

CHAPTER V

DOMESTIC INVESTMENT

1. MAIN DEVELOPMENTS

GROSS DOMESTIC INVESTMENT totalled nearly IL 2,900 million in 1964, a real growth of 21 percent over the previous year. This rate is one of the highest in Israel's history and far surpasses the 9 percent annual average for the five preceding years.

The increase in depreciation, which stands in more or less direct proportion to the increase in the fixed capital stock, was slower, and consequently net investment expanded at an even higher rate—25 percent. Because of the steady growth curve exhibited by depreciation, which constitutes the difference between gross and net investment, net investment is subject to greater fluctuations than gross investment (see Table V-1).

Close to half (45 percent) of the increase in gross investment in 1964 can be attributed to two items where fluctuations tend to be considerable—investment in inventories,¹ the growth of which was undoubtedly affected by speculative considerations and apparently reflects expectations of an advance in prices; and expenditure on ships which, besides its erratic nature due to the size of the items purchased, is largely governed by investment-policy considerations of the public sector.

Net of these two items, the increment to real gross investment amounted to 12 percent. But here too a distinction should be made between different types of investment: those made by the private sector out of pure profitability calculations, and those made by or under the direction of the public sector. In the latter category are investments which, while they may be profitable to the economy, are not necessarily profitable to the individual investor.

Investments depending largely on the policies of the public sector—in electricity, irrigation, mining and quarrying, public services, and transportation and communications (apart from motor vehicles, ships, and aircraft)—expanded by 10 percent. Their composition changed drastically during the year, there being a large increase in transportation and communications and a marked decline in irrigation, mining and quarrying, and electricity.

The commerce and personal services sectors recorded a big increase of 16–17

¹ The estimate in this section is a very rough one.

Table V-1
GROSS AND NET INVESTMENT, 1960-64

	1960	1961	1962	1963	1964
IL million					
At current prices					
Investment in fixed assets	1,132	1,474	1,995	2,210	2,693
Investment in inventories	86	92	125	103	192
Gross investment	1,218	1,565	2,120	2,313	2,885
Less: Depreciation ^a	362	434	614	743	849
Net investment	856	1,131	1,506	1,570	2,036
At 1963 prices					
Investment in fixed assets other than housing	1,121	1,330	1,403	1,528	1,837
Depreciation on fixed assets other than housing	381	424	489	565	630
Net investment in fixed assets other than housing	740	906	914	962	1,209
Gross investment in housing	466	566	707	682	763
Depreciation on housing	136	147	161	178	195
Net investment in housing	330	419	546	504	568
Aggregate gross investment in fixed assets	1,587	1,896	2,110	2,210	2,600
Investment in inventories	116	104	129	103	189
Aggregate gross domestic investment	1,703	2,001	2,239	2,313	2,789
Less: Depreciation	516	570	649	743	826
Net domestic investment	1,187	1,431	1,590	1,570	1,963
Percentages					
Real increase					
Gross investment		17	12	3	21
Depreciation		10	14	14	11
Net investment		21	11	-1	25
Gross investment other than housing		17	5	9	20
Net investment other than housing		22	1	5	26
Gross investment in housing		21	25	-4	12
Net investment in housing		27	28	-6	13
Increase in prices					
Gross investment		9	20	6	3.5

NOTE: Discrepancies in totals are due to rounding.

^a The figures for depreciation differ slightly from those cited in Chapter II, "Resources, Uses, and Incomes", since the calculation here is based on a more detailed classification by economic sectors and types of assets.

SOURCE: Central Bureau of Statistics.

percent, all of it in business establishments other than hotels (a rise of over 30 percent). Industrial investment advanced more slowly.¹

The very rapid growth of investment in transport equipment, which has persisted for a number of years, was sustained in 1964. This item includes one component which actually borders between consumption and investment, namely, motor cars for investment purposes, which accounted for a large portion of the increase in 1964.

Housing investment advanced by 12 percent; this seems high in view of the drop in demand, reflected by the abrupt termination of the swift upward climb of dwelling prices. The increase apparently stemmed from the larger volume of construction starts due to special conditions in this market—the fear of administrative curbs on building and changes in tax rates.²

The real growth of the nondwelling capital stock was close to the average for recent years, reaching 11 percent. Although gross investment was considerably higher than in 1963, there was a marked increase in discards, so that the net increment to the gross capital stock was similar to the previous year's rate. A rapid increase in discards (though with annual fluctuations) is a long-run trend in Israel, and results from the fact that a large amount of investment assets are nearing the end of their economic life-span.

Capital stock per gainfully employed³ was 6 percent greater than in 1963, a rate similar to the average for recent years. The increase was particularly big in the commerce and business services sectors (10 percent).

The dwelling capital stock expanded by 10 percent, or by 6 percent per capita⁴—these rates also being close to the average for the last few years.

Investment prices went up by an average of 3.5 percent compared with 1963. Most of the increase stemmed from a 5 percent rise in the price of construction; that in equipment amounted to about 1 percent only, reflecting the stability of the effective exchange rate for imported equipment and the price restraints on locally produced items.

Some 40 percent of total gross fixed capital formation in 1964 was financed through public funds. This rate was somewhat below the average for the three preceding years, and much lower than the figure for the period before that. However, this decline mainly reflects institutional changes that were largely of a formal, technical nature, since the distinction between funds provided directly from the Government budget and those granted through other channels but at the behest or under the direction of the Government—e.g. through the

¹ The estimated rise—12 percent—is apparently exaggerated, as will be explained below.

² See Chapter XIII, "Construction and Housing".

³ The stock at the beginning of the year divided by the average number of gainfully employed during the year.

⁴ The dwelling capital stock at the end of the year divided by the population at the end of the year.

Industrial Development Bank—is to a large extent arbitrary. It seems, therefore, that the decline in the share of investment financed directly by the Government does not indicate a corresponding decline in the Government's role in directing investment.

The sectorial breakdown of public financing has undergone a considerable change in the past few years. Most outstanding is the fall in the weight of loan capital extended to industry (9 percent as against an average of 37 percent in 1958-61). This coincides with a change in the allocation of public finance as between the public and private sector (a drop in the share of private business from 28 percent in 1961 to 9 percent in 1964).

Table V-2
FOREIGN CAPITAL INVESTMENT IN ISRAEL,^a
1957-64

Year	\$ m.	Increase or decrease (-) as against previous year (%)
1957	19	..
1958	14	-26
1959	25	79
1960	55	120
1961	63	15
1962	96	52
1963	173	80
1964	174	1

^a Gross.

SOURCE: Central Bureau of Statistics.

Capital investment from abroad remained constant in 1964, after a high rate of growth in the two preceding years, and totalled \$ 174 million gross. The rapid uptrend of former years was undoubtedly due in part to speculative capital transfers induced by the boom in the stock and real estate markets, while the arrested growth in 1964 unquestionably reflects the reversal of these market trends.

2. INVESTMENT, BY TYPE OF ASSET

In the structure of investment other than ships and aircraft, the year reviewed saw an increase in equipment and a relative decline in construction (in real terms).

Investment in machinery and equipment was much higher than in 1963, about three-quarters of the increment being in communication equipment. Outlay on locally produced equipment went up somewhat more rapidly than that on imported items; however, the latter also showed a big increase of 14 percent, renewing the upward movement which had tapered off after the devaluation.

The wage increases of the past two years nullified much of the change in the price of equipment relative to that of labor which occurred after the devaluation (see Table V-4). This no doubt affected the optimal degree of capital intensity and the structure of domestic investment.

On the other hand, the price of imported equipment relative to that of local

Table V-3
DOMESTIC INVESTMENT, BY TYPE OF ASSET, 1962-64
(IL million, at 1963 prices)

Type of asset	1962	1963	1964	Percent increase or decrease (-) as against preceding year		
				1962	1963	1964
Construction						
Residential	707	682	763	23	-4	12
Nonresidential buildings	304	354	392	14	16	11
Earthwork and other construction activity	270	316	325	16	17	3
Total value of new construction	1,281	1,351	1,481	20	6	10
Assets produced by agriculture	75	63	66	2	-15	4
Machinery and equipment						
Imports	411	412	472	15	1	14
Locally produced	175	193	228	14	10	18
Total investment in machinery and equipment	586	605	700	15	3	16
Automotive vehicles	105	140	178	31	34	26
Ships and aircraft	66	50	176	-60	-24	253
Total fixed capital formation	2,112	2,210	2,601	11	5	18
Total excluding ships and aircraft	2,046	2,160	2,425	18	6	12

NOTE: Discrepancies in totals are due to rounding.
SOURCE: Central Bureau of Statistics.

equipment did not change during the year, and consequently the effect of the devaluation here remained as before. This may explain the rapid growth in the local production of equipment and its rising share in total equipment expenditure during the past two years. This trend is particularly noticeable in industrial equipment, where a larger investment in locally manufactured items was accompanied by a corresponding decline in imports. However, it seems that this cannot be wholly attributed to the direct substitution of local equipment for imports, and that in part it was no doubt due to changes in the composition of demand for equipment. Most of the additional outlay on imported equipment was for communication and electronic equipment, the weight of which in total equipment investment rose from 8 percent in 1963 to 17 percent during the year reviewed. Local production of these items expanded very rapidly—by more than threefold within two years—but it was unable to satisfy the increased demand, so that imports expanded still faster.

The import component of local communication and electronic equipment is relatively high, standing at nearly 80 percent. Hence the growth in the weight of this item in total equipment production has been accompanied by a rise in the average import component.

Table V-4

INDEX OF THE PRICE OF INDUSTRIAL EQUIPMENT
RELATIVE TO THE PRICE OF LABOR, 1954-64

Year	Index of nominal hourly wage in industry	Index of industrial equipment prices	Index of price of industrial equipment relative to price of labor
1954	100	100	100
1955	112	103	92
1956	128	108	84
1957	142	114	81
1958	147	120	81
1959	153	121	79
1960	159	123	77
1961	173	135	78
1962	194	184	95
1963	217	196	90
1964	236	199	84

SOURCE: Index of industrial equipment prices—Central Bureau of Statistics; hourly wages—Bank of Israel.

The reduced share of construction in total fixed capital formation was entirely due to the decelerated expansion of nonbuilding construction activity following

the completion of the National Water Carrier, which had accounted for over a third of such construction in 1963.

Outlay on the construction of housing and nonresidential buildings increased by 12 percent in 1964. The growth of private residential construction (13 percent) occurred despite the subsiding of demand, which checked the rapid spurt of dwelling prices and led to the accumulation of a stock of unsold units by contractors. The expansion of private building must be viewed in the light of the fears of building restrictions and considerably higher taxation on empty lots, which induced many contractors to start building so as to avoid this tax.¹

The weight of motor vehicle investment (at constant prices)² has increased appreciably in recent years—from 3.5 percent of gross domestic investment in 1960 to 7.5 percent in 1964.

3. INVESTMENT PRICES³

Prices of investment assets went up by an average of 3.5 percent in 1964, mainly as a result of a 5 percent rise in construction costs.⁴ The increase was similar to that in 1963, and the chief factor was the payment of higher wages. The rise was uniformly distributed over the different economic sectors, the slight disparities reflecting changes in the composition of inputs.

Prices of local and imported equipment each rose by an average of 1 percent compared with 1963. The trend over the last two years was also very similar, the higher average increase in 1963 reflecting changes which had already taken place in 1962.

4. INVESTMENT, BY ECONOMIC SECTOR

The real growth of gross fixed capital formation in 1964 came to 20 percent. Depreciation increased at a lower rate, and consequently the net investment figure advanced 26 percent. A large part of this incremental investment stemmed from the purchase of ships; net of this item, gross investment expanded by 12 percent.

A sectorial analysis of changes in the volume and composition of investment over the past few years reveals an uneven pattern, reflecting the prominent share of large-scale projects (e.g. the National Water Carrier, power stations, etc.), and long-range trends modifying the weight of the different sectors in gross and net investment as well as in the capital stock.

¹ For a detailed discussion see Chapter XIII, "Construction and Housing".

² See section 4 below.

³ See also Chapter VI, "Prices", section 2(e) and Table VI-16.

⁴ No direct measurement is available for the value of new construction put in place. This measurement is based on purchased inputs, and changes in the two are not always identical. See Bank of Israel Annual Report for 1963, p. 90.

Ship purchases accounted for over one-fourth of the incremental gross investment in 1964, and 32 percent of the incremental fixed capital formation. The preponderant share of the orders were placed by Zim Israel Navigation Co. Ltd.

In several other areas of the economy in which the public sector is directly active or exercises a decisive influence—e.g. electric power, irrigation, mines and quarries, public services, and transportation and communications (apart from motor vehicles)—investments were 10 percent larger in 1964, and there was a conspicuous change in composition: a very big increase in transportation and communications, a moderate rise in public services, and a decline—sometimes considerable—in the remaining sectors.

The trends of recent years are reflected in the changed sectorial composition of gross and net investment and of the gross and net stock of capital assets. The net investment figure indicates the changes occurring in the aggregate production potential of the economy's capital assets (as distinct from current productive capacity, which does not take into consideration the remaining economic life-span of the existing equipment¹), and in several respects may be regarded as a more relevant measure of the allocation of resources for expanding total productive capacity.²

Three sectors—agriculture, irrigation and electricity—experienced a decline in their relative share of gross and net investment in recent years (see Table V-7).

In agriculture the decrease reflects a long-run gross investment trend resulting from the existence of surplus productive capacity and the limitations imposed on output growth. The share of agriculture in net investment fell off even more sharply; being a veteran sector in this country, it has a large capital stock relative to investments, with a consequently high depreciation rate compared with newer sectors which are now undergoing rapid expansion. In 1964 depreciation amounted to over half of gross farm investment.

The reduced share of irrigation and electricity in gross capital formation in 1964 mainly reflects the irregularity of investment activity in these sectors. The weight of these two sectors in net investment is smaller than that in gross investment, and both showed a steeper decline in the former. This too reflects their slower growth in comparison with other sectors, and hence the relatively greater weight of their depreciation figure.

Two sectors whose weight in net investment exceeds that in gross investment are transportation and communications and services. This is partly due to the

¹ For a detailed discussion see A. L. Gaathon, *Capital Stock, Employment and Output in Israel, 1950-1959*, Jerusalem, 1961—Chapter 1, section (a).

² Here there is a statistical problem of a technical nature: depreciation is not deducted in respect of public sector investments in buildings and installations, since it is assumed to be included in current maintenance costs. Hence the investment estimates for these items actually relate to net investment, as in the case of livestock in the agricultural sector.

Table V-5
GROSS DOMESTIC INVESTMENT, BY SECTOR AND TYPE OF ASSET, 1959-64
(In million)

	1959				1960				1961		1962				1963				1964					
	Con- struc- tion	Equip- ment	Agri- cultural output	Total																				
	A. At current prices																							
Agriculture	39	24	76	140	36	29	62	127	31	37	62	130	31	50	70	152	34	43	63	140	36	54	70	160
Irrigation	37	4		41	52	5		57	64	6		70	101	10		111	109	15		124	74	10		84
Industry	49	145		194	50	143		193	69	177	246	78	249		327	88	308		396	111	341		451	
Mining and quarrying	8	6		14	9	6		15	11	17	28	30	35		65	46	30		76	49	16		65	
Electricity	19	18		37	18	19		37	18	22	40	26	51		77	27	37		64	31	27		58	
Transportation and communications	46	75		121	33	122		155	49	185		234	67	211		278	98	239		326	139	456		595
Excl. mobile transport equipment	46	19		65	33	14		47	49	17		66	67	43		110	98	38		136	139	99		230
Automotive vehicles		29		29		41		41		67		67		102		102		140		140		181		181
Ships and aircraft	27	27		27		66		66		102		102		66		66		50		50		176		176
Business establishments and guest accommodation	17				23				45				46				54				67			
Public buildings and installations	107	29		153	119	60		202	131	77		252	163	106		315	213	134		401	250	161		478
Total investment excl. housing	322	301	76	699	340	384	62	786	419	522	62	1,002	542	714	70	1,325	669	796	63	1,528	756	1,066	70	1,891
	B. At 1963 prices																							
Agriculture	54	39	98	191	47	47	81	175	37	56	73	166	33	55	75	162	34	43	63	140	34	53	66	153
Irrigation	49	5		54	67	6		73	76	7		83	106	11		117	109	15		124	71	10		81
Industry	69	234		303	67	228		295	83	258	341	83	267		350	88	308		396	105	337		442	
Mining and quarrying	11	9		20	11	9		21	14	24	38	32	37		69	46	30		76	47	16		63	
Electricity	27	30		57	24	31		55	23	32	55	27	54		82	27	37		64	29	27		56	
Transportation and communications	64	113		177	43	182		225	60	272		331	71	218		289	98	229		326	132	454		586
Excl. mobile transport equipment	64	31		95	43	23		66	60	25		85	71	48		119	98	38		136	132	100		232
Automotive vehicles		37		37		51		51		80		80		105		105		140		140		178		178
Ships and aircraft		45		45		108		108		166		166		66		66		50		50		176		176
Business establishments and guest accommodation	24				31				53				49				54				63			
Public buildings and installations	150	44		218	158	88		277	156	107		316	172	112		333	213	134		401	238	157		458
Total investment excl. housing	447	474	98	1,020	449	592	81	1,121	501	756	73	1,330	573	755	75	1,403	669	796	63	1,528	718	1,054	66	1,837

NOTE: Discrepancies in totals are due to rounding
SOURCE: Central Bureau of Statistics.

Table V-6
INCREASE IN GROSS DOMESTIC INVESTMENT, BY SECTOR AND
TYPE OF ASSET, 1963-64

	Percent increase or decrease (-) as against previous year							
	1963				1964			
	Con- struction	Equip- ment	Agri- cultural output	Total	Con- struction	Equip- ment	Agri- cultural output	Total
Agriculture	3	-22	-15	-14	1	23	4	9
Irrigation	3	38		7	-35	-33		-35
Industry and construction	6	15		13	18	10		12
Mining and quarrying	47	-20		11	—	-46		-18
Electricity	-3	-32		-22	9	-27		-12
Transportation and communications	38	5		13	35	98		77
Excl. mobile transport equipment	38	-18		15	35	155		66
Automotive vehicles		34		34		27		27
Ships and aircraft		-24		-24		253		253
Business establishments and guest accom- modation	10	} 20		} 20	17	} 17		} 14
Public buildings and installations	24		12					
Total	17	5	-15	9	7	32	4	20
Total excl. ships and aircraft		8		11		18		12

fact that depreciation is not calculated on public buildings and installations, but is mainly indicative of the rapid expansion of these sectors in the past few years.

(a) Irrigation, mining and quarrying, electricity

These are the sectors generally characterized by marked fluctuations in the volume of investment, owing to the predominant share of big projects. During the past few years the National Water Carrier accounted for the overwhelming proportion of irrigation investment, and upon completion of construction work in 1964 a steep decline took place, with a further drop expected in 1965. The share of this sector in gross domestic investment was 4.4 percent in 1964, compared with an average of 7.4 percent in the four preceding years (see Table V-7).

Table V-7

GROSS AND NET DOMESTIC INVESTMENT, BY ECONOMIC SECTOR, 1960-64
(percentages)

	Gross investment		Net investment		Depreciation as a percent of gross investment	
	1960-63	1964	1960-63	1964	1960-63	1964
Agriculture	11.9	8.3	10.2	5.6	44	56
Irrigation	7.4	4.4	8.2	3.9	27	42
Industry, mining and quarrying	29.5	27.5	24.6	22.2	45	47
Electricity	4.8	3.1	3.1	1.0	58	79
Transportation and communications	21.8	31.9	22.2	36.5	33	25
Commerce and services	24.7	24.9	31.8	30.9	16	19
Total	100.0	100.0	100.0	100.0	35	34

NOTE: Discrepancies in totals are due to rounding.

In electrical power generation major projects likewise account for much of the investment. In 1962 and 1963 two large stations were erected at Ashdod and Haifa, considerably increasing capital expenditure (see Table V-5). When the Ashdod station was completed in 1964, the investment figure moved downward.

In mining and quarrying annual investment during the past three years was more than three times as much as in the pre-1960 period. Most of the increase was due to the expansion of the Dead Sea Works, which accounted for two-thirds of aggregate mine and quarry investment during these years. In 1964, when the expansion program neared its end, the investment figure started to fall.

(b) *Transportation and communications*

Investment in transportation and communications (apart from mobile transport equipment) has risen rapidly since 1961 (see Table V-5). In that year the main growth factor was the extension of the road network. Beginning in 1962, two additional factors made their appearance—the rapid expansion of investment in communications (mainly telephones) and that in ports (mainly at Ashdod). Roads and ports accounted for about 80 percent of the total sum spent on construction in this sector in 1964, while outlay on communication equipment constituted about 80 percent of total investment in equipment.

Table V-8

GROSS DOMESTIC INVESTMENT, DEPRECIATION, AND NET INVESTMENT, BY ECONOMIC SECTOR, 1960-64

(IL million, at 1963 prices)

Sector	1960			1961			1962			1963			1964		
	Gross investment	Depreciation	Net investment												
Agriculture	175	62	113	166	67	99	162	73	89	140	80	60	153	85	68
Irrigation	73	24	49	83	26	57	117	28	89	124	31	93	81	34	47
Industry, mining and quarrying	316	152	164	379	168	211	419	188	231	472	213	259	505	237	268
Electricity	55	33	22	55	35	20	82	38	44	64	42	22	56	44	12
Transportation and communications	225	74	151	331	83	248	289	106	183	326	127	199	586	145	441
Commerce and services	277	36	241	316	45	271	333	56	277	401	72	329	458	85	373
Total	1,121	381	740	1,330	424	906	1,403	489	914	1,528	565	962	1,837	630	1,209

NOTE: Discrepancies in totals are due to rounding.

SOURCE: Gross investment—Central Bureau of Statistics.

Depreciation: Based on estimates of A. L. Gaathon.

The most rapid increase over the past few years took place in motor vehicle purchases: by 1964 real investment here was five times that of 1959, and the share of this item in aggregate gross investment in fixed assets went up from 3.5 to 7.5 percent. This item consists of buses, trucks and other commercial vehicles, and passenger cars for business purposes. The rising investment in trucks is connected with the expansion of road freight volume on the one hand, and with the need to renew the comparatively old truck fleet on the other.

Purchases of passenger cars during the past two years increased at twice the rate for trucks and was responsible for half the total incremental investment in vehicles. These cars, which are defined as investment, actually border between consumption and investment, and the increase here primarily reflects advancing living standards.

(c) *Public services*

Investment in this sector moved up at a relatively rapid rate during the last two years. About half of the sum was expended by the local authorities (on school buildings, sewerage, water supply, etc.); the real increase in such investment amounted to 20 percent per annum over the last two years. Other major investments were made by nonprofit institutions (20 percent of the total figure), mainly in health institutions and institutes of higher education, and by the Government, the latter showing a more than threefold rise in the last two years.

(d) *Commerce and personal services*

Two contrary trends are discernible in this field. Whereas investment in hotels and other guest accommodation has shown a steady decline of 8–9 percent p.a. since 1961 (when there was a threefold increase over 1960), investment in business establishments has expanded rapidly, the growth rate reaching 30 percent in 1964. This undoubtedly reflects the expansion of economic activity and the greater demand for services due to the rise in incomes, and apparently also the change in the relative profitability of services as compared with industry because of the price curbs imposed on industrial products.

(e) *Industry*

Gross industrial investment is estimated to have grown by 12 percent in 1964, but this seems to be exaggerated.¹

¹ Investment in industrial equipment is calculated here on the basis of estimated imports and local production of capital assets, and is residually derived after netting out the investment estimates for the other sectors. Hence all errors accumulate in this sector, both those in the aggregate figure and those in the estimates for the individual sectors. Various indicators suggest an upward bias in the estimate of industrial investment thus obtained. First, a technological breakdown of the capital assets shows that imported and locally

The branch distribution of industrial investment (including mining and quarrying) apparently showed no significant change over the previous year, the mining and quarrying, food, and textile industries accounting for about half the total. At the same time, as the Dead Sea Works expansion program neared completion, the share of the mining and quarrying sector decreased as compared with preceding years. Another change was the relative increase in the chemical and oil refining industries.¹

(e) *Agriculture*

Farm investment has been on the decline since the end of the fifties; the weight of this sector in gross domestic investment receded from 15.5 percent in 1960 to 8.5 percent by 1964, and that in net investment declined even more steeply, from 15.5 to 5.5 percent.

This downtrend is due mainly to the existence of surplus productive capacity

Table V-9
GROSS INVESTMENT IN AGRICULTURE, 1955-64
(IL million, at 1963 prices)

Year	Orchards	Afforestation, land reclamation, irrigation, drainage, etc.	Farm structures	Machinery and equipment	Livestock	Total
1955	31	60	42	25	8	165
1956	34	51	39	31	11	164
1957	42	58	28	28	18	174
1958	46	60	39	29	24	197
1959	43	60	34	39	16	191
1960	38	53	31	47	6	175
1961	37	41	23	54	11	166
1962	38	40	21	54	10	162
1963	36	42	18	43	—	140
1964	36	44	18	53	2	153

SOURCE: Central Bureau of Statistics.

produced equipment intended specifically for industry rose by 3-4 percent at the most. It is difficult to reconcile this with a 10 percent increase in industrial and construction equipment (which would mean an even greater rise in industrial equipment, since no increase whatsoever took place in construction equipment). Secondly, there is a very big discrepancy between this estimate and that based on a survey of industrial enterprises—a discrepancy too big to be explained away by insufficient coverage of the survey.

¹ For a detailed discussion see Chapter XII, "Industry", section 4 and Table XII-7.

and the restriction of production. It is evident in almost all investment items (see Table V-9), but varies in intensity. In livestock, where production quotas have been most effectively applied, the expansion of inventory has ceased almost completely, with a parallel sharp drop in outlay on farm structures. Investment in orchards has shrunk less rapidly, largely because it includes costs connected with the cultivation of young orchards planted in former years.

Investment in machinery and equipment shows a different picture. Here there is a rising trend, which apparently was temporarily arrested by the devaluation but reasserted itself in 1964.

Table V-10
GROSS CAPITAL STOCK, BY SECTOR, 1963-64
(IL million, at 1963 prices)

	Capital stock at end of 1963	Gross investment in 1964	Discards in 1964 ^a	Incremental capital stock in 1964	Capital stock at end of 1964	Weight in capital stock at end of 1964 (%)	Weight in incremental capital stock in 1964 (%)
Agriculture	2,227	153	30	122	2,348	15.8	8.0
Irrigation	1,297	81	4	77	1,374	9.3	5.1
Industry, mining and quarrying	3,666	505	170	335	4,001	27.0	22.1
Electricity	885	56	12	44	929	6.3	2.9
Transportation and communications	2,454	586	72	514	2,968	20.0	33.9
Commerce and services	2,772	458	32	426	3,198	21.6	28.1
Total nondwelling capital stock	13,301	1,837	319	1,518	14,819	100.0	100.0
Dwelling capital stock	7,810	763	12	751	8,561		
Total fixed assets	21,111	2,600	331	2,269	23,380		
Inventories	1,214	189			1,403		
Grand total	22,325	2,789			24,783		

NOTE: Discrepancies in totals are due to rounding.

^a No estimates are available for the value of assets actually scrapped, i.e. equipment withdrawn from use because of obsolescence; the data cited here are based on the estimated life-span of various types of assets. See A. L. Gaathon, *Capital Stock, Employment and Output in Israel, 1950-1959*, Jerusalem, 1961, p. 2.

SOURCE: Based on estimates of A. L. Gaathon.

Among the factors responsible for the renewal of the uptrend was the 25 percent rise in agricultural wages over the last two years. Other factors were the increase in incomes, the consolidation of new settlements, and the bigger percentage of farm investment financed from public funds.

5. CAPITAL STOCK

The gross nondwelling capital stock grew by an average of 11 percent in 1964—a rate similar to that in 1963 and to the average for the preceding eight years. Capital stock per gainfully employed¹ expanded by 6 percent, this too

Table V-11
GROWTH OF CAPITAL STOCK PER GAINFULLY EMPLOYED,^a BY SECTOR,
1955-64

(percentages)

	Real increase of capital stock			Real increase of capital stock per gainfully employed		
	Average 1955-62	1963	1964	Average 1955-62	1963	1964
Agriculture	9	5	5	6	9	7
Irrigation	7	11	6			
Industry, mining and quarrying	12	11	10	5	6	6
Electricity	12	7	5
Transportation and communications	13	12	20	8	8	5
Commerce and services	16	13	15	11	8	10
Total nondwelling capital stock	12	11	11	7	6	6
Dwelling capital stock	10	9	10	5	Real increase in dwelling capital stock per capita 5	6
Total fixed assets	11	10	11	—	—	—
Total in IL '000, at 1963 prices						
Capital stock per employed					14.7	15.6
Dwelling capital stock per capita					3.2	3.4

^a Capital stock at the beginning of the year divided by the average number of gainfully employed during the year.

¹ See note to Table V-11.

about the same as in previous years. The altered structure of investment in 1964 is reflected by the disparate capital-stock growth rates in the different sectors of the economy. While a rapid increase took place in transportation and communications and in services, there was a decline in mining and quarrying and in electric power generation.

The changes in the amount of capital stock per gainfully employed in 1964 were mainly due to changes in the percentage increase in the number of employees.

6. PUBLIC FINANCING

Public financing of domestic investment¹ shows a steady downtrend (see Table V-12), together with a marked change in the distribution by type of investor (economic group): an appreciable rise in the proportion of direct public sector investments and of financing provided to households on the one hand, and a notable decrease in the weight of private business enterprises on the other (see Table V-14). This shift in the distribution was accompanied by a change in the relative share of public financing in the various groups (see Table V-13); since there is a large degree of correspondence between the distribution by economic groups and that according to sectors, this structural change also expressed itself in a change in the percentage of public finance granted to the different sectors of the economy (see Table V-12).

Table V-12
PUBLIC FINANCING OF DOMESTIC INVESTMENT, BY SECTOR, 1958-64
(percentages)

	1958	1959	1960	1961	1962	1963	1964
Agriculture and irrigation	74	72	84	81	75	83	89
Industry	42	32	39	36	24	24	9
Mining and quarrying	75	71	50	10	11	21	15
Electricity	69	54	5	8	26	23	33
Transportation and communications	59	68	77	56	48	44	40
Services	48	56	57	42	44	47	47
Housing	44	44	38	29	36	32	38
Total	54	52	54	43	41	40	39

¹ I.e. direct investments of the public sector (e.g. in ports, roads, and postal services), as well as loans granted for investment purposes, either directly or through banking and financial institutions, and the acquisition of shares in financial institutions. It should be borne in mind that the dates when funds are granted and the dates when the investments are actually implemented do not always coincide.

The decline in the proportion of domestic investment financed by the public sector stemmed partly from an institutional change which was largely of a formal, technical nature. In the last few years a growing percentage of investment loans have been granted through financial institutions; parallel thereto, there has been a marked expansion of the latter sector, especially as regards a number of institutions over which the public sector exercises considerable control. These institutions do not serve merely as a pipeline for the channelling of development budget loan funds, but to an increasing extent they have been entrusted with the task of raising funds. Thus part of the sums that they have mobilized in Israel and abroad substitutes for funds previously raised by the Government. The Government also has a decisive influence over the financial resources at the disposal of these institutions—a large portion of these resources are provident fund investments in financial assets, which are subject to Treasury regulations.¹ The distinction between public and private finance here is therefore largely arbitrary.

This institutional change—the delegation of investment-capital mobilization to the financial institutions—is particularly noticeable in industrial investment. Here the Industrial Development Bank plays a central role; in recent years it has taken over the actual granting of development budget loans, as well as raising funds for industrial investment. The share of public finance in industrial investment has therefore moved downward—from an average of 37 percent per annum in 1958–61 to 9 percent in 1964; public sector companies account for a considerable part of the balance.

Table V-13

FIXED CAPITAL FORMATION, BY TYPE OF INVESTOR AND NET SHARE OF PUBLIC FINANCING, 1961-64

(percentages)

	Investment in fixed assets			Share of public financing			
	1962	1963	1964	1961	1962	1963	1964
Public sector	16	19	20	100	100	100	100
Households (housing)	27	25	26	18	13	20	26
Nonprofit institutions	3	3	4	7	7	18	8
Private business	32	35	34	30	17	13	9
Public sector companies	22	17	17	49	50	47	40
Total	100	100	100	39	36	37	37
Total in IL million	1,995	2,210	2,693	541	719	825	984

¹ See Chapter XVII, "Financial Institutions" and Chapter XVIII, "Provident Funds and Insurance Companies".

Table V-14
NET PUBLIC FINANCING, BY TYPE OF INVESTOR, 1961-64
 (percentages)

Investor	1961	1962	1963	1964
Public sector	39	45	53	54
Households (housing)	13	10	14	19
Nonprofit institutions	1	1	2	1
Private business	28	15	9	8
Public sector companies	19	30	23	19
Total	100	100	100	100

This reduction in public financing of industry is also reflected by the marked decrease in net financing extended to private business, from 28 percent in 1961 to 8 percent in 1964 (see Table V-14). The decline here was slower, however, because of the increased amount of public funds provided for investment in farms.

The percentage of public funds channelled to agriculture and irrigation rose appreciably, with a concomitant reduction in the volume of direct public sector investments financed entirely by public funds. The proportional increase in public financing of agriculture was therefore considerable, the growth of such financing exceeding that of investment in farms.

The share of public funds granted to public sector companies also declined in 1964, reflecting the direct receipt of credit from abroad and the raising of capital in the domestic market through debenture issues.