

## CHAPTER XI

### NONPROFIT INSTITUTIONS

#### I. MAIN DEVELOPMENTS

Nonprofit institution activity expanded 28 percent in 1974. This was the fourth consecutive year in which the growth rate held steady in money terms, but because of the sharpening of inflation during this period the picture in real terms is quite different.

Whereas in 1971-72 the real increase came to over 10 percent per annum, in 1973 the level hardly moved up at all, and in 1974, for the first time since the sector's operations have been measured, it experienced a downturn in all spheres of activity, with the contraction being unusually severe in education.

The institutions' purchases added up to IL 4.2 billion, about IL 1 billion more than in 1973. This represented a real decline of 2 percent on current account and a drastic 29 percent drop on capital account (reflecting the cutback in construction).

These declines exceeded the national average, with the result that the sector's share in nonprivate consumption<sup>1</sup> inched down from 39 to 38 percent, and in nonprivate nonresidential construction<sup>2</sup> it fell from 22 to 16 percent.

As regards payrolls, the rise was close to the national average only in the health institutions, being below average in all other spheres. The share of public sector transfers in nonprofit institution receipts differs among the various types of institutions, but the latter do not differ in their mounting dependence upon such transfers, which in 1974 reached 40 percent of the sector's total receipts. Concurrently, the share of income from own sources<sup>3</sup> has been drifting downward and in 1974 it stood at 41 percent. Transfers from abroad have increased sluggishly in recent years, and in 1974 they accounted for 15 percent of total receipts. This development assumed considerable significance this year, when, because of the

<sup>1</sup> In this chapter the reference is to nonprofit institutions and the public sector (excluding government enterprises and public sector companies).

<sup>2</sup> That by nonprofit institutions and civilian public sector construction.

<sup>3</sup> Sales and private sector transfers, including members' dues.

**Table XI-1**  
**SOURCES AND USES OF NONPROFIT INSTITUTION FUNDS, 1971-74**  
(IL million)

	1971	1972	1973	1974	Percent annual increase		
					1972	1973	1974
<b>Uses</b>							
Payroll	988.9	1,267.6	1,636.9	2,097.9	28	29	28
Other purchases on current account <sup>a</sup>	621.8	791.6	1,039.9	1,463.0	27	31	41
Purchases on capital account	370.2	497.8	610.3	642.5	34	23	5
<b>Total uses</b>	<b>1,980.9</b>	<b>2,557.1</b>	<b>3,287.1</b>	<b>4,203.4</b>	<b>29</b>	<b>29</b>	<b>28</b>
<b>Sources</b>							
Sales of services and goods <sup>b</sup>	876.9	1,053.1	1,299.1	1,640.9	20	23	26
Net transfers	956.5	1,293.0	1,637.7	2,060.0	34	27	25
Public sector	630.4	871.1	1,125.8	1,461.2	38	29	30
Private sector	40.4	32.7	45.4	23.5	-19	39	-48
Rest of the world	295.7	389.2	466.5	555.3	32	20	19
Net credit from others sectors	137.5	211.0	350.3	502.5	53	66	43
<b>Total sources</b>	<b>1,980.9</b>	<b>2,557.1</b>	<b>3,287.1</b>	<b>4,203.4</b>	<b>29</b>	<b>29</b>	<b>28</b>
Current deficit <sup>c</sup>	693.4	973.5	1,332.3	1,896.5	40	37	42
Own resources <sup>d</sup> as a percent of current-account purchases	57	53	50	47	..	..	..
Other resources <sup>e</sup> as a percent of total uses	54	58	59	60	..	..	..

<sup>a</sup> Including net interest paid.

<sup>b</sup> Including net interest received.

<sup>c</sup> Purchases on current account, less sales and private sector transfers (including members' dues and fees).

<sup>d</sup> Sales and private sector transfers (including members' dues and fees).

<sup>e</sup> Public sector transfers, transfers from abroad, and the increase in outstanding credit.

devaluation of the Israeli pound, the stability of such receipts implied a sharp decline in foreign currency terms. Given the expansion of the sector's outlays, the cumulative effect of these trends has been a decline in the share of real (i.e. nonborrowed) receipts in total sources. This was made possible by the stepped up mobilization of funds: net credit to the sector amounted to IL 500 million in 1974 as against IL 350 million the year before, a rise of 43 percent, coming on top of increases of 66 percent in 1973 and 53 percent in 1972.

Although the majority of the leading institutions are largely controlled by the public sector, the nonprofit institutions' demand surplus has in the past four years reached such dimensions as to make its inflationary repercussions felt on the economy. While the 30 percent growth in 1974 is a nominal rate, the significance of

a more than IL 1 billion demand surplus cannot be ignored, especially as its weight in total uses is on the rise (23 percent in 1972, 24 percent in 1973, and 25 percent in 1974). One of the principal reasons for such a sizable surplus is the practice on the part of the institutions to submit deficit budgets, combined with the relative ease with which they have obtained borrowed funds from domestic sources: the share of such credit in the demand surplus grew from 43 and 35 percent in 1973 and 1972 respectively to 48 percent in 1974.

The characteristic feature of the nonprofit institutions is that they provide their services and goods at less than cost or without any direct charge; hence they are almost without exception in a deficit position and have to depend on other sectors. Their current deficit rose from IL 1.3 billion in 1973 to IL 1.9 billion in the year reviewed.

## 2. STRUCTURE OF THE SECTOR

Nonprofit institutions operate in three main spheres: education, health, and social welfare. The remaining institutions are in such other fields as religion (excluding education and social welfare), sport, professional associations, fund-raising, etc. Their total number is impressive (about 6,500), but 75 percent of the aggregate expenditure is accounted for by 20 institutions.

The two principal categories are health and education, which account for about 85 percent of the sector's total activity. Until 1971 the educational institutions underwent a vigorous expansion (in the main building projects), which brought up their weight from 32 percent of the sector total in 1962 to 45 percent in 1971; since then the figure has drifted downward, mainly because of the massive public sector support given to the health institutions; in 1974 the two groups were equal, each accounting for 42 percent of the total.

In education, the share of the institutions of higher learning and research has been moving steadily upward (71 percent in 1973 and 87 percent in 1974). Other institutions in this field are vocational, secondary, agricultural, and religious schools and research and cultural institutes. Pacing the health institutions, which consist of three types, are the Sick Funds, which account for more than 80 percent of total activity.

The composition of the sector's expenditure has been fairly similar for many years in all fields of activity: about half consists of payroll outlays, one-third is current-account purchases, and the balance goes on investment in buildings. In 1974, however, building outlays contracted significantly, reflecting the government's freeze on construction; in the past nonprofit institutions managed to bypass similar government restrictions.

Table XI-2

**EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY,  
IN SELECTED YEARS, 1962-74**

(percentages)

	1962	1965	1969	1971	1972	1973	1974
Health	41	41	38	37	39	40	42
Education and research	32	34	41	45	44	43	42
Social welfare	14	12	10	9	9	9	8
Other	13	13	11	9	8	8	7
Total	100	100	100	100	100	100	100

In contrast to expenditures, the composition of income varies greatly: the educational institutions are financed mainly by public sector transfers (approximately 65 percent in 1974), and their weight has been rising gradually from year to year. Most of the health institutions' receipts, on the other hand, are from independent sources (about 65 percent in 1974), but their weight is diminishing steadily. More than half the social welfare institutions' receipts originate in foreign transfers, although the proportion of public sector transfers is on the rise.

### 3. USES OF FUNDS

In 1974 the sector's real (i.e. nonborrowed) receipts added up to IL 3.7 billion, while IL 500 million was received in credit, making a total of IL 4.2 billion—IL 1 billion more than in the previous year. This 28 percent nominal growth was the resultant of contrasting developments in the current and capital accounts.

Construction activity, as already noted, shrank 29 percent in real terms. The decline embraced all spheres, but was sharpest in education, where the level was down 35 percent. This development is explained by the fall off in foreign transfers for construction projects and the government ban on building imposed in the middle of the year.

Since full data are not available on the proportion of foreign transfer receipts earmarked for construction, it is customary to calculate this by deducting the sector's negative saving on its current operations<sup>4</sup> from its total transfers (see Table XI-8); the assumption is that part of the foreign transfers is intended to finance the

<sup>4</sup> Purchases on current account, less sales and transfers from other domestic sectors.

**Table XI-3**  
**CAPITAL EXPENDITURE OF NONPROFIT INSTITUTIONS,**  
**BY FIELD OF ACTIVITY, 1972-74**

(IL million)

	1972	1973	1974	Percent annual increase		Capital outlays as a percent of total payments		
				1973	1974	1972	1973	1974
Health	117.7	188.7	229.4	60	22	16	14	13
Education and research	304.7	327.0	312.8	7	-4	27	23	18
Social welfare	54.0	66.8	75.5	24	13	25	23	22
Other	21.4	27.8	25.0	30	-10	11	11	8
<b>Total</b>	<b>497.8</b>	<b>610.3</b>	<b>642.5</b>	<b>23</b>	<b>5</b>	<b>19</b>	<b>18</b>	<b>15</b>

**Table XI-4**  
**NONPROFIT INSTITUTION PURCHASES ON CURRENT ACCOUNT,**  
**BY FIELD OF ACTIVITY, 1972-74**

(IL million)

	1972	1973	1974	Percent annual increase		Percent of total payments		
				1973	1974	1972	1973	1974
Health	895.8	1,132.2	1,553.3	26	37	88	86	87
Payroll	510.2	641.2	864.2	26	35	50	49	48
Other current purchases <sup>a</sup>	385.6	491.0	689.1	27	40	38	37	39
Education and research	814.0	1,096.6	1,455.3	35	33	73	77	82
Payroll	547.5	733.0	926.1	34	26	49	51	52
Other current purchases <sup>a</sup>	266.5	363.6	529.2	36	46	24	26	30
Social welfare	169.6	217.7	276.8	28	27	75	77	78
Payroll	92.5	115.9	142.6	25	23	41	41	40
Other current purchases <sup>a</sup>	77.1	101.8	134.2	32	32	34	36	38
Other	179.9	230.3	275.5	28	20	89	89	92
Payroll	117.4	146.8	165.0	25	12	58	57	55
Other current purchases <sup>a</sup>	62.5	83.5	110.5	34	32	31	32	37
<b>Total purchases on current account</b>	<b>2,059.3</b>	<b>2,676.8</b>	<b>3,560.9</b>	<b>30</b>	<b>33</b>	<b>81</b>	<b>82</b>	<b>85</b>
Payroll	<b>1,267.6</b>	<b>1,636.9</b>	<b>2,097.9</b>	<b>29</b>	<b>28</b>	<b>50</b>	<b>50</b>	<b>50</b>
Other current purchases <sup>a</sup>	<b>791.7</b>	<b>1,039.9</b>	<b>1,463.0</b>	<b>31</b>	<b>41</b>	<b>31</b>	<b>32</b>	<b>35</b>

<sup>a</sup> Includes interest paid.

institutions' current operations and the balance is for financing building activity. While the proportion of the latter has been sagging for many years, in 1974 it plunged steeply, from 43 to 22 percent.

Virtually the entire nominal increase in uses was in current-account purchases, which, at IL 3,560 million, was up 33 percent. Payrolls were 28 percent higher than in 1973, and other current account items rose 41 percent. The growth rates were fairly similar in all fields, with one exception: the Yom Kippur War resulted in a disparate increase in payroll outlay in the health and educational institutions (35 as against 26 percent respectively.) The main reason for this was the reduction of personnel and arrears in wage and salary payments in the educational system, as contrasted with full employment in the health institutions.

#### 4. SOURCES OF FUNDS

The nonprofit institutions' sources of funds display a long-run advancing trend in the shares of public sector transfers and borrowed funds and a decline in foreign transfers and income from own sources (sales and private sector transfers, including members' dues).

Public sector transfers soared 32 percent in 1974 to reach some IL 1.5 billion, of which over IL 1 billion was for education and IL 370 million for health. The weight of such transfers in total receipts has been moving up steadily and stood at 40 percent in 1974, but only in the educational institutions do they constitute the principal source (about 65 percent).

**Table XI-5**  
**NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,**  
**BY FIELD OF ACTIVITY, 1972-74**

(IL million)

	1972	1973	1974	Percent annual increase		Transfers as a percent of total receipts		
				1972	1973	1972	1973	1974
Health	172.3	265.2	366.4	54	38	20	23	24
Education and research	655.6	803.3	1,043.6	23	30	61	62	65
Social welfare	27.1	37.2	49.8	37	34	14	15	16
Other	16.1	20.1	21.4	25	6	8	8	8
<b>Total</b>	<b>871.1</b>	<b>1,125.8</b>	<b>1,481.2</b>	<b>29</b>	<b>32</b>	<b>37</b>	<b>38</b>	<b>40</b>

Table XI-6

**FOREIGN TRANSFERS TO NONPROFIT INSTITUTIONS,  
BY FIELD OF ACTIVITY, 1972-74**

(IL million)

	1972	1973	1974	Percent annual increase		Transfers as a percent of total receipts		
				1973	1974	1972	1973	1974
Health	74.0	116.2	166.7	57	43	9	10	11
Education and research	205.3	206.5	201.6	1	-2	19	16	13
Social welfare	95.5	124.4	166.0	30	33	49	51	52
Other	14.4	19.4	21.0	35	8	7	8	8
<b>Total</b>	<b>389.2</b>	<b>466.5</b>	<b>555.3</b>	<b>20</b>	<b>19</b>	<b>17</b>	<b>16</b>	<b>15</b>

Transfers from the rest of the world totalled IL 555 million. Although this represented a gain of 20 percent, it was a disquieting development. First of all, it included the effect of the devaluation of the IL; and secondly, all the growth was concentrated in the health and social welfare fields, i.e. it included the contributions in the wake of the Yom Kippur War. In reality, therefore, there was a marked turn for the worse.

The relative stability of foreign transfers to the educational institutions in IL terms implied not only a decline in real terms, but a strong nominal drop in foreign currency terms.

Table XI-7

**NONPROFIT INSTITUTION SALES AND NET TRANSFERS FROM  
THE PRIVATE SECTOR,<sup>a</sup> BY FIELD OF ACTIVITY, 1972-74**

(IL million)

	1972	1973	1974	Percent annual increase		Transfers and sales as a percent of total receipts		
				1972	1973	1972	1973	1974
Health	623.1	766.7	970.7	23	27	72	67	65
Education and research	214.9	288.5	364.5	34	26	20	22	23
Social welfare	70.6	83.6	104.3	18	25	37	34	33
Other	177.2	205.7	225.0	16	9	85	84	84
<b>Total</b>	<b>1,085.3</b>	<b>1,344.5</b>	<b>1,664.4</b>	<b>24</b>	<b>24</b>	<b>7</b>	<b>46</b>	<b>45</b>

<sup>a</sup> Including members' dues and fees.

Table XI-7 presents the sector's income from own sources, i.e. funds obtained or raised through its own activities. These receipts, consisting of sales, members' dues, and net transfers from the private sector, totalled IL 1,664 million in 1974, about 24 percent more than in the preceding year. However, their weight in total receipts is on the decline in all fields except education, with the downturn varying according to the degree of independence of each field.

Even in the educational institutions, where the share of this source rose in the past two years owing to successive hikes in tuition fees, it is still at a relatively low 23 percent. In social welfare it came to 33 percent in 1974, in health to 65 percent, and in the other institutions (which depend primarily on members' dues), it reached 84 percent.

##### 5. THE DEMAND SURPLUS AND ITS FINANCING

The current deficit of the nonprofit institutions rose from IL 1.3 billion in 1973 to IL 1.9 billion, with educational institutions being responsible for about 60 percent of the total. Examination of the sector's contribution to national saving (the balance of domestic transfers over the current deficit) shows a negative saving of IL 415 million. Since the current deficit of the educational institutions is covered predominantly by domestic transfers, their negative contribution to national saving is insignificant. More than half the sector's dissaving originated in the health institutions.

If capital-account purchases are added to the negative saving, the demand surplus reached IL 1 billion—30 percent up on 1973. The magnitude of this demand surplus and the manner in which it was financed made the nonprofit institutions an important factor in the sharpening of inflation in the year reviewed, especially since the share of foreign transfers in financing the surplus is on the downgrade while that of domestic borrowed receipts is increasing (the latter covered about 35 percent of the aggregate demand surplus in 1972, 43 percent in 1973, and roughly half in 1974). From the aspect of inflationary pressures it does not make much difference whether the demand surplus is financed by way of foreign transfers or through heavier borrowing, but such transfers constitute the foremost structural problem of the sector, since some of the institutions are run by their overseas headquarters. The increase in the share of domestic credit in financing the demand surplus is therefore an important manifestation of the sector's contribution to domestic inflation. A good indicator of the sector's dependence on its demand surplus is the ratio between it and that proportion of uses not covered by own resources; this ratio has been moving up gradually and in 1974 it reached 42 percent.

Table XI-8

**CONTRIBUTION OF NONPROFIT INSTITUTIONS TO NATIONAL SAVING,  
THEIR DEMAND SURPLUS, AND ITS FINANCING, 1971-74**

(IL million)

	1971	1972	1973	1974
<b>Demand surplus</b>				
1. Purchases on current account, less sales	1,243.6	1,597.2	2,088.6	2,797.1
2. Less: Net transfers from other domestic sectors <sup>a</sup>	1,180.6	1,494.8	1,882.1	2,381.8
3. Dissaving on current operations	63.0	102.4	206.5	415.3
4. Purchases on capital account	370.2	497.8	610.3	642.5
5. Demand surplus (3 + 4)	<b>433.2</b>	<b>600.2</b>	<b>816.8</b>	<b>1,057.8</b>
<b>Financing of demand surplus</b>				
6. Transfers from the rest of the world	295.7	389.2	466.5	555.3
7. Net credit from other domestic sectors	137.5	211.0	350.3	502.5
8. Total	<b>433.2</b>	<b>600.2</b>	<b>816.8</b>	<b>1,057.8</b>
	<b>Percentages</b>			
Share of foreign transfer receipts in financing of capital-account purchases ( $[(6-3)/4]$ )	63	58	43	22
Demand surplus as a percent of total uses, less own resources	40	41	42	42
Share of demand surplus financed by credit	32	35	43	48

<sup>a</sup> Including members' dues and fees.