big increase in the case of the service sectors—both private and public—and a decline in in-

Table II–2
GROSS DOMESTIC PRODUCT AND GAINFULLY EMPLOYED, 1955 and 1964
(percentages)

Sector	Gross domestic product ^a			Gainfully employed		Index of product per gainfully employed		
	1955	1964 at current prices	1964 at 1955 prices	1955	1964	1955	1964 at current prices	1964 at 1955 prices
Agriculture	12.3	10.0	15.6	17.5	13.9	70.3	71.9	112.2
Industry	22.7	24.4	27.2	21.5	25.9	105.6	94.2	105.0
Transportation and communications	7.2	9.2	9.2	6.6	6.3	109.1	146.0	146.0
Construction	7.6	7.1	6.9	9.4	9.6	80.9	74.0	71.9
Commerce and services ^b	23.4	22.7	20.9	27.0	26.9	86.7	84.4	77.7
Public sector ^c	19.3	17.9	14.1	18.1	17.4	106.6	102.9	81.0
Housing	7.5	8.7	6.1	—	—	—	—	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

NOTE: The definition of sectors here accords with that used in the manpower surveys.

^a At factor prices.

^b Finance, insurance, and business and personal services.

^c Including nonprofit institutions.

SOURCE: Gross national product—Estimates of A. L. Gaathon based on Central Bureau of Statistics data, adjusted to the sectorial and occupational status classification used in the manpower surveys.
Employment—Bank of Israel estimates.

dustry and agriculture. A description of the changes in the sectorial distribution of the product in terms of constant prices thus yields a different picture, with more striking modifications.¹ The weight of agriculture in the domestic product, at constant prices, rose from about 12.3 percent to 15.6 percent in 1964, and the weight of industry—from 23 to some 27 percent (see Table II-2). On the other hand, the weight of the commerce and personal services sectors declined from 23.4 to 20.9 percent, and that of the public sector from 19 to 14 percent.

During the past decade there were also changes in the sectorial structure of employment. Owing to the altered distribution of the product and employment, the relative share of product per gainfully employed in the different sectors changed during this period. The share of agriculture in total employment declined from 17.5 to 13.9 percent—a moderate drop compared with that in its share of the product at current prices. In other words, during the last decade this sector experienced a comparative growth in product per gainfully employed in terms of current prices. Industry, on the other hand, exhibited an opposite trend: in 1955 it accounted for 21.5 percent of all gainfully employed in the country, and in 1964 for 25.9 percent. This increase was relatively greater than that in the sector's share of the national product, at both current and constant prices. Accordingly, there was a relative decline in the product per gainfully employed in industry as compared with that for the economy as a whole.

(b) *The import surplus*

1. *Imports*

Imports were 16 percent larger in 1964 than in 1963. At constant prices, the increase totalled approximately 14 percent; imports of goods and services constituting production inputs rose by some 14 percent, and imports earmarked directly for final uses² expanded by 15 percent.

The increase in production inputs has been classified by their final uses according to the output for which they were destined. The classification was made on the basis of the import required for current output during the year, it being assumed that the import components in each of the 80 branches of the economy remained constant. The calculations showed that the rise in production inputs was caused primarily by the growth of output and by changes in its composition. The gross national product expanded by 10 to 11 percent, but the changes in its composition should have entailed a greater increase in imported inputs—11 to 12 percent. In reality, it amounted to

¹ The data reflecting changes in terms of constant prices should be treated with considerable reserve, especially in respect of the individual sectors, as the deflators of the product in the different sectors were chosen arbitrarily.

² In the analysis of imports and exports, final uses are defined as domestic uses plus exports.

14 percent at constant prices. This difference between the expected and actual increase makes it reasonable to assume that stocks of imported raw materials were enlarged during the year. This view is supported by the fact that 1963 witnessed a contrary development: the expansion of output and changes in its composition should have resulted in an increase of some 12 percent in imports of raw materials, whereas in actual fact they hardly rose at all. This development in 1963 can be explained by the contraction of stocks of imported raw materials. It would appear that part of the stocks drawn on in 1963 were replenished in 1964. Further corroboration that this indeed took place can be found in a breakdown of raw material imports. In a number of commodities, such as metals, chemicals, wood, cotton, and oilseeds, imports increased considerably in 1964, whereas in 1963 their import did not expand, or even contracted.

Table II-3

IMPORTS AND NATIONAL PRODUCT, BY FINAL DESTINATION,^a 1962-64
(IL million, at 1964 prices)

		Private consump- tion	Public con- sumption	Gross invest- ment	Exports	Total	Changes in stocks, errors and omissions	Total actual im- ports
Imports of raw materials	1962	837	82	297	695	1,911	—	1,911
	1963	926	111	316	799	2,152	-231	1,921
	1964	1,030	122	347	873	2,372	-203	2,169
Imports of finished goods	1962	202	487	427	—	1,116	—	1,116
	1963	278	493	468	—	1,239	—	1,239
	1964	304	491	623	—	1,418	—	1,418
Total imports	1962	1,039	569	724	695	3,027	—	3,027
	1963	1,204	604	784	799	3,391	-231	3,160
	1964	1,334	613	970	873	3,790	-203	3,587
Gross national product	1962	3,882	1,179	1,597	889	7,547	—	7,547
	1963	4,247	1,303	1,608	1,055	8,213	231	8,444
	1964	4,717	1,441	1,915	1,070	9,143	203	9,346
Total final uses	1962	4,921	1,748	2,321	1,584	10,574	—	10,574
	1963	5,451	1,907	2,392	1,854	11,604	—	11,604
	1964	6,051	2,054	2,885	1,943	12,933	—	12,933

^a See note to Table III-7.

Over 40 percent (\$ 35 million) of the incremental raw material imports were used for the production of private consumption goods. This proportion can be attributed entirely to the rise in the level of private consumption, for the raw material import component in private consumption of locally produced goods remained unchanged. The share of imports destined for direct private consumption likewise held steady. True, the weight of certain imported products—such as automobiles, durable goods, and beverages—in total consumption went up, but on the other hand there was a decline in the percentage spent on foreign travel, an important item in consumer imports. Altogether, some \$ 400 million, or about one-third of the total volume of imports, was earmarked for private consumption in 1964. The incremental import used for consumption amounted to \$ 45 million, or 30 percent of the total increase in imports.

Table II-4
IMPORT COMPONENT OF FINAL USES, 1962-64^a
(percentages)

		Private consumption	Public consumption	Gross investment	Exports	Total, excl. changes in stocks, errors and omissions	Total actual imports
Total import component	1962	21.1	32.6	31.2	43.9	28.6	28.6
	1963	22.1	31.7	32.8	43.1	29.2	27.2
	1964	22.0	29.8	33.6	44.9	29.3	27.7
Import component of output ^b	1962	17.7	6.5	15.7	43.9	20.2	20.2
	1963	17.9	7.9	16.4	43.1	20.8	18.5
	1964	17.9	7.8	15.3	44.9	20.6	18.8
Finished goods for final uses	1962	4.1	27.9	18.4	—	10.6	10.6
	1963	5.1	25.9	19.6	—	10.7	10.7
	1964	5.0	23.9	21.6	—	11.0	11.0

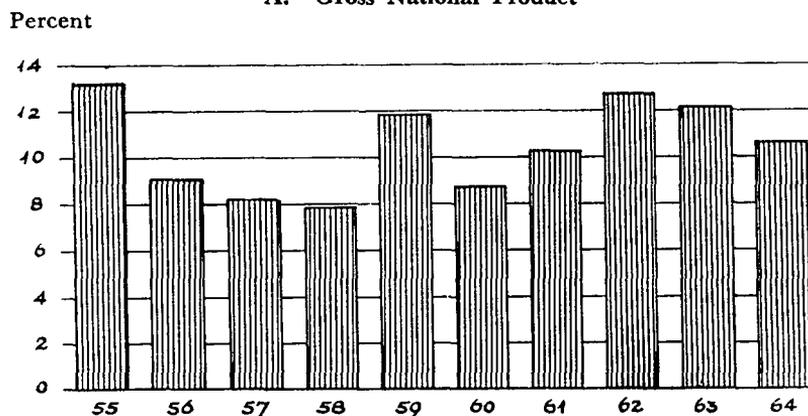
^a At 1964 prices.

^b Output is defined as the national product plus imported raw materials.

A not insignificant part of the import increment was utilized for export production. The increase in imports-for-export came to 11 percent at constant prices, though total exports expanded by only 5 percent at such prices. This reflects the growing weight of industrial exports, which have a high import component, and the decline in the relative share and absolute volume of

Diagram II-1
RESOURCES AND USES, 1955-64
 (Annual rates of change, at constant prices)

A. Gross National Product



B. Gross Investment

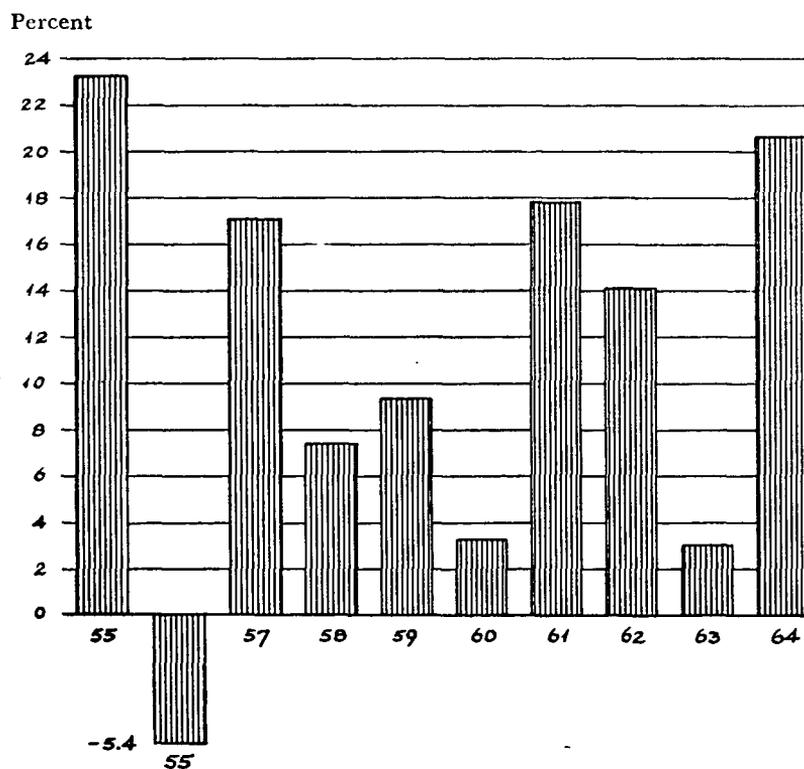
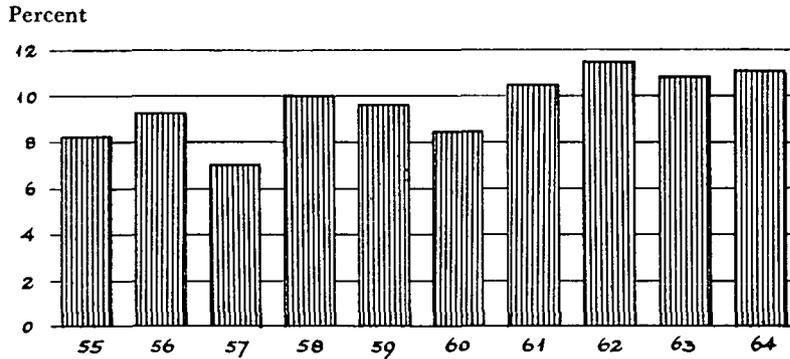
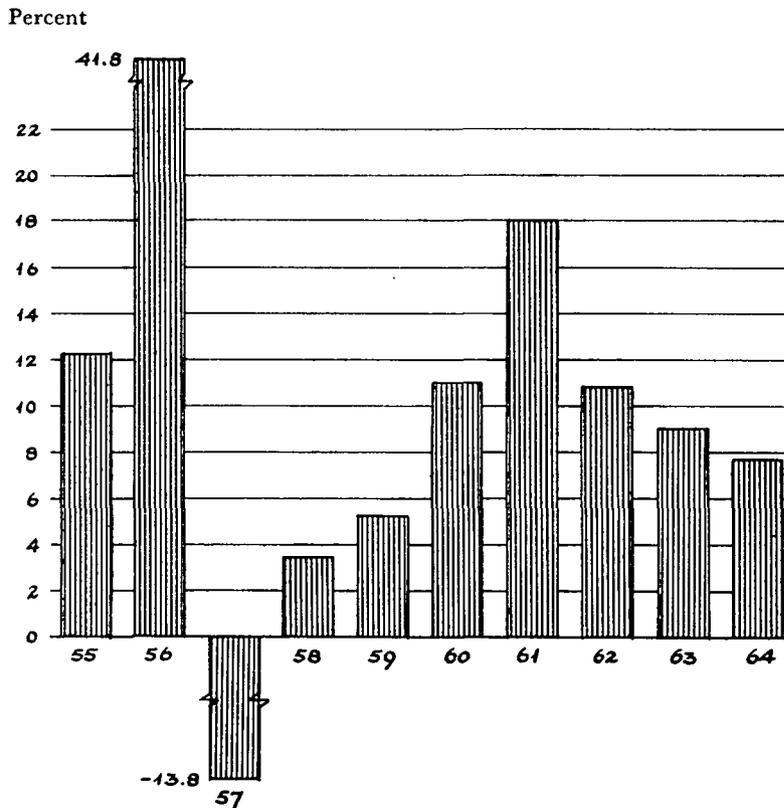


Diagram II-1
RESOURCES AND USES, 1955-64 (contd.)

C. Private Consumption



D. Public Consumption



agricultural exports, which have a low import component. Following these developments, the import component of exports rose, and the value-added component decreased.

Imports of commodities for final use went up, as stated, by 15 to 16 percent—i.e. by over \$ 60 million. Of this amount, 85 percent was earmarked for investment—in the main for the purchase of ships and aircraft—and this increased the import component of investment.

2. *Exports*

Export volume expanded by only 5 percent in 1964, but since there was a slight advance in average export prices, proceeds rose by 7 percent. Citrus sales fell off considerably, while industrial goods and services showed a slower growth than in 1963.

Citrus experienced a poor year as regards both the quantities marketed and prices obtained. Compared with 1963, volume was down by approximately 10 percent, and prices by 20 percent. The growth in industrial exports was concentrated in a few items: potash, copper-cement, citrus products, and yarns. Most branches of industry showed only a slight gain, and in some cases even a decline. In many commodities the local market competes with the export market, and in 1964 domestic sales expanded at the expense of exports. The smaller weight of agricultural commodities within total exports and the slight rise in the prices of certain imported raw materials brought down the value-added component of exports to some extent. Total value added rose by 5 percent at constant prices, and by 4 percent at current prices.

Exports increased at a lower rate than other uses, and consequently their weight in total uses moved down from 16 percent in 1963 to 15 percent in 1964. The value-added component of exports constituted 11.6 percent of the national product in 1964, compared with 12.8 percent in 1963. Incremental GNP during the year reviewed totalled IL 1,270 million, of which only IL 45 million, or 3.5 percent, went to expand exports.

3. *Import surplus*

Following the relatively big increase in imports and the relatively moderate growth of exports, the import surplus went up by 26 percent at constant prices and by nearly 30 percent at current prices (in dollar terms). In 1964 the national product rose by 10.6 percent at constant prices and by 15.7 percent at current prices. Accordingly, the share of the import surplus in total resources (GNP plus the import surplus) available to the economy for consumption and domestic investment advanced from 13.7 percent in 1963 to 15 percent. In other words, not only did the import surplus increase in absolute terms, but the economy's relative dependence on it likewise increased (see Table II-5).

Developments in respect of the import surplus were largely connected with the economic boom. The pressure of domestic demand for consumer goods and

investment assets led on the one hand to the expansion of imports, especially raw materials and durable goods, and on the other hand it slowed down export growth, since the domestic market absorbed almost the entire incremental output.

If the economy is to narrow the gap between imports and exports under conditions of full employment, it is essential to channel to domestic uses a smaller proportion of output than in the past, thus releasing resources for the expansion of exports. Domestic capital formation at a rate that would ensure uninterrupted economic growth, while at the same time making the country less dependent on the import surplus, thus necessitates a reduction in the proportion of domestic output utilized for consumption. In other words, the rate of saving must be stepped up.

The net national saving rate reached 4 percent in 1964,¹ about the same as in the previous year. Private sector saving fell off appreciably during the year, but on the other hand the net dissaving of the public sector decreased; in fact, for the first time since the establishment of the State, this sector showed a positive gross saving figure. In 1964 private and public consumption absorbed over 90 percent of the increment to net national product—private consumption accounting for 70 percent and public consumption for 21 percent—as compared with 88 percent in 1963 (see Table II-5).

3. NATIONAL EXPENDITURE

(a) *Gross investment*

The year 1964 exhibited a high level of domestic capital formation. Gross domestic investment increased from approximately IL 2,313 million in 1963 to IL 2,885 million in 1964—i.e. by some 25 percent at current prices, or by 21 percent at constant prices. Over 26 percent of total available resources, equivalent to some 31 percent of the gross national product, were diverted to investment during the year, compared with 25 and 29 percent respectively in 1963. Approximately 36 percent of the additional resources (i.e. the combined increase in the national product and import surplus) went to augment domestic capital formation in 1964 (see Table II-5).

The increase in investment during the year reviewed occurred mainly in equipment and inventories (see Table II-1). Expenditure on equipment was nearly 35 percent greater than in 1963; most of the purchases were for the transportation and communications sector.

The growth of inventories was particularly big as compared with previous years, totalling IL 192 million at current prices, as against IL 103 million in 1963 and IL 125 million in 1962. The accelerated accumulation of stocks in

¹ When the import surplus is calculated at the official exchange rate. See Chapter XIX, "Saving".

Table II-5
RESOURCES ^a AND USES AND INCREMENT THERETO, 1954-64
 (percentages)

	Resources and uses				Incremental resources and uses			
	Average 1954 to 1958	Average 1959 to 1962	1963	1964	Average 1954 to 1958	Average 1959 to 1962	1963	1964
Resources								
Gross national product	82.7	86.2	86.3	85.0	88.1	80.7	107.1	77.4
Import surplus	17.3	13.8	13.7	15.0	11.9	19.3	-7.1	22.6
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Uses								
Private consumption	58.2	57.1	56.0	55.0	57.3	49.8	66.1	49.7
Public consumption	17.8	18.2	19.3	18.7	17.8	22.0	18.9	15.5
Total consumption	76.0	75.3	75.3	73.7	75.1	71.8	85.0	65.2
Gross investment	24.0	24.7	24.7	26.3	24.9	28.2	15.0	34.8
Total domestic demand	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumption as a percent of NNP	99.8	95.0	96.0	95.3	92.6	99.1	88.2	91.5

^a At current prices.

SOURCE: Based on the national accounts estimates of the Central Bureau of Statistics (see note to Table II-1).

1964 probably reflected expectations of further increases in the prices of both domestic inputs and imported raw materials. It is noteworthy that the inventories were built up largely at the enterprises' own volition and not because of a lack of demand, thus making a real contribution to aggregate domestic demand. The tendency to enlarge inventories was apparently one of the factors increasing the import surplus.

The boom in construction activity continued in 1964. The value of new construction put in place rose by 10 percent in real terms, and at current prices aggregated more than IL 1,500 million—divided almost equally between housing and construction for the various economic sectors.

The level of fixed capital formation in the agricultural sector dropped during the year reviewed, owing primarily to the completion of the National Water Carrier. In transportation and communications investment in fixed assets expanded by more than 70 percent as compared with 1963, mainly because of the IL 175 million outlay on ships.

(b) *Private consumption*

Private consumption at constant prices was 11 percent higher in 1964 than in 1963. The per capita increase reached 6.8 percent, exceeding both the figure for 1963 and the average for the last five years.

Private consumption of households expanded by 11.6 percent, or 7.3 percent per capita. The value of consumer services supplied by nonprofit institutions rose less rapidly—by 5.5 percent. The percentage increase in the consumption of households exceeded that in their income. Moreover, their incremental consumption even exceeded the rise in their disposable income from domestic sources. This development was at least partly due to expectations of additional income in 1965 on account of wage adjustments and income tax refunds. Another factor accentuating the private sector's propensity to consume was the lower rate of return expected on financial assets and real estate.

(c) *Public consumption*

Public consumption expanded by 14 percent at current prices, the lowest rate since 1959. Government spending rose by more than 12 percent (including a big increase in interest payments). There was a particularly rapid growth in the local authorities—approximately 20 percent. Consumption expenditure of the National Institutions increased to a relatively small extent—some 4 percent.

4. PRICES

As in the preceding years, there was excess demand in 1964 for the resources available to the economy, owing to the continued inflow of capital from abroad and the expansion of domestic credit. The imbalance between supply and demand continued to find expression by pushing up the domestic price level, but in 1964 even more by appreciably increasing the import surplus.

The average price level of commodities and services available for final uses (i.e. for consumption and investment) was 4 percent higher than in 1963, while GNP prices went up by approximately 5 percent. These are the lowest growth rates since 1960 (see Table II-6).

Private consumption prices rose by 4 percent in 1964, as against 8 percent in 1963 and 1962 and 7 percent in 1961. As in 1963, the increases occurred mainly in types of services where the imposition of price controls proved ineffectual or where no controls were applied at all. Such services include housing services, the services supplied by nonprofit institutions, and personal services (e.g. entertainment, health, etc.). Whereas prices of consumer goods edged up about 1 per cent, prices of services—which constitute approximately 40 percent of total consumption—climbed by an average of 9 percent. Subsidies on local production were raised by some 25 percent during the year, and various imposts—e.g. the excise on cigarettes and beer—were reduced. Consequently,

Table II-6
ANNUAL CHANGES IN THE PRICES OF RESOURCES AND USES, 1960-64
(percentages)

	1960	1961	1962	1963	1964
Private consumption	3.1	6.8	7.7	7.8	4.1
Public consumption	3.4	5.6	22.9	6.0	5.9
Gross investment	3.3	9.1	18.7	5.9	3.4
Total domestic demand	3.3	7.0	13.0	7.0	4.2
Imports	0.2	-1.0	57.5	5.8	2.1
Exports	-1.0	0.7	58.1	8.1	2.2
Import surplus	2.2	-3.0	57.2	114.2	2.2
Gross national product at market prices	3.2	9.3	6.8	7.6	4.6

the rise in the consumer prices of goods and services does not fully reflect the rise in producer prices. Under the price restraint policy, duties on certain imported foodstuffs were also lowered, so as to prevent increases in their foreign prices from affecting the consumer price index.

Public consumption prices went up by approximately 6 percent. This mainly reflects wage and salary increases in the public sector, which averaged 11 to 12 percent. Wage outlay, exclusive of the armed forces and Ministry of Defense personnel, constituted about 30 percent of total public consumption, and as much as two-thirds of civilian public consumption.

The foreign prices of imports went up by an average of some 2 percent, but because of the upward revision of customs duty rates, the rise of import prices in terms of Israeli currency averaged 3 percent. Hence the price of imports fell relative to that of the gross national product—an increase of 3 percent as against 5 percent.

Export prices moved up approximately 2 percent in dollar terms, despite the 20 percent drop in citrus prices abroad. Though direct export subsidies were enlarged somewhat, this did not have a significant effect on the prices obtained by exporters, owing to the small weight of subsidies within total exports (less than 2 percent).

5. PRODUCTIVITY

During the period 1954-64 the gross national product¹ expanded at an average annual rate of 11 percent. The average rate for the last three years was higher than during the preceding years (see Table II-7); the acceleration

¹ Real gross domestic product at factor prices.

affected all sectors, but was particularly striking in industry and in transportation and communications.

Table II-7
ANNUAL RATES OF CHANGE IN PRODUCT, INPUT, AND PRODUCTIVITY,
IN SELECTED SECTORS, 1954-64
(percentages)

	Period	Gross national product ^a	Employment	Fixed capital	Capital per gainfully employed	Product per gainfully employed	Overall productivity ^b
Entire economy	1954-57	10.1	4.2	11.4	6.9	5.7	3.3
	1958-61	10.6	4.4	10.6	5.9	5.9	3.5
	1962-64	12.6	4.9	10.7	5.5	7.3	4.8
Private sector ^c	1954-57	10.9	3.4	10.9	7.3	7.3	4.7
	1958-61	11.7	4.5	10.7	5.9	6.9	4.4
	1962-64	13.3	4.9	10.5	5.3	8.0	5.5
Agriculture and irrigation	1954-57	11.5	4.9	10.2	5.1	6.3	2.5
	1958-61	12.0	1.1	8.4	7.2	10.6	5.0
	1962-64	13.5	-0.5	7.5	8.0	14.1	7.1
Industry	1954-57	10.3	4.8	10.8	5.7	5.2	3.4
	1958-61	13.0	7.3	12.9	5.2	5.3	3.4
	1962-64	16.5	6.7	13.2	6.1	9.2	6.6
Transportation and communications	1954-57	9.8	3.5	10.3	6.6	6.1	4.0
	1958-61	13.0	4.2	12.2	7.7	8.4	5.2
	1962-64	17.9	6.5	12.4	5.5	10.7	8.2

^a At 1955 factor prices.

^b Index of change in the product divided by weighted index of change in inputs.

^c The entire economy, exclusive of the public sector, nonprofit institutions, and housing.
SOURCE: Estimates of A. L. Gaathon, based on Central Bureau of Statistics data. A more detailed explanation of the method of estimation used will be given in the statistical appendix to this report (in Hebrew only).

The rapid expansion of the domestic product was due to the big increase in factor inputs—especially capital—and to higher overall productivity. The rise in the number of gainfully employed during the last decade averaged 4.5 percent per annum. Accordingly, GNP per gainfully employed went up by nearly 6 percent per annum. This high rate is partly ascribable to the increased capital intensiveness of Israel's economy. Gross capital stock moved up faster than the number of gainfully employed in each of the ten years referred to and in every sector of the economy.

The increase in factor inputs (labor and capital) does not fully explain the rapid pace of economic expansion during the last ten years. After deducting

the contribution of these factors to the growth of GNP, we obtain a residue termed "overall productivity", which represents—apart from exogeneous factors—mainly the more efficient utilization of capital and labor. During the last decade productivity went up by an average of nearly 4 percent per annum. In other words, the increase in the gross domestic product was every year about 4 percent greater than the increase stemming from the additional means of production.

The contribution of overall productivity to economic growth in the last two years was somewhat greater than in the preceding period (see Table II-7). During the years 1962-64 productivity (i.e. product per combined unit of capital and labor) increased by some 5 percent per annum in the economy as a whole, as compared with an average of 3.5 percent in earlier years. In the private sector¹ productivity rose by 5.5 percent per annum during the 1962-64 period, as against an average annual rise of 4.5 percent between 1954 and 1962. The difference between the growth rate for the entire economy and that for the private sector is largely ascribable to the fact that the output of public services is measured on the expenditure side, and any change in productivity in this sector is thus ruled out by definition. The improvement in productivity was especially striking in industry, agriculture, and transportation and communications, where the stock of productive assets grew to a smaller extent than the product in the last few years, in contrast to the 1954-57 period. This gives reason to believe that there was a higher utilization of fixed capital.

The increase in product per unit of capital and labor was connected with both the higher rate of capital utilization and a slight improvement in the quality of the productive factors. The skill level went up especially in agriculture as immigrants began to strike root in their new settlements, while in other sectors there was an improvement in the quality of equipment, which is not fully reflected by the measurement of changes in capital stocks.

In agriculture productivity rose by 2.5 percent per annum during the years 1954-57, by 5 percent in 1958-61, and by about 7 percent in 1962-64. The number of gainfully employed in this sector advanced by 5 percent per annum during the 1954-57 period—i.e. more rapidly than total employment in the country; between 1958 and 1961 there was only a slight rise, and in 1962 a decline (see Table II-7). The annual fixed-capital growth rates in agriculture (including irrigation) were also particularly high in 1954-57 and relatively low thereafter.

In industry the expansion of product per gainfully employed averaged 9 percent per annum during the last three years, and 5 percent between 1954 and 1962. The stock of fixed assets increased by an average of 11 percent per annum between 1954 and 1957. The rate accelerated during the last six

¹ The entire economy, exclusive of the public sector, nonprofit institutions, and housing.

years, reaching an annual average of 13 percent, while the number of gainfully employed rose by an average of 7 percent. Productivity in industry increased at an average annual rate of 6.6 percent in the years 1962-64, compared with 3.4 percent in 1954-57 (see Table II-7). This rapid rise no doubt largely reflects a decline in the idle capacity of fixed assets.

Though output per unit of combined productive factors continued to advance steadily throughout the period surveyed, it should not be concluded that the economy has exhausted all possibilities of exploiting the limited quantity of productive factors at its disposal with the maximum efficiency. The drastic curtailment of the system of multiple exchange rates after the devaluation of February 1962 constituted a step forward in adjusting economic activity to the price structure in a manner reflecting the relative scarcity of the various means of production, including foreign currency. But it seems that some of the distortions have lingered on. The customs duties imposed on imports in the switch-over from administrative to fiscal protection of local production range from 45 to 200 percent and more. The difference between the degree of protection bestowed on local products and the subsidization of export confers an advantage on inefficient branches manufacturing for the local market.¹

The fact that producers sometimes have to contend with a factor-price structure that is inconsistent with the relative scarcity of the means of production (or with their real costs), mainly because of the subsidization of productive factors, does not permit the maximum utilization of the available resources. A steadily rising trend in the efficiency of factor utilization may help to maintain the rapid economic growth rate of the past decade.

6. INCOMES

Nominal national income grew by approximately 16 percent in 1964 to reach IL 7,230 million. The increase in national income exceeded that in the real product by 4-5 percent, which represents the percentage rise in the price level (see Table II-8).

The demand pressure existing in the economy was reflected in the local market by a rise of some 5 percent in GNP prices and an increase in output. In the labor market the pressure found expression by intensifying the demand for workers, which in turn pushed up the average wage by nearly 11 percent. The demand pressure was reflected particularly in the balance of payments, increasing the import surplus at an unprecedented rate. Not only did imports expand, but the export growth rate slowed down owing to the diversion of a large proportion of output to domestic uses in order to satisfy the mounting demand.

Public sector income from property rose by 30 percent or more, owing to

¹ See the discussion of this subject in Chapter XII, "Industry".

Table II-8
 NATIONAL INCOME AND GROSS NATIONAL PRODUCT, 1960-64^a
 (IL million)

	1960	1961	1962	1963	1964	Percent increase or decrease (-) as against preceding year			
						1961	1962	1963	1964
(1) National income	3,535	4,176	4,977	6,220	7,230	18.1	19.2	25.0	16.2
(2) Indirect taxes (net)									
Taxes on domestic production	417	537	640	761	872	29.0	19.2	18.7	14.7
Taxes on imports (net)	333	429	407	433	534	28.6	-4.9	6.3	23.0
Subsidies on domestic production	88	73	98	133	166	-17.1	34.7	35.0	24.8
Subsidies on exports	105	148	44	31	29	40.7	-70.2	-30.7	3.1
Total indirect taxes	557	745	905	1,030	1,211	33.8	21.6	13.8	17.6
(3) Depreciation	363	433	613	739	841	18.2	39.6	23.0	13.8
(4) Gross national product ^b	4,455	5,354	6,495	7,989	9,282	20.2	21.3	23.0	16.2
(5) Errors and omissions	165	208	200	83	59	25.7	-3.8	-58.3	-29.1
(6) Expenditure on gross national product ^c	4,620	5,562	6,695	8,072	9,342	20.4	20.4	20.6	15.7

^a Figures for 1960 have been revised.

^b GNP as calculated from direct estimates of national income.

^c 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).

Table II-9
PRIVATE SECTOR INCOME, 1960-64*
(IL million)

	1960	1961	1962	1963	1964	Percent increase or decrease (-) as against preceding year			
						1961	1962	1963	1964
(1) National income	3,535	4,176	4,977	6,220	7,230	18.1	19.2	25.0	16.2
(2) Public sector income from property	92	101	129	145	191	9.8	27.7	12.4	31.7
(3) Private income from do- mestic sources (1)-(2)	3,443	4,075	4,848	6,075	7,039	18.4	19.0	25.3	15.9
(4) Less: Income tax	316	376	490	641	815	19.0	30.3	30.8	27.2
(5) Absorption Loan and compulsory saving	—	4	57	100	101	—	—	75.4	1.0
(6) National Insurance contributions	103	126	146	162	180	22.3	15.9	11.0	11.1
(7) Total direct taxes (4) + (5) + (6)	419	506	693	903	1,096	20.8	37.0	30.3	21.4
(8) Transfer payments, net	185	205	238	295	329	10.8	16.1	23.9	11.5
(9) Compulsory payments, net (7)-(8)	234	301	455	608	767	28.6	51.2	33.6	26.2
(10) Private disposable income from domestic sources (3)-(9)	3,209	3,774	4,393	5,467	6,272	17.6	16.4	24.4	14.7
(11) Transfers from abroad and restitution payments	328	372	689	810	835	13.4	85.2	17.6	3.1
(12) Total private disposable income (10) + (11)	3,537	4,146	5,082	6,277	7,107	17.2	22.6	23.5	13.2

* Revised figures.

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

Lines 2 and 3—Chapter VII, "Public Sector Operations".

Line 11—Chapter III, "The Balance of Payments".

an increase in the Government's interest receipts. Revenue from direct taxes—income tax, compulsory saving, and National Insurance contributions—expanded by some 21 percent. Public sector transfers to households increased more moderately, by 12 percent, and consequently net direct tax revenue (i.e. less the transfer payments from the public sector) went up by 26 percent. These operations of the Government accounted for 13.3 percent of the national income, compared with 12.1 percent in 1963. As a result, private disposable income from domestic sources advanced 14.7 percent—i.e. by 1.2 percent less than private income (see Table II-9).

Private transfers from abroad and personal restitution from Germany were only 3 percent above the 1963 figure, so that the increase in private disposable income, inclusive of foreign transfers receipts, was smaller—13.2 percent. Although the volume of private transfers and restitution increased very little, it continued to be of considerable magnitude, accounting for over 13 percent of aggregate private sector income in 1964. Private transfers from the rest of the world, which represent private sector income without an equivalent supply of goods or services from local production, are one of the sources of demand pressure, which is pushing up domestic prices on the one hand and increasing the import surplus on the other.

The operations of the public sector explain some of the developments in the private sector in respect of income and expenditure. In 1964 total wage and salary payments went up by nearly 18 percent, as in the previous year. Income tax collected from employees¹ expanded by 30 percent—this too about the same as in 1963. Net direct taxes (i.e. taxes less transfers) reached approximately IL 750 million, or 10 percent of the national income.

Taxes on imports increased by 23 percent during the year reviewed, compared with 6 percent in 1963 and a slight decline in 1962. Taxes on local production rose by 14 percent—a moderate rate compared with the growth of output at current prices. Under the Government's stabilization policy, subsidies on local production were enlarged by 24 percent, and customs duty rates were cut on imported commodities whose foreign prices had gone up.

Under conditions of excess demand, the subsidization of certain commodities can hold their prices in line but it cannot have any real impact on the general price level, since the income released thereby may be diverted to other goods, from local production and import alike.

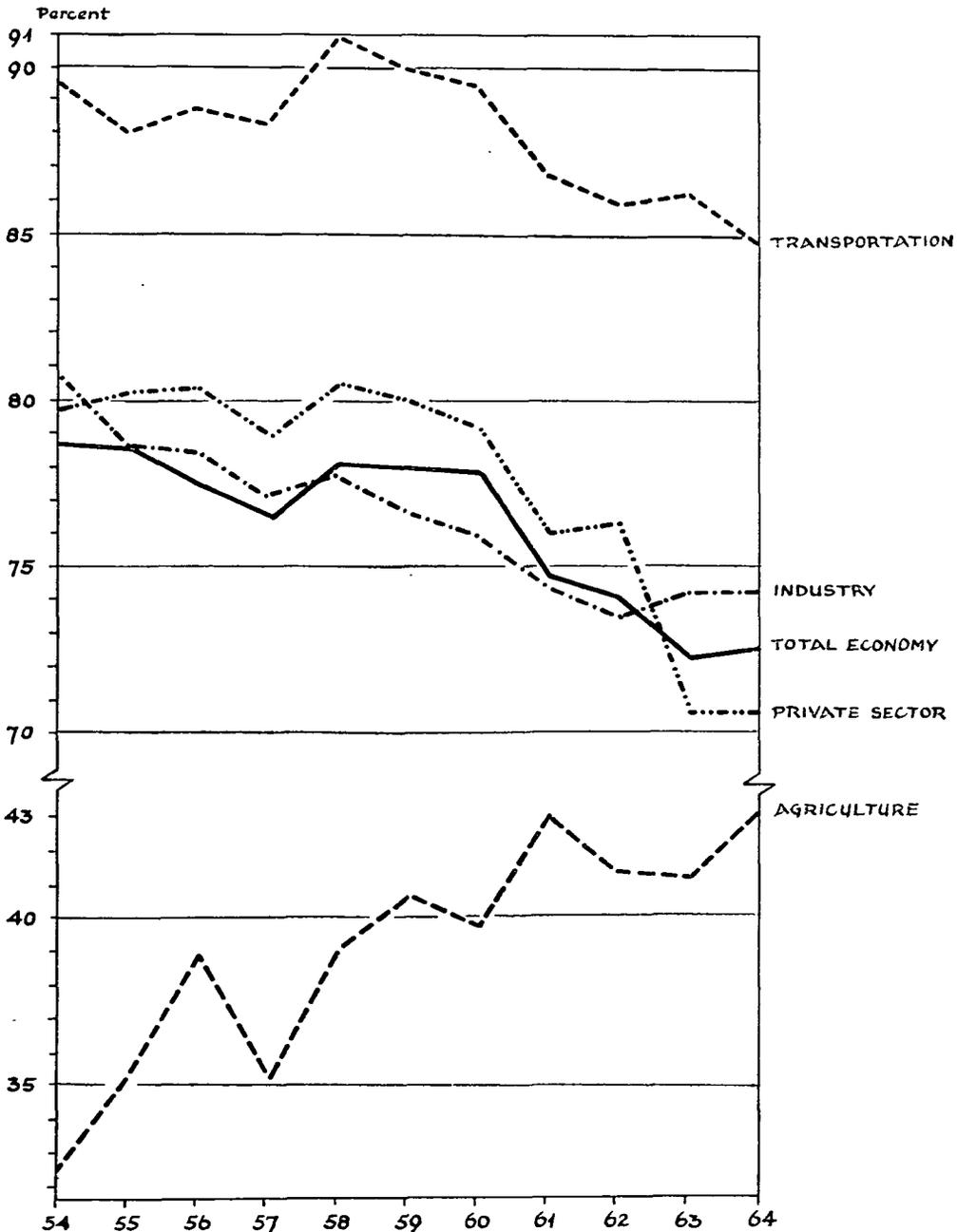
7. THE RETURN ON PRODUCTIVE FACTORS

In 1964 wage earnings² increased faster than total nominal income—18 percent as against some 16 percent—thus bringing up the weight of this item

¹ Income tax only, exclusive of the Absorption Loan and compulsory saving.

² Excluding the armed forces and Ministry of Defense personnel.

Diagram II-2
**RATIO OF AVERAGE WAGES PER EMPLOYEE TO DOMESTIC PRODUCT
 PER GAINFULLY EMPLOYED,^a 1954-64**
 (percentages)



^a See notes ^b and ^d to Table II-10.

Table II-10

RATIO OF CAPITAL^a TO PRODUCT^b AND OF AVERAGE WAGES TO PRODUCT PER EMPLOYED, AND RETURN PER UNIT OF CAPITAL,^c SELECTED SECTORS, 1954-64

Year	Entire economy			Private sector ^d			Agriculture			Industry			Transportation and communications		
	Capital/ product	Average wages/ product per employed	Return per unit of capital	Capital/ product	Average wages/ product per employed	Return per unit of capital	Capital/ product	Average wages/ product per employed	Return per unit of capital	Capital/ product	Average wages/ product per employed	Return per unit of capital	Capital/ product	Average wages/ product per employed	Return per unit of capital
1954	2.0	.79	10.9	1.4	.80	14.5	3.6	.33	18.6	1.3	.81	14.4	3.4	.90	3.1
1955	2.0	.79	10.6	1.5	.80	13.6	4.0	.35	16.1	1.3	.79	16.6	3.5	.88	3.4
1956	2.1	.77	10.6	1.5	.80	13.1	4.1	.39	15.0	1.2	.79	17.6	3.5	.89	3.2
1957	2.2	.76	10.8	1.5	.79	14.0	3.7	.35	17.5	1.2	.77	18.5	3.5	.88	3.4
1958	2.2	.78	9.8	1.5	.81	12.9	3.5	.39	17.2	1.2	.78	18.7	3.8	.91	2.4
1959	2.2	.78	10.1	1.5	.80	13.4	3.8	.41	15.6	1.2	.77	20.2	3.6	.90	2.8
1960	2.2	.78	10.1	1.5	.79	13.9	4.0	.40	15.2	1.2	.76	20.5	3.6	.89	3.0
1961	2.1	.75	11.8	1.4	.76	17.0	4.0	.42	14.3	1.1	.74	23.1	3.6	.87	3.7
1962	2.2	.74	11.8	1.5	.76	16.0	4.3	.41	13.7	1.2	.73	21.6	3.7	.86	3.8
1963	2.2	.72	12.5	1.5	.71	19.4	4.2	.41	14.0	1.3	.74	19.9	3.5	.86	4.0
1964 ^e	2.2	.72	12.5	1.5	.71	19.7	—	—	—	—	—	—	—	—	—

NOTE: The data are not sufficiently reliable to permit the drawing of conclusions in respect of small annual fluctuations. This table should be studied for changes in trend rather than the absolute value of the ratios cited.

From notes ^a and ^c below it is clear that no conclusions can be drawn from this table about profitability in the different sectors, especially in relation to equity capital.

^a Fixed capital at current prices (excluding inventories and land).

^b Net domestic product at current prices.

^c Return on capital includes profit, dividends, interest, and rent, less imputed labor of self-employed.

^d The entire economy apart from the public sector, nonprofit institutions, and housing.

^e The data for 1964 are provisional and will be revised, chiefly in respect of individual sectors. Hence figures are given for the entire private sector only.

SOURCE: Estimates of net capital—A. L. Gaathon.

Estimates of product—Central Bureau of Statistics.

Estimates of employment—Bank of Israel.

in aggregate income. Between 1955 and 1961 its weight had edged down steadily from 54 to 50 percent. But since 1961 no distinct trend is discernible: in 1962 there was a slight rise, in 1963 a decline, while in 1964 it returned to the 1962 level of some 50 percent. These fluctuations reflect changes in the proportion of wage and salary earners within total gainfully employed, changes in the degree of capital intensity, and changes in the rate of return per unit of labor compared with that per unit of capital.