

CHAPTER VIII

NONPROFIT INSTITUTIONS¹

1. MAIN DEVELOPMENTS

THE NONPROFIT INSTITUTIONS provide various services in the health, educational, social welfare, religious, and social fields. The sector is very heterogeneous, numbering some 6,000 institutions which differ greatly from one another in size, rate of development, and particularly in the nature of their activities. Nevertheless, about 75 percent of the sector's expenditure is accounted for by 15 large institutions. Common to all the institutions is the fact that they cater mainly to households,² receiving no direct payment for their services, or selling them at a price covering only part of the cost.³

Total expenditure of the sector declined in 1966 by 1 percent in real terms.⁴ This development stands out all the more in view of the fact that the volume of real activity has been rising from year to year, and markedly so in 1964-65: in 1965 the real increase came to about 11 percent, and in 1964 to approximately 10 percent (see Table VIII-1). The contraction during the year reviewed was the resultant of a decrease of approximately 11 percent in real investment (in contrast to an increase of 14 percent in 1965 and 39 percent in 1964), and a rise of 1 percent in purchases on current account at constant prices (as compared with increases of 11 and 4 percent in 1965 and 1964 respectively).

In assessing this development it should be noted that 1964 and 1965 were

¹ The data in this chapter do not correspond with those presented in Chapter IV, "Private Consumption", since the latter are based mainly on the figures of the Central Bureau of Statistics, whereas the data here were received directly from the institutions themselves. Most of the difference arises from the exclusion of political parties in this survey, whereas the CBS includes them in this sector. There are also considerable differences in the definition of the institutions' consumption and in the survey population. Further details are found in the statistical appendix (in Hebrew only).

² Institutions providing business services are excluded from this sector. It should be noted that the distinction is sometimes very slight and somewhat arbitrary.

³ For further explanation of the types of institutions, see the Bank of Israel Annual Report for 1965, Chapter VIII; and O. Hatzroni, "Development of Nonprofit Institutions, 1957-64", Bank of Israel Bulletin No. 25, pp. 44 ff.

⁴ The real expenditure of the sector is arrived at by deflating purchases on current account according to an index of nonprofit institution consumption prices (this index rose by about 11 percent in 1966), and by deflating investments according to an index of investment prices (the latter rose by less than 0.5 percent in 1966).

Table VIII-1

EXPENDITURE OF NONPROFIT INSTITUTIONS, 1961-66
(IL million, at current prices)

Year	Purchases on current account ^a	Purchases on capital account	Total expenditure (1) + (2)	Percent increase or decrease (-) in total expenditure as against the preceding year	
				At current prices	At constant prices ^b
	(1)	(2)	(3)	(4)	(5)
1961	376	55	431	11	6
1962	429	59	488	13	2
1963	485	77	562	15	7
1964	559	112	671	19	10
1965	694	130	824	23	11
1966 ^c	774	116	890	8	-1

^a Including interest paid less interest received; excluding transfers to households.

^b This column should be regarded with some reservation since the index of the sector's consumption prices is only an estimate.

^c Provisional data. For a further breakdown, see the appendix to this chapter (in Hebrew only).

exceptional years for this sector. The level of capital outlay in 1966 was similar to that of 1964, the decline experienced in 1966 being due to the completion of a number of development projects in institutes of higher education and research and to the big increase in investment in 1965. The figure for 1966 was still far higher than in the years 1961-63. The decrease in transfers from abroad, part of which are intended for financing investment, was another reason for the lower capital outlay in 1966.

The small real increase in current-account purchases is mainly explained by the relatively slight rise of 1-2 percent in the number of paid personnel in 1966 (there are many voluntary workers in this sector, but their number is not known), and the slower development of many of the institutions following their rapid growth during the two preceding years. The moderate nominal increase in purchases on current account was mainly connected with the modest rise in the sector's wage bill—13 percent in contrast to 37 percent in 1965 and 16 percent in 1964. This relatively small increase is attributable to the fact that a large percentage of the retroactive wage increments due employees as a result of the job reclassification carried out for a large part of the sector were paid in 1965. Thus, despite the substantial wage hikes in 1966, the increase in the wage bill was relatively small.

Total receipts were up 8 percent in 1966, compared with 15 percent in 1965 and 20 percent in 1964. There was a striking decline of 13 percent in

transfers from abroad, in contrast to a growth of 3 percent in 1965 and 18 percent in 1964. This decrease was the biggest change to take place in recent years in transfers from abroad (in dollar terms).

One year's data are obviously insufficient for drawing conclusions about a change in the trend of foreign transfers. The decrease may also have stemmed partly from the fact that several institutions borrowed money abroad in previous years, and a certain percentage of their overseas contributions in 1966 went directly to repay these loans and did not reach this country.

In contrast to this, net transfers from the public sector expanded considerably—by 20 percent as compared with 27 percent in 1965 and 20 percent in 1964. The entire increment occurred in Government transfers to educational institutions, owing primarily to the steep wage increases and the growth of their deficits; on the other hand, transfers to social welfare institutions were smaller during the year reviewed, and there were only slight changes in other fields of activity. The share of public sector transfers in total receipts of the sector has advanced steadily—from 16 percent in 1961 to 21 percent in 1965 and 23 percent in 1966. This trend is no doubt indicative of the growing dependence of part of the institutions on the public sector, particularly the Government, for their financing, and is due to the inability of their regular local sources of funds—transfers from households and the sale of services—to match the rise in expenditure, in the main due to higher payrolls. As a result of the bigger deficits, stronger pressure has been exerted on the public sector to augment its participation, and it was this that led to the appreciable increase in public sector transfers in recent years. This development suggests, on the one hand, the considerable importance which the Government attaches to the services provided by the institutions it supports—in the educational (particularly higher education) and health fields—and on the other hand, its readiness to cover the extra labor costs not only of its own institutions but also of other public organizations directly affected by the wage rises granted in the public sector. The growing dependence on the public sector for funds presumably is liable to influence the direction of development and the nature of investments of institutions enjoying Government support.¹

The demand surplus of the sector in 1966 amounted to IL 198 million, as compared with IL 217 million the year before—a decline of 9 percent, as against an increase of 37 percent in 1965. The ratio between the demand surplus and gross purchases has been declining since 1961 (except for 1965). During the year surveyed it fell sharply—from 26 percent in 1965 to 22 percent. This may indicate a reduced dependence on foreign transfers and domestic credit. The negative saving of the sector declined by 5 percent, after increasing by 94 percent in 1965, and amounted to IL 88 million.

¹ For example, Government participation in investment in the natural sciences is relatively greater than that in the social sciences (see the explanatory notes to the State Budget for 1966/67 and for 1967/68).

2. ROLE OF THE NONPROFIT INSTITUTIONS AND THE PUBLIC SECTOR IN THE PROVISION OF SERVICES

A comparison with the public sector shows that the weight of nonprofit institutions in the provision of social services has been falling. The decrease was particularly conspicuous in 1966, and took place in all three fields of activity in which both sectors participate (see Table VIII-2). This development is attributable to the marked expansion of the public sector in this area and to the slower growth of nonprofit institutions in 1966 in particular.

Table VIII-2

EXPENDITURE^a OF NONPROFIT INSTITUTIONS AND PUBLIC SECTOR, BY FIELD OF ACTIVITY, 1961-66

	1961	1962	1963	1964	1965	1966
IL million						
Health						
Public sector	71	85	94	120	146	214
Nonprofit institutions	172	206	232	269	348	399
Education, culture, religion						
Public sector	200	263	311	398	572	734
Nonprofit institutions	153	179	216	288	341	360
Social welfare						
Public sector ^b	163	203	244	297	351	460
Nonprofit institutions	66	74	80	92	99	89
Share of nonprofit institutions in total services provided by public institutions (%)						
Health	71	71	71	69	70	65
Education, culture, religion	43	41	41	42	37	33
Social welfare	29	27	25	24	22	16

^a Expenditure of nonprofit institutions consists of purchases on current and capital account and transfers to households, but not intrasector transfers. Public sector expenditure consists of purchases on current and capital account, welfare payments, and development budget loans, less transfers to nonprofit institutions and intrasector transfers.

^b Including expenditure of the National Insurance Institute.

The public sector stepped up its expenditure¹ in these fields in the last few years by an average of 27 percent per annum. This far exceeds the average increase of 17 percent in nonprofit institution expenditure on social services

¹ Public sector expenditure includes purchases on current and capital account, welfare payments, and development budget loans, less transfers to nonprofit institutions. These transfers should not be regarded as outlay on services provided by the public sector, but as the financing of services actually provided by the nonprofit institutions. Public sector transfers are presented in Table VIII-7.

during the same period. It should be noted that Table VIII-2 does not indicate the relative shares of the public sector and nonprofit institutions in the aggregate supply of such services, since they are provided by the business sector as well.¹

As a rule, these two sectors complement each other in the provision of social services, each specializing in a particular type of service. In the field of health, the nonprofit institutions are concerned mainly with health insurance and clinical treatment, and to a lesser degree with hospitalization for the insured. In the field of education, most of the activity of nonprofit institutions is in higher education and research, vocational education, primary religious schools² and yeshivot, and—as with the public sector—also in secondary and agricultural schools. As regards social welfare, most of the activity of the nonprofit institutions is connected with various women's organizations and with the social welfare organizations of the Histadrut (General Federation of Labor). This field also includes many children's institutions, orphanages, and old-age homes.³

The share of nonprofit institutions in the provision of health services declined precipitately in 1966. This can be partly ascribed to the fact that most of the retroactive wage increments were paid in the public sector in 1966, whereas the nonprofit institutions had paid the increments in 1965. Nevertheless, the weight of nonprofit institutions was still greater than that of the public sector, owing to the extensive activity of the Sick Funds. The latter function as nonprofit rather than State-run institutions in view of their connection with trade unions, and in their operations they largely substitute for national health services.

In the provision of educational, cultural, and religious services, the share of nonprofit institutions decreased sharply in the last two years. This was mainly due to the much larger amount expended by the public sector on elementary education in this period and the very notable increase in outlays by the Government and local authorities on the construction of schools, especially in 1965.

The weight of the nonprofit institutions in social welfare also fell steeply, continuing a long-run trend in existence since 1961. This was mainly due to the rapid increase in benefit payments by the National Insurance Institute—a big rise in payments under the “insurance for employees' children” scheme and a smaller percentage increase in pension payments.

¹ The business sector includes private physicians and hospitals, secondary schools, vocational and commercial schools, etc.

² Refers mainly to the independent school system of Agudat Israel.

³ There are also numerous free-loan associations, but their expenditure is small relative to the scope of their financial activity.

3. CHANGES IN THE COMPOSITION OF EXPENDITURE, BY FUNCTION

The composition of the nonprofit institutions' expenditure in 1966 shows a continuation of the previous year's trends: a rapid rise in the proportion spent by health institutions and a decline in that by social welfare institutions, professional associations, and social organizations (see Table VIII-3). This pattern is the outcome of the further rapid development of health institutions, the slow growth of expenditure by educational institutions, following a decline in their investments (see Table VIII-9), and the diminished activity of social welfare institutions.

Health institutions rank first as far as the volume of expenditure is concerned. In 1966 their total outlay went up by 14 percent, as the result of an increase of 16 percent in purchases on current account and of 10 percent in purchases on capital account (see Table VIII-9). On the other hand, income from membership dues was up 14 percent, mainly owing to the raising of dues by the various Sick Funds at the beginning of 1966.¹ The bulk of the ex-

Table VIII-3

EXPENDITURE OF NONPROFIT INSTITUTIONS,^a BY FIELD OF ACTIVITY,
1961-66
(percentages)

	1961	1962	1963	1964	1965	1966
Health	39	41	40	38	41	44
Education, research, culture	31	32	33	36	34	34
Social welfare	15	14	14	13	12	10
Others ^b	15	13	13	13	13	12
Total	100	100	100	100	100	100

^a Purchases on current and capital account and transfers to households and to other nonprofit institutions, less transfers to the public sector and interest received.

^b Professional associations (including trade unions and workers' councils), religious institutions, and sports and social organizations.

penditure in this field is accounted for by one institution—the General Sick Fund. This is the largest nonprofit institution from the viewpoint of scope of operations, its expenditure amounting to more than 30 percent of aggregate outlay of the sector and to 76 percent of the total outlay on health services in 1966.

The percent spent by professional and social organizations and on religious services has remained more or less constant over the past five years. The in-

¹ The sector numbers six Sick Funds, which are authorized and supported by the Ministry of Health.

clusion of political parties¹ in this field would result in sharp cyclical fluctuations—a big increase in an election year and a marked decline in the following year, the level holding steady until the next elections.

4. "BALANCE OF PAYMENTS" OF NONPROFIT INSTITUTIONS

(a) Receipts

The sector's receipts (excluding intrasector transfers) in 1966 totalled IL 849 million, as against IL 788 million the year before—a rise of 8 percent, compared with 15 percent in 1965 and 20 percent in 1964 (see Table VIII-6). The composition of the sector's receipts underwent several changes during the years 1961-66 (see Table VIII-4). The most striking change in 1966 was, as stated, a decline in transfers from abroad (and, of course, a sharp decline in their share of total receipts of the sector). On the other hand, the weight of transfers from the public sector increased, this too in line with the long-run rapid growth trend in the share of public sector transfers in total receipts.

Table VIII-4
RECEIPTS OF NONPROFIT INSTITUTIONS, BY SOURCE, 1961-66
(percentages)

	1961	1962	1963	1964	1965	1966
Transfers from households and business firms ^a	44	42	41	40	39	40
Transfers from the rest of the world	22	23	22	22	20	16
Net transfers from the public sector	16	17	19	19	21	23
Sale of services ^b	18	18	18	19	20	21
Total ¹	100	100	100	100	100	100

^a Including membership dues and fees, part of which may be regarded as purchases by households or as sales of services by nonprofit institutions; since it was impossible to separate these from transfers, all membership dues have been treated as transfers.

^b Excluding interest receipts which have been deducted from interest payments.

1. Transfers from households and business firms

Transfers from households and business firms (including membership dues) amounted to IL 339 million, a growth of 9 percent, as compared with 12 percent in 1965 (see Table VIII-5). The increment stemmed entirely from an increase of 10 percent in receipts from membership dues, most of it paid to

¹ As already pointed out, political parties are not included in this survey owing to the absence of reliable figures on their financial activities.

Histadrut institutions. The amount paid to all institutions aggregated IL 283 million, about 33 percent of total receipts of the sector. The growth in this item resulted mainly from the raising of membership rates by the Histadrut and the Sick Funds. The fact that, despite the big increase in Sick Fund membership dues, total income from this source advanced only 10 percent, as compared with 14 percent in 1965, when there was no rise in membership rates, apparently reflects the economic slowdown. Transfers from households and business firms, other than membership dues, were only 3 percent larger in 1966, this too probably reflecting the moderation of economic activity.

Table VIII-5

TRANSFERS FROM HOUSEHOLDS AND BUSINESSES TO
NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1965-66

	1965		1966		Household transfers as a percent of total receipts in field of activity ^a	
	IL m.	%	IL m.	%	1965	1966
Health	202.7	65	234.2	69	63	65
Education, re- search, culture	13.1	4	13.2	4	5	4
Social welfare	12.6	4	10.4	3	12	11
Others ^b	82.9	27	80.9	24	72	71
Total	311.3	100	338.7	100	39	40

^a Including intrasector transfers, which are not included in total receipts of the sector.

^b See note^b to Table VIII-3.

About two-thirds of the household transfers went to health institutions, and approximately one-quarter to professional associations and social organizations. In these two fields of activity, such transfers constitute the leading source of income—in the former because of the system of membership dues, which are similar in nature to health insurance and therefore also to sales; and in the latter, because these organizations do not base their activities on support from outside sources.

Table VIII-6
 "BALANCE OF PAYMENTS" OF NONPROFIT INSTITUTIONS, 1964-66
 (IL million, at current prices)

Receipts	1964	1965 ^a	1966 ^b	Change from 1965 to 1966	Payments	1964	1965 ^a	1966 ^b	Change from 1965 to 1966
Transfers and transactions in services and goods									
Net transfers from the public sector	129.8	165.0	198.5	33.5	Purchases on current account	559.1	694.2	773.8	79.6
Net transfers from the rest of the world	151.3	156.2	136.7	-19.5	Purchases on capital account	112.2	130.1	116.4	-13.7
Transfers from households and business firms					Transfer payments to households	22.9	24.6	20.5	-4.1
Membership dues and fees	225.3	257.4	283.1	25.7					
Other transfers	51.8	53.9	55.6	1.7					
Sales on current account	128.8	155.7	175.4	19.7					
Total	687.0	788.2	849.3	61.1	Total	694.2	848.9	910.7	61.8
Financial transactions and intrasector transfers									
Net credit from other domestic sectors ^c	7.2	60.7	61.4	0.7					
Transfers from other nonprofit institutions	9.5	29.7	24.0	-5.7	Transfers to other nonprofit institutions	9.5	29.7	24.0	-5.7
Total receipts	703.7	878.6	934.7	56.1	Total payments	703.7	878.6	934.7	56.1

^a Revised figures.

^b Provisional figures.

^c Credit data are obtained residually and hence are not very reliable.

2. *Transfers from the rest of the world*

Transfers from abroad decreased, as stated, by 13 percent in 1966, compared with a rise of 3 percent the year before. The total volume came to IL 137 million (about \$ 46 million) in 1966, as contrasted with \$ 52 million and \$ 50 million in 1965 and 1964 respectively. This sum is still greater than the amount received in 1963—\$ 43 million approximately—but smaller than that in each of the years from 1959 to 1962 (in dollar terms).

Foreign transfers finance both current operations and investments. Most of those intended for covering current operations go to specific institutions in the social, education, and health fields,¹ including those belonging to the Christian community.² These institutions receive about 42 percent of all transfers from abroad. About IL 64 million, or 47 percent of the total figure, go to educational institutions, mostly institutes of higher education and research, and in the main are intended for financing investments. In certain cases the money is earmarked for a specific project and presumably would not have been forthcoming unless it was carried out. Conceivably, the dependence of these institutions on foreign sources for their development budgets restricts their freedom in allocating funds.

Examination of the changes in foreign transfers shows a striking increase in those received by institutions financing part of their current operations therewith, and a decrease in those intended for financing investment, particularly in the case of institutes of higher learning and research. This decline may have been due to the fact that some of the institutions borrowed from foreign sources in previous years and part of the funds raised overseas are now being used to repay these debts.

3. *Public sector transfers*

Net transfers from the public sector expanded by IL 33 million in 1966 and totalled IL 198 million—an increase of about 20 percent, as against 27 percent in 1965. The volume of transfers in 1966 was 2.8 times larger than in 1961. Despite this marked rise, the decline in the growth rate in 1966 should be regarded as part of the Government's retrenchment policy.

All of the increment during the year reviewed went to educational institutions, which received 71 percent of total public sector transfers, compared with 60 percent in 1965. This source accounted for 47 percent of the educational institutions' income in 1966, as against 35 percent in 1965, 32 percent in 1964, and 30 percent in 1961 (see Table VIII-7). This upward trend is indicative of the growing dependence of nonprofit institutions on the public sector for their financing. Of total public sector transfers (net), about 88 percent came

¹ Malben, Hadassah, Wizo, Ort, etc.

² Included in foreign transfers are the estimated sums received by missionary institutions (mainly schools and hospitals).

Table VIII-7

**NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1965-66**

	1965		1966		Public sector transfers as a percent of total receipts in field of activity ^a		
	IL m.	%	IL m.	%	1961	1965	1966
Health	42.0	26	39.8	20	12	13	11
Education, research culture	99.7	60	141.4	71	30	35	47
Social welfare	15.5	9	9.1	5	15	15	9
Others ^b	7.8	5	8.2	4	1	7	7
Total	165.0	100	198.5	100	16	21	23

^a Including intrasector transfers, which are not included in total receipts of the sector.

^b See note^b to Table VIII-3.

from the Government, 6 percent from the National Institutions, and 6 percent from local authorities. Only some 3 percent was on capital account, although it should be noted that the Government grants some of the institutions long-term loans for development purposes.

4. Sale of services and goods

One of the characteristic features of the sector is that a large percentage of its services are supplied at a price far below the actual cost and sometimes even gratuitously.

The relative share of sales in total receipts edged up from 20 percent in 1965 to 21 percent, after having remained at 18-19 percent during the years 1961-64. This trend apparently reflects the desire of some of the institutions to enlarge their regular sources of income.

Income from the sale of services and goods amounted to IL 175 million in 1966, up IL 20 million, or about 13 percent, from the 1965 figure (as compared with a rise of 21 percent in 1965). Approximately 43 percent of total sales were accounted for by educational institutions, this representing nearly 25 percent of their aggregate receipts. Most of these receipts derived from school fees and the participation of various institutions in the financing of research and scientific projects.¹

Health institution receipts from the sale of services rose by nearly 17 percent and totalled approximately IL 64 million, or 18 percent of their aggregate income. The reference is to the direct sale of services, including

¹ Including research work carried out for other countries.

health insurance and hospitalization fees received from the National Insurance Institute.

It should be noted that no sharp line can be drawn between the various kinds of receipts and that membership dues, for instance, might possibly be regarded as the sale of medical insurance; in this case, the division between sales and transfers from households would be completely different. If membership dues paid to the Sick Funds are added to sales, this would bring up the weight of sales to 48 percent of the receipts of the entire sector and to 80 percent of the receipts of health institutions.

(b) *Payments*

The outlay of nonprofit institutions on both current account (including transfers to households) and capital account totalled IL 911 million in 1966 at current prices, as against IL 849 million in 1965—an increase of 7 percent, compared with 22 percent in 1965 (see Table VIII-6).

Table VIII-8

COMPOSITION OF NONPROFIT INSTITUTION EXPENDITURE, 1961-66*

(percentages)

	1961	1962	1963	1964	1965	1966
Purchases on current account	84	85	84	81	82	85
Purchases on capital account	13	12	13	16	15	13
Transfers to households and business firms	3	3	3	3	3	2
Total	100	100	100	100	100	100

* Excluding transfers to the public sector. In the current-account outlays, interest paid is shown net of interest received. Intrasector transfers are not included in total expenditure.

The rise in the share of purchases on current account and the decline in that of purchases on capital account (see Table VIII-8) were mainly due to two developments operating in the same direction—a reduction of 11 percent in the latter and a rise to the same extent in the former. Most of the growth in current purchases stemmed from a 13 percent rise in the sector's wage bill. This relatively small percentage increase is explained by the fact that most of the retroactive wage increments due employees as a result of the job reclassification and the salary increases awarded professional per-

sonnel were paid in 1965¹ and only a small portion was paid in 1966.² The data on the composition of expenditure in the period 1961–66 show that the years 1964 and 1965 departed from the general pattern, having an exceptionally high percentage of capital outlay, whereas the breakdown of expenditure in 1966 resembles that for the years 1961–63. This can be primarily ascribed to the large investments made by institutes of higher education and research in 1964 and 1965.

Table VIII-9

CHANGES IN THE COMPONENTS OF NONPROFIT INSTITUTION
EXPENDITURE, BY FIELD OF ACTIVITY, 1966 COMPARED WITH 1965

(percentages)

	Total expenditure ^a	Purchases on current account	Purchases on capital account	Transfers to households	Intrasector transfers
Health	14	16	10	-13	0
Education, research, culture	5	13	-18	-1	15
Social welfare	-10	-8	-17	-23	6
Others ^b	-1	9	-18	-33	-59
Total	6	11	-11	-17	-19

^a The figures in this column include intrasector transfers. Excluding such transfers, the change for the sector as a whole was 7 percent.

^b See note^b to Table VIII-3.

1. *Purchases on current account*³

Purchases on current account totalled IL 774 million in 1966, an increase of 11 percent, as against 24 percent in 1965 (see Table VIII-9). The index of the sector's consumption prices (which is measured from the expenditure side) rose by 11 percent,⁴ about the same rate as in 1965. The growth of purchases on current account therefore amounted to only 1 percent in real terms, compared with 11 percent in 1965. As stated, political parties are excluded from this survey; their inclusion would have resulted in a real decline in the sector's purchases on current account, since 1965 was an election year.

¹ Particularly in health and social welfare institutions.

² A further reason for this small increase is the fact that part of the data for 1965 pertain to the fiscal year 1965/66, which includes the months January–March 1966, when many of the wage increments were paid.

³ Including net interest payments of the sector.

⁴ According to Bank of Israel calculations.

Most of the nominal increase in such purchases stemmed from the rise in the sector's wage bill—13 percent compared with 37 percent in 1965. Wages and fringe benefits amounted to IL 534 million, as contrasted with IL 472 million in 1965. The share of wages in the sector's total outlay has risen noticeably, to 59 percent compared with 56 percent in 1965 and 50–53 percent in the years 1957–64 (see Table VIII-10).

Table VIII-10

WAGES AND FRINGE BENEFITS PAID BY NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1965-66

	1965		1966		Wage bill as a percent of total outlay in field of activity ^a		
	IL m.	%	IL m.	%	1961	1965	1966
Health	211.6	45	238.4	44	57	57	58
Education, research, culture	156.5	33	181.0	34	46	52	56
Social welfare	45.2	10	45.7	9	45	44	50
Others ^b	58.4	12	69.2	13	62	52	62
Total	471.7	100	534.3	100	53	56	59

^a Including intrasector transfers, which are not included in total expenditure of the sector.

^b See note^b to Table VIII-3.

The relatively small increase in the sector's wage bill was the combined result of two factors. First, most of the wage increments on account of 1964 were actually paid in 1965, a fact which caused wage payments in 1965 to go up to a greater extent than what the pay rises granted that year would have entailed, while the opposite was true of 1966. Secondly, the weight of the cost-of-living allowance is smaller in this sector than in the others, owing to the high percentage of professional personnel—university lecturers and Sick Fund doctors—whose salaries are relatively larger and hence receive the c-o-l allowance on a smaller portion of their salary.

Most of the payroll growth in 1966 occurred in the educational institutions, professional associations, and social organizations, while the wage bill of social welfare institutions held steady. The increase in the case of educational institutions is explained by the expansion of real activity in this field on the one hand, and by the payment of wage increments in 1966 on the other. Total wage outlay in the education field was up 16 percent in 1966, following a rise of 44 percent in 1965. The share of educational institutions in the sector's total payroll has advanced steadily, from 25 percent in 1960 to 33 percent in 1965 and 34 percent in 1966. This rapid uptrend can be ascribed to the

big salary increases granted and to the much larger number of employees. Salaries and fringe benefits accounted for 56 percent of the educational institutions' total outlay in 1966, compared with 52 percent in 1965 and about 46 percent in 1961.¹ Social welfare institutions, professional organizations, and social institutions also showed a substantial rise in their relative share of wage expenditure, mainly owing to the reclassification of personnel and the payment of wage increments.

Current purchases exclusive of wages totalled IL 240 million—an increase of nearly 8 percent, compared with 3 percent in 1965. This sum includes some IL 15 million spent on foodstuffs and approximately IL 25 million on medicines.²

2. *Purchases on capital account*

Purchases on capital account amounted to IL 116 million at current prices, compared with IL 130 million in 1965—a decrease of 11 percent, in contrast to a rise of 16 percent in 1965. This development was mainly due to a precipitate drop in investment in educational institutions, following a steep rise in 1964 and 1965. Despite this decline, the level of investment in 1966 was still considerably higher than in the years before 1964.

3. *Transfers to households*

Transfers to households and business totalled about IL 21 million in 1966, compared with IL 25 million the year before—a decrease of 17 percent, as against increases of 8 percent in 1965 and 27 percent in 1964. The downturn stemmed from the much smaller amount received from social welfare institutions, professional associations, and social organizations during the year reviewed.

5. DEMAND SURPLUS AND FINANCING OF PURCHASES ON CAPITAL ACCOUNT

(a) *Demand surplus*

The demand surplus of the sector is defined as the excess of net purchases over net transfers from other domestic sectors. This surplus grew steadily from 1961 to 1965, but in 1966 it declined for the first time, amounting to IL 198 million as against IL 217 million the year before—a decrease of 9 percent

¹ The increased weight of wages in the total expenditure of educational and social welfare institutions, professional associations, and social organizations also reflects the steep decline in capital outlay in these fields in 1966.

² The Central Bureau of Statistics defines purchases of food and medicines by the non-profit institutions not as consumption of the sector but of households. In this chapter they are treated as consumption of nonprofit institutions.

(see Table VIII-11). Nevertheless, it was still 25 percent larger than in 1964. The year 1965, as already pointed out, departed from the general trend,¹ a development explained by the marked increase in the sector's wage bill and by the large-scale investment that year.

Table VIII-11
DEMAND SURPLUS OF NONPROFIT INSTITUTIONS AND
FINANCING THEREOF, 1961-66

(IL million)

	1961	1962	1963	1964	1965	1966
Demand surplus						
Purchases, less sales	352.9	397.5	458.4	542.5	668.6	714.8
Less: Net transfers from other domestic sectors	244.0	278.3	324.2	384.0	451.7	516.7
Total	108.9	119.2	134.2	158.5	216.9	198.1
Financing of demand surplus						
Transfers from the rest of the world	92.1	114.4	127.7	151.3	156.2	136.7
Net credit from other domestic sectors	16.8	4.8	6.5	7.2	60.7	61.4
Total	108.9	119.2	134.2	158.5	216.9	198.1
Demand surplus as a percent of gross purchases	25.3	24.4	23.9	23.6	26.3	22.3

The contraction of the demand surplus in 1966 resulted from both a decrease in purchases on capital account and an increase in net transfers from other sectors. The reasons for these changes have already been explained.

It should be stressed that the demand surplus is partly of a structural nature; i.e. some of the institutions are financed largely by transfers from abroad, such as Hadassah, Malben, Wizo, and Ort. These organizations, whose headquarters are located overseas, constitute a link between Israel and the Diaspora and enable Jews abroad to actively participate in the spheres of education, health, and social welfare in Israel. The operations of these institutions are largely financed by foreign transfers—which they treat as ordinary receipts—and this results in the creation of a demand surplus, as defined above.

In 1966 the bulk of the demand surplus was financed by transfers from abroad, although their share has been declining in recent years. They covered

¹ Inclusion of the political parties in the data would have increased the demand surplus still more in 1965 and accentuated the decline in 1966.

about 69 percent of the demand surplus in 1966, compared with 72 percent in 1965 and 95 percent in 1964. Approximately 31 percent of the surplus in 1966 was financed through additional domestic credit.

One criterion of the sector's dependence on its demand surplus is the ratio between it and total purchases. Whereas in 1961 the demand surplus amounted to about 25 percent of total purchases, the proportion declined gradually to less than 24 percent in 1964, edged up to 26 percent in 1965, and fell to 22 percent in 1966. The declining trend apparently suggests a diminishing dependence on the demand surplus, or to be more precise, on overseas transfers and loans from other domestic sectors. The decline in this ratio indicates that domestic receipts from the sale of services and net transfers from other sectors have been growing more rapidly than total expenditure.

(b) *Saving and financing of capital expenditure*

Nonprofit institution saving is defined as the excess of transfers on current account from other domestic sectors¹ over net purchases on current account. This saving, which has been of a negative magnitude in every one of the last few years, actually represents the sector's share in national saving. The amount of dissaving declined in 1966, from IL 92 million the year before to IL 88 million (see Table VIII-12)—i.e. by approximately 5 percent, compared with a rise of 94 percent in 1965.² The substantially larger dissaving in 1965 is primarily explained by the much bigger wage bill that year, which was not accompanied by a corresponding growth in transfers from other domestic sectors. The relatively small increase in household transfers in 1965 was mainly responsible for this situation.

Transfers from abroad, as stated, are intended partly for financing the sector's current activities and partly for financing its investments; hence the sector's dissaving has stemmed to some extent from the negative saving of institutions financing their current operations by foreign transfers. If the sector's dissaving is added to total overseas transfers, the resulting figure may be taken to represent the contribution of this source to the financing of investment (Table VIII-12, row 5). This sum came to IL 48 million in 1966, compared with IL 64 million the year before—a decline of 24 percent, compared with a decrease of 39 percent in 1965. It covered 42 percent of total investment in 1966, as contrasted with 49 percent in 1965 and 92 percent in 1964.

The share of public sector transfers in total capital-account receipts rose considerably during the past two years, and in 1966 it amounted to 6

¹ Household transfers for investment purposes have not been classified separately owing to lack of data. All transfers from households have been treated as transfers on current account.

² The inclusion of political parties in the sector presumably would have resulted in a bigger dissaving in 1965 and a greater improvement in 1966.

percent of total investments. The proportion of net credit from other domestic sectors moved up from 47 percent of total capital outlay in 1965 to 53 percent in 1966. This increase was apparently due to the decline in transfers from abroad, which was unforeseen, and to a slight gain in transfers from households; hence the sector needed the same amount of credit as in 1965 despite the smaller investment figure. It should be noted that not all the credit was intended for financing investment, several institutions undoubtedly using part of it for financing current expenditure.

6. CONCENTRATION OF NONPROFIT INSTITUTIONS

Table VIII-13 shows the degree of concentration of the sector's expenditure. The three largest institutions, in order of size, are the General Sick Fund, Hebrew University, and Histadrut (General Federation of Labor). These institutions have close to 20,000 employees. The second group includes the Haifa Technion, Tel Aviv University, Weizmann Institute, and Hadassah, with the last three having about the same annual expenditure. About 79 percent of the sector's outlay in 1966 was concentrated in 20 institutions; the balance was divided among some 6,000 institutions, most of which are very small from the aspect of financial activity but together they engage in a wide variety of social activities. The overwhelming share of these institutions are

Table VIII-12

SHARE OF NONPROFIT INSTITUTIONS IN NATIONAL SAVING AND THE FINANCING OF CAPITAL OUTLAY, 1964-66

(IL million)

	1964	1965	1966
1. Net transfers from other domestic sectors on current account ^a	382.7	446.0	510.1
2. Purchases on current account, less sales	430.3	538.5	598.4
3. Share in national saving (1-2)	-47.6	-92.5	-88.3
4. Transfers from abroad	151.3	156.2	136.7
5. Subtotal (3+4)	103.7	63.7	48.4
6. Net credit from other domestic sectors	7.2	60.7	61.4
7. Transfers from the public sector on capital account	1.3	5.7	6.6
8. Balance available for financing investments (5+6+7)	112.2	130.1	116.4

^a All transfers from households have been treated as transfers on current account, since no breakdown into the current- and capital-account components is available.

synagogues, which number more than 5,000. There are about 200 yeshivot (Talmudic academies), scores of secondary, agricultural, and vocational schools, as well as children's institutions, clubs, immigrant associations, women's organizations, and various types of social welfare and cultural organizations.¹

Table VIII-13
DEGREE OF CONCENTRATION OF NONPROFIT INSTITUTION
EXPENDITURE, 1966*

Range of expenditure	Total expenditure (IL million)	Percentage of total expenditure of sector	Cumulative percentage of total expenditure of sector	No. of institutions
IL 50 million and over	442.2	47	47	3
IL 20-49 million	131.8	14	61	4
IL 10-19 million	127.0	14	75	8
IL 5-9 million	33.4	4	79	5
Up to IL 5 million	200.3	21	100	About 6,000

* Including intrasector transfers.

Examination of the degree of concentration of investment shows that in 1966 the seven largest institutions accounted for 77 percent of the sector's aggregate investment (whereas their share in total expenditure was only 61 percent), while the top 20 institutions accounted for 87 percent of total investment (their share in total expenditure was 79 percent).

This shows that the degree of concentration is greater in the case of investment than for total expenditure, and that the share of the large institutions in total investment is greater than their share in total expenditure.

¹ Workers committees and several sports organizations are excluded from the sector for lack of data on their financial operations.