

CHAPTER XIX

SAVING

1. MAIN DEVELOPMENTS

THE MARKED DECELERATION of economic activity in 1966 was accompanied by a decline in the rate of national saving. The latter development resulted from the fact that the slowdown in the growth of national income was greater than that of consumption. The ratio of gross saving to gross national product dropped from 14.3 percent in 1965 to 10.8 percent; in absolute terms, gross saving fell from IL 1,563 million to IL 1,278 million. The ratio of net saving to the national product declined sharply, from 5.5 percent in 1965 to 1.3 percent. Decreases were recorded in all sectors contributing to national saving, except for the nonprofit institutions, where gross negative saving fell by IL 4.2 million to -17.3 percent, as against -20.9 percent in 1965. The rate of net private sector saving from disposable domestic income dropped from 11.4 percent in 1965 to 7.6 percent. In both years the private sector was the only one to show a positive saving. Gross dissaving of the public sector rose from -7.0 percent in 1965 to -12.4 percent in 1966.¹ Net national saving out of domestic income financed only 10 percent of net investment at current prices, compared with 27 percent in 1965.

Table XIX-1
NATIONAL SAVING, 1964-66

(IL million, at current prices)

Year	Gross national product	Depreciation	Net national product (1)-(2)	Gross saving from GNP		Net saving from NNP	
				IL m.	%	IL m.	%
	(1)	(2)	(3)	(4)		(5)	
1964	9,252	878	8,374	1,374	14.9	496	5.9
1965	10,933	1,022	9,911	1,563	14.3	541	5.5
1966	11,863	1,144	10,719	1,278	10.8	134	1.3

¹ In the case of the public sector and nonprofit institutions, saving is shown gross since data on depreciation are available for the two sectors together and cannot be separated.

Table XIX-2

**GROSS SAVING FROM GROSS NATIONAL PRODUCT, BY SECTOR,
1964-66**

(at current prices)

Year	IL million				Percentages			
	Private sector	Nonprofit institutions	Public sector	All domestic sectors	Private sector	Nonprofit institutions	Public sector	All domestic sectors
1964	1,430	-48	-8	1,374	104.1	-3.5	-0.6	100
1965	1,799	-93	-143	1,563	115.1	-6.0	-9.1	100
1966	1,652	-88	-286	1,278	129.3	-6.9	-22.4	100

It should be pointed out that the Absorption Loan, which in previous years appeared in the national accounts as a tax, has this year been treated as a loan from the public to the Government.¹ This accounting change increases the saving of the private sector in 1966 from 5.5 percent to 7.6 percent, and reduces that of the public sector from -4.6 percent to -12.4 percent.

In 1966 the growth of private consumption outstripped that of disposable domestic private income, and consequently the rate of private sector saving declined. This sector consists of businesses, self-employed, and employees, and these three groups display disparate saving rates. It is known from saving surveys that the self-employed save a greater part of their income than do wage earners, while business firms tend to plough back a large part of their profits. Changes in income distribution among the three groups are thus likely to change the saving rate of the private sector. Thus, for example, an increase in wage earnings while income of the self-employed remains constant will bring down the rate. According to 1966 income data, it appears that all of the increase in private incomes was accounted for by wage earners. This change in income distribution doubtless explains part of the decline in the rate of private sector saving. Moreover, the number of unemployed wage earners rose sharply during the year. The propensity to save of this group is almost certainly negative, so that the increase in its weight also tended to depress saving in the sector as a whole.

Another explanation of the fall in the rate of household saving in 1966 may be found in the increased propensity to consume among those units whose income declined during the year. Owing to the downward rigidity of consumption,

¹ The reasons for this change are explained in section 4(b) below and also in Chapter VII, "Public Sector Operations", p. 163 and 176. All data in this chapter include this change, and data for 1964 and 1965 have been revised accordingly.

there is a lag in adjusting consumption to changes in income level.¹ The level of consumption in a given year is influenced not only by the income received during that year but also by income from preceding years; consequently, the drop in income in 1966 was not accompanied by a parallel decline in consumption. The lack of correspondence between consumption and a fall in income is accentuated when the latter is expected to be temporary, in which case families usually plan their consumption outlay according to their anticipated future income, which is higher.

The diminished rate of private saving in 1966 apparently resulted from a decrease in both household and business saving. This cannot be proved quantitatively, but is suggested by the decline in business profits and by the existence of some downward rigidity in the distribution of profits, which apparently reduced the share of undistributed profits or business saving.

The impact of the recession was felt not only in the rate of saving (income effect), but also in the components of saving (substitution effect). The growing uncertainty as to future prospects expressed itself in the greater acquisition of financial assets, with a corresponding fall in the demand for real assets, mainly dwellings. It was also reflected by a shift from long-term to short-term investment in financial assets. This trend too may be partly explained by changes in income distribution. Those with a low propensity to save in the form of financial assets were apparently hit hard by the recession, whereas those with a greater propensity to save in this form enjoyed larger incomes in 1966.

The economic slowdown also affected public sector saving. The negative saving of this sector rose by IL 143 million, mainly because of a IL 125 million decline in Government saving and a IL 23 million increase in local authority dissaving. On the other hand, the National Institutions reduced their dissaving by IL 5 million. The decreased saving of the Government and local authorities in 1966 stemmed from the fact that, whereas revenue from taxes and other compulsory payments lagged far behind the budget estimates because of the recession, there was no revision of planned expenditure. The smaller dissaving of the National Institutions was due to smaller outlays, following the contraction of activity abroad in connection with immigration.

The decline in the dissaving of the nonprofit institutions resulted from the faster increase in ordinary domestic transfers, particularly from the Government, as compared with expenditures. Net negative saving of the public sector and the nonprofit institutions together rose from -IL 317 million in 1965 to -IL 471 million in 1966.

A brief survey of household saving rates over the period 1957/58 to 1964/65 is presented further on. It is based on the saving surveys, the sole source of

¹ Consumption is adjusted to a change in income, *inter alia*, by an increase in indebtedness, the delayed payment of existing debts, and the sale of assets.

information on household saving in Israel. In 1964 and 1965 the Central Bureau of Statistics and the Research Department of the Bank of Israel jointly carried out two such surveys for the years 1963/64 and 1964/65.¹ These showed that household saving ranged from 4 to 6 percent, a result similar to that obtained in the surveys for the years 1957/58 and 1958/59. A stable trend is also revealed when comparing different population groups. The self-employed continued to be better savers than wage earners. Continent of origin and length of residence in Israel do not affect the saving rates if other variables, such as income level, age, etc., are eliminated. The pattern of expenditure out of restitution receipts remains similar to that in the past, with about 20 percent of the amount being spent on consumption in the year of receipt, almost half being invested in liquid saving, and about 20 percent going on real estate. In the following year part of the liquid saving is used to buy real estate, so that two years after receipt of restitution some 40–50 percent of the funds are invested in real estate, and 20–25 percent remain in liquid assets.

2. PRIVATE SAVING

The rate of net private saving from disposable domestic income came to 7.6 percent in 1966, compared with 11.4 percent in 1965. There are no available data which would permit a quantitative separation of the two components of private saving—household and business.

The recession had a strong contractionary effect on the incomes of some wage earners and of the self-employed. The wage-earning group is not homogeneous in respect of income growth. This was particularly evident in 1966, when the earnings of some employees rose considerably while those of others dropped steeply in the wake of mounting unemployment. In aggregate terms, however, the share of wage income in total personal income rose. This fact in itself tended to depress the rate of household saving, since the self-employed, whose relative share in income fell, are better savers.

Adjusting private consumption to a drop in income apparently takes time; thus there was an increased propensity to consume among those units whose income declined. This may be explained by the accepted theory which holds that the individual plans his expected expenditure not only on the basis of his current income but also with his expected income in mind. In a period of declining income two factors affect anticipated income: the flow of incomes in the past and the expected duration of unemployment. The longer unemployment is expected to last, the greater the decline in the capitalized flow of incomes. In 1966 unemployment was apparently expected to be of short duration, and this in view of the constant rise in real incomes until that year and the full employment pre-

¹ The annual data are for the period October to the following September.

vailing in recent years. Hence the anticipated flow of incomes, according to which consumption was planned, was apparently greater than that which actually occurred. In addition, when income falls individuals attempt, and sometimes are obliged, to maintain their standard of living by reducing their saving. One reason is that some expenditures are inelastic and difficult to alter in the short run, such as outlay on housing and other expenses connected with liabilities assumed in the past. In other words, the level of consumption in a given year is affected not only by the income received that year, but also by anticipated future income, and for this reason as well the average level of consumption in 1966 rose more than the increase in disposable private income.

Table XIX-3
GROSS AND NET PRIVATE SAVING,^a 1964-66
(IL million, at current prices)

Year	Gross disposable private income ^b	Depreciation	Net disposable private income	Private consumption ^c	Gross saving from gross income		Net saving from net income	
					IL m.	%	IL m.	%
	(1)	(2)	(3)	(4)	(5)		(6)	
1964	7,122	814	6,308	5,692	1,430	20.1	616	9.8
1965	8,445	941	7,504	6,646	1,799	21.3	858	11.4
1966	9,054	1,047	8,007	7,402	1,652	18.2	605	7.6

^a Excluding nonprofit institutions. The figures in this table have been revised because of the change in the treatment of the Absorption Loan, which is now included under loans and not under transfers from the public, as in previous years. This change brings down the private sector saving rate from 7.6 to 5.5 percent in 1966, from 11.4 to 9.9 percent in 1965, and from 9.8 to 8.3 percent in 1964.

^b Equals GNP less net current income of the public sector and of nonprofit institutions.

^c Private consumption in this table equals private consumption in Chapter II, "Resources, Uses, and Incomes", less consumption of the nonprofit institutions.

Families which tried to maintain their level of consumption despite reduced incomes cut down their stock or accumulation of assets, or increased their liabilities.

The conditions prevailing in the economy, which heightened the atmosphere of uncertainty, presumably affected the behavior of individuals as well. This is reflected in the relatively strong demand for financial assets as compared with real assets. This development represented *inter alia* a substitution of short-term for long-term investments. This preference for liquidity is reflected in the relatively large increase in investment in short-term financial assets, the real yield on which rose while that on real assets declined. The return on real assets fell mostly in the second half of the year, owing to the weakening of prices for housing, the

leading real investment item. The real return on financial assets, mainly short-term, rose in the wake of price stability.

Table XIX-4 shows the changes which took place in some of the assets held by households. Since the table does not include all assets owing to lack of data, no conclusions can be drawn from it as to total household saving, and it serves only to indicate trends prevailing in the economy. Moreover, in respect of some of the assets appearing in the table it was not possible to separate households from other sectors holding the assets, although the share of households is predominant.

Table XIX-4

CHANGES IN SELECTED COMPONENTS OF HOUSEHOLD SAVING, 1960-66

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

	Increase or decrease (-) as against previous year						
	1960	1961	1962 ^a	1963	1964	1965	1966
Changes in financial assets							
Cash	26	30	44	77	43	45	63
Demand deposits	60	29	83	96	22	73	12
Local-currency time deposits	19	-12	-18	-13	-11	-12	118
Bills purchased through banks ^b	°	°	°	171	179	161	247
Short-Term Loan ^d	8	7	64	107	47	-89	87
Dollar-linked deposits (Pazak)	18	43	89	99	128	135	120
Foreign-currency time deposits							
(Tamam)	33	36	45	-14	2	36	37
Foreign securities ^e	°	°	16	33	41	90	76
Approved saving schemes							
(in banks)	12	14	19	20	31	46	45
Claims on social insurance funds ^f	97	112	167	213	249	270	300
Claims on insurance companies ^g	6	9	12	18	22	30	36
Contractors' deposits in mortgage banks	°	°	°	°	5	30	15
Changes in liabilities							
Debt to social insurance funds	11	21	27	19	19	29	23
Debt to mortgage banks	61	85	4	105	133	109	119
Debt to other financial institutions	-4	-32	-4	5	14	3	9

^a Excluding capital gains arising from the alteration of the exchange rate.

^b Data include some credit given other than by households, but the share of households is predominant.

^c Data not identified.

^d Up to 1965 this figure includes holdings of the public less the balance held by banks from saving scheme funds only. In 1966 the total balance held by banks was deducted. It was not possible to deduct the balance held by financial institutions and businesses.

^e Mainly paid for from Tamam accounts.

^f Increase in assets of these funds, excluding employer contributions to severance pay funds.

^g Increase in life insurance funds of companies operating in Israel.

It is notable that in a year when saving fell most financial assets increased, or remained at the previous year's level, and that the drop in saving expressed itself in a decline in real assets, or perhaps also in a change in assets or financial liabilities which were not identified. Most of the increase in financial assets occurred in local-currency time deposits, bills bought through banks (bill brokerage), and Short-Term Loan certificates. The balance of these assets, held mainly by individuals, rose in 1966 by IL 452 million, compared with a growth of IL 60 million the year before. Characteristics common to all these assets are their high liquidity, the fact that they are not value-linked, and their relatively high nominal interest yield. On the other hand, there was a slower increase in foreign currency assets—Pazak and Tamam deposits and foreign currency securities.¹

It should be stressed that some of the assets listed in the table do not originate in domestic income, on which private sector saving is calculated, but in private transfers from abroad and personal restitution from Germany. These transfers remained at the 1965 level but their weight in total income fell, a development which should have increased the rate of saving. As already pointed out, total saving is calculated by subtracting current consumption from disposable domestic income, so that current consumption also includes consumption originating in personal restitution. Hence an increase in the proportion of restitution receipts in private income depresses the rate of saving from disposable private income from domestic sources, and vice versa.

In previous years families receiving restitution invested about half the sum in liquid assets in the year of receipt, and in the following year drew on part of these holdings in order to buy real estate. In 1966 the profitability of investing in real estate declined, while investment in liquid assets became more profitable. This probably explains part of the growth of financial asset holdings in 1966.

After declining steadily for several years, fixed-term deposits in Israeli currency—which are held predominantly by households—expanded in 1966 by IL 118 million, as contrasted with a decrease of IL 12 million in 1965, and totalled IL 149.2 million at the end of the year, as against IL 31.3 million at the end of 1965. The growth took place mainly in the last quarter of the year, and is ascribable to the marked reduction of the obligatory liquidity ratio as from the beginning of September, which enabled banks to increase the interest paid to depositors, almost equalizing it with that prevailing in the bill brokerage market. The fact that some banks reached the maximum volume of financial guarantees which they were legally entitled to grant in connection with bill brokerage transactions encouraged the diversion of investors toward these deposits instead of bill brokerage.

The balance of bill purchases rose very steeply in 1966, as part of the

¹ This was apparently due to the diminishing fear of devaluation and a shift to short-term financial assets with a high yield.

general tendency to prefer liquid financial assets. The growth amounted to IL 247 million, compared with IL 161 million in 1965. The share of households in the increment cannot be ascertained, but presumably they are the main holders of such bills.

The heavy demand for liquid assets also led to a noticeable increase in holdings of the Short-Term Loan—by IL 87 million, as contrasted with a decline of IL 89 million in 1965. All of the growth took place in the second half of the year, whereas the trend in the first half continued downward. In 1966 a new series of this loan, with a maturity of three months, made its appearance, in addition to the 6, 12, and 18-month series already in existence, and this gave added impetus to sales.

Toward the end of the year an increase also took place in the option-type loan, which entitles the saver to either a high rate of interest without value-linkage of the principal and interest or a lower interest with linkage. The bonds mature after five years, but may be redeemed after two years without linkage. These bonds were made more attractive by Bank of Israel open-market operations which enhanced their marketability, and also as a result of the lowering of the interest rate on the Short-Term Loan in the latter part of the year.

Accumulation of Pazak and Tamam deposits was smaller in 1966 than in the previous year—IL 157 million as against IL 171 million. It should be pointed out that these deposits do not originate in income from domestic sources (apart from accumulated interest totalling IL 54 million). The decelerated growth constituted part of the general weakening of demand for foreign currency assets and a concomitant strengthening of demand for the local-currency liquid assets mentioned above (fixed-term deposits, bills purchased through banks, and Short-Term Loan certificates).¹

Saving in foreign currency securities has become widespread since the 1962 devaluation, particularly in the last two years. In 1966 holdings expanded by IL 76 million, compared with IL 90 million in 1965, and reached \$106 million (IL 318 million). These securities include shares registered on foreign stock exchanges and bonds and shares of Israeli firms.² The relatively rapid development of this market in the last two years was apparently influenced by the depression in the local share market and by the expectation of capital gains from a possible revision of the exchange rate.

The year reviewed saw a further increase in early mortgage loan repayments, though the growth rate slowed down compared with the steep rise of 1965. The deceleration was presumably connected with the reduced income of some of the borrowers, reflected by an increase in arrears in mortgage repayments. Moreover, the retroactive wage increments received by employees in 1966 were apparently smaller than in the previous year. The big increments of 1965 and the

¹ See Chapter XV, "Money Supply, Credit, and the Banking Institutions".

² See Chapter XX, "The Securities Market".

Table XIX-5

ACCUMULATION AND BALANCE IN APPROVED SAVING SCHEMES, 1965-66
(IL million)

	Accumulation		Balance at end of year	
	1965	1966	1965	1966
General saving schemes				
Old schemes	-8.9	-4.6	28.3	23.7
Linked schemes	8.4	7.7	31.1	38.8
Nonlinked schemes	-2.8	-1.0	18.5	17.5
Optional-type schemes	36.1	34.5	64.0	98.5
Total	32.8	36.6	141.9	178.5
Special saving schemes				
Children and youth	6.2	5.8	39.0	44.8
Saving for secondary education	8.1	8.2	33.0	41.2
Saving for commercial vehicles	0.6	0.6	2.7	3.3
Saving-for-Housing ^a	8.1	-8.8	100.3	91.5
Total	23.0	5.8	175.0	180.8
Total, excl. housing	14.9	14.6	74.7	89.3
Grand total (excl. housing)	47.7	51.2	216.6	267.8

^a Net of payments on account of home purchases and sums returned to those withdrawing from the scheme.

SOURCE: Ministry of Finance, Savings Authority.

expectation of a price rise led to an increase in early mortgage loan repayments that year, as most of the mortgages were linked to the cost-of-living index. These payments were consequently an important component of household saving in 1965. The weakening of these factors in 1966 and the expectation of retroactive concessions in index-linkage terms also explain the slower growth of this saving item.

Deposits in approved saving schemes expanded by IL 51.2 million, compared with IL 47.7 million in 1965 (excluding the Saving-for-Housing scheme). These schemes developed in the wake of the 1956 law for encouraging saving, which granted income-tax exemptions on interest income and other concessions. The schemes are of two main types—general and special. As will be seen from Table XIX-5, there has been a shift from unlinked to linked general schemes. The decline in Saving-for-Housing deposits was doubtless influenced by the slump in the housing market and by the general slowdown in economic activity.

Claims on social insurance funds, which constitute an important part of household financial assets, expanded by about IL 277 million (net of changes in loans to members), compared with IL 241 million in 1965. This is institutional saving, and changes therein stem mainly from changes in the number of

members, the level of employment and wages, and institutional changes—such as a shift from provident to pension funds, which involves an increase in the contribution rates. It appears from the saving surveys that this important form of saving does not substitute for but supplements other types of saving.

Despite efforts to encourage life insurance, this form of saving is much less widespread in Israel than in more developed countries, and the figure is low here compared with those for the latter. One explanation is apparently the big membership of social insurance funds and the budgetary pension schemes covering a substantial proportion of the wage earners, which from the viewpoint of households largely fulfil the role of life insurance. In 1966 household claims on insurance companies increased by IL 36 million, as against IL 30 million in 1965.

The supposition that the rate of business saving fell in 1966 cannot be measured in quantitative terms, since the data do not permit the isolation of the two components of such saving: household and business saving. However, the recession and the considerable rise in production costs presumably dampened business profits. At the beginning of 1966 there were marked increases in wages, and other production costs rose more rapidly than productivity and output prices, particularly in industry. This depressed profitability, but owing to a certain reluctance to reduce dividends, the share of undistributed profits, which constitute business saving, apparently declined.

3. PRIVATE SAVING, INCLUDING CONSUMER DURABLES

For the purchaser of durable consumer goods, the outlay partly represents an investment, since he continues to derive service from the commodity even subsequent to the year of purchase. If total annual expenditure exceeds depreciation on the existing stock, then there is a positive saving in these assets. It is not customary in the national accounts to regard such purchases as part of saving, since it is assumed that the annual acquisition of such goods is equal to the annual depreciation on existing stock. This premise has been investigated and found correct in many countries. In Israel, however, it has been found that purchases considerably exceed depreciation. The difference has hitherto been so great that there are grounds for treating the changes in durable goods ownership as an important component of household saving—one which in previous years probably served as a substitute for other components.

Purchases of consumer durables fell off precipitately in 1966. The drop in the rate of private saving therefore becomes sharper if such goods are included. As stated above, the net increase in durable goods was calculated by deducting the depreciation on the existing stock from purchases.

The inclusion in saving of the net increase in these assets raises the 1966 rate of private saving out of local disposable private income from 7.6 percent to 8.7 percent, and for 1965 from 11.4 to 13.5 percent.

Table XIX-6

NET PRIVATE SAVING,^a INCLUDING CONSUMER DURABLES,
1964-66

(IL million)

Year	Disposable domestic income	Purchases of durables (less depreciation)	Net saving, including durables	Ratio of net saving, incl. durables, to disposable income (%)
1964	6,308	201	817	13.0
1965	7,504	153	1,011	13.5
1966	8,007	89	694	8.7

^a Excluding nonprofit institutions.4. COMPARISON OF HOUSEHOLD SAVING RATES, 1957/58 TO 1964/65¹(a) *Main findings*

The findings of the 1964/65 saving survey give weight to the assertion that the saving rate of households, excluding consumption of durable consumer goods, is not connected, over time, with the level of personal income. In the period 1957/58 to 1964/65 real personal income per capita rose by 65 percent, while the rate of saving edged up from 5.9 to 6.5 percent. In the years 1958/59 and 1963/64 the saving rates were slightly lower, generally in the range of 4-5 percent. If the Absorption Loan is included (reasons for including it are discussed below), then the rate of saving reaches 6.8 percent in 1963/64 and 8.9 percent in 1964/65—i.e. there was a rise in the rate of personal saving in the period reviewed. If durable consumer goods are also included in saving, the rate would increase from 9-11 percent in the years 1957/58-1958/59 to 12-13 percent in 1963/64-1964/65. The upward trend in the saving rate including consumer

¹ Some data on household saving rates in the years 1957/58, 1963/64, and 1964/65 will be presented here, and with their help an attempt will be made to determine the changes which occurred during this eight-year period in the composition and size of saving rates. The importance of this investigation lies mainly in the fact that it will help to ascertain to what extent the current rate of household saving may be calculated with the aid of estimates for previous years (data on personal saving in Israel are available after a lag of several years, since they are based on saving surveys). The surveys for 1963/64 and 1964/65, which deal with the saving and income of the Jewish urban population, were carried out jointly by the Central Bureau of Statistics and the Research Department of the Bank of Israel. For further details see: Central Bureau of Statistics and Bank of Israel Research Department, "Saving Survey 1963/64", Special Publication No. 217, Central Bureau of Statistics, Jerusalem, 1967.

Table XIX-7

SAVING RATIOS^a AND SELECTED COMPONENTS, IN FOUR SELECTED YEARS
(percentages)

	Rates of saving from disposable income				Disposable income and saving, 1964/65 (IL)
	1957/58	1958/59	1963/64	1964/65	
Household saving					
Excl. Absorption Loan	5.9	4.4	4.3	6.5	440
Incl. Absorption Loan	—	—	6.8	8.9	601
Excl. Absorption Loan and incl. durable consumer goods	11.0	9.3	12.5	12.5	848
Contractual saving (excl. employer contributions)	4.6	4.9	5.6	5.4	365
Employer contributions to social insurance funds	^b	^b	2.0	1.7	118
Liquid saving and securities	2.3	0.8	-0.1	2.6	175
Real estate	13.8	12.5	14.0	13.5	916
Business saving	5.1	1.9	2.9	3.5	239
Purchases of consumer durables	5.1	4.9	8.2	6.0	409
Disposable income	100.0	100.0	100.0	100.0	6,790
One-time receipts (as a percentage of disposable income)	8.1	7.4	10.8	9.0	610
Absorption Loan (as a percentage of disposable income)	—	—	2.5	2.4	161

^a Contractual saving consists of repayments in equal installments of housing debts (including mortgages), employees' contributions to social insurance funds, and life insurance premium payments. In the other tables contractual saving includes only payments for life insurance, contributions to social insurance funds, and mortgage loan repayments. Liquid saving consists of bank and saving scheme deposits.

^b No data available.

durables is due to the relatively high income elasticity of these assets and their large share in total saving.¹

The composition of saving also shows a considerable degree of stability: investment in real estate continued to be the largest component, amounting during the period 1957/58 to 1964/65 to some 12-14 percent of disposable income; contractual saving rose only slightly—from 5 to 6 percent; and although there were considerable fluctuations in the rates for liquid and business saving, the data for these components have large measurement and sampling errors.

¹ In 1965 taxes on vehicles were raised considerably, and in anticipation of this many persons apparently advanced their purchases in 1964. This resulted in exceptionally high purchase estimates for 1964 and low ones for 1965. Had it not been for this factor, there is reason to believe that the rate of saving including durable consumer goods would have risen in 1964/65 as well.

The data of the 1963/64 and 1964/65 saving surveys also include employer contributions to social insurance funds on behalf of their employees. These payments should have been included in total saving, but were not, mainly because of the absence of corresponding data for 1957/58 and 1958/59.¹

These payments averaged about 2 percent of disposable income in 1963/64 and 1.7 percent in 1964/65.

(b) *Inclusion of the Absorption Loan in saving*

When comparing the rates of household saving in 1963/64 and 1964/65 with that in 1957/58, a problem arises as to the Absorption Loan, which was not in existence in 1957/58 (it was introduced in 1961).

Formally speaking, this loan may be regarded as part of household saving and also included in disposable income—similar to other loans granted by households to other domestic sectors—even though, in contrast to most of the other loans, it was imposed on households. The doubts arise from the fact that, unlike other loans, no certificates or bonds were originally issued setting out the conditions of the loan and nature of the obligation. In 1963, however, the Government began to issue certificates for sums collected in the past, and these certificates are marketable. This would appear to strengthen the case for including the Absorption Loan in saving and disposable income. While the present value of current collections on account of the loan is not known, since the families do not receive certificates for the current year,² it can be argued that the very knowledge that certificates will be received in the future increases, in a sense, the disposable income of the family.³ The inclusion of this loan in saving—though supported by weighty considerations—nevertheless impairs a comparison of the saving rate for 1957/58 with those for 1963/64 and 1964/65. Since the comparison puts the emphasis on the behavioral aspect, it is important to know how households behaved in 1963/64 and 1964/65 with regard to the Absorption Loan, and this has not yet been examined.

For these reasons, in the discussion of total saving the rates have been defined in two ways: with and without the Absorption Loan (obviously, wherever this loan is included in saving it is also included in disposable income). On the other hand, in intergroup comparisons the loan has not been included in saving. In-

¹ Employees' claims in respect of contributions by their employers are similar in most funds to those arising from contributions by the employees themselves, apart from a few minor differences.

² There is, in fact, a delay of two or three years between collections and the issue of certificates.

³ There are forms of saving explicitly intended for future consumption, such as the various educational saving schemes; moreover, even if it is impossible to borrow on account of Absorption Loan collections during the current year, it is possible to reduce savings of this sort. Obviously, if the individual concerned has also granted other loans, the lack of certificates is not important.

vestigations have shown that conclusions deriving from intergroup comparisons are not affected by this conceptual difference. Where the Absorption Loan is not mentioned specifically, it has not been included in saving.

(c) *Saving rates of wage earners and self-employed in 1957/58, 1963/64, and 1964/65*

Comparison of the saving rates of wage earners with those of self-employed shows a considerable degree of constancy over time. In the three years 1957/58, 1963/64, and 1964/65, which cover a period of eight years, the rates for the self-employed were much higher than those of wage earners with a similar disposable income. The widest divergence was in 1964/65, when the rate for the self-employed went up by a substantial 15 percent approximately, as against 4.8 percent among wage earners (in 1963/64 the corresponding figures were 7.2 and 4.6 percent). The rise in the case of the self-employed was mainly due to their much larger investment in real estate—18.5 percent of disposable income compared with 7.1 and 12.3 percent for wage earners in 1963/64 and 1957/58 respectively. If durable consumer goods are included in saving, the rate for the self-employed remains higher than that of the wage earners throughout the entire period.

A comparison of the composition of saving among wage earners with that among self-employed in 1957/58 and 1964/65 likewise shows no notable changes. Contractual saving is always higher in the wage-earning group, as is saving in

Table XIX-8
SAVING RATIOS OF WAGE EARNERS AND SELF-EMPLOYED^a AND
COMPONENTS THEREOF, 1957/58, 1963/64, and 1964/65
(percentages)

	1957/58		1963/64		1964/65	
	Wage earners	Self-employed	Wage earners	Self-employed	Wage earners	Self-employed
Total saving	5.8	8.3	4.6	7.2	4.8	15.0
Total saving, incl. consumer durables	11.0	12.8	12.8	17.0	11.3	19.7
Contractual saving	5.3	2.7	3.9	2.7	3.9	3.4
Liquid saving and securities	3.2	-2.3	1.2	-2.0	3.0	-0.7
Real estate	14.4	12.3	15.2	7.1	14.0	18.5
Business saving	0.7	26.6	0.4	14.7	2.0	13.0
Net income (IL, at current prices)	2,927	2,921	6,101	5,753	7,483	6,993

^a Saving survey data also include pensioners, and therefore the average of the ratios for wage earners and self-employed will not be equal to the saving ratio for the total survey population.

Table XIX-9

SAVING RATIOS OF WAGE EARNERS AND COMPONENTS THEREOF, BY OCCUPATIONAL CLASSIFICATION,
1957/58, 1963/64, AND 1964/65

(percentages)

	1957/58		1963/64		1964/65	
	Professional, managerial, and clerical workers	Skilled and un- skilled workers	Professional, managerial, and clerical workers	Skilled and un- skilled workers	Professional, managerial, and clerical workers	Skilled and un- skilled workers
Total saving	6.1	5.6 (10.7)	6.1	3.4 (9.1)	7.4	1.6 (8.4)
Total saving, incl. consumer durables	12.4	10.0 (16.3)	15.1	10.4 (16.4)	14.3	7.8 (15.3)
Contractual saving	5.6	4.9	4.2	3.6	4.1	3.7
Liquid saving and securities	6.3	1.2	3.0	0.4	6.0	-0.5
Real estate	16.0	12.8	14.9	14.5	13.7	14.7
Business saving	0.8	—	0.4	0.4	3.3	0.8
Net income (IL, at current prices)	3,657	2,372	7,746	5,080	9,361	5,916

^a Figures in parentheses are the saving ratios for skilled and unskilled workers calculated at the same income level as that of the managerial group.

liquid assets, securities, and real estate. As to real estate, the year 1964/65 was an exception in this respect, the rate for self-employed being higher than that of wage earners—18.5 and 14.0 percent respectively, compared with 7.1 and 15.2 percent in 1963/64. There is no ready explanation for such a sharp rise in the rate for the self-employed, particularly in view of the slower growth of investment in real estate in other sectors. During this period the rate of business saving was, of course, higher in the case of self-employed. However, this type of saving has moved downward since 1957/58, when it stood at 26.6 percent compared with 14.7 and 13.0 percent in 1963/64 and 1964/65. It should be emphasized that the data for business saving are not very reliable, since they contain a large measurement error, and hence no great significance should be attached to them.

The rate and composition of saving in the wage-earning group were also fairly constant in the period studied. In the three years for which surveys were conducted, saving rates of the professional, managerial, and clerical workers (hereafter the “managerial group”) were higher than those of skilled and unskilled workers (hereafter the “workers”). The disparity widened over time, and in 1964/65 the saving rate of the former group was 7.4 percent and that of the latter 1.6 percent, although their incomes remained in the same proportion. A similar picture is obtained if durable consumer goods are included in saving. The results change, however, if the saving of workers is calculated at the income level of the managerial group (figures in parentheses in Table XIX-9). This adjustment raises—again systematically—the saving rates of the workers above those of the managerial group. It follows that, assuming a similar level of income, workers tend to be better savers than the managerial group. Inclusion of consumer durables in saving yields similar rates of saving when comparing groups with a similar income.

As regards the composition of saving, the rates of contractual saving and of investment in real estate are slightly lower among workers than in the managerial group. These differences disappear when the comparison is made at similar income levels. The only component displaying differences that are not explained solely by disparate income levels are liquid saving and investment in securities. With the exception of 1963/64, the rates of saving of the managerial group in such assets were apparently higher than those of workers.

(d) *Effect of restitution receipts on saving*

Personal restitution received by Israeli households depresses the estimated rate of saving from disposable income. This estimate is obtained by subtracting total private consumption from current disposable income. Since some of the restitution receipts are used for consumption purposes, they increase the family’s consumption and reduce its saving. The greater the marginal propensity to consume out of personal restitution receipts, the lower the estimated saving rate that will be

Table XIX-10

**SAVING AND CONSUMPTION OF HOUSEHOLDS IN 1964/65, BY DATE
OF RESTITUTION RECEIPTS**

	European-American origin					Total survey popu- lation
	Did not receive restitu- tion	Received restitu- tion before 1962/63	Received restitu- tion in 1962/63	Received restitu- tion in 1963/64 and perhaps before	Received restitu- tion in 1964/65 but not in 1963/64	
Percentage of units in urban population	31.4	14.5	2.8	3.2	3.3	100.0
Total annual consumption ^a (IL)	6,229	6,311	6,678	6,522	7,807	6,351
Net purchases of consumer durables (IL)	363	300	416	723	952	409
Rate of saving ^a (%)	8.3	7.1	1.6	3.9	-14.9	6.5
Average investment in real estate (IL)	751	1,361	374	959	2,055	916
Average liquid saving and securities (IL)	124	-126	559	-1,243	3,413	175
Net annual income (IL)	7,048	8,341	7,899	7,550	7,170	6,790

^a Calculated at the average income level of the entire sample (IL 6,790).

obtained. The 1964/65 saving survey shows that this propensity is fairly stable over time.

Comparison of the consumption of families who did not receive restitution (IL 6,229) with that of families who received such income during the survey year (IL 7,807) indicates that about IL 1,500 of the restitution receipts were spent on consumption during the same year. Since the sum received was IL 6,413, the propensity to consume from restitution income was 0.25 ($[7,807 - 6,229] \div 6,413$), an estimate similar to that received in the saving survey for 1957/58 (0.26). The propensity to purchase durable consumer goods from restitution income is about 0.09; if these goods are not included in consumption, the propensity to consume therefore amounts to 0.16.

Thus we see that only a quarter of restitution income is used for consumption in the year of receipt, and the remainder goes to increase the family's assets. From a comparison of columns (5) and (1) in Table XIX-10 it will be seen that about 50 percent ($[3,413 - 124] \div 6,413$) is invested in liquid assets, and 20 percent ($[2,055 - 751] \div 6,413$) is invested in real estate. This distribution is very similar to that revealed by the saving surveys for 1957/58 and 1963/64. There too some 40-50 percent of restitution was invested in liquid assets and 20 percent in real estate. The stability of the pattern of expenditure from restitution receipts over the eight years concerned enhances the reliability of the findings.

It should be noted that this allocation is not necessarily a final one, particularly in view of the fact that half the sum is invested in liquid saving. In the year after receipt of restitution, there is in fact a drop of about IL 1,240 in the amount of liquid saving (see column 4 in Table XIX-10). Without going into details of the lag patterns in the allocation of restitution income, it will suffice to emphasize here those findings which indicate that the allocation of 20 percent of restitution to real estate investment is not final. This may be seen by comparing real estate investment of families receiving restitution in the past with nonrecipient families. If the average amount invested in real estate in 1964/65 by families who did not receive restitution is deducted from the investment of families receiving restitution before 1962/63, and also from the investment of families receiving restitution in 1963/64 ($1,361-751=610$; $959-751=208$), the resulting figures may be regarded as the amount of real estate investment originating in restitution received in the past.¹

On the other hand, consumption spending apparently is not affected by restitution received in the past. The average consumption in 1964/65 of families who did not receive such income was similar to that of families receiving restitution before 1962/63 (IL 6,229 as against IL 6,311). The average level of consumption of families receiving restitution in 1962/63 and 1963/64 was higher (IL 6,678 and IL 6,522), but here too the differences range around IL 300, or about 4 percent of total restitution income and a similar percentage of total consumption. Consequently, even if the saving survey data would indicate a certain lag in the effect of restitution on consumption, it may be argued that the extent of the lag is quantitatively of little significance. Similar results were yielded by previous surveys.

5. SAVING OF THE PUBLIC SECTOR AND NONPROFIT INSTITUTIONS

The net negative saving of the public sector and nonprofit institutions amounted in 1966 to about -IL 471 million, compared with -IL 317 million in the previous year. The rate of net dissaving from current income in 1966 was -17.3 percent. The Government and the local authorities accounted for the decreased saving of this sector.

The decline in gross Government saving by IL 125 million (from IL 77 mil-

¹ There is some difficulty in explaining the small investment in real estate of the group of families receiving restitution in 1962/63. However, it should be recalled that these data are based on a relatively small number of families, and hence have large sampling errors. This also applies, of course, to families receiving restitution in 1963/64 (although not to those receiving restitution before 1962/63, as they formed a relatively large group). Nevertheless, the fluctuations in liquid saving support the assertion made above concerning the lag in the two groups (cols. 2 and 4) whose investment in real estate originated from restitution received in the past; there was also a decline in liquid saving, the source of such investment. In contrast to this, in a year when investment in real estate was low, liquid saving was particularly high.

lion in 1965 to -IL 48 million in 1966) is attributable to the fact that the Government did not reduce its planned expenditure, even though tax revenue lagged far behind the budget estimate. This lag in tax receipts resulted from the

Table XIX-11

**GROSS AND NET SAVING OF THE PUBLIC SECTOR AND
NONPROFIT INSTITUTIONS, 1964-66**

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

A. Net Saving of the Public Sector and Nonprofit Institutions						
	Net current income	Consumption	Depreciation	Net current income, less depreciation (1)-(3)	Net saving from net current income (less depreciation)	
					IL m.	%
	(1)	(2)	(3)	(4)	(5)	(6)
1964	2,110	2,165	64	2,046	-119	-5.8
1965	2,496	2,732	81	2,415	-317	-13.1
1966	2,823	3,197	97	2,726	-471	-17.3

B. Gross Saving of the Public Sector				
	Net current income*	Consumption	Gross saving from net current income (1)-(2)	
			IL m.	%
	(1)	(2)	(3)	(4)
1964	1,727	1,735	-8	-0.5
1965	2,050	2,193	-143	-7.5
1966	2,313	2,599	-286	-12.4

C. Gross Saving of Nonprofit Institutions				
	Net current income	Consumption	Gross saving from net current income (1)-(2)	
			IL m.	%
	(1)	(2)	(3)	(4)
1964	383	430	-47	12.3
1965	446	539	-93	20.9
1966	510	598	-88	17.3

* Income from taxes, domestic transfers, interest, and property, less transfer payments and subsidies.

SOURCE: Bank of Israel.

moderation of economic activity—the standstill in the national product and imports. National Institution dissaving declined from –IL 204 million in 1965 to –IL 199 million in 1966 as a result of factors slowing down the scope of their operations, such as the smaller outlay in connection with immigration. The dissaving of the local authorities increased from –IL 16 million in 1965 to –IL 39 million. The nonprofit institutions dissaved a little less in 1966, following a much slower expansion of their activities. The decline in their dissaving was from –IL 93 million in 1965 to –IL 88 million. This stemmed from the fact that the big increase in wage expenditure, mainly in the field of education, was exceeded by the growth of transfer receipts from the public sector and households and of sales.