CHAPTER V

DOMESTIC INVESTMENT

1. Main Developments

Gross domestic investment totalled IL 2,860 million in 1965, a real decline of 6 percent as compared with 1964. This brought down its weight within total domestic uses from 27.1 to 23.4 percent.

Net investment contracted by 14 percent. Depreciation, which constitutes the difference between gross and net investment, has been increasing at a uniform rate from year to year—more or less in proportion to the growth of the economy's fixed capital stock. Consequently, fluctuations in gross investment are reflected by much sharper fluctuations in net investment (see Table V–1).

The decline in investment followed a year which showed a faster growth rate than in any other recent year and considerably faster than the annual average for this period.

The fluctuations in the growth rate in recent years can be attributed mainly to two items which display a highly erratic movement—inventories and ships. Investment in inventories (raw materials and finished products) is much more liquid than that in fixed assets, and is inherently more sensitive to changes in the state of expectations and in financing conditions.[1] In 1964 there was a large buildup of inventories, while in 1965 there was virtually none whatsoever.[2] The irregularity of investment in ships is due to the size of the individual items purchased; another characteristic feature is the decisive weight of the public sector in such investment.

Exclusive of these two items, fluctuations in the volume of investment are much less sharp: in 1965 there was a real increase of 2 percent (in contrast to the 6 percent decline in the aggregate figure, following a rise of 14 percent in 1964 (22 percent in the global sum). Here too it is generally possible to differentiate between the two different types of investments: those made by the private sector out of profit considerations (though the public sector influences such investment as well by virtue of the fact that it is one of the sources of financing and grants various investment incentives), and the direct investments of the public sector and its subsidiaries. Among the latter type, there is inevitably a high proportion in which considerations of profitability are not the paramount factor, but the needs of the economy as a whole.

[1] The reference, of course, is to deliberate investment. There may also be changes in inventories as a result of a marked change in demand.

[2] The 1965 inventory investment estimate is almost certainly overstated, as is explained below.

Investments governed largely by policy considerations of the public sector are those in electric power, mineral extraction, irrigation, and transportation and communications (apart from motor vehicles, ships, and aircraft). To these should be added the public services, where, together with the public sector itself, the nonprofit institutions play an important role, accounting for about a quarter of all capital expenditure. In all these branches together, real investments expanded by 4 percent in 1965. However, such investments are characterized by an irregular trend, as they are concentrated in big projects. This is reflected by drastic changes in the composition of the investments from one year to another. In 1965 outlay on irrigation and mining and quarrying was substantially lower than in the previous year, while that in electric power generation was considerably higher. Investment in transportation and communications was up 5 percent, but its composition was radically different.

The small real increase in 1965 must be viewed against the background of the rapid expansion during the three preceding years, when the figure soared 75 percent.

Sectors in which private investors predominate—industry, commerce, and personal services—also showed a much slower increase, or even a decrease, in capital outlay. This was most striking in industry, where the figure went up relatively slowly even in 1964 and actually declined by 1 percent in 1965.[1] (It should be pointed out that data for this sector are less reliable than for the others.) In the course of 1965 economic activity began to slacken, owing to the weakening of demand pressure, and this was reflected by the virtual disappearance of labor shortages and a slight rise in unemployment. However, it is inconceivable that the repercussions of this change were felt in investment activity in the same year. The last two years witnessed a marked slowdown in monetary expansion and a decline in liquidity, which found expression by driving up the interest rate on bank-negotiated bill credits.[2]

No direct data are available on changes in the cost of capital and profitability in industry and the services. But the relative decline in recent years of industrial investments as compared with those in commerce may indicate that there has been a change in the relative profitability of these sectors to the detriment of industry, and this because of the fairly effective application of price controls against it while the service sectors were free of such control. Another possible indication of this is the fact that prices of industrial shares fell much more steeply than those of financial and insurance shares (even though industrial shares were much less affected by the speculative boom of 1963), so that the level of industrial shares is now much lower, relative to financial shares, than it was at the beginning of 1962.

The commerce and services sector consists of two main components—business

[1] The estimate very likely has an upward bias, as is explained below.

[2] See Chapter VI, "Prices", p. 114, note 2.

Table V-1

GROSS AND NET INVESTMENT, 1960–65

	1960	1961	1962	1963	1964	1965
			IL million			
At current prices						
Gross investment in fixed assets other than housing	786	1,002	1,325	1,534	1,952	1,963
Gross investment in housing	347	472	670	682	790	853
Investment in inventories	86	92	125	103	182	47
Total gross investment	1,219	1,566	2,120	2,319	2,924	2,863
Less: Depreciation[a]	364	441	626	752	859	1,002
Total net investment	885	1,125	1,494	1,567	2,045	1,861
Percentage of gross investment within total domestic uses	—	—	27	25	27	23
At 1964 prices						
Gross investment in fixed assets other than housing	1,162	1,339	1,448	1,584	1,952	1,886
Depreciation on fixed assets other than housing	398	444	514	590	655	739
Net investment in fixed assets other than housing	764	895	934	994	1,297	1,147
Gross investment in housing	490	595	743	717	790	812
Depreciation on housing	142	154	168	186	204	223
Net investment in housing	348	441	575	531	586	589
Total gross investment in fixed assets	1,652	1,935	2,191	2,300	2,742	2,698
Investment in inventories	117	106	131	104	182	46
Total gross investment	1,769	2,041	2,322	2,404	2,924	2,744
Less: Depreciation	539	599	682	776	859	962
Net domestic investment	1,230	1,442	1,640	1,628	2,065	1,782

[a] The figures for depreciation differ somewhat from those cited in Chapter II, "Resources, Uses, and Incomes", since the calculation here is based on a more detailed classification by economic sector and type of asset.

Table V–1

GROSS AND NET INVESTMENT, 1960–65 (cont.)

	1961	1962	1963	1964	1965
			Percentages		
Annual real increase					
Gross investment in fixed assets other than housing	15	8	9	23	–3
Depreciation on fixed assets other than housing	12	16	15	11	13
Net investment in fixed assets other than housing	17	4	6	31	–12
Gross investment in housing	22	25	4	10	3
Depreciation on housing	9	9	11	10	10
Net investment in housing	27	30	8	10	1
Total gross investment in fixed assets	17	13	5	19	–2
Investment in inventories	–10	24	–20	74	–75
Total gross investment	15	14	4	22	–6
Less: Depreciation	11	14	14	11	12
Total net investment	17	14	–1	27	–14
Gross investment in fixed assets other than ships and aircraft	15	18	8	14	2
Net investment excluding ships and aircraft	14	12	3	19	–10

SOURCE: Central Bureau of Statistics.

establishments and hotels and other guest accommodation. Investment in the former also expanded more slowly in 1965, following a very rapid growth of over 30 percent during the two preceding years. However, most of this investment is in buildings, and construction is generally initiated not by the investor or the final user but by the building contractor. The measurement of investment in buildings reflects the current outlay on their construction and not buildings actually transferred to users in the sector. It is therefore noteworthy that the data on building completions show a rise of 24 percent in 1965. But as in the case

Table V-2

INVESTMENT, BY ECONOMIC SECTOR, 1959-65

(IL million, at 1964 prices)

	1959	1960	1961	1962	1963	1964	1965
A. Sectors where public investments predominate							
Mining and quarrying, irrigation, electricity, and transportation[a]	232	223	269	399	417	500	504
Percent increase	—	-4	21	48	5	20	1
Public services	196	241	245	271	338	400	429
Total	428	464	515	670	755	900	933
Percent increase	—	8	11	30	13	19	4
B. Sectors where private investments predominate							
Industry	311	309	319	358	405	436	434
Percent increase	—	-1	3	12	13	8	-1
Commerce and hotels and other guest accommodation	31	47	84	77	84	100	107
Total	342	356	403	435	489	536	541
Percent increase	—	4	13	8	12	10	1

[a] Excluding motor vehicles, ships, and aircraft.

of construction activity in general, the expansion here in recent years apparently outstripped the growth of demand, as is reflected by the accumulation of a stock of vacant buildings by contractors and the more sluggish pace of construction in 1965.

In agriculture the long-run trends characteristic of recent years persisted. In most branches investment continued downward, this being particularly conspicuous in the net investment and in the growth of the stock of capital assets. A striking exception was agricultural machinery and equipment, which showed a big increase.

Outlay on housing declined by 3 percent. Most of the expenditure went to complete the large number of buildings begun in the preceding year. In the second half of 1965 building starts fell off precipitately, following an artificial spurt toward the end of 1964 and the beginning of the year reviewed.[1]

The gross nondwelling capital stock expanded by 10 percent, compared with over 11 percent in 1964. The 1965 rate was also lower than that of other recent years, the average for the period 1959-63 being 11 percent. Gross investment in fixed assets was roughly the same as in 1964 (a decline of 3

[1] See Chapter XIII, "Construction and Housing".

percent), but the volume of discards is rising at a rapidly accelerating though not uniform pace.[1] This constitutes a long-run trend reflecting the aging of assets acquired during past periods of marked growth in gross investment. Capital stock per gainfully employed went up approximately 8 percent, following an increase of 6 percent in 1964. This expansion reflects two developments: the big rise in investment in 1964, which enlarged the average stock of fixed assets at the disposal of the economy in 1965 somewhat more rapidly than in the preceding year, and the slower growth of employment during the year under review.

Investment prices moved up by an average of 4 percent, as compared with 3.5 percent in 1964. As in 1964, the steepest rise (5 percent) was in buildings. The rise in equipment prices was greater than in 1964—3 percent as against only 1 percent—owing chiefly to the resumption of the uptrend in industrial output prices. Imported equipment likewise showed a slightly faster price advance than in 1964—about 2.5 percent as against 1 percent.

Data on public financing of domestic investment indicate an increase in the proportion of funds made available from public sources in 1965. However, the higher figure may be partly due to a faulty estimation.[2] The rise followed several years of steady and steep decline, and does not seem to indicate a change in the mode of financing in the various sectors, but rather a change in the sectorial composition of investment: in 1965 the proportion of those types of investments generally financed largely from public sources increased, while that of investments financed from other sources (or financed to only a limited extent from public funds) decreased.

The declining weight of public financing within total industrial and other private sector investment (most private investments are made in industry) in recent years, including 1965, can be partly attributed to an institutional change of a formal, technical nature. The reference is to the growing delegation of the function of investment-capital mobilization in the last few years to various financial institutions. However, the Government retains a considerable measure of control over most sources of funds at the disposal of these institutions, and decisively influences their activities. Thus the decline in the share of public financing does not necessarily reflect a corresponding decline in the influence of the public sector upon the direction of domestic investments.

Investments from abroad were down by a substantial 29 percent (see Table V–3). At the same time, there was a marked increase in the liquidation of foreign residents' investments, and if this is taken into account, the total decline comes to approximately 40 percent.

After the 1962 devaluation foreign investment soared, trebling over a two-

[1] See p. 83, note 3. The data in this chapter differ from those cited in Chapter XIX, "Saving".

[2] See section 7 below.

Table V–3

GROSS FOREIGN INVESTMENT IN ISRAEL AND LIQUIDATION OF FOREIGN INVESTMENTS, 1957–65

	Gross foreign investment in Israel	Percent increase or decrease (–)	Liquidation of foreign investments	Net foreign investment in Israel	Percent increase or decrease (–)
1957	19				
1958	14	–26			
1959	25	79			
1960	55	120			
1961	63	15			
1962	96	52			
1963	173	80	10	163	
1964	174	1	17	157	–4
1965	124	–29	26	98	–38

year period. This development was to be expected: devaluation immediately increased the value of foreign currency in terms of Israeli pounds, and there was also reason to fear that the steady rise of prices would gradually whittle away this advantage. In addition, the expectation of a change in the exchange rate caused many to defer the transfer of capital to Israel, and it was only natural for the volume of such transfers to go up sharply after devaluation. But there was another contributory factor—the boom in the real estate and share markets, which began shortly after the devaluation and continued throughout most of 1963. It seems that a considerable portion of the incremental foreign investment in 1962 and 1963 was earmarked for the purchase of existing shares on the Tel Aviv Stock Exchange and real estate. The end of this boom in 1964 discouraged investments from abroad and led to the liquidation of property investments in this country. Attesting to the role of the real estate and share markets in foreign investments during these years is the fact that the biggest decrease was in transfers of capital in cash, while transfers in the form of goods and the ploughing back of profits remained at almost the same level as before (see Table II–14).

2. Investment, by Economic Sector

Gross domestic investment in fixed assets fell off by 3 percent in real terms during 1965, following an increase of 23 percent in 1964.

Net investment decreased to a greater extent—12 percent—after having expanded by 31 percent in 1964. These fluctuations were largely caused by the sharp drop in purchases of ships, which followed an even bigger increase in such purchases in 1964. Excluding this item, gross investment increased by 1 percent, as compared with 16 percent in 1964.

The sectorial analysis of changes in the volume and composition of investment reveals an uneven pattern, reflecting the prominent share of large-scale projects, and long-range trends modifying the weight of the different sectors in gross investment and the capital stock.

In those areas of the economy where the public sector is directly active or exerts a decisive influence (electric power, irrigation, mineral extraction, transportation and communications,[1] and public services), real investment expanded by 4 percent in 1965. This followed a rapid growth of 75 percent during the three preceding years. Sharp fluctuations are typical of such investments, and recent years have witnessed marked changes in their relative shares within total capital expenditure.

The investment trends are reflected by changes in the sectorial composition of gross and net investment and the gross and net stock of capital assets (changes in the latter are inherently much slower). The net investment figure indicates the changes occurring in the aggregate production potential of the economy's capital assets (as distinct from current productive capacity, which does not take into consideration the remaining economic life of the existing equipment).[2] There have also been marked changes in the ratio between discards and gross investment, and these are reflected in the changes in the composition of the incremental capital stock.[3]

In agriculture, irrigation, and industry, the weight of both gross and net investment has been falling in recent years (see Table V–8).

The decline in agricultural investment is a long-run trend, which also finds expression in the striking decrease in the weight of agriculture in the economy's total stock of capital assets. This development is due to the existence of surplus productive capacity and the restriction of production. Agriculture's share of aggregate net investment has dropped even more steeply, indicating that this is an old-established sector, where the weight of capital stock and depreciation relative to gross investment is high.

[1] Exclusive of automotive vehicles, ships, and aircraft.

[2] For a detailed discussion see A. L. Gaathon, *Capital Stock, Employment, and Output in Israel, 1950–1959,* published by the Bank of Israel, 1961, Chapter 1, section (a).

[3] Discards are defined as assets withdrawn from use because of obsolescence. There are no direct data on discards, the estimate being based on assumptions concerning the average life of equipment and buildings in the different sectors. The reliability of the estimate depends, of course, on the degree to which these assumptions accord with reality. But there is a further problem: the discarding of capital assets may also be influenced by economic factors. Consequently, estimates of annual changes in the volume of discards should be treated with considerable reserve. The data on discards can more reliably serve as an indicator of long-run trends. These reservations apply equally to estimated changes in the gross capital stock, which are based on the estimated volume of gross investment and of discarded assets. A discussion of these points will be found in A. L. Gaathon, "Growth of Gross and Net Capital Stock and Their Interrelationship", *The Economic Quarterly,* No. 50, Tel Aviv (Hebrew).

Table

GROSS DOMESTIC INVESTMENT, BY

(IL

	1960				1961					
	Build-ings	Equip-ment	Farm output	Total	Build-ings	Equip-ment	Farm output	Total	Build-ings	Equip-ment
									A. At current	
Agriculture	35	29	63	127	30	37	63	130	30	50
Irrigation	52	5		57	64	6		70	101	10
Industry and construction	50	143		194	69	177		247	78	250
Mining and quarrying	9	6		15	11	17		28	30	35
Electricity	18	20		37	19	22		41	26	51
Transportation and communications	33	122		155	49	185		234	67	211
Excl. mobile transport equipment	*33*	*14*		*47*	*49*	*17*		*66*	*67*	*44*
Automotive vehicles		*41*		*41*		*67*		*67*		*102*
Ships and aircraft		*66*		*66*		*102*		*102*		*67*
Business establishments, hotels and other guest accommodation	23	60		202	45	77		252	46	106
Public buildings	119				131				163	
Total, excl. housing	338	384	63	786	417	522	63	1,002	540	714
									B. At 1964	
Agriculture	47	47	88	182	37	57	80	173	33	56
Irrigation	70	7		76	79	7		86	111	11
Industry and construction	71	238		309	88	231		319	88	269
Mining and quarrying	12	10		22	14	25		39	33	38
Electricity	25	32		57	24	32		57	29	55
Transportation and communications	46	183		229	62	274		336	75	220
Excl. mobile transport equipment	*56*	*23*		*68*	*62*	*25*		*88*	*75*	*47*
Automotive vehicles		*52*		*52*		*82*		*82*		*66*
Ships and aircraft		*108*		*108*		*167*		*167*		*106*
Business establishments, hotels and other guest accommodation	32	90		289	56	109		329	52	116
Public buildings	166				164				181	
Total, excl. housing	469	606	88	1,162	525	735	80	1,339	601	766
Total, excl. housing, ships, and aircraft	469	498	88	1,054	587	569	80	1,173	601	659

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

V–4

SECTOR AND TYPE OF ASSET, 1960–65

million)

1962		1963				1964				1965			
Farm output	Total	Build-ings	Equip-ment	Farm output	Total	Build-ings	Equip-ment	Farm output	Total	Build-ings	Equip-ment	Farm output	Total
prices													
72	152	34	43	63	140	34	55	72	160	26	62	72	161
	111	110	15		124	73	10		82	52	19		71
	328	88	308		396	123	313		436	111	339		450
	65	47	30		76	48	38		86	30	19		49
	77	27	37		64	32	31		63	37	75		112
	278	99	229		328	162	464		626	192	370		562
	110	*99*	*39*		*138*	*162*	*108*		*270*	*192*	*102*		*295*
	102		*140*		*140*		*181*		*181*		*178*		*178*
	66		*50*		*50*		*175*		*175*		*89*		*89*
	316	54 218	134		406	68 271	161		499	78 313	168		559
72	1,325	675	796	63	1,534	808	1,072	72	1,952	840	1,050	72	1,963
prices													
81	170	35	44	67	146	34	55	72	160	25	61	65	151
	121	114	15		129	73	10		82	50	18		68
	358	94	312		405	123	313		436	106	328		434
	71	49	31		80	48	38		86	29	18		47
	84	28	38		66	32	31		63	35	73		108
	295	104	232		336	162	464		626	182	361		543
	122	*104*	*39*		*143*	*162*	*108*		*270*	*182*	*99*		*282*
	66		*143*		*143*		*181*		*181*		*172*		*172*
	106		*50*		*50*		*175*		*175*		*89*		*89*
	349	57 229	137		422	68 271	161		499	75 298	164		536
81	1,448	709	807	67	1,583	808	1,072	72	1,952	799	1,022	65	1,886
81	1,342	709	757	67	1,534	709	897	72	1,777	799	933	65	1,797

Table V–5

CHANGES IN GROSS DOMESTIC INVESTMENT, BY SECTOR AND TYPE OF ASSET, 1963–65

(percentages)

	1963				1964				1965			
	Build-ings	Equip-ment	Farm output	Total	Build-ings	Equip-ment	Farm output	Total	Build-ings	Equip-ment	Farm output	Total
Agriculture	7	–12	–17	–14	-5	25	7	10	–25	11	–9	–6
Irrigation	3	39		6	–36	–35		–36	–32	87		–18
Industry and construction	6	16		13	31	1		8	–14	5		–1
Mining and quarrying	47	–20		11	–3	24		8	–40	–52		–45
Electricity	–3	–32		–22	13	–18		–4	10	135		72
Transportation and communications	39	5		14	55	100		86	13	–22		–13
Excl. mobile transport vehicles	*39*	*–18*		*17*	*55*	*176*		*88*	*13*	*–8*		*5*
Automotive vehicles	—	*116*		*116*	—	*27*		*27*	—	*–5*		*–5*
Ships and aircraft	—	*–53*		*–53*	—	*251*		*251*	—	*–49*		*–49*
Business establishments, hotels and other guest accommodation	10	18		21	19	18		18	10	2		7
Public buildings	26				18				10			
Total	18	5	–17	9	14	33	7	23	–1	–5	–9	–3
Total, excl. ships and aircraft	18	15	–17	14	14	18	7	16	–1	4	–9	1

In industry and mineral extraction the weight of gross and net investment has moved down to a lesser extent, though the drop was greater during the last two years. As in agriculture, the sector's share of net investment is smaller than that of gross investment. This can be ascribed to two factors: first, this too is an old-established sector, with a high proportion of capital assets relative to the annual investment figure; and secondly, a major component of industrial investment is equipment, and this has a much shorter economic life than buildings and hence is written off much faster. As a consequence, the proportion of discards relative to gross investment is much greater here, while a smaller share of gross investment is reflected by a net addition to the capital stock. In recent years the percentage of discards has risen conspicuously, as assets acquired in the early fifties are becoming obsolescent. This reflects the considerable expansion of industrial investment during those years as compared with the pre-State period.

Table V–6

GROSS AND NET INVESTMENT, BY SECTOR, 1960–65

(percentages)

	Gross investment			Net investment			Depreciation		
	1960–63[a]	1964	1965	1960–63[a]	1964	1965	1960–63[a]	1964	1965
Agriculture	12.1	8.2	8.0	9.3	4.6	3.9	44	56	70
Irrigation	7.4	4.2	3.6	8.7	4.6	3.0	27	42	50
Industry, mining and quarrying	29.0	26.7	25.5	24.2	21.7	19.3	45	47	54
Electricity	4.8	3.2	5.7	3.1	1.3	5.2	58	79	44
Transportation and communications	21.6	32.1	28.8	28.0	36.9	31.4	33	25	34
Commerce and services	25.1	25.6	28.4	32.6	31.5	37.2	16	19	20
Total	100.0	100.0	100.0	100.0	100.0	100.0	35	34	39

[a] Average.

Two sectors which have increased their share of gross investment in recent years are transportation and communications and the services. Their weight in net investment exceeds that in gross investment:[1] the proportion of discards relative to gross investment is also small here, and hence a larger proportion of gross investment represents an addition to the capital stock. These facts

[1] This is partly due to the method used for measuring public sector investments: depreciation is not deducted on buildings, installations, and roads, since it is assumed to be included in current maintenance costs. Hence the investment estimates for these items have a downward bias.

Table V–7

GROSS INVESTMENT, DEPRECIATION, AND NET INVESTMENT, BY SECTOR, 1960–65

(IL million, at 1964 prices)

	1960			1961			1962			1963			1964			1965		
	Gross investment	Depreciation	Net investment	Gross investment	Depreciation	Net investment	Gross investment	Depreciation	Net investment	Gross investment	Depreciation	Net investment	Gross investment	Depreciation	Net investment	Gross investment	Depreciation	Net investment
Agriculture	182	73	109	173	80	93	170	88	82	146	95	51	160	100	60	151	106	45
Irrigation	76	22	54	86	24	62	121	26	95	129	29	100	82	22	60	68	34	34
Industry, mining and quarrying	331	154	177	358	171	187	429	190	239	485	217	268	522	240	282	481	260	221
Electricity	57	34	23	57	36	21	84	39	45	66	43	23	63	46	17	108	48	60
Transportation and communications	229	78	151	360	87	249	295	111	184	336	132	204	626	147	479	543	183	360
Commerce and services	289	37	252	329	47	282	349	61	288	422	75	347	499	90	409	536	108	428
Total	1,162	398	764	1,339	444	895	1,448	514	934	1,583	590	993	1,952	655	1,297	1,886	739	1,147

reflect the rapid expansion which the two sectors have undergone in recent years.

(a) *Irrigation, mining and quarrying, electricity*

In these sectors the marked irregularity in the volume of investment is especially striking because of the predominant share of big projects. In irrigation the decline which began in 1964, following the completion of the National Water Carrier, continued. (The decline was even steeper in construction expenditure, since equipment was still purchased on a large scale in 1965.) The investment figure had gone up appreciably in 1962 and 1963, when work on the Carrier was at its peak.

In electric power generation large projects also account for much of the total capital outlay. Two big stations were erected at Ashdod and Haifa in 1962 and 1963, and upon their completion investment fell off. In 1965, however, there was a marked expansion, as work was started on another big station at Haifa.

Table V–8

INVESTMENT IN IRRIGATION, MINING AND QUARRYING, AND ELECTRIC POWER, 1959–65

(IL million, at 1964 prices)

	1959	1960	1961	1962	1963	1964	1965
Irrigation	65	76	86	121	129	82	68
Mining and quarrying	21	21	39	71	80	86	47
Electric power	59	57	57	84	66	63	108
Total	141	154	182	276	275	231	223

In mining and quarrying investment went up substantially during the three-year period 1962–64. The expansion of the Dead Sea Works (which accounted for two-thirds of the total investment in the sector) took place during these years. In 1965 this project neared completion, and hence the level of investment fell off.

(b) *Transportation and communications*

Investment in transportation and communications (other than automotive vehicles, ships, and aircraft) expanded considerably in 1962 and 1963. In 1964 the growth rate gathered further momentum, reaching an impressive 90 percent approximately. In 1965 the increase, as might have been expected, was much

Table V–9

INVESTMENT IN TRANSPORTATION AND COMMUNICATIONS, 1959–65

(IL million, at 1964 prices)

Branch	1959	1960	1961	1962	1963	1964	1965
Railway	6	3	6	3	4	11	16
Ports	6	11	13	24	29	63	57
Roads	24	23	34	38	54	72	91
Communications and traffic equipment	25	26	23	45	45	113	109
Miscellaneous[a]	36	6	12	10	12	10	9
Total	97	68	88	122	143	270	282
Passenger cars and commercial vehicles	30	41	67	91	124	158	148
Buses	7	11	15	16	18	23	24
Total automotive vehicles	37	52	82	106	143	181	172

[a] Airfields, oil and gas pipelines, storage, etc.

more moderate, amounting to only 5 percent. Here too there were considerable changes in the composition of investment. In 1961 expenditure on roads began to move up, and it continued in this direction almost uninterruptedly until 1965. The amount spent on postal installations, telephones, road traffic equipment, and other communication items went up appreciably during the years 1962–64, but declined slightly in 1965. Investment in ports began to mount rapidly in 1962, when work started on the new port at Ashdod, and reached a peak in 1965. With the completion of the first stage of the port in 1965, the figure receded.

Expenditure on automotive vehicles declined in 1965, after having moved up during the six preceding years at a faster rate than any other investment item in the economy. The biggest increase was in passenger cars, trucks, and other commercial vehicles, which account for most of such outlay. These investments were six times larger in 1964 than in 1958. Included in this item are passenger cars for "business purposes", which showed an even more rapid growth up to the last few years.[1] The reduction in automotive vehicle investment in 1965

[1] The distinction between passenger cars purchased for business and for consumption purposes is quite arbitrary. With the increase in purchases in recent years, the weight of the latter apparently went up. The estimates cited here have been adjusted accordingly.

occurred entirely in passenger cars, while spending on other types of vehicles continued upward at a fast rate. This change was caused by the raising of the tax on cars in September 1964. Expenditure on the latter was down 34 percent in 1965,[1] whereas that on other vehicles was 19 percent higher.

(c) *Public services*

This sector showed a marked gain in 1963 and 1964, but the growth trend slowed down during the year reviewed. Approximately half the investment here is made by local authorities (on school and office buildings, sewerage, water supply, public gardens, etc.)

About a quarter of the total volume is accounted for by nonprofit institutions (chiefly in the fields of health, science, and higher education). Such investment, which is financed mainly from foreign sources, expanded most rapidly in 1963 and 1964, after devaluation had greatly increased the local-currency value of foreign receipts.

(d) *Commerce and personal services*

The bulk of the investment in this sector, which comprises business establishments and hotels and other guest accommodation, is in buildings, with that in equipment amounting to between a quarter and a third of the total volume. Data here, on both aggregate investment and even more so its breakdown, are not very reliable.[2]

Contrary trends are discernible in this sector in recent years. Whereas investment in buildings for hotels and other guest accommodation trebled in 1961, in the following year the figure started to recede slightly. In 1965 it went up 10 percent, but still did not regain its level of 1961. Investment in commercial premises rose by 10 percent in 1965, following advances of 30 percent in 1964 and 36 percent in 1963. However, it must be borne in mind that, in contrast to investment in hotels (and industry), the initiative here does not come from the investor or final user, but the building contractor. Consequently, the data on investment in new construction, which measure the inputs in current construction work, do not represent the incremental stock of capital assets which the business sector actually acquired during the period concerned. The distribution of the incremental stock of capital assets over time thus differs from that of the actual investment in construction, the latter anticipating the former. Data on business premises completed show an increase

[1] This comparison obscures the influence of the change in the rate of tax, since the figure already started dropping sharply in 1964. In the quarter following the revision of the tax, purchases fell to about half their level in the first three quarters of 1964.

[2] The weight of investment in equipment is apparently smaller in the private than in the public services, since the latter include health and research institutions, which require intricate equipment.

of 24 percent in 1965, as against 48 percent in 1964.[1] Building starts had already begun to contract in 1964. There was an upsurge in the last quarter of 1964 and the first quarter of 1965, probably because of the impending building restrictions, but this was followed by a steep decline.[2]

Thus the fluctuating growth rate in the value of new construction does not necessarily reflect corresponding fluctuations in the demand for construction on the part of the services sector; it is an outcome of the method of measurement, which relates to the stages preceding the transfer of the buildings to their final economic destination. The fluctuations probably reflect the difference between the original expectations of the contractors and the actual demand, which caused an excess supply of new buildings and a downturn in construction activity.

At any rate, it should be noted that the value of new commercial premises constructed was 94 percent higher in 1965 than in 1962. Even if not all of this figure represents the value of additional premises made available to business, the growth is still impressive. Very likely it reflects a rise in the relative profitability of services, which were free of effective price controls.

(e) *Industry*

Gross industrial investment is estimated to have declined by 1 percent in 1965, following increases of 8 percent in 1964, 13 percent in 1963, and 12 percent in 1962. It should be recalled that the estimate for industry is less reliable that that for most other economic sectors.[3] Moreover, no branch breakdown is available.

In 1964 and 1965 the two components of industrial investment displayed disparate trends: whereas outlay on equipment held steady in 1964 and increased by 5 percent in 1965, investment in buildings soared by 31 percent in 1964 but fell by 14 percent in 1965. To be sure, the ratio between the two components should not always be expected to remain constant, and the inevitable time lag between investment in buildings and that in plant may cause a difference in trend between the two. However, the disparities discernible in recent years seem to be too large to be attributed exclusively to this factor.[4]

[1] Insofar as vacant buildings are left in the hands of contractors (a phenomenon which began to appear in 1964 and apparently became more frequent in 1965), these data do not reflect the incremental stock of capital assets actually purchased by the sector. Construction time is longer in the case of these buildings than for housing, so that completion figures may continue to rise despite the accumulation of a stock of empty buildings.

[2] A detailed description is given in Chapter XIII, "Construction and Housing".

[3] Investment in industrial equipment, which accounts for about three-quarters of the sector's total investment, is calculated as a residual, by subtracting the investment estimates for the other sectors from the aggregate figure. Hence all errors accumulate in the estimate for this sector, both those in the aggregate figures and those in the estimates for the individual sectors.

[4] Another factor that may partly explain the disparate trends is the slight rise in outlay on

Another possible reason is that construction in this sector as well has not always been initiated by the final investor or user; this applies especially to the erection by local authorities of artisans' centers and industrial buildings (which are made available on a rental basis). In this type of construction a surplus stock has apparently been accumulated. Supporting this assumption is the steeper decline in the area of industrial buildings started, a trend which began at the end of 1964.

Investment in raw material and other inventories contracted appreciably during the year under review. In 1964 there had been a large buildup of inventories, but in 1965 this all but ceased and the investment figure went down to virtually nil.

The slower increase in industrial investment in 1964 and 1965 followed two years of relatively rapid growth. The fluctuations typical of investment activity may have been one of the factors in the slowdown. The marked intensification of industrial operations and the expectations which it engendered may have spurred such a rapid expansion of capital expenditure that when the new investments began to mature in 1964, the incremental productive capacity matched or even exceeded the anticipated increase in demand, with the consequence that investment subsequently slowed down.

In recent years price restraints have been applied to industry, and until the last months of 1964 increases were generally prevented.[1] As of the last quarter of 1964, price increases were permitted where justified by a rise in production costs,[2] but the system of price controls *per se* was not abolished. Simultaneously with the existence of administrative restraints, costs continued to climb. On the other hand, productivity apparently went up to a greater extent than in the past. The data available do not permit the drawing of conclusions about industrial profitability trends. However, it should be remembered that investment activity is affected, first and foremost, by future prospects, so that the maintenance of price controls during a period when input prices were advancing may have introduced an additional element of uncertainty which discouraged investments.

construction equipment in 1965. Because of statistical difficulties, the construction sector's expenditure on equipment is included with industrial investment. No data on the volume of such investment are available, but the slight rise in purchases of construction equipment and the steep decline in expenditure on equipment by the mining and quarrying sector (which is the other main buyer of building and earthwork equipment) suggest a rise in the investment of the construction sector. In other words, the estimated percentage growth of outlay on industrial equipment apparently has an upward bias.

[1] Excluding, of course, camouflaged price increases and those not lending themselves to control, as in the printing and publishing branch.

[2] For a detailed discussion see Chapter VI, "Prices".

(f) *Agriculture*

Farm investment has been on the decline since the end of the fifties: the weight of this sector in gross domestic investment fell from 15.7 percent in 1960 to 8.0 percent in 1965, and in net investment from 14.3 to 3.9 percent.

The downtrend is due to the existence of surplus productive capacity, and is evident in all investment items except machinery and equipment. In livestock farming (where the data relate to net investment), expansion has virtually come to an end. There has also been a steep decline in farm buildings and local irrigation networks. In fruit farming other than citriculture a big supply surplus became apparent only in recent years. The investment data also reflect the cost of cultivating young orchards planted in previous years but not yet of fruit-bearing age.

Table V-10

GROSS INVESTMENT IN AGRICULTURE, 1958-65

(IL million, at 1964 prices)

Year	Orchards	Land reclamation, afforestation, drainage, etc.	Farm buildings and local irrigation networks	Machinery and equipment	Livestock	Total
1958	49	39	64	30	26	208
1959	46	39	60	39	17	201
1960	41	36	51	47	6	182
1961	40	27	41	55	12	173
1962	40	28	36	56	11	170
1963	39	26	37	44	—	146
1964	38	29	35	55	2	160
1965	35	27	26	61	2	151

In contrast to all other items, investment in machinery and equipment has shown an advancing trend. It was temporarily arrested by the devaluation but reasserted itself in 1964.

One of the factors is apparently the sharp rise in wages and the drop in the price of equipment relative to labor. It may also reflect a growth in agricultural incomes and the consolidation of new settlements, as well as the larger proportion of farm investment financed from public sources.

3. Investment, by Type of Asset

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

This continued a trend already noted in 1964, in both years the investment growth rate being slower in buildings than in equipment (see Table V–4). Moreover, as regards construction, the weight of buildings completed was relatively greater than that of buildings started.

This development reflects the rapid growth of construction activity which began under the pressure of demand in 1962 and 1963, catching up with the increased demand only in 1964. In 1964, when this expansion resulted in a big increase in building completions, the area of starts began to drop and the downtrend gathered momentum in 1965. In certain types of construction —those affected by the imposition of building restrictions—there was an artificial expansion of activity toward the end of 1964 and the beginning of the following

Table V–11

INVESTMENT IN FIXED ASSETS, BY TYPE OF ASSET, 1962–65

(IL million, at 1964 prices)

					Percent increase or decrease (–) as against preceding year			
	1962	1963	1964	1965	1962	1963	1964	1965
Construction								
Residential	743	717	790	812	23	–4	10	3
Nonresidential buildings	320	377	453	460	14	18	20	2
Earthwork and other construction activity	262	333	355	339	16	27	7	–5
Total value of new construction	1,325	1,427	1,598	1,611	20	8	12	1
Assets produced by agriculture	81	67	72	65	2	–17	7	–9
Machinery and equipment								
Locally produced	178	196	238	259	14	10	21	9
Imports	415	416	478	502	15	1	15	5
Total	593	612	716	761	15	3	17	6
Automotive vehicles	106	143	181	172	31	34	26	–5
Ships and aircraft	66	50	175	89	60	–24	253	49
Total fixed capital formation	2,191	2,300	2,741	2,698	13	5	19	–7

SOURCE: Central Bureau of Statistics.

year. In those types of construction to which the restrictions did not apply, e.g. industrial premises, the decline continued uninterruptedly.[1]

In other types of construction activity—earthwork and other nonbuilding construction—the figure declined in 1965 after slowing down conspicuously in 1964. This reflected a marked change in the composition of these investments. During the years mentioned such big projects as the National Water Carrier and the expansion of the Dead Sea Works were completed, and port construction contracted. On the other hand, expenditure on roads and the railway was considerably stepped up.

The deceleration in equipment outlay was less marked, chiefly because of the much larger investment in electric power generation. Investment in communication and traffic equipment fell off sharply, after having more than doubled in 1964. Here the role of the Post Office is predominant, and its investments tend to be irregular because of the size of the projects concerned.[2]

Outlay on construction equipment was up slightly, a development which apparently should be attributed to the construction sector.[3] This contrasts with the trend in construction activity, and presumably it reflects a lagged reaction to the growth of the preceding period (due to the time required to import equipment or to produce it locally).

During the three years 1963–65 there was a slight rise in the weight of locally manufactured equipment (see Table V–13). The devaluation made imported equipment much more expensive relative to that produced in the country. In 1965 the relative price of imported as against local equipment was on the average 40 percent higher than in 1961.[4]

It is impossible, of course, to arrive at conclusions concerning direct import substitution on the basis of general data. Some of the decrease may have been due to a structural change in investment connected with factors other than equipment prices. However, it should be noted that the change in the relative price after devaluation may also have resulted in indirect import substitution, as it enhanced the advantage accruing to branches utilizing locally manufactured equipment in the main.

The data on the share of local equipment suggest that there has apparently been some substitution of local for imported equipment. This is especially striking in construction equipment, which is more homogeneous than other types of equipment. In the case of communication and traffic equipment and that for the services, the share of imports does not show a uniform trend.

[1] See the detailed discussion in Chapter XIII, Construction and Housing".

[2] It should be noted that the estimate is based on the commodity-flow approach, and reflects imports, not the equipment actually installed. This is one of the investment items where stocks exist and fluctuate considerably.

[3] See p. 92, note 4.

[4] This is a derived price index. An index based on a constant basket would show a still bigger rise, if the relative decrease in imported equipment was greater in items which become relatively dearer.

Table V–12

SHARE OF LOCAL EQUIPMENT IN TOTAL EQUIPMENT EXPENDITURE, AT CURRENT PRICES,[a] 1962–65

(percentages)

	Industrial and electric power equipment	Construction equipment	Transportation and communication equipment	Equipment for commerce and services	Total
1962	25.9	19.2	22.1	49.7	30.6
1963	26.4	21.5	32.9	44.3	31.9
1964	28.8	24.2	27.9	46.1	33.2
1965	28.8	26.8	30.8	48.4	34.4

[a] Presentation of the data at constant prices would not alter the picture, since the prices of local equipment went up to the same extent as those of imported equipment during the period 1962–65 (see Table VI–12).

However, it should be noted that during the period concerned investment in these items expanded considerably (that in communication equipment more than doubled in a single year, while that for the services went up by 50 percent over two years), so that the decline in the share of local equipment was accompanied by an appreciable increase in its output. The lower proportion of Israeli-made equipment may have been due to a change in the composition of equipment expenditure, which is to be expected when its volume reaches such dimensions. There may also have been limitations on the supply side.

Table V–13

INDEX OF THE PRICE OF INDUSTRIAL EQUIPMENT RELATIVE TO THE PRICE OF LABOR, 1954–65

Year	Index of nominal hourly wages in industry	Index of industrial equipment prices	Index of price of equipment relative to price of labor
1954	100	100	100
1955	112	103	92
1956	128	108	84
1957	142	114	81
1958	147	120	81
1959	153	121	79
1960	159	123	77
1961	173	135	78
1962	194	184	95
1963	217	196	90
1964	241	198	82
1965	266	205	77

Since the devaluation the rise in wages has brought down the price of equipment relative to the price of labor.[1] The last several years differed from the predevaluation period in that labor was relatively scarce—these were years of labor shortages and a lower unemployment rate. But it seems that the labor shortage was chiefly a reflection of the prevailing strong demand pressure, which had detrimental repercussions on the country's balance of payments position.

4. Investment Prices

Prices of capital assets rose by 4 percent in 1965, compared with 3.5 percent the year before. As in 1964, construction prices went up more rapidly than equipment prices (5 as against 3 percent). As regards the latter, the rise was steeper in the case of locally manufactured than imported equipment (4 as against 2.5 percent). Prices of capital assets produced by agriculture advanced by an appreciable 11 percent, reflecting the high wage component of such assets.

Motor vehicle prices went up by 4 percent, mainly because of the revision of the tax on passenger cars in September 1964.

5. Capital Stock

The country's gross capital stock increased by 10 percent in 1965, a similar rate as in the previous year.

The gross nondwelling capital stock went up 10 percent, as compared with 11 percent in 1964 and an annual average of 11 percent during the years 1960–63. The deceleration was not caused by a decline in gross investment (this was approximately the same as in 1964), but by an increase in discarded assets.[2] In 1964 the growth of the capital stock was close to the average, though gross investment expanded at double the average rate for 1960–63. Here too the increase in discards was the cause. In recent years machinery and equipment installed in the early fifties have reached the end of their economic life, so that the rise in discards reflects the big expansion of investment during the years 1950–53 as compared with the prestatehood period. This means that the economy has to allocate a larger proportion of its gross investment for replacing capital assets that have worn out. In order to enlarge the capital stock at the same rate as in the fifties and the early sixties, gross investment must be expanded much more rapidly.

[1] It is possible, of course, that the rise in wage rates was accompanied by an improvement in the quality of labor—the latter is apparently an established long-run trend—and this would mean that the rise in the price of labor was smaller. However, the quality improvement factor very likely applies to equipment as well.

[2] See also Chapter VI, "Prices", section 3(e).

Table V–14

GROSS CAPTAL STOCK, BY SECTOR, 1965

(IL million at 1964 prices)

	Capital stock at end of 1964	Gross investment in 1965	Discards[a] in 1965	Incremental capital stock in 1965	Capital stock at end of 1965	Weight in total capital stock (%)		Weight in incremental capital stock in 1965 (%)
						End-1959	End-1965	
Agriculture	2,632	151	35	116	2,748	21.7	16.2	7.7
Irrigation	1,307	68	5	63	1,370	9.2	8.1	4.2
Industry, mining and quarrying	4,105	481	229	252	4,357	26.9	25.6	16.7
Electric power	958	108	15	93	1,051	7.5	6.2	6.2
Transportation and communications	3,137	543	52	491	3,628	17.6	21.4	32.5
Commerce and services	3,340	536	39	497	3,837	17.6	22.6	32.9
Total nondwelling capital stock	15,480	1,886	375	1,511	16,991	100.0	100.0	100.0
Dwelling capital stock	8,977	812	27	785	9,762			
Total stock of fixed assets	24,458	2,698	402	2,296	26,753			

[a] No direct estimate is available of the actual value of assets discarded, i.e. of assets withdrawn from use because of obsolescence. The data presented here are based on the estimated life of the various types of assets. The value of assets actually discarded may be influenced by other factors as well, but they have a short-run and not a long-run effect. See A. L. Gaathon, *Capital Stock, Employment and Output in Israel, 1950–1959*, p. 2.

The increase in discards was especially striking in industry, which is a relatively old-established sector and where equipment (whose life-span is relatively short) accounts for a large proportion of the capital stock. The growth of investment assets in industry was considerably smaller in 1965 than in previous years—6 percent as against 10 percent in 1964 and an annual average of 13 percent for the 1960–63 period (see Table V–15).

A slower expansion of capital stock is also to be found in agriculture, where it reflects a long-run downtrend in investment. Transportation and communications and the services sector, on the other hand, showed big increases in 1965. In the former capital stock expanded by 10 percent, as compared with 20 per-

cent in 1964 and an average of 13 percent during the years 1960–63. The deceleration in 1965 was due mainly to smaller purchases of ships, but in part also to the rising weight of equipment in recent years. This equipment, most of which consists of motor vehicles, has a relatively short lifetime, and this is now being reflected by an increase in discards.

In the services the growth of capital stock was close to the average for the past decade. This reflected the steady rise of investment in this sector, as well as the large weight of buildings in such investment.

Capital stock per gainfully employed in the economy as a whole advanced by 8 percent in 1965, as compared with 6 percent in 1964 and an average of

Table V–15

GROWTH OF REAL CAPITAL STOCK AND CAPITAL STOCK PER GAINFULLY EMPLOYED, 1960–65

(percentages)

	Increase in real capital stock						Increase in capital stock per gainfully employed				
	Average 1960-63	1961	1962	1963	1964	1965	Average 1960-63	1962	1963	1964	1965
Agriculture	8	8	8	7	5	6	9	9	11	6	6
Agriculture incl. irrigation	8	7	6	5	5	4	8	9	9	4	6
Industry, mining and quarrying	13	12	14	12	10	6	5	2	6	6	7
Transportation and communications	13	18	12	12	20	10	8	13	6	5	14
Commerce and services	15	17	16	16	15	15	10	11	9	10	9
Total nondwelling capital stock	12	12	12	11	11	10	7	6	7	6	8
							Real increase in dwelling capital stock per capita				
Dwelling capital stock	10	8	10	11	10	10	5	7	6	6	6
Total fixed assets	11	10	11	11	10	10					
Total in IL '000, at 1964 prices											
Capital stock per gainfully employed								17.3	15.3	16.2	17.5
Dwelling capital stock per capita								3.2	3.4	3.6	3.8

7 percent during the years 1960–63. For the purpose of this calculation, we have used the nondwelling capital stock at the beginning of the year; the big increase in capital stock per gainfully employed thus reflects the appreciable expansion of investment in 1964, as well as the slower rise in gainful employment during 1965.

The slight rise in capital stock per industrial worker also reflects the much lower percentage rise in industrial employment during the year reviewed.

6. Investment in Inventories

Investment in raw material and other inventories was considerably lower in 1965. According to the estimate, the decrease amounted to 75 percent, but it may have been even more.[1] Wherever a direct estimate is available, it usually shows a steep drop. This applies particularly to industry. In 1964 inventories were considerably expanded, while in 1965 there was virtually no accumulation whatever (see Table V–16).

Table V–16

INVESTMENT IN INVENTORIES, 1960–65

(IL million)

	1960	1961	1962	1963	1964	1965
At current prices	86	92	125	103	182	47
At 1964 prices	117	106	131	104	182	46
Of which in industry					*117*	*3*
Percent change		–10	24	–20	74	–75
Percent increase in prices		19	10	3	3.1	3.5

No data are available on the changes in inventories by industrial branch or stage of production (i.e. raw materials, goods in process, or finished goods). It is therefore difficult to ascertain the factors responsible for the change. The reason apparently lies in the subsiding of demand presure; the first signs of this appeared in the second half of 1965, and presumably it was due to the reduced liquidity in the economy and the state of expectations, which was no doubt affected by the manifestations of weaker demand pressure.

[1] For some inventory investment items a direct estimate is available, while for others we have assumed a certain ratio between inventory and the volume of operations. However, inventories generally display a very erratic trend, so that estimates of the second type cannot be taken to indicate annual changes.

7. Public Financing of Investment

Data on public financing of domestic investment[1] show a rise in the weight of such financing in 1965, following a steady and steep decline during the four preceding years. The increase was not accompanied by any change of trend in the distribution by type of investor (economic group), but stemmed partly from an increase in the relative share of public financing in the various groups. However, part of the rise may possibly have been due also to deficiencies in the method of estimation.[2]

The declining weight of public financing in recent years can be partly ascribed to an institutional change of a formal, technical nature. During these years a growing percentage of investment loans was granted through financial institutions; parrallel thereto, the latter expanded rapidly, and a number of them were increasingly made responsible for the raising of funds. In actual fact, the Goverment controls most of the financial resources available to these institutions and decisively influences their activities. The funds mobilized by financial institutions largely substitute for those previously raised by the Government, so that the distinction between public and private financing is largely arbitrary.

Table V-17

PUBLIC FINANCING OF DOMESTIC INVESTMENT, BY SECTOR, 1958–65

(percentages)

	1958	1959	1960	1961	1962	1963	1964	1965
Agriculture and irrigation	74	72	84	81	75	83	90	88
Industry	42	32	39	36	24	24	10	6
Mining and quarrying	75	71	50	10	11	21	13	27
Electric power	69	54	5	8	26	23	30	39
Transportation and communications	59	68	77	56	48	44	38	54
Services	48	56	57	42	44	45	47	50
Housing	44	44	38	29	36	32	39	41
Total	54	52	54	43	41	40	39	44

[1] I.e. direct investments of the public sector (e.g. in roads, ports, and postal and communication services), as well as loans granted for investment purposes—either directly or through banks and financial institutions—and the purchase of shares in financial institutions. It should be noted that the provision of financing and the actual implementation of investments do not always coincide.

[2] One such deficiency may be the above-mentioned time lag between the supply of financing and the implementation of the investments concerned.

It follows, therefore, that the decline in public financing does not necessarily indicate a corresponding decrease in the public sector's influence on the direction of domestic investment.

The above institutional change—the delegation of investment-capital mobilization to financial institutions—is especially noticeable in industrial investments, where the proprotion financed from public sources declined from 39 percent in 1960 to 10 percent in 1964 and 6 percent in 1965 (see Table V–17). The transfer of this function was actualy complete in this sector, and only public sector companies now receive funds directly from the Government.

In respect of investment, there is a large degree of overlapping between industry and the private business sector: private enterprise predominates in industry, and most private business investments are in industry. Consequently, the change in the weight of public financing in industry is also reflected in its distribution by economic group: the share of private enterprises declined from 28 percent in 1960 to 5 percent in 1965 (see Table V–19). The percentage of net public financing granted to private business fell during this period from 30 to 6 percent (see Table V–18). Here too we find a continuation of the decline characteristic of public financing in recent years.

In the public financing of other economic groups and sectors as well, the changes partly reflect the altered composition of invesments, and in part changes of a formal, technical nature. The diminishing share of public financing in the transportation and comunications sector in recent years was due to the higher proportion spent on automotive vehicles, only a small percentage of which is financed from public sources. The increased weight of public financing in this sector in 1965 must be ascribed to the reduced expenditure on ships. In the last few years such investment was largely financed by foreign credits granted directly to the shipping companies. The much smaller investment in ships in 1965 thus brought down the weight of private financing and increased that of public financing.

Table V–18

NET SHARE OF PUBLIC FINANCING IN FIXED CAPITAL FORMATION, BY TYPE OF INVESTOR, 1961–65

(percentages)

	1961	1962	1963	1964	1965
Public sector	100	100	100	100	100
Households	18	13	20	30	26
Nonprofit institutions	7	7	18	11	12
Private business	30	17	13	8	6
Public sector companies	49	50	47	35	60
Total	39	36	37	36	40

The same factor—the smaller investment in ships by Zim Israel Navigation Co. Ltd.—was responsible for the higher percentage of public financing in public sector companies in 1965 (see Table V–18).

In electric power generation and in mining and quarrying, the weight of public financing displays an erratic trend. Here there is a large degree of substitution between the direct mobilization of capital by the companies (through the sale of debentures or through loans) and the raising of capital on their behalf by the Government. Hence fluctuations in the share of public financing generally lack any real significance.

Table V–19

NET PUBLIC FINANCING, BY TYPE OF INVESTOR, 1961–65

(percentages)

	1961	1962	1963	1964	1965
Public sector	39	45	51	54	56
Households	13	10	13	21	18
Nonprofit institutions	1	1	2	1	1
Private business	28	15	12	8	5
Public sector companies	19	30	22	16	20
Total	100	100	100	100	100

In agriculture and irrigation the weight of public financing rose over the last two years. At the same time, there was a decline in the volume of investment financed directly by the public sector (following the completion of the National Water Carrier); this points to a considerable rise in the amount of public funds channelled to agricultural settlements, the increase exceeding the settlements' incremental investment.