

CHAPTER VII

PUBLIC SECTOR OPERATIONS

1. THE PUBLIC SECTOR-CONSOLIDATED ACCOUNT¹

THE PUBLIC SECTOR'S demand surplus (excess of expenditure over domestic revenue) expanded in 1965, after having contracted during the two preceding years. At the same time, there was a considerable increase in the net volume of credit which it extended to other sectors of the economy. These changes were accompanied by greater resort to borrowing from the banking system and the rest of the world and to unilateral transfers from abroad. Such financing totalled IL 860 million in 1965, compared with IL 620 million the year before. These developments indicate that public sector operations in 1965 had an expansionary effect on the level of aggregate domestic demand.

Payments were up IL 610 million during the year reviewed, reaching approximately IL 4,900 million.² At current prices, the rise came to 14.5 percent—roughly the same as in 1964.

Current expenditure increased by 18 percent. The biggest growth occurred in wage outlay, following the raising of basic pay rates under the wage agreements signed in 1964 and the expansion of personnel. Government imports were larger, and transfer payments also went up substantially. The rise in interest payments was moderate compared with previous years, while expenditure on subsidies hardly changed.

Purchases on capital account, loans granted (long-term loans under the Government's development budget and those by the Jewish Agency's Settle-

¹ The Government (including the National Insurance Institute), the National Institutions (Jewish Agency, World Zionist Organization, Jewish National Fund, and Keren Hayesod), and local authorities (including religious councils and municipal outlays of cooperative agricultural settlements). Current income and expenses of trading enterprises (such as the Post Office, Israel Railways, and municipal waterworks) have been excluded, except for their surpluses or deficits.

The data in this chapter are based chiefly on financial reports of the public sector authorities, and in part on data from the Central Bureau of Statistics, and in all cases relate to calendar years. Data for 1965 are based on provisional monthly summaries, since financial reports for fiscal 1965/66 have not yet been published. Data for 1964 have been revised.

² With long term-loans recorded on a gross basis and short-term loans on a net basis. If all loans granted and received were recorded on a net basis, the volume of payments would have risen to a similar extent (i.e. about IL 610 million), and totalled IL 4,390 million.

ment Department), and long-term loan repayments increased more slowly than in 1964.

Investments¹ expanded by 12 percent at constant prices, as against 25 percent in the preceding year. Capital expenditure on the National Water Carrier fell off, while that on public buildings virtually held steady. However, the Government's investments in its own enterprises (the Post Office, the Ports Authority, and Israel Railways) were considerably enlarged.

Tax revenue advanced 17 percent, a slower rate than during the four preceding years. The more moderate rise in taxes must be ascribed partly to the slower expansion of national income and imports, and partly to the reduction of tax rates. Income tax rates were pared as from January 1965 in accordance with the recommendations of the Zadok Committee. As a result of these concessions, considerable sums were even refunded to taxpayers during the year reviewed on account of taxes collected in 1964. Indirect tax rates were also reduced on some consumption items in order to hold down their prices.

Receipts from internal loans contracted. There was a rise in proceeds from long-term domestic loans, mainly as a result of the issue of bonds by the Government and by the Jewish Agency subsidiary Hollis,² but this was more than balanced by the steep decline in short-term credit received from various domestic sources. Receipts on account of the Government Short-Term Loan dropped sharply.

The net debt to the banking system rose, for the third year running, but the increase was smaller than during the two preceding years.³

Unilateral receipts from abroad advanced 30 percent, while net receipts from foreign borrowing expanded by 75 percent. Total receipts from foreign sources reached approximately \$ 255 million, as compared with \$ 170 million in 1964.

(a) *The influence of the public sector on demand*⁴

The influence of the public sector on the growth of aggregate domestic demand is measured in Table VII-1. Purchases on current and capital account represent the direct demand of the public sector for goods and services, both locally produced and imported. Tax revenue, less domestic transfers, represents

¹ Excluding that in inventories.

² Hollis is owned by the Jewish Agency and registered abroad. This company issues debentures which are denominated in foreign currency and are purchased—mainly in Israel—out of various types of foreign currency deposits.

³ It should be noted that the increase in the debt to the banking system in 1963 was actually due to the advance received by the Government from the Bank of Israel for the early redemption of some of its foreign liabilities. Other bank credit to the Government contracted that year. The increase in the amount lent to the public sector by the banking system in 1964 and 1965 followed a four-year downtrend in the volume of such credit.

⁴ See the discussion in Chapter XVI, "Flow of Funds". An analysis of the Government subsector will be found below (see Tables VII-5 and VII-6).

the contraction of the other domestic sectors' demand as a result of the withdrawal of their income through public sector levies. To the extent that the public sector increases its demand more than it decreases the demand of the rest of the economy (by means of taxes and other compulsory payments), the demand surplus of this sector rises, this being reflected, under conditions of full employment

Table VII-1
DEMAND SURPLUS AND CREDIT OUTFLOW OF THE PUBLIC SECTOR
AND SOURCES OF FINANCING, 1962-65

(IL million, at current prices)

	1962	1963	1964	1965	Change from 1964 to 1965
A. Demand surplus					
Purchases on current and capital account ^a and net interest	1,852	2,116	2,457	2,870	413
Less: Net taxes and transfers from the public ^b	1,422	1,735	2,101	2,418	317
Demand surplus	430	381	356	452	96
B. Net domestic credit granted^c					
Loans granted ^d	414	403	455	502	47
Less: Domestic loans and credit received ^d	293	260	187	92	-95
Net domestic credit granted	121	143	268	410	142
Sources financing the demand surplus and net domestic credit					
C. Foreign sources					
Unilateral transfers	235	253	217	286	69
Net loans and credits	389	147	298	482	184
Total	624	400	515	768	253
D. Banking system	-73	124	109	94	-15
Total (C+D)	551	524	624	862	238
Of which:					
For the Government	304	240	346	562	216
For the National Institutions	237	293	271	249	-22
For local authorities	10	-9	7	51	44

^a Purchases less sales (i.e. net purchases).

^b Income from taxes and domestic transfers on current and capital account, less transfer payments and subsidies.

^c Excluding transactions with the banking system.

^d Net of repayments.

SOURCE: Tables VII-6, VII-15, and VII-18.

(which prevailed in Israel in recent years), by pressure on the price level, by an increase in the import surplus, or both.¹

As already mentioned, the demand surplus of the public sector rose in 1965 to IL 450 million, after having contracted during 1964 and 1963.

In order to ascertain the total influence of the public sector on effective demand in the economy, its credit transactions also have to be taken into consideration. In 1965 it granted much more credit to other domestic sectors, thereby enabling them to enlarge their demand. Most of the credit went to public sector companies (such as Amidar, Mekorot, Zim, etc.), whose investment programs and operations are largely determined and controlled by the Government. Presumably, a large percentage of their outlays would not have taken place at all were it not for these credits.

The surplus of credit channelled by the public sector to the rest of the economy (mainly in the form of development budget loans and through the Jewish Agency) over credit received by the public sector (loans and credit from domestic sources other than the banking system) increased considerably: its net credit outflow in 1965 was three times greater than in 1963, totalling some IL 410 million. Most of this sum was supplied by the Government. Whereas the local authorities were net recipients of credit and the National Institutions reduced their net credit outflow, loans granted by the Government totalled IL 50 million more than in 1964, while loans received by the Government were down IL 80 million. The net amount of credit injected by the Government into other sectors thus increased by IL 130 million, reaching IL 470 million.

The demand surplus of the public sector and its net credit outflow were financed chiefly from foreign sources, and to a smaller extent by the banking system. The share of overseas sources moved up from 80 percent in 1964 to 90 percent. The composition of receipts from abroad changed during the last three years, the proportion of unilateral transfers declining and that of loans and credits rising.

(b) *The "balance of payments" of the public sector*

The "balance of payments" of the public sector for the years 1964 and 1965, by main type of receipt and payment, is set forth in Table VII-2.

This table distinguishes between transfers and transactions in goods and

¹ As regards the economy as a whole, the demand surplus is reflected in the balance of payments deficit on current account—i.e. an import surplus. As regards a specific sector of the economy, its contribution to the creation of a demand surplus and balance-of-payments pressure cannot be measured separately. Even were it possible to distinguish between domestic and foreign purchases, there is a considerable degree of substitution between them, and the substitution of local purchases for imports on the part of one sector may result in the expansion of imports by another.

services on the one hand (the "real account") and transactions in credit (the "financial account") on the other.¹

Payments on real account (purchases on current and capital account, interest, transfer payments and subsidies) exceeded receipts (from taxes, local transfers, and transfers from abroad) by IL 165 million.² This gap was balanced by a corresponding surplus in the financial account; in other words, net loans and credit from domestic and foreign sources exceeded net loans granted.

The volume of public sector operations, as reflected in its "balance of payments", reached IL 4,900 million in 1965—at current prices an increase of IL 610 million, or 14.5 percent. The Government predominates in this sector, accounting in 1965 for 80 percent of total receipts and 77 percent of total payments. The local authorities received 12 percent of the receipts and made 15 percent of the payments. The share of the National Institutions, which has been declining for several years, amounted to 8 percent of both receipts and payments.

The proportion of receipts from abroad (transfers and loans)³ within total public sector receipts edged up from 19.5 percent in 1964 to 22 percent in 1965. The entire increment stemmed from the operations of the Government, whose receipts from foreign sources increased by approximately IL 240 million. There was no rise at all in National Institution receipts from abroad. After deducting foreign debt repayments, net receipts from abroad totalled IL 770 million, an increase of 50 percent over 1964.

As to receipts from domestic sources, the rise in the weight of ordinary revenue and the decline in that of loans continued in 1965.

On the payments side, there was an increase in the proportion of current outlays—purchases, interest, transfers, and subsidies—which accounted for nearly two-thirds of total expenditure. The relative share of purchases on capital account remained unchanged, while that of long-term loans granted declined. These two items accounted for about one-quarter of all payments. The weight of long-term loan repayments dropped, as in 1964, and such expenditure accounted for only 8 percent of total payments during the year reviewed.

Public sector purchases on current account were up 21 percent in 1965.⁴ Most of the increase occurred in the wage item. Payment of wages and salaries

¹ The "real account" is chiefly a current account, since the public sector has not been debited for most of its capital outlay, this generally being classified as loans to other economic sectors (including the financing of all types of residential construction through the Government's development budget and the financing of agricultural settlement by the Settlement Department of the Jewish Agency).

² This figure equals the demand surplus of the public sector, less unilateral transfers from abroad.

³ Long-term loans gross and short-term credit net.

⁴ Net current purchases (i.e. purchases less sales), excluding transfer payments, subsidies, and interest payments.

Table VII-2
"BALANCE OF PAYMENTS" OF THE PUBLIC SECTOR, BY TYPE OF RECEIPT AND PAYMENT, 1964-65
 (IL million)

Receipts	1964	1965	Increase or decrease (-)	Payments	1964	1965	Increase or decrease (-)
Transfers and transactions in goods and services							
Taxes	2,530	2,965	435	Purchases			
Miscellaneous revenue	438	471	33	On current account	1,769	2,117	348
Total	2,968	3,436	468	On capital account	547	614	67
Unilateral receipts from abroad	217	286	69	Interest payments	321	341	20
Total	3,185	3,722	537	Transfer payments and grants	443	563	120
				Subsidies	244	253	9
				Total	3,324	3,888	564
Transactions in financial claims							
Collections on account of long-term loans	101	95	-6	Long-term loans granted and participation in share capital	556	597	41
Long-term loans received				Repayment of long-term loans			
Foreign	606	692	86	Foreign	315	306	-9
Domestic	240	302	62	Domestic	96	113	17
Short-term credit (net)							
Foreign	7	96	89				
Domestic ^a	43	-97	-140				
From the banking system ^b	109	94	-15				
Total	1,106	1,182	76	Total	967	1,016	49
Total receipts	4,291	4,904	613	Total payments	4,291	4,904	613

^a Excluding credit from the banking system.

^b Including long-term loans and securities.

SOURCE: Tables VII-7, VII-16, and VII-19.

(of civilian personnel only) rose by one-third to IL 825 million.¹ The increase in the number of employees is estimated at 5 percent, and that in average pay per employee—at 26 percent. Almost the entire increment stemmed from higher basic pay rates and the payment of retroactive wage differentials to various groups of employees.

The salaries of most administrative employees were raised under the new labor agreement signed in August 1964. The agreement provided for the establishment of committees with parity representation for managements and unions, and charged with reclassifying clerical and administrative jobs. Some of the committees had not completed their work by the end of 1965,² so that part of the retroactive differentials due to administrative staff for the years 1964 and 1965 will be paid only in 1966. The payment of differentials to academically-trained personnel, whose salaries were raised in December 1965, with effect retroactive to April 1, 1964, will likewise be effected in 1966.³

Other purchases, exclusive of wages, increased by 13 percent. Government imports, including defense requirements, were also larger. Expenditure on security and special budgets, which accounts for some 40 percent of total public sector consumption, rose by approximately 15 percent.

(c) *Public sector saving*

The saving of the public sector, defined as the excess of current revenue (mainly taxes) over current expenditure (purchases, interest, transfer payments, and subsidies) totalled approximately IL 60 million in 1965, about IL 20 million less than in 1964. In the period before 1964 the sector's saving was of a negative sign—i.e. current expenditure exceeded current revenue.

The decline in public sector saving in 1965 can be ascribed primarily to the local authorities. Their current expenditure went up by a substantial 21 percent, while current revenue advanced only 7 percent. The saving of these authorities, measured minus transfers from the Government, is negative. Their dissaving doubled in 1965 to stand at IL 110 million. A large part of the local authorities' dissaving is financed by the Government, through its participation in their ordinary budgets. Transfers from the Government, which were appreciably expanded, enabled the local authorities to spend more in 1965 despite the freezing of municipal tax rates.⁴

The dissaving of the National Institutions remained virtually unchanged,

¹ All wage data cited in this chapter are from the Central Bureau of Statistics.

² Mainly in local authorities and the National Institutions.

³ See the section on "Public services" in Chapter X, "Wages".

⁴ The local authorities' tax revenue rose in recent years despite the freezing of tax rates. This was due to changes in the tax base, i.e. the larger number of dwellings and assets liable to tax, the larger proportion of assets subject to high tax rates, higher assessments on vacant plots, etc.

Table VII-3
PUBLIC SECTOR SAVING AND DEMAND SURPLUS, 1964-65
(IL million)

	1964				1965				Increase or decrease (-) from 1964 to 1965
	Government	Local authorities	National Institutions	Total	Government	Local authorities	National Institutions	Total	
A. Income on current account									
Taxes	2,280	250	—	2,530	2,698	267	—	2,965	435
Other revenue ^a	82	54	17	153	88	58	19	165	12
Total	2,362	304	17	2,683	2,786	325	19	3,130	447
B. Expenditure on current account									
Purchases (net of sales)	1,337	280	118	1,735	1,620	340	113	2,073	338
Transfers and subsidies	580	63	34	677	692	75	35	802	125
Intrasector transfers (net)	72	-77	5	—	111	-113	2	—	—
Interest (net)	111	18	60	189	109	22	65	196	7
Total	2,100	284	217	2,601	2,532	324	215	3,071	470
C. Saving or dissaving (A-B)	262	20	-200	82	254	1	-196	59	-23
D. Expenditure on capital account									
Purchases (net of sales)	310	190	33	533	339	223	39	601	68
Transfers (net) ^b	-36	-58	-1	-95	-27	-66	3	-90	5
Intrasector transfers (net)	-21	-1	22	—	-22	—	22	—	—
Total	253	131	54	438	290	157	64	511	73
E. Demand surplus (D-C)	-9	111	254	356	36	156	260	452	96

^a Domestic current transfers and income from property, excluding interest.

^b Domestic transfers on capital account: to the Government—mainly land betterment tax and inheritance tax; to the local authorities—mainly participation of home owners in development expenditure.

SOURCE: Tables VII-6, VII-15, and VII-18.

totalling some IL 200 million in both 1964 and 1965. The level of National Institution dissaving increases *pari passu* with their current expenditure, since they do not collect taxes and their current revenue from domestic sources covers only a small part of their outlays.¹ The growth of the National Institutions' current expenditure has been slowing down in recent years, and in 1965 there was even a slight absolute decrease.

The level of Government saving declined somewhat in 1965, after having risen during the two preceding years, and stood at some IL 250 million. As already mentioned, current expenditure was considerably higher, particularly wages and transfer payments (including current transfers to local authorities).² Current income, on the other hand, rose only moderately.

(d) *Functional composition of expenditure*

The breakdown of public sector expenditure for the years 1964 and 1965 by function and by public sector authority is shown in Table VII-4.³

Developments in the composition of public sector expenditure reflect mainly changes in the composition of Government expenditure, which amounts to nearly 80 percent of total public sector outlay. Security, National Insurance, and the promotion of industry are the exclusive province of the Government, which also plays a decisive role in the other items.

The National Institutions deal mainly with immigration and agriculture. Their share of total expenditure has been declining.

The main expenditure items of the local authorities are social services (chiefly education and social welfare) and municipal services (sanitation, sewerage, supply of drinking water, etc). Their weight in total public sector expenditure is moving upward.

In 1965 the rising trend in the relative share of social services (education, social welfare, health, and housing) continued. Approximately half the increase in the sector's outlay during the year reviewed was on social services, which accounted for some 30 percent of aggregate expenditure. The percentage spent on education and culture rose, while that on housing declined (even in absolute terms), with the reduction of residential construction for new immigrants. The weight of expenditure on health and social welfare (including National Insurance) edged up somewhat.

¹ The National Institutions' unilateral receipts from abroad are not regarded as current income for the purpose of calculating saving, as defined in the national accounts.

² Government transfers to the rest of the public sector increased by more than 50 percent. This was largely responsible for the drop in Government saving.

³ Table VII-4 is based on data from Tables VII-14, VII-17, and VII-20. Outlays have been recorded net of transfers between public sector authorities (Government, National Institutions, and local authorities), being regarded as expenditure of the executing authority and not of the financing authority. Hence Table VII-4 is not strictly comparable with the other tables mentioned.

Table VII-4

FUNCTIONAL COMPOSITION OF PUBLIC SECTOR EXPENDITURE,^a 1964-65

(IL million)

	1965				1964	Weight in total (%)	
	Government	Local authorities	National Institutions	Total	Total sector	1965	1964
General services							
General administration	167	73	43	283	249	5.8	5.8
Security and special budgets	905	—	—	905	779	18.5	18.2
Police and justice	104	—	—	104	92	2.1	2.1
Community services n.e.s. ^b	28	145	55	228	221	4.6	5.1
Total	1,204	218	98	1,520	1,341	31.0	31.2
Social services							
Education, culture, religion	381	256	27	664	482	13.5	11.2
National Insurance and social welfare	293	63	10	366	307	7.5	7.2
Health	150	35	1	186	153	3.8	3.6
Housing	302	6	5	313	317	6.4	7.4
Total	1,126	360	43	1,529	1,259	31.2	29.4
Economic services							
Agriculture and water development	269	7	121	397	378	8.1	8.8
Industry, mining and quarrying	136	5	1	142	121	2.9	2.8
Transportation and communications	309	60	—	369	299	7.5	7.0
Other economic services	68	2	3	73	55	1.5	1.3
Total	782	74	125	981	853	20.0	19.9
Unallocable services							
Interest payments	239	22	80	341	321	7.0	7.5
Debt redemption	336	43	40	419	411	8.5	9.5
Miscellaneous ^c	114	—	—	114	106	2.3	2.5
Total	689	65	120	874	838	17.8	19.5
Grand total	3,801	717	386	4,904	4,291	100.0	100.0

^a Excluding current outlays of public sector enterprises, such as the Post Office, Israel Railways, the ports, and municipal waterworks, but including the expenditure of the National Insurance Institute. Intrasector transfers have been disregarded—hence the difference between the data in this table and the corresponding data in Tables VII-14, VII-17, and VII-20.

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

^c Mainly subsidies on imported commodities.

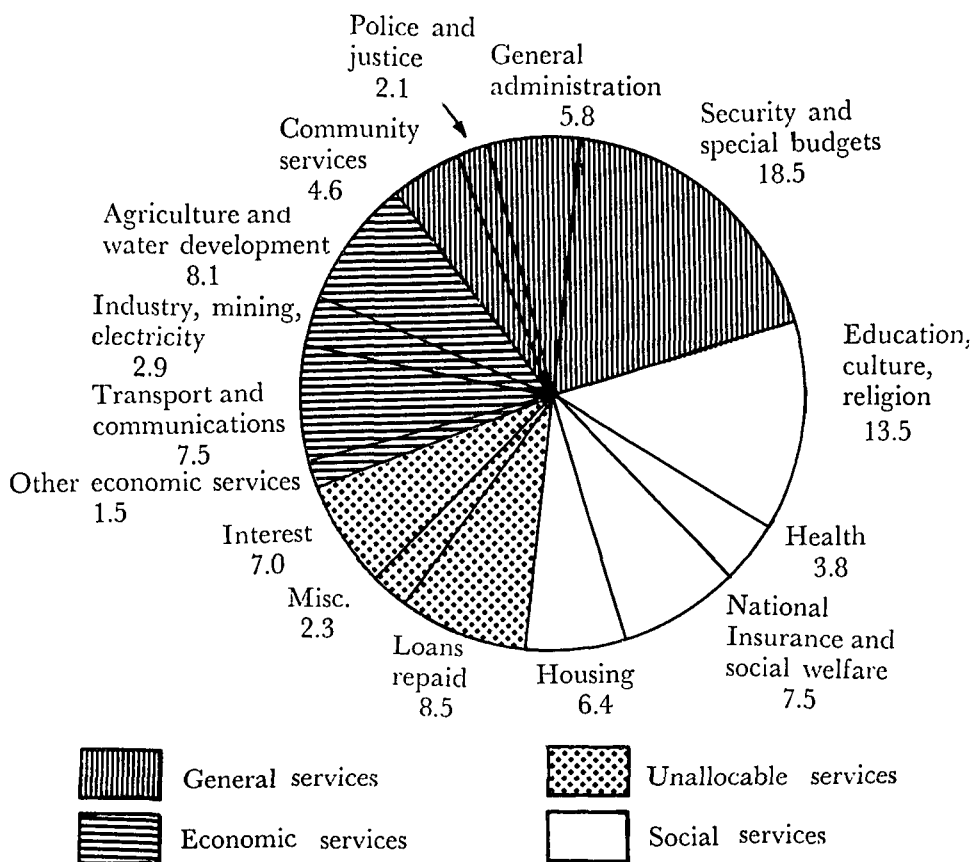
Outlays on general services (administration, community services, security, and police and justice) constituted some 30 percent of the sector's total expenditure. The weight of security outlay rose somewhat, while that of expenditure on community services fell. This item includes *inter alia* the municipal services supplied by the local authorities and the immigration services supplied by the National Institutions. The relative decline in community services in 1965 was largely due to the smaller amount spent on immigration services following the drop in the number of new arrivals. The percentage of other administrative expenditure (including police and justice) remained stable.

There was no change in the weight of economic services, which continued to stand at 20 percent. The share of outlays on transportation and communications went up owing to larger Government investments in ports, roads, and postal and communication services. The weight of expenditure on agriculture

Diagram VII-1

FUNCTIONAL COMPOSITION OF PUBLIC SECTOR EXPENDITURE, 1965

(percentages)



and water development declined following the completion of the first stage of the National Water Carrier and the cutting of Government subsidies to farmers.

The weight of interest payments and debt redemption moved down during the year reviewed.¹

2. THE GOVERNMENT

Government outlay, including repayment of long-term debts, aggregated IL 3,940 million in 1965, a rise of IL 530 million, or 15.5 percent, over 1964.

Current purchases (at current prices) were 21 percent larger, compared with an increase of 11.5 percent in the preceding year. Payments of wages and salaries were also substantially larger than in the previous two years, mainly because of the raising of basic pay scales, the implementation of which was postponed from 1964. There was also a considerable increase in transfer payments, most of which consist of National Insurance benefit payments and grants to local authorities. The volume of subsidies remained virtually unchanged; subsidies for lowering commodity prices were reduced somewhat, but export subsidies were expanded. Purchases on capital account went up moderately—by 9 percent as against 29 percent in 1964. Investments in the National Water Carrier contracted, while those in public buildings increased to a relatively small extent as compared with previous years, owing to the policy of restricting public construction. In addition, stocks in Government warehouses were reduced during the year.

Tax revenue advanced 18 percent in 1965, a lower rate than during the four preceding years. This was due to the slower expansion of national income and imports, to the paring of income tax rates and various indirect taxes, and to large tax refunds following the retroactive implementation of the income tax reforms proposed by the Zadok Committee.

Loans and credit from abroad were appreciably larger in 1965. Long-term loan proceeds rose following the expansion of U.S. Government aid, while the increase in short-term credit resulted from the resumption of Government import purchases against foreign supplier credit. There was also a rise in unilateral transfers from abroad.

Revenue from long-term domestic loans increased, while short-term credit from various domestic sources declined sharply. There was a striking decrease in proceeds from the Government Short-Term Loan; in fact, repayments exceeded receipts.

Collections on account of development budget loans was smaller than in 1964, owing to the deferment of payment on part of the loans granted in the past and to the conversion of loans into shares.

¹ See the section dealing with the functional composition of Government expenditure.

(a) *Government operations*

The demand surplus of the Government increased in 1965, after having declined during the two preceding years. Government purchases¹ on current and capital account expanded by 17.5 percent, while net revenue from domestic sources² rose by 15 percent.

In 1965 direct Government demand for domestic and imported services and

Table VII-5

SAVING AND DEMAND SURPLUS OF THE GOVERNMENT, 1962-65

(IL million, at current prices)

	1962	1963	1964	1965	Change from 1964 to 1965
A. Income on current account					
Taxes	1,596	1,908	2,280	2,698	418
Other revenue ^a	68	61	82	88	6
Total	1,664	1,969	2,362	2,786	424
B. Expenditure on current account					
Purchases (net of sales)	1,087	1,217	1,337	1,620	283
Transfer payments and subsidies	445	485	580	692	112
Interest (net)	103	109	111	109	-2
Transfers to the rest of the public sector (net) ^b	44	55	72	111	39
Total	1,679	1,866	2,100	2,532	432
C. Saving (A-B)	-15	103	262	254	-8
D. Expenditure on capital account					
Purchases	213	239	310	339	29
Transfers from the rest of the public sector (net)	-42	-53	-21	-22	-1
Transfers from other domestic sectors (net) ^c	-16	-24	-36	-27	9
Total	155	162	253	290	37
E. Demand surplus (D-C)	170	59	-9	36	45

NOTE: This table is based on Table VII-7, but as most of the data here have been recorded on a net basis, they are not comparable with those in Table VII-7.

^a Domestic transfers and income from property, excluding interest.

^b Net transfers to local authorities and the National Institutions.

^c Land betterment tax and the inheritance tax, less Government transfers on capital account.

¹ Less sales but including net interest.

² Taxes and net transfers, including those to the rest of the public sector.

Table VII-6

**DEMAND SURPLUS AND CREDIT OUTFLOW OF THE GOVERNMENT
AND SOURCES OF FINANCING, 1962-65**

(IL million, at current prices)

	1962	1963	1964	1965	Change from 1964 to 1965
A. Demand surplus					
Purchases on current and capital account ^a and net interest	1,403	1,565	1,758	2,068	310
Net transfers to the rest of the public sector	2	2	51	89	38
Less: Net taxes and transfers from the public ^b	1,235	1,508	1,818	2,121	303
Demand surplus	170	59	-9	36	45
B. Net domestic credit granted^c					
Loans to other sectors ^d	341	333	383	433	50
Loans to the rest of the public sector	28	8	16	56	40
Less: Loans and credit received ^d	235	160	44	-37	-81
Total	134	181	355	526	171
Sources financing the demand surplus and net domestic credit granted					
C. Foreign sources					
Unilateral receipts	73	79	25	66	41
Net loans and credit	292	42	226	441	215
Total	365	121	251	507	256
D. Banking system	-61	119	95	55	-40
Total (C + D)	304	240	346	562	216

^a Purchases less sales.

^b Income from taxes, domestic transfers on current and capital account, less transfer payments and subsidies.

^c Excluding transactions with the banking system.

^d Net of repayments.

goods exceeded the withdrawal of income from the economy by IL 35 million. In 1964 the Government had a supply surplus of approximately IL 10 million; the increase in the demand surplus thus totalled IL 45 million during the year reviewed.

The Government's influence on effective demand in the economy is measured in Table VII-6. Besides the rise in its demand surplus, the Government provided a larger amount of net credit to other domestic sectors. Government

loans granted (net), domestic loan repayments, and the decrease in credit received added up to IL 525 million—or IL 170 million more than the net total of loans and credit granted during 1964. In 1964 there was a similar increase in the volume of credit granted by the Government.

The Government's demand surplus and its net credit outflow were financed mainly by foreign receipts, and only to a limited extent by credit from the banking system. The weight of foreign receipts in such financing—which totalled IL 560 million in 1965 as compared with IL 350 million in 1964—rose to some 90 percent.¹ There was a particularly large growth in net loan proceeds, which reached IL 440 million—about double the 1964 figure. The increase occurred in both long- and short-term loans.²

Table VII-7 shows the "balance of payments" of the Government for the years 1964 and 1965. It differentiates between transfers and transactions in goods and services on the one hand, and transactions in credit on the other. Intrasector transactions are listed separately.

Payments on real account (purchases on current and capital account, transfer payments, grants, subsidies, and interest) were nearly IL 120 million smaller than receipts (revenue from taxes and other compulsory payments, as well as transfers from Israel and abroad). In 1964 the surplus on real account was smaller, totalling some IL 85 million.

In the financial account, the credit outflow of the Government in 1965 was IL 25 million smaller than the inflow from both domestic and foreign sources.

Net payments to the rest of the public sector totalled IL 145 million in 1965, almost double the 1964 figure.

(b) Receipts

1. Taxes

Government tax revenue increased by IL 420 million in 1965 to reach IL 2,700 million. The rate of growth—18 percent—was slightly slower than during the four preceding years (when it averaged 20 percent). Receipts from direct taxes expanded more rapidly than national income (23.5 as against 18.5 percent). On the other hand, net income from indirect taxes³ on local production expanded more slowly than the national product (16 as against 17.5 percent).

¹ The decline in the relative share of foreign receipts in financing the demand surplus and net Government credit in 1962 and 1963 (see Table VII-6) was not due to a decrease in new loans, but to an increase in debt redemption. The Government followed a policy of paying off debts to foreign suppliers ahead of maturity during those years, converting them into liabilities to the Israeli banking system.

² In June 1965 the Ministry of Commerce and Industry again began to buy foodstuffs from suppliers abroad against short-term credit. Purchases on such conditions had virtually ceased as of 1963.

³ Indirect taxes less subsidies.

Table VII-7
"BALANCE OF PAYMENTS" OF THE GOVERNMENT, BY TYPE OF RECEIPT AND PAYMENT, 1964-65
 (IL million)

Receipts	1964	1965	Increase or decrease (-)	Payments	1964	1965	Increase or decrease (-)
Transfers and transactions in goods and services							
Taxes ^a	2,280	2,698	418	Purchases			
Miscellaneous revenue	288	300	12	On current account	1,369	1,662	293
Subtotal	2,568	2,998	430	On capital account	318	346	28
Unilateral receipts from abroad	25	66	41	Interest payments	238	239	1
				Transfer payments and grants	341	450	109
				Subsidies	242	248	6
Total	2,593	3,064	471	Total	2,508	2,945	437
Transactions in financial claims							
Collections on long-term loans	91	87	-4	Long-term loans granted and participation in share capital			
Long-term loans received				For housing	294	312	18
Foreign	552	662	110	For other purposes	180	208	28
Domestic	75	135	60	Total long-term loans	474	520	46
Short-term credit (net)				Redemption of long-term loans			
Foreign	-33	59	92	Foreign	293	280	-13
Domestic ^b	15	-116	-131	Domestic	46	56	10
From the banking system ^c	95	55	-40	Total	813	856	43
Total	795	882	87				
Transactions with the National Institutions and local authorities							
From National Institutions (net)	22	-4	-26	To local authorities (net)	89	141	52
Total receipts	3,410	3,942	532	Total payments	3,410	3,942	532

^a Including collections on account of National Insurance, the War Risk Insurance Fund, the Absorption Loan, and compulsory saving.

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

^c Including long-term loans and securities.

Table VII-8
GOVERNMENT TAX REVENUE, 1964-65
(IL million)

	1964	1965	Increase or decrease (-)	
			IL m.	%
Direct taxes				
Income tax	815	995	180	22.1
Absorption Loan and compulsory saving	101	127	26	25.7
National Insurance	180	234	54	30.0
Total	1,096	1,356	260	23.7
Indirect taxes				
Customs duties	329	398	69	20.9
Purchase tax	296	345	49	16.6
Excise duties	125	139	14	11.2
Fuel tax	112	117	5	4.5
Property taxes	110	126	16	14.5
Stamp tax, security stamp, and entertainment tax	85	98	13	15.3
Vehicle license fees	26	33	7	26.9
Foreign travel tax	22	24	2	9.1
Licenses, fees, and misc. service charges	33	31	-2	-6.1
Current surplus of Post Office and ports	46	31	-15	-32.6
Total	1,184	1,342	158	13.3
Grand total	2,280	2,698	418	18.3

NOTE: The definition of direct and indirect taxes in this table is based on conventional national accounting procedures and differs somewhat from that employed by the Accountant General. This table excludes compulsory payments which in the national accounts are defined as transfers—namely, the inheritance tax, the land betterment tax, fines, and certain fees and licenses (e.g. driving licenses and passport fees). On the other hand, this table includes the net profit of the Post Office and the ports (the deficits of Israel Railways are classified under subsidies).

SOURCE: Accountant General and National Insurance Institute.

The weight of direct taxes (taxes on income) within total tax revenue continued the upward trend in existence since 1961, reaching approximately 50 percent (see Table VII-9). As regards indirect taxes, there was a rise in the relative share of taxes on imports, while that of taxes on local production declined.

The higher tax revenue in 1965 was due chiefly to the larger tax base—i.e. the rise in national income and consumption. Average income tax rates were

lower than in 1964, in consequence of the amending of the Income Tax Ordinance in accordance with the recommendations of the Zadok Committee. On the other hand, National Insurance rates went up somewhat, owing to the raising of the "ceiling" on income subject to this tax.

Indirect taxes were not revised as regards most goods and services. Customs duties were increased on some of the products permitted to be imported under the liberalization policy, and the purchase tax on certain services was raised, but on the other hand taxes on various consumer goods were lowered in order to hold their prices in line.

2. Direct taxes and other compulsory payments levied on income

Revenue from direct taxes—income tax, the Absorption Loan, compulsory saving,¹ and National Insurance contributions—rose during 1965 by IL 260 million, or 23.5 percent, to reach IL 1,355 million. The weight of these taxes within total tax revenue came to 50 percent, as compared with 48 percent in 1964.

Income tax receipts alone expanded by IL 180 million to stand at IL 995 million—an increment of 22 percent, as against 27 percent in 1964. The rise in income tax revenue was due to the generally higher incomes in the economy and the effect of progressive rates.² The smaller percentage growth is attributable to the aforementioned amendment of the Income Tax Ordinance, which reduced the average rates of income tax, with effect retroactive to April 1, 1964. In 1965 some IL 35 million was refunded on account of taxes levied in 1964 according to the former rates.³

Income tax collections from wage earners went up by 16 percent in 1965, and collections from self-employed and companies by 30 percent. These growth rates were lower than in previous years, owing to both the factors mentioned above and the lag in collection.⁴

Receipts from the Absorption Loan and compulsory saving increased by 26 percent during the year reviewed, and totalled IL 127 million. This amounted to 13 percent of aggregate income tax revenue, as against 12.5 percent in 1964. The Absorption Loan is collected as a fixed percentage of income tax (18 percent

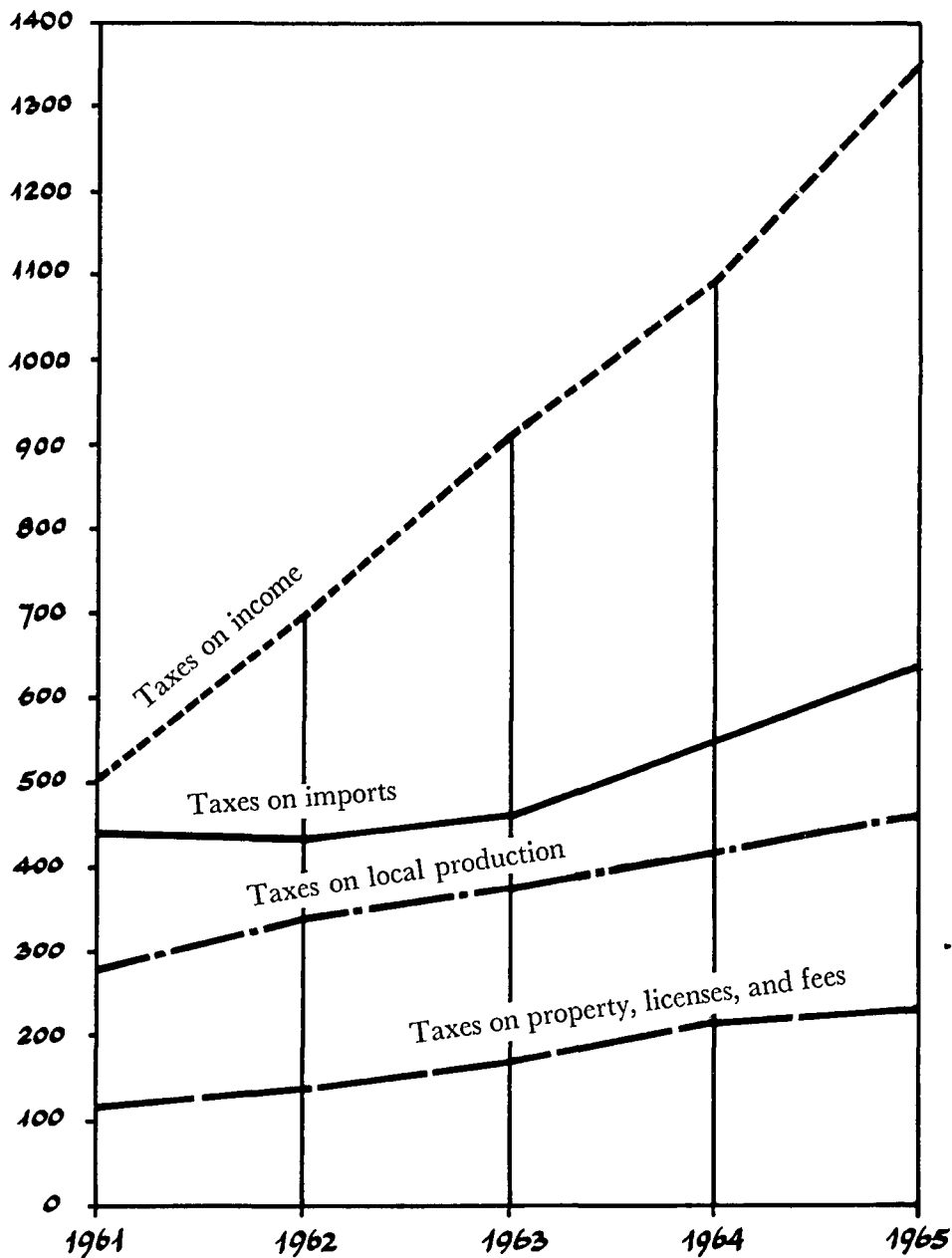
¹ Receipts from the Absorption Loan and compulsory saving have been classified as taxes and not as loans from the public, because of the element of compulsion in their imposition and collection, and also because of the taxpayers' attitude toward them.

² National income increased by 18.5 percent, and the total wage bill by 21 percent.

³ This amount includes refunds on account of the Absorption Loan and compulsory saving.

⁴ The growth in income tax collections from wage earners was less than what the rise in wages should have produced, owing to both the tax refunds and the lag in transferring taxes collected on wage differentials paid to employees in some local authorities and other places of employment. Furthermore, there was a lag in collections from companies and contractors because of the financial difficulties which they experienced toward the end of 1965.

Diagram VII-2
GOVERNMENT TAX REVENUE, BY MAJOR CATEGORY, 1961-65
(IL million)



for wage earners and self-employed, and 12 percent for companies). With the implementation of the Income Tax Ordinance amendment, part of the amount collected in 1964 on account of the Absorption Loan was refunded.

Collections on account of National Insurance expanded by IL 54 million, or 30 percent, to reach approximately IL 235 million. This is a higher rate than what normally would have been attained as a result of the growth in the number of gainfully employed (3.2 percent) and the higher incomes earned, and it can be ascribed to the raising, as of April 1, 1965, of the maximum income on which National Insurance contributions must be paid from IL 420 to IL 550 per month, and also to the increase in National Insurance rates

Table VII-9
GOVERNMENT TAX REVENUE, BY MAJOR CATEGORY, 1962-65

	1962	1963	1964	1965	Increase or decrease (-) from 1964 to 1965	
					IL m.	%
IL million						
Taxes on income	693	903	1,096	1,356	260	23.7
Taxes on expenditure						
Imports	430	458	555	645	90	16.2
Local production	340	375	415	468	53	12.8
Taxes on property	65	87	110	126	16	14.5
Fees and licenses	66	85	104	103	-1	-1.0
Total	1,594	1,908	2,280	2,698	418	18.3
Percentages						
Taxes on income	43.5	47.3	48.1	50.2		
Taxes on expenditure						
Imports	27.0	24.0	24.3	24.0		
Local production	21.3	19.7	18.2	17.3		
Taxes on property	4.1	4.6	4.8	4.7		
Fees and licenses	4.1	4.4	4.6	3.8		
Total	100.0	100.0	100.0	100.0		

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

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

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

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

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

following the introduction of a new insurance scheme—"insurance for employees' children"—as of August 1965.¹

Despite the 30 percent increase in collections of National Insurance contributions, transfers to the Government from the National Insurance Institute went up only IL 8 million, to stand at IL 38 million. This was due to the much larger volume of benefit payments in 1965. Thus we see that, despite the raising of the premium rates, there was no improvement in the actuarial position of the National Insurance Institute, and a gap still exists between the amount of funds accumulated and the capitalized value of its liabilities to the insured.

3. *Indirect taxes*

Government revenue from indirect taxes rose by 13.5 percent in 1965 to reach IL 1,340 million. In 1964 the rate of increase was higher—18 percent. Revenue from import taxes, which constituted nearly half of total indirect tax revenue and approximately a quarter of the Government's entire tax revenue, rose by 16 percent (as compared with 21 percent in 1964) and totalled IL 645 million (see Table VII-9).

Customs revenue amounted to IL 400 million—21 percent more than in 1964. This increase occurred despite the nonexpansion of imports, and was due to several factors: larger income from customs duties on sugar and coffee following the drop in their world prices,² the raising of customs duty rates on a number of products, part of them now freely imported under the import liberalization policy,³ and sizeable collections on account of the previous year's imports.

On the other hand, there was a decline in customs revenue from various foodstuffs. The trimming of customs duty on frozen meat by 47.5 percent in June 1964⁴ had a strong effect here.

Revenue from purchase tax on imported commodities went up 6 percent to stand at IL 107 million. Among the changes should be noted the rise in tax revenue from luxury goods and items brought into the country under the import

¹ The employer's premium payment for this type of insurance is 1.8 percent of his wage bill, there being no ceiling. In 1965 National Insurance rates for the large-family grant were raised, but this was offset by the reduction of the rate for the Equalization Fund for Compensation for Reservists.

² The customs duty imposed on these commodities is fixed according to their world market price, the rate of duty being changed in inverse ratio to the change in the world market price so as to keep the retail price stable. In 1965 coffee and sugar prices in the world market were lower than in 1964, thus resulting in a substantial rise in customs revenue.

³ Durable consumer goods (including motor cars), various foodstuffs (e.g. frozen liver, groundnuts, and dried fruit), toys, etc.

⁴ A large percentage of the frozen meat purchases in 1964 were effected before the customs duty was cut. Consequently, the effect of the lower rate of duty on tax collections was felt only in 1965.

liberalization program, such as cosmetics, photographic equipment, etc., as well as the smaller amount of tax collected on imported motor cars and television sets.¹

Income from levies on local output was, at IL 470 million, 13 percent higher than in 1964. Its weight within total Government tax revenue edged down from 18 to 17 percent. In 1965 tax rates on most commodities and services were frozen² as part of the Government's price stabilization measures. It should be noted that this policy was changed in February and March 1966, with the raising of fuel taxes, excise duties, and purchase tax on a number of goods and services.

Revenue from purchase tax on local output increased by 22 percent to reach IL 240 million. Collections of purchase tax on motor cars rose by 21 percent; on furniture, clothing, textiles, etc.—by 18 percent; on electrical appliances—by 16 percent (after the lowering of the tax on low-priced refrigerators); on cosmetics and beverages—by 26 percent.

Receipts on account of excise duties increased by 11 percent to stand at IL 140 million, even though the tariff remained unchanged. Excise on tobacco yielded a larger income because of the greater consumption of cigarettes and the switch to highly-taxed brands. Income from the excise on cement rose only slightly—by some 5 percent.

Income from property taxes totalled some IL 125 million, 15 percent more than in 1964. This increase was far smaller than in previous years. In many cases buildings were not reassessed, the tax levied being based on the 1962 assessments. In some places assessments on vacant plots were reduced, following the fall in their value as a result of the smaller volume of transactions in the real estate market. The latter development was also reflected by the smaller income from land registration fees (about 40 percent less than in 1964).

Revenue from fees and licenses totalled IL 103 million, about the same as in 1964.

4. Miscellaneous revenue

Revenue from domestic transfers, interest, dividends, and property sales increased by only 4 percent in 1965, to IL 300 million. Of this sum, receipts on account of interest and dividends (excluding interest received from the rest of the public sector) totalled IL 130 million. The amount of interest collected from public sector companies decreased.

¹ The number of automobiles imported in 1965 was 37 percent smaller than in 1964, while the number of television sets imported decreased by 28 percent (see Chapter IV, "Private Consumption").

² Except for the rise in purchase tax rates on certain services (night clubs, the renting of halls, and driving lessons); however, revenue from these service taxes was small.

Revenue from the land betterment tax and the inheritance tax¹ decreased from IL 28 million in 1963 to IL 19 million in the year reviewed. Receipts on account of the land betterment tax declined by about 40 percent, owing to the fall in real estate prices and the smaller volume of transactions therein. There were no striking changes in receipts from sales and transfers, except for a decline in income from sales of the Development Authority and a rise in Bank of Israel profits.

Unilateral receipts from abroad expanded, reaching approximately IL 65 million. The increase occurred in German reparations (fiscal 1965/66 was the last year in which reparations were received)² and in U.S. Government grant-in-aid.

(c) *Payments*

Government expenditure on real account—i.e. purchases on current and capital account, transfer payments, and subsidies—totalled IL 2,945 million in 1965; this was IL 435 million, or 17.5 percent, more than in 1964 (when the increase totalled 15 percent). Current outlays, which account for approximately three-quarters of all payments on real account, increased by 18.5 percent, and investment spending by 9 percent.

1. Payments on current account

Current purchases of the Government³ totalled IL 1,660 million in 1965, 21 percent more than in the preceding year.

Expenditure on security and special budgets, which in 1965 accounted for over half of all current purchases, increased by 14.5 percent to reach IL 885 million.

Expenditure on wages and salaries (excluding the Ministry of Defense and trading enterprises) went up by one-third, to IL 540 million. The number of employees expanded by over 4 percent, and wages per employee by about 28 percent. Almost the entire increment resulted from the raising of basic pay rates and from the retroactive wage differentials paid to employees during the year reviewed.

In the wake of the labor agreement signed in August 1964, a reclassification of administrative and clerical jobs was carried out by parity committees. By the end of the year reviewed, most of the reclassification had been completed and part of the pay differentials due to these employees as of April 1, 1964

¹ According to conventional national accounting definitions, revenue from these two sources is included with transfers on capital account and not with tax revenue.

² The rise in income from German reparations in 1965 was apparently due to the timing of shipments of goods and fuel purchased with reparations funds. Some fuel will be delivered even after the termination of the Reparations Agreement.

³ Exclusive of interest.

had been paid. Salaries of employees with academic qualifications and of teachers were raised in the final months of 1964 by 12 percent (with effect retroactive to April 1964), in line with the country-wide wage agreements. In December 1965 the pay of academic employees was raised once again—by approximately 18 percent (also with retroactive effect), after it had been determined that the reclassification of administrative jobs had distorted the pay differentials between academically-trained personnel and administrative staff. Payment of the salary differentials to academically-trained personnel will be made in 1966.¹

Table VII-10

GOVERNMENT PURCHASES ON CURRENT AND CAPITAL ACCOUNT, 1964-65

(IL million)

	1964	1965	Increase or decrease (-)
Purchases on current account			
Wages and salaries of civilian staff ^a	406	542	136
Security and special budgets	772	885	113
Other purchases	191	235	44
Total purchases on current account	1,369	1,662	293
Purchases on capital account			
Postal and transport enterprises ^b	158	213	55
National Water Carrier	63	51	-12
Roadbuilding	35	44	9
Public buildings and misc.	49	53	4
Subtotal	305	361	56
Investment in inventories^b			
Food Division of Ministry of Commerce and Industry	4	-5	-9
Ministry of Housing and misc.	9	-10	-19
Total purchases on capital account	318	346	28
Grand total	1,687	2,008	321

^a According to the Central Bureau of Statistics.

^b Uninstalled equipment of the postal and transport enterprises is recorded in this table as investment in these enterprises and not as investment in inventories.

¹ See the section on "Public services" in Chapter X, "Wages".

Other current purchases, excluding wages, salaries, and security expenditure, increased by IL 45 million, and totalled IL 235 million.

2. Interest payments

Interest outlay¹ came to some IL 240 million in both 1964 and 1965; of this sum, nearly 60 percent was on account of foreign debts. Interest on domestic loans for financing residential construction declined,² while interest on loans and overdrafts and short-term domestic loans hardly increased. Other interest items, however, were higher than in 1964. Interest on short-term obligations accounted for approximately 30 percent of total interest outlay in 1965.

3. Purchases on capital account

Government investment spending was, at IL 345 million, 9 percent above the 1964 level. The value of stocks in Government warehouses³ declined by IL 15 million, while other investments totalled IL 360 million—in nominal terms, a growth of 18 percent as compared with 33 percent in 1964; and in real terms, 13 as against 29 percent. Capital expenditure on the National Water Carrier decreased, following the completion of its first stage. Investment in public buildings showed hardly any rise in real terms, apparently owing to the policy of restricting public construction. However, Government investment in its own enterprises (postal and telephone services, the Ports Authority, Israel Railways) and roadbuilding was appreciably larger in 1965.

4. Transfer payments and subsidies

Transfer payments and subsidies went up by some 20 percent in 1965, reaching IL 700 million. The increase in subsidies was slower than in 1964, but that in transfer payments was much faster.

Subsidies totalled IL 250 million, only 2.5 percent more than in 1964. This item includes direct price supports, the indirect promotion of production and exports by various Government departments, and the covering of deficits incurred by Government enterprises (Israel Railways and the State Lands Directorate). It does not include the subsidization of production and exports out of branch-wide funds, except for the Government's share therein.

¹ Excluding interest paid to the National Insurance Institute and the War Risk Insurance Fund.

² Including interest on development loans. Though new issue amount was larger, outlay on this item did not increase, owing to the fact that interest on such loans is cumulative.

³ The reference is to stocks of the Food Division and other Government departments, excluding uninstalled equipment of the postal and transport enterprises, which is recorded as investment in these enterprises.

Subsidies on local production¹ remained at the previous year's level of IL 225 million. Export subsidies were increased to IL 22 million.

Farm price supports were cut by IL 10 million to IL 131 million, with nearly all branches being affected. Direct supports on final products (e.g. eggs and milk) were reduced, but on the other hand, factor subsidies and those on

Table VII-11

GOVERNMENT TRANSFER PAYMENTS, GRANTS, AND SUBSIDIES, 1964-65
(IL million)

	1964	1965	Increase or decrease (-)
Transfer payments and grants			
To households			
National Insurance benefits	141	183	42
Pension and provident payments	50	59	9
Other transfer payments	51	76	25
Total to households	242	318	76
To nonprofit institutions			
Education and culture	63	89	26
Health	31	37	6
Social welfare and religion	5	6	1
Total to nonprofit institutions	99	132	33
Total transfer payments and grants	341	450	109
Subsidies			
On agricultural output	141	131	-10
On other goods and services	86	95	9
On exports	15	22	7
Total subsidies	242	248	6
Total transfer payments, grants, and subsidies	583	698	115
Participation in ordinary budgets of local authorities	84	121	37
Grand total	667	819	152

¹ Including the deficits of Israel Railways and the State Lands Directorate.

agricultural raw materials (e.g. fertilizers, seeds, fodder, and water for irrigation) were expanded.¹

Subsidies on imported foodstuffs decreased slightly following the fall in world market prices. Subsidies to transport cooperatives (intended to prevent the raising of bus fares) were almost completely eliminated. There was no change in the amount of differentials paid to financial institutions in compensation for waiving the linkage terms on mortgage loans, and in interest differentials paid on account of loans granted to enterprises in development areas.

Transfer payments to households and nonprofit institutions increased by 32 percent during the year reviewed, reaching IL 450 million. Of this amount, IL 185 million represented National Insurance benefit payments; these went up by IL 40 million, or 30 percent.

Approximately one-third of the incremental benefit payments was on account of the new "insurance for employees' children" scheme, launched in August 1965. The remainder² stemmed from a 12 percent rise in the number of benefit recipients, and an increase of 7.5 percent in the average payment. The rates of old-age and survivors pensions were raised by 3.7 percent in January 1965 to compensate for the general rise in prices. In April 1965 the birth grant was increased by 6.5 percent, and maternity benefits by 30 percent. Other pension and benefit payments were also raised.

Provident and pension payments by the Government totalled some IL 60 million. These payments include compensation to victims of Nazi persecution and war invalids, as well as pensions for retired civil servants. The two last-mentioned items showed an increase, but the amount of compensation paid to victims of Nazi persecution was smaller.

Other transfer payments to households were up 50 percent, totalling IL 75 million. They include *inter alia* old-age grants to persons not eligible for National Insurance benefits, relief allotments to needy families granted directly rather than through the local social welfare offices, grants to low-income families to compensate for the rise of prices, hospitalization expenses covered by the Government, participation in graded secondary-school fees, and expenditure on food in Government institutions. The biggest increases were in Government participation in secondary-school fees and in cost-of-living grants to low-income families.

Allocations to nonprofit institutions were up by one-third, reaching IL 130 million. Most of the increment was in allocations to institutions of higher education.³

¹ See Chapter XI, "Agriculture".

² Excluding the increase in compensation paid to persons serving in the reserves.

³ Institutions of higher education received IL 54 million in 1965—i.e. over 40 percent of total Government grants to nonprofit institutions.

5. Payments to the rest of the public sector

Grants and subsidies to local authorities increased to the considerable extent of 44 percent, reaching IL 120 million. General grant-in-aid, provided through the Ministry of the Interior, was more than doubled in order to enable the local authorities to cover their increased outlays without raising municipal rates. Government participation in the local authorities' expenditure on education, religion, and social welfare was also stepped up appreciably.

Government transfers to local authorities—including net loans and credit granted, less the authorities' transfers to the Government—totalled IL 140 million, or about 60 percent more than in 1964.

Net payments to the National Institutions came to IL 4 million in 1965, in contrast to net receipts of IL 22 million in 1964. The causes of this change were the reduction in Jewish Agency transfers for immigrant housing construction and the larger Government allocation to the Jewish Agency's Settlement Department.

(d) Financial transactions

Net Government receipts from long- and medium-term borrowing reached IL 460 million in 1965, but on the other hand, there were no net short-term credit receipts whatsoever (including credit from the banking system—see Table VII-12). Net receipts from loans and credits were 60 percent larger than in 1964.

The composition of the Government's credit sources underwent a pronounced change in 1965. Whereas in 1964 net foreign loan receipts accounted for about 60 percent of the increase in liabilities, in 1965 they accounted for virtually the entire increment; net receipts from domestic loans (including those from the banking system) totalled only IL 18 million.

1. Foreign loans

Proceeds from long-term foreign loans totalled IL 660 million in 1965, while foreign debt repayment amounted to IL 280 million. Together with the increase in short-term loans from abroad, net foreign borrowed receipts came to IL 440 million, as compared with IL 225 million in 1964 and IL 40 million in 1963.¹

Net long-term loan proceeds were IL 120 million larger than in 1964. The biggest rise was in U.S. Government loans, the share of which within total foreign loan receipts reached one-third. Net income from the Independence

¹ In 1963 the Government followed a policy of prematurely repaying debts to foreign suppliers with the help of an advance from the Bank of Israel. As a result, net receipts from foreign loans that year were reduced by IL 150 million. Even if this amount is not deducted from total foreign loans received in 1963, the increase in receipts from this source in 1964 and 1965 was still striking.

Table VII-12

CHANGE IN NET GOVERNMENT BORROWING, BY MATURITIES AND
LENDING SECTOR, 1964-65

(IL million)

	1964	1965	Increase or decrease (-)
Maturities			
Long- and medium-term ^a			
Gross	627	797	170
Less: Repayments	339	336	-3
Net	288	461	173
Short-term credit (net) ^b	77	-2	-79
Total (net)	365	459	94
Lending sector			
Rest of the world	226	441	215
Banking system	95	55	-40
Financial institutions, social insurance funds, and insurance companies	14	75	61
Rest of the economy	30	-112	-142
Total (net)	365	459	94

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

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

and Development Loans likewise increased,¹ and their share of total receipts went up to over one-quarter. World Bank loans (for financing the construction of roads and Ashdod Port) were considerably expanded. Short-term credit from abroad increased by some IL 60 million, most of the increment being in foreign supplier credits to cover purchases of foodstuffs by the Ministry of Commerce and Industry.

2. Domestic loans

Long-term domestic loan receipts amounted to IL 135 million in 1965, and repayments to IL 55 million. Net receipts thus totalled IL 80 million, about half of which came from the sale of long- and medium-term Government

¹ Receipts from this source remained stable in 1964 and 1965, but in 1965 there was a decrease in repayments, with a consequent rise in net income.

bonds, and the rest in the form of loans from financial institutions and insurance companies.¹

New issues of long-term Government bonds totalled IL 15 million in 1963, IL 45 million in 1964, and IL 80 million in 1965. After deducting redemption payments on earlier issues, net income from domestic long-term loans reached IL 40 million, as compared with a net income of some IL 15 million in 1964 and a net repayment of IL 10 million in 1963. The larger income from this source was due to the more attractive terms offered to buyers of development bonds.²

The rising trend in net credit from the banking system continued for the third consecutive year, but at a slower rate than in either 1963 or 1964. During the year reviewed the net debt to the banking system went up by IL 55 million. This was the resultant of an increase of some IL 110 million in bank credit granted (including long-term loans and securities) and the repayment of a IL 55 million advance received from the Bank of Israel in 1963 for the early repayment of foreign obligations.³

Short-term credit from sources outside the banking system contracted by IL 115 million in 1965, as compared with an increase of IL 15 million in 1964. Approximately half the decrease stemmed from net repayments on the Government Short-Term Loan.⁴ The outstanding balance of credit from suppliers, contractors, and households⁵ declined appreciably.

3. Development budget financing

In 1965 the Government granted IL 520 million in credits to other sectors of the economy within the framework of its development budget. This was

¹ The breakdown was similar in 1964; net receipts that year totalled IL 30 million.

² In addition to the option—to be made at the time of redemption (after five years)—between a lower interest yield with the principal linked to the consumer price index on the one hand, and a higher interest yield without linkage on the other, purchasers of development bonds are permitted to cash in their holdings after two years. Thus development bonds have become to some extent a substitute for Government short-term loans, which are nonlinked. Owing to the rise of the price level in 1964 and 1965, the real return on short-term loans declined, and the public began to switch to development loans and other linked investments.

³ It should be noted that the rise in the debt to the banking system in 1963 was chiefly due to the receipt of the above-mentioned Bank of Israel advance. Repayments on account of this advance in 1964 and 1965 held down, as already mentioned, the increase in bank credit to the Government during these two years.

⁴ Excluding loan certificates purchased by banks, which in this chapter are included with credit from the banking system.

⁵ Credit from households, in the form of deposits in the Saving-for-Housing scheme. This scheme is administered as a Government enterprise, and only the surplus or deficit from its activities is recorded as budgetary income or expenditure. Insofar as the deposits exceed building costs, the excess is shown as credit from households, while a deficit is shown as a refund (or grant) of credit to households.

9.5 percent more than in 1964. Another IL 60 million approximately was provided to local authorities and the National Institutions.

The share of long-term loans within total Government payments has been moving downward since 1962. This is attributable to the growing tendency to expand the role of the public financial institutions in providing credit.

Loans for financing public housing projects constituted over 60 percent of all development budget financing in 1965. This item went up IL 20 million, as compared with IL 85 million in 1964, and totalled IL 310 million. The larger expenditure on housing was due to the stepping-up of construction under the slum-clearance program and of housing projects in development areas and agricultural settlements. Residential construction for immigrants was reduced, following the decline in immigration in 1965.

Loans for agriculture and irrigation totalled about IL 50 million in 1965. A large amount of financing was extended to the Mekorot Water Company and agricultural settlements for carrying out irrigation projects (other than the National Water Carrier), and to the Jewish Agency for agricultural settlement purposes. Loans to the Israel Electric Corporation were likewise expanded during the year reviewed, amounting to IL 40 million.

The downtrend in development budget loans to industry carried over through 1965. The reason must be sought, as already mentioned, in the transfer of the function of financing industrial development to financial institutions, especially the Industrial Development Bank.

There was also a contraction in loans to public sector companies engaging in mineral extraction (the Timna Copper Works, Chemicals and Phosphates, etc.) and to the transportation sector.

The distribution of development budget loans by economic branch and borrowing sector is shown in Table VII-13.¹

4. Collections on loans

Collections on account of development budget loans and proceeds from the sale of shares showed virtually no change for the third consecutive year. Public sector companies accounted for a smaller proportion of total collections.

As in previous years, part of the loans granted directly by the Government and from its earmarked deposits were converted into shares. The conversion of earmarked deposits in certain financial institutions was intended to expand their equity capital and thereby enable them to provide loans from their own means, i.e. outside the Government's development budget. Some of the loans granted to various enterprises were likewise converted into shares in order to supply them with cheaper financing and improve their profitability.

The Government's credit balance arising out of development budget oper-

¹ See the section on "Public financing" in Chapter V, "Domestic Investment".

Table VII-13
DEVELOPMENT BUDGET LOANS,^a BY ECONOMIC BRANCH
AND BORROWING SECTOR, 1964-65
(IL million)

	1964	1965	Increase or decrease (-)
Economic branch			
Housing	294	312	18
Industry and crafts	36	25	-11
Mining, quarrying, and oil drilling	35	28	-7
Agriculture and irrigation ^b	29	48	19
Electric power	18	42	24
Transportation and communications	12	9	-3
Services and misc.	50	56	6
Total, excluding public sector	474	520	46
Borrowing sector			
Households	208	209	1
Public sector companies	207	250	43
Private business enterprises	39	46	7
Public financial institutions	13	1	-12
Nonprofit institutions	7	14	7
Total, excluding public sector	474	520	46
National Institutions	17	28	11
Local authorities	21	29	8
Total loans	512	577	65

^a Including participation in company share capital, but excluding Government investments. Loans granted through banks and other financial institutions are classified by the sector of final destination and not as loans to the financial sector.

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

ations (loans and participation in share capital) totalled IL 3,115 million at the end of March 1965;¹ of this sum, IL 960 million represented investments in shares (including amounts originally granted as loans but later converted into share capital), while as regards a further IL 390 million, it has not yet been decided whether it is to be treated as a loan or as equity investment.

¹ Excluding loans to the National Institutions, local authorities, and the Ports Authority, as well as the amount charged to the National Water Carrier, about which it has not yet been decided whether it is to be regarded as a loan to Mekorot.

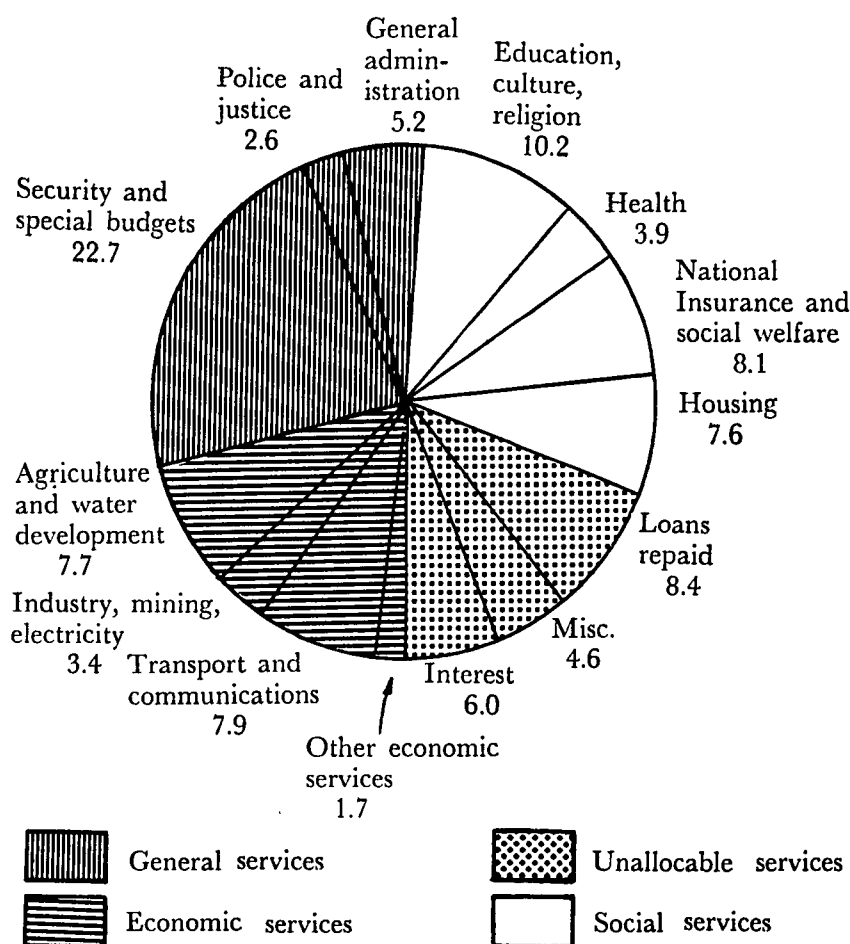
Outstanding loans payable thus totalled IL 1,765 million at the end of March 1965. Collections on development budget loans in 1965 amounted to only 4.9 percent of this sum.

(e) *Functional composition of expenditure*

A breakdown of expenditure by function in 1964 and 1965 is presented in Table VII-14.¹

The advancing trend in the relative share of social services in total Government expenditure continued in 1965. In this sphere, there was a rise in the weight of educational and cultural services, with the main increases being in

Diagram VII-3
FUNCTIONAL COMPOSITION OF GOVERNMENT EXPENDITURE, 1965
(percentages)



¹ This analysis includes transfers to the rest of the public sector.

Table VII-14
FUNCTIONAL COMPOSITION OF GOVERNMENT EXPENDITURE,* 1964-65
(IL million)

	1965					1964	Percentage distribution of total outlay	
	Current outlay	Interest and debt redemption	Purchases on capital account	Credit granted	Total outlay	Total outlay	1965	1964
General services								
General administration	146	—	18	3	167	145	4.2	4.2
Security and special budgets	905	—	—	—	905	779	22.7	22.6
Police and justice	98	—	6	—	104	92	2.6	2.7
Community services n.e.s ^b	30	—	1	7	38	24	1.0	0.7
Total	1,178	—	25	10	1,214	1,040	30.5	30.2
Social services								
Education, culture, religion	360	—	5	43	408	271	10.2	7.8
National Insurance and social welfare	318	—	4	—	322	264	8.1	7.7
Health	139	—	13	2	154	124	3.9	3.6
Housing	—	—	-10 ^c	312	302	306	7.6	8.9
Total	817	—	12	357	1,186	965	29.8	28.0
Economic services								
Agriculture and water development	177	—	52	80	309	284	7.7	8.2
Industry, mining, electric power	40	—	1	95	136	117	3.4	3.4
Transportation and communications	42	—	260	14	316	256	7.9	7.4
Other economic services	47	—	1	20	68	51	1.7	1.5
Total	306	—	314	209	829	708	20.7	20.5
Unallocable services								
Debt redemption ^d	—	336	—	—	336	339	8.4	9.8
Interest payments	—	239	—	—	239	238	6.0	6.9
Miscellaneous ^e	188	—	-5 ^c	1	184	159	4.6	4.6
Total	188	575	-5	1	759	736	19.0	21.3
Grand total	2,490	575	346	577	3,988	3,449	100.0	100.0

* Excluding current expenditure of the postal and transportation enterprises, but including transfers to local authorities and total expenditure of the National Insurance Institute.

^b Not elsewhere specified; mainly the broadcasting service and general research.

^c Decrease in inventories.

^d Redemption of long-term loans.

^e Mainly grants to local authorities and import subsidies.

outlay on primary education and the training of teachers and allocations to institutions of higher education. The percentage spent on health and social welfare also went up, owing to the larger outlays of the National Insurance Institute and those on hospitalization. The weight of housing expenditure declined, following the contraction of immigrant residential construction.

As regards economic services, the weight of the transportation and communications item moved up slightly owing to larger Government investment in ports, roads, and postal and communication services. On the other hand, the share of outlay on agriculture and water development declined following the completion of the first stage of the National Water Carrier and the reduction of farm price supports.

Expenditure on general services (administration, security, police and justice), which accounts for about 30 percent of total Government outlay, showed no significant changes between 1964 and 1965.

The weight of interest payments and long-term loan repayments decreased. Expenditure on these two items remained virtually static during the last two years, despite the growth of the Government's debt burden.¹

3. THE NATIONAL INSTITUTIONS

The National Institutions include the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod.²

Total payments of the Institutions—including debt redemption and net transfers to the Government—decreased by IL 13 million in 1965 and totalled IL 382 million.

Domestic lending (chiefly loans given by the Jewish Agency's Settlement Department to agricultural settlements in the form of equipment and various allocations) was smaller in 1965. Domestic long-term loan repayments likewise contracted. The Institutions' purchases connected with immigration—both in this country and abroad, and including their participation in immigrant housing expenditure—declined by approximately 20 percent, owing to the smaller influx of immigrants. On the other hand, there was an increase in principal and interest payments on account of debts incurred abroad, as well as in purchases on capital account (chiefly development expenditure of the Jewish National Fund), outlays on wages and salaries, and transfer payments.

On the income side, unilateral transfers from abroad were up some 14

¹ The reason for the smaller weight of interest outlay apparently lies in the changed composition of the Government's liabilities: there was a larger proportion of long-term loans, which for the most part carry interest at relatively low rates, and in some cases even cumulative interest. The smaller weight of long-term loan repayments was due chiefly to the smaller volume of Independence and Development Bonds redeemed. Repayment of these loans is subject to fluctuations, in accordance with the year of receipt.

² Hereafter the National Institutions will be referred to simply as "the Institutions".

percent, while net foreign loan receipts declined. Total receipts from abroad—net loans and transfers—virtually held steady in 1964 and 1965, reaching approximately \$ 90 million. Net receipts from domestic loans and credit increased, except for credit from the banking system.

(a) *Operations of the National Institutions*

Contrary to other public sector authorities, the Institutions do not collect taxes, their main source of revenue being unrequited receipts from abroad. Income from domestic sources (such as rents received by the Jewish National Fund) covers only a small part of their expenditure. Consequently, they have a big dissaving and demand surplus.

Table VII-15

DEMAND SURPLUS AND CREDIT OUTFLOW OF THE NATIONAL INSTITUTIONS, AND SOURCES OF FINANCING, 1962-65

(IL million, at current prices)

	1962	1963	1964	1965	Change from 1964 to 1965
A. Saving					
Income on current account	13	15	17	19	2
Less: Expenditure on current account ^a	153	198	217	215	-2
Saving	-140	-183	-200	-196	4
B. Expenditure on capital account^b	72	84	54	64	10
C. Demand surplus (A-B)	212	267	254	260	6
D. Net domestic credit granted	25	26	17	-11	-28
Sources financing the demand surplus and net domestic credit granted					
E. Foreign sources					
Unilateral receipts	162	174	192	220	28
Net loans and credit	102	115	70	42	-28
Total	264	289	262	262	—
F. Banking system	-27	4	9	-13	-22
Total (E + F)	237	293	271	249	-22

^a Purchases (net of sales), transfer payments and subsidies (including net transfers to the Government), and net interest.

^b Purchases and transfer payments on capital account (including net transfers to the Government).

^c Loans granted less loans received, but excluding transactions with the banking system.

The Institutions' dissaving, which represents the surplus of current expenditure over current income from local sources, rose steadily until 1964. In 1965 it declined somewhat, following a slight contraction in current expenditure and a rise in current income. The Institutions' demand surplus (i.e. the balance between total purchases on current and capital account on the one hand and total receipts from local sources on the other) increased by IL 6 million in 1965 to reach IL 260 million. This is attributable primarily to the larger development expenditure of the Jewish National Fund.

The influence of the Institutions on effective demand in the economy is measured in Table VII-15. Until 1965 the Institutions were net lenders to other domestic sectors.¹ However, the volume of such credit gradually shrank in recent years, and in 1965 the Institutions became net borrowers.

The Institutions' demand surplus and net credit outflow to other economic sectors were financed, as already mentioned, by receipts from abroad (unilateral transfers and loans). The share of transfers in financing the "deficit" has been growing, whereas the weight of loans has been declining.

The "balance of payments" of the Institutions for the years 1964 and 1965, by main type of receipt and payment, is shown in Table VII-16. A differentiation has been made between the "real account", which includes transfers and transactions in goods and services, and the "financial account", which includes transactions in loans and credit.² Transactions with the Government have been listed separately.

In the real account, expenditure exceeded income by IL 16 million in 1965. The surplus in the financial account—i.e. the surplus of net loans received over net loans granted—totalled IL 12 million. Net transfers to the Government³ fell off conspicuously; in fact, the data show net receipts from the Government, in contrast to net payments in previous years. This change of trend began in 1964, and it can be ascribed to the smaller participation of the Institutions in financing immigrant housing on the one hand, and to larger Government allocations to the Jewish Agency's Settlement Department on the other.

(b) *Receipts*

1. *Unilateral receipts from abroad*

The main sources of these receipts are the United Jewish Appeal in the United States, the appeals in Europe and Canada, German reparations, and contributions to the Jewish National Fund and Aliyat Hanoar (Youth Immigration).

In 1965 these receipts aggregated IL 220 million—a gain of IL 28 million,

¹ Exclusive of the banking system.

² A similar differentiation was made in Tables VII-2 and VII-7.

³ Transfers on current and capital account, including changes in the outstanding loan balance.

or 14.5 percent, over 1964. The increase in previous years had been smaller. Most of the incremental income in 1965 came from the appeals, which accounted for over 70 percent of the Institutions' total unilateral receipts.

2. Miscellaneous income and collections in Israel

The Institutions' income in Israel derives from rent collected by the Jewish National Fund, various local transfers and sales, and the collection of principal and interest on loans granted by the Jewish Agency. Collections on long-term loans contracted, but interest income rose appreciably.¹

The weight of domestic receipts within total receipts on "real account" did not exceed 13 percent.

3. Change in indebtedness

Net receipts from borrowing (including loans from the banking system) totalled IL 78 million in 1965, as compared with IL 127 million in 1964. In both years foreign loans accounted for some 55 percent of total borrowed receipts.

The growth of foreign borrowing has been slowing down in recent years. In contrast to net receipts of IL 115 million from this source in 1963 and IL 70 million in 1964, the figure fell to IL 42 million in 1965, of which only IL 5 million was for a period of more than three years. The main sources of foreign loans are Ampal American-Israel Corp., Jewish organizations in Europe, financial institutions in the United States, and various banks abroad.

Net loans from other domestic sectors totalled IL 36 million in 1965, as against IL 57 million in the preceding year. Proceeds from the sale of debentures in local currency were smaller than in previous years, such debentures being purchased mainly by social insurance funds as part of their "approved investments".² On the other hand, income from the sale of foreign currency debentures issued by the Jewish Agency subsidiary Hollis,³ was appreciably larger. In 1965 this company issued IL 64 million worth of debentures, most of which were purchased in Israel from funds in various types of foreign currency accounts.⁴

Outstanding short-term credit from domestic sources (including the banking system) declined by IL 22 million, mainly because of the expansion of Jewish Agency deposits with banks.

¹ A large percentage of the interest was collected on joint loans of the Jewish Agency, which are loans received by the Jewish Agency abroad for various institutions in Israel (mainly nonprofit institutions) and are not granted from its own funds. The Agency acts more as an intermediary in these transactions.

² Debentures designated as an "approved investment" entitle the social insurance funds purchasing them to income tax concessions.

³ This company is registered abroad.

⁴ Debenture sales in 1963 totalled only IL 18 million.

Table VII-16

"BALANCE OF PAYMENTS" OF THE NATIONAL INSTITUTIONS, BY TYPE OF RECEIPT AND PAYMENT, 1964-65
(IL million)

Receipts	1964	1965	Increase or decrease (-)	Payments	1964	1965	Increase or decrease (-)
Transfers and transactions in goods and services							
Unilateral receipts from abroad	192	220	28	Purchases on current account			
Miscellaneous domestic receipts	27	36	9	Domestic ^a	73	75	2
				Foreign	46	39	-7
				Purchases on capital account ^a	34	40	6
				Interest payments	65	80	15
				Transfer payments, grants, and subsidies	36	38	2
Total	219	256	37	Total	254	272	18
Transactions in financial claims							
Collections on long-term loans	10	8	-2	Long-term loans granted	80	74	-6
Long-term loans received				Repayment of long-term loans			
Foreign	51	30	-21	Foreign	21	25	4
Domestic	62	73	11	Domestic	18	15	-3
Short-term credit (net)							
Foreign	40	37	-3				
Domestic ^b	4	-9	-13				
From the banking system	9	-13	-22				
Total	176	126	-50	Total	119	114	-5
Transactions with the Government							
				Net payments to the Government	22	-4	-26
Total receipts	395	382	-13	Total payments	395	382	-13

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

^b Excluding the banking system.

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

(c) *Payments*

Current expenditure of the Institutions (current purchases, transfer payments, grants, subsidies, and interest payments) amounted to IL 232 million in 1965—a rise of 5 percent as compared with 1964.

Current purchases in Israel and abroad, exclusive of interest, totalled IL 114 million—about IL 5 million less than in the previous year. Wage outlay rose by 15 percent; the number of employees went up by 1.5 percent, and average pay by nearly 13 percent. The reclassification of administrative and clerical staff according to the new pay scales had not been completed by the end of the year reviewed, and employees did not receive any of the wage differentials due them. Consequently, the rise in average wages was smaller in the National Institutions than in the rest of the public sector. Other purchases on current account contracted. The main decrease was in direct immigration expenditure, including the transportation of newcomers, owing to the smaller volume of immigration.

Interest outlay totalled IL 80 million, a rise of IL 15 million or 23 percent. Part of this increase stemmed from interest paid on the joint loans of the Jewish Agency. Interest on the Institutions' direct debts was only 10 percent larger. There was also a moderate rise in transfer payments. These consist mainly of allocations to new immigrants in the initial stage of absorption, allocations to educational institutions, and the care of immigrant youth.¹

The Institutions' investments—chiefly in development projects, land reclamation, and afforestation by the Jewish National Fund—totalled IL 40 million, a rise of 17.5 percent at current prices. The real increase, however, came to only 6 percent.

Long-term loans are granted mainly through the Settlement Department of the Jewish Agency, in the form of equipment and other allocations to agricultural settlements. The real volume of such loans has been declining for some years; in 1965 it fell by 7.5 percent in nominal terms and 13 percent in real terms.²

(d) *Functional composition of expenditure*

Table VII-17 and Diagram VII-4 show the breakdown of the Institutions' expenditure³ by function.

Over a quarter of the total amount is spent on agriculture. The reference is to outlays on development, land reclamation and afforestation, loans to agricultural settlements, farm guidance and training, and other services.

¹ Allocations by Aliyat Hanoar (Youth Immigration) to institutions and households increased, while allocations to immigrants decreased.

² The rise in agricultural investment prices served as a deflator for calculating the real change in loans granted.

³ Total expenditure of the Institutions, including loans granted, debt repayment, and transfers to the Government.

The weight of interest payments within total expenditure has been on the rise for the past several years, owing to the steady growth in the Institutions' indebtedness. In 1965 interest payments accounted for 19 percent of the total figure.

The share of immigration expenditure (direct costs of transporting immigrants and their initial absorption) moved down from 16 and 17 percent respectively in 1963 and 1964 to 13 percent in 1965. This was due to the contraction of immigration. The number of new arrivals in 1965 was only about two-thirds of that in each of the two preceding years.

Table VII-17
FUNCTIONAL COMPOSITION OF NATIONAL INSTITUTION
EXPENDITURE,^a 1963-65
(percentages)

	1963	1964	1965
General services			
General administration ^b	7.5	9.7	10.7
Immigration ^c	16.2	16.8	13.3
Total	23.7	26.5	24.0
Social services			
Education and culture ^d	6.2	6.7	7.1
Social welfare and health	3.9	4.2	5.8
Housing	18.2	7.4	4.6
Total	28.3	18.3	17.5
Economic services			
Agriculture and water development	25.7	28.2	28.4
Other economic services	1.1	1.2	1.0
Total	26.8	29.4	29.4
Unallocable services			
Debt redemption ^e	10.7	9.7	9.7
Interest payments	10.5	16.1	19.4
Total	21.2	25.8	29.1
Grand total	100.0	100.0	100.0
Grand total in IL million	439	404	412

^a Including gross payments to the Government.

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

^c Transport costs and costs of initial absorption of immigrants.

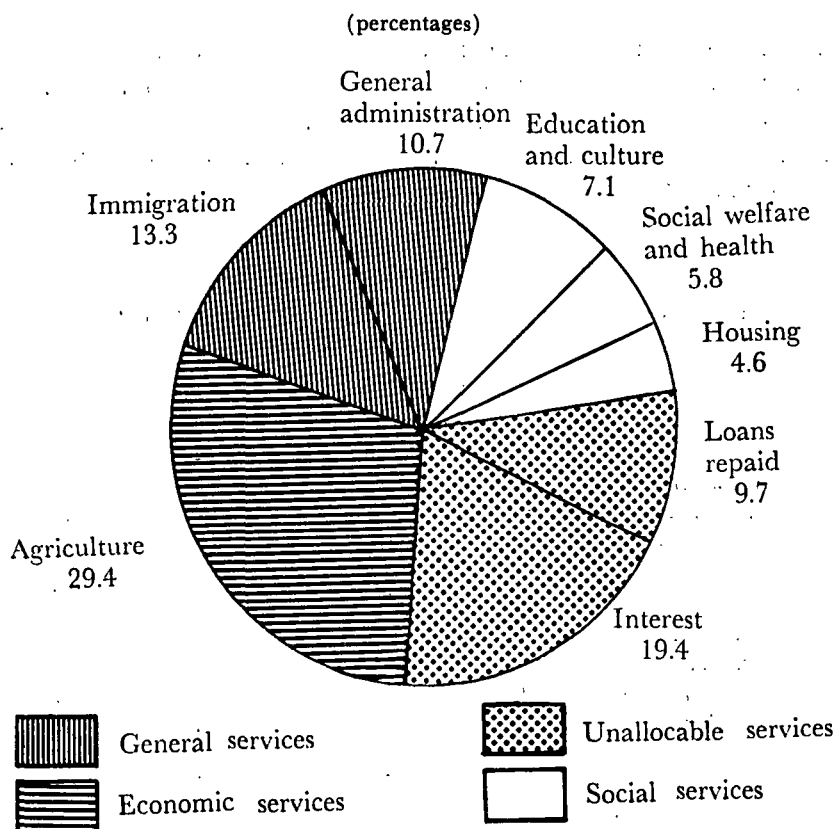
^d In Israel only (see note ^b).

^e Redemption of long-term loans.

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

Diagram VII-4

FUNCTIONAL COMPOSITION OF NATIONAL INSTITUTIONS' EXPENDITURE, 1965



The relative share of housing expenditure also fell sharply, standing at only 5 percent in 1965. This is attributable, as already pointed out, to the smaller share of the Jewish Agency in financing immigrant residential construction.

Outlay on administration is on the rise. Other expenditure items remained virtually unchanged as compared with 1964.

4. THE LOCAL AUTHORITIES¹

The volume of the local authorities' activities, as measured by their "balance of payments", rose by 20 percent to reach IL 715 million.²

¹ The local authorities comprise the municipalities, local councils, regional councils, religious councils, and regional authorities. Also included are the municipal expenditures of kibbutzim and moshavim.

² With credit and loans from the Government, the banking system, contractors, and suppliers recorded on a net basis, and other loans on a gross basis.

The growth of revenue from taxes and other compulsory payments slowed down during the year surveyed. As in the three preceding years, tax rates remained virtually unchanged. The Government, in pursuance of its stabilization policy, again prevented a general rise in municipal tax rates,¹ compensating the local authorities by increasing its grants to them by approximately 50 percent.

Current expenditure (purchases on current account, transfer payments, and interest payments) and outlay on capital account were considerably expanded, causing—despite the larger volume of transfers from the Government—a decrease in saving and a rise in the demand surplus. This in turn accentuated the authorities' dependence on credit from other sectors for financing their operations, within the framework of both their ordinary and development budgets.

(a) *Operations of the local authorities*

The demand surplus of the authorities (i.e. the surplus of expenditure on current and capital account over current income) increased by approximately 40 percent in 1965 and totalled IL 155 million.

If transfers from the Government are disregarded, the demand surplus came to IL 270 million, a growth of nearly 45 percent. The Government financed more than half of this amount by grants, participation in various operational budgets, and loans; the remainder was covered by net borrowing from other domestic sectors, which was stepped up from IL 100 million in 1964 to IL 130 million. The banking system appreciably increased its share in financing the demand surplus.

Table VII-19 shows the "balance of payments" of the local authorities for the years 1964 and 1965, by main type of receipt and payment.

In the real account (transactions in goods and services), revenue from taxes and other compulsory payments went up by IL 30 million, or 8 percent, while purchases on current and capital account, transfer payments, and interest payments rose by IL 110 million, or 19 percent. The deficit in the real account² thus expanded by IL 80 million, to IL 270 million.

(b) *Receipts*

1. *Taxes*

Tax revenue, including the current surplus of waterworks and transport enterprises, rose by only 7 percent in 1965, as against 18 percent in 1964 and 22 percent in 1963. The growth of such revenue during these years was achieved despite the almost total freezing of tax rates, and stemmed from a change in

¹ It should be noted that at the beginning of the 1966/67 fiscal year this policy was changed, and most of the local authorities were permitted to raise tax rates.

² This is equivalent to the demand surplus of the local authorities calculated minus transfers from the Government.

Table VII-18
DEMAND SURPLUS OF THE LOCAL AUTHORITIES AND FINANCING
THEREOF, 1962-65

(IL million, at current prices)

	1962	1963	1964	1965	Change from 1964 to 1965
A. Revenue on current account					
Taxes	173	210	250	267	17
Other revenue ^a	39	47	54	58	4
Transfers from the Government	48	62	77	113	36
Total	260	319	381	438	57
B. Expenditure on current account					
Purchases (net of sales)	181	218	280	340	60
Transfer payments	43	50	63	75	12
Interest (net)	14	16	18	22	4
Total	238	284	361	437	76
C. Saving (A-B)	22	35	20	1	-19
D. Expenditure on capital account					
Purchases (net)	111	138	190	223	33
Transfers (net) ^b	-41	-48	-59	-66	-7
Total	70	90	131	157	26
E. Demand surplus (D-C)	48	55	111	156	45
Sources financing the demand surplus					
F. Credit (net)					
Government	8	15	11	28	17
Banking system	15	1	5	52	47
Domestic sectors	30	49	93	77	-16
Foreign	-5	-10	2	-1	-3
Total	48	55	111	156	45

^a Domestic transfers and income from property, exclusive of interest.

^b Mainly participation of home-owners in the financing of development expenditure.

the tax base: an increase in new dwelling units (which constitute the main basis for the collection of municipal taxes) and the raising of assessments on vacant plots and rental property. The increase in 1963 and 1964 resulted primarily from the development of new suburbs and the trend toward larger homes, the tax rates in both cases being above average. In 1965, however, the decline in residential construction starts was accompanied by a decrease in receipts from taxes on new dwellings. Income from taxes on vacant plots also did not

Table VII-19

"BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, BY TYPE OF RECEIPT AND PAYMENT, 1964-65
(IL million)

Receipts	1964	1965	Increase or decrease (-)	Payments	1964	1965	Increase or decrease (-)
Transfers and transactions in goods and services							
Taxes ^a	250	267	17	Purchases			
Miscellaneous revenue	123	135	12	On current account	281	341	60
				On capital account	195	228	33
				Interest payments	18	22	4
				Transfer payments	68	80	12
Total	373	402	29	Total	562	671	109
Transactions in financial claims							
Long-term loans				Participation in share capital	2	3	1
Foreign	3	—	-3	Redemption of long-term loans			
Domestic	103	94	-9	Domestic	32	42	10
Short-term credit (net)				Foreign	1	1	—
From the banking system	5	52	47				
From other domestic sources	24	28	4				
Total	135	174	39	Total	35	46	11
Transactions with the Government							
Net grants	78	113	35				
Net loans	11	28	17				
Total	89	141	52				
Total receipts	597	717	120	Total payments	597	717	120

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

SOURCE: 1964—Central Bureau of Statistics; 1965—Bank of Israel estimates based on a sample.

increase, owing to the slump in the real estate market and the difficulties encountered in collecting part of the taxes due from landowners unable to start building.

The business tax yielded only a little more in 1965, despite the higher assessment of business premises. This tax is inelastic, owing to the relatively low tax ceiling, which has not been revised since 1962.

Water rates were raised by some municipalities, but the growth of income from this source failed to match the growth of expenditure. During the year reviewed waterworks and other municipal enterprises failed to show any surplus whatsoever on current operations.

2. Other compulsory levies

These receipts also expanded more slowly in 1965—by 10 percent. More than half of total revenue from these levies—estimated at IL 135 million—came from assessments on home- and landowners for financing roads, sidewalks, sewage disposal, and the installation of water meters. These receipts totalled IL 70 million, and covered 31 percent of the authorities' investment outlay.

The authorities collected about IL 55 million in transfer receipts for various services, including service charges in primary schools, tuition fees in other schools run by the authorities, hospitalization fees in municipal hospitals, and parents' participation in the cost of meals provided to children in schools and summer camps.

This item also includes revenue from the sale of land and from rent on property owned by the authorities; this amounted to about IL 10 million during the year reviewed.

3. Government grants

Government allocations to the authorities were substantially expanded after the devaluation in order to compensate them for mounting costs and for refraining from raising tax rates. The net¹ amount allocated in 1965 was enlarged by IL 52 million, or 58 percent, and totalled IL 140 million.

The bulk of this income consisted of general grant-in-aid, allocated according to various criteria.² An additional part consisted of transferred revenue, comprising 5 percent of the Government's purchase tax receipts and 50 percent of its revenue from vehicle licenses. The general grant and the transferred revenue together totalled IL 70 million, about 66 percent more than in 1964.

¹ After deducting interest payments, debt redemption, and participation in Government expenditure.

² Such as the number of inhabitants, the age structure of the population, total per capita receipts from various taxes, total per capita expenditure on social welfare, etc. The authorities were classified into 10 groups according to these criteria, the size of the per capita grant varying for each group.

In addition, Government Ministries participate in various outlays of the authorities,¹ the amount of such aid increasing by approximately 25 percent in 1965 to reach IL 45 million.

4. Change in indebtedness

Net proceeds from borrowing, including Government loans, totalled IL 160 million in 1965, compared with IL 110 million the year before. Approximately half the loans were received from financial institutions, social insurance funds, and banks, while the remainder came from the Government, the State Lottery, contractors, suppliers, and parents of school children.

Net loans from the Government came to IL 28 million. These were given within the framework of the development budget for the building of schools, sewers, water mains, roads, etc. The authorities' income from debentures issued under Government guarantee, which were sold mainly to social insurance funds, totalled IL 16 million. The authorities received IL 22 million in net loans from the State Lottery, in addition to IL 2 million in grants.

Credit received from contractors within the framework of the extraordinary (development) budget and from suppliers or other creditors for balancing deficits in the ordinary budgets totalled some IL 30 million.

There was a substantial increase in credit from the banking system, which came to IL 52 million as against IL 5 million in 1964. Part of this rise was due to the consolidation of debts: approximately IL 25 million of the authorities' debts to financial institutions were transferred to the banking system for collection. But even if this amount is deducted, the increase in bank credit to local authorities in 1965 was greater than in any previous year.

Long-term loan repayments (inclusive of linkage increments) totalled IL 42 million; this was equal to 11 percent of the authorities' outstanding liabilities on March 31, 1965.²

(c) Payments

Approximately two-thirds of the local authorities' expenditure on real account consists of current outlays, which in 1965 rose by some 21 percent to IL 440 million. Investments, at IL 230 million, were 17 percent larger.

¹ Participation of the Ministries of Education, Health, Religious Affairs, and Social Welfare in the authorities' expenditure on social services, participation of the Ministry of Transport in the Fund for the Prevention of Road Accidents, of the Ministry of Labor in unemployment relief projects, and of the War Risk Insurance Fund in fire-protection services

² Total indebtedness of the local authorities (excluding the revaluation of linked debts received prior to the devaluation of 1962) stood at approximately IL 395 million at the end of March 1965.

1. Current expenditure

Purchases on current account went up by 21.5 percent to IL 340 million, of which approximately IL 230 million was on wages and salaries.¹ The wage item increased by one-third, following a rise of 10 percent in the number of employees and of some 21 percent in average pay per employee (due almost entirely to increases in basic pay and payments on account of retroactive wage adjustments). In some local authorities the reclassification of employees according to the new pay scales had not been completed by the end of 1965, and they did not receive all of the pay differentials due them for previous years.

Current purchases other than wages and salaries increased by 11 percent in 1965, reaching IL 115 million.

Transfer payments totalled IL 80 million, 18 percent more than in 1964. Social welfare allotments to needy families accounted for half of the sum. The remainder consisted of allocations to institutions providing secondary, vocational, and higher education, allocations to cultural and health institutions, participation in graded secondary-school fees, expenditure on food dispensed in schools and municipal institutions, and pension payments to retired employees of the local authorities.

2. Purchases on capital account

Purchases on capital account, which include capital formation and purchases of land and existing buildings, rose more slowly in 1965—by 17 percent as compared with an average of 30 percent in the two preceding years—and totalled IL 230 million. At constant prices, the 1965 increment amounted to 10.5 percent.

A considerable rise was recorded in outlay on educational institutions, such as the erection of primary, secondary, and vocational schools, kindergartens, youth centers, and clubs. Investment in educational services constituted some 40 percent of the authorities' total capital spending. These investments were financed mainly by loans from the State Lottery and the Government's development budget.

Investment in health services (clinics, mother-and-child stations, and equipment for municipal hospitals) was also considerably expanded, but its share in the total budget continued to be small.

Approximately half the authorities' capital expenditure was on municipal services, such as road paving, installation of traffic facilities, expansion of waterworks and sewage disposal facilities, and the laying out of public parks. Such investments were also considerably larger in 1965.

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

(d) *Functional composition of expenditure*

A functional breakdown of expenditure during the years 1963-65 is presented in Table VII-20 and Diagram VII-5.

The relative share of social services has been rising steadily, and in 1965 this item accounted for half of total payments. A larger percentage was spent on education and culture, which constituted about one-third of total expenditure.

Table VII-20
FUNCTIONAL COMPOSITION OF LOCAL AUTHORITY
EXPENDITURE,^a 1963-65

(percentages)

	1963	1964	1965
General services			
General administration	11.5	11.4	10.1
Municipal services	23.0	21.5	20.0
Total	34.5	32.9	30.1
Social services			
Education, culture, religion	28.9	33.5	35.1
Health	5.2	5.4	4.8
Social welfare	9.8	9.7	8.8
Housing	0.8	0.5	0.9
Total	44.7	49.1	49.6
Economic services			
Transportation and communications	7.8	7.6	8.8
Agriculture, industry, electricity	2.0	1.3	1.9
Total	9.8	8.9	10.7
Unallocable services			
Interest payments	4.3	3.6	3.7
Debt redemption ^b	6.7	5.5	5.9
Total	11.0	9.1	9.6
Grand total	100.0	100.0	100.0
Grand total in IL million	461	605	728

^a Excluding current expenditure of waterworks and transport enterprises. In the absence of detailed figures on the performance of the budget for the calendar year, the distribution in this table gives the functional composition of expenditure during the fiscal years 1962/63, 1963/64, and 1964/65.

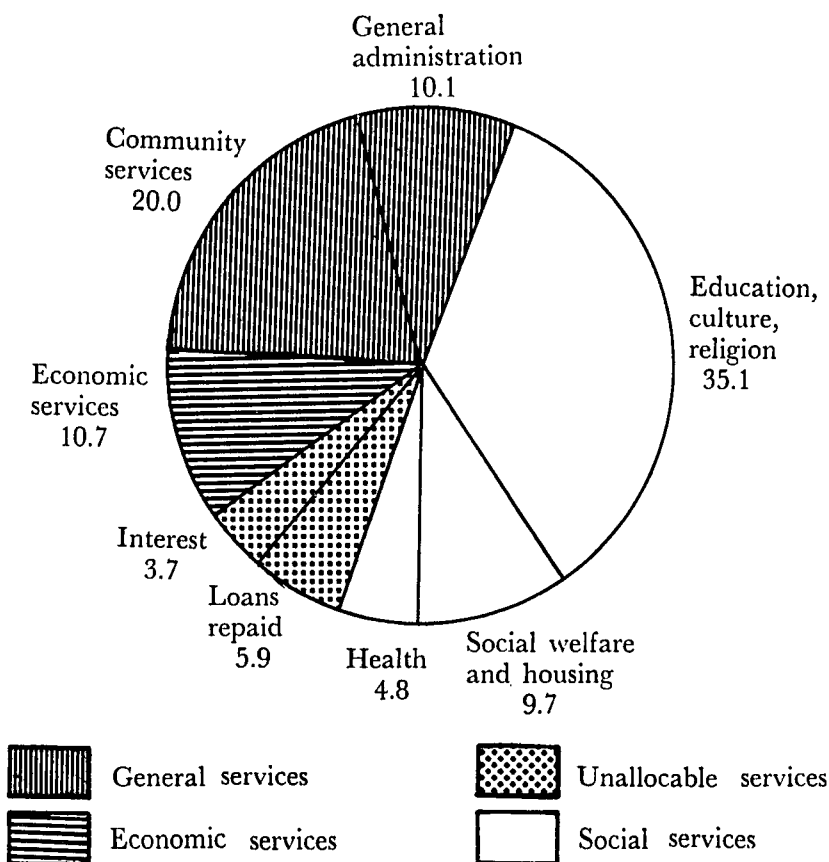
^b Redemption of long-term loans.

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

Diagram VII-5

FUNCTIONAL COMPOSITION OF LOCAL AUTHORITY EXPENDITURE, 1965

(percentages)



The proportion spent on health and social welfare services declined down slightly.

Outlay on municipal services—sanitation and sewage disposal, street lighting, fire protection, public gardens, town planning, and supervision of building—decreased relatively. The weight of expenditure on general administration also declined. The amount spent on general services accounted in 1965 for 30 per cent of total payments.

In the economic field, the authorities' operations are generally confined to the transportation sector, including roads and traffic regulation. Expenditure on such services has shown a rising trend, the proportion reaching 11 percent in 1965.

The weight of other items remained virtually unchanged between 1964 and 1965.