

## CHAPTER XIX

### SAVING

#### 1. MAIN DEVELOPMENTS

THE RATIO OF NET SAVING to net national product fell from 5.8 percent in 1964 to 4.2 percent in 1965. The public and nonprofit institution sectors were responsible for this decrease, there being a slight increase in private saving.<sup>1</sup>

Since separate figures were not available for household and business saving, it was not possible to determine the quantitative contribution of each to the national saving. Several partial indicators support the assumption that household saving rose in 1965: the striking slowdown in purchases of durable consumer goods, the increased acquisition of several types of financial assets, and the bigger volume of early mortgage repayments.

The decrease in public sector saving was connected on the one hand with the

Table XIX-1  
NATIONAL SAVING, 1963-65  
(IL million, at current prices)

Year	Gross national product <sup>a</sup>	Depreciation	Net national product	Gross saving from GNP <sup>a</sup>		Net saving from NNP	
				IL m.	%	IL m.	%
1963	7,931	745	7,186	1,116	14.1	371	5.2
1964	9,186	853	8,333	1,334	14.5	481	5.8
1965	10,763	997	9,766	1,411	13.1	414	4.2

<sup>a</sup> Gross national product less private and public consumption expenditure (see Table II-1 in Chapter II).

SOURCE: Central Bureau of Statistics, with gross national product adjusted as explained in Chapter II, "Resources, Uses, and Incomes".

<sup>1</sup> The rate of national saving is calculated from the national accounts as prepared by the Central Bureau of Statistics. In determining the ratio of private saving to disposable private income, national income, as calculated according to the product approach on the basis of CBS data, has been reduced by transfers from the public sector to the private sector, as shown in Chapter VII, "Public Sector Operations". The need to use two sets of data diminishes the reliability of the calculations.

accelerated rise in public consumption due to the marked increase in wage payments, and on the other hand with the slower growth of current revenue, especially that of the local authorities. The decline in public sector saving as calculated from the national accounts is greater than that indicated in Chapter VII, "Public Sector Operations", owing to the fact that public consumption according to the national accounts rose at a greater rate than current expenditure of the public sector as calculated in Chapter VII.

The decline in nonprofit institution saving reflects a more rapid increase in current expenditure than in current income from local sources. This development was partly connected with the big wage increases in this sector, as well as with the intensified activity of political parties in an election year. The saving figure for the sector as derived from the national accounts is also lower than that cited in Chapter VIII, "Nonprofit Institutions"—which was based on the financial reports of the institutions—since the political parties were not included in the data of that chapter.

Although the findings of the household saving survey carried out for the year 1963/64<sup>2</sup> do not relate to 1965, they are presented in this chapter as they are the only source of direct information on the magnitude of saving.

According to this survey, the average saving per household unit investigated amounted in 1963/64 to IL 243, or 4.3 percent of disposable personal income. The inclusion of durable goods in saving brings the figure up to 12.5 percent. These rates are more or less similar to those obtained in earlier surveys. The saving of self-employed persons was greater than that of wage earners (7.7 as against 4.6 percent). The composition of saving is also different in the two groups: for the self-employed, retained business earnings is the most important component (14.7 percent of disposable income), while in the case of wage earners the largest component is investment in immovable property (15.5 percent).<sup>3</sup> The 1963/64 survey, like those conducted earlier, showed that the saving rate rises with an advance in income level, but not proportionally. Examination of the effect of German restitution payments on saving reveals that the overwhelming portion of the receipts (about 85 percent) is saved, mainly in the form of liquid assets and real estate. In the year in which they are

<sup>1</sup> The national accounts show that consumption by nonprofit institutions increased by 29 percent in 1965, as against 19 percent in 1964. The data in Chapter VII—excluding political parties—indicate a 16 percent rise in current expenditure in 1965, as compared with 15 percent in 1964. It is known—although exact figures are not available—that not all of the incremental expenditure of political parties in 1965 was financed from local transfers. Hence it is plausible to assume that the dissaving of the nonprofit institution sector, including the political parties, was greater than shown in Chapter VIII.

<sup>2</sup> This survey was conducted by the Bank of Israel and the Central Bureau of Statistics (see note <sup>1</sup> to section 4 below).

<sup>3</sup> The reason why the component rates (wage earners and self-employed, retained business earnings and investment in real estate) add up to more than the total rate is explained in the notes to section 4 below.

received, about 50 percent is invested in liquid assets and some 20 percent in real estate. Subsequently further sums are invested in real estate, so that two years after their receipt, approximately 40 percent of the restitution payments are invested in real estate.

## 2. PRIVATE SAVING

Net saving out of disposable private income from local sources increased slightly in 1965. From the national accounts data, upon which Table XIX-2 is based, it is possible to calculate only the rate of private saving inclusive of nonprofit institutions. This rate edged up from 4.9 percent in 1964 to 5.0 percent.<sup>1</sup> Since this change is of an insignificant magnitude, it cannot by itself be taken to indicate an upward trend; however, information from other sources supports this conclusion. There is no doubt that nonprofit institution dissaving increased in 1965; hence the growth of private saving exclusive of these institutions was greater than what appears in Table XIX-2.

As noted above, it is not possible to determine with any certainty which of the two segments of the private sector—business or households—contributed to the

**Table XIX-2**  
**GROSS AND NET PRIVATE SAVING,<sup>a</sup> 1963-65**  
(IL million, at current prices)

Year	Gross disposable private income <sup>b</sup>	Depreciation <sup>c</sup>	Net disposable private income	Private consumption <sup>d</sup>	Gross saving from gross income		Net saving from net income	
					IL m.	%	IL m.	%
1963	6,212	709	5,503	5,247	965	15.5	256	4.7
1964	7,223	812	6,411	6,098	1,125	15.6	313	4.9
1965	8,486	945	7,541	7,164	1,322	15.6	377	5.0

<sup>a</sup> Including nonprofit institutions.

<sup>b</sup> Equals GNP less: net taxes on imports, other indirect taxes less subsidies on local production, public sector income from property less depreciation, total compulsory payments less transfer payments; plus export subsidies.

<sup>c</sup> Estimated depreciation for the whole economy, less estimated depreciation for the public sector

<sup>d</sup> According to the national accounts; including consumption of nonprofit institutions.

<sup>1</sup> The national income, from which disposable private income was derived, was calculated by deducting depreciation and indirect taxes from the national product in order to maintain consistency between the calculation of national saving relative to product and that of private saving from disposable private income. National income calculated directly is smaller, and so too the saving calculated therefrom (the saving figure is obtained residually by deducting consumption from income). The difference between national income calculated according to the product approach and that arrived at by the income approach amounted to IL 214 million in 1963, IL 192 million in 1964, and IL 175 million in 1965.

growth of saving. Nevertheless, there are a number of possible explanations for the increase in household saving, and this leads us to assume that household saving was the contributing factor.

Disposable private income from local sources went up in 1965 at only a slightly higher rate than in 1964 (18.4 as against 17.6 percent). In view of the price increases in 1965, this reflects a considerable slowdown in the real growth rate.

That there was an increase in saving despite this slower growth of real income—i.e. private consumption rose to an even lesser extent—is partly explained by the changed composition of consumption. In the years 1963–64 purchases of consumer durables expanded rapidly, whereas in 1965 there was only a small increase. Such purchases, part of which are financed by credit, depress the saving estimate; the lower percentage increase in purchases in 1965 therefore suggests a rise in saving.

An additional explanation lies in the composition of income. Following the job classification carried out in the public sector, substantial retroactive wage adjustments were paid out. In general, saving from one-time receipts is greater than that from current income. It seems that a big percentage of the retroactive differentials were used for settling debts, as attested *inter alia* by the accelerated repayment of mortgage loans ahead of maturity.

It should also be noted that, despite a certain decline in unilateral receipts from abroad to households (from IL 636 million in 1964 to IL 582 million in 1965), the increment to Pazak and Tamam deposits was greater in 1965 than in the previous year. This may reflect a decrease in consumption from unilateral receipts, a development which would tend to increase the rate of saving from local income.<sup>1</sup>

The growth of private saving discussed above was calculated from the national accounts by deducting the change in consumption from the increase in income. Saving can also be calculated according to the changes in assets (net of liabilities) during the year.

Table XIX–3 presents some of the changes which occurred in the assets and liabilities of households. The figures are incomplete, and consequently the results obtained by the two methods of computation cannot be compared. Nevertheless, the data can be taken as indicators of the changes in the major components of household saving.

Accumulation in Pazak and Tamam accounts<sup>2</sup> was greater in 1965 than in the previous year. This formed part of the general rise in demand for foreign cur-

<sup>1</sup> Saving is calculated in relation to domestic income only. However, consumption is obviously influenced also by unilateral receipts. A reduction in that part of the receipts spent on consumption is therefore reflected by an increase in saving from local income.

<sup>2</sup> It is important to note that, apart from the cumulative interest, Pazak and Tamam deposits do not originate from domestic sources of income, in relation to which saving has been calculated in this chapter.

rency assets and assets linked to the foreign exchange rate. It was apparently influenced by the slump in the share market as well, and in certain cases it presumably served as a substitute for saving by way of investment in domestic securities.<sup>1</sup>

Purchases of foreign securities were up IL 90 million in 1965,<sup>2</sup> compared with a rise of IL 41 million in the previous year (see Table XIX-3). It may be assumed, however, that part of this rise was due to a shift from local to foreign securities because of the stagnation of the share market.

Claims on provident funds, which constitute an important share of household financial assets, expanded by IL 268 million, as compared with IL 249 million in 1964. This is a form of contractual saving, and changes therein stem from either wage increases or institutional developments, such as a rise in the number of firms providing provident fund coverage for their employees and the shift from provident funds to pension funds, which involves an increase in the contribution rates.

Demand deposit holdings of households were considerably above the 1964 level. A relatively large increase, although small in absolute terms, occurred in household claims on insurance companies and in approved saving schemes in banks. Saving through insurance companies reached IL 28 million, compared with IL 22 million in 1964. Deposits in bank saving schemes advanced by IL 46 million, as against IL 31 million in the previous year. Bill purchases through banks declined slightly; on the other hand, there was a substantial rise of IL 50 million<sup>3</sup> in purchases of earmarked contractors' deposits in mortgage banks—transactions which resemble bill brokerage through commercial banks.

In contrast to the increase in these asset items, there was an opposite development in at least two others. Although investment in residential construction was slightly greater in 1965 than in the previous year, there is reason to believe that the stock of dwellings held by contractors and construction companies expanded. It appears, therefore, that gross household investment in housing did not rise in 1965, and in view of the increase in depreciation, net investment in housing must have fallen off somewhat, after three straight years of growth.

A striking decline took place in purchases of Israeli securities by households. The recession in the share market and the reduction of the Short-Term Loan balance suggest a smaller investment in these two types of securities, in contrast to the marked rise in 1963 and 1964. Purchases of other Israeli securities

<sup>1</sup> See Chapter XV, "Money Supply, Credit, and the Banking Institutions".

<sup>2</sup> Any Israeli may invest in foreign securities and buy foreign currency for this purpose, through Natad accounts. Because of the foreign currency controls, it is possible to know exactly the foreign currency holdings of local investors. But the degree to which the local and foreign security markets complement each other is not known, since there are no current data on the shift of domestic securities between the household and other sectors (mainly financial).

<sup>3</sup> See the discussion in Chapter XVII, "Financial Institutions", section 5(d).

(especially index-linked debentures) apparently offset only part of this decline. On the other hand, as already pointed out, there was a shift to dollar-linked assets and securities denominated in foreign currency.

Turning to the liability side of the household sector's balance sheet, we find

**Table XIX-3**

**CHANGES IN SELECTED COMPONENTS OF HOUSEHOLD SAVING, 1960-65**

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

	Increase or decrease (-) as against previous year					
	1960	1961	1962 <sup>a</sup>	1963	1964	1965
<b>Changes in real assets</b>						
Gross investment in housing	354	363	459	548	585	<sup>b</sup>
Depreciation on dwellings	101	123	152	178	208	235
Net investment in housing	253	240	307	370	377	—
Gross investment in consumer durables	94	122	164	206	300	284
Depreciation on consumer durables	36	40	56	70	99	131
Net investment in consumer durables	58	82	108	136	201	153
<b>Changes in financial assets</b>						
Cash	26	30	44	77	43	45
Demand deposits	60	29	83	96	22	73
Approved saving schemes (in banks)	12	14	19	20	31	46
Dollar-linked deposits (Pazak)	18	43	89	99	128	135
Local-currency time deposits	19	-12	-18	-13	-11	-12
Foreign-currency time deposits (Tamam)	33	36	45	-14	2	36
Saving-for-Housing deposits	5	12	14	27	6	6
Claims on provident funds <sup>c</sup>	97	112	167	213	249	268
Claims on insurance companies <sup>d</sup>	6	9	12	18	22	28
Domestic securities	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	248	148	<sup>b</sup>
Foreign securities <sup>e</sup>	<sup>b</sup>	<sup>b</sup>	16	33	41	90
Credit in the form of bill purchases <sup>f</sup>	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	171	179	161
Contractors' deposits in mortgage banks	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	<sup>b</sup>	20	50
<b>Changes in liabilities</b>						
Debt to provident funds	11	21	27	19	19	28
Debt to mortgage banks	61	85	4	105	133	109
Debt to other financial institutions	-4	-32	-4	5	14	3

<sup>a</sup> Excluding capital gains due to dollar linkage.

<sup>b</sup> Data not identified.

<sup>c</sup> Increase in assets of these funds, excluding employers' contributions to severance pay funds.

<sup>d</sup> Increase in life insurance funds of companies operating in Israel.

<sup>e</sup> Mainly paid for from Tamam accounts.

<sup>f</sup> Apparently includes some credit given other than by households, but the share of households is predominant.

that the debt to mortgage banks grew more slowly than in 1964, because of the larger volume of early loan repayments. Although no figures are available, the expansion of consumer credit was smaller than in 1964, owing to the more sluggish increase in purchases of consumer durables.

Thus it will be seen that the balance sheet data largely support the conclusion that household saving increased in 1965, even though they do not clearly confirm this because of the impossibility of determining quantitatively the degree to which the component items indicating a rise in saving were offset by developments in the opposite direction (particularly in respect of investment in housing and domestic securities).

### 3. PRIVATE SAVING, INCLUDING CONSUMER DURABLES<sup>1</sup>

According to the conventional national accounting procedures, durable consumer goods do not form part of saving; however, purchases of such goods may be regarded as an investment since they provide their owners with services in subsequent years as well. Furthermore, the volume of investment in consumer durables undoubtedly affects the magnitude of investment in assets which do constitute part of saving. (The slower increase in purchases of such goods is one of the explanations given above for the higher rate of private saving.) For this

Table XIX-4

#### NET PRIVATE SAVING,<sup>a</sup> INCLUDING CONSUMER DURABLES, 1963-65

(IL million)

Year	Disposable domestic income <sup>b</sup>	Purchases of durables (less depreciation)	Net saving, incl. consumer durables	Ratio of net saving, incl. durables, to disposable income (%)
1963	5,503	136	392	7.1
1964	6,411	201	514	8.0
1965	7,541	153	530	7.0

<sup>a</sup> Including nonprofit institutions.

<sup>b</sup> The method of calculation is similar to that used in Table XIX-2 above.

<sup>1</sup> The reference is only to radios, gas plates and stoves, electric refrigerators, washing machines, and private automobiles. These are the only items for which there are stock estimates permitting the calculation of depreciation and net investment. The durables mentioned in Chapter IV, "Consumption", include additional items (such as furniture and various electrical appliances), and this is the source of the differences in the figures cited.

reason, it is of interest to make an annual comparison of saving including net investment in consumer durables (see Table XIX-4). The net increment to durable goods was considerably smaller in 1965 as compared with 1964. This can be attributed to the slight slowdown in purchases and the much larger depreciation on the existing stock. Inclusion of these assets in our definition of saving depresses somewhat the rate of net saving relative to domestic private income.

Since Table XIX-4 includes the saving of nonprofit institutions, which clearly declined in 1965, the figure for business and household saving plus purchases of durable consumer goods seems to have held virtually steady as compared with 1964. The slight expansion of household saving was offset by the smaller net increment to consumer durables, so that on balance the share of current consumption in disposable private income from domestic sources was stationary.

#### 4. HOUSEHOLD SAVING IN 1963/64<sup>1</sup>

##### (a) *Findings of the 1963/64 survey compared with those of 1957/58 and 1958/59*

The average annual saving per investigation unit<sup>2</sup> in 1963/64 amounted to IL 243, or 4.3 percent of disposable personal income; in the 1957/58 and 1958/59 surveys the rates were 6.1 and 4.4 percent respectively. Obviously these

<sup>1</sup> The discussion in this section is based on data from the 1963/64 saving survey carried out by the Bank of Israel and the Central Bureau of Statistics. The survey covered the Jewish urban population, which comprised about 80 percent of the total population. Only some of the main findings are presented here, and a detailed analysis of the results of the investigation will be published in a special report. A similar survey, although on a smaller scale, was carried out for 1964/65, and its results will likewise appear in a special publication. It should be noted that the definitions used in the saving surveys differ in several respects from those used in the national accounts. In the former, the components of saving are measured directly and their sum total gives the estimated aggregate saving; in the latter, saving is arrived at residually by subtracting consumption from disposable income. In Israel, no estimate is available on personal saving from the national accounts, since personal income and undistributed business profits are not separated. In the surveys, in contrast to the national accounts, no imputations are made, and these may sometimes be of quantitative importance. Moreover, there are various transactions within the household sector which are insignificant in national accounting calculations but which occasionally affect the saving estimate as determined from the surveys. A detailed discussion of the differences in the definition of personal saving in the two sources can be found in Bank of Israel Bulletin, No. 24, December 1965.

<sup>2</sup> The investigation unit is sometimes other than a family, since it excludes family members over the age of 18 who live together but retain for themselves more than IL 1,200 of their income. On an average, the number of units is about 5 percent greater than the number of families.



three surveys are insufficient to establish the existence of any trend in the rate of household saving.

If durable goods are included in saving,<sup>1</sup> the relative difference between the 1957/58 and 1958/59 saving rates is reduced considerably—10.4 percent in 1957/58 and 9.3 percent in 1958/59. The rate for 1963/64 rises substantially, to 12.5 percent, because of the big increase in purchases of durable goods—from approximately 5.0 percent of disposable personal income in 1957/58 and 1958/59 to 8.2 percent in 1963/64. Such an increase has a decisive bearing on aggregate saving. In 1963/64 purchases of consumer durables by the investigation units averaged IL 457, while the average annual saving, excluding these assets, came to only IL 243. In other words, purchases of durable goods

Table XIX-5

SAVING PER INVESTIGATION UNIT AND COMPONENTS THEREOF,<sup>a</sup>  
1957/58, 1958/59, AND 1963/64

(percentages)

	Ratio of saving to disposable income			Amount saved out of disposable income (IL)
	1957/58	1958/59	1963/64	1963/64
Household saving	6.1	4.4	4.3	243
Household saving, including consumer durables	10.4	9.3	12.5	700
Contractual saving	4.6	4.9	5.6	310
Liquid saving and securities	2.8	0.8	-0.1	-6
Investment in real estate	11.8	12.5	14.0	781
Business saving	6.2	1.9	2.9	161
Durable goods	5.2	4.9	8.2	457
Disposable income	100.0	100.0	100.0	5,585
One-time receipts	8.8	7.4	10.8	602

<sup>a</sup> Contractual saving consists of repayments in equal instalments of housing debts (including mortgages), employees' contributions to social insurance funds, and life insurance premium payments. In the other tables, contractual saving comprises only payments for life insurance, contributions to social insurance funds, and mortgage loan repayments. Liquid saving consists of bank deposits and the various saving schemes. Investment in real estate is defined as the excess of purchases over sales of dwellings and land. One-time receipts consist of personal restitution payments from Germany, cash gifts, lottery prizes, and legacies in cash. More detailed definitions will appear in the special publication mentioned above.

<sup>1</sup> Treating these goods as saving is justified on the grounds that only a small part of their value is consumed in the year of acquisition and hence they augment the assets of the purchasing unit. The national accounts do not include these assets in saving, apparently because of insufficient data on the depreciation of the stock of durable goods. A similar problem exists in respect of real estate purchases.

were almost twice as great as saving exclusive of such assets. It should be pointed out, however, that the inclusion of durables in saving necessitates the deduction of depreciation on the existing stock of these assets, a thing that was not done because of statistical difficulties. If depreciation had been deducted, the share of these assets in total saving would have been much lower.

Investment in real estate in 1963/64 continued to be the largest saving component, amounting to about 14 percent of disposable income, as compared with 12.5 percent in 1958/59 and 11.8 percent in 1957/58.<sup>1</sup> The slight growth in this item apparently reflected the boom prevailing in the housing and land market in 1963/64. The rise in contractual saving (from 4.6 percent in 1957/58 to 5.6 percent in 1963/64) evidently reflected, at least partially, the expansion of social insurance funds and the increased sale of life insurance policies.

Estimates of liquid and business saving are less reliable and should be regarded merely as indicators of orders of magnitude. It will only be noted that household liquid saving was negative in 1963/64, in contrast to 1957/58 and 1958/59. This dissaving was found mainly in the self-employed group, with wage earners showing a positive, albeit low, liquid saving.

#### *(b) Saving ratios, by income group*

The distribution of saving by income group discloses a systematic difference between the groups. The saving survey indicates that the higher the income level the higher the saving rate, especially when the latter includes durable goods. This is particularly true when comparing groups with widely divergent income levels. The two lowest income groups, comprising units with a net income of under IL 4,000 (and which represented 35 percent of all families), showed a negative saving if purchases of durable goods are excluded. This dissaving disappears in the next income group, and the rate of saving moves upward, reaching about 10 percent in the highest group (IL 10,000+). The rise in the saving rate does not parallel that in income level. The income of the sixth group is about 27 percent greater than that of the fifth, but its saving is more than twice as great. On the other hand, the income level of the top group is over 50 percent higher than that of the next group, whereas the saving rate shows a difference of only 27 percent.

The connection between the rate of saving and income is, as stated, even more pronounced if consumer durables are included in the former. In this case the saving rate rises steadily with income growth, reaching 22 percent in the highest income group. The stronger correlation between saving rates and income when the former includes durable goods apparently stems from the fact that certain forms of liquid saving are actually intended for the eventual

<sup>1</sup> The investment in certain components of saving is higher than the total saving rate, a phenomenon made possible by borrowings, which must be deducted in order to calculate saving. The changes in liabilities are not detailed in the tables.

purchase of durables, and the inclusion of such goods in saving thereby eliminates fluctuations in the saving rate which would result from the reduction of these liquid asset holdings.

**Table XIX-6**  
**SAVING RATIOS, BY INCOME GROUP, 1963-64**  
(percentages)

Net income (IL)	Total survey population				Wage earners			
	Distribution of families	Level of net income (IL)	Rate of saving	Rate of saving, incl. durables	Distribution of families	Level of net income (IL)	Rate of saving	Rate of saving, incl. durables
Up to 2,499	17.4	1,475	-13.2	-8.0	10.7	1,714	-1.8	2.6
2,500-3,999	17.2	3,252	-2.6	2.5	15.3	3,281	1.1	5.9
4,000-4,999	13.6	4,517	0.9	7.9	14.7	4,527	0.9	8.4
5,000-5,999	13.9	5,461	4.8	9.7	15.7	5,461	5.3	10.1
6,000-7,499	14.7	6,733	3.2	10.7	16.1	6,733	2.9	11.0
7,500-9,999	13.5	8,538	8.3	18.4	16.5	8,538	7.3	16.7
10,000+	9.7	13,047	10.5	21.7	11.0	12,761	6.6	17.8
Total	100.0	5,585	4.3	12.0	100.0	6,101	4.6	12.9

Among wage earners<sup>1</sup> the connection between the saving ratios and income is less systematic. A comparison of the fourth and fifth and the sixth and seventh income groups shows a smaller saving ratio in the higher income groups. This fact too tends to confirm that the positive connection between the rate of saving and the level of income—a connection found also in other countries and in previous surveys carried out in Israel—does not exist for each pair of adjacent income groups, but it does exist on balance for all the groups. Dissaving among wage earners is found only in the lowest income group, which constitutes but 11 percent of the total number of wage-earning families. The dissaving of this group is apparently due to the large negative saving of pensioners. In this group as well, the inclusion of durable goods in saving results in a stronger connection between the saving rate and income.

It must be pointed out that while the rate of saving in the high income brackets is on an average relatively greater, this does not mean that in the long run a rise in income leads to an increase in personal saving in the economy. In the course of time there may be structural changes operating in the opposite direction, such as an increase in the relative share of wage earners in total

<sup>1</sup> It should be recalled that the figures for wage earners are much more reliable than those for the self-employed; consequently, in testing the validity of various assumptions about the saving behavior of the investigation units, it is preferable to use the data on wage earners only.

personal income (since wage earners tend to save less than the self-employed, such a development would probably prevent personal saving from expanding with a general increase in income). According to one school of thought, the fact that there is a positive correlation between saving ratios and income as obtained from cross-section data does not necessarily imply that the rate of personal saving will go up with a rise in personal income. In fact, saving surveys carried out in the United States have shown that while families with higher incomes do have greater saving ratios, over a period of several decades the rate of personal saving tends to remain stable despite a substantial growth in incomes.

*(c) Personal saving of wage earners and self-employed<sup>1</sup>*

From the 1963/64 survey it emerges that the self-employed displayed a better saving performance than wage earners (7.7. as against 4.6 percent). Similar results were arrived at in previous surveys and in those carried out in other countries. When durable goods are included in saving, the self-employed still showed a higher rate of saving than wage earners—17.1 percent as compared with 12.9 percent. Net income was similar in the two groups, with the annual average per unit amounting to IL 6,101 for wage earners and IL 5,753 for the self-employed. The size of the average unit was also about the same in these groups. One-time receipts of the self-employed were almost double those of wage earners—IL 906 in contrast to IL 431. Income of this type has a strong effect on the saving estimate, tending to reduce it.<sup>2</sup> If these receipts were the same in both groups, the difference in their saving rates would presumably be even greater.

One of the usual explanations for the higher saving of the self-employed is that they receive a high return on the savings invested in their businesses. In addition, further investment is often required in order to keep their businesses going concerns. This observation is reinforced by the fact that the most important component in the saving of the self-employed is business saving—about

<sup>1</sup> The 1963/64 saving survey covered the urban population. Self-employed comprised about 17 percent of the total number of units investigated, and wage earners about 71 percent. The remaining 12 percent were mainly families of unemployed persons. Because of their low average income, the latter have a negative saving. For this reason, the saving rate of both wage earners and self-employed is greater than that of the total population. Skilled and unskilled workers constituted the largest subgroup of wage earners, accounting for about 40 percent of the total survey population; they were followed by managerial and clerical workers and professional workers (15 and 9 percent respectively). Members of cooperatives, included among wage earners, made up only 1 percent of the total.

<sup>2</sup> Saving is defined in this chapter as disposable current income less consumption expenditure (technically, the calculation is performed differently). Any type of one-time income, such as personal restitution payments, increases consumption spending, even if only slightly, thereby reducing saving.

15 percent of their net income in 1963/64. This was much higher than the next largest item—purchases of durable goods, which amounted to 9 percent of income. Lending further support to the above view is the fact that the saving rate was particularly high among those employing more than four workers<sup>1</sup>—33 percent if durable goods are excluded, and 47 percent if they are included. Although these self-employed had a very high net income—IL 11,572 as compared with IL 5,753 for the group as a whole—this differential apparently still fails to explain their better saving performance.

**Table XIX-7**  
**SAVING RATIOS OF WAGE EARNERS AND SELF-EMPLOYED ACCORDING**  
**TO THE 1963/64 SAVING SURVEY\***  
(percentages)

	Total self-employed	Wage earners				
		Total	Professional workers	Managerial and clerical workers	Skilled and unskilled workers	Members of cooperatives
1. Saving ratio	7.8	4.6	4.7	6.3	4.0	0.9
2. Saving ratio, including durable goods	17.1	12.9	16.4	14.2	10.4	12.2
3. Durable goods	9.3	8.2	11.7	7.8	6.4	11.3
4. Contractual saving	2.7	3.6	4.2	4.3	3.6	3.2
5. Liquid saving	-5.0	0.8	1.2	2.6	-0.3	11.1
6. Securities	3.0	0.5	0.8	1.1	0.7	-10.7
7. Real estate	7.0	15.5	19.2	12.0	14.5	19.9
8. Business saving	14.7	0.4	0.5	0.2	0.4	—
9. Number of investigation units	609	2,199	328	539	1,165	40
10. Net income (IL)	5,753.2	6,101.2	8,376.6	7,364.3	5,080.2	8,590.9
11. One-time receipts (IL)	905.8	430.6	837.3	647.0	251.1	1,109.7
12. Liquid assets, incl. securities, at end of year (IL)	3,813.7	1,915.9	3,702.4	3,191.9	1,125.9	2,520.8

\* The table does not include all the saving components. These components do not add up to the total saving ratio, since they have to be offset by changes in liabilities, which are not presented here.

The self-employed and wage earners also display a difference in the composition of their saving. As noted, business saving is the most important item among the former, amounting to 14.7 percent of net income in 1963/64; among wage earners it is investment in real estate, which amounted to about 15.5 percent of income. Durable goods constitute the second largest item for both groups, totalling 8-9 percent. The third major component among the self-

<sup>1</sup> It would have been useful to compare each group of business-owners, but such a breakdown was not available at the time of this report.

employed is real estate investment—7.0 percent; for wage earners it is contractual saving—3.6 percent (in contrast to 2.7 percent among the self-employed). It is interesting to note that liquid saving is negative (5 percent) among self-employed and positive (1 percent) among wage earners. Such a high dissaving in the former group may be attributed to the larger investment in securities by self-employed (3 percent) than that of wage earners ( $\frac{1}{2}$  percent). These two components of saving are apparently near substitutes for each other.

The stock of liquid assets at the end of the year (including securities) was twice as large among the self-employed than among wage earners (66 percent of net income as against 31 percent). This finding accords with the view that the self-employed tend to maintain more liquid assets relative to their income, since the latter aggregate is subject to considerable fluctuation and liquid assets are thus needed in order to ensure the implementation of the planned transactions. It should be remembered that the measurement of liquid saving, particularly among the self-employed, is not accurate because of the difficulty in differentiating between personal liquid assets and those belonging to the business.

Considerable differences exist in the saving rates of the various subgroups of wage earners.<sup>1</sup> The low saving of members of cooperatives<sup>2</sup> is particularly conspicuous. This group has the highest income level (IL 8,591 in 1963/64) among wage earners but the lowest saving rate. Though its income resembles that of professional workers, the saving rate of the latter was about 5 percent during the year concerned. The saving of professionals is also low relative to other groups. Managerial, administrative, and clerical workers have a lower income level than professional workers but a better saving performance (6.3 as against 4.7 percent in 1963/64). Inclusion of durable consumer goods in saving alters the results of the comparison, the saving of cooperative members rising appreciably relative to the other groups.

#### (d) *Effect of personal restitution payments on saving*<sup>3</sup>

The average amount of restitution receipts per unit receiving such income was IL 6,597, or only about 7 percent less than its disposable annual income.

<sup>1</sup> Marked differences also exist among the self-employed, but these are not analyzed since the group as a whole is too small for this purpose.

<sup>2</sup> Cooperative members constituted only one percent of the sample, and therefore the data relating to them should be treated with considerable reserve.

<sup>3</sup> In planning the 1963/64 saving survey, it was decided to use a sampling method whereby a much larger number of families who received restitution in the survey year and the year preceding it would be included than would have been the case if their weight in the survey were similar to their weight in the population. As a result, the survey included 422 families receiving personal restitution during the survey year, whereas recipients of restitution apparently comprised only 4 percent of all urban Jewish families.

Disposable current income of restitution recipients was 28 percent higher than that of nonrecipient families; nevertheless, the former had a negative saving of -6.2 percent, in contrast to a positive saving of 4.8 percent among the latter. The reason for this is that the receipt of personal restitution increases consumption spending and thus reduces the amount saved from disposable income. (Saving is calculated by deducting the increased consumption from net income.) It can be argued that the contractionary influence of restitution receipts on saving was even greater in view of the fact that the current income of the recipients was, as stated, about 28 percent higher than that of nonrecipients, and the rate of saving moves up with an increase in income. The third column of Table XIX-8 shows that the average saving of nonrecipient families would have been IL 495 if their current income had been similar to that of recipients, whereas, the latter actually had a dissaving of IL 434. The difference between the potential and actual saving can be attributed to the influence of restitution receipts.

**Table XIX-8**  
**EFFECT OF RESTITUTION RECEIPTS ON ESTIMATED RATE OF**  
**PERSONAL SAVING**

(IL)

	Received restitution in survey year	Did not receive restitution	Did not receive restitution (calculated at income level of recipients of restitution)	Received restitution one year before survey year but not in survey year
Total saving	-434	262	495	465
Total saving, incl. consumer durables	662	691	1,096	1,001
Net income	7,030	5,477	7,030	7,084
Number of investigation units	422	2,389	2,389	355

Inclusion of consumer durables in saving narrows the differential caused by restitution receipts. In contrast to an average saving of IL 662 per unit, or 9.4 percent of net income, the average saving among those not receiving restitution but having a similar income reached IL 1,096, or 15.6 percent of current income. This can be ascribed to the fact that restitution has only a slight effect on current consumption. A rough estimation shows that only about 14 percent of total restitution receipts were expended during the survey year on current consumption. A similar result (17 percent) was obtained from the 1957/58 saving survey.

It is interesting to note that personal restitution received in the past has practically no effect on the present distribution of resources as between con-

sumption and saving. This is true even when durable goods are included in saving. As can be seen from Table XIX-8, the saving of families receiving restitution one year before, but not during, the survey year was about the same as that of families not receiving restitution (IL 465 as against IL 495) and having a similar current income (IL 7,030 as compared with IL 7,084). This finding is similar to that of the 1957/58 survey, which revealed that restitution increased consumption in the year following receipt by only 4 percent.

**Table XIX-9**

**EFFECT OF RESTITUTION RECEIPTS ON THE COMPOSITION OF SAVING**

(IL—annual average per unit)

	Received restitution in survey year	Did not receive restitution	Did not receive restitution (calculated at income level of recipients of restitution)	Marginal propensity to save out of restitution receipts <sup>a</sup>	Received restitution one year before survey year but not in survey year
Contractual saving	297	197	278	—	228
Liquid saving	3,420	-149	-149 <sup>b</sup>	0.54	-1,381
Securities	191	46	105	0.01	91
Real estate	2,127	681	763	0.21	2,160
Business saving	909	129	129 <sup>b</sup>	0.12	240
Consumer durables	1,096	429	611	0.07	536
Liquid assets at end of year	7,959	1,817	1,817	—	6,205
Amount of restitution	6,597	—	—	—	—

<sup>a</sup> The marginal propensities do not add up to 1, since not all of the saving components have been included here.

<sup>b</sup> The 1963/64 saving survey did not find that these two items were affected by changes in income level.

To evaluate the effect of restitution on various saving components, we calculated in Table XIX-9 the potential level of saving for each of the components, assuming a similar level of current income for both recipients and nonrecipients of restitution.<sup>1</sup> A comparison of the potential (col. 3) with the actual (col. 1) saving of recipients shows the estimated effect of restitution on saving components. Dividing this estimate by the average amount of restitution yields the estimated marginal propensity to save from restitution receipts. From the table it emerges that about half of the income from restitution was invested

<sup>1</sup> This was done by using the marginal propensities to save out of current income as estimated from the 1963/64 survey.



in liquid saving in the year it was received. Average liquid saving among restitution recipients was IL 3,420, compared with a dissaving of IL 149 for nonrecipients. The second largest component was real estate investment, which amounted to close to IL 1,400, or 21 percent of restitution receipts. Next in order was business saving and investment in durable goods, each accounting for 10 percent. No effect of restitution is discerned on saving in the form of securities. Similar results were obtained from the 1957/58 survey, which showed that in the year of receipt about 45 percent of the restitution income was spent on liquid assets (including securities) and only 20 percent on real estate.

As can be further seen from Table XIX-9, the allocation of restitution receipts among the various saving components is not a final one. Out of about half of the amount retained in the form of liquid deposits during the year of receipt, approximately IL 1,400 was spent on real estate in the following year. This is revealed when comparing real estate investment of nonrecipient families (IL 793) with that of families receiving restitution one year before (IL 2,160). The additional investment in real estate was made possible by drawing on the liquid savings accumulated in the year in which restitution was received; in Table XIX-9 this is reflected by the decline in liquid assets at the end of the year. The stock of liquid assets at year's end of families receiving restitution during the same year amounted to IL 7,959, and in the following year it dropped to IL 6,205. The magnitude of this decline resembles that of the increase in real estate investment. Thus we see that two years after the receipt of restitution, about 40 percent was invested in real estate and approximately 30 percent in liquid saving. This corresponds to the findings of the 1957/58 survey. At that time about two-thirds of the liquid assets were earmarked for the purchase of real estate in the following year, so that after two years slightly more than half of total restitution income was invested in real estate and about 12 percent was retained in the form of liquid assets.