CHAPTER II

RESOURCES, USES, AND INCOMES

1. Resources

(a) *The national product*

The year 1965 was marked by a much slower growth of the national product. At constant prices, GNP rose by 7 percent, compared with an average of about 11 percent during the years 1961–64. Developments in 1965 actually represented the continuation of the slower growth trend already discernible in previous years, though the deceleration was particularly noticeable during the year reviewed: whereas there was an advance of about 12 percent in 1962, it came to 10.3 percent in 1964 and only 7 percent in 1965.

The more moderate expansion of the national product in 1965 reflects the slower growth of the population and the labor force, the decline in capital formation from the record level of 1964, the slowdown in construction activity, and other factors which weakened demand pressure in the economy. It was also partly due to the contraction of agricultural output as a result of factors on the supply side.

The average population went up by 3.4 percent in 1965, so that the increase in real national product per capita was 3.6 percent. With the exception of 1957, this was the slowest per capita growth rate since 1953. During the past six years the average increase was about double that of 1965—approximately 7 percent, with the annual rates ranging from 6 to 8.4 percent.

GNP prices, on the other hand, moved up more rapidly during the year reviewed; the rise totalled some 10 percent, and was particularly pronounced in the public sector (including the Government's transport enterprises), in commerce, and in the services. At current prices, GNP thus expanded by 17 percent in 1965—about the same as the average for the last 10 years—and totalled IL 10,760 million.

The real agricultural product was 2.5 percent smaller than in 1964, as compared with an average annual growth of 13 percent during the four preceding years. Since the weight of agriculture in the national product stands at about 10 percent, this decline was a not insignificant factor in the slower growth of the national product in 1965.

Most of the incremental farm output was in citrus and field crops. The decreased profitability of several branches, such as vegetables, certain fruits, and egg hatching, led to the contraction of inputs allocated to these branches, and hence of their output as well. In addition, the quotas fixed by the production boards were apparently more stringently enforced in 1965, and serious deviations therefrom were prevented. The downward trend in investments persisted in 1965, especially in livestock and fruit farming, owing to the slackening of domestic demand. Output of bananas, subtropical fruit, and some other items fell off as a result of unfavorable weather conditions which affected these crops in the previous year.

Industry recorded a 10 percent gain in real product, which was slower than in any other recent year. This can apparently be ascribed to the subsiding of aggregate domestic demand and the slower expansion of exports. In several branches there were also limitations on the supply side; the food industry, for example, was affected by the decline in raw material supplies. In several products, especially those on the export list, the deceleration was due to insufficient productive capacity.

There was a rapid increase in the output of mine and quarry products, with the doubling of potash production, as well as in the chemical and wood industries. Showing a much slower growth rate in 1965 were food processing and the motor vehicle and metal goods industries.

The devaluation of the Israeli pound at the beginning of 1962 slightly increased the relative profitability of exports at the time. However, the brisk demand existing in the economy during the last three years and the resulting rise in input prices reduced the profitability of exports in most branches, especially in 1965. During the period when domestic demand was very strong, the domestic market competed with exports, but when demand began to weaken, exports could not provide a substitute for the local market because of the high level which production costs had reached in the meantime.

After four years of boom in the construction sector, reflected by a rapid expansion of output and employment, activity in 1965 was only slightly larger than in the previous year. In fact, most of the work was on buildings begun in 1964. During the second half of the year the slump in construction was aggravated, and some workers were laid off. The curtailment of activity was due to two factors: (1) the accumulation of a stock of vacant dwellings following the big increase in starts in 1964, because of the impending building restrictions; and (2) the sharp drop in immigration in 1965. Added to these was the easing of demand for nonresidential construction following the completion of several big projects.

The slower growth of economic activity in 1965 is not explained by the percentage increase in inputs. Gross capital stock at the beginning of the year reviewed was 10.5 percent larger than at the beginning of 1964—a rate similar to that of recent years. The number of gainfully employed rose by only 3.1 percent, compared with approximately 4.5 percent per annum during the

Table II-1

RESOURCES AND USES, 1964-65

(IL million)

	1964	1965	1965 at 1964 prices	Percent increase or decrease (–)		
				Quantity	Price	Value
Private consumption						
Households	5,542	6,445	5,961	7.4	8.3	16.3
Nonprofit institutions	555	719	645	16.6	11.4	30.0
Total	6,098	7,164	6,606	8.3	8.4	17.5
Public consumption						
Government	1,364	1,727	1,542	13.0	12.0	26.6
Local authorities	270	351	300	11.1	16.7	29.7
National institutions	120	111	105	–12.4	5.0	–8.0
Total	1,755	2,189	1,947	11.0	12.3	24.7
Gross investment						
Housing	790	853	812	2.8	5.0	8.0
Other construction	878	910	862	–1.8	5.6	3.6
Equipment	1,075	1,053	1,024	–4.7	2.8	–2.0
Inventories	182	47	46	–74.7	2.2	–74.2
Total	2,924	2,863	2,744	–6.2	4.3	–2.1
Total domestic demand	10,776	12,215	11,297	4.8	8.2	13.4
Imports	3,507	3,635	3,550	1.2	2.4	3.6
Exports	1,917	2,183	2,084	8.7	4.7	13.8
Import surplus	1,590	1,452	1,466	–7.8	–1.0	–8.7
Gross national product at market prices	9,186	10,763	9,831	7.0	9.5	17.2

NOTE:

This table of resources and uses is based on different definitions from those used in former Bank of Israel Reports and hence cannot be compared with them. Interest payments of the public sector are not included in public consumption and the national product; import and export data have been adjusted accordingly.

The table is based on data of the Central Bureau of Statistics, with the following differences:

Imports are cited exclusive of import taxes, but inclusive of factor payments to the rest of the world. Exports include factor payments to the rest of the world but exclude export subsidies.

Import taxes after deduction of export subsidies totalled IL 495 million in 1964 and IL 561 million in 1965. If these figures are deducted from the value of the product at current prices here cited, the result will be the value of the product as defined by the Central Bureau of Statistics.

Table II–2

RESOURCES AND USES, 1960–65

(IL million)

	1960	1961	1962	1963	1964	1965	Percent increase or decrease (–) as against previous year				
							1961	1962	1963	1964	1965
Resources and uses at current prices											
Private consumption	3,096	3,648	4,410	5,247	6,098	7,164	17.8	20.9	19.0	16.2	17.5
Public consumption	829	1,030	1,384	1,568	1,755	2,188	24.2	34.4	13.3	11.9	24.7
Gross investment	1,218	1,565	2,120	2,319	2,924	2,863	28.5	35.5	9.4	26.1	–2.1
Total domestic demand	5,143	6,243	7,914	9,134	10,776	12,215	21.4	26.8	15.4	18.0	13.3
Imports	1,202	1,499	2,690	2,966	3,507	3,635	24.7	79.5	10.3	18.2	3.6
Exports	633	744	1,383	1,763	1,917	2,183	17.5	85.9	27.5	8.7	13.9
Import surplus	569	755	1,307	1,203	1,590	1,452	32.7	73.1	–8.0	32.2	–8.7
Gross national product	4,574	5,488	6,607	7,931	9,186	10,763	20.0	20.4	20.0	15.8	17.2
At 1965 prices											
Private consumption	4,350	4,811	5,383	5,954	6,615	7,164	10.6	11.9	10.6	11.1	8.3
Public consumption	1,359	1,589	1,765	1,881	1,971	2,188	16.9	11.1	6.6	4.8	11.0
Gross investment	1,815	2,127	2,416	2,501	3,049	2,863	17.2	13.6	3.5	21.9	–6.1
Total domestic demand	7,524	8,527	9,564	10,336	11,635	12,215	13.2	12.2	8.0	12.8	4.8
Imports	2,035	2,580	2,990	3,110	3,592	3,635	26.8	15.9	4.0	15.5	1.2
Exports	1,170	1,365	1,608	1,889	2,008	2,183	16.7	17.8	17.5	6.3	8.7
Import surplus	866	1,195	1,364	1,222	1,575	1,452	38.0	14.1	–10.4	28.9	–7.8
Gross national product[a]	6,633	7,303	8,172	9,120	10,059	10,763	10.1	11.9	11.6	10.3	7.0

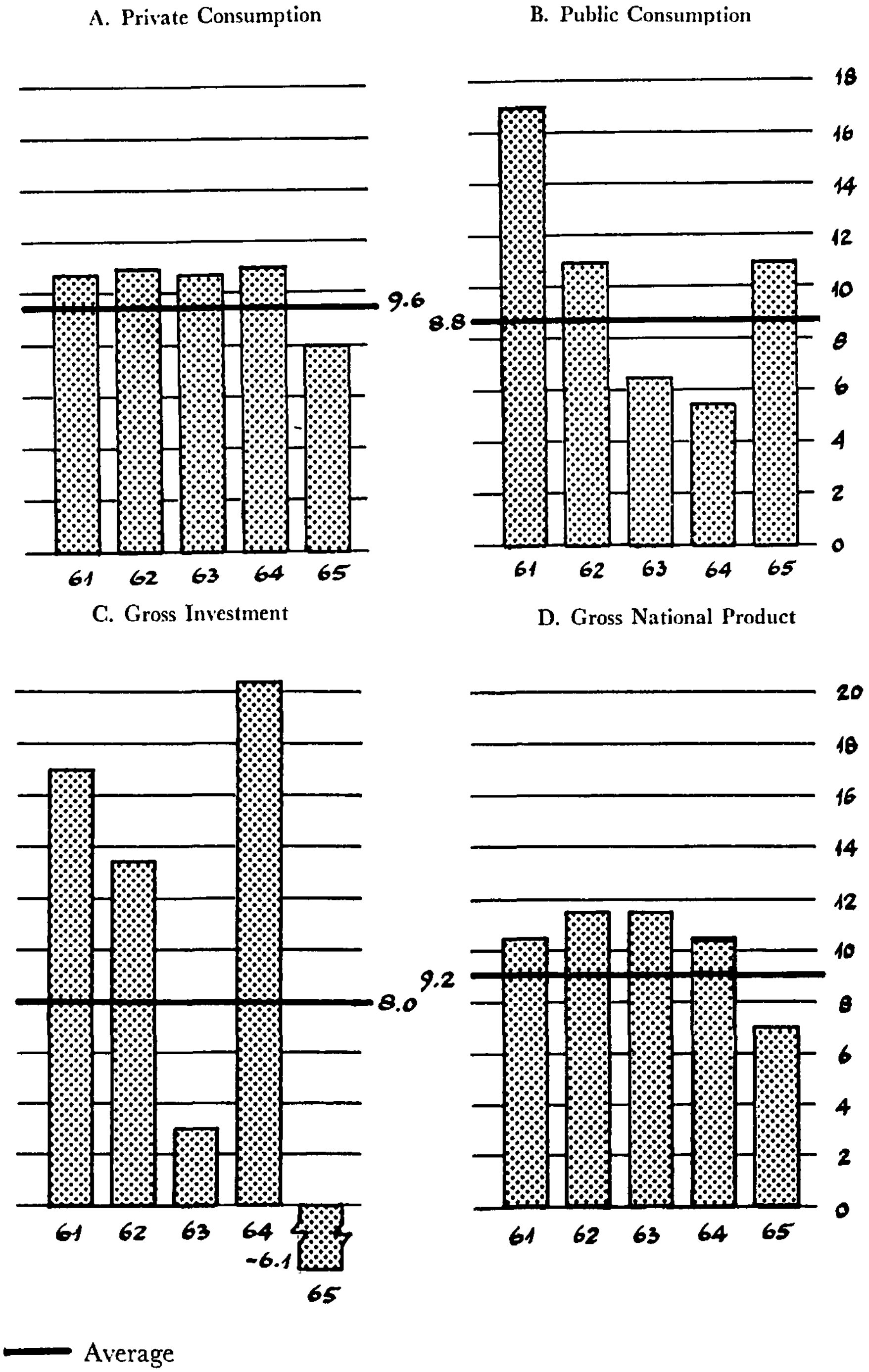
[a] In calculating the percentage changes in gross national product, resource uses have been weighted for each year according to their prices in the preceding year.

SOURCE: Central Bureau of Statistics (see note to Table II–1).

Diagram II–1

RESOURCES AND USES—ANNUAL RATES OF CHANGE, 1961–65

(percentages, at constant prices)



five preceding years. However, gainful employment apparently was not a factor limiting the growth of the national product: the downtrend in the number of persons seeking work and in unemployment, which began in 1954, came to an end during 1965, when the average number of job-seekers and the unemployment rate went up slightly as compared with the preceding year.[1]

Between 1958 and 1960 the national product expanded by 9 percent per annum. Prices moved up by an average of 5 percent, while the deficit in the country's goods and services account declined by an average of some 2 percent. During the years 1961–64 the expansion of the national product was accelerated, averaging 11 percent per annum, but this was accompanied by an average annual rise of 7 percent in the price level and by a deterioration in the balance of payments position. The attainment of such a rapid rate of economic growth, involving a fuller exploitation of the economy's productive capacity, thus appears to be connected with the generation of excess demand pressures which undermine the stability of domestic prices and the equilibrium in the balance of payments. The demand pressures existing in Israel in 1961 were intensified after 1962, following the increase in transfers from abroad and the resulting monetary expansion. For some time these pressures were reflected mainly by higher prices in the real estate and securities markets, but they also tended to drive up other domestic prices and wages. The rise in domestic prices, following the rise in input prices, increased the relative profitability of the domestic market, while reducing the absolute profitability of exports, especially in 1965.

Table II-3

PERCENTAGE BREAKDOWN OF RESOURCES AND USES, 1960–65

(at current prices)

	1960	1961	1962	1963	1964	1965
Private consumption	60.2	58.4	55.7	57.4	56.6	58.7
Public consumption	16.1	16.5	17.5	17.2	16.3	17.9
Gross investment	23.7	25.1	26.8	25.4	27.1	23.4
Total domestic demand	100.0	100.0	100.0	100.0	100.0	100.0
Import surplus	11.1	12.1	16.5	13.2	14.8	11.9
Gross national product	88.9	87.9	83.5	86.8	85.2	88.1
Exports as a percentage of imports	52.7	49.6	51.4	59.4	54.7	60.0

[1] The number of persons seeking work rose by 4.5 percent during the year, from 28,700 to 30,000.

The year reviewed saw a weakening of several factors which in previous years had led to the accentuation of demand pressure in the goods and service markets. The rate of monetary expansion (9 percent) was the most moderate in recent years. The incremental income of the private sector that does not form part of its disposable income from domestic sources was smaller than in the previous year, owing to the decline in private transfers from abroad. Demand for capital assets fell off, in both the private and the public sector. In the latter, work was completed on the National Water Carrier, the first stage of Ashdod Port, and the Dead Sea Works expansion program, while no other projects of comparable size were commenced. The smaller volume of immigration also tended to reduce demand pressure on the available resources. In 1961 immigration had accelerated, necessitating a greater outlay for the absorption of newcomers; the resulting demand for domestic resources exceeded the additional resources contributed by the immigrants during their first years in the country. This demand pressure partly explains the economic boom during the years 1962–64, as well as the heavy demand in the labor market. With the contraction of immigration in 1965, demand pressure from this source subsided. In the private sector there were apparently strong expectations of a deceleration of economic activity, and this, together with the rise in the interest rate, resulted in the slower expansion of business investment and a marked decrease in inventory accumulation.[1]

Under conditions of price rigidity, a cartelized structure in many branches, and imperfect factor mobility, the weakening of demand pressures may prevent a further worsening in the balance of payments, but apparently not without a detrimental effect upon the rate of economic growth. The slowdown of economic activity and the consequent smaller increase in real incomes are part of the price for preventing such a deterioration as long as factors of production are not shifted from production for the domestic market to that for export.

(b) *The import surplus*

In 1965 the import surplus was trimmed by approximately 9 percent at current prices. This was the result of a 4 percent increase in imports and a growth of some 14 percent in exports.

Exports amounted to about 60 percent of the value of imports in 1965, which is a higher ratio than in any of the last several years, apart from 1963. On the other hand, the expansion of exports slowed down somewhat. Whereas it averaged 21 percent per annum during the 1959–62 period, in 1964 and 1965 it dropped to an average of 11 percent.

Imports were up approximately 4 percent during the year reviewed. Commodity imports remained at the 1964 level, but services showed a rise of 12 percent.[2]

[1] Inventories shrank from IL 180 million in 1964 to IL 147 million in 1965.

[2] This is dicussed in detail in Chapter III, "The Balance of Payments".

The weight of the import surplus in total resources came to approximately 12 percent, a lower rate than in the four preceding years when it averaged some 14 percent (see Table II–3). This decline, which apparently reflects a diminished dependence on the import surplus, was connected with the slowdown in economic activity and with the expectation that this trend would continue. The absolute and relative decrease in the import surplus stands out all the more when viewed against the 30 percent increase in 1964. The surplus in 1965 was actually larger than that of 1963 or any year prior thereto.

2. Domestic Demand

(a) *Private consumption*

Expenditure on private consumption increased by nearly 17.5 percent in 1965, which was slightly less than the growth of private income from domestic sources (18.5 percent), but more than that of private income from all sources (16.3 percent).

Table II–4

PRIVATE INCOME AND CONSUMPTION, 1960–65

(IL million)

Year	Private income		Private consumption	Private consumption as a percent of income		Incremental consumption as a percent of incremental income	
	From domestic sources	From all sources		From domestic sources	From all sources	From domestic sources	From all sources
1960	3,140	3,478	3,096	98.6	89.0	—	—
1961	3,681	4,064	3,648	99.1	89.8	102.0	94.2
1962	4,261	4,950	4,410	103.5	89.1	131.4	86.0
1963	5,289	6,099	5,247	99.2	86.0	81.4	72.8
1964	6,219	7,006	6,098	98.1	87.0	91.5	93.8
1965	7,366	8,102	7,164	97.3	88.4	92.9	97.3

The amount spent by households[1] was up 16 percent in nominal terms and 7.1 percent in real terms. Per capita, the real increase was 3.9 percent—a lower rate than in any of the last few years. In 1965 the rising trend in outlay on consumer durables tapered off appreciably— 5 percent as against 23 percent in 1964.

[1] Private consumption, excluding the consumption expenditure of nonprofit institutions.

Incremental consumption by households in 1965 amounted to about 85 percent of incremental disposable income from domestic sources (see Table II–5). In 1964 incremental consumption exceeded incremental income by 5 percent; this was probably due in part to the fact that households, especially wage earners in the public sector, were expecting a substantial rise in income in the following year.

Consumption spending by nonprofit institutions, which constitutes about 10 percent of all private consumption, jumped by 30 percent in nominal terms and nearly 17 percent in real terms.

Table II–5

PRIVATE INCOME, EXCL. NONPROFIT INSTITUTIONS, AND PERSONAL CONSUMPTION, 1960–65

(IL million)

Year	Private income		Personal consumption	Personal consumption as a percent of private income		Incremental personal consumption as a percent of incremental private income	
	From domestic sources	From all sources		From domestic sources	From all sources	From domestic sources	From all sources
1960	2,928	3,180	2,806	95.8	88.2	—	—
1961	3,437	3,728	3,312	96.4	88.8	99.4	92.3
1962	3,983	4,558	4,013	100.8	88.0	128.4	84.5
1963	4,965	5,647	4,781	96.2	84.7	78.2	70.5
1964	5,693	6,329	5,542	97.3	87.6	104.5	111.6
1965	6,759	7,341	6,445	95.4	87.8	84.7	89.2

The rising trend in the share of services within total private consumption expenditure continued in 1965, the figure edging up from 45 to 47 percent. In 1965 most of the increase was in housing services and services provided by nonprofit institutions.

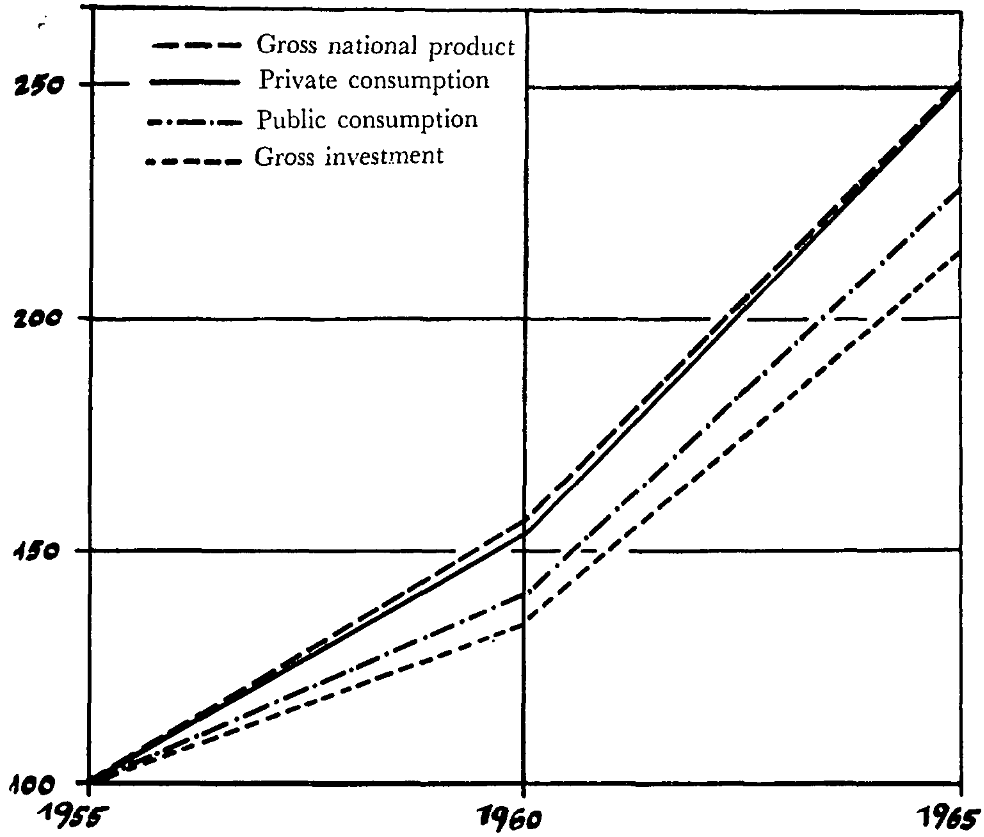
(b) *Public consumption*

Public consumption was 25 percent higher in 1965 than in the previous year—the fastest increase since 1956—and totalled IL 2,189 million at current prices. In real terms, the rise came to 11 percent, compared with some 5 percent in 1964. Government consumption, which accounts for about 80 percent of total public consumption, expanded by 27 percent in nominal terms and 13 percent in real terms.

The sharp rise of 12 percent in public consumption prices must be ascribed mainly to the considerable wage and salary increases granted in the civil service, Diagram II–2

NATIONAL PRODUCT AND DOMESTIC DEMAND, AT CONSTANT PRICES, 1955–65

(1955=100)



which brought up the average wage per Government employee by approximately 28 percent within one year.

(c) *Gross investment*

Gross domestic investment at current prices was 2 percent smaller than in 1964, amounting to IL 2,863 million. This was the first time that the figure moved downward. Net domestic investment (i.e. gross investment less depreciation) was 10 percent below the 1964 level.

Investment prices were 4 percent higher in 1965 than in the preceding year; the real decrease in gross domestic investment thus amounted to 6 percent. Outlay on housing expanded by some 3 percent, but that on nonresidential construction was down 2 percent. Most of the decline in investment can be ascribed to the lower rate of inventory accumulation—IL 47 million as against

IL 182 million in 1964—owing to the slackening of economic activity and decreased liquidity.

The decline in gross capital formation in the agricultural sector continued for the third consecutive year, but industrial investment held steady. The main increase during the year reviewed occurred in commerce and the service sectors, where there was an advance of 7.5 percent.

3. Allocation of Resources

Total resources available to the economy—i.e. the national product and the import surplus—were approximately 13 percent greater than in 1964, totalling IL 12,215 millon at current prices. Most of the increment (about 8 percent) was due to the rise in prices, in particular to the higher GNP prices, for which rapidly mounting costs in the public sector were largely responsible. The remaining 5 percent represented the real addition to available resources.

The expansion of real resources was the resultant of a 7 percent growth in real national product and a similar percentage decrease in the import surplus. The weight of the national product within total resources thus rose to 88 percent in 1965, which was considerably above the average for the three preceding years, but about the same as in 1961 and 1962.

Table II-6

RESOURCES AND USES AND INCREMENT THERETO, 1950–65

(percentages, at current prices)

	Resources and uses				Incremental resources and uses			
	1950–1954	1955–1959	1960–1964	1965	1950–1954	1955–1959	1960–1964	1965
Private consumption	60.1	58.8	57.4	58.7	62.1	62.4	53.3	74.1
Public consumption	15.0	17.1	16.7	17.9	14.5	16.5	16.4	30.1
Gross investment	24.9	24.1	25.9	23.4	23.4	21.1	30.3	–4.2
Total domestic demand	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Import surplus	18.4	16.2	13.8	11.9	16.9	2.0	18.1	–9.6
Gross national product	81.6	83.8	86.2	88.1	83.1	98.0	81.9	109.6

Note: Data on resources, the import surplus, and the gross national product for the years 1960–65 cannot be compared with the corresponding data for previous periods, owing to changes in definitions. A detailed explanation is given in the Appendix to this Report (in Hebrew only).

The year reviewed witnessed a striking decline in the growth of gross investment as compared with the average for the five preceding years. On the other hand, the real increase in public consumption exceeded the average for this period, while the increase in private consumption was below the average for the years 1960–64.

Incremental private consumption amounted in 1965 to about 75 percent of incremental resources, and incremental public consumption to some 30 percent. Total consumption spending, private and public together, went up by about IL 1,500 million, and the net national product by IL 1,435 million. The difference of 5 percent reflects the decline in gross domestic capital formation. Compared with the years 1960–64, these developments constitute a drastic change: during that period approximately 57 percent of total resources were allocated to private consumption, and incremental private consumption absorbed 53 percent of the incremental resources. 17 percent of total resources went to increase public consumption, and the remaining quarter was invested in the economy.

4. Factor Productivity

The slackening of economic growth in 1965 was not accompanied by any marked slowdown in the growth of factor inputs, and consequently the rising trend in factor productivity tapered off considerably.

The domestic product expanded by approximately 7 percent at constant prices, while gainful employment went up by 3.1 percent—a slower rate than in previous years. Average real product per gainfully employed thus increased by 3.8 percent, compared with an average annual gain of 7 percent during the two preceding years and an average of some 6 percent during the 1954–62 period. The gross capital stock increased by 10.6 percent in 1965,[1] which approximated the average since 1958 (see Table II–7). The rise in gross capital stock per gainfully employed came to 7 percent in 1965. The upward trend in capital intensiveness thus carried over through the year reviewed. Factor productivity (i.e. the increase in real product per weighted unit of capital and labor) edged up 1.5 percent in 1965, in contrast to a rise of roughly 5 percent per annum during the two preceding years and about 3.5 percent during the period 1959–62.

In the public sector (including nonprofit institutions), gainful employment rose by 7 percent in 1965. This sector, which accounts for approximately 20 percent of all employment in the country and also for about 20 percent of the national product, contributed nearly a third of the incremental real product in 1965.

The private sector (all domestic sectors excluding housing and services supplied by the public sector and nonprofit institutions) showed an increase of less than 6 percent in real product, while employment was only 2 percent

[1] The data on gross capital stock cited in this chapter are at 1955 prices. In Chapters I and V they are given in terms of 1964 prices.

Table II–7

ANNUAL RATES OF CHANGE IN PRODUCT, INPUT, AND PRODUCTIVITY IN THE ENTIRE ECONOMY AND SELECTED SECTORS, 1955–65[a]

(percentages)

	Period	Gross domestic product[b]	Employment[c]	Fixed capital[d]	Capital per gainfully employed	Product per gainfully employed	Overall productivity
Entire economy	1955–58	10.1	4.2	11.4	6.9	5.7	3.3
	1959–62	10.6	4.4	10.6	5.9	5.9	3.5
	1963–64	12.6	4.9	10.7	5.5	7.3	4.8
	1965	7.0	3.1	10.6	7.0	9.9	1.4
Private sector	1955–58	10.9	3.4	10.9	7.3	7.3	4.7
	1959–62	11.7	4.5	10.7	5.9	6.9	4.4
	1963–64	13.3	4.9	10.5	5.3	8.0	5.5
	1965	5.8	2.0	10.4	8.2	3.7	–0.5
Agriculture and irrigation	1955–58	11.5	4.9	10.2	5.1	6.3	2.5
	1959–62	12.0	1.1	8.4	7.2	10.6	5.0
	1963–64	13.5	–0.5	7.5	8.0	14.1	7.1
	1965	–1.0	–1.0	4.3	5.5	–1.5	–2.0
Industry	1955–58	10.3	4.8	10.8	5.7	5.2	3.4
	1959–62	13.0	7.3	12.9	5.2	5.3	3.4
	1963–64	16.5	6.7	13.2	6.1	9.2	6.6
	1965	10.0	1.3	9.3	7.9	8.5	6.4

[a] Data for 1965 are provisional.
[b] At constant prices.
[c] The number of gainfully employed.
[d] The stock of productive assets at the beginning of each year.

greater. The growth in product per gainfully employed thus came to less than 4 percent; however, gross capital stock expanded by over 10 percent during the year reviewed, so that there was a slight decrease in the product per weighted unit of capital and labor. During the years 1954–62 productivity in this sector went up at an average annual rate of 4.5 percent, accelerating in 1963 and 1964 to 5.5 percent.

The decline in the gross domestic product of agriculture, where input increased by more than 1 percent, was reflected by a decrease in factor productivity. Productivity fell off 2 percent, whereas in the last few years it had increased at a fairly rapid rate (by about 5 percent in 1962 and 7 percent in 1963 and 1964).

In industry the rising trend in factor productivity continued in 1965. Real product advanced by 10 percent and gainful employment by 1.3 percent, so that the growth in product per gainfully employed came to approximately

8.5 percent. Factor productivity in industry thus rose by 6.5 percent during the year under review, a rate similar to that of 1963 and 1964.

Estimates of productivity are affected by changes in the utilization of capital, the quality of the labor force and equipment, and weather conditions, especially in agriculture. Moreover, the overall productivity figure does not properly reflect the changes in the rate of unemployment. Despite these shortcomings, the changes in factor productivity may serve as a very rough indicator of the extent to which the limited productive factors at the economy's disposal are being exploited. It appears that in this respect there was a certain retreat in 1965, as reflected by the slight increase in the number of persons seeking work[1] and the slower rise in productivity.

The accelerated rise in factor productivity in recent years and its deceleration in 1965 do not point to the optimum exploitation of the factors of production available to the economy.

In the first phase of the import liberalization program, the effective exchange rates fixed for various import items ranged from IL 4.50 to IL 10.00 per dollar. On the other hand, the effective rate of exchange for most export items closely approximated the official rate. This means that the economy allocated too many productive factors to dollar-saving branches protected by high tariff walls, while allocating too few to dollar-earning export branches.

The continued reduction of the big differentials in the effective exchange rates for the different commodity imports, as well as the gap between the average effective exchange rate for imports and that for exports, may help to speed up economic growth in the long run, both through the more efficient utilization of the available productive factors and by increasing effective demand for the goods produced.

5. Incomes

(a) *Private income*

National income reached IL 8,209 million in 1965 — a 19 percent gain over 1964. This is a higher rate than in 1964 but below the average for the 1960–64 period. During the year reviewed public sector income from property, interest, and dividends rose to a lesser extent than national income, whereas private income from the production of goods and services rose somewhat faster.

Revenue from direct taxes[2] aggregated 24 percent more than in 1964—i.e. a rather faster growth than that in income. National Insurance contributions went up conspicuously following the institution of insurance for employees' children and the raising of the "ceiling" wage on which National Insurance is

[1] See note [1] to section 1(a) above.

[2] Income tax, Absorption Loan, compulsory saving, and National Insurance contributions.

Table II–8

PRIVATE SECTOR INCOME, 1960–65

(IL million)

	1960	1961	1962	1963	1964	1965	Percent increase or decrease (–) as against preceding year				
							1961	1962	1963	1964	1965
1. National income	3,418	4,025	4,755	5,931	6,922	8,209	17.8	18.1	24.7	16.7	18.6
2. Public sector income from property	92	101	129	145	184	200	9.8	27.7	12.4	27.0	8.9
3. Private income from economic activity (1–2)	3,326	3,924	4,626	5,786	6,738	8,009	18.0	17.9	25.1	16.5	18.9
Less:											
a. Income tax	316	376	490	641	815	995	19.0	30.3	30.8	27.1	22.2
b. Absorption Loan and compulsory saving	—	4	57	100	101	127	—	—	75.4	0.6	26.6
c. National Insurance contributions	103	126	146	162	181	234	22.3	15.9	11.0	11.4	29.6
4. Total compulsory payments (a+b+c)	419	506	693	903	1,096	1,357	20.8	37.0	30.3	21.3	23.8
5. Transfer payments, net	233	263	328	406	577	714	12.9	24.7	23.8	42.0	23.7
6. Total compulsory payments less transfer payments (4–5)	186	243	365	497	520	643	30.6	50.2	36.2	24.4	23.9
7. Disposable private income from domestic sources (3–6)	3,140	3,681	4,261	5,289	6,219	7,366	17.2	15.8	24.1	17.6	18.4
8. Private transfers from abroad	338	383	689	810	787	736	13.3	79.9	17.6	–2.8	–6.5
9. Total disposable private income (7+8)	3,478	4,064	4,950	6,099	7,006	8,102	16.8	21.8	23.2	14.9	15.6

deducted. Transfer payments from the public sector to households moved up at a slightly higher rate than private income. The growth of disposable private income from domestic sources in 1965 was similar to the percentage increase in total gross income.

Because of the progressive nature of direct taxes, the expansion of revenue from this source as incomes go up is always relatively greater than the rise in incomes, so that the weight of taxes within total income increases. Thus we find that the weight of direct taxes within private income rose from 12.5 percent in 1960 to 17 percent in 1965. Between 1964 and 1965 the weight of direct taxes within total tax revenue edged up from 48 to 50 percent.

The public sector directly absorbed some 17 percent of private sector income in 1965, as compared with 16 percent in 1964, but pumped back into the private sector, by means of transfer payments (chiefly to nonprofit institutions), over 7 percent of this revenue. Thus disposable private income constituted in 1965 approximately 92 percent of total private income from economic activity.

Foreign transfers to the private sector, which include transfers of private individuals, immigrants, and nonprofit institutions, declined by IL 50 million, or about 6 percent, and totalled IL 736 million. Most of the decrease was in transfers to households. Disposable private income from all sources advanced by 15 percent—i.e. less than private income from domestic sources.

Foreign transfers augmented disposable private income by 11 percent in 1965, compared with some 14 percent the year before.

Transfer payments from the rest of the world exceeded revenue from taxes and compulsory payments. In other words, even after the public sector withdrew some 10 percent of its income in the form of taxes and compulsory payments (net), the private sector was left with purchasing power exceeding its contribution to current production. This has constituted one of the sources of mounting demand pressure in recent years.

(b) *Income originating in economic activity*

The net domestic product, at factor prices, increased by 18.5 percent in 1965 to reach IL 8,260 million. High growth rates were recorded in public sector services, transportation and communications, and in the finance, insurance, and real estate sector. On the other hand, the increase was relatively slow in agriculture and construction.

Income originating in agriculture was up 6.7 percent, roughly the same as in 1964 but well below the average of approximately 16 percent in 1961–63. The weight of agriculture within the total national product continued downward, standing at 8.5 percent as against some 12 percent in 1960.

On the other hand, income originating in the public sector jumped by about 29 percent. The weight of this sector within the total domestic product (19

Table II–9

NET NATIONAL PRODUCT AT FACTOR PRICES, BY ECONOMIC SECTOR, 1960–65

(IL million, at current prices)

Sector	1960	1961	1962	1963	1964	1965	Percent increase from 1964 to 1965
Agriculture, afforestation, fisheries	410	467	532	643	684	730	6.7
Industry, mining and quarrying	845	1,041	1,276	1,520	1,806	2,085	15.5
Construction	252	317	418	510	582	619	6.3
Electricity and water	80	95	109	126	146	174	19.4
Transportation and communications	281	335	416	502	608	758	24.6
Finance, insurance, and real estate	133	172	226	295	353	436	23.5
Housing	208	252	314	423	516	644	24.8
Public sector and nonprofit institutions	659	762	911	1,070	1,256	1,617	28.8
Commerce and personal services	656	773	938	1,122	1,319	1,559	18.1
Net domestic product at factor prices (before adjusting for inventory changes and depreciation)	3,524	4,215	5,140	6,212	7,269	8,621	18.6
Net domestic product at factor prices (adjusted)	3,444	4,079	4,839	5,970	6,972	8,264	18.5

percent) was greater than in 1963 or 1964, but similar to that during the years 1960–62.

Income originating in industry was 15.5 percent higher in 1965, but the contribution of this sector to the total domestic product remained the same.

GNP prices were approximately 10 percent above the 1964 level. Sectorial changes in relative GNP prices followed the same pattern—a further decline in the industrial product, and a continued rise in the commerce, finance, and service (private and public) sectors.

(c) *The return on productive factors*

Wage earnings[1] went up by some 21 percent in 1965; since this exceeded the 18.3 percent increase in national income, the weight of wages within national income moved up for the second straight year, reaching 52.4 percent—a similar level as in 1962 and slightly higher than the 1964 figure of 51.3 percent. Since 1962 the proportion of wage earners in the economy has risen from 68.7 percent of all gainfully employed to 70.6 percent. The big growth in the economy's wage bill in 1965 was due mainly to the way in which job classification was implemented in the public services (including Israel Railways and the Post Office). Another factor was the salary increases granted to personnel with academic qualifications and certain other employees following the reclassification of administrative and clerical staff. Wage incomes in the private sector[2] increased to a lesser extent than product—12 percent as against 16 percent.

For the economy as a whole, average wages per employee went up slightly more rapidly in 1965 than the product per gainfully employed—15.7 as against 15.0 percent. In the private sector, on the other hand, average wages per employee

Table II–10

NET NATIONAL PRODUCT AT FACTOR PRICES, BY ECONOMIC SECTOR, 1955–65

(percentages, at current prices)

Sector	Average annual increase			Weight in incremental NNP		
	1955–65	1955–60	1960–65	1955	1960	1965
Agriculture, afforestation, fisheries	13.9	15.4	12.2	11.2	11.6	8.5
Industy, mining, quarrying	17.9	16.0	19.8	22.3	24.0	24.2
Construction	15.5	11.3	19.7	8.1	7.1	7.2
Electricity and water	18.6	21.0	16.7	1.6	2.3	2.0
Transportation and communications	19.8	19.4	20.2	6.9	8.0	8.8
Finance, insurance, real estate	25.0	25.0	26.0	2.5	3.8	5.1
Housing	21.0	16.6	25.0	5.4	5.9	7.5
Public sector and nonprofit institutions	16.6	13.6	19.7	20.9	18.7	18.7
Commerce and personal services	15.9	12.9	18.9	21.0	18.6	18.1
Net national product at factor prices	17.5	15.4	19.6	100.0	100.0	100.0

1 Total wages and salaries, including fringe benefits, of all employees apart from the armed forces and Ministry of Defense personnel.

2 All sectors except for housing, public sector services, and nonprofit institutions.

rose by 10 percent, whereas product per gainfully employed advanced 13.5 percent at current prices. In industry the increases were 10.3 and 14.2 percent respectively, and in agriculture, 6.7 and 7.8 percent.

Provisional and partial data on hand indicate a slight decrease in the capital-product[1] ratio for the entire economy between 1964 and 1965, though this ratio remained unchanged in the private sector (where there was apparently a slight decline in industry and a rise in agriculture). The available data on changes in average wages, capital stock, and national product show that the average return per unit of capital in the economy as a whole held steady, but in the private sector the figure moved up, continuing the trend which began in 1962.[2]

It should be pointed out that the return per unit of capital cited here cannot serve as an indicator of profitability in relation to equity capital, since it includes—in addition to profit and dividends—interest, rent, and imputed wages of self-employed labor. Moreover, capital as here defined measures all fixed assets and not equity capital.

(d) *Distribution of incomes*

Provisional results of the saving survey carried out in 1963/64[3] make it possible to estimate the degree of equality in income distribution.

Table II–11 sets forth the share of each family[4] group in the survey population within total income, with the families classified according to income level.[5] The table shows that the families in the lower median (i.e. that half of the survey population in the lower income brackets) received approximately 24 percent of total gross income and about 27 percent of total net income. Those in the lowest tenth received only 1.6 percent of total gross income, and their average income came to about 6 percent of that of families in the highest tenth, which accounted for approximately 27 percent of total gross income. Income inequality among wage earners is less pronounced than that in the population

1 Total fixed capital, excluding inventory and land, at current prices; net national product at current prices.

2 See Bank of Israel Annual Report for 1964, Table II–10 and Diagram II–2.

3 The saving survey was carried out by the Bank of Israel and the Central Bureau of Statistics. It covered the urban Jewish population—i.e. some 80 percent of the country's total population—and the period from October 1, 1963 to September 30, 1964.

4 In this chapter, the term "family" refers to a unit as defined in the saving survey. This unit sometimes differs from the actual family, as it excludes those members aged 18 or more who live with their parents but keep over IL 1,200 of their annual earnings for their own use. The number of units as defined in the survey exceeded the actual number of families by approximately 5 percent.

5 Gross income includes all current income of the unit studied (before deduction of taxes and contributions to pension and provident funds) from employed work, business profits, independent work, rent, dividends, interest, and current transfer payments (such as welfare payments and grants). One-time receipts are not included.

as a whole. Moreover, Table II–11 shows the effect of progressive taxation on income distribution. The share of the lower groups in total disposable income is greater than their share of total gross income, while the reverse applies to the upper income groups.

Table II–11

DISTRIBUTION OF INCOME, 1964

Decile	Total population				Wage earners			
	Gross income		Net income		Gross income		Net income	
	Percent of total income	Average annual income (IL)	Percent of total income	Average annual income (IL)	Percent of total income	Average annual income (IL)	Percent of total income	Average annual income (IL)
First	1.6	1,061	1.8	1,015	2.4	1,689	2.7	1,659
Second	3.5	2,309	4.0	2,230	4.3	3,074	4.8	2,954
Third	5.0	3,331	5.6	3,157	5.8	4,159	6.4	3,882
Fourth	6.5	4,322	7.1	4,007	7.0	5,010	7.6	4,636
Fifth	7.8	5,216	8.6	4,775	8.0	5,750	8.6	5,232
Sixth	9.4	6,063	9.7	5,430	9.2	6,579	9.7	5,888
Seventh	10.4	7,130	11.3	6,280	10.8	7,702	11.1	6,760
Eighth	12.9	8,532	13.0	7,300	12.8	9,126	12.7	7,757
Ninth	16.0	10,653	15.7	8,748	15.5	11,104	15.0	9,157
Tenth	26.9	17,906	23.2	13,008	24.2	17,305	21.3	13,004
Total	100.0	6,652	100.0	5,596	100.0	7,150	100.0	6,093

SOURCE: 1963/64 saving survey.

The income differentials among families are caused by many factors, the most important of which are educational level, occupation, property ownership, and the age of the family head. In Israel, a connection has also been found between length of residence in the country and the level of income. Overall income inequality is the combined result of the differences in income level due to the factors enumerated above and the composition of the population classified accordingly.

As may be seen from Table II–12, there are differences in the average income per family arising out of the occupational and employment status of the family head. The average annual income of families headed by workers[1]—unskilled, skilled, and semi-skilled—totalled IL 4,820, or about 54 percent of the average income of families headed by professional workers. In the executive, administrative, and clerical group, the proportion was 85 percent, while members

[1] Because of conceptual, reporting, and classification difficulties, all classes of workers—from the unskilled to the most highly skilled—have been lumped together.

Table II–12

AVERAGE ANNUAL INCOME PER FAMILY UNIT, BY OCCUPATION OF FAMILY HEAD, 1964

Major occupation group	Gross income (IL)	Income of family head from wages (IL)	Indexes: Gross income		Indexes: Income of family head from wages	
Skilled and unskilled workers	5,688	4,817	54	86	61	115
Executive, administrative, and clerical workers	8,938	7,169	85	135	90	171
Members of cooperatives	10,819	9,726	102	163	122	232
Professional workers	10,561	7,957	100	159	100	190
Total[a]	6,633	4,191	63	100	53	100
Employers of four or more workers	20,083	—	190	303	—	—

[a] Including all wage earners.
SOURCE: 1963/64 saving survey.

of cooperatives[1] had a slightly higher average income than professional workers.

As already mentioned, the unit's income consists of the earnings of the family head from his main job, income from additional work and that of other breadwinners, social insurance benefits, and income from property, interest, dividends, pensions, and provident payments.

Among wage earners and members of cooperatives, the share of the unit's income provided by the family head ranges from 75 percent of the total (in the case of professional workers) to 90 percent (in the case of cooperative members). In two groups there is a striking difference between the total income of the family unit and the income of the family head from his main job. Whereas income from the main source of livelihood among professional workers is 1.6 times greater than among skilled and unskilled workers, the total income of the family unit in the former group is 1.8 times greater than that in the latter. On the other hand, the difference between the income from the main job of members of cooperatives as compared with that of skilled and unskilled workers and that of the executive, administrative, and clerical group is greater than the difference between the total income of the respective family unit groups.

Differentials in annual income levels have also been found to result from length of residence in the country. As Table II–14 brings out, average income per family in all origin groups rises the longer the duration of residence. This can

[1] The saving survey data on this group must be treated with considerable reserve, since its weight within the total survey population is very small, and there may have been a large sampling error.

Table II-13

AVERAGE ANNUAL GROSS INCOME PER URBAN FAMILY UNIT, BY AGE OF FAMILY HEAD, 1964

Age	Gross income per family[a]			Average wage income of family head[b]	
	Percentage distribution of units	IL	Index	IL	Index
18–25	8.1	4,405	66	3,780	65
26–34	16.0	7,231	109	6,162	105
35–44	23.3	7,886	119	6,738	115
45–54	22.2	7,575	114	6,147	105
55–64	13.1	6,133	93	5,694	97
65+	—	4,093	62	3,756	64
Total	100.0	6,633	100	5,858	100

[a] Entire population.
[b] Wage-earning families only.
SOURCE: 1963/64 saving survey.

apparently be attributed to the process of immigrant absorption, the newcomers' economic contribution increasing in proportion as he learns the language, acquires a skill, and acclimatizes to the general conditions in the country.

The average income of families who arrived during the years 1948–54 was 72 percent of that of families who immigrated before 1948. The average income of those who immigrated after 1954 was only 57 percent of that of families who arrived before 1948. As Table II–14 indicates, income differentials arising from length of residence in the country exist in all origin groups, but are more pronounced among immigrants from Europe and America. Among the reasons for this should be noted the disparities in educational levels between immigrants arriving in different periods, and the different occupational structures of the various groups.

Average income per unit differs in the various age groups. Among those aged 18–25 it came to about IL 4,400 in 1964, or roughly 66 percent of the average income per family in the entire population. In the 35–44 group the figure was nearly IL 7,900, or some 19 percent above the average for the whole population. In the 65+ group it fell to about 62 percent of the average, and amounted to only half of that in the 35–44 group (see Table II–13).

The income distribution also reveals striking differences between the various ethnic groups. The income of families of Afro-Asian origin amounted to about 63 percent of that of families coming from America or Europe. As may be seen in Table II–14, this difference exists in all length-of-residence groups, although in varying degrees: it is greatest in the case of veteran residents and smaller in the case of new immigrants, among whom the average income of Afro-Asian families in 1964 was approximately 80 percent of that in the European-American group.

The divergences in the average per capita income of families in the different origin groups are wider than those in total family income, regardless of the length of residence in Israel. Per capita income of persons originating in Asia or Africa was only some 44 percent of that in the European-American group.

Table II–14

AVERAGE ANNUAL INCOME PER FAMILY, BY CONTINENT OF ORIGIN AND LENGTH OF RESIDENCE IN ISRAEL, 1964

(IL)

Continent of origin and period of immigration	Income per family		Income per capita		Index of gross income per family
	Gross income	Net income	Gross income	Net income	
Asia and Africa					
1947 or earlier	5,304	4,569	1,478	1,273	100
1948–54	4,959	4,511	1,153	1,049	94
1955 or later	4,226	3,919	956	887	80
Total	4,823	4,368	1,143	1,035	91
Europe and America					
1947 or earlier	9,008	7,128	3,139	2,484	100
1948–54	6,916	5,857	2,275	1,927	77
1955 or later	5,354	4,685	1,899	1,661	59
Total	7,603	6,240	2,595	2,130	84
Average income of Afro-Asian immigrants as a percentage of that of European-American immigrants					
1947 or earlier	59	54	47	51	—
1948–54	72	77	51	54	—
1955 or later	79	84	50	53	—
Total	63	70	44	49	—

SOURCE: 1963/64 saving survey.

The income differentials discussed above may be largely explained by basically economic factors, such as the level of education, occupation, and duration of residence in the country. These factors, as already mentioned, have a bearing on the individual's contribution to the country's economy and hence their relative income. However, any possible economic explanation of these disparities cannot obscure the problem reflected by the figures cited above—the absorption and integration of persons of different ethnic background and length of residence in the country.

Between 1950/51 and 1959/60 the inequality of income distribution widened appreciably. The mass immigration of the early years of statehood and its occupational and educational structure were presumably among the factors which, together with social factors, tended to accentuate this inequality.[1] The data available (both from the 1963/64 survey of expenditure of urban wage-earning families and the 1964 saving survey) suggest that this inequality in income distribution is growing, though apparently rather more slowly than during the years 1951–59 (see Table II–15). Moreover, there are no distinct signs that the gap between the income levels of the different origin groups has been narrowed in recent years.

Table II–15

INDEXES OF INEQUALITY IN THE DISTRIBUTION OF GROSS INCOME (D INDEX[a])

Year	Saving surveys		Surveys of expenditure of urban wage-earning families	
	Total population	Wage earners	Year	D index
1954	0.232	0.199	1950/51	0.144
1957/58	0.278	0.211	1956/57	0.191
1964	0.294	0.224	1959/60	0.218
			1963/64	0.245

[a] The D index is a synthetic index which measures income inequality by the sum of the absolute deviations between the percentage distribution of income and the percentage distribution of families. The index stands at 0 when there is perfect equality of income distribution, and at 1 when there is perfect inequality.

No quantitative data are available on changes in the degree of inequality in 1965 as compared with the previous year. In 1965 average income per wage earner went up by approximately 17 percent, but the rise was far from uniform: in the public services it came to nearly 26 percent, while in several sectors it amounted to only 7–8 percent.

[1] See Giora Hanoch, "Income Differentials in Israel", Fifth Report, Falk Institute for Economic Research in Israel, Jerusalem, 1961.

The wage rises granted in 1965 presumably increased still further the inequality of income distribution among wage earners, though no conclusions can be drawn about the change for the population as a whole.

In 1965 the recommendations of the Zadok Committee, appointed to examine the income tax structure, were implemented, and tax refunds, retroactive to April 1964, were paid accordingly. Since the revision of the system of taxation reduced the progressiveness of direct taxes, its effect was to increase the inequality in the distribution of disposable income among taxpayers. It is doubtful whether this was offset by developments working in the opposite direction.