

CHAPTER VII

PUBLIC SECTOR¹ OPERATIONS

1. PUBLIC SECTOR—CONSOLIDATED ACCOUNT

IN 1964 THE DEMAND SURPLUS of the public sector declined, and its saving increased. At the same time, the net volume of credit which it granted to other sectors of the economy expanded appreciably, and was accompanied by a greater recourse to borrowing from abroad.

The scope of public sector operations increased by IL 510 million in 1964, and reached approximately IL 4,250 million.² The annual rate of growth at current prices amounted to 14 percent, as against 15 percent in the preceding year.

Payments, other than the redemption of long-term loans (which remained at approximately the 1963 level), went up by 15 percent, compared with a rise of 11.5 percent in 1963. Public consumption expanded at a somewhat slower rate: most of the wage increases arising from the wage agreements signed in 1964 were not implemented during the year reviewed, while Government purchases abroad apparently did not go up and may even have declined slightly. At constant prices, consumption increased by 7 percent, as against 9 percent in 1963. Transfer payments likewise expanded to a relatively moderate extent. On the other hand, there was a substantial rise in outlay on subsidies, investment, and the financing of residential construction, while loans granted from the development budget and by the Jewish Agency Settlement Department contracted. At constant prices, the volume of investment (except that in inventories) increased by some 20 percent, compared with 11 percent the year before.

Tax revenue moved up at the same rate as in 1963—about 20 percent. It

¹ The Government (including the National Insurance Institute), the National Institutions (Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod), and the local authorities (including religious councils). Current income and expenses of trading enterprises (such as the Post Office, Israel Railways, and municipal waterworks) have not been included, except for their surpluses or deficits. The data cited in this chapter are based mainly on financial reports of the public sector authorities and partly on data of the Central Bureau of Statistics, and in all cases refer to calendar years. Data for the year reviewed are based on provisional monthly summaries, since financial reports for fiscal 1964/65 have not yet been published. Figures for the years 1961–63 have been revised.

² With long-term loans recorded on a gross basis and short-term loans on a net basis. If all loans granted and received were recorded on a net basis, the scope of operations would rise by 15.8 percent and total IL 3,740 million.

should be noted, however, that part of the income tax collected during the year reviewed will be refunded in 1965 because of the cut in tax rates in January 1965, effective retroactively from April 1964. As in 1963, indirect taxes on various consumer goods were reduced in order to keep their prices down. Loan receipts from the public, especially on account of the Government Short-Term Loan, as well as loans from provident funds and other financial institutions, were smaller than in 1963, while collections on account of development budget loans remained at the 1963 level. German reparations continued to decline, but total proceeds from abroad, including net receipts from borrowing, were appreciably larger than in 1963, when \$ 50 million in loans were redeemed before maturity with the help of a special advance from the Bank of Israel.

After a four-year downtrend in outstanding credit from the banking system (excluding the above-mentioned Bank of Israel advance), the public sector in 1964 once again resorted to the banking system as a source of finance, borrowing more than IL 100 million.

Dissaving—the excess of expenditure over revenue on current account—decreased appreciably in 1964, and the public sector as a whole (including the National Institutions) even showed a small positive saving. This improvement was entirely due to Government operations, but it must be noted that it stemmed in large measure from the deferment of wage and salary increases for Government staff and of income tax reductions.¹

The demand surplus—the excess of expenditure over domestic revenue on current and capital account—also declined, a development which likewise must be ascribed entirely to Government operations. The decrease here was much smaller than that in dissaving, owing to the big increase in Government and local authority investment during the year reviewed.

These developments—the conversion of a dissaving into a positive saving and the reduction of the demand surplus—suggest that the public sector's operations in 1964 had a restraining effect on inflationary trends in the economy. However, these indicators relate only to the sector's direct activities. In order to fully assess its influence on aggregate effective demand, account must also be taken of its credit transactions, for to the extent that it injects more credit into the economy than it receives from it,² it enables other sectors to increase their demand. Here we find that in 1964 the net volume of credit granted by the public sector was considerably expanded, largely because the Government's domestic loan receipts fell off precipitately.

The net amount of funds injected into the economy by the public sector, which consists of the sector's demand surplus and net credit obtained from

¹ As regards individuals, there is good reason to believe that their behavior was already affected during the year reviewed (see Chapter XIX, "Saving").

² Excluding credit from the banking system.

Table VII-1

SAVING, DEMAND SURPLUS, AND NET AMOUNT INJECTED INTO
THE ECONOMY BY THE PUBLIC SECTOR, 1961-64
(IL million)

	1961	1962	1963	1964	Increase or decrease (-) from 1963 to 1964
Surplus of sales ^a over taxes and net domestic transfers					
On current account: public sector saving (-) or dissaving ^b	12	132	45	-93	-138
On capital account	163	297	336	426	90
Demand surplus	175	429	381	333	-48
Net credit granted in Israel ^c	253	121	143	288	145
Total	428	550	524	621	97
Thereof:					
By the Government	281	304	240	346	106
By the National Institutions	141	236	293	271	-22
By the local authorities	6	10	-9	4	13

^a Of goods and services, both locally produced and imported.

^b See also Table VII-4.

^c Excluding transactions with the banking system.

other domestic sectors, rose by approximately IL 100 million. This indicator reflects the increment to demand and liquidity in the economy which arose from public sector operations and was financed mainly by unilateral receipts and credit from abroad and partly by credits from the banking system.

(a) *The effect of the public sector on the level of aggregate demand¹*

The contribution of the public sector to the growth of the aggregate demand surplus is measured in greater detail in Table VII-2. The first part of the table measures the demand surplus of the public sector—i.e. the difference between its total purchases on current and capital account on the one hand

¹ For a more comprehensive discussion see Chapter XVI, "Flow of Funds". An analysis of the Government subsector is presented below (see Table VII-6).

Table VII-2

PUBLIC SECTOR OPERATIONS AND SOURCES OF FINANCING, 1961-64
(IL million)

	1961	1962	1963	1964	Increase or decrease (-) from 1963 to 1964
A. Demand surplus					
Public consumption and investment	1,335	1,921	2,214	2,561	347
Less: Net taxes and transfers from the public ^a	1,160	1,492	1,833	2,228	395
Demand surplus	175	429	381	333	-48
B. Net credit granted^b					
Loans granted ^c	353	414	403	458	55
Less: Domestic loans and credit received ^c	100	293	260	170	-90
Net domestic credit granted	253	121	143	288	145
Total (A+B)	428	550	524	621	97
Financing through receipts from abroad and from the banking system					
C. From abroad					
Unilateral receipts	249	234	253	215	-38
Net loans and credit	205	389	147	297	150
Total	454	623	400	512	112
Total in \$ million	(252)	(233)	(133)	(171)	(38)
D. From the banking system^d					
	-26	-73	124	109	-15
Total (C+D)	428	550	524	621	97

NOTE: Further details will be found in the Appendix to this Report (in Hebrew only).

^a Receipts from taxes, domestic transfers on current and capital account, interest, and property, less transfer payments and subsidies.

^b Excluding transactions with the rest of the world and with the banking system.

^c Net of repayments.

^d In 1962—a decline of IL 235 million in the debt to the banking system, plus revaluation increments in the amount of IL 162 million which the Bank of Israel transferred to the Government.

In 1963—a rise of IL 149 million on account of the special advance granted by the Bank of Israel for the early redemption of Government debts abroad, and a net decline of IL 25 million in other credits.

In 1964—a decline of IL 39 million due to repayments on account of the above advance and a net rise of IL 147 million in other credits.

and its revenues from net taxes and domestic transfers on the other. Public consumption and investment¹ represent the direct demand of the public sector for goods and services, either locally produced or imported. Tax receipts, less domestic transfers, represent the contraction of private sector demand as a result of the reduction of its income through public sector levies.² To the extent that the public sector increases its demand more than it diminishes the demand of the rest of the economy by means of taxes and other compulsory levies, its demand surplus goes up, and this is reflected either in pressure on the domestic price level or the growth of the import surplus, or both.³

The demand surplus of the public sector—which went up appreciably after the devaluation, when foreign currency expenditure began to be recorded at the new exchange rate—declined during the last two years. In 1964 it constituted 13 percent of total public sector purchases, as against 17 percent in 1963 and 22 percent in 1962, and amounted to about IL 330 million. The reduction of the demand surplus over the past two years stemmed entirely from Government operations.

In the sphere of credit, however, the trend of the last few years has been in the opposite direction: the excess of credit pumped into the economy by the public sector⁴ over that received⁵ increased considerably in 1964, after having contracted in 1962 and risen slightly in 1963. The ratio of loans received to loans granted fell from 70 percent in 1962 to 65 percent in 1963 and only 35 percent in 1964, largely because of a smaller credit inflow. Domestic loan receipts were down IL 90 million as compared with 1963, while credit outflow was IL 55 million larger. Accordingly, the net amount of credit injected into the economy by the public sector went up by IL 145 million, to stand at approximately IL 290 million.

The demand surplus of the public sector, including net credit supplied to other domestic sectors, reached IL 620 million in 1964. Most of this amount (82 percent) was financed from foreign sources, while the rest (18 percent) was covered by funds from the banking system. Of total foreign receipts, 42 percent were in the form of transfers, and 58 percent—net loans and credit.

¹ Purchases less sales, on current and capital account.

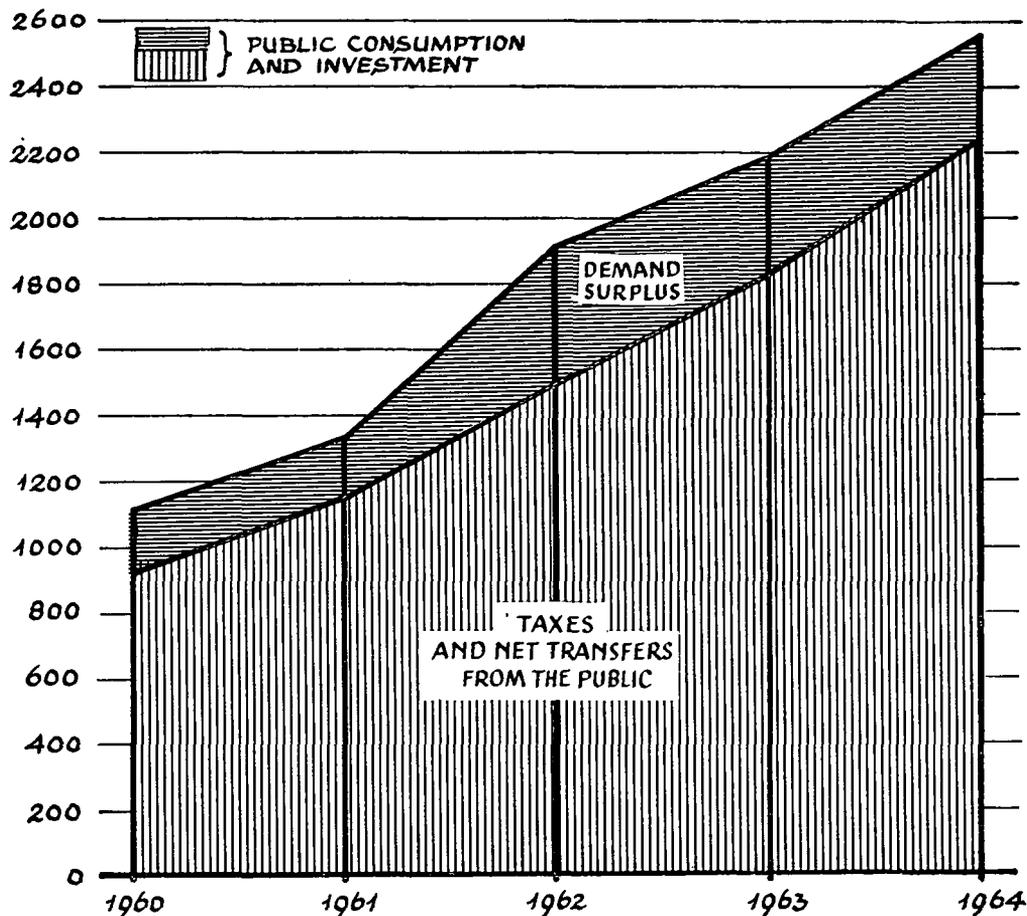
² Less transfer payments and subsidies by the public sector.

³ As regards the economy as a whole, the demand surplus is reflected in the balance of payments deficit on current account. In respect of a specific sector, it is not feasible to measure separately its contribution to the creation of a demand surplus within the economy and to balance of payments pressure. Even when it is possible to distinguish between domestic and foreign purchases, there exists a not inconsiderable degree of substitution between them, and the substitution of local purchases for imports on the part of one sector could lead to the expansion of imports by another.

⁴ Credit granted within the framework of the development budget and by the Settlement Department of the Jewish Agency.

⁵ In the form of loans and credit from all domestic sources other than the banking system.

Diagram VII-1
DEMAND SURPLUS OF THE PUBLIC SECTOR, 1960-64
 (IL million)



(b) *Transactions of the public sector*

The "balance of payments" of the public sector for the years 1963 and 1964, by main type of payment and receipt, is set forth in Table VII-3. This table distinguishes between transfers and transactions in goods and services—the "real account"—and transactions in credit—the "financial account".¹

¹ The goods and services account is chiefly a current one, since the public sector has not been debited for most of its capital outlay, this generally being classified as loans to other economic sectors (including the financing of all types of residential construction through the Government's development budget and the financing of agricultural settlement by the Settlement Department of the Jewish Agency). The method of constructing the "balance of payments" in this chapter was explained in the Appendix to the Bank of Israel Annual Report for 1959 (in Hebrew only).

Table VII-3

"BALANCE OF PAYMENTS" OF THE PUBLIC SECTOR, BY TYPE OF RECEIPT AND PAYMENT, 1963-64

(IL million)

Receipts	1963	1964	Increase or decrease (-)	Payments	1963	1964	Increase or decrease (-)
Transfers and transactions in goods and services							
Taxes ^a	2,108	2,521	413	Purchases			
Miscellaneous revenues	337	427	90	On current account ^a	1,829	2,082	253
Subtotal	2,445	2,948	503	On capital account	422	526	104
Unilateral receipts from abroad	253	215	-38	Transfer payments and grants	376	431	55
				Subsidies	199	242	43
Total	2,698	3,163	465	Total	2,826	3,281	455
Transactions in financial claims							
Collections on account of long-term loans	101	99	-2	Long-term loans granted and participation in share capital	504	557	53
Long-term loans received				Repayment of long-term loans			
Foreign	604	605	1	Foreign	328	315	-13
Domestic	178	235	57	Domestic	81	97	16
Short-term credit (net)							
Foreign	-129	7	136				
Domestic ^b	163	32	-131				
From the banking system ^c	124	109	-15				
Total	1,041	1,087	46	Total	913	969	56
Total receipts	3,739	4,250	511	Total payments	3,739	4,250	511

^a Including customs duty and purchase tax paid by public sector offices. In Table VII-2 of the Bank of Israel Annual Report for 1963, these taxes were deducted from both revenue and expenditure.

^b Excluding credit from the banking system, but including short-term securities.

^c The 1963 figure includes a IL 149 million Bank of Israel loan for the advance repayment of Government liabilities abroad; the 1964 figure is after deduction of IL 38 million paid to the Bank of Israel on account of this loan.

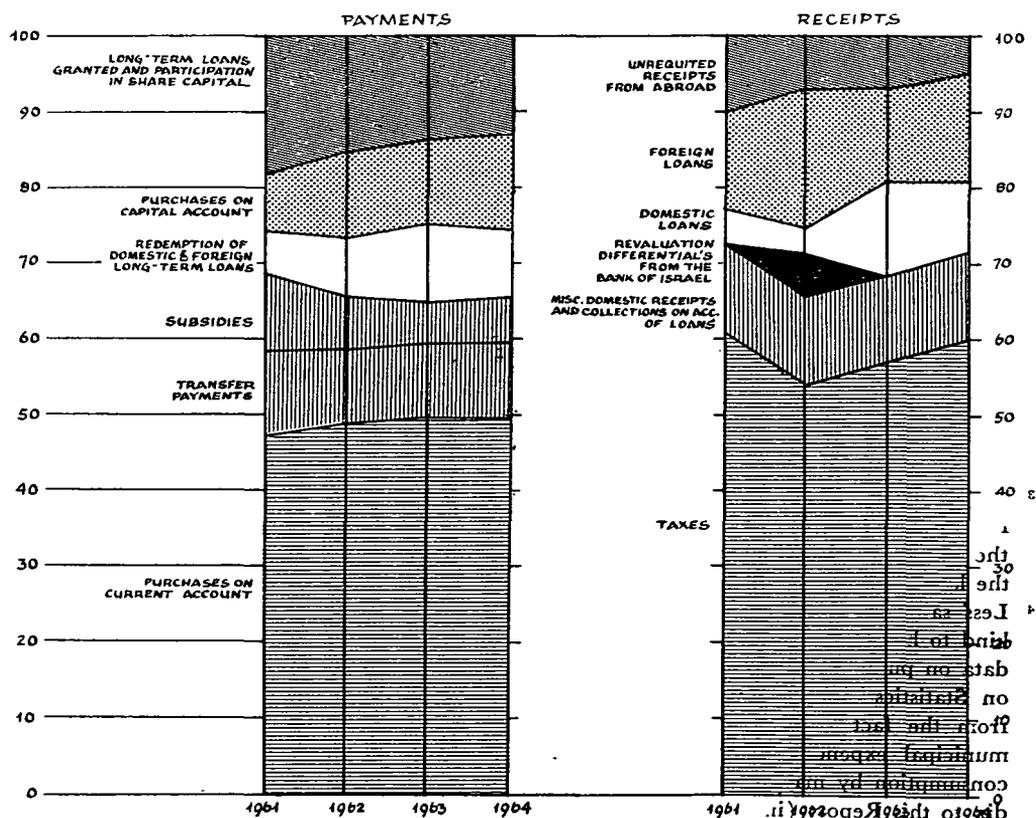
SOURCE: Tables VII-7, VII-15, and VII-17.

In 1964 payments on real account exceeded receipts from taxes and domestic and foreign transfers by approximately IL 120 million, compared with IL 130 million in 1963. This sum is equal to the demand surplus less unilateral receipts from abroad. Parallel thereto, net loans and credit from domestic and foreign sources exceeded net loans granted for development and housing purposes.

Diagram VII-2 gives a breakdown of public sector receipts and payments during the years 1961-64. In both 1963 and 1964 receipts from domestic sources accounted for 80 percent of the total, and receipts from abroad for 20 percent. Among domestic receipts, the share of ordinary revenue (which consists mainly of taxes) rose during 1964, while that of loans declined.

On the expenditure side, the relative share of current outlay (purchases, transfers, and subsidies) moved up slightly to reach nearly two-thirds of the total. The proportion of purchases on capital account also rose, while that of loans

Diagram VII-2
 RECEIPTS AND PAYMENTS OF THE PUBLIC SECTOR, 1961-64
 (percentages)



from the development budget and the Jewish Agency Settlement Department continued to decline. Expenditure on investment and the financing of investment together constituted about one-fourth of total payments. The relative share of long-term loan repayments edged down somewhat from the record high of 1963, and accounted for about 10 percent of the total.

During the year reviewed approximately 72 percent of aggregate payments were financed by taxes and other ordinary revenue,¹ and some 28 percent by domestic and foreign loans and unilateral receipts from abroad; in 1963 the corresponding figures were 68 and 32 percent respectively. If repayments of loans and collections on account of loans are deducted from both receipts and payments, the proportion of ordinary revenue rises to about 80 percent, and that of borrowed receipts stands at 15 percent (of which less than one-third derived from loans from the Israeli public, and two-thirds from loans from abroad and from the banking system); the remainder consisted of unilateral transfers from abroad.²

In 1964 Government operations accounted for 80 percent of the sector's receipts and 78 percent of its payments. The share of the National Institutions, which has been declining for some years, amounted to only 9 percent of total receipts and payments. The local authorities accounted for 11 percent of aggregate receipts (excluding transfers from the Government) and 13 percent of payments.³

(c) *Public consumption*

Public consumption is defined as purchases of goods and services on current account⁴ by the public sector. It consists mainly of wages and salaries paid to

¹ Revenue from domestic sources, excluding loans and collections on account of loans.

² The corresponding figures for 1963 were as follows: ordinary revenue—76 percent; unilateral receipts from abroad—8 percent; and loans—16 percent (of which half consisted of loans from abroad or from the banking system, and the other half—loans from other domestic sources).

³ In 1963 the Government received 79 percent of all public sector receipts, the National Institutions—11 percent, and the local authorities—10 percent; on the payments side, the share of the Government was 78 percent, the National Institutions—10 percent, and the local authorities—12 percent.

⁴ Less sales. Current outlays not included in consumption are transfer payments in cash or kind to households and nonprofit institutions, and subsidies to producers and importers. The data on public consumption in this chapter differ slightly from those of the Central Bureau on Statistics cited in Chapter II, "Resources, Uses, and Incomes". The differences arise from the fact that the data in this chapter include all interest payments but exclude municipal expenditure of collective and cooperative settlements. A breakdown of public consumption by major item and by public sector authority appears in the statistical appendix to this Report (in Hebrew only).

employees (excluding those working for trading enterprises, such as the Post Office and Israel Railways), purchases of locally produced and imported goods for the direct use of the public sector other than for investment, and interest payments.

Public consumption expanded in 1964 by 13.5 percent—7 percent in real terms and about 6 percent the result of higher prices. In 1963 the real growth of public consumption was greater, totalling 9 percent. Most of the 1964 increase took place in the wages and interest items. Government imports, including defense requirements, apparently did not expand, while the volume of immigration—which chiefly affects the consumption of the National Institutions—remained unchanged.

Expenditure on security and special budgets rose by 8 percent at current prices, and totalled IL 770 million, or 38 percent of total public consumption.

Outlay on wages and salaries, other than that of the Ministry of Defense, was 18 percent higher than in 1963, and totalled IL 615 million.¹ The rise in the number of employees is estimated at over 5 percent, while the average increase in pay per employee came to 12 percent; of the latter, less than one-third was due to the raising of the cost-of-living allowance and the remainder to increases in the basic wage rate, advances, and differentials on account of wage rises paid during the year to various groups of employees, as well as the usual wage drift resulting from promotion and increased seniority. In 1964 “committees of six”, with parity representation for managements and unions, were set up for almost every department in the public service and made responsible for reclassifying clerical and administrative jobs in accordance with the new labor agreement signed in August. But since most of the committees did not complete their work by the end of the year, the bulk of the pay differentials due public sector employees on account of 1964 will be paid only in 1965.²

Interest payments have been going up steadily with the rise in public sector indebtedness. In 1964 they totalled IL 320 million, or 15 percent of total public consumption. Interest payments on foreign obligations amounted to IL 175 million—80 percent on account of Government debts and 20 percent on account of debts incurred by the National Institutions—as compared with IL 150 million in 1963, and constituted 55 percent of total public sector outlay on interest.

(d) *Public sector saving*

Public sector saving, defined as the excess of current income (mainly from taxes) over current expenditure (consumption, transfer payments, and sub-

¹ All data on wages and salaries cited in this chapter are from the Central Bureau of Statistics.

² See Chapter X, “Wages”.

sidies), was of a positive sign during the year reviewed,¹ and totalled IL 95 million as compared with a dissaving of IL 45 million in 1963—i.e. the increase in saving came to approximately IL 140 million. However, as already noted, this marked improvement can largely be ascribed to the postponement of the implementation of wage and salary rises and income tax reductions decided upon by the Government during the year and which will apply retroactively from April 1964.

Current revenues were up IL 480 million, or 20.5 percent, compared with the previous year. The rise in current expenditure was smaller, totalling IL 340 million, or 14.5 percent (see Table VII-4).

Table VII-4
PUBLIC SECTOR SAVING, 1961-64*
(IL million)

	1961	1962	1963	1964
(1) Income on current account ^b	1,619	1,949	2,329	2,808
(2) Outlay on current account ^c	1,631	2,081	2,374	2,715
(3) Saving or dissaving (-) of the public sector (1)-(2)	-12	-132	-45	93
Increase in saving (or decrease in dissaving as against previous year	—	-120	87	138

* A more detailed breakdown appears in the Appendix to this Report (in Hebrew only).

^b Taxes, domestic transfer receipts, and income from property including interest.

^c Consumption, including interest paid, subsidies, and current transfer payments.

The increase in saving was entirely due to Government operations; although rates of major taxes remained virtually unchanged and subsidy payments were enlarged in line with the official stabilization policy, current revenue expanded much more rapidly than current expenditure. The dissaving of local authorities increased, as did that of the National Institutions, although more moderately than in previous years. The level of National Institution dissaving rises *pari passu* with their current expenditure, since they do not collect taxes and therefore receive very little income from domestic sources; their unilateral receipts from abroad are not taken into account in calculating their saving.

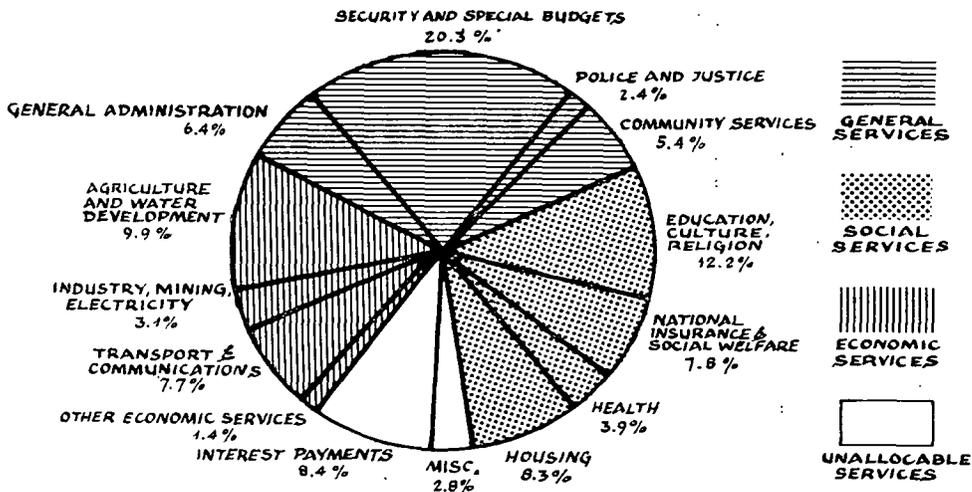
¹ There is no contradiction between a positive saving figure and the existence of a demand surplus, since in calculating the demand surplus operations on capital account are taken into account, and here expenditure greatly exceeds domestic revenue (see Table VII-1).

(e) *Functional composition of expenditure*

A breakdown of public sector expenditure¹ for the years 1963 and 1964, by function and by public sector authority—the Government, National Institutions and local authorities—is presented in Table VII-5 and Diagram VII-3.

Diagram VII-3

FUNCTIONAL BREAKDOWN OF PUBLIC SECTOR EXPENDITURE, 1964
(percentages)



Most of the increase during the year reviewed took place in transportation services, housing, and education. Other items registering above-average rises were police and justice, general administration, and interest, while outlay on two major items—security and special budgets and agriculture and water development—moved up at lower-than-average rates, and that on industrial services declined even in absolute terms. These developments largely reflect changes in the structure of Government expenditure, which will be discussed more fully in the section dealing with Government activities.

Security and special budgets, the largest single item, constituted as much as one-fifth of total expenditure. Other administrative outlays, including that on municipal services, immigration services, and the police, accounted for 14 percent of the total, and interest payments for 8.5 percent.

Social services—education, social welfare, housing, and health—represented nearly a third of aggregate expenditure; their relative share went up sub-

Apart from debt redemption, which is not included in this analysis.

Table VII-5

PUBLIC SECTOR EXPENDITURE, BY FUNCTION^a AND PUBLIC SECTOR AUTHORITY, 1963-64

	1963	1964	Increase or decrease (-)		Breakdown in 1964 by public sector authority (percent)				
	IL million	IL m.	IL m.	%	Government	National Institutions	Local authorities	Intrasector transfers	Total
General services									
General administration	201	244	43	21.4	59.4	16.0	25.8	-1.2	100.0
Security and special budgets	729	779	50	6.9	100.0	—	—	—	100.0
Police and justice	72	92	20	27.8	100.0	—	—	—	100.0
Community services n.e.s. ^b	202	210	8	4.0	11.4	32.4	57.1	-0.9	100.0
Total	1,204	1,325	121	10.0	78.5	8.0	13.8	-0.3	100.0
Social services									
Education, culture, religion	371	468	97	26.1	57.9	5.8	40.2	-3.9	100.0
National Insurance and social welfare									
social welfare	255	301	46	18.0	87.7	5.3	17.6	-10.6	100.0
Health	126	151	25	19.8	82.1	0.6	19.9	-2.6	100.0
Housing	216	317	101	46.8	96.5	9.4	0.9	-6.8	100.0
Total	968	1,237	269	27.8	78.0	6.0	22.2	-6.2	100.0

Economic services**Agriculture and water**

development	376	378	2	0.5	75.1	30.1	1.3	-6.5	100.0
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Industry, mining, electricity	180	121	-59	-32.8	96.7	0.8	2.5	—	100.0
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Transportation (incl. roads).

and communications	175	295	120	68.6	86.8	0.3	13.9	-1.0	100.0
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Other economic services	50	54	4	8.0	94.4	5.6	—	—	100.0
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Total	781	848	67	8.6	83.5	14.0	5.8	-3.3	100.0
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Unallocable services

Interest payments	262	322	60	22.9	73.9	20.2	7.1	-1.2	100.0
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Miscellaneous ^c	115	106	-9	-7.8	150.0	—	—	-50.0 ^d	100.0
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Total	377	428	51	13.5	92.7	15.2	5.4	-13.3	100.0
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Grand total	3,330	3,838	508	15.2	81.0	9.5	13.8	-4.3	100.0
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^a Excluding debt repayment and current expenditure of public sector enterprises, such as the Post Office, Israel Railways, the ports, and municipal waterworks.

^b Not elsewhere specified; mainly strictly municipal services (such as sanitation, sewerage, and street lighting), direct immigration services, and general research.

^c Including subsidies on imported goods, investment in food stocks, and aid to foreign countries.

^d Transfers and loans to local authorities for unspecified purposes.

SOURCE: Tables VII-14, VII-16, and VII-18.

stantially during the year reviewed, the growth rate here being more than twice as fast as that for other items.

On the other hand, the proportion spent on economic services decreased, except for transportation services, which include *inter alia* roads and ports, investment in which expanded considerably. Outlay on services to industry (which consist largely of development budget loans) declined in absolute terms, while expenditure on agriculture and the development of water resources remained at the 1963 level. Economic services accounted for 22 percent of total expenditure.

The Government's share of public sector outlay exceeded 80 percent. Security, National Insurance, and the promotion of industry fall exclusively within the Government's sphere, and it also plays a predominant role in most of the other areas of operation.

The National Institutions accounted for approximately 10 percent of public sector expenditure. They deal mainly with immigration, agriculture (subsidies to new settlements, afforestation, and land reclamation), and the financing of immigrant housing construction. Their expenditure on administration and interest is high relative to that of the rest of the public sector. Their administrative expenses include *inter alia* the organizational activities of the World Zionist Organization, land transactions of the Jewish National Fund, and educational activities abroad.

The expenditure of the local authorities is more varied. Municipal services—sanitation, sewerage, the supply of drinking water, etc.—are almost exclusively in their hands; in addition, they play an important role in the provision of social services (other than housing), particularly education. Over half of the marked increase in educational outlay during the year reviewed can be attributed to the local authorities, which stepped up their investment in elementary and secondary school buildings to an appreciable extent. As to general administration, the relative share of the local authorities is especially high: they accounted for more than 25 percent of the total in 1964, though their share of overall public sector expenditure was only 14 percent. This can largely be ascribed to the fact that the local authorities are made up of 187 municipalities, local councils, and regional councils, each of which has an elected council and a separate treasury and tax collection staff.

Intrasector transfers consist mainly of Government transfers for financing the operations of local authorities, and also the participation of the National Institutions in the financing of immigrant housing construction.¹

¹ In calculating the outlay of the consolidated public sector, as presented in Table VII-5, these transfers were deducted to prevent double counting. In calculating the outlay of the individual authorities, they were included as expenditure of both the financing authority and the executing authority.

2. THE GOVERNMENT

Government outlay, including repayment of long-term debts but excluding transfers to the National Institutions, rose in 1964 by 13.5 percent—a similar rate as in the previous year—and totalled IL 3,410 million. Repayments on account of long-term loans and receipts from collections on account of development budget loans showed practically no increase, while other operations expanded by 15 percent, compared with only 10 percent in 1963.

Government consumption went up at a somewhat lower rate than in 1963—by 11.5 percent. Government imports apparently did not grow, and most of the wage rises agreed upon during the year reviewed will be paid only in 1965. The increase in transfer payments was also moderate as compared with previous years. On the other hand, there was a considerable expansion of subsidies on agricultural output and consumer goods, of investment (chiefly in the telephone network, roads, and the construction of Ashdod Port), and the financing of residential construction. Other development budget loans contracted.

On the receipts side, income from taxes went up 20 percent, as in the preceding year. Again the growth was not due to higher tax rates, but mainly to a rise in the income level and the expansion of imports. Part of the income tax collected in 1964 will be refunded in 1965, owing to the retroactive reduction of tax rates. Proceeds on account of the Short-Term Loan and credit from other domestic nonbanking sources declined. Reparations receipts continued downward. Net receipts from the National Institutions likewise fell off, while collections on account of development budget loans, as already mentioned, held steady. On the other hand, net foreign loan receipts were higher than in 1963 (when debts totalling \$ 50 million were repaid ahead of maturity). In 1964 the Government again resorted to the banking system as a source of funds but, in contrast to 1963, such credit was not earmarked for the advance repayment of foreign obligations.

The changing pattern of development budget financing which has characterized recent years was again evident in 1964. While expenditure on direct Government investments, including communication facilities and ports, have continued to expand rapidly, funds supplied to other sectors of the economy have remained static—if we disregard the sharp annual fluctuations in the financing of housing, arising in part from the nature of the construction process—and in real terms are actually on the decline. With the sharp drop in shipments of reparations goods, a large proportion of which have been made available to the economy on the strength of development budget financing, there is a distinct tendency to transfer to public financial institutions¹

¹ E.g. the Industrial Development Bank of Israel, the Israel Bank of Agriculture, the Maritime Bank, and Tefahot Israel Mortgage Bank Ltd. See also Chapter XVII, "Financial Institutions".

the direct handling of loan allocations, the raising of funds to finance such loans, and the collection of principal and interest on account of loans granted in the past. These arrangements have assumed various forms, such as converting deposits earmarked for loans into share capital of financial institutions, and authorizing institutions (as well as Government companies, which in previous years were given a larger share of direct development budget financing) to raise funds in their own name both locally and abroad, instead of the Government doing so directly. Thus, during the year reviewed most of the securities acquired by provident funds were bonds issued by Government companies and by financial institutions engaging primarily in loans of the type previously granted from the development budget, rather than Government bonds. In addition, there is a perennial lag in the collection of payments on account of loans granted in the past, and it must be assumed that, in the case of large-scale borrowers in particular (such as Government companies), the delay in repayment constitutes a substitute for new financing. These developments tend to reduce the relative share within the Government budget of loans granted, collections on account of loans, and receipts from domestic loans. However, as long as the Government retains a controlling share of the equity capital and a decisive voice in determining the policies of the financial institutions concerned—i.e. to whom to lend and on what terms—and is even prepared to directly subsidize interest differentials on loans given on its recommendation, this development represents a formal rather than a real change.

(a) *Government transactions*

The effect of Government activities on the level of aggregate domestic demand is presented in Table VII-6 (corresponding to Table VII-2, which relates to the public sector as a whole). In 1964 the withdrawal of income from the economy (mainly through taxes) apparently exceeded the direct demand of the Government for commodities and services (from local output and import) by some IL 60 million—an amount equivalent to 3 percent of total purchases. In 1963, on the other hand, purchases exceeded net withdrawals from the economy by IL 55 million, or 3.5 percent of purchases. In other words, the demand surplus declined in absolute terms to the considerable extent of IL 115 million.

However, the restraining effect of this reduction of the Government's direct demand surplus was offset by a contrary development in the sphere of credit: in 1964 the amount of credit granted by the Government to the other sectors of the economy exceeded its revenues from domestic public loans by some IL 340 million. Government lending for housing and development purposes rose, while the amount received in the form of domestic loans and credit contracted sharply.

Government payments to the rest of the public sector likewise expanded ap-

Table VII-6

GOVERNMENT OPERATIONS AND SOURCES OF FINANCING, 1961-64
(IL million)

	1961	1962	1963	1964	Increase or decrease (-) from 1963 to 1964
A. Demand surplus					
Government consumption and investment	993	1,470	1,657	1,891	234
Less: Taxes and net trans- fers from the public ^a	1,010	1,302	1,600	1,950	350
Demand surplus	-17	168	57	-59	-116
B. Net credit granted^b					
Loans granted ^c	286	341	333	383	50
Less: Domestic loans and credits received ^c	55	235	160	44	-116
Net domestic credit granted	231	106	173	339	166
C. Net payments to the rest of the public sector^d	67	30	10	66	56
Total (A+B+C)	281	304	240	346	106
Financing through receipts from abroad and from the banking system					
D. From abroad					
Unrequited receipts	139	73	79	25	-54
Net loans and credit	190	292	42	226	184
Total	329	365	121	251	130
Total in \$ million	(183)	(141)	(40)	(83)	(43)
E. From the banking system^e	-48	-61	119	95	-24
Total (D+E)	281	304	240	346	106

NOTE: A more detailed breakdown appears in the Appendix to this Report (in Hebrew only).

^a Receipts from taxes, domestic transfers on current and capital account, interest, and property, less transfer payments and subsidies.

^b Excluding transactions with the rest of the world and with the banking system.

^c Net of repayments.

^d Net payments to the local authorities less net receipts from the National Institutions.

^e In 1962—a decline of IL 223 million in the Government's debt to the banking system, plus revaluation increments of IL 162 million which the Bank of Israel transferred to the Government.

In 1963—a rise of IL 149 million due to the special loan from the Bank of Israel for the advance repayment of Government debts abroad, and a decline of IL 30 million in other credits.

In 1964—a decline of IL 38 million due to repayments on account of the above advance, and a net increase of IL 133 million in other credits.

Table VII-7

"BALANCE OF PAYMENTS" OF THE GOVERNMENT, BY TYPE OF RECEIPT AND PAYMENT, 1963-64

(IL million)

Receipts	1963	1964	Increase or decrease (-)	Payments	1963	1964	Increase or decrease (-)
Transfers and transactions in goods and services							
Taxes ^a	1,908	2,285	377	Purchases			
Miscellaneous receipts	210	283	73	On current account	1,441	1,617	176
Subtotal	2,118	2,568	450	On capital account	246	314	68
Unrequited receipts from abroad	79	25	-54	Transfer payments and grants	292	338	46
				Subsidies	196	240	44
Total	2,197	2,593	396	Total	2,175	2,509	334
Transactions in financial claims							
Collections on account of long-term loans	90	91	1	Long-term loans granted and participation in share capital			
Long-term loans received				For housing	211	294	83
Foreign	518	552	34	For other purposes	212	180	-32
Domestic	48	75	27	Total	423	474	51
Short-term credit (net)				Repayment of long-term loans			
Foreign	-191	-33	158	Foreign	285	293	8
Domestic ^b	158	15	-143	Domestic	46	46	—
From the banking system ^c	119	95	-24	Total	754	813	59
Total	742	795	53	Total	754	813	59
Transactions with the National Institutions and local authorities							
From the National Institutions (net)	68	22	-46	To local authorities (net)	78	88	10
Total receipts	3,007	3,410	403	Total payments	3,007	3,410	403

^a Including collections on account of National Insurance, the War Risk Insurance Fund, the Absorption Loan, and compulsory saving, but excluding customs duties and purchase tax paid by Government offices. In Table VII-6 of the 1963 Report, taxes paid by the Government were deducted from both receipts and payments.

^b Excluding credit from the banking system; including short-term securities.

^c Including long-term loans and securities. In 1963—including a Bank of Israel loan for IL 149 million for the advance repayment of Govern-

preciably in 1964, and amounted to IL 65 million. Here too outlay (to the local authorities) went up while receipts (from the National Institutions) fell.

Thus we see that the Government's net withdrawal of income from the economy on current and capital account financed only part of its credit outflow. The remainder was covered by loans and unilateral receipts from abroad in the amount of IL 250 million and by credits from the banking system in the amount of IL 95 million.

Table VII-7 shows the "balance of payments" of the Government for the years 1963 and 1964. As in Table VII-3, a distinction has been made between transfers and transactions in goods and services (the "real account") and transactions in credit (the "financial account"), while transactions with the rest of the public sector have been recorded separately on a net basis.

In 1964 revenue from taxes and domestic and foreign transfers exceeded payments on real account by IL 85 million, as compared with some IL 20 million in 1963; this amount is equivalent to the net withdrawal of income from the economy plus unrequited receipts from abroad. In the financial account the credit outflow of the Government during the last two years slightly exceeded the inflow from both domestic and foreign sources.

The difference between the surplus of receipts in the real account and the surplus of payments in the financial account represents the net amount paid to the rest of the public sector. These payments, as already mentioned, rose considerably during the year reviewed.

(b) *Receipts*

1. *Taxes*

Government tax revenue increased in 1964 by IL 375 million, or approximately 20 percent, and totalled IL 2,285 million. The growth rate was similar to that for the two preceding years and was more rapid than the rise in national income (16 percent). Collections of indirect taxes, after deduction of subsidies, went up somewhat faster than the national product, whereas in 1963 they had lagged considerably behind.

The breakdown of taxes as between those on income and those levied on imports and local production changed only slightly during the year reviewed: the percentage of direct taxes went up slightly and taxes on local production declined slightly.

The rise in revenue in 1964 was mainly due to the growth of incomes and the expansion of imports, rather than to changes in tax rates. While some tax increases did occur, e.g. on foreign travel and passenger cars,¹ there were also cuts on consumer goods designed to hold their prices in line.

¹ New taxes were also imposed on capital gains and on the construction of large dwellings, the latter to be collected by the local authorities.

Table VII-8
GOVERNMENT TAX REVENUE, 1963-64
(IL million)

	1963	1964	Increase or decrease (-)	
			IL m.	%
Direct taxes				
Income tax	641	815	174	27.1
Absorption Loan and compulsory saving	100	101	1	1.0
National Insurance	162	180	18	11.1
Total	903	1,096	193	21.4
Indirect taxes				
Customs duties	253	329	76	30.0
Purchase tax	252	293	41	16.3
Excise duties	124	128	4	3.0
Fuel tax	84	112	28	33.3
Property taxes	87	110	23	26.4
Stamp tax, security stamp, and entertainment tax	71	85	14	19.7
Current surplus of Post				
Office and ports	34	46	12	35.3
Vehicle license fees	22	26	4	18.2
Foreign travel tax	12	22	10	83.3
Licences, fees, and misc. service charges	26	35	9	34.6
Surpluses of agricultural equalization funds	8	2	-6	-75.0
Surtax and tax on exchange rate differentials	32	1	-31	-96.9
Total	1,005	1,189	184	18.3
Grand total	1,908	2,285	377	19.8

NOTE: The definition of direct and indirect taxes in this table is based on accepted national accounting procedures and differs somewhat from that employed by the Accountant General. This table excludes compulsory payments which in the national accounts are defined as transfers—namely, the inheritance tax, the land betterment tax, fines, and certain fees and licenses (such as driving licenses and passport fees). On the other hand, this table includes the net profit of the Post Office and the ports (the deficits incurred by Israel Railways are classified as subsidies). Taxes collected through banks have been recorded on a cash rather than an accrual basis.

SOURCE: Accountant General and National Insurance Institute.

(i) *Direct taxes and other compulsory payments levied on incomes*

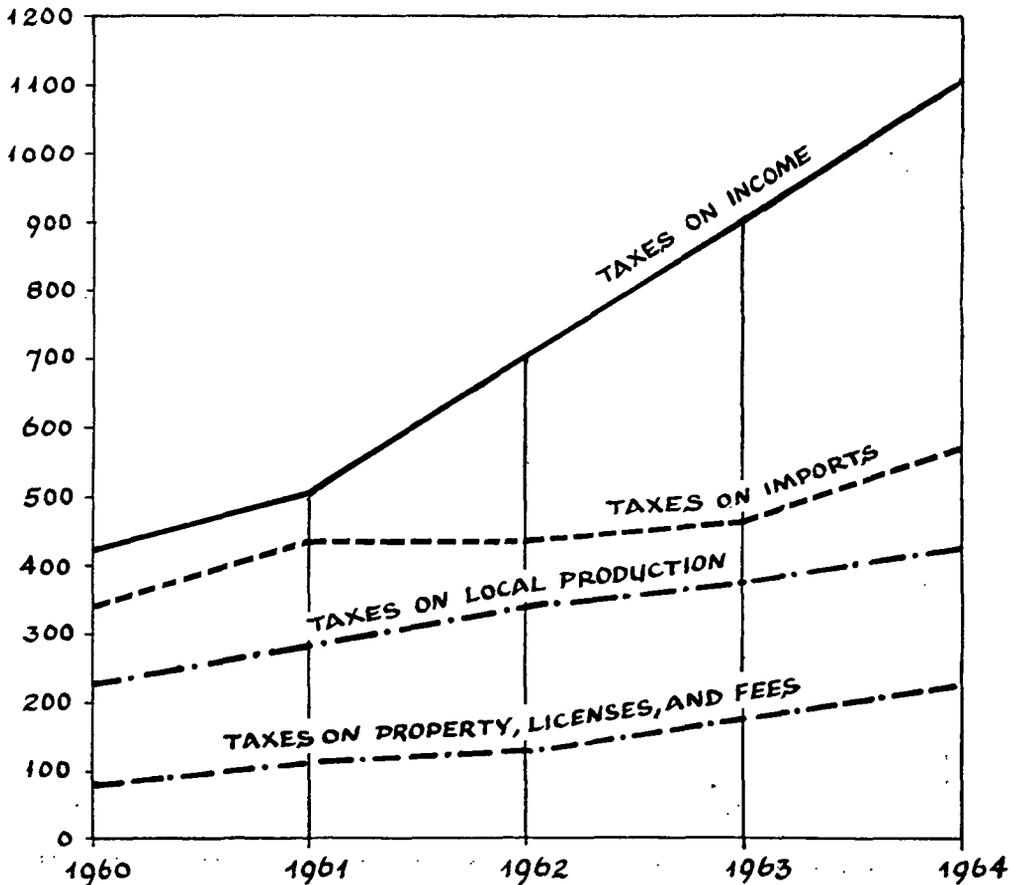
Receipts from direct taxes—income tax, the Absorption Loan, compulsory saving, and National Insurance contributions—rose by about IL 195 million, or 21.5 percent, and totalled IL 1,095 million. Their relative share of total Government tax revenue went up from 47 percent in 1963 to 48 percent, whereas in the two preceding years the growth had been much more marked (see Tables VII-8 and VII-9 and Diagram VII-4).

Joint collections on account of income tax, the Absorption Loan, and compulsory saving were 24 percent above the 1963 level, and totalled IL 915 million.

Income tax receipts increased by IL 175 million to reach IL 815 million, and accounted for about 35 percent of total tax revenue; the rate of increase

Diagram VII-4

GOVERNMENT TAX REVENUE, BY MAJOR CATEGORY, 1960-64
(IL million)



came to 27 percent, as against 30 percent in 1963. The rise in tax collections is attributable to the growth of incomes—the national income went up by 16 percent and the national wage bill by 18 percent—as well as to the effect of progressive rates.

In June a 20 percent tax was imposed on capital gains from securities traded on the Stock Exchange and held by the seller for less than one year; the tax to be deducted at source by brokers.¹ A capital gains tax was also imposed on other capital assets, but its incidence was postponed to 1965.

During the year reviewed there were no changes in income tax rates, but in January 1965 the Knesset amended the Income Tax Law in line with the recommendations of the Zadok Committee, the changes to apply retroactively from April 1964. The amended law provides for a general reduction of rates, with larger concessions to families with two or more children. The substantial cuts in marginal rates will chiefly benefit persons earning between IL 950 and IL 2,500 a month.² Tax refunds will be paid in 1965 to wage earners in three monthly installments in the form of deductions from income tax in February, March, and April, and to the self-employed when they are assessed for the fiscal year 1964/65.

Income tax collections from both wage earners and others (self-employed and companies) increased in 1964 at the same rate—30 percent.³ In 1963 collections from wage earners went up at a similar rate as in 1964, whereas collections from non-wage-earners rose more rapidly—by 35 percent. The decelerated growth of the latter in 1964 was apparently due to a more moderate rise in declared profits—in 1963 profits were particularly high in certain branches, such as citriculture. It may also have been partly due to income tax concessions introduced in October 1963, whereby the depreciation rates allowed for income tax purposes were increased and payment of linkage differentials was recognized as a deductible expense.

Tax collections at sources on income derived from interest and dividends were up 24 percent, reaching IL 55 million, or 7 percent of total income tax revenue. In 1963 the rate of increase was greater—approximately 50 percent. The deceleration can be attributed mainly to the slower rise in the public's security holdings and in the bill brokerage trade.

Collections on account of the Absorption Loan and compulsory saving hardly went up as compared with 1963, owing to reduced collections of arrears and

¹ Owing to the fall of Stock Exchange quotations, the new tax yielded virtually no revenue in 1964.

² Net income of persons in these brackets rose by 6 to 7 percent as a result of the amendments.

³ The difference between this rate (30 percent) and that cited in Table VII-8 (27 percent) is due to differences in the dates of recording collections in the form of bank obligations. In Table VII-8 the collections relate to the actual date of payment, while in the breakdown between different types of taxpayers they relate to the date on which the liability was incurred.

to the trimming of rates in fiscal 1963/64. Proceeds from this source totalled IL 100 million in 1964, or 12.4 percent of aggregate income tax revenue, as compared with 15.6 percent the previous year. The incidence of the loan was again extended, this time for two years. The new income tax concessions and the retroactive tax refunds approved by the Knesset at the beginning of 1965 apply also to the Absorption Loan and compulsory saving, since they are collected as a fixed percentage of income tax (18 percent in the case of employees and self-employed, and 12 percent in the case of companies).

Collections of National Insurance contributions rose by only 11 percent for the second consecutive year, and totalled IL 180 million. The growth in collections reflects the increase in the number of gainfully employed and the rise in income among those earning less than IL 420 per month (the maximum amount taxable). The rate of tax and the ceiling have remained unchanged for five years¹ even though benefit rates have been raised a number of times. As a result, the Government's net revenue from this source declined in the last two years—from IL 37 million in 1962 to IL 32 million in 1963 and IL 30 million in 1964. There was also a weakening of the actuarial position, especially in the major item—old-age and survivors insurance; that is, there was a rise in the gap between the amount of funds accumulated and liabilities—actual and potential—to the insured.

(ii) *Indirect taxes*

Government revenue from indirect taxes went up by 18 percent in 1964, and totalled IL 1,190 million. In 1963 the rate of increase was slower—11.5 percent. This change was due to the rise in revenue from import taxes, mainly because of the expansion of imports. Receipts from levies on domestic production advanced, as in 1963, by only 10.5 percent, because of additional tax cuts aimed at preventing a rise in consumer prices and concessions to encourage local production. In order to keep prices of imported foodstuffs stable, various customs duties were reduced as well.

Receipts from import taxes were up 21 percent, compared with only 6.5 percent in 1963, and totalled IL 555 million (see Table VII-9). If we deduct the decrease during the year reviewed in collections on account of nonrecurrent postdevaluation surtaxes and in agricultural equalization-fund surpluses as a result of the abolition of differential exchange rates for fodder imports, then the revenue from the remaining taxes in this group (customs duties, fuel tax, purchase tax on imported products, and the foreign travel tax) increased to an even greater extent—31 percent. This rise was due, first and foremost, to the larger volume of imports, especially of goods subject to high tariff rates, such as passenger cars. The relative share of import taxes in total tax revenue

¹ From April 1960 to April 1965, when the ceiling was raised from IL 420 to IL 550 per month.

Table VII-9
GOVERNMENT TAX REVENUE, BY MAJOR CATEGORY, 1961-64

	1961	1962	1963	1964	Increase or decrease (-) from 1963 to 1964	
					IL m.	%
IL million						
Taxes on income	506	693	903	1,096	193	21.4
Taxes on expenditure						
Imports	436	430	458	555	97	21.2
Local production	281	340	375	415	40	10.7
Taxes on property	48	65	87	110	23	26.4
Licenses and fees	59	66	85	109	24	28.2
Total	1,330	1,594	1,908	2,285	377	19.8
Percentages						
Taxes on income	38.0	43.5	47.3	48.0		
Taxes on expenditure						
Imports	32.8	27.0	24.0	24.3		
Local production	21.1	21.3	19.7	18.2		
Taxes on property	3.6	4.1	4.6	4.8		
Licenses and fees	4.5	4.1	4.4	4.7		
Total	100.0	100.0	100.0	100.0		

NOTE: Taxes on income include income tax, Absorption Loan, compulsory saving, and National Insurance contributions.

Taxes on imports include general customs duties, fuel and purchase taxes on imports, surtax and tax on exchange rate differentials, surpluses from equalization funds for imported food and agricultural raw materials, and the foreign travel tax.

Taxes on local output include purchase and fuel taxes on local products, excise levies, current surplus of the Post Office and ports, entertainment tax, security stamp on output, and various levies on local producers.

Taxes on property include the property tax and land registration fees.

Licenses and fees include the stamp tax, security stamp on documents, and licenses, but exclude land registration fees.

A more detailed breakdown appears in the statistical appendix to this Report (in Hebrew only).

remained unchanged as compared with 1963—24 percent—after having moved down in the two preceding years.

Revenue from general customs duties, which virtually held steady between 1961 and 1963, went up during the year reviewed by 30 percent, while revenue from the purchase tax on imported commodities increased by some 40 percent. The growth of revenue from customs duties and purchase tax on imported motor vehicles came to about 50 percent. In August 1964 taxes on imported cars and components were raised appreciably, with the declared object of encouraging local production. Because of the expectation of this tax increase,

there was a considerable jump in such imports during the first seven months of the year, and collections during this period were as much as 75 percent higher than in the corresponding months of 1963. In the last five months imports fell off.

Other commodities subject to above-average customs duties and the import of which rose considerably during 1964 include lumber, toys, and various products, such as television sets, furniture, washing machines for household use, and butter, which in 1964 were imported for the first time under the import liberalization program. Previously the free import of these items was not allowed, and the abolition of the restrictions was accompanied by the raising of customs rates applicable thereto.¹

On the other hand, the duty on frozen meat was cut by some 50 percent, in order to avert a rise in the price to the consumer; this followed reductions made in 1963 on other imported foodstuffs, especially sugar, rice, and coffee.²

Fuel tax revenue advanced 33 percent, owing to the larger proceeds from the equalization fund and increases in the consumption of gasoline and cooking gas by 14 and 20 percent respectively. Tax rates were not revised.³

Revenue from the foreign travel tax nearly doubled, after having remained practically stationary during the three preceding years. This large increase is mainly attributable to the higher tax rates which went into effect in February 1964.⁴ A contributory factor was the larger number of travellers subject to the full tax (despite the drop in the total number of passengers going abroad), resulting from the sharp drop in trips to Cyprus, which in previous years were partially or completely exempt from the travel tax.

Revenue from taxes on local output, as already mentioned, increased for the second consecutive year by only 10.5 percent, and totalled IL 415 million. This moderate rise was in line with the Government's stabilization policy, under which tax reductions are employed as a means of preventing price rises. As a result of this policy, collections of taxes on local output have been expanding since the 1962 devaluation at a slower rate than the volume of production subject to tax. In 1964 additional tax cuts were made to keep prices firm—on cigarettes and beer—and a number of fiscal measures were adopted to

¹ The average rate of customs duty on all imports under the liberalization program was nearly 60 percent above the official exchange rate (i.e. IL 1.70 per dollar), and in some cases as high as 100 to 150 percent (IL 3.00 to IL 4.50 per dollar). The total volume of imports under the liberalization program reached some \$ 17 million by the end of January 1965, about half of which arrived during the period April 1964 to January 1965.

² The customs duty on high-grade coffee was cut again in 1964. See also Table VI-5 in Chapter VI, "Prices".

³ The changes which went into effect when high octane gasoline was put on the market were not designed to raise the tax rate.

⁴ The flat rate on ship tickets was raised from IL 120 to IL 270, and on plane tickets from IL 140 to IL 320. Taxes on voyages to Cyprus were also revised upward.

encourage local production. For the first time, new immigrants, temporary residents, permanent residents, and students returning after an extended visit abroad were exempted from purchase tax on certain local purchases (formerly such exemptions had applied to imported goods only). It was also decided, together with the raising of taxes on imported motor vehicles and components, to reduce the percentage of purchase tax and to raise the percentage of customs duty on these items.

Collections of purchase tax on local production were 10 percent higher than in 1963: while revenue from motor cars went up by as much as 20 percent, tax collections on electrical and gas appliances showed no rise at all, and those on all other products—textiles, clothing, building materials, furniture, etc.—increased by 14 percent. The nonincrease in the case of locally manufactured electrical appliances was partly due to the levelling off of local sales of certain items (especially refrigerators), to the extension of the period of credits granted to producers for payment of tax debts, and to the exemptions allowed the groups mentioned in the preceding paragraph. At the same time, collections on account of certain electrical appliances, particularly air conditioners and washing machines, continued to expand rapidly as a result of larger purchases.

Receipts on account of excise duties hardly went up. This has been the case ever since the 1962 devaluation, and can be ascribed to repeated cuts in rates.¹ On the other hand, the current surplus of the Post Office rose in 1964. Overseas postage rates and cable and telephone charges were revised upward at the beginning of February—for the first time since the devaluation. The deposit levied on the installation of new telephones was also increased, by IL 100 per subscriber.

Income from property taxes was up 26 percent, to total IL 110 million. The growth was due to the expansion of the tax base with the erection of new buildings, to the raising of assessments—especially on land reclassified as urban rather than rural—and to the overall increase in the value of equipment and inventories. However, the percentage rise in 1964 was the lowest since the revision of the property tax law in 1961. In fiscal 1964/65 new concessions went into effect, whereby small-scale property owners, nonprofit institutions, and handicapped persons were exempted from the tax.

Revenue from land registration fees rose only moderately compared with the last few years. While the number of real estate transactions went up, the soaring of land prices came to an end, and there was also a decline in the number of rental transactions following the amendment of the Land Betterment Tax Law.

¹ The excise was cut on cigarettes in May 1962, May 1963, and May 1964; on beer in September 1962 and July 1964; on wine in November 1963; on cement in March 1962 and June 1962; on tires in March 1963. During the entire period there were no increases in excise levies.

Revenue from other licenses and fees advanced 28 percent compared with 1963, and totalled IL 110 million. Particularly noteworthy was the higher revenue from the stamp tax, which has been moving up rapidly for several years, reflecting the rise in the volume of transactions subject to tax. Income from vehicle license fees went up *pari passu* with the number of vehicles. Revenue from radio license fees remained stationary for the third consecutive year.

2. *Miscellaneous receipts*

Revenue from domestic transfers, interest, and dividends increased in 1964 by IL 75 million, or 35 percent, and totalled IL 285 million. Most of the growth was in receipts from interest and the land betterment tax.¹

Income from interest and dividends soared 38 percent for the second straight year, reaching approximately IL 125 million.² The increase in collections encompassed both public sector companies and other borrowers, and was partly due to the fact that in the past two years enterprises receiving development budget loans were given an option between linkage to the cost-of-living index and nonlinkage but with payment of a fixed premium, and most borrowers preferred the second alternative.

Receipts from the land betterment tax and the inheritance tax rose by two-thirds, and totalled IL 28 million. In the last two years the relevant laws, enacted in 1949, were overhauled with the object of plugging loopholes and of bringing them in line with present-day conditions.³

Unrequited receipts from abroad again contracted in 1964, owing to a further decline in shipments of reparations goods.

Net receipts from the National Institutions likewise fell off conspicuously.

3. *Collections on account of loans⁴*

Collections on account of development budget loans and proceeds from equity sales did not go up in 1964, remaining at approximately IL 90 million. While collections from public sector companies were larger than in 1963, other collections declined. Part of the Government's assets deriving from development budget loans granted in the past to industrialists, agricultural settlements, and shipping companies, through the Industrial Development Bank of Israel, the Israel Bank of Agriculture, and the Maritime Bank, were retroactively converted

¹ In accordance with the conventional national accounting definitions, the land betterment tax and the inheritance tax are classified as transfers on capital account and not as taxes (see note to Table VII-8). A further breakdown of these receipts appears in the statistical appendix to this Report (in Hebrew only).

² Excluding collections from the National Institutions and the local authorities.

³ The new Land Betterment Tax Law went into effect in August 1963, and the new Inheritance Tax Law in August 1964.

⁴ Excluding collections from the National Institutions, the local authorities, and the Israel Ports Authority.

into shares;¹ these funds will serve as a means of financing new loans outside the development budget framework. In 1964 loan collections amounted to about 19 percent of development budget outlay on new loans and on Government participation in share capital, as compared with 21 percent in 1963.

Government revenue from these collections has not been expanding at the pace that might have been anticipated, considering the large volume of loans that it has granted over the years. The assets acquired by the Government as a result of its development-budget financing operations reached the considerable sum of IL 2,530 million² at the end of March 1964—of which IL 1,715 million represents loans and IL 815 investment in share capital (including loans and deposits earmarked for loans retroactively converted into share capital). Collections on account of loans and sales of shares in 1964 (IL 90 million) therefore constituted only 3.6 percent of outstanding asset balances.

Neither principal nor interest is of course collected on share capital, and this is doubtless the main reason for the conversion of loans into share capital several years after their authorization. However, principal is not being collected on a sizeable portion of the remaining loans as well. In respect of part of these loans, no repayments are due: on loans to revolving funds for working capital, the Government collects only interest, while the principal is ploughed back into the fund; in other cases loans are not being collected pending a final decision as to whether or not they are to be converted into share capital. As regards others, the due dates have been extended. Accordingly, while collections in 1964 reached some 7.2 percent of the amount payable, they constituted only 5 percent of the total balance of loans outstanding (exclusive of investments in share capital).³

4. *Increase in indebtedness*

From the end of 1963 to the end of 1964, the Government's long- and medium-term obligations rose by IL 290 million, while its net short-term debts,⁴ including those to the banking system, increased by IL 75 million. The Government's total liabilities thus went up by IL 365 million. In 1963 the net increase in Government indebtedness amounted to IL 320 million.

¹ IL 75 million worth of Government deposits earmarked for loans were converted into financial institution shares in 1964; this is in addition to the sums converted in previous years. See Chapter XVII, "Financial Institutions".

² Excluding loans to the National Institutions, local authorities, and Israel Ports Authority, as well as expenditure on the National Water Carrier, in respect of which a decision has not yet been made whether it is to be treated as a loan to Mekorot Water Company Ltd. In this chapter port development and the construction of the National Water Carrier have been classified as direct investments of the Government.

³ For comparative purposes it should be noted that the Government itself repaid nearly 7 percent of its outstanding long-term debts in 1964, though some of these were loans granted for longer periods than development budget loans.

⁴ Less deposits and credits granted.

Table VII-10

NET GOVERNMENT BORROWING, BY MATURITIES AND
LENDING SECTOR, 1963-64

(IL million)

	1963	1964	Increase or decrease (-)
Maturities			
Long- and medium-term ^a			
Gross	566	627	61
Less: Repayments	331	339	8
Net	235	288	53
Short-term credit (net) ^b	86	77	-9
Total (net)	321	365	44
Lending sector			
Rest of the world	42	226	184
Banking system ^c	119	95	-24
Financial institutions, provident funds, and insurance companies	95	9	-86
Rest of the economy	65	35	-30
Total (net)	321	365	44

^a For three years or more; excluding loans from the banking system, all of which are included with short-term loans, but including cumulated interest on savings certificates of the Independence and Development Loans.

^b Net change in end-year credit balances (less receivables and bank deposits), plus short-term securities.

^c In 1963—a rise of IL 149 million on account of an advance from the Bank of Israel for the early repayment of Government debts abroad, and a decrease of IL 30 million in other credits. In 1964—a decline of IL 38 million due to repayments on account of this advance, and a net increase of IL 133 million in other credits.

SOURCE: Based on the debt statement and "Statement of Current Assets and Liabilities" published by the Accountant General, as well as on the "balance of payments" of the various sectors.

There were some marked changes in the composition of the Government's credit sources during the year reviewed as compared with 1963: net receipts from foreign loans were considerably larger, while net receipts from domestic loans, other than from the banking system, declined. However, it should be noted that in 1963 the sum of IL 150 million was deducted from foreign loans received because of the early repayment of foreign liabilities, financed with the help of an advance from the Bank of Israel. If this amount is *not* deducted from foreign loan receipts in 1963, and correspondingly if we deduct from the loans received in 1964 the IL 38 million repaid to the Bank of Israel on account of the above advance, then net foreign loan receipts would total approximately IL 190 million in both 1963 and 1964. It should also be noted that were the

same adjustment made with regard to credit from the banking system, an opposite picture would emerge: instead of a decline in the volume of such credit as compared with 1963 (see Table VII-10), there would be a very marked increase, from IL 30 million to IL 133 million.¹ The banking system constituted the major supplier of short-term credit to the Government in 1964,² replacing other domestic sources, which contracted by IL 145 million. There was an especially big drop in receipts on account of the Government Short-Term Loan.

(i) *Foreign loans*

Net receipts from foreign borrowing totalled IL 225 million. Long-term loans rose by IL 260 million, while outstanding credit declined by IL 35 million.

Net long-term proceeds were at a level similar to that of 1963, before deduction of the advance repayment of debts. While new loans increased by approximately IL 36 million, repayments rose by a similar amount. Only minor changes occurred in the sources of financing: net proceeds from Development Bonds did not fall off despite increased redemptions, but on the other hand there was a decline in U.S. Government aid. Over one-third of total net receipts came from European sources, 30 percent from Independence and Development Bonds, about one-quarter from the U.S. Government, and 10 percent from the World Bank.

(ii) *Domestic loans*

Long-term domestic loan receipts amounted to IL 75 million, and repayments to IL 45 million. Net receipts thus totalled IL 30 million, over half of which came from the sale of long-term Government bonds and the rest in the form of loans from insurance companies and other financial institutions.

New issues of long-term debentures increased from IL 15 million in 1963 to IL 47 million in 1964. After deducting redemption payments on previous issues, net income from long-term debentures totalled IL 17 million, as against a net repayment of IL 11 million in 1963. In the past two years purchasers of Development Bonds have been given an option—to be made at the time of redemption (after five years)—between a lower interest yield with the principal linked to the cost-of-living index on the one hand, and a higher interest yield without linkage, on the other. This step was taken in order to attract new

¹ In 1963—IL 119 million less IL 149 million on account of the Bank of Israel advance; in 1964—IL 95 million plus IL 38 million repaid on account of the above advance.

² This was mainly in the form of the withdrawal of Government deposits with the Bank of Israel—which had accumulated as a result of the devaluation and from past budgetary surpluses and budgetary allocations to a special fund for the redemption of Independence and Development Bonds—rather than the outright grant of credit. However, from the monetary aspect, there is no difference between the two, since both have an expansionary effect on the money supply.

investors, and during year reviewed purchases by the general public did in fact increase, although those by provident funds declined. (In 1964 provident funds purchased debentures issued by other institutions under Government authorization.)

Short-term credit receipts from sources outside the banking system amounted to only IL 15 million, as against some IL 160 million in 1963—a decline of IL 145 million. About half of the decrease stemmed from a contraction of net income from the Short-Term Loan, except for the debentures purchased by banks.¹ Total receipts from this source, including purchases by the banks, amounted to IL 60 million, compared with IL 115 million in 1963 and IL 75 million in 1962.²

(c) *Payments*

Government outlays, other than debt redemption and transfers to the National Institutions, increased in 1964 by IL 395 million, or almost 15 percent, reaching IL 3,070 million. In 1963 the growth rate was 10 percent. Current expenditure, which accounted for over 70 percent of outlay, rose by 14 percent, and expenditure on investment and on the financing of investment through the development budget went up 18 percent.

1. *Purchases on current account*

Current purchases of the Government totalled IL 1,615 million, or 12 percent more than in 1963 (see Table VII-11). Of this sum, about 5.5 percent constituted a real increase, while 6 percent was due to rising prices. In 1963 the real increase had been greater—8 percent.

Expenditure on security and special budgets, which constitute almost half of total purchases on current account, went up 8 percent, in contrast to 11.5 percent in 1963. As already noted, Government purchases abroad did not increase, and may even have declined. The reduction of the period of military service, which had been announced in 1963, went into full effect during the year reviewed.

Expenditure on wages and salaries (excluding that of the Ministry of Defense and trading enterprises) was up IL 55 million, or 16.5 percent, and amounted to IL 405 million. The number of employees expanded by about 3.5 percent, and wages per employee by about 12.5 percent. Less than one-third of the wage rise stemmed from the increase in the cost-of-living allowance; the remainder derived from increases in basic wages, advances and differentials actually paid in the course of the year, and the wage drift. In accordance with the new labor agreement signed in August, basic wages of clerical and administrative personnel were raised by 3 percent, and a IL 200 advance was

¹ These are classified in this chapter as credit from the banking system.

² For a detailed analysis see Chapter XX, "The Securities Market".

Table VII-11
GOVERNMENT PURCHASES ON CURRENT AND CAPITAL ACCOUNT,
1963-64
(IL million)

	1963	1964	Increase or decrease (-)
Purchases on current account			
Wages and salaries of civilian staff ^a	349	406	57
Interest payments ^b	201	238	37
Other purchases (excluding security) ^c	177	201	24
Subtotal	727	845	118
Security and special budgets ^c	714	772	58
Total on current account	1,441	1,617	176
Purchases on capital account			
Postal and transport enterprises ^d	73	158	85
National Water Carrier	96	63	-33
Roadbuilding	22	36	14
Public buildings and miscellaneous	38	44	6
Subtotal	229	301	72
Stockpiling^d			
Food Division of Ministry of Commerce and Industry	28	4	-24
Ministry of Housing and misc.	-11	9	20
Total on capital account	246	314	68
Total purchases	1,687	1,931	244

^a According to the Central Bureau of Statistics.

^b Excluding interest paid to the National Insurance Institute and the War Risk Insurance Fund; including cumulated interest on savings certificates of the Independence and Development Loans.

^c Including payments of customs duties and purchase tax. In Table VII-10 of the Bank of Israel Annual Report for 1963, these payments were deducted.

^d Uninstalled equipment of the postal and transport enterprises is recorded in this table as an investment in these enterprises and not as an investment in stocks.

paid to each employee pending the determination of his grade under the new wage scales. The regrading of all jobs was begun, but in most Ministries this task had not been completed by the end of the year. Salaries of professional employees and teachers were increased in the last months of 1964 under the terms of nationwide agreements. The wages of policemen had already been raised earlier, at the beginning of April, in line with the recommendations of the Public Committee for Wages and Salaries in the Civil Service,

Local Authorities, and Regional Councils. All civil servants were assured retro-active payments on account of wage adjustments for 1964, to be paid in 1965.¹

Interest payments rose by 18 percent, and totalled IL 240 million, nearly 60 percent of which was on foreign debts. The proportionate share of interest on short-term obligations, where higher interest rates apply, declined in the last two years; however, it still constituted about 28 percent of total interest outlay in 1964.

Other purchases rose by 14 percent, and if calculated net of sales, by 10 percent.

2. *Purchases on capital account*

Investment expenditure of the Government was 28 percent higher than in 1963, and amounted to IL 315 million; about IL 15 million went to enlarge Government stocks, and IL 300 million was spent on other items. The rise in investments other than inventories came to 31 percent, of which some 27 percent represented a real increase, and approximately 3 percent a rise in prices. In 1963 the real increase was much smaller—about 10 percent.

This large growth in the year reviewed occurred despite the substantial decline in expenditure on the National Water Carrier upon completion of its first stage. The increase is mainly attributable to the doubling of Government investment in trading enterprises, including telephone services and the construction of Ashdod Port, as well as to a rise of two-thirds in the amount spent on building new roads and widening existing ones under a five-year plan partially financed by the World Bank (see Table VII-11). Investment in the telephone network included large-scale import of equipment, part of which has not yet been assembled.

Government outlay on food stocks went up only slightly, but on the other hand the Ministry of Housing's inventory of building materials rose with the expansion of publicly financed residential construction.

3. *Transfer payments and subsidies*

Transfer payments and subsidies were 18 percent higher than in 1963, and totalled IL 580 million. The rate of increase in transfer payments fell off, whereas subsidies once again rose substantially (see Table VII-12).

Subsidies totalled about IL 240 million, compared with IL 195 million in 1963. Subsidies on agricultural production and for the stabilization of consumer prices (especially of imported foodstuffs) were increased by IL 45 million, while outlay on indirect promotion of exports remained steady. These figures do not reflect the decline in Government revenue resulting from the reduction of tax rates in order to stabilize prices, nor the subsidization of industrial exports out of branch-wide funds deriving other than from the Government budget.

¹ For a detailed discussion see Chapter X, "Wages".

Table VII-12

GOVERNMENT TRANSFER PAYMENTS, GRANTS, AND SUBSIDIES, 1963-64
(IL million)

	1963	1964	Increase or decrease (-)
Transfer payments and grants			
To households			
National Insurance benefits	120	141	21
Pensions and provident payments	48	50	2
Other transfer payments	45	51	6
Total to households	213	242	29
To nonprofit institutions			
Educational and cultural	49	62	13
Health	27	29	2
Social welfare and religion	3	5	2
Total to nonprofit institutions	79	96	17
Total transfer payments and grants	292	338	46
Subsidies			
On agricultural produce	114	141	27
On other goods and services	66	84	18
On exports	16	15	-1
Total subsidies	196	240	44
Total transfer payments, grants, and subsidies	488	578	90
Participation in ordinary budgets of local authorities			
	69	83	14
Grand total	557	661	104

Farm price supports were increased by almost 25 percent, and amounted to IL 140 million. The rise occurred in most of the items subsidized—eggs, milk, cotton, and sugar beet—as well as water for irrigation¹ and imported fodder. The only item showing a marked decline was drought compensation payments, and this because of the abundant rainfall.²

Subsidies designed to keep down the prices of consumption items and industrial production costs were increased by more than 25 percent, following a very considerable rise in the previous year, and totalled IL 85 million. A large part of these subsidies were intended to prevent rises in the prices of foodstuffs

¹ Operating expenses of the National Water Carrier.

² For a detailed discussion see Chapter XI, "Agriculture", and especially Table XI-11.

imported by the Government, such as unprocessed oil, sugar, and frozen meat. Thanks to these subsidies, the prices of margarine, edible oil, and sugar have remained at their predevaluation level, despite the change in the exchange rate and the much higher price paid by the Government for sugar.¹ The deficit of Israel Railways went up further in 1964; rates were not revised from the devaluation until the beginning of 1965 even though costs mounted. Moreover, additional losses were incurred in 1964 because of the interruption of service following an accident.

During the year reviewed subsidies were also paid on locally produced meat, meals in factory canteens, newsprint (in the form of tax rebates), and to the transport cooperatives in order to keep fares down. The Government paid interest differentials to the Industrial Development Bank of Israel on account of loans granted to enterprises in development areas, as well as differentials to the mortgage banks under special arrangements whereby the latter waived the linkage terms on mortgage loans repaid immediately after the devaluation.

Subsidies connected with the opening up of new foreign markets were not increased in 1964, standing at about IL 15 million.

Transfer payments were up some IL 45 million, or 16 percent, and totalled IL 340 million.

Benefit payments by the National Insurance Institute, which accounted for over 40 percent of all transfer payments, totalled IL 140 million, or 17.5 percent more than in 1963. The number of benefit recipients rose by 10.7 percent, and the average payment by 6.7 percent. The rates of old-age pensions, which constitute almost half of all benefit payments, were raised by 4 percent to compensate for higher prices, while family allowances were increased to a greater extent.

Compensation to victims of Nazi persecution declined slightly, following a large increase in previous years. Together with pensions to civil servants and benefits to war invalids, these payments amounted to nearly IL 50 million.

Allocations to nonprofit institutions, especially institutions of higher education and the Sick Funds, increased by over IL 15 million, or about 20 percent, and totalled IL 95 million.

Other transfer payments went up 14 percent, to reach IL 55 million. They include *inter alia* graded secondary-school fees, old-age grants to persons not eligible for National Insurance benefits, relief allotments to needy families granted directly rather than through the local social welfare offices, hospitalization costs covered by the Government, and expenditure on food in Government institutions.

Grants to the local authorities were augmented in order to avert a general upward revision of municipal rates. Government participation in the authorities'

¹ Not only were these commodities sold to the public at a price below that paid by the Government, but in addition customs duties were cut on various foodstuffs, such as sugar and frozen meat.

expenditure on education and social welfare rose with the expansion of the educational network and the increase in relief payments to families with two or three children.¹

4. Development budget financing

Outlay on development budget loans granted to other sectors of the economy went up by IL 50 million in 1964, and totalled IL 475 million. About IL 385 million was given in the form of loans, and some IL 90 million as participation in the share capital of financial institutions and Government companies.² An

Table VII-13
DEVELOPMENT BUDGET FINANCING,* BY ECONOMIC BRANCH AND
BORROWING SECTOR, 1963-64
(IL million)

	1963	1964	Increase or decrease (-)
Economic branch			
Housing	211	294	83
Industry and crafts	87	36	-51
Mining, quarrying, and oil drilling	38	35	-3
Agriculture and water development ^b	27	29	2
Electric power	14	18	4
Transportation and communications	13	12	-1
Services and miscellaneous	33	50	17
Total, excluding public sector	423	474	51
Borrowing sector			
Households	115	186	71
Public sector companies	197	229	32
Private business enterprises	69	39	-30
Public financial institutions	30	13	-17
Nonprofit institutions	12	7	-5
Total, excluding public sector	423	474	51
National Institutions	12	17	5
Local authorities	18	21	3
Total financing	453	512	59

* Including loans and participation in share capital, but excluding Government investments (see Table VII-11). Loans granted through banks and other financial institutions are classified by the sector of final destination and not as loans to the financial sector.

^b Excluding loans to the National Institutions for agricultural settlement and afforestation and loans for rural housing.

¹ As of August 1963.

² Apart from the retroactive conversion of loans and deposits earmarked for loans into share capital.

additional IL 40 million approximately was transferred to the National Institutions and the local authorities.

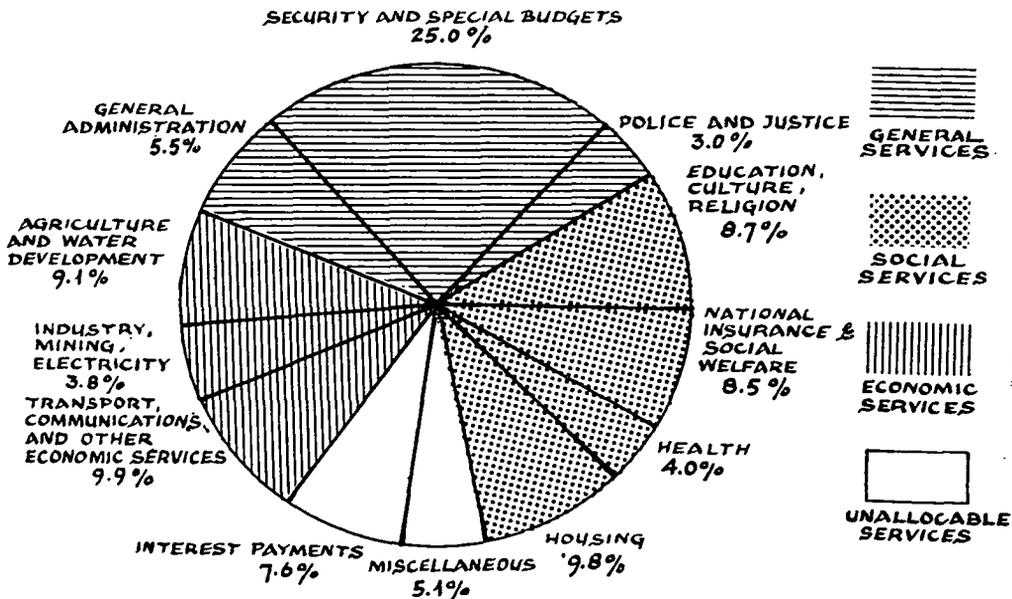
The sum provided for financing public residential construction was enlarged by IL 80 million, or close to 40 percent, while other loans declined by IL 30 million, or 15 percent. As already noted, the proportion of development budget financing has gone down in recent years, in relation to both Government expenditure and total domestic investment. This is attributable to the gradual curtailment of financing out of reparations funds and to the growing tendency to expand the role of the public financial institutions in providing development loans.

Most of the rise in housing expenditure was due to the marked growth of immigrant housing construction, following a decline in 1963. Although the volume of immigration was the same in both years, in 1964 there was a larger number of small families, so that more dwelling units were required. Nonimmigrant public residential construction was also stepped up, but the Government's share in financing such construction is small, whereas in immigrant housing¹ it accounts for a very large percentage of total expenditure.

The main decline in development budget financing occurred in Government loans to industry. The Government is gradually transferring to the Industrial

Diagram VII-5

FUNCTIONAL COMPOSITION OF GOVERNMENT EXPENDITURE, 1964
(percentages)



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

Development Bank of Israel the role formerly fulfilled by the development budget in this area. There was also a decrease in 1964 in new loans to Negev Phosphates Ltd., Israel Mining Industries, and El Al Israel Airlines. On the other hand, there was an increase in loans to public sector companies engaged in oil exploration, to the Israel Electric Corporation, and to the two companies engaged in the desalination of sea water, as well as in investment in the share capital of the Ashdod Development Company in which the Government became a partner. A breakdown of development budget financing by economic branch and borrowing sector is shown in Table VII-13.¹

5. *Net payments to the local authorities*

Net payments to the local authorities aggregated almost IL 90 million, compared with about IL 80 million in 1963. While Government participation in the authorities' ordinary budgets and net development budget financing rose by over 20 percent, there was a marked decline in credit, ascribable to the financing in 1963 of the advance repayment of one of the municipalities' foreign debts.

(d) *Functional composition of expenditure*

A breakdown of expenditure by function in 1963 and 1964 is shown in Table VII-14² (see also Diagram VII-5).

The main changes occurring during the year reviewed were the relative increase in transportation and housing services and the relative decline in industrial, agricultural, and security services. With the exception of security, which has already been discussed under the heading of current purchases, the changes were largely connected with changes in the development budget. The comparative decrease in industrial services can be attributed to the fact that the function of allocating industrial loans has been increasingly shifted to the Industrial Development Bank of Israel. The decline in the weight of agriculture stemmed mainly from the completion of the first stage of the National Water Carrier.³ The rise in transportation services reflects the marked growth of Government investment in the telephone network, ports, and roads, while the additional amount spent on housing was chiefly earmarked, as already noted, for new immigrants. Construction outlay is subject to sharp fluctuations connected with the nature of the construction process and the methods of financing; in 1963 there was a steep decline in the weight of housing in total expenditure, and the rise in 1964 merely restored it to the 1962 level. Above-average increases were recorded in outlay on general administration and police,

¹ For a discussion of the share of public financing in total domestic investment, see Chapter V, "Domestic Investment".

² This analysis includes transfers to the rest of the public sector, but excludes debt repayment.

³ This decline was partly offset by the larger subsidies paid on agricultural production.

Table VII-14

FUNCTIONAL COMPOSITION OF GOVERNMENT EXPENDITURE,^a 1963-64

	IL million		Percent	
	1963	1964	1963	1964
General services				
General administration	117	145	4.3	4.7
Security and special budgets	729	779	27.0	25.0
Police and justice	72	92	2.7	3.0
Community services n.e.s. ^b	26	24	1.0	0.8
Total	944	1,040	35.0	33.5
Social services				
Education, culture, religion	226	271	8.4	8.7
National Insurance and social welfare	223	264	8.2	8.5
Health	105	124	3.9	4.0
Housing	206	306	7.6	9.8
Total	760	965	28.1	31.0
Economic services				
Agriculture and water development	277	284	10.2	9.1
Industry, mining, electricity	172	117	6.4	3.8
Transportation and communications	142	256	5.3	8.2
Other economic services	48	51	1.8	1.7
Total	639	708	23.7	22.8
Unallocable services				
Interest payments	201	238	7.4	7.6
Miscellaneous ^c	157	159	5.8	5.1
Total	358	397	13.2	12.7
Grand total	2,701	3,110	100.0	100.0

^a Excluding debt repayment and current expenditure of the postal and transportation enterprises. Including transfers to local authorities and the total outlay of the National Insurance Institute.

^b Mainly Kol Yisrael (The Voice of Israel) and general research.

^c Mainly grants and loans to local authorities, and import subsidies.

as a result of larger wage expenditure, and in interest payments following the rise in indebtedness.

As in previous years, security remained the largest single item; it was followed by housing, which this year took the place customarily held by agriculture. It should be noted that all the social services were on the rise, whereas all the economic services, with the exception of transportation, were on the decline.

3. THE NATIONAL INSTITUTIONS

Total payments of the National Institutions¹ dropped by IL 30 million in 1964, and amounted to IL 395 million. The Institutions' participation in the financing of immigrant housing fell off conspicuously. On the other hand, interest expenditure went up appreciably and wage payments also increased. Other items either held steady or declined.

Total receipts from abroad contracted, but still constituted 75 percent of aggregate net receipts; though unrequited receipts went up slightly, there was a fall in net loan proceeds. Nor was there any rise in net domestic loan receipts, other than credit from the banking system.

(a) *Transactions of the National Institutions*

The "balance of payments" of the Institutions for 1963 and 1964, by main type of receipt and payment, is set forth in Table VII-15. As in Tables VII-3 and VII-7, a distinction has been made between transfers and transactions in goods and services (the "real account") on the one hand, and transactions in credit (the "financial account") on the other, while net money flows between the Institutions and the Government have been recorded separately.

As in the previous year, expenditure in the real account exceeded proceeds from foreign and domestic transfers. But in contrast to 1963, there was practically no widening of the gap between the two. In other words, the increase in receipts—mainly unrequited receipts from abroad—did not lag behind the increase in purchases, transfers, and investments. The main reason for this development was the slower expansion of expenditure in 1964.

At the same time, there was a substantial decrease in the surplus of receipts over payments in the financial account (net loans received over net loans given), owing to the much smaller volume of borrowed receipts in 1964. Net payments to the Government likewise moved downward. In contrast to 1963, the Institutions' share of immigrant housing expenditure fell, while the Government increased its allocations to the Jewish Agency Settlement Department.

Unlike the other public sector authorities, the Institutions do not levy taxes, their principal source of income being unrequited receipts from abroad. Domestic income, such as rent paid to the Jewish National Fund for the lease of land, covers only a small part of their expenditure. As a result, they have always had a substantial demand surplus. This surplus, which represents the excess of expenditure on current and capital account over domestic income other than from loans, rises from year to year *pari passu* with the growth of expenditure.

¹ Including debt repayment and net transfers to the Government. The National Institutions include the Jewish Agency for Israel, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod. Hereafter they will be referred to simply as "the Institutions".

"BALANCE OF PAYMENTS" OF THE NATIONAL INSTITUTIONS, BY TYPE OF RECEIPT AND PAYMENT, 1963-64
(IL million)

Receipts	1963	1964	Increase or decrease (-)	Payments	1963	1964	Increase or decrease (-)
Transfers and transactions in goods and services							
Unrequited receipts from abroad	174	190	16	Purchases on current account			
Miscellaneous domestic receipts	26	29	3	Domestic ^a	91	100	9
				Foreign	72	84	12
				Purchases on capital account ^a	34	24	—
				Transfers, grants, and subsidies	35	36	1
Total	200	219	19	Total	232	254	22
Transfers and transactions in financial claims							
Collections on account of long-term loans	11	8	-3	Long-term loans granted	78	80	2
Long-term loans received				Repayment of long-term loans			
Foreign	86	53	-33	Foreign	33	21	-12
Domestic ^b	73	62	-11	Domestic	14	18	4
Short-term credit (net)							
Foreign	62	40	-22				
Domestic ^b	-11	4	15				
From the banking system	4	9	5				
Total	225	176	-49	Total	125	119	-6
Transactions with the Government							
				To the Government (net)	68	22	-46
Total receipts	425	395	-30	Total payments	425	395	-30

^a Excluding goods and services acquired for transfer to others as loans or grants.

^b Excluding the banking system.

SOURCE: Based on data of the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod.

In the year under review the Institutions' demand surplus went up 9 percent—a low rate compared with previous years—and totalled IL 225 million.

(b) *Receipts*

1. *Unrequited receipts from abroad*

Unrequited receipts from abroad were up 9 percent, reaching IL 190 million. In the past few years these receipts have not grown in dollar terms. As in 1963, they were equivalent to 55 percent or more of the Institutions' expenditure apart from payments to the Government and loan redemption.

The main sources of these receipts are the United Jewish Appeal in the United States, appeals in Europe and Canada, German reparations, and contributions to the Jewish National Fund and Youth Aliya. Most of the incremental income in 1964 came from the appeals, which accounted for two-thirds of the Institutions' total unrequited receipts

2. *Transfers and collections in Israel*

These receipts, which derive from rents collected by the Jewish National Fund, collections on account of interest and principal on loans granted by the Jewish Agency, and various local transfers and sales, amounted to only 9 percent of total receipts.

3. *Increase in indebtedness*

Net receipts from borrowing aggregated IL 130 million in 1964, compared with IL 165 million in 1963.

Foreign loans accounted for about 35 percent of the total, as against two-thirds in 1963.

(i) *Foreign loans*

Net receipts from foreign loans amounted to IL 70 million, as against IL 115 million in 1963. There was a decrease of IL 20 million in loans granted for periods of three years or more, and a similar decline in short-term credit balances. As in 1963, most of the loans were obtained from Ampal, various foreign banks, Jewish organizations in Europe, and financial institutions in the United States.

(ii) *Domestic loans*

In 1964 domestic loans accounted for 45 percent of total net borrowing, compared with 30 percent in 1963. Receipts from debenture issues declined, while short-term credit receipts from the banking system and other domestic sources increased.

The Jewish Agency, with Government approval, issued debentures which were purchased by provident funds as "authorized investments" entitled to

exemption from income tax. Proceeds from the local sales of debentures issued by the Jewish Agency subsidiary Hollis (which are denominated in foreign currency and acquired mainly by recipients of restitution payments) amounted to IL 18 million; sales had risen substantially in 1963, and in 1964 they reverted to the 1962 level. Net credit from the banking system showed a substantial rise of IL 10 million.

(c) *Payments*

Expenditure, other than debt redemption and payments to the Government, went up by only 8 percent, totalling IL 335 million. The increase occurred entirely in the wage and interest items, there being practically no change in other purchases, transfers, investments, and loans. If price increases are discounted, the total rise was 4 percent, consisting of an 11 percent growth in current expenditure and a 3 percent drop in investment and lending.¹ In 1963 as well, investments and loans granted declined somewhat, but the real increase in current outlay was much greater—close to 20 percent.

Current purchases in Israel and abroad amounted to IL 185 million, compared with IL 165 million in 1963. In real terms, the increase in total purchases, including interest, is estimated at 10 percent as contrasted with over 20 percent in 1963.

Direct immigration expenditure, including transportation of newcomers, moved down slightly, after having risen substantially in 1963. The number of immigrants reaching the country in each of the past three years remained stationary.

For the second consecutive year, wage and salary payments rose by almost 15 percent—the number of employees went up by about 5.5 percent, and average wages by 9 percent. Interest payments have shown a rapidly rising trend owing to the constant growth of the debt burden.

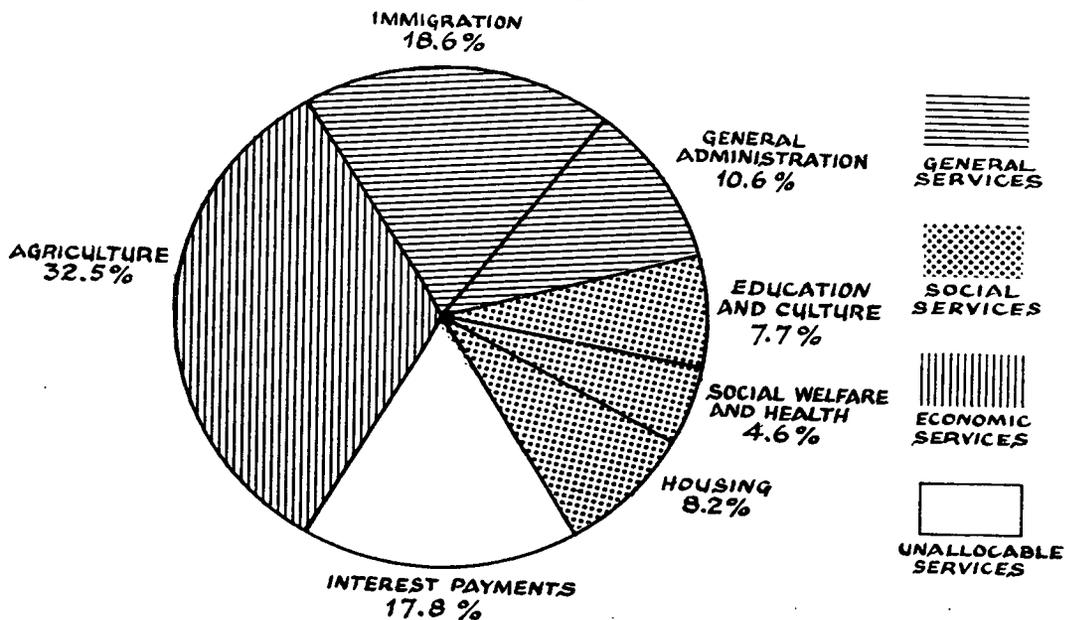
Investment by the Jewish National Fund in afforestation and land reclamation, which constitutes the bulk of the Institutions' investments, showed no change as compared with 1963, and if price increases are taken into account, they may even have declined slightly.

Transfer payments likewise showed practically no change. These refer mainly to allocations to new immigrants in the first stage of absorption, allocations to educational institutions, and the care of immigrant youth. While there was an increase in allocations to Youth Aliya, other items declined. There was also a decrease in subsidies to new agricultural settlements.

Loans from the Settlement Department of the Jewish Agency also remained at their 1963 level. These loans, largely in the form of equipment and cash allocations, were earmarked for the consolidation and expansion of young agricultural settlements.

¹ The rise in agricultural investment prices served as a deflator for calculating the real change in loans granted.

Diagram VII-6
**FUNCTIONAL COMPOSITION OF NATIONAL INSTITUTIONS'
 EXPENDITURE, 1964**
 (percentages)



(d) *Functional composition of expenditure*

Table VII-15 and Diagram VII-6 show the breakdown of the Institutions' outlay by function.¹

About half of the amount spent in 1964 went for agricultural and immigration services,² about 30 percent for administration and interest, and the remaining 20 percent for housing, education, and social welfare. The most noticeable change occurred in housing expenditure, which declined substantially from its exceptionally high level of the two preceding years. Outlay on administration and interest increased, while other items remained practically stable.

4. THE LOCAL AUTHORITIES

The scope of operations of the local authorities rose 22.5 percent above the 1963 level, and totalled IL 555 million.³ Consumption and investment expanded

¹ The analysis here includes transfers to the Government but excludes debt redemption.

² Direct outlay only on transportation and initial absorption of immigrants.

³ With loans from the Government, the banking system, contractors, and suppliers recorded on a net basis, and other loans on a gross basis. The local authorities include the municipalities, local councils, regional councils, religious councils, and regional authorities. Hereafter the local authorities will be referred to simply as "the authorities". The data for 1963 are revised, and those for 1964 are provisional.

more rapidly than in 1963, and tax collections more slowly. As a result, the dissaving and the demand surplus of the authorities rose considerably and, despite the increase in Government allocations, their dependence on credit—not only for financing investments but also for balancing their ordinary budgets—was accentuated.

In fiscal 1964/65 tax rates remained virtually unchanged, since the Government, in pursuance of its stabilization policy, again prevented a general rise in municipal rates, as in the two preceding years. Tax revenues went up by 18 percent in 1964, compared with an average of 21 percent in the previous two years.

Table VII-16

FUNCTIONAL COMPOSITION OF NATIONAL INSTITUTIONS'
EXPENDITURE,^a 1963-64

	IL million		Percent	
	1963	1964	1963	1964
General services				
General administration ^b	33	39	8.4	10.6
Immigration ^c	71	68	18.2	18.6
Total	104	107	26.6	29.2
Social services				
Education and culture ^d	27	27	6.9	7.7
Social welfare and health	17	17	4.3	4.6
Housing	80	30	20.5	8.2
Total	124	74	31.7	20.5
Economic services				
Agriculture and water development	113	114	28.7	31.1
Other economic services	5	5	1.3	1.4
Total	118	119	30.0	32.5
Unallocable services				
Interest payments	46	65	11.7	17.8
Grand total	392	365	100.0	100.0

^a Excluding debt redemption, but including gross payments to the Government other than debt redemption.

^b Including educational expenditure abroad and outlay on land administration.

^c Transportation costs and initial absorption of immigrants.

^d In Israel only (see note ^b).

SOURCE: Based on data of the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod.

Consumption expanded appreciably in 1964—by 25 percent at current prices. In real terms, the growth amounted to 16 percent, or 12 percent per capita, as compared with 13.5 percent (9 percent per capita) in 1963. The increase in the number of employees was proportionately much larger than in the Government service or in the economy as a whole.

Expenditure on investment also rose by 25 percent. In real terms, the annual growth rate advanced from 15 percent in 1963 to 20 percent.

(a) *Transactions of the local authorities*

Table VII-17 presents the “balance of payments” of the authorities for the years 1963 and 1964, by main type of receipt and payment. The table differentiates between transactions with the Government, transactions in credit (the “financial account”), and other transactions (the “real account”).

In the real account, revenue from taxes and other compulsory payments went up by IL 50 million, or 16.5 percent, while expenditure on purchases, investment, and transfers rose by IL 100 million, or 23.5 percent. (In 1963 the growth rate for revenue was higher—20 percent—while that for expenditure was lower—21 percent.) The gap between revenue and expenditure, which constitutes the demand surplus of the authorities, thus increased by IL 50 million, and totalled over IL 165 million. The demand surplus amounted to 37 percent of total purchases, compared with 33 percent in 1963.

During the year reviewed 45 percent of the demand surplus was financed by means of Government grants, and 55 percent through net loans (including Government loans); in 1963 the relative share of grants was higher—53 percent.

(b) *Receipts*

1. *Taxes*

Tax revenue of the authorities, including the surplus on current account of municipal waterworks and transportation enterprises, rose by 18 percent in 1964, compared with 22 percent in 1963, and totalled IL 235 million. This growth was achieved despite a general freezing of municipal rates, and stemmed from an increase in new residential units, which constitute the principal basis for the collection of municipal taxes, and from the raising of assessments on vacant plots and rental property.

In view of the trend toward larger homes and the development of new suburbs, the tax rate on new dwellings is presumably higher than the average for existing dwellings, inasmuch as the rate fixed depends both on the size of the unit and on the area in which it is located. The major increase in assessments on unoccupied property occurred in areas reclassified from rural to urban. The raising of assessments on rental property in 1963/64 and 1964/65

Table VII-17

"BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, BY TYPE OF RECEIPT AND PAYMENT, 1963-64
(IL million)

Receipts	1963	1964	Increase or decrease (-)	Payments	1963	1964	Increase or decrease (-)
Transfers and transactions in goods and services							
Taxes ^a	200	236	36	Purchases on current account	225	281	56
Miscellaneous income	101	115	14	Purchases on capital account	142	178	36
				Grants and transfer payments	52	59	7
Total	301	351	50	Total	419	518	99
Transactions in financial claims							
Domestic long-term loans	57	98	41	Participation in share capital	3	3	—
Short-term credit, net				Repayment of long-term loans			
From the banking system	1	5	4	Foreign	10	1	-9
From other domestic sources	16	13	-3	Domestic	21	33	12
Total	74	116	42	Total	34	37	3
Transactions with the Government							
Net grants	63	77	14				
Net loans	15	11	-4				
Total	78	88	10				
Total receipts^b	453	555	102	Total payments^b	453	555	102

^a Including net surplus on current account of waterworks and other enterprises.

^b These figures differ from total receipts and payments in the local authorities' financial reports in that current income from enterprises, loans from contractors, suppliers, and banks, and transactions with the Government have been recorded here on a net basis.

SOURCE: 1963—Central Bureau of Statistics; 1964—Bank of Israel estimates based on partial data.

was due to the amendment in September 1962 of the Tenants' Protection Law.¹ Assessments for purposes of the business tax levy were also revised upward; however, owing to the low tax ceiling of IL 2,000, this still does not constitute an important source of revenue.

Water rates were also increased in some municipalities, but the larger revenue hardly kept pace with rising expenditure, and in the year under review there was apparently a decline in the overall current surplus of waterworks and other enterprises of the municipalities.

In May 1964 the report of the Committee for the Examination of the Tax Structure of the Local Authorities (the Witkon Committee) was published. It recommended, among other things, the unification of assessment and collection of municipal and Government property taxes and the centralization of tax collection in a countrywide institution managed jointly by the local authorities and the central government. It also recommended the adoption of a standard basis of assessment: the capital value of the property when unoccupied. Some of the authorities objected to these recommendations, and no decision had yet been made by the end of the year reviewed.

2. Other compulsory levies

These receipts also expanded more slowly than in previous years: 14 percent as against 16 percent in 1963 and 28 percent in 1962.

Approximately half the total revenue from these levies—estimated at IL 115 million—came from assessments on home- and landowners for financing roads, sidewalks, and sewage disposal, and for the installation of water meters. These receipts amounted to about IL 55 million, and covered 31 percent of the authorities' investment outlay.

The authorities collected about IL 50 million in transfer receipts for various services, including service charges in primary schools, tuition fees in other schools run by the authorities, hospitalization fees in municipal hospitals, and parents' participation in the cost of meals provided to children in schools and summer camps.

This item also includes revenue from the sale of land and from rent on property owned by the authorities.

3. Government grants

Government allocations to the authorities were substantially expanded after the devaluation in order to compensate them for rising costs and for refraining from raising tax rates. Total allocations, net of payments by the authorities on

¹ The property rates on buildings are based on the rent actually received thereon, or which might have been received in the year preceding the tax year. Consequently, in the 1963/64 tax year assessments were raised by 7/12 of the increase in rents, while in 1964/65 the entire increase was taken into account. At the same time, however, many exemptions were granted by the municipalities to various groups.

account of interest and participation in Government expenditure, went up 22 percent in 1964, and totalled over IL 75 million. In 1963 the growth rate was higher—30 percent.¹

The general grant-in-aid, which constitutes over half of the Government's net allocation, was increased by 25 percent, while specific grants-in-aid by the various Government Ministries—Education, Social Welfare, Health, Religious Affairs, Transport, and Labor—as well as the War Risk Insurance Fund,² went up by about 15 percent all told. The participation of the Ministry of Social Welfare rose more steeply, owing to the increase in grants (as of August 1963) to needy families with two or more children.

The large cities benefit to a lesser degree from Government aid than do the other authorities. In 1964 the four major cities³ received only 18 percent of total Government grants, though their relative share in aggregate current expenditure of the authorities is close to 50 percent. These cities have a greater taxing capacity—their share of local taxes amounts to about 60 percent—and hence they require less Government aid.⁴ In the case of the other authorities, Government grants average one-third or more of total current expenditure.

4. Increase in indebtedness

Net proceeds from borrowing, including Government loans, totalled about IL 90 million, compared with approximately IL 60 million in 1963. Almost half of the loans were obtained from financial institutions and provident funds, about one-fifth from the State Lottery, and the remainder from the Government, contractors and suppliers, banks, and parents of schoolchildren.

Net borrowing from the Government declined as compared with 1963. While new development budget loans rose, extra-budgetary credits contracted. In 1963 there was a particularly large increase in such credit because the Government, in line with its policy of paying off foreign obligations ahead of maturity, also redeemed part of the liabilities of the Haifa Municipality to foreign suppliers; since then the Haifa Municipality has been repaying these amounts to the Government.

In order to help the authorities balance their ordinary budgets, the Govern-

¹ In fiscal 1964/65 the percentage increase will undoubtedly go up further owing to the allocation of an additional IL 12 million to the general grant-in-aid in the supplementary budget.

² On account of fire-fighting services.

³ Tel Aviv, Haifa, Jerusalem, and Ramat Gan.

⁴ The position of the Jerusalem Municipality differs somewhat. Its taxing capacity is smaller than that of the other large cities, both because of its population structure and because of the importance of Government services in its economic life. The larger grants which it receives are partly designed to compensate it for the municipal exemptions on Government property.

ment enabled them to obtain special large-sized¹ loans from banks, Gmul Ltd., and other financial institutions¹—in the case of the last-mentioned, out of the proceeds of security issues floated with Government sanction.

The authorities received IL 17 million in net loans from the State Lottery, in addition to IL 1.5 million in grants. The loans, earmarked for investment in school buildings, were considerably larger than in 1965 when they totalled IL 10 million; the grants were for financing investment in hospitals. Receipts under the saving schemes for secondary and higher education in the large cities amounted to IL 4 million.

The authorities redeemed IL 2.5 million of the joint bond issues which they floated in 1957 and 1958, and also repaid foreign debts. No new foreign loans were taken on in the course of the year. There was a rise in outstanding credit from contractors and suppliers in the framework of the extraordinary budget; although in the four large cities the balances actually declined, in other towns they went up substantially. There was also an increase in 1964 in extra-budgetary open debts to suppliers, following a rise in budgetary deficits.

The authorities' debt burden (excluding revaluation increments on linked loans obtained before the 1962 devaluation) went up by almost 18 percent between the end of March 1963 and the end of March 1964, and totalled IL 325 million—equal to 82 percent of the ordinary budget. Payments on account of principal and interest, including linkage increments,² accounted for 20 percent of total ordinary budget payments, and were equivalent to over 40 percent of revenue from taxes and about 75 percent of total receipts from new loans.

(c) Payments

Outlay of the authorities, excluding debt redemption and current expenditure of trading enterprises, rose by IL 100 million over the 1963 level, and totalled IL 520 million. The annual rate of increase at current prices amounted to 23.5 percent—prices advanced 6 percent and the real increase came to 16.5 percent. About one-third of the additional outlay was on investment, and the remainder on current expenses.

¹ These totalled IL 15 million in 1963/64 and an additional IL 16.5 million in 1964/65.

² The authorities have not been paying linkage increments on the bulk of their debts to the Government, either because of the outright cancellation of the linkage terms or because of the deferment of a final decision by the Government as to the fate of these terms. As regards loans given for economic purposes, while the linkage clause has not been actually cancelled, the redemption period has been extended by one-third. Therefore, in the year reviewed there was practically no increase over previous years in debt repayments to the Government.

1. Current purchases and transfer payments

Current purchases expanded by 25 percent, and totalled IL 280 million. Wage and salary payments, which account for close to two-thirds of all current purchases, increased by 22.5 percent and totalled almost IL 175 million:¹ the number of employees is estimated to have gone up by 10 percent, and the average wage per employee by 11.5 percent. This wage rise includes a 3 percent increase in the basic pay of clerical and administrative staff, advances in the amount of IL 200 per employee on account of wage adjustments, the rise in the cost-of-living allowance, and the regular wage drift resulting from increased seniority and promotions. As in the Government service, "committees of six" were set up to regrade administrative personnel in accordance with the new wage scale, and here too reclassification had not been completed by the end of the year, nor retroactive payments made.

Transfer payments were 13.5 percent larger than in 1963, and amounted to IL 60 million. Social welfare allotments to needy families constituted over half of the sum. Approximately one-fifth of total transfer payments were allocated to secondary and vocational schools, institutes of higher education (Tel Aviv University and the University Institute in Haifa), and cultural and health institutions. The rest consisted of expenditure on food dispensed in schools and municipal institutions, pension payments to retired employees, and participation in graded secondary-school fees.

2. Purchases on capital account and participation in share capital

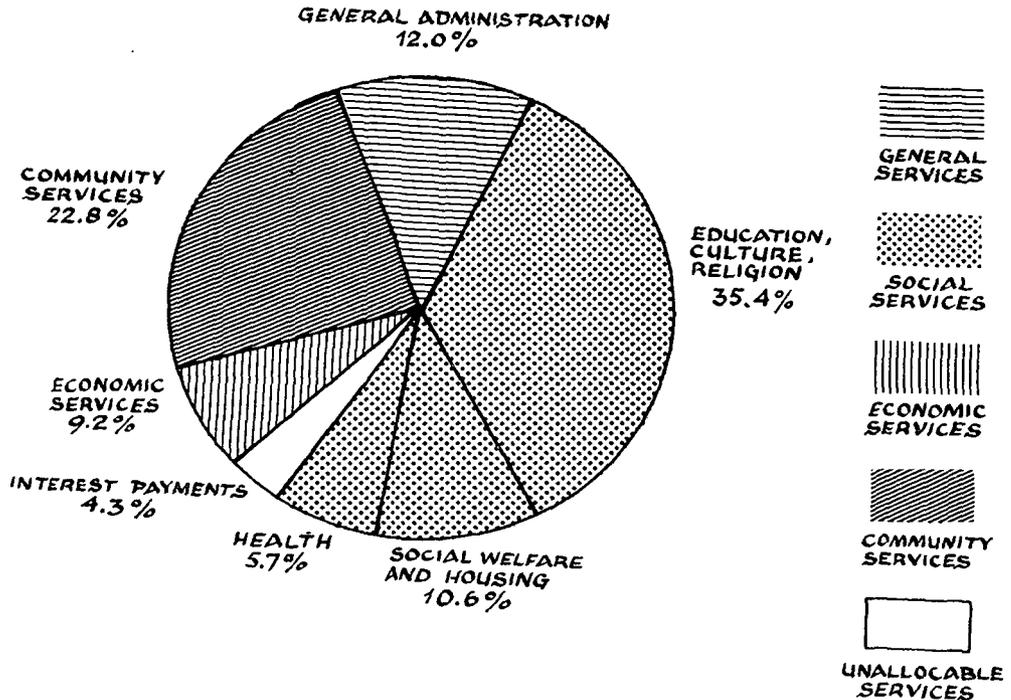
Purchases on capital account, which include capital formation and purchases of land and existing buildings, rose appreciably for the second successive year—this time by 25 percent—and totalled IL 180 million. In real terms, the growth rate in 1964 amounted to 20 percent. Most of the increase was in the construction of schools and other public buildings, paving of roads, and installation of traffic facilities. A particularly large rise took place in expenditure on educational institutions, including the establishment of new schools, the acquisition and expansion of existing schools, and the supplying of equipment. Investment in primary schools was designed to do away with the second shift and to keep pace with the population growth. Capital outlay on secondary and vocational schools was also substantially higher. These investments were financed mainly by the State Lottery and Government loans. The authorities also spent more on construction and equipment for youth clubs.

Investment in health services, clinics, mother-and-child stations, and equipment for municipal hospitals was stepped up considerably, but its share in the total budget continued to be small. Other investments went primarily for the

¹ Excluding wages in trading enterprises and on capital account, as well as salaries of teachers in kindergartens and schools for children of compulsory school age, which are paid directly by the Government.

Diagram VII-7

FUNCTIONAL COMPOSITION OF LOCAL AUTHORITY EXPENDITURE, 1964
(percentages)



expansion of waterworks and sewage disposal facilities, installation of water meters, and the laying out of public parks. In Tel Aviv the first stage in the purification of the seafront was completed, and work on the underground passage at one of the busy intersections in the commercial area neared completion.

(d) *Functional composition of expenditure*

Table VII-18 presents a breakdown of expenditure by function in 1963 and 1964 (see also Diagram VII-7). Debt repayment is excluded from this analysis.

The authorities operate chiefly in the fields of education, social welfare, and strictly municipal services. In the economic field their activities are generally confined to the transportation sector, including roads and traffic regulation.

The relative share of educational services, which is the largest item, accounting for over one-third of total expenditure,¹ went up particularly rapidly—almost two-and-a-half times more than all the other items.

¹ And this does not include the salaries of teachers in kindergarten and schools for children of compulsory school age.

Table VII-18

**FUNCTIONAL COMPOSITION OF LOCAL AUTHORITY
EXPENDITURE,^a 1963-64**

	IL million		Percent	
	1963	1964	1963	1964
General services				
General administration	53	63	12.3	12.0
Municipal services ^b	106	120	24.6	22.8
Total	159	183	36.9	34.8
Social services				
Education, culture, religion	133	188	31.0	35.4
Social welfare	45	53	10.5	10.0
Health	24	30	5.6	5.7
Housing	4	3	0.9	0.6
Total	206	274	48.0	51.7
Economic services				
Transportation (including roads)	36	41	8.3	7.8
Agriculture, industry, electric power	9	8	2.1	1.4
Total	45	49	10.4	9.2
Unallocable services				
Interest payments	20	23	4.7	4.3
Grand total	430	529	100.0	100.0

^a Excluding debt repayment and the current expenditure of waterworks and transportation enterprises. In the absence of detailed figures on the performance of the budget for the calendar year, the distribution in this table gives the functional composition of expenditure for the fiscal years 1962/63 and 1963/64.

^b Sanitation, sewage disposal, street lighting, fire fighting, public gardens, town planning, and building licensing, as well as investment in waterworks.

SOURCE: Based on summary data prepared by the Central Bureau of Statistics.

The social services group, including social welfare and health as well as education, accounted for over half of total expenditure.

Outlay on social welfare, including that part of Government allocations transmitted to the needy families through the local social welfare offices, accounted for some 10 percent of aggregate local authority expenditure. In the four large cities the relative share of this item was lower—about 6 percent—while in the other localities it was higher—about 14 percent.

Community services—chiefly sanitation, sewage disposal, and transportation (mainly roads)—constituted about one-third of total expenditure. Administrative services and interest payments accounted for one-sixth of the total.