

CHAPTER XIX

SAVING

1. MAIN DEVELOPMENTS

THE RATE OF SAVING out of net national product rose somewhat in 1964, reaching 4.2 percent as against 3.6 percent in 1963. This small change was the resultant of diverse movements in the different sectors of the economy. The increase in Government saving and the lower rate of private saving were the most striking developments.

Net dissaving of the public sector and the nonprofit institutions dropped from IL 139 million in 1963 to IL 8 million in 1964. In the case of the public sector, the improvement stemmed from a big rise in Government saving. The year reviewed was the first in which the public sector showed a positive gross saving—of IL104 million. Gross saving of the nonprofit institutions continued to be negative, the figure for the past three years amounting to some IL 60 million per annum.

Table XIX-1
NATIONAL SAVING, 1962-64
(at current prices)

Year	Gross national product ^a	Depreciation	Net national product (1)-(2)	Gross saving from GNP		Net saving from NNP	
	(1)	(2)	(3)	(4)		(5)	
	IL million			IL m.	%	IL m.	%
At the rate of IL 2.87 per dollar ^b							
1962	6,682	613	6,069	733	11.0	120	2.0
At the rate of IL 3.00 per dollar							
1963	8,045	739	7,306	1,005	12.5	266	3.6
1964	9,297	847	8,450	1,198	12.9	351	4.2

^a National product as defined in this chapter has been adjusted for the data on public consumption presented in Chapter VII, and therefore the figures here differ somewhat from those in Chapter II, "Resources, Uses, and Incomes".

^b The average official rate in 1962.

SOURCE: Based on data of the Central Bureau of Statistics.

The rise in Government saving was mainly due to a smaller percentage increase in current expenditure, while tax revenue continued upward at the same rate as in 1963. The relatively slow increase in expenditure is partly attributable to the fact that the signing of the new wage agreements was postponed to the end of the year, as a result of which the wage increments and adjustments for 1964 will presumably be paid during 1965. Moreover, the income tax refunds due for the period April–December 1964, as a result of the reduction of tax rates, were paid only at the beginning of 1965.

In contrast to the decline in the dissaving of the public sector and nonprofit institutions, there was a substantial decrease in private sector saving—from 7.7 percent in 1963 to 6.0 percent. This was apparently due in part to expectations of pay increases (wage adjustments and income tax refunds—actually disbursed only in 1965), which depressed the rate of household saving. Business saving may also have fallen off, but in the absence of data this is only a conjecture.

Table XIX-2

GROSS SAVING FROM GROSS NATIONAL PRODUCT, BY SECTOR, 1962-64
(at current prices and official exchange rates)

Year	IL million				Percent			
	Private sector	Nonprofit institutions	Public sector	All domestic sectors	Private sector	Nonprofit institutions	Public sector	All domestic sectors
1962	921	-64	-124	733	125.6	-8.7	-16.9	100
1963	1,099	-60	-34	1,005	109.4	-6.0	-3.4	100
1964	1,152	-58	+104	1,198	96.1	-4.8	+8.7	100

The conclusion that household saving edged down in 1964 is reinforced by a number of indicators suggesting a sharp drop in purchases of certain types of assets by this sector during the year without any corresponding changes in liabilities. The assets involved were mainly securities and housing. The reduction of purchases was apparently connected with the lower rate of return on such assets.

A partial evaluation of data from the 1963/64 saving survey,¹ which covers the period from September 1963 to October 1964, indicates that the rate of saving among the Jewish urban population is about 6 percent. Provisional calculations show that the rate is somewhat higher among employees than among

¹ This survey was carried out by the Central Bureau of Statistics and the Bank of Israel. The findings have not yet been summarized, and the data presented in this chapter are fragmentary and provisional and should be regarded as indicating orders of magnitude only. The final data may have to be revised.

self-employed, but since the data are incomplete, this conclusion is liable to change.

2. PRIVATE SAVING

Net private saving out of disposable domestic income moved down from 7.7 percent in 1963 to 6.0 percent during the year reviewed. This was accompanied by a fall in the weight of personal restitution payments from Germany in total private disposable income, which should have caused an opposite development—i.e. an increase in the rate of private saving out of disposable domestic income.¹ But since the decline in the share of restitution payments in total income was small, its effect can be ignored.

Table XIX-3
GROSS AND NET PRIVATE SECTOR SAVING, 1962-64^a
(at current prices and official exchange rates)

Year	Gross disposable income from local sources ^b	Depreciation	Net disposable income from local sources (1)-(2)	Private consumption ^c	Gross saving from gross disposable local income		Net saving from disposable local income	
	(1)	(2)	(3)	(4)	(5)		(6)	
	IL million				IL m.	%	IL m.	%
1962	4,967	577	4,390	4,046	921	18.5	344	7.8
1963	5,954	694	5,260	4,855	1,099	18.5	405	7.7
1964	6,769	793	5,976	5,617	1,152	17.0	359	6.0

^a Excluding nonprofit institutions.

^b Gross private disposable income from local sources = gross national product, less net current income of public sector, less net current income of nonprofit institutions.

^c Private consumption in this table is equal to that cited in Chapter II, "Resources, Uses, and Incomes", less the consumption of nonprofit institutions.

SOURCE: Central Bureau of Statistics and Bank of Israel.

The drop in private saving apparently occurred in both component items—business saving (undistributed profits) and household saving. The decline in the latter is suggested by fairly reliable indicators relating to the sector's investments. There was a marked contraction of purchases of many assets, which was not offset by a change in liabilities (see Table XIX-4). This development could

¹ Private saving is arrived at by deducting total consumption, as measured directly, from disposable private income from domestic sources. Since unilateral transfers from abroad (especially personal restitution payments) increase the consumption spending of the recipients and are not included in their income, they reduce the calculated rate of saving.

possibly indicate a shift in the composition of household assets, without a decline in the sector's saving, especially as the households' balance sheet presented in Table XIX-4 is incomplete. However, the data show such a sharp and systematic decrease in asset purchases that it is difficult to imagine an opposite development occurring precisely in those items that are missing. A similar picture emerges when saving is calculated according to the income account approach with the help of independent data, thus lending support to the conclusion about the fall in private saving in 1964, and refuting any possible claim that the lower saving figure as derived from the national accounts was due to errors in measurement.¹

The assumption about a relative decline in business saving cannot be tested at this stage with the help of quantitative data. In contrast to previous years, the economy's wage bill rose more rapidly in 1964 than national income. This may suggest that the percentage of undistributed profits in national income diminished or remained unchanged, in contrast to a relative rise in earlier years.

The decrease in personal saving as compared with 1963 was apparently due to two factors: expectations of a rise in income, which were partly realized only in 1965 and which induced a larger consumption in 1964, and a marked fall in the overall rate of return on various assets, which had been particularly high at the end of 1963.

Households (wage earners) already knew in 1964 that their disposable income was due to go up as a result of the Zadok Committee's recommendation to reduce income tax rates, effective retroactively from April 1. In addition, the signing of collective labor agreements for the years 1964-65 was in many cases postponed until the end of 1964, and with it the payment of the new higher wage rates and retroactive adjustments. These expectations apparently contributed to the growth of consumption expenditure and the consequent decline in the rate of saving.

Another factor, as already mentioned, was the lower overall return expected on various types of assets, especially securities and housing. The boom in the securities market, which brought investors substantial capital gains, lasted till the second half of 1963.² When the market turned, the overall return on these assets declined and continued downward during the whole of 1964. In consequence, many investors pulled out of the market, thus accentuating the slump. The funds formerly tied down in this market are now being diverted, at least in part, to consumption. According to Table XIX-4, the balance of most of the quantitatively important assets either tapered off or moved down in 1964, except

¹ It should be noted that saving constitutes a very small sum relative to national income and consumption, so that the errors in measurement which frequently occur here may be of the same order of magnitude as the entire change in the rate of saving. An independent examination is therefore of prime importance.

² See Chapter XX "The Securities Market".

Table XIX-4

CHANGES IN COMPONENTS OF HOUSEHOLD SAVING, 1960-64

(IL million, at current prices and official exchange rates)

	Increase or decrease (-) as against previous year				
	1960	1961	1962 ^a	1963	1964
Changes in real assets					
(1) Gross investment in housing	354	363	459	548	585
(2) Depreciation on dwellings	101	123	152	178	208
(3) Net investment in housing (1)-(2)	253	240	307	370	377
(4) Gross investment in consumer durables	^b	128	171	218	260
(5) Depreciation on consumer durables	^b	59	78	94	106
(6) Net investment in consumer durables (4)-(5)	^b	69	93	124	154
Changes in financial assets					
(7) Cash	26	30	44	77	43
(8) Demand deposits	60	29	83	96	22
(9) Approved saving schemes (in banks)	12	14	19	20	31
(10) Dollar-linked deposits (Pazak)	18	43	89	99	128
(11) Local currency time deposits	19	-12	-18	-13	-11
(12) Foreign currency time deposits (Tamam)	33	36	45	-14	2
(13) Saving-for-Housing deposits	5	12	14	27	6
(14) Claims on provident funds ^c	97	122	167	213	232
(15) Claims on insurance companies ^d	6	9	12	18	25
(15) Domestic securities	^b	^b	^b	248	148
(17) Foreign securities ^e	^b	^b	16	33	41
(18) Credit to business in the form of bill purchases ^f	^b	^b	^b	171	179
Changes in liabilities					
(19) Debt to provident funds	11	21	27	23	22
(20) Debt to mortgage banks	61	85	4	105	133
(21) Debt to other financial institutions	-4	-32	-4	5	14
(22) Debt to public sector—direct ^g	9	14	22	33	30

^a Excluding capital gains due to dollar linkage.^b Data not identified.^c Increase in assets of these funds, excluding employers' contributions to severance pay funds.^d Increase in life insurance funds of companies operating in Israel.^e Mainly paid for from Tamam accounts.^f Apparently includes some credit given other than by households, but the share of households is predominant.^g Mainly credit to households in agricultural settlements for housing.

SOURCE: Bank of Israel.

for Pazak balances, which are deposited by restitution recipients and hence cannot serve as a substitute for investment in local securities.

It is possible, of course, that those who did not invest in securities in 1964 reduced their liabilities, but there is no evidence of this on the liabilities side of Table XIX-4. Although this table does not include all items, it is nevertheless difficult, in view of the orders of magnitude involved, to attribute the IL 100 million decline in security purchases in 1964 to the missing liability items.

The real estate market, which had been booming till mid-1963, likewise took a turn for the worse in 1964. This eliminated another factor which, by promising high capital gains in a relatively short period, had encouraged saving and investment in real estate. Consequently, investment in housing did not rise in 1964 but remained at the same level as in 1963. Here too there is no proof that funds directed in 1963 to the housing market were used for the purchase of other assets in 1964. The slower rise in Saving-for-Housing deposits also suggests a smaller demand for dwellings by households.

Even if we define saving to include consumer durables, which likewise reflect an increase in household assets, the rate of saving still declined. The inclusion of such assets raises the rate of saving from 6 to 8.6 percent—or by 45 percent—but the trend is still downward, though less so (see Table XIX-5). The weight of these assets in aggregate saving is on the rise, reaching 30 percent in 1964.

Table XIX-5

NET PRIVATE SAVING, INCLUDING CONSUMER DURABLES,
OUT OF DISPOSABLE DOMESTIC INCOME, 1962-64^a

(at current prices)

Year	Disposable domestic income	Net saving, including consumer durables		Share of consumer durables in total net saving	
	IL m.	IL m.	%	IL m.	%
1962	4,390	437	10.0	93	21.3
1963	5,260	529	10.1	124	23.4
1964	5,976	513	8.6	154	30.0

^a Excluding nonprofit institutions.

^b Excluding imputed income from stock of consumer durables.

3. COMPOSITION OF HOUSEHOLD SAVING¹

The rate of household saving amounted to nearly 6 percent in 1964. The rate was slightly higher in the case of wage earners, but as the saving data

¹ The discussion in this section is based on data from the 1963/64 saving survey. Only families whose income was known are included here.

are provisional, the differences between wage earners and self-employed may be due to errors in measurement. Purchases of consumer durables are of the same order of magnitude as saving, so that the inclusion of these assets in saving, as is sometimes the practice, brings up the rate of saving.¹

Wage earners' saving breaks down as follows: investment in real estate—approximately 13 percent of income; purchases of consumer durables—8 percent; contractual and business saving—3 percent; and investment in securities—1 percent. Among self-employed, on the other hand, the most important component is business saving. A fact that should be noted is the big weight of real assets in total saving, relative to financial assets. This is significant, for if saving is accompanied by investment in real assets, it does not free resources for the use of other sectors, nor does it reduce aggregate demand.

A relatively large share of restitution receipts is spent on consumer durables. The inclusion of these assets in total consumption therefore reflects the negative contribution of personal restitution to aggregate saving.² It is therefore obvious that if saving conceptually includes expenditure on consumer durables, the impact of restitution payments, which act to depress the savings estimate, will be smaller.

Restitution proceeds are mainly used to purchase real estate. In the period immediately after their receipt, such payments increase liquid saving, but this component grows smaller with time and is probably channelled, at least in part, to further investment in real estate.

4. IMPACT OF ONE-TIME INCOMES ON ESTIMATED SAVING³

One-time incomes, as already mentioned, reduce the rate of saving. The reason for this is that, according to conventional definitions, total expenditure on consumption, as directly measured, is deducted from current disposable income. As one-time incomes increase the recipients' consumption spending, they inevitably lead to a low rate of saving. Below we shall show the quantitative influence of one-time incomes, with the help of data from the 1963/64 Family Expenditure Survey.

The families included in this survey, which covered wage earners only, were divided into two groups: those who received one-time incomes and those who did not. The rate of saving was calculated separately for each group. As regards orders of magnitude, income, and family size, the two groups closely resembled each other, so that the differences in saving can be attributed solely to the one-

¹ In contrast to Table XIX-5, where depreciation has been deducted from the existing stock of assets, this was not done in respect of the survey data; hence the differences in the results.

² The saving estimate, as already indicated, is arrived at by deducting consumption, including that attributable to one-time income, from current domestic income.

³ The discussion in this section is based on data from the 1963/64 Family Expenditure Survey, carried out by the Central Bureau of Statistics and the Bank of Israel.

Table XIX-6

**RATE OF SAVING AMONG FAMILIES RECEIVING ONE-TIME
INCOMES AND AMONG OTHER FAMILIES, 1963/64**

Group	No. of families	Average annual income per family (IL)	Average size of family (no.)	Average annual saving per family (IL)	Rate of saving (%)
Received one-time incomes	256	6,896	3.5	-974	-14.1
Did not receive one-time incomes	1,295	6,204	4.0	575	9.3
Total	1,551	6,318	3.9	319	5.1

time incomes.¹ Among families who did not receive such incomes, the rate of saving came to about 10 percent, while the other group showed a dissaving of 14 percent. Were it not for the one-time incomes, the rate of saving for the entire sample would have amounted to some 10 percent, instead of 5.1 percent. It is therefore evident that this factor has an important bearing on the rate of saving, not only from the theoretical aspect, but also because of its marked quantitative effect, which is particularly significant in international comparisons.

5. SAVING OF THE PUBLIC SECTOR AND NONPROFIT INSTITUTIONS²

Net dissaving of the public sector and nonprofit institutions totalled IL 8 million in 1964, as against IL 139 million in 1963. The decline began in 1963, when net negative saving of the combined sector dropped to -6.8 percent, as against -13.3 percent in 1962. This development is ascribable to the improvement in public sector saving, where a gross dissaving of IL 124 million in 1962 (-8.6 percent of income) and IL 34 million in 1963 (-1.9 percent of income) changed into a positive saving of IL 104 million in 1964 (4.8 percent of income). This rising trend was wholly due to the growth of Government saving, as the local authorities and National Institutions showed a further increase in dissaving in 1964. One reason for the higher rate of Government saving is apparently the fact that the 1964 revenue figure included amounts to be returned to the private sector in 1965 in the form of income tax refunds, and that current expenditure did not include salary increments to be paid in 1965 although partly accruing on account of 1964.

¹ The fact that incomes in the group of families with one-time receipts are higher, supports this argument.

² These two sectors have been combined here since data are available only for the two taken together. However, this does not seem to be a very serious shortcoming from the analytical viewpoint, owing to the resemblance between the two. Data on gross saving are presented for each sector individually.

Table XIX-7

**GROSS AND NET SAVING OF THE PUBLIC SECTOR AND
NONPROFIT INSTITUTIONS, 1962-64**

(at current prices and official exchange rates)

A. Net Saving of the Public Sector and Nonprofit Institutions

Year	Net current income	Consumption	Depreciation	Net current income, less depreciation (1)-(3)	Net saving from net current income (less depreciation) (4)-(2)	
	(1)	(2)	(3)	(4)	(5)	(6)
	IL million				IL m.	%
1962	1,715	1,903	36	1,679	-224	-13.3
1963	2,091	2,185	45	2,046	-139	-6.8
1964	2,528	2,482	54	2,474	-8	-0.3

B. Gross Saving of the Public Sector

Year	Net current income ^a	Consumption	Gross saving from net current income (1)-(2)	
	(1)	(2)	(3)	(4)
	IL million		IL m.	%
1962	1,440	1,564	-124	-8.6
1963	1,770	1,804	-34	-1.9
1964	2,152	2,048	104	4.8

C. Gross Saving of Nonprofit Institutions

Year	Net current income	Consumption	Gross saving from net current income (1)-(2)	
	(1)	(2)	(3)	(4)
	IL million		IL m.	%
1962	275	339	-64	-23.3
1963	321	381	-60	-18.7
1964	376	434	-58	-15.4

^a Income from taxes, domestic transfers, interest, and property, less transfer payments and subsidies.

SOURCE: Bank of Israel.

Gross dissaving of the nonprofit institutions remained about the same during the year reviewed—IL 58 million as against IL 60 million in 1963. However, the ratio of such saving to the sector's gross income dropped from 19 to 15 percent.

6. BALANCE SHEET APPROACH TO SAVING, BY SECTOR

Conceptually, saving as calculated from the balance sheets of the different sectors equals that derived through the income account approach. A comparison between the two estimates makes it possible *inter alia* to test the validity on the findings. Saving as calculated from the sectors' balance sheets also provides us with further information on aggregate saving, enabling us to ascertain the reasons for the changes in saving by observing the changes in the various types of assets and liabilities.

The difference between the net national saving estimates derived by the two methods was greater in 1964, totalling IL 50 million as against IL 13 million the year before. A similar picture emerges in respect of the private sector. In the case of the public sector, the difference increased from IL 1 million in 1963 to IL 2 million in 1964. This rise may be small in absolute terms, but it is quite large relative to the amount of saving. Nevertheless, it seems that these fluctuations are fortuitous and insignificant as regards the future.

In the private sector real assets grew by some 24 percent, the decline in saving being due to a marked decrease in financial assets. Private sector transfers from abroad remained at the same level in last two years.

The rise in public sector saving was due to the expansion of real assets, there being no decline in financial assets. Domestic transfer receipts and transfers from abroad also held steady as compared with 1963.

In the nonprofit institutions gross dissaving remained at the 1963 level. A slight rise in real assets was balanced by a similar increase in transfer receipts. It may therefore be assumed that the sector's net saving dropped slightly.

BALANCE SHEET APPROACH TO

(IL million, at current prices)

	Changes in real assets		Transfer receipts from abroad		Domestic capital transfer receipts	
	(1)		(2)		(3)	
	1963	1964	1963	1964	1963	1964
Public sector and nonprofit institutions						
Public sector	410	513	253	215	63	81
Nonprofit institutions	77	99	128	143	—	—
Total	487	612	381	358	63	81
Private sector						
Households and private business						
Households	548	585	682	692	-63	-81
Private business	874	1,197	—	—		
Total	1,422	1,782	682	692	-63	-81
Public sector companies	384	455	—	—	—	—
Banks and financial institutions	10	29	—	—	—	—
Provident funds and insurance companies	10	7	—	—	—	—
Total private sector	1,826	2,273	682	692	-63	-81
Total domestic sector	2,313	2,885	1,063	1,050	—	—
Rest of the world	—	—	-1,063	-1,050	—	—

^a The difference between net saving in this table and net saving out of net national product as measured by the income account approach.

SECTORIAL SAVING, 1963-64

(and official exchange rates)

Changes in financial assets, less liabilities		Identified gross saving (1)-(2)-(3) + (4)		Depreciation		Identified net saving (5)-(6)		Errors and omissions*	
(4)		(5)		(6)		(7)		(8)	
1963	1964	1963	1964	1963	1964	1963	1964	1963	1964
-129	-119	-35	98	45	54	-138	-10	-1	2
-7	-10	-58	-54						
-136	-129	-93	44	45	54	-138	-10	-1	2
690	576								
-597	-755								
93	-179	896	992	694	793	417	411	-12	-52
-232	-308	152	147						
24	4	34	33						
19	25	29	32						
-96	-458	1,111	1,204	694	793	417	411	-12	-52
-232	-587	1,018	1,248	739	847	279	401	-13	-50
232	587	—	—	—	—	—	—	—	—

SOURCE: Bank of Israel.