

## CHAPTER VI

### PRICES

#### 1. MAIN DEVELOPMENTS

AFTER TWO YEARS of relatively moderate rise, the price level advanced at an accelerated rate in the first part of 1965. This development, which began to manifest itself at the end of 1964, was not accompanied by a rapid monetary expansion—in fact, since the middle of 1963 the increase in means of payment has been relatively slow—but can nevertheless be ascribed to demand pressure.

The rapid monetary expansion in the first half of 1963 was initially connected with the surging share and real estate markets, which were experiencing a speculative boom. When the boom came to a halt at the end of 1963 and the beginning of 1964, the mounting demand pressure began to make itself felt in the commodity and service markets; this found expression at first in an increase in the import surplus and the accelerated rise of prices of services not subject to administrative control. However, the restraining measures adopted by the Government prevented demand pressure from causing a general price rise until the end of 1964. Subsequently, a general advance set in, as the impact of the Government's price curbs weakened, owing partly to deliberate policy and partly to their diminished efficacy.

In the course of 1965 the upward movement of prices tapered off, and signs of reduced demand pressure and a slowdown in economic activity began to appear. In the second half of the year the price level went up much less rapidly than in the first half. During this period the demand pull on prices gradually subsided, and toward the end of the year and the beginning of 1966 the cost push became increasingly important as a source of upward pressure on prices.

Prices rose much more rapidly in 1965 than in the two preceding years. The consumer price index (excluding fruit and vegetables) moved up by 8 percent, compared with 5 percent in both 1964 and 1963.<sup>1</sup>

The average level of the consumer price index also stood 8 percent higher than in 1964, as contrasted with a 5 percent increase in that year.

Prices of final domestic uses likewise rose, according to the derived price index, by an average of 8 percent over 1964, when the increase amounted to 4

<sup>1</sup> If the lag in measuring the housing item in the index is taken into account, the actual increase in 1963 amounted to 4 percent.

percent (see Table VI-1). Private consumption prices went up by 8 percent, and public consumption prices by 12 percent, the latter being mainly due to the steep wage hikes in the public sector. Investment prices advanced by 5 percent; this relatively low rate reflects the big weight of the direct import component of capital expenditure, whose price did not rise much, and the smaller weight of services, the price of which went up considerably. It should also be noted that, owing to the application of administrative curbs, there has apparently been an accentuation in recent years of disguised price increases, which are a by-product of suppressed inflation. This can, of course, distort the measurement of the price advance, but there is no way of determining the relative importance of this factor.

**Table VI-1**  
**AVERAGE RISE IN THE PRICES OF FINAL DOMESTIC USES, 1958-65**  
(percentages)

	Private consumption	Public consumption	Gross domestic investment	Total
1958	4	6	3	4
1959	3	7	1	3
1960	3	3	4	3
1961	6	6	8	7
1962	9	21	20	14
1963	8	6	6	7
1964	4	7	3.5	4
1965	8	12	4	8
Weight in 1965	58.5	17.9	23.6	100.0

SOURCE: Central Bureau of Statistics.

The year reviewed differed from the two preceding years not only with respect to the rate of the price rise; the difference in the scope of the rise was even sharper. In preceding years the advance was confined almost entirely to a relatively narrow front. The housing market played a decisive role, accounting for about 70 percent of the rise in the consumer price index in 1963 and for about half in 1964 (see Table VI-3). In 1964 service prices also moved up strongly; in the final months of the year the upward price movement began to spread and in 1965 it encompassed practically the entire economy.

The housing market, which experienced a boom until the end of 1963, differed from other commodity markets as regards the factors operating therein,

Table VI-2

**RISE IN CONSUMER PRICE INDEX, EXCL. FRUIT AND VEGETABLES  
AND AFTER ADJUSTING THE HOUSING ITEM, BY HALF YEARS, 1962-65**

	1962		1963		1964		1965 (quarterly)		
	I	II	I	II	I	II	I	II	III
Index, excl. fruit and vegetables and housing	4.3	5.4	0.6	0.8	1.6	1.5	3.1	2.2	1.2
Housing (dwelling prices and key money)									
(a) As ordinarily calculated	8.4	8.7	12.6	14.1	8.6	6.8	1.4	4.8	3.0
(b) Adjusted for time lag in measure- ment <sup>a</sup>	12.5	14.2	16.3	4.3	8.4	6.6	3.7	-0.3	1.9
Index, excl. fruit and vegetables but incl. housing									
(a) As ordinarily cal- culated	5.0	5.8	2.1	2.5	2.7	2.3	2.7	2.7	1.5
(b) Adjusted for time lag in measure- ment	5.4	6.5	2.6	1.3	2.6	2.3	3.1	1.9	1.3

<sup>a</sup> The direct measurement of changes in dwelling prices and key money is made on the strength of a survey of dwellings changing hands, conducted twice a year and covering the previous six-months period. The housing item in the index is adjusted in May and November in accordance with the results of this survey. For the period after the date to which the last direct measurement applies (the middle of the survey period), the housing item is adjusted according to the changes in the index of residential construction costs. The data cited here are derived from direct measurements. The results of the measurements have been attributed to the months in the middle of the survey periods—i.e. to December for the survey of the months October-March, and to June for the April-September period.

SOURCE: Central Bureau of Statistics.

and developments here should be viewed in conjunction with the boom in the share and real estate markets following the devaluation<sup>1</sup>—from the very outset, this market was not subject to direct price restraining measures. Excluding the housing item, the rise in the index (without fruit and vegetables) amounted to 1.5 percent in 1963 and 3.1 percent in 1964, while in 1965 it reached 7.9 percent. Agricultural and industrial products accounted for over half of the increase in 1965, compared with about 20 percent in 1964 (see Table VI-3). The final months of 1964 thus marked the end of the period of stability in commodity prices, which was achieved through administrative curbs—the cor-

<sup>1</sup> Housing prices started advancing at a relatively rapid rate as far back as 1961, but after the devaluation the rise gathered further momentum. See Bank of Israel Annual Report for 1964, p. 99.

Table VI-3

## RISE IN THE CONSUMER PRICE INDEX, BY ECONOMIC SECTOR, 1964-65

(percentages)

Item	Weight in index (pro mille)		Increase or decrease (-)				Weight in rise in December levels	
			Annual averages		December levels			
	Jan. 1963	Jan. 1964	1962- 1963	1963- 1964	1963- 1964	1964- 1965	1964	1965
Industrial products	412.6	399.0	1.3	3.9	2.3	4.7	17.0	25.7
Agricultural products <sup>a</sup>	157.8	116.7	-0.3	14.4	2.1	16.4	5.3	26.0
Dwelling prices and key money	101.0	132.8	26.5	11.2	16.0	6.9	45.8	12.8
Services								
Personal	85.7	101.8	7.8	9.9	9.7	9.5	18.2	13.4
Public	53.6	71.4	5.0	7.3	7.2	9.2	8.3	8.5
Other housing services	26.5	25.6	5.7	—	5.8	12.7	3.8	4.4
Transportation, commu- nications, and posts	36.1	35.0	1.3	14.5	0.7	14.5	0.6	6.9
Electricity and water	20.7	20.4	—	5.2	—	6.7	—	1.8
Insurance and taxes	28.1	25.5	1.9	0.9	2.4	1.2	1.4	0.4
Total index excl. fruit and vegetables	922.1	928.2	5.3	7.7	5.1	7.8	100.0	100.0
Fruit and vegetables	77.9	71.8	3.1	8.4	—	—	—	—
General index	1,000.0	1,000.0	5.2	7.7	—	—	—	—

<sup>a</sup> Agricultural products other than fruit and vegetables are tabulated in the index according to economic sector, with the addition of poultry, meat and meat products, and milk and milk products, which have been transferred from the heading of industrial products to agricultural products.

SOURCE: Central Bureau of Statistics.

nerstone of the Governments' economic policy for two years; however, it did not mark the end of the Government's recourse to such measures.

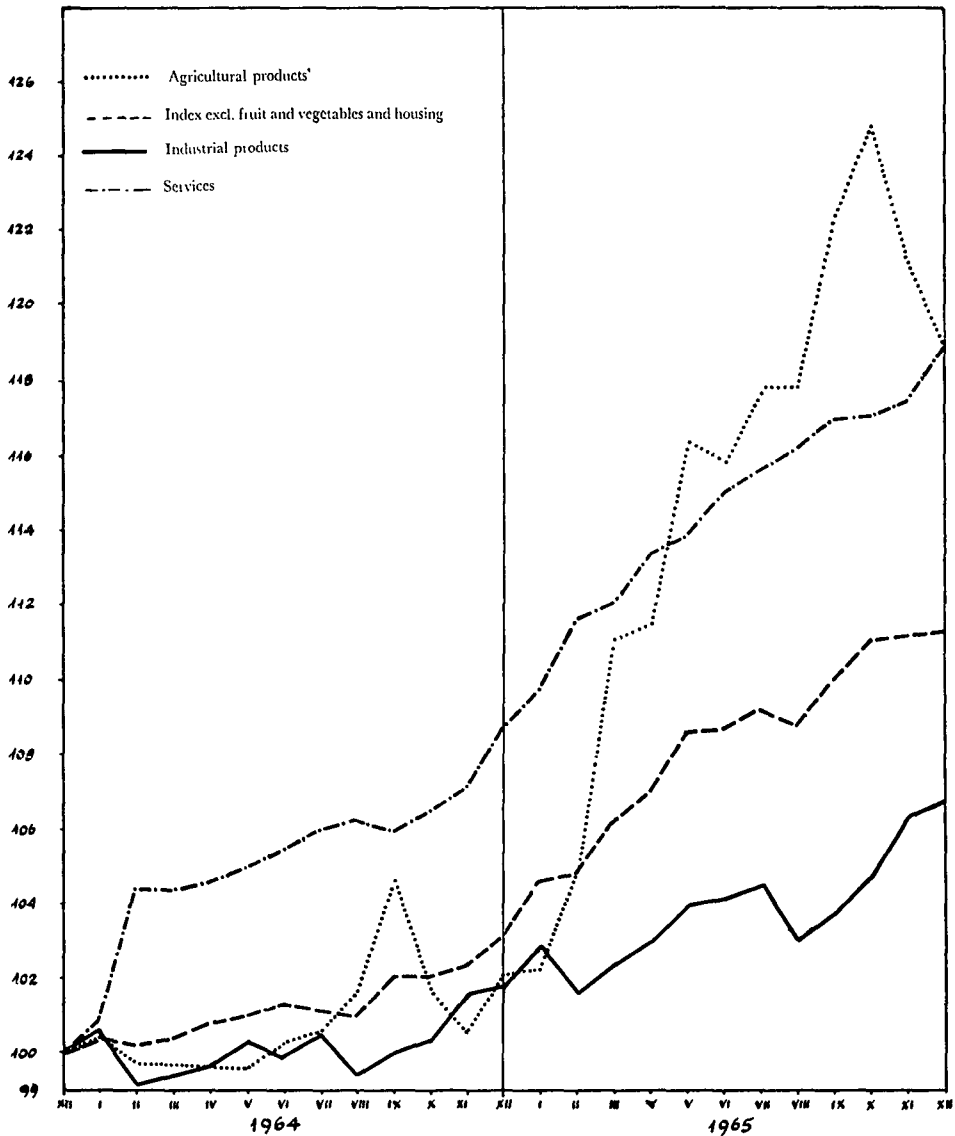
The general price rise, which actually set in in the final part of 1964 and carried over into the first part of 1965, did not proceed at a uniform pace. The advance was steepest in the early months of 1965, while in the second half of the year it slowed down considerably. The consumer price index (excluding fruit and vegetables and housing<sup>1</sup>) climbed by 5.4 percent in the first half of the year, as compared with 2.4 percent in the second half.

<sup>1</sup> The housing item is measured directly on the strength of surveys of dwellings changing hands; this measurement has a certain time lag and it is adjusted by means of an indirect indicator for the period following that of the direct measurement. This indicator—the index of residential construction costs—is not very suitable in a period when changes in demand are of a decisive importance.

Diagram VI-1

RISE IN CONSUMER PRICE INDEX, BY MAJOR CATEGORY, 1964-65

(December 1963=100)



<sup>a</sup> See note to Table VI-3.

This pattern of price increase partly reflects the substantial upward revision (by between 10 and 25 percent) of prices and tariffs subject to official arrangements, which took place in the first part of the year (agricultural products such as milk, milk products, and eggs; bus fares; and water rates). But the same

trend is discernible even in markets where such arrangements do not exist. In those services items free of Government intervention or the influence of institutional factors and which are not subject to seasonal fluctuations, the increase, according to the consumer price index, amounted to 7.6 percent in the first half of the year and 3.8 percent in the second half.<sup>1</sup> The same pattern marked the housing market, where the upward movement of prices virtually levelled off as of the second quarter of 1965.<sup>2</sup>

Between these two groups there is a large intermediate group, which includes most industrial products. It was here that the main attempt was made to hold the price line by administrative means. The end of 1964 and the beginning of 1965 saw a transition from almost total price stability to a general advance. Although the employment of restraining measures has not been abandoned, the guiding principle now is, in the main, to approve justified rises. Under such circumstances, it appears that the efficacy of the administrative curbs is reduced.

The rise in the wholesale price index of industrial output accelerated in the last quarter of 1964 and the first quarter of 1965, but subsequently it slowed down. In mid-1964 only a few individual items were affected by the price advance, but by the end of the first half of 1965 it encompassed most industrial products.

## 2. THE GENERAL PRICE LEVEL AND THE RISE IN MEANS OF PAYMENT

As regards demand pressure, the early months of 1965 saw a continuation of the trends which prevailed in 1964. This period was characterized by demand pressure in the commodity and service markets, despite the slowdown in monetary expansion. In contrast, in 1963 the money supply had swelled considerably and demand pressure had been much weaker. From the aspect of the connection between the growth of the money supply and price increases, there is a striking difference between the three years 1963-65 and the entire period previous thereto. In the past, a rise in the money supply was quickly followed by a parallel increase in the price level of goods and services. In 1963, on the other hand, the growth of the money supply amounted to approximately 30 percent,<sup>3</sup> while the consumer price index moved up by only 4 percent.<sup>4</sup> The decisive factor in the latter increase was the housing market, where developments during these years constitute a chapter in themselves, and from the aspect of their sources should be viewed together with the boom in the share and real estate markets.<sup>5</sup> The index, excluding the housing item, crept up that year by

<sup>1</sup> See section 3(c) below.

<sup>2</sup> Owing to the lag in measurement, data are not yet available for the last quarter of 1965.

<sup>3</sup> On an annual average, and also according to an end-year comparison.

<sup>4</sup> After adjusting for the time lag in measuring the housing item (see Table VI-2).

<sup>5</sup> See Bank of Israel Annual Report for 1964, p. 99.

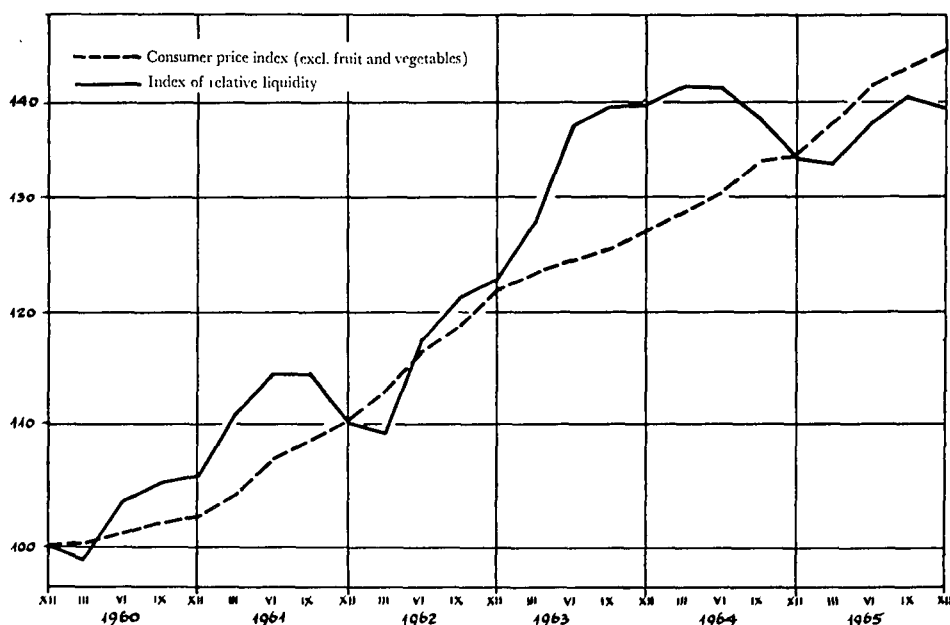
only 1.5 percent. In 1964 signs of a strengthening of demand pressure began to appear—at first in the services market and in an increase in the import surplus, and toward the end of the year also in the rise of industrial prices. By the end of 1964 and the first half of 1965 the price advance had spread throughout almost the entire economy, and it was then that it reached its most rapid pace, both in the general level and in the principal sectors. In general, it can be said that the “liquidity gap”—the balance between the quantity of means of payment and the national product—which had been created by the rapid monetary expansion in the first half of 1963, was closed over a period of about two years, at first slowly and later more rapidly, by the increase in both real product and prices (see Diagram VI-2).

It thus transpires that in these years the connection between the expansion of the money supply and the generation of demand pressure in the commodity and service markets was more complex. This can be traced to the growing

Diagram VI-2

CONSUMER PRICE INDEX (EXCL. FRUIT AND VEGETABLES) AND INDEX OF RELATIVE LIQUIDITY,<sup>a</sup> 1960-65

(Quarterly averages; average 1959=100)



<sup>a</sup> The index of relative liquidity is calculated by dividing the quarterly index of the money supply by the index of real product (with the annual percentage increase divided by four in order to render it comparable with the quarterly data of the money supply index). The index of relative liquidity and the price index together indicate the changes in the money supply per unit of nominal product. These are, of course, very rough indicators, and hence too much significance should not be attributed to small changes in the ratios between them.

importance of the financial asset market and the trends prevailing therein during this period. The predevaluation years saw a sharp increase in the relative share of financial assets other than money, both within total financial assets and relative to national income, and on the eve of devaluation their weight was substantially higher than it had been a few years before.<sup>1</sup> Close to half of the public's total nonliquid bank deposits at the time were either in foreign currency or linked to the foreign exchange rate—and a good part of these were held in anticipation of imminent devaluation. The devaluation immediately altered the relative profitability of the various assets, and this was reflected by conspicuous changes in demand and supply. It thus touched off additional changes, which were accompanied by rapid price fluctuations, accentuated by the speculative expectations aroused thereby. This is the background to the upsurge in the share market in 1962 and 1963 and the sharpening of the relative boom in the real estate market, which had begun in 1961.<sup>2</sup>

In 1963, when the boom reached its peak, activity in the equity and real estate markets reached considerable proportions. The intensified trade in shares and real estate, which was partly of a speculative nature, tied down a large portion of the incremental means of payment, thus preventing the generation of further demand pressure in the commodity and service markets.

Only in early 1964, when the boom in the share and real estate markets terminated and the volume of transactions contracted,<sup>3</sup> was an intensification of demand pressure discernible in the commodity and service markets. This was reflected by a greatly accelerated rise of service prices, which were largely free of the direct restraints applied by the Government to the commodity market, and the marked widening of the import surplus. As to industrial prices, these were effectively kept down by administrative curbs, and the excess demand here found expression in the accelerated expansion of production and the reduced export of those products which had a local market. The demand pressure was also reflected in the labor market, where the shortage of workers—even unskilled—became more acute.

At the end of 1964, and even more so in the first months of 1965, the upward price movement gathered momentum, shaping up as a general price rise. But it appears that the chief change from the preceding period was not in the intensification of demand pressure; rather, it occurred in the direct measures employed

<sup>1</sup> For example, the ratio between the public's nonliquid bank deposits (including the premium to which holders of Pazak and Tamam accounts were entitled if they converted their deposits into Israel currency) and the means of payment rose from 0.24 at the end of 1957 to 0.53 at the end of 1961.

<sup>2</sup> For a more detailed discussion of the various aspects of these developments, see Bank of Israel Annual Report for 1963, pp. 78 ff.

<sup>3</sup> The rise in share prices came to a halt in the middle of 1963, and the focus then shifted to the new issues market, which continued to attract substantial sums until the end of the year. See Bank of Israel Annual Report for 1963, *ibid*.



by the Government to curb prices. Price of products and services subject to control or to official arrangements were substantially revised—in part, following the trimming of subsidies.

Even more striking was the general increase which occurred, after two years of stability, in the prices of industrial products, where the controls applied were of an administrative rather than legal nature. This change may have been due to either a deliberate relaxation of the restraints or a decline in their efficacy. The impression is that both factors operated simultaneously. Moreover, the two are undoubtedly interrelated, and the approval of a large number of price rises reduces the effectiveness of curbs in other cases.

In some cases the price rises were connected with the higher cost of imported raw materials. Thus, for example, increases in the cost of various metals at the end of 1963 and the beginning of 1964 led to a rise in the prices of domestic metal products at the beginning of 1964—at the height of the period of stability. On the whole, however, the relaxation of the price restraints was doubtless prompted, at least to some extent, by the belief that the cumulated rise in costs, mainly wages, during these two years of stability, and the wage increases anticipated in 1965, reduced the profitability of industry.

One factor which tended to highlight the problem was the contrast between industry, where administrative curbs were employed, and the services sector, which to all intents and purposes was free of effective Government interference—a development which apparently tended to increase the relative profitability of services as compared with industry.

The data on changes in costs per unit of output are fragmentary and tenuous, and cannot serve as a basis for unequivocal conclusions as to profitability trends.

A broader backdrop to the loosening of controls is to be found in the more general trends which marked the economy during the two years of price stability. These trends underlined the fact that the direct restraints did not bring about general price stability in the economy, prevent the creation of pressure in the wake of wage increases, or solve the problem of fostering export.<sup>1</sup>

In the second half of 1965, as already noted, the upward climb of prices began to taper off. This was reflected in all the principal sectors—industry, services, and housing (where the increase apparently came to a complete halt). Together with this deceleration, other signs appeared of the subsiding of demand pressure.

To be sure, at the end of 1965, and to an even greater extent at the beginning of 1966, we again find an acceleration of price rises. The advance of the wholesale price index may possibly indicate that the country is in for another round of price increases. The more sluggish rise in industrial prices in mid-1965 can

<sup>1</sup> A more detailed discussion of the industrial price restraints will be found in section 3(a) below.

perhaps be attributed also to the fact that the implementation of price changes is sometimes deferred for several months after their approval.

The excess liquidity in the economy stemming from the rapid monetary expansion of 1963 apparently was sponged up at the beginning of 1965. In 1964 the growth of the money supply was comparatively small—6 percent during the year—and the ratio between the money supply and national income gradually declined with the increase in real product and prices. By the beginning of 1965 the ratio more or less reached the level at which it stood before the onset of the monetary expansion at the beginning of 1963, or even fell somewhat below that level (see Diagram VI-2).<sup>1</sup> In 1965 the rise in means of payment was slow relative to that in product and prices, and the liquidity trend was on the whole downward. The most striking manifestation of this in the monetary sphere was the rise in the interest rate in the bill brokerage market.<sup>2</sup>

Together with the developments in the monetary sphere, other factors acted to brake the rate of economic activity and ease demand pressure in the latter part of 1965. Construction activity began to lose vigor, reflected by a sharp decline in building starts; this resulted from the accumulation of a large stock of finished dwelling units in the hands of contractors, and from the artificial expansion of starts at the end of 1964 and the beginning of 1965 because of the impending administrative curbs on buildings.<sup>3</sup> In addition, industrial investment fell off.

There was also a drop in personal restitution receipts from West Germany. In previous years the growth of these receipts had been one of the sources of mounting demand pressure in the economy. The proportion of such receipts converted into local currency likewise fell off in 1965, owing to the growing expectation of devaluation.

These developments were reflected by a greater decline in the percentage growth of real product than can be attributed to factor scarcity, to the slight growth in unemployment in the second half of 1965, and to the marked reduction of the labor shortage, which had been one of the striking features of the economy in previous years.

The year reviewed, and particularly the second half, thus had the character

<sup>1</sup> The indicators cited here of the change in the money supply relative to product—the index of the volume of means of payment deflated by the index of real product on the one hand, and the consumer price index (excluding fruit and vegetables) on the other—are of course very rough, and hence too much significance should not be attributed to slight changes.

<sup>2</sup> While the maximum rate of interest on bank credit is fixed by law, in recent years there has been a rising trend in the share of bank-negotiated bill credits, the price of which is not subject to the Interest Law. Between the end of 1962 and the end of 1965 the volume of bills sold through the banks rose from 19.3 to 36.8 percent of all credit given through the banking system (see Table XV-9). Between 1963 and 1965 the interest on such bills went up. The rate of interest is not uniform: in the large banks it rose during this period from 13 to 16 percent.

<sup>3</sup> See Chapter XIII "Construction and Housing".

of a transition period in which other factors besides demand pressure acted to drive up prices—the demand pressure eased appreciably in the course of the year. At the end of 1965, and even more so at the beginning of 1966, factors on the cost side became increasingly important as a source of upward pressure on prices.

During the transition period factors connected with the price arrangements may also have operated. Under certain conditions, partial price restraint may in itself constitute a source of pressure on the price level. As long as it is effective, such restraint keeps down some prices, but it cannot prevent an advance in the general price level. In such circumstances, the demand pressure leads to a sharper increase in prices free of controls and to distortions in the price structure. Relaxation of controls creates a tendency to raise prices that were formally curbed, even in the absence of general demand pressure. When downward price rigidity is widespread, such price increases are not accompanied by compensating decreases in other prices, and the result is a rise in the general price level.<sup>1</sup> This may have been one of the factors driving up industrial prices in 1965.

Moreover, the employment of administrative controls has not been discontinued, as already noted, but they are now designed to keep price revisions within the limits justified by increased costs. This calls for complicated examination and audit, and it undoubtedly leaves ample room for bargaining between the producers and the Government. The time involved in negotiating the approval of price increases and the uncertainty as to the Government's likely stand in the future are liable to induce producers to raise prices to an even greater extent from the outset, in the expectation that costs will continue upward.

### 3. RELATIVE PRICES

#### (a) *Industrial products*

After two years of almost complete stability in industrial prices as a result of the administrative checks, many items went up steeply in the last months of 1964. In the first months of 1965 the upward movement took on the appearance of a general price rise encompassing most industrial branches.

There still remained a relatively narrow sphere in which price stability was maintained. This included part of the food industry, in particular essential foodstuffs, as well as basic products in other branches. In these cases there was generally control or an official price agreement, and the prevention of price increases was accompanied by the raising of subsidies and the lowering of levies.

In this respect, the price policy for industry has differed from that for the rest of

<sup>1</sup> The same effect is produced by cutting subsidies at a time when there is no demand pressure; in this case as well, prices will go up without increases being prevented in other areas.

the economy. Whereas in the other sectors subject to official arrangements there were substantial price rises accompanied by a cut in subsidies, in industry price rises were generally prevented in such cases by raising subsidies and reducing levies. In this sector the price advance occurred in that broad group of products where prices had been kept in check not through official controls but by pressure of various sorts.

The main means of pressure was the threat to permit competing imports. When this first began to be employed, most industries were effectively protected by the administrative ban on imports, and the threat of allowing competing items into the country at a low rate of duty proved to be a very effective deterrent, at least for some time.

In other matters as well, decisions taken by Government officials may have a far-reaching influence on the enterprise's position (e.g. in the question of granting credit from the development budget or from other sources in whose administration the public sector participates; in the grant of the status of approved enterprise or approved investment under the Law for the Encouragement of Capital Investment; and in the issue of import licences for products subject to administrative protection).

In this context some remarks on the liberalization of imports would be pertinent. The main contribution of liberalization has apparently been the prevention of price rises and not the correction of distortions in the economy. The rectification of distortions was one of the principal planks in the Government's economic program after the devaluation of 1962. The period since then has been marked by a transition from administrative protection to fiscal protection through customs duty rates designed to expose local products to the competition of imports, as a means of effecting a more efficient factor allocation.

The Public Committee for the Protection of Local Industry—an advisory body—has by now discussed all industrial products (at the end of 1965 what has been described as the first phase of the exposure process came to an end, and the committee is preparing for a second round of discussions). Under these conditions, the fixing of the customs rate could easily be employed to hold the line on prices. And in those cases where there was no need to use it, liberalization has, as a rule, represented no more than a transition from the administrative banning of imports to fiscal protection by means of high customs duties.<sup>1</sup>

Apart from the high average level of protection accorded domestic production, liberalization has been characterized by a marked differential in the customs duty rates applied to various products. Presumably the authorities have tended to reduce the duties as far as possible,<sup>2</sup> and they certainly have no reason to set higher rates than are required to ensure the protection

<sup>1</sup> See "The Liberalization of Imports—February 1962 to May 1965", Bank of Israel Bulletin No. 26, June 1966.

<sup>2</sup> Apparently fiscal considerations have had no bearing on this matter.

of local production. The wide dispersion of the duty rates apparently reflects the disparate degree of economic efficiency as between the different products and branches of production.<sup>1</sup> Liberalization has thus done little to eliminate distortions so far.

The outstanding change in respect of industrial prices in 1965 pertains to the character and results of the policy of curbing prices other than through official controls. The resumption of the upward movement of industrial prices at the end of 1964 probably reflected two factors: the relaxation of controls, and their less rigid application (in contrast to the two preceding years) or a decline in their efficacy, or possibly a combination of both. There is, of course, a mutual relationship between the two, and the approval of a large number of price increases reduces the efficacy of curbs in other cases. Moreover, the same factors which led to the easing of such measures are also revealed in the reluctance to show a strong hand in those instances where prices were revised without authorization or in excess of the permitted limit.

Underlying the policy of relaxing controls is apparently the view that the freezing of industrial prices on the one hand, and the mounting of costs on the other, detrimentally affected the profitability of this sector. Since the data available on the composition of costs and changes in costs per unit of output constitute but fragmentary and very rough indicators, it is difficult to derive unambiguous conclusions from them. The years in which prices were effectively arrested also saw an increase in the cost of domestic services required by industry, while average industrial wages went up 22 percent. But at the same time there was apparently a more rapid rise in productivity; this undoubtedly reflected the more rapid expansion of production, which in turn led to a higher utilization of productive capacity. It is also possible that the very curbing of prices in a period of rising costs acted as a spur to achieving greater efficiency.

The problem was aggravated by the fact that the price restraint was partial, and while industry, which enjoys a favored position, was compelled to absorb the higher costs of inputs, the service sectors enjoyed almost complete freedom to raise prices, a situation which in itself tended to increase their relative profitability. No less important, perhaps, is the fact that there was apparently no possibility of preventing the further mounting of wages and other input prices, and the problem of the cost push on prices, or the impairment of the profitability of industry, therefore became still more acute.

The change in the application of price restraints must, however, be viewed

<sup>1</sup> Differences in the percentage of value saved on the production of import substitutes and in the rates of customs duty on raw materials are, of course, liable to be reflected by differential rates of customs duty on the final product, when the aim is to grant equal protection according to the value saved. However, the differences in the percentage of value saved are not in themselves likely to result in differential rates of customs duty on the final products.

also against the broader background of the general trends prevailing in the economy during the two years of industrial price stability. When these curbs were first introduced, it was feared that a rise in the consumer price index and the consequent increased cost-of-living allowance would soon nullify the slight improvement in the profitability of export produced by the devaluation. But developments since then have made it clear that it is not enough to put a brake on rising costs, and that the demand factor cannot be ignored. Mounting demand led to the contraction of export (of products for which there was a local market) and the growth of import, so that the trade deficit in 1964, at the height of the period of industrial price stability, rose at an unprecedented rate. At the same time it has also become evident that it is not enough to keep the index stable in order to prevent wages from moving up. Demand pressure in the commodity market led to demand pressure in the labor market and to rapid wage increases. Under such circumstances, the curbing of prices in one sector—industry—leads, to the extent that it is effective, to the creation of price distortions and a decline in the profitability of industry as compared with other sectors. The easing of controls thus occurred when there loomed in the background a number of cardinal problems to which the controls themselves had little or no relevance.

As already noted, this change occurred after two years of stable industrial prices, but these two years differed from each other in one important respect—the existence of strong demand pressure in the commodity and service markets. It seems that in 1963 demand pressure in these markets was not very marked despite the accelerated monetary expansion.<sup>1</sup> Evidence of this may be seen in the fact that in those service items whose prices were freely determined by the interplay of market forces, the percentage increase in 1963 was considerably lower than in the previous and in subsequent years (see Diagram VI-3).<sup>2</sup>

Thus we see that in the first year of administrative restraints, in which great success was achieved in holding the line on industrial prices, demand pressure was much weaker than in the following year. It is therefore possible to partially attribute the efficacy of these measures then to this fact. It should not be concluded, of course, that these measures contributed nothing whatsoever to the stability of industrial prices, since cost factors, such as a general increase in the cost-of-living allowance, may drive up prices. But insofar as price rises stemming from such factors were then prevented, the absence of strong demand pressure meant that the negative influences distorting prices and profitability and affecting the country's trade balance were not felt to the same extent as in 1964. In 1964, when demand pressure for goods and services intensified, there was

<sup>1</sup> See section 2 above.

<sup>2</sup> See also the section on services below. The relative increase in service prices as compared with industrial prices was actually no different in 1963 than in the preceding years; such a change occurred only in 1964.

Table VI-4

**RISE IN INDUSTRIAL PRICES, ACCORDING TO CONSUMER  
PRICE INDEX, 1963-65**

Item	Percent annual increase in December levels		
	1963	1964	1965
Foodstuffs	0.6	1.6	8.7
Meat	0.2	5.9	19.1
Milk	0.6	0.4	17.6
Others	0.7	0.7	3.0
Clothing and textiles	0.2	2.5	4.9
Furniture	0.6	2.4	2.9
Footwear and leather, rubber, and plastic goods	-0.2	3.9	9.2
Metal products, transport equipment, and elec- trical products	0.3	1.1	2.9
Total	0.5	2.0	6.6

SOURCE: Central Bureau of Statistics.

a considerable sharpening of all the problems which do not lend themselves to solution by such measures as direct restraints, and other problems emerged as a result of the administrative curbs.

Thus we see that while the easing of these administrative controls (which was apparently accompanied by a decline in their efficacy) took place two years after their institution, it actually came after a much shorter period of strong demand pressure in the commodity and service markets.

The mounting of industrial prices in the latter part of 1964 and the beginning of 1965 more or less resembled a wave of individual increases; only in areas where there was no effective price restraint was the rise more continuous. This wave began in isolated enterprises and branches in the second half of 1964, and by the first quarter of 1965 it had spread to most industrial branches (see Tables VI-8 and VI-9).

Two striking exceptions were food processing (except for meat and milk) and the leather and footwear industry. In the food industry the increases were confined to a relatively small percentage of total output, and even these generally took place at a later date. From the aspect of the nature of the price arrangements and the form of Government intervention, the food industry differs from the others. Here, a large proportion of the commodities are regarded as necessities, and their weight in the index is relatively great. For this reason there are many instances of official price control or official price agreements between the Government and producers. Moreover, most of the officially

recognized cartels are to be found here, and they are subject to official price arrangements. Elsewhere in the industrial sector, prices were held in rein not by administrative controls but by various forms of pressure. Thus we see that the food industry is distinguished from the others both with respect to the existence of official controls and a tradition of price control, and as regards the importance attached to the maintenance of price stability. This is reflected in the widespread use of subsidies and tax reductions as compensation for increased costs.

Another factor of relatively greater importance in this industry is the existence of many products with a low income elasticity of demand as well as of inferior products. Wherever this is to be found, demand pressure has naturally been weaker than elsewhere in the economy.

Finally, note should be taken of the greater possibility in this industry of covertly raising prices by reducing quality, introducing new brands which from the start are put on the market at higher prices, etc. Such increases are a common by-product of price controls, and the possibilities for them are greater in branches producing a wide variety of consumer goods than in branches producing intermediate goods and characterized by a higher degree of standardization.

The second exception as stated, was the leather and footwear industry, where prices moved up much more rapidly in the second half of 1965. Rises were particularly steep for some brands of shoes and certain other items. A common practice in this branch is the introduction of new brands at a higher price, which does not always reflect an improvement in quality but apparently constitutes, to some extent, a disguised price increase. The rise in the prices of some leather goods was no doubt due to the higher cost of leather, but this does not fully explain all the price increases, and certainly not the steep ones. Leather prices went up to a much smaller extent than footwear prices, and this item accounts for only part of the final price. Another phenomenon which may point to the causes of the increases is the stability of the prices of orthopedic shoes during this period, even though the same cost factors were at work.

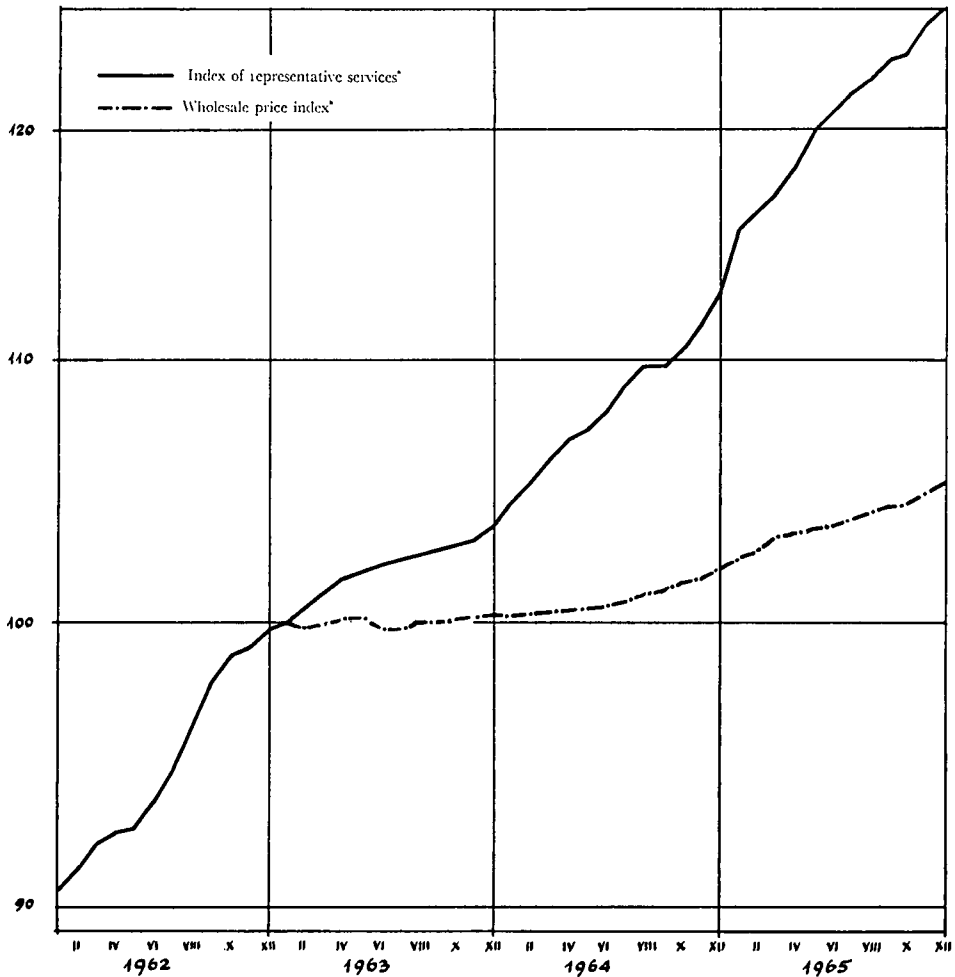
Paradoxically, it seems that the price increases can be attributed to the liberalization introduced in the branch. The threat of liberalizing imports by substantially reducing the protective tariff was one of the main means of exerting pressure under the industrial price-restraint policy. In those cases where there was no need to resort to this sanction, liberalization merely constituted a transition from the administrative banning of import to the permitting of import while levying a high duty (and stipulating that the item would be brought up for reconsideration should import exceed a certain level). Under these conditions, liberalization generally succeeded in creating price competition on the part of imported articles, and thereby led to the dampening of the prices of domestic output. But as regards footwear, liberalization had an opposite effect—it drove up prices. At the end of 1964 the import of shoes was permitted, but



Diagram VI-3

INDEX OF REPRESENTATIVE SERVICE PRICES AND WHOLESALE  
PRICE INDEX, 1962-65

(January 1963=100)



<sup>a</sup> See section 3(c) below and the note on p. 125.

<sup>b</sup> For 1964 and 1965—Central Bureau of Statistics index less the following items: sewing and tailoring, shoe repair, and outerwear. For 1963—the rise in the CBS indexes for 18 main industrial branches, except printing and diamonds, with weighting based on a set of weights calculated according to the composition of output in 1962.

with a customs duty which actually amounted to about 100 percent of the value of medium-quality brands. With imports allowed, foreign-made shoes appeared on the market at prices more than two-and-a-half times the average price of local shoes. The result was a marked rise in the price of the local product. This reaction of local producers can perhaps be explained by a number of factors.

On the one hand, it seems that the appearance of the expensive foreign shoes—which, because of the big price differential, assumed the character of a different product—altered demand conditions, apparently giving rise to a demand which would not have been created following an increase in the price of the existing brands. On the other hand, it is known that in markets where competition is not perfect, price rises generally occur only after radical changes which affect all producers in the branch, and the appearance of imports under such conditions could no doubt trigger off such a rise.

Following these repercussions of liberalization, the duty on shoes was reduced at the end of 1965, and it now stands at about 60 percent of the price of medium-quality brands.

### *(b) Agricultural products*

Agricultural products showed relatively steep price rises in 1965. In some cases these stemmed from a change in supply (which also reflected the influence of various price and quota arrangements).<sup>1</sup> In other cases prices were revised with Government approval, this being accompanied by a reduction of the subsidy.

Egg prices averaged 7.5 percent higher than in 1964. This resulted from an 11.3 percent price rise in May 1965 and the cutting of the subsidy. The price increase depressed local demand, domestic marketing being only 2 percent larger (a decline of 1 percent in per capita consumption). Egg marketing is largely organized by the Poultry Council, and surpluses from domestic marketing are channelled to export.

Poultry prices went up by an average of 22.5 percent. This was due to the contraction of supply, following a decline in profitability the year before and the greater incidence of disease during the year reviewed.

Prices of milk and milk products were 12 percent higher than in 1964. The average increase reflects an 18 percent rise in the prices of milk products in May 1965, this too being accompanied by the cutting of the subsidy. As a result of the price increase, domestic consumption of milk was only 2 percent greater in 1965 (a 1 percent decline in per capita consumption).

Fresh meat prices rose by an average of 14.5 percent over 1964. This can be ascribed to a 10 percent decrease in supply caused by two factors: first, the increased profitability of dairy farming following the rise in milk prices, which led to an increase in the number of milch cows and a decrease in slaughtering; and second, the discontinuation of the import of calves for fattening.

Vegetable prices were up by an average of 9 percent, as compared with 10 percent in 1964. In 1964 the quantity of surpluses withdrawn from the market was substantially larger than in the previous year; in 1965 the price rise fol-

<sup>1</sup> For a description of the various arrangements in agricultural production and marketing, see Bank of Israel Annual Report for 1964, p. 108.

lowed the contraction of supply—domestic consumption went up by only 2 percent (1 percent per capita). The amount of surpluses withdrawn from the market was thus considerably smaller. The decline in yields was due to two factors: in the summer of 1964 supply expanded greatly, accompanied by the sagging of prices and a large increase in surpluses. This motivated farmers to

**Table VI-5**  
**CHANGES IN THE WHOLESALE PRICE INDEX OF INDUSTRIAL PRODUCTION, 1964-65**

(percentages; average 1963=100)

Branch	Average change compared with previous year		June 1964 compared with Jan. 1964	Dec. 1964 compared with June 1964	June 1965 compared with Dec. 1964	Dec. 1965 compared with June 1965
	1964	1965				
Mining and quarrying	2.7	6.7	2.0	6.6	2.1	0.6
Food						
Meat, milk, canned						
fruit and vegetables	8.7	13.2	2.2	0.1	13.4	5.2
Other foodstuffs	0.3	0.8	0.1	0.1	0.2	0.8
Textiles	1.3	1.5	0.9	0.2	1.1	0.9
Clothing <sup>a</sup>	-1.6	1.2	—	1.8	0.3	0.7
Wood and furniture	2.2	3.4	1.2	2.3	1.6	0.7
Paper, cardboard, and products thereof <sup>b</sup>	-0.7	0.1	—	—	—	0.1
Leather and leather products <sup>c</sup>	1.0	4.3	0.4	1.3	1.9	6.3
Rubber and plastic goods	-1.9	-1.0	-1.0	-0.3	-0.5	-0.3
Chemicals and petroleum products	-0.2	2.8	-0.2	0.1	2.9	1.1
Nonmetallic minerals	0.8	3.3	0.3	1.0	2.2	1.4
Basic metals	1.2	2.9	1.3	1.0	2.0	1.8
Metal products	1.4	6.2	0.9	3.0	3.4	2.1
Machinery	1.0	1.5	0.5	0.6	0.6	2.0
Electrical equipment	1.1	3.7	1.4	2.0	1.9	0.5
Transport equipment	1.4	9.8	0.7	3.7	6.9	3.2
Miscellaneous	0.3	5.6	0.7	1.6	3.9	1.1
Total	0.8	3.9	0.6	1.1	2.9	1.6
Total, less the item "meat, milk, canned fruit and vegetables"	0.9	3.1	0.5	1.2	1.9	1.3

<sup>a</sup> Minus the sewing and tailoring item.

<sup>b</sup> Minus the increase in the index stemming from a formal change: the abolition of the subsidy on newsprint which had been given to the producer, and its replacement by a direct subsidy to newspapers.

<sup>c</sup> Minus the shoe repair item.

SOURCE: Central Bureau of Statistics.

reduce acreage in 1965. Accentuating this trend were the tightening of controls by the Vegetable Production and Marketing Board and the lowering of guaranteed minimum prices in the summer of 1965—this too in the wake of the big increase in surpluses and in subsidy payments in 1964.

Table VI-6

DISTRIBUTION OF INDUSTRIAL BRANCHES, BY PEAK PERIOD OF PRICE RISES (INDEX OF WHOLESALE PRICES), 1964-65

Branch	No. of sub-branches	Period of highest price increase				No rise* or decline
		1964		1965		
		First half	Second half	First half	Second half	
Food						
Meat, milk, canned fruit and vegetables	3	—	—	2	1	—
Other foodstuffs	17	1	—	2	7	7
Mining and quarrying	3	—	1	2	—	—
Textiles	10	—	2	5	2	1
Clothing	4	2	1	1	—	—
Wood	7	1	2	4	—	—
Paper and cardboard <sup>b</sup>	2	—	—	—	—	2
Leather	4	—	—	1	3	—
Rubber and plastics	4	—	—	1	1	2
Chemicals and petroleum	9	—	—	5	3	1
Nonmetallic minerals	7	—	1	4	—	2
Basic metals	5	1	1	1	—	—
Metal products	9	—	4	4	1	—
Machinery	5	1	1	2	1	—
Electrical equipment	6	1	1	4	—	—
Transport equipment	4	—	3	1	—	—
Miscellaneous	6	1	2	2	1	—
Total	104	8	19	41	22	15

<sup>a</sup> Including branches in which the rate of increase did not exceed 0.1 percent.

<sup>b</sup> See notes to Table VI-5.

SOURCE: Central Bureau of Statistics.

Fruit prices went up by an average of 8 percent, after having declined by 5 percent in 1964. The increase was due to the reduction of supply, which in turn was the outcome of two factors: on the one hand, natural conditions, and on the other, the sharp drop in the prices of some deciduous species in 1964, which led to the uprooting of orchards—of plums and grapes in particular. The fruit-bearing area, except for citrus, was smaller in 1965 than in the previous year.

Table VI-7

**CHANGES IN SELECTED FRUIT AND VEGETABLE PRICES  
ACCORDING TO CONSUMER PRICE INDEX, 1964-65**

	Percent increase or decrease (-) as against previous year	
	1964	1965
Tomatoes	20.9	8.2
Cucumbers	-11.7	21.1
Potatoes	15.3	-3.1
Grapes	-19.3	14.2
Plums	-145.9	28.0
Apples	-11.7	-2.9
Bananas	4.7	23.8
Oranges (Shamuti)	4.1	15.4
Grapefruit	2.0	9.9
Lemons	27.4	-0.5
All vegetables	10.0	9.2
All fruit	-5.1	7.7
Total fruit and vegetables	2.9	8.3

SOURCE: Central Bureau of Statistics.

(c) *Services*

The service item in the consumer price index moved up more rapidly in 1965 than in 1964 (see Table VI-8). This is ascribable to those services subject to official arrangements, where increases had been prevented in previous years. Tax increases also had an effect here. In services more or less free of intervention, the acceleration of the price rise began at the beginning of 1964.

In service prices as well, the upward trend began to slow down in the second half of 1965. The more rapid rise in the first half of the year partly reflected the increases in the prices of services subject to official arrangements, but to a large extent it also typified those services that were free of administrative controls, institutional influences, and seasonal fluctuations. Prices of this group of services (the "representative services") went up by 7.6 percent in the first half of the year, as compared with 3.6 percent in the second half. Nearly all of the items in the group<sup>1</sup> exhibited a similar pattern—an accelerated increase toward the end of 1964 or the beginning of 1965 (see Diagram VI-5), and a deceleration in the second half. The group of services subject to official

<sup>1</sup> This group consists of nine services: meals in restaurants, refreshments at kiosks, sewing and tailoring, drycleaning and laundry, shoe repair, haircutting and beauty parlors, private physicians, dental care, and theater and concerts.

Table VI-8

**RISE IN PRICES OF MAIN SERVICE GROUPS ACCORDING TO CONSUMER  
PRICE INDEX, 1962-65**

	Weight in January (pro mille)		Percent annual rise in December levels				1965	
	1962	1965	1962	1963	1964	1965	First half	Second half
Personal services	85.7	101.8	12.6	4.8	9.7	9.2	7.6	1.5
Health services	31.4	37.0	18.0	4.3	6.1	7.0	4.6	2.3
Educational services	20.2	26.0	12.1	7.3	9.3	6.4	1.8	8.1
Transportation and communications	36.1	35.0	12.0	9.2	0.7	14.6	14.6	0.0
Insurance and taxes	28.1	25.5	8.9	1.2	2.4	1.2	0.9	0.3
Electricity and water	20.7	20.4	9.0	0.2	0.0	6.7	9.2	-2.2
Other public services	2.0	8.4	—	—	—	24.3	7.4	15.7
Total	224.2	254.1	12.3	4.7	5.9	8.7	6.8	2.1

SOURCE: Central Bureau of Statistics.

arrangements or to institutional influences displayed a different trend in comparison with the two preceding years. Simultaneously with the loosening of the reins on industrial prices and the raising of prices of agricultural products, prices went up steeply here as well. In January passenger fares were raised by 16 percent—17 percent for buses, 8.5 percent for taxis, and 27 percent for the railway (in 1964 bus fares were kept down by the grant of subsidy). In April water rates were increased by 26 percent. After that, there was a 23 percent increase in lawyers' fees, which are set by the Chamber of Advocates, and the price of driving lessons was raised by 40 percent, following the levy of a tax on lessons (the price increase, however, was greater than the tax).

An area in which institutional factors are of predominant importance is education. In the 1964/65 school year, which ended in June 1965, there was only a slight increase in tuition fees in secondary schools and institutions of higher learning<sup>1</sup> (after taking into account the reduction granted), while in the 1965/66 school year fees were substantially higher in both types of institutions.

In another area subject to institutional influences there was no increase: Sick Fund membership fees remained practically unchanged (although wage increases of members, up to a certain ceiling, are reflected in a rise in the Fund's receipts, without this being recorded as an increase in the service fee).

<sup>1</sup> The index gives a distorted picture of this item because of retroactive changes in both tuition fees and reductions in fees.

On the whole, prices of services are characterized by a more rapid upward movement in the long run than commodity prices (see Table VI-12). This trend is typical of all developed economies, and it stems from the fact that industry benefits from technological improvements and increased productivity to a much greater extent than the service branches. Another factor which in the Israeli economy (and those similar to it) exerts an influence in the same direction is the much higher income elasticity of demand for services, i.e. the relatively greater growth of demand for services as income goes up.

Table VI-9

RISE IN PRICES OF VARIOUS SERVICES ACCORDING TO CONSUMER  
PRICE INDEX, 1962-65

	Weight in index (pro mille)		Percent annual rise in December levels			
	1962	1965	1962	1963	1964	1965
<b>Personal services</b>						
Meals away from home						
At work and at school	3.9	2.8	12.3	1.8	-0.3	17.5
In restaurants and cafes	9.3	8.9	12.9	4.8	6.4	9.6
Refreshments at kiosks	5.4	6.3	8.0	2.8	4.8	8.5
Total	18.6	18.0	11.4	3.6	4.6	10.6
Domestic help	15.1	18.4	17.6	4.8	21.1	14.5
Sewing and tailoring	4.7	3.7	6.2	9.0	7.6	5.2
Drycleaning and laundry	4.8	5.1	11.0	6.7	9.2	14.3
Shoe repair	4.9	2.5	8.2	2.1	7.1	20.3
Cinema	14.5	12.9	10.9	13.3	2.1	12.3
Theater, concerts, etc.	5.4	5.7	19.9	4.5	18.7	9.7
Convalescent and holiday leave	7.3	14.2	—	0.0	7.3	7.8
Haircutting and beauty parlors	5.3	6.3	8.7	5.1	7.9	7.0
<b>Educational services</b>						
Kindergarten	3.9	4.5	13.2	11.2	8.1	5.9
Secondary and vocational education	9.1	13.2	14.1	-0.7	10.6	3.5
Higher education	2.6	3.1	7.9	8.6	4.0	10.9
Private lessons, advanced courses, etc.	4.6	5.2	9.8	20.8	10.8	9.6
<b>Health services</b>						
Sick Fund services	21.3	21.8	21.3	3.4	3.6	0.1
Private doctors	4.5	5.4	11.2	5.7	10.4	11.0
Dental treatment	5.6	9.8	13.2	6.3	11.6	19.8

SOURCE: Central Bureau of Statistics.

Diagram VI-4

RISE IN VARIOUS SERVICE PRICES ACCORDING TO CONSUMER PRICE INDEX, 1962-65

(January 1962=100)

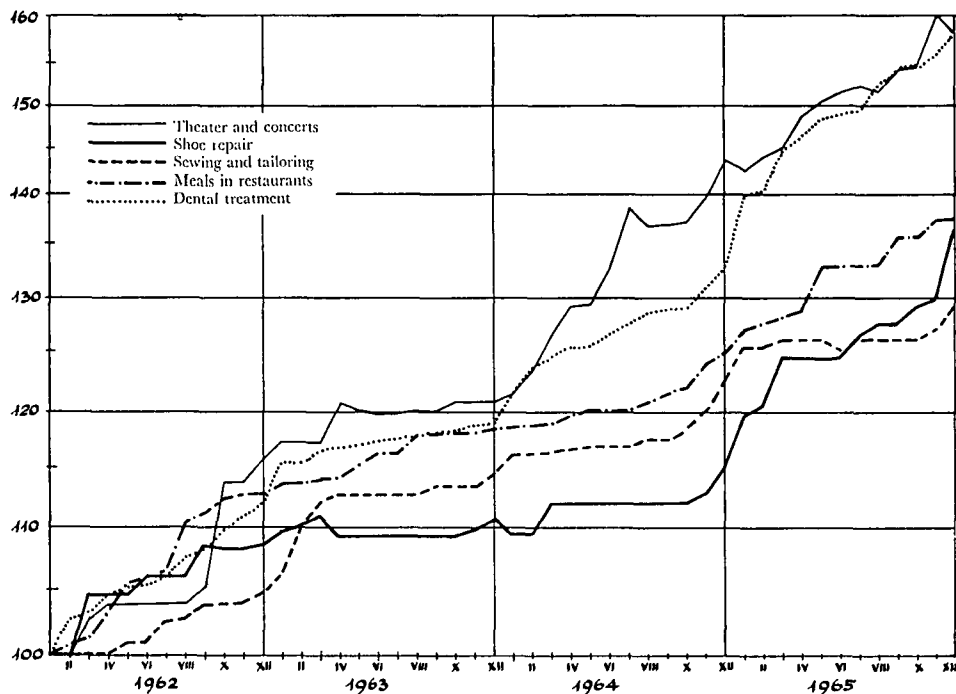
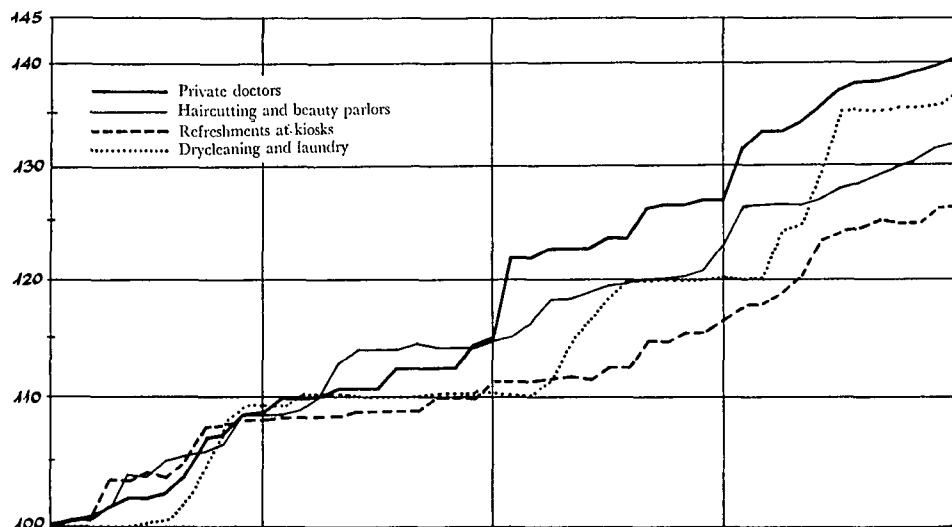
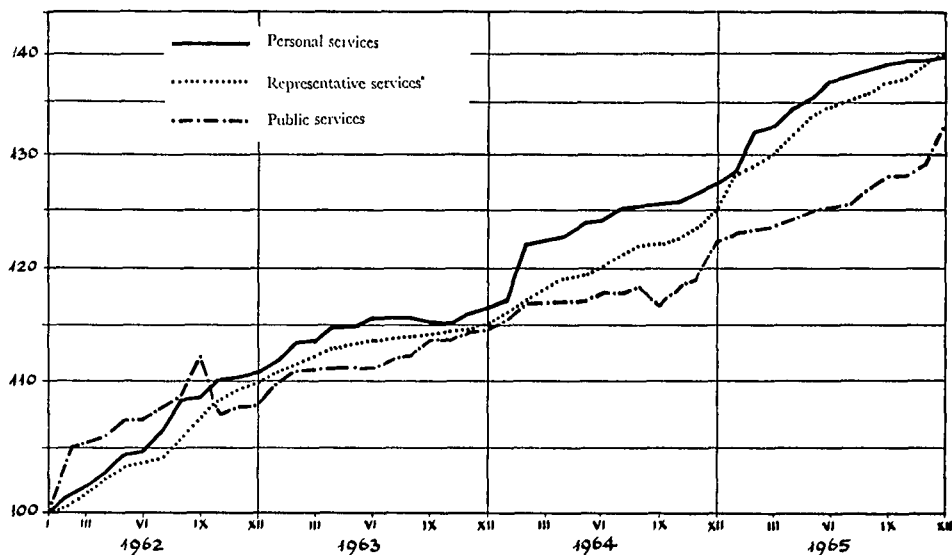




Diagram VI-5

**RISE IN PRICES OF PERSONAL AND PUBLIC SERVICES AND GROUP OF REPRESENTATIVE SERVICES, ACCORDING TO C-O-L INDEX, 1962-65<sup>a</sup>**

(January 1962=100)



<sup>a</sup> See section 3(c) and note on p. 125.

Table VI-10

**RISE IN PRICES OF PERSONAL SERVICES RELATIVE TO INDUSTRIAL PRICES, 1959-65**

Year (last quarter)	Industrial prices according to consumer price index (Jan. 1959 = 100)	Index of service prices (Jan. 1959 = 100)	Index of service prices relative to industrial prices (Jan. 1959 = 100)	Percent increase over preceding period
1959	99.7	103.4	103.7	3.6 <sup>a</sup>
1960	101.9	109.3	107.3	3.5
1961	109.1	120.5	110.5	3.0
1962	118.5	137.0	115.2	4.3
1963	118.8	142.8	120.2	4.3
1964	121.0	156.2	129.1	7.4
1965	128.6	172.1	133.9	3.7

<sup>a</sup> The annual rate is based on data for three quarters.

SOURCE: Central Bureau of Statistics.

As regards the long-run trend in the change in the relative prices of services as compared with commodities, 1964 stands out as an exception, the relative increase in the price of services being much more rapid. This was apparently due to the influence of the administrative curbs on industrial prices. To be sure, in 1963 as well price restraints were employed, but owing to weaker demand pressure, services prices went up to a lesser extent than in 1964. In 1965 the influence of the restraining measures on the long-term trend seems to have been partly neutralized. The rise in the relative price of services would certainly have been lower were it not for the fact that the prices of some industrial products (foodstuffs, for example), were still kept down, mainly by means of subsidies and tax reductions.

#### (d) *Housing*<sup>1</sup>

In 1965 the upward price trend in the housing market virtually came to a halt. According to the housing surveys conducted for the purpose of the consumer price index,<sup>2</sup> the level of housing prices in the six-months period July to December 1965 was 0.7 percent higher than in the previous six months.

The feverish boom in the housing market after devaluation petered out at the end of 1963, and from then until the beginning of 1965 prices advanced at a lower rate.

Prices of dwellings in public housing projects have gone up more rapidly of late than those of units put up by private contractors. They were generally below the market price of similar housing, and the rise thus took place from a relatively lower base. Public construction has a greater weight in the consumer price index than in the housing market as a whole; hence the increase in housing prices according to the index has a downward bias of late.

In 1965 the housing market was marked by a surplus supply and the accumulation of a stock of empty dwelling in the hands of contractors. This reflected the appreciable expansion of supply which, owing to the length of building time, goes back to the period of strong demand pressure in this market. A factor which accentuated the surplus supply at a time when the excess demand seemed to be coming to an end was the discussions on the restriction of construction, which touched off an upsurge in building starts at the end of 1964 and the beginning of 1965.<sup>3</sup>

<sup>1</sup> A detailed discussion of the various problems connected with the measurement of housing prices was presented in the Bank of Israel Annual Report for 1964, pp. 119 ff.

<sup>2</sup> The changes in dwelling prices and key money in the consumer price index are measured directly on the strength of surveys of dwelling units changing hands and are adjusted according to the changes in the index of residential construction costs for the period after the date to which the last direct measurement applies. Until 1964 housing surveys were conducted once every six months, but since the beginning of 1965 they have been conducted once every three months, each time covering a period of six months.

<sup>3</sup> See the detailed discussion in Chapter XIII, "Construction and Housing".

Table VI-11

## RISE IN DWELLING PRICES AND KEY MONEY, 1959-65

Period (middle of survey period)	Dwelling prices		Key money		Total
	Index	Percent increase over preceding period	Index	Percent increase over preceding period	Index
1959 January	100	—	100	—	100
July	102.0	2.0	101.2	1.2	101.7
1960 January	105.0	2.9	102.9	1.7	104.1
July	110.8	5.6	103.4	0.5	107.7
1961 January	117.1	5.7	102.9	-0.5	111.2
July	126.7	8.2	117.9	14.6	123.1
1962 January	141.8	11.9	131.2	11.3	137.4 <sup>a</sup>
July	155.7	9.8	152.1	15.9	154.6
1963 January	174.4	12.0	182.4	19.9	176.6
July	203.7	16.6	209.6	14.9	205.4
1964 January	215.9	6.0	210.2	0.3	214.3
July	233.2	8.0	230.0	9.4	232.3
1965 January	247.4	6.1	248.6	8.1	247.7 <sup>a</sup>
April	259.0	4.7	249.1	0.2	256.7
July	259.0	0.0	251.8	-1.4	257.2
October	260.8	0.7	268.4	6.6	260.8

<sup>a</sup> In January 1962 and January 1965 the weight was changed, and the index of total housing prices was calculated according to the new weights and chained to the old index.

SOURCE: Central Bureau of Statistics.

Key money went down in the first half of 1965, as a result of the anticipated increase in rent in buildings covered by the Tenant Protection Law. After the committee appointed to deal with the subject published its report, including the recommended revisions, key money resumed its upward trend at the end of 1965.

(c) *Investment prices*

The level of domestic investment prices moved up by 4 percent in 1965, following a 3.5 percent advance the year before (see Table VI-12). As in the preceding year, this mainly reflected the higher prices of new construction.<sup>1</sup> Whereas the principal factor in 1964 was the rise in wages, in 1965 all inputs were dearer.

<sup>1</sup> The measurement here does not reflect the price of new construction but the price of purchased inputs, and trends in the two are not always identical.

**Table VI-12**  
**CHANGES IN DOMESTIC INVESTMENT PRICES, 1962-65**  
 (percentages)

	1962	1963	1964	1965	Weight in 1965 (pro mille)
Construction	14	6	5	5	600
Equipment (excl. vehicles)	35	7	1	3	878
Locally produced	10	5	1	4	96
Imported	50	8	1	2	182
Vehicles	17	3	2	4	63
Ships and aircraft	66	—	—	—	32
Capital goods from agriculture	10	7	6	11	26
Total	20	6	3.5	4	1,000

SOURCE: Central Bureau of Statistics.

Equipment prices went up more rapidly than in 1964—3 percent as against 1 percent. Prices of local equipment rose by 4 percent, and those of imported equipment by 2.5 percent. The biggest increase in local equipment was in that for industry and construction (5 percent), and the lowest was in service equipment (2 percent). The rise in the prices of local equipment reflected the resumption of the upward trend of industrial prices following the easing of price controls in 1965.

Vehicle prices averaged 4 percent higher than in 1964. The measurement here does not, of course, distinguish between the two factors causing the change in the prices of new models as compared with the old—a change in quality and a change in the price. The rise in vehicle prices was due entirely to the higher taxes levied on passenger cars in September 1964.