

CHAPTER II

RESOURCES, USES, AND INCOME¹

I. MAIN DEVELOPMENTS

The year reviewed saw a significantly smaller increase in total resource use (excluding ships and aircraft and direct defense imports)² and the gross domestic product. This development, due primarily to the subsiding of demand and the steep rise in import prices, did not arrest the continued rapid real growth of the import surplus (excluding ships and aircraft and direct defense imports).

The more sluggish increase in final uses (as defined above) is explained by two

¹ The Yom Kippur War sharply depressed economic activity because of the extensive mobilization of manpower and civilian trucking capacity. In analyzing economic trends it is therefore necessary to isolate the influence of the war on the economic variables. In 1973 this was a fairly simple matter, for the first nine months of the year could be compared with the corresponding period in the previous year. For 1974 there are two ways of isolating the effects of the war. One is to compare the months of April-December 1974 with January-September 1973; even though the call-up of reserves was greater in 1974, the difference is not significant relative to the total employed labor force. This solution, however, involves difficulties arising from the need to net out the seasonal influence of the other months.

The second solution, which was used in this chapter, is to compare all of 1974 with all of 1973. But it must be borne in mind that the effects of the war were stronger in 1973 than in 1974 from the aspect of the mobilization of reservists (on an annual average) and of civilian trucking, so that the rates of change in 1974 as compared with 1973 as a whole are downward-biased. Thus, for example, the decline in the growth of the gross domestic product as indicated by our data—from 6.9 percent in the first nine months of 1973 compared with the corresponding period in 1972 to 4.3 percent in 1974 compared with all of 1973—was actually greater.

Finally, it should be noted that the number of reservists called up in January-September 1974 was much larger than in the same period in 1973; therefore, a comparison of this sort is of limited economic significance (in effect it compares a period of grave national emergency with one of relative peace).

² These items are excluded in an analysis of economic developments because they are largely exogenous to the domestic economy.

RESOURCES AND

(IL million, at

	1971	1972		1973	
		Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Resources					
1. Gross national product	23,323	21,804	29,843	27,803	37,954
2. Imports ^c	13,571	12,067	16,690	17,367	26,942
3. Imports, excl. ships and aircraft and direct defense imports	10,799	10,079	13,961	14,719	19,445
4. Import surplus (2-13)	5,594	4,484	6,209	7,426	14,139
5. Total resources available for domestic use (1+4)	28,917	26,288	36,052	35,229	52,093
6. Total resources (1+2)	36,894	33,871	46,533	45,170	64,896
Uses					
7. Private consumption	13,554	12,426	17,056	16,812	22,386
8. Public consumption	7,940	6,795	9,242	7,974	16,396
9. Public consumption, excl. direct defense imports	5,833	4,958	6,729	6,115	9,806
10. Gross domestic investment	7,423	7,067	9,754	10,443	13,311
11. Gross domestic investment, excl. ships and aircraft	6,738	6,916	9,538	9,654	12,404
12. Total domestic uses (7+8+10)	28,917	26,288	36,052	35,229	52,093
13. Exports ^d	7,977	7,583	10,481	9,941	12,803
14. Total uses, excl. ships and aircraft and direct defense imports (7+9+11+13)	34,102	31,883	43,804	42,522	57,399
15. Total uses (12+13)	36,894	33,871	46,533	45,170	64,896
16. Factor payments abroad, net	379	416	517	810	1,147
17. Gross domestic product (1+16)	23,702	22,220	30,360	28,613	39,101

^a Calculated at constant 1970 prices.^b Compared with January-September 1972.^c Valued at c.i.f. prices and at the effective rate of exchange. Includes imports from the

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USES, 1971-74

current prices)

1974	Percent annual increase									
	Quantity ^a					Prices				
	1971	1972	1973		1974	1971	1972	1973		1974
			Jan.- Sept. ^b	Entire year				Jan.- Sept. ^b	Entire year	
53,046	10.1	12.0	6.0	5.2	4.7	12.7	14.2	20.3	20.9	33.5
38,276	12.2	2.3	22.8	34.1	0.7	16.2	20.2	17.2	20.4	41.1
30,878	15.3	9.9	23.1	15.4	8.8	16.5	17.9	18.6	20.7	46.0
19,909	-1.8	-14.4	45.5	93.8	-2.7	17.5	29.7	13.8	17.5	44.7
72,955	7.7	7.1	11.8	18.5	2.9	13.6	16.4	19.9	21.9	36.1
91,322	10.8	8.5	11.7	15.1	3.1	14.0	16.2	19.4	21.2	36.5
33,170	4.9	9.1	13.6	9.5	7.2	11.9	15.3	19.1	19.9	38.2
21,845	1.3	-1.9	-0.1	46.4	1.4	16.5	18.6	17.5	21.2	31.4
15,127	10.5	1.1	2.0	19.0	12.5	16.1	14.1	20.9	22.5	37.1
17,940	21.6	12.7	19.7	9.3	-3.1	13.6	16.6	23.4	24.9	39.1
17,260	14.1	21.9	13.3	4.3	0.6	14.1	16.1	23.2	24.7	38.3
72,955	7.7	7.1	11.8	18.5	2.9	13.6	16.4	19.9	21.9	36.1
18,367	24.4	13.8	11.2	3.2	4.0	15.4	15.5	17.9	18.4	37.9
83,924	11.7	11.4	11.2	8.4	6.0	13.8	15.3	19.9	20.9	37.9
91,322	10.8	8.5	11.7	15.1	3.1	14.0	16.2	19.4	21.2	36.5
1,527										
54,573	10.1	12.0	6.9	6.5	4.3	12.7	14.4	20.4	20.9	33.8

administered areas; excludes interest paid by the public sector to the rest of the world.

^d Valued at f.o.b. prices and at the effective rate of exchange. Includes exports to the administered areas; excludes interest received by the public sector from the rest of the world.

main factors. One was the slower expansion of the leading uses (investment, public consumption, and exports), which indirectly also influenced private consumption through the generation of income. The cutting back of fixed investment and the slackening of the export advance had a moderating effect, but this was somewhat offset by a much heavier defense spending. On balance, the influence of investment and exports was dominant: the leading uses (excluding ships and aircraft and direct defense imports) moved up by a total of 5.2 percent in 1974, as against 9.6 percent in the first nine months of 1973. (The causes of the stabilization of investment and the flagging export advance will be discussed in detail below.) The second factor was the government's policy of fiscal restraint, which caused disposable private income to trail behind the growth of the product (in money terms), after the policy measures had had an opposite effect in the two preceding years.

The marked deceleration of the leading uses³ and the government's policy measures depressed real disposable income per capita, even though the decline in the rate of private saving in itself had a stimulative effect on demand (on balance, however, its influence was weaker than the retarding factors). The contraction of real per capita disposable income only led to a smaller percentage increase in total and per capita private consumption, since the public did not adjust its spending to its reduced disposable income. One of the main reasons for this behavioral change was apparently the attempt by part of the public to cushion itself against the anticipated fiscal measures and change in the effective rate of exchange by advancing purchases of durable goods and other industrial products.

Another reason was the compensatory increase in purchases which had been deferred because of the war and the atmosphere prevailing at the time, when private saving shot up. With the return of life to normal, the pent-up demand resulted of course in a heavy volume of purchases. Finally, as already noted, there was a drastic change in disposable private income this year, which shrank in real per capita terms after rising strongly in previous years. It takes some time for households to adjust their consumption spending to such a sharp turnabout.

The gross domestic product rose 4.5 percent in 1974, compared with 7-8.5 percent in the first nine months of 1973⁴ and 10 and 12 percent in 1971 and 1972 respectively. The slowdown was most pronounced in the product of the private

³ Defined here as the sum total of investment, public consumption, and exports.

⁴ The range of the product growth rate in the first nine months of 1973 reflects the significantly varying results yielded by the different methods of estimation used for this period. The higher figure represents the increment by industrial origin as calculated on the basis of various indicators (see Table II-8), while the lower figure represents the gain as measured according to final uses.

Table II-2
DISTRIBUTION OF TOTAL AND INCREMENTAL RESOURCES AND USES, 1971-74
 (percentages; at 1970 prices)

	Total resources and uses					Incremental resources and uses					
	1971	1972		1973		1974	1971	1972	1973		1974
		Jan.- Sept.	Entire year	Jan.- Sept.	Entire year				Jan.- Sept.	Entire year	
Excluding direct defense imports and ships and aircraft											
Resources											
Gross national product	63.9	66.3	66.0	62.9	60.4	61.3	60.0	90.3	34.2	23.0	91.0
Imports ^a	36.1	33.7	34.0	37.1	39.6	38.7	40.0	9.7	65.8	77.0	9.0
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Uses											
Private consumption	37.4	37.7	37.6	38.4	35.8	37.2	17.8	40.1	43.8	23.7	83.4
Public consumption	21.1	19.1	19.0	17.1	24.2	23.8	2.7	-4.7	-0.2	58.6	10.8
Civilian	6.4	6.4	6.4	6.3	5.9	5.9	3.2	6.0	5.5	2.9	7.2
Noncivilian	14.7	12.7	12.6	10.8	18.3	17.9	-0.5	-10.7	-5.7	55.7	3.6
Gross domestic investment	20.2	20.9	21.0	22.4	19.9	18.7	36.7	30.0	35.2	12.9	-20.0
Exports ^a	21.3	22.3	22.4	22.1	20.1	20.3	42.8	34.6	21.2	4.8	25.8
Total uses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Including direct defense imports and ships and aircraft											
Resources											
Gross national product	69.1	69.8	69.5	66.6	67.5	66.7	60.7	73.2	37.7	43.7	52.5
Imports ^a	30.9	30.2	30.5	33.4	32.5	33.3	39.3	26.8	62.3	56.3	47.5
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Uses											
Private consumption	40.4	39.7	39.6	40.6	40.0	40.5	18.0	32.4	48.2	45.0	48.1
Public consumption	16.8	15.3	15.2	14.1	16.7	17.8	15.3	1.6	2.7	34.7	34.8
Gross domestic investment	19.7	21.5	21.6	21.9	20.8	19.7	23.4	37.9	25.7	11.2	2.2
Exports ^a	23.1	23.5	23.6	23.4	22.5	22.0	43.3	28.1	23.4	9.1	14.9
Total uses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a See notes to Table II-1.

SOURCE: Central Bureau of Statistics.

economy,⁵ which expanded by 3.7 percent as against 6.5-8.5 percent in the first nine months of 1973 and 11.5 and 14 percent in 1971 and 1972 respectively.

The more sluggish growth of the private sector product was also reflected in its development over the year. In the first half the curve rose precipitately (compared with deseasonalized data for the previous period), reflecting the return of the economy to normal after its wartime slump, along with the release of reservists and mobilized civilian transport (in the second quarter the curve apparently reached its peak, even surpassing the eve-of-war level). But in the second half of the year the curve turned downward to reach its prewar level,⁶ despite the much smaller number of men called up for reserve duty during this period. Resource uses⁷ reveal a similar picture: a vigorous pickup in the first half of the year, especially in private consumption and noncivilian public consumption (which even surpassed their average quarterly prewar volume), and a more mild gain in investment and exports, which failed to fully regain their prewar level. In the second half of 1974 all uses fell a notch.

There was a minuscule 0.7 percent rise in total employed;⁸ not counting the public sector and nonprofit institutions, the level inched down 0.6 percent.⁹ The actual labor input shows a similar development—a slight 1.7 percent increase in the total number of man-hours worked in the entire economy, and excluding the public sector and nonprofit institutions, a mere 0.5 percent rise.

The decline in total employment in the private economy¹⁰ should be viewed against the divergent development trends in the various sectors in 1974. On the one hand, demand fell off in the construction industry, services (those connected with tourism), land transport, and certain industrial branches, primarily because of export

⁵ Defined as the total product, excluding the public sector and nonprofit institutions.

⁶ There was a similar development during the year in industrial production, construction (total starts and completions), and the labor input of the private sector (employee posts). It therefore seems that this is indicative of the general trend in 1974, although as a rule the statistical reliability of the quarterly product data is not high (mainly because of the low reliability of the breakdown of defense purchases and inventory investment during the year).

⁷ Less public sector and nonprofit institution payrolls and imputed residential rents.

⁸ Israelis, including reservists on active duty, and residents of the administered areas working in Israel.

⁹ It is noteworthy that data from other sources (e.g. employee posts according to the National Insurance Institute, the number of employees according to industrial indexes, and employee posts according to reports of building contractors) indicate a similar development in the labor input as that shown by the manpower surveys.

¹⁰ The number of Israeli employed in the private sector fell more steeply—by 1.6 percent.

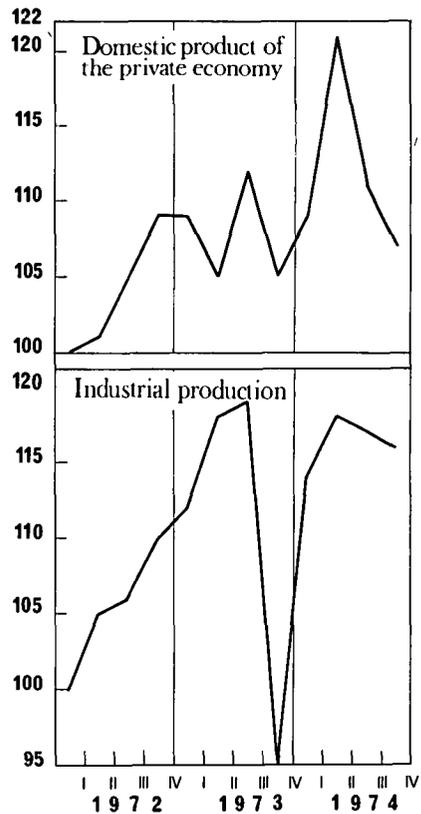
market reverses (for example, diamonds, plywood, clothing, textiles, and rubber and plastic goods, which account for 30 percent of total industrial production); in these industries the labor supply did not constrain the expansion of production, and in fact they even laid off workers. On the other hand, demand was much brisker this year for electrical and electronic products, machinery, transport equipment, chemical products, and refined petroleum products. In these industries there was a strong demand for highly skilled workers, and it seems that the shortage of such manpower prevented them from making even more impressive headway. The shortage was also reflected in the large number of unfilled job vacancies, especially in the metal industries, and in the strong, steady growth of employment in these industries despite the downturn in the total labor input of the private economy.

To sum up, while in a few branches (accounting for 10 percent of the total product of the private economy) the labor input may have constituted an effective constraint on their expansion, this was not true of most branches of the economy, and it seems that it was demand that dictated the growth of their product. Moreover, the buoyant public sector demand for manpower averted a drop in total employment, especially of Israelis.¹¹

Even though the total number of Israeli employed tapered off in 1974, there was

¹¹ Whereas employment in the entire economy increased by 8,000 workers only, the public sector and nonprofit institutions took on some 15,000 additional employees.

Figure II-1
GROWTH OF PRIVATE DOMESTIC PRODUCT AND INDUSTRIAL PRODUCTION, QUARTERLY, 1972-74
 (index: 1972 I = 100)



SOURCE: Based on Central Bureau of Statistics data.

no significant rise in the unemployment rate; this is explained by the sharp drop in the civilian labor force participation rate, due mainly to exogenous factors.¹²

Despite the laggard uptrend in demands and the product, reflected by some easing of pressure in the labor market, the inflation gathered impetus, with the private sector product deflator jumping 33 percent as against 18.5 percent in 1973. This was largely due to cost-push, notably the soaring of controlled commodity prices and the stiffening of indirect taxes on domestic production. In addition, in the first months of the year there was also strong demand-pull owing to the vigorous recovery of demand relative to supply. Coming after the war-induced subsiding of demand, this apparently created an illusion that the economy was returning to a situation of rapid growth and overdemand in the commodity and service markets (especially in the wake of the heavy volume of defense procurement orders placed with manufacturing and construction industries shortly after the war). As a result, producers continued to jack up the prices of numerous commodities, mainly consumer goods, without fearing a drop in demand. But in actual fact the economy merely returned to its prewar level, or even fell slightly short of it.

The share of wages in the gross domestic product of the private economy (excluding imputed residential rents) at factor cost remained unchanged in 1974, for the second consecutive year. Hence it cannot be argued that the cost-of-living allowance arrangement was a factor in the acceleration of price inflation in the year reviewed.

The development of final uses in 1974 differed greatly from that in the first nine months in 1973. Real investment hardly expanded in 1974, after it had moved up appreciably in the first three quarters of 1973. Moreover, investment in construction and locally produced equipment (which strongly influences the growth of the domestic product) even fell off in real terms, while all the inventory investment was in stocks of imported goods. On the other hand, domestic public consumption rose considerably in 1974, following a very sluggish increase in the first nine months of 1973. In the latter period this use contributed less than half a percentage point to the total increase in resource uses (excluding ships and aircraft and direct defense imports), but in 1974 it accounted for about 2 points; that is to say, domestic public consumption was responsible for roughly a third of the total increase in uses as defined above.

The contraction of fixed investment was apparently due to the faltering of demand. The cutting back of residential construction in 1974 continued the trend

¹² The decline in the civilian labor force participation rate occurred among males only, while the rate for women held steady. The 1974 drop in the rate was connected primarily with the expansion of the standing army and the call-up of reservists for a longer spell of duty.

begun even before the October war,¹³ while most of the decline in nondwelling investment was accounted for by the public sector and nonprofit institutions, due mainly to the government's policy of economic restraint and also to the uncertain business outlook. The acceleration of domestic public consumption is explained entirely by the much heavier spending of the defense establishment after the war. Most of the local procurement orders were placed with industry (metal and electronic products and transport equipment) and construction.

In private consumption, as already noted, the curve rose more slowly this year—7.2 percent, or some 4 percent per capita, compared with per capita rates of 10 percent in the first nine months of 1973¹⁴ and 5.6 percent in 1972. In real terms the per capita figure was up 4 percent in 1974, although real disposable per capita income from domestic sources was down 2.1-3.6 percent (depending on the definition used), while disposable per capita income from all sources fell off more steeply. This was the first time since the slump of 1966-67 that disposable per capita income not only failed to grow in real terms but even declined significantly.¹⁵

These developments in consumption and income sharply depressed the rate of private saving, accentuating the downtrend evident in the first nine months of 1973 and which was temporarily checked during the period of fighting.

In contrast to previous years, the severe slowdown in the export advance apparently did not stem from excess demand, but was due to the worldwide recession, which affected most of Israel's overseas markets.

As against a real increase of only 4 percent in exports, imports¹⁶ were up 8.8 percent; the balance of payments deficit on current account¹⁶ therefore continued to widen noticeably. Imports even outpaced the expansion of total uses.¹⁶ This is mainly ascribable to the huge buildup (in the neighborhood of \$200 million) of raw material stocks in the wake of developments in this market in 1973, when fears of a world shortage of the major raw materials was accompanied by the rocketing of their prices. Anxiety about a possible shortage of foreign currency (following the heavy depletion of foreign exchange reserves) and expectations of a devaluation of the Israeli pound were other factors inducing producers to accumulate stocks of imported materials.

The private economy product per employed moved up by a comparatively small

¹³ The downtrend in private residential building starts carried over through the first quarter of 1975.

¹⁴ Real private consumption per capita in 1973 was 6 percent up on the previous year.

¹⁵ For example, in 1966 real disposable income per capita dropped 1.7-2.3 percent (depending on how it is defined).

¹⁶ Excluding ships and aircraft and direct defense imports.

3.4 percent, similar to the growth of product per man-hour; according to all the other indicators, the rise in productivity fell below the long-run average. As mentioned, the domestic product of the private economy apparently shrank in the second half of the year. Since there was some lag in adjusting the labor input to the demand-induced change in the product curve (because of employers' uncertainty about the business outlook and institutional difficulties in laying off workers), the retardation of the growth rate was initially reflected by a drop in productivity. This conceivably explains why productivity ran below the long-run average growth rate. Support for this assumption may be found in the fact that in the first half of the year productivity moved up at a faster-than-average rate. It should nevertheless be stressed that in the first nine months of 1973 too there was a fairly laggard gain in productivity per employed (see Table II-9).

2. USE OF RESOURCES

The growth of total resource use slowed appreciably in 1974—3.1 percent as against 11.7 percent in the first nine months of 1973 and 8.5 percent in 1972. Excluding direct defense imports and the ships and aircraft item,¹⁷ there was still a significant decline in the rate—6 percent as against 11 percent in the first nine months of 1973 and all of 1972. In the year reviewed all uses registered much slower increases in comparison with the first nine months of 1973, except

CONTRIBUTION OF FINAL USES TO GROWTH OF

TOTAL USES, 1973-74

(percent real changes)

	1973 ^a	1974
Private consumption	5.4	2.9
Domestic public consumption	0.3	2.1
Investment, excl. ships and aircraft	2.9	0.1
Exports	2.6	0.9
Total uses, excl. ships and aircraft and direct defense imports	11.2	6.0

^a January-September.

¹⁷ As stated, these two items are characterized by sharp year-to-year swings, and in the short run they are largely exogenous to the domestic economy.

noncivilian public consumption, where the uptrend gained considerable momentum. Although private consumption slumped conspicuously—a rise of only 7.2 percent as against 13.6 percent in the first nine months of 1973 and 9.1 percent in 1972—this was still a little higher than the growth of total uses (excluding ships and aircraft and direct defense imports).

A glance at the table shows considerable variance in the sources of resource growth compared with the first nine months of 1973. Whereas the main sources this year were private and public consumption, in January-September 1973 most of the upward thrust came from private consumption and to a lesser extent from investment and exports. This differential pattern was reflected in the distribution of the increment. In the year reviewed 83 percent of the additional resources went to private and public consumption, compared with 51 percent in the first nine months of 1973 and 34 percent in 1972. This steep rise was accounted for by noncivilian public consumption, whereas the share of private consumption remained unchanged. It can therefore be said that in 1974 Israel took a big step backward in its quest for economic independence.

Table II-3

EFFECT OF RESOURCE USE ON THE PRIVATE SECTOR PRODUCT,^a 1972-74

(percentages; at 1968/69 prices)

	Distribution of the product by final use			Distribution of the product increment by final use		
	1972	1973	1974	1972	1973	1974
Private consumption	38.5	38.9	39.2	33.3	46.4	44.8
Public consumption	10.8	11.3	12.9	1.3	22.2	43.9
Gross domestic investment ^b	20.0	19.8	18.3	32.0	14.9	-10.6
Exports	30.7	30.0	29.6	33.4	16.5	21.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

NOTE: In calculating the gross domestic product originating in the various sectors according to final use and on the basis of input-output coefficients, the following changes have been made: private consumption has been adjusted to include ownership of dwellings and compensation of employees (wages and salaries plus fringe benefits) of nonprofit institutions, public consumption has been adjusted to include compensation of public sector employees, and exports have been adjusted to include rent and sundry domestic factor income.

^a Gross domestic product at factor cost, excluding the product of the public sector and nonprofit institutions.

^b Excluding changes in inventories.

SOURCE: Central Bureau of Statistics data, adjusted in accordance with input-output data for 1968/69.

Table II-4
GROWTH OF PRIVATE SECTOR PRODUCT, BY FINAL
USES,^a 1972-74

(percentages; at 1968/69 prices)

	1972	1973	1974
Private consumption	4.4	2.3	2.4
Public consumption	0.1	0.9	2.4
Gross domestic investment	4.4	0.8	-0.7
Exports	2.8	0.1	0.8
Total product	11.7	4.1	4.9

^a See the note to Table II-3 about the adjustment of the various uses for purposes of input-output analysis and its effect on the private sector product.

Another notable feature of the economy this year was the 4 percent expansion of per capita private consumption, despite a real 3.6 percent decline in per capita disposable income (from domestic sources, excluding compulsory loans). As mentioned, several reasons can be advanced to explain the bigger drop in the private saving rate in 1974: when there is a sharp turnabout from a fairly high growth of real disposable income per capita to a real decline, it takes some time before households can adjust their consumption spending to the change in income level. Initially at least they tend to refrain from reducing their standard of living too greatly, by drawing on their savings.

Other factors depressing the rate of private saving were the government's decision to hike indirect taxes on both exports and domestic production and the devaluation of the IL, which were accompanied by a buying spree (notably of durable goods) once the public heard about other mooted fiscal measures.¹⁸

Finally, as already pointed out, the savings rate shot up during the period of fighting, but upon the conclusion of hostilities and the return of life to normal, the pent-up demand resulted in a flurry of sales.

Despite the stringent fiscal policy adopted by the government, the decline in private saving thwarted the realization of one of its principal economic policy aims, namely to arrest the rise in per capita private consumption. It is noteworthy that

¹⁸ In 1973 too there were apparently speculative factors depressing the rate of private saving (see, for example, Bank of Israel, *Annual Report 1973*, p. 20). But they were probably less potent, since the rumors of the impending fiscal measures were of a more general nature.

despite the growth of the latter, the per capita figure for the food, beverages, and tobacco item dipped in 1974, while consumer durables moved up 4.5 percent following a hefty 17.5 percent rise in 1973. This supports the assumption about the operation of speculative factors in 1974 with respect to private consumption.

Total public consumption edged up 1.4 percent. But excluding direct defense imports, which were down sharply from their 1973 level, domestic public consumption moved up at a much faster pace in 1974—12.5 percent vs. a mere 2 percent in the first nine months of 1973. This can be ascribed primarily to the huge volume of domestic defense procurement orders, placed mainly with the metal, electronic, transport equipment, and construction industries. It follows that public consumption directly expanded domestic demands in 1974. Finally, it should be noted that the share of civilian public consumption in the national product held steady, as contrasted with the steep rise in that of noncivilian public consumption (see Table II-5).

Investment, excluding ships and aircraft, hardly contributed to the expansion of total uses in the year reviewed. It registered the smallest increase of all uses—0.6

Table II-5
SHARE OF PUBLIC CONSUMPTION IN GNP, 1961-74
(percentages)

	Average		1973						
	1961-1966	1967-1972	1969	1970	1971	1972	Jan.-Sept.	Entire year	1974
At current prices									
Civilian public consumption	11.0	10.8	10.7	10.5	10.6	10.2	11.0	10.9	10.9
Noncivilian public consumption	9.7	21.3	20.0	25.3	23.4	20.8	17.7	32.3	30.3
Total	20.7	32.1	30.7	35.8	34.0	31.0	28.7	43.2	41.2
At 1970 prices									
Civilian public consumption	12.1	10.7	11.0	10.5	10.0	9.6	9.9	9.8	9.7
Noncivilian public consumption	10.2	20.8	19.7	25.3	22.9	19.2	17.2	30.3	29.1
Total	22.3	31.5	30.7	35.8	32.9	28.8	27.1	40.1	38.8

SOURCE: Based on Central Bureau of Statistics data.

percent only, compared with 13 percent during the first nine months of 1973. Since the figure for ships and aircraft dropped sharply, total investment fell off 3 percent, compared with 19.5 percent in the first three quarters of 1973.

Fixed investment (excluding ships and aircraft) was off 2.2 percent, as against a 14.9 percent advance in January-September 1973. The decline was mostly accounted for by the 5 percent cutback in residential construction and a 0.5 percent decrease in nondwelling investment.

All the decline in residential construction was in private sector building, while the figure for public sector housing was somewhat higher in the year reviewed.¹⁹ The smaller volume of home building was due to the continued weakening of housing demand, discernible even before the October war. Private housing starts in fact began to fall off in the second quarter of 1973, pulling down total building starts.

Home sales, expressed as a percent of the current supply in the 12 main urban centers, serve as another indicator of the sharp drop in housing demand in the year reviewed. After sales picked up in the first half of 1974 from their wartime low, the declining trend reasserted itself in the third quarter of 1974, and in the final quarter the ratio fell to 24 percent, compared with 31 percent in the first half of the year and 35 percent in the first nine months of 1973 (the reasons for the ebbing of demand are discussed in Chapter VIII).

The slight decline in nondwelling investment (excluding ships and aircraft) is explained primarily by the slashing of the development budgets of the public sector and nonprofit institutions in the wake of the government's policy of economic restraint. Capital spending by these two sectors was down 12 percent in real terms, compared with a 4 percent increase in the first nine months of 1973. By contrast, the figure for the private sector (excluding transport equipment) was up 10 percent in real terms, after an 18 percent rise in the first nine months of 1973.

Industrial investment was only a shade higher this year—1.4 percent compared with 6.4 percent in the first nine months of 1973, which was also a fairly sluggish rate.

The uncertain business outlook (especially in view of the huge balance of payments deficit, which necessitated the restraining of economic activity) was apparently the main factor retarding the expansion of industrial investment.

Exports again made only slight progress in 1974. As a result, its share in incremental uses (excluding ships and aircraft and direct defense imports) continued downward, from 43 percent in 1971, 28 percent in 1972, and 23 percent in the first

¹⁹ Whereas private residential starts reflect the current demand for homes, those by the public sector mainly reflect the Housing Ministry's policy, which generally lags behind changes in the market situation.

nine months of 1973 to 19 percent in 1974. But in contrast to earlier years, in 1974 the sagging of the uptrend apparently stemmed from the general world economic recession. Commodity exports showed a further advance, although slower than in the previous year (9.2 percent vs. 13.2 percent in the first nine months of 1973), but service exports fell absolutely. The deceleration in commodities was due mainly to the crisis in the food, textile, plywood, and diamond industries, while chemical products, phosphates, metal goods, and electronic products scored big gains. The setback in tourism accounted for nearly all the decline in service exports.

Industrial export profitability developed unevenly in 1974. In the first half the curve apparently dipped a bit, but it reversed direction in the second half (discussed in detail in Chapter IV).

3. RESOURCES

As in the first nine months of 1973, the gross national product limped a little behind the growth of total resources, whether including or excluding ships and aircraft and direct defense imports. As a result, the import component of total resources was higher in the last two years than in 1969-72 (see Table II-2).

Whereas in the first three quarters of 1973 the rise in the share of imports in total resources (excluding ships and aircraft and direct defense imports) was chiefly due to excess demand in the economy and the slackening of GNP growth (mainly because of the exhaustion of all unemployed manpower reserves), in 1974 the import component remained at its previous high level, mainly because of the buildup of imported raw material stocks (\$ 220 million) and brisker sales of consumer durables in anticipation of a change in the effective exchange rate. The heavier purchase of imported raw materials can apparently be attributed to two principal factors. One was the fear of a world shortage of crude materials along with the soaring of their prices on the world market in 1973. The second reason was anxiety over a possible shortage of foreign currency for buying raw materials because of the heavy depletion of foreign exchange reserves, together with expectations of an effective devaluation of the Israeli pound.

4. GROSS NATIONAL PRODUCT AND PRODUCTIVITY

The gross domestic product of the private economy moved up by a very sluggish 3.7 percent in 1974, compared with 6.6 percent in the first nine months of 1973 and 14 percent in 1972.

Table II-6
COMPOSITION OF RESOURCES FOR DOMESTIC USE, 1970-74
 (percentages)

	1970	1971	1972		1973		1974
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	
At current prices							
Total resources available for domestic use							
Import surplus ^a	20.5	19.3	17.1	17.2	21.1	27.1	27.3
Gross national product	79.5	80.7	82.9	82.8	78.9	72.9	72.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total resources available for domestic use, less direct defense imports							
Import surplus	12.4	13.0	10.8	11.0	16.7	16.6	19.9
Gross national product	87.6	87.0	89.2	89.0	83.3	83.4	80.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
At 1970 prices							
Total resources available for domestic use							
Import surplus ^a	20.5	18.7	14.7	14.9	19.2	24.4	23.1
Gross national product	79.5	81.3	85.3	85.1	80.8	75.6	76.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total resources available for domestic use, less direct defense imports							
Import surplus ^a	12.4	12.6	9.4	9.6	15.0	14.6	15.2
Gross national product	87.6	87.4	90.6	90.4	85.0	85.4	84.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a Calculated at the effective rates of exchange.

SOURCE: Central Bureau of Statistics.

A measurement of the product by sectoral origin, according to various indicators, reveals an even more pronounced slowdown—from 8.5 percent in the first nine months of 1973²⁰ to 4 percent (see Table II-8). The deceleration permeated all sectors of the economy except agriculture, which posted an impressive 12 percent

²⁰ See note ⁴ on p. 20.

Table II-7
SECTORAL ORIGIN OF THE NET DOMESTIC PRODUCT AT FACTOR COST,^a 1970-74
 (percentages; at 1970 prices)

	1970	1971	1972	1973		1974
				Jan.-Sept.	Entire year	
Agriculture, forestry, fisheries	6.4	6.5	6.4	5.6	6.0	6.4
Industry, mining and quarrying	23.7	24.1	24.6	25.4	24.5	24.6
Construction and public services	12.0	12.4	13.1	13.4	12.5	12.2
Transportation and communications	8.8	9.3	9.5	9.7	9.3	9.3
Finance, trade, and business and personal services	22.9	22.3	21.8	21.5	20.9	20.3
Public and community services	19.1	18.4	17.6	17.4	19.7	19.9
Ownership of dwellings	7.1	7.0	7.0	7.0	7.1	7.3
Net domestic product (at factor cost) ^a	100.0	100.0	100.0	100.0	100.0	100.0

^a Before inventory and depreciation adjustments.
 SOURCE: Based on Table II-8.

gain (thanks to exceptionally favorable weather conditions). As already noted, the sharp drop in the private sector product growth rate was due to the slacker expansion of demand.

The sagging of the uptrend in the private sector product was reflected by a 0.6 percent drop in the sector's employment (including reservists)²¹ and in a minute 0.5 percent rise in the labor input.

The labor input adjusted somewhat to the slower growth of the private sector product in 1974. It did not adjust more fully for several reasons, such as uncertainty about the weakening of demand—i.e. whether it was the start of a transitory or more protracted change—and the difficulty of laying off organized labor. As a result, there was a fairly slow increase in the product per employed compared with the long-run average,²² especially in industry, construction, tourism, and land transport.

²¹ Even though in some industrial branches, such as metal goods, transport equipment, and electronic products, there was a shortage of highly skilled workers.

²² The lag in adjusting the labor input to a sharp change in the private sector growth rate was especially conspicuous in 1966, when the product inched up by a mere 0.7 percent.

Table II-8

NET DOMESTIC PRODUCT AT FACTOR COST,^a BY SECTORAL ORIGIN, 1971-74
(at 1970 prices)

	1970 (IL million, at current prices)	Percent annual increase				
		1971	1972	1973		1974
				Jan.- Sept. ^b	Entire year	
1. Agriculture, forestry, fisheries	1,039	10.8	8.5	-5.7	-1.8	12.0
2. Industry, mining and quarrying	3,854	10.5	11.9	12.1	5.3	5.0
3. Construction and public services	1,947	12.5	15.8	11.2	0.9	2.5
4. Transportation and communications	1,427	14.7	13.0	9.6	3.1	4.6
5. Finance, trade, and services	3,713	6.1	7.4	6.5	1.0	1.5
6. Ownership of dwellings	1,162	7.3	8.3	8.4	8.3	7.2
7. Public and community services	3,097	4.9	4.6	7.7	18.7	5.5
Net domestic product						
Total economy	16,239	8.8	9.7	8.3	5.7	4.6
Private sector ^c (excl. residential rents)	11,980	10.0	11.0	8.5	2.4	4.1

NOTE: The absolute figures for the base year 1970 are from the national accounts. The sources for calculating the real rates of change in the various sectors are as follows:

- (1) Current account of agriculture, with the data converted from agricultural- into calendar-year terms.
- (2) Index of industrial production. In 1974 the data on diamonds were revised, and therefore the rate of change differs from that in the index.
- (3) Construction output, as calculated in Chapter VIII. Public services (electricity and water) calculated according to input-output data.
- (4) As calculated in Chapter XV. In calculating the rates of change there the change in the output of each subbranch was weighted by its share in the 1968/69 product, as estimated on the basis of input-output data.
- (5) According to the rates of change in employment as measured by manpower surveys; for 1973-74 additional indicators were used.
- (6) According to the housing services item in private consumption.
- (7) According to national accounts data.

^a Before inventory and depreciation adjustments.

^b Compared with January-September 1972.

^c Defined as the total product less public and community services.

The adjustment of the capital stock to a change in the product growth rate is a fairly protracted process. Consequently, a marked slowdown in the private sector's product is accompanied by an immediate drop in the capital stock utilization rate; in

Next year, when the labor input was brought into line with the level of current production, product per employed rose by an appreciable 7 percent.

Table II-9
CHANGES IN GROSS DOMESTIC PRODUCT, FACTOR INPUTS, AND PRODUCTIVITY OF THE PRIVATE SECTOR,^a 1961-74
 (percent annual increase^b)

	Average		1973					1974
	1961-65	1966-72	1970	1971	1972	Jan.-Sept. ^c	Entire year	
Gross domestic product (excl. residential rents) ^d	10.9	9.7	9.7	11.6	14.0	6.6-8.3 ^e	3.9	3.7
Stock of fixed nondwelling capital (beginning of year)	10.4	7.4	8.3	7.8	9.5	7.8	7.8	8.6
Labor input ^f								
Number of employed	4.5	2.9	1.5	4.5	7.2	4.8	0.9	0.3 ^g
Man-hours	4.2	3.0	1.7	4.1	8.3	3.5	-3.2	0.5
Capital stock per employed	5.6	4.4	6.7	3.2	2.1	2.9	6.8	8.3
Capital stock per man-hour	6.0	4.3	6.5	3.6	1.1	4.2	11.4	8.1
Product per employed	6.1	6.6	8.1	6.8	6.3	1.7-3.3	3.0	3.4
Product per factor unit (productivity) ^h	6.4	6.5	7.9	7.2	5.3	3.0-4.6	7.3	3.2
Labor measured by number of employed ⁱ								
A	3.2	4.3	4.6	5.1	5.2	0.3-1.9	3.0	-0.7
B	4.2	5.1	5.7	5.7	5.6	0.8-2.4	0.7	0.6
Labor measured by man-hours								
A	3.4	4.3	4.5	5.3	4.7	0.9-2.5	7.3	-0.8
B	4.4	5.0	5.6	6.0	4.9	1.6-3.2	3.4	0.5

^a Defined as the total economy less public sector services and nonprofit institutions.

^b The rates of real increase in the product for 1969-74 are calculated according to 1970 prices.

^c Compared with January-September 1972.

^d There are two reasons for showing the changes in the gross domestic product, and not the gross national product:

1. The gross domestic product reflects the level of domestic economic activity.

2. The gross capital stock was estimated according to the domestic and not the national approach. As stated, the gross domestic product does not include the public sector and private nonprofit institutions, since conceptually their factor productivity is zero.

^e See note 4 on p. 20.

^f Including workers from the administered areas.

^g Excluding reservists on active duty.

^h Under perfect competition, the elasticity of product with respect to labor is equal to labor's share of the product. The share of labor in gross private national income (excluding residential rents) is actually in the neighborhood of 65 percent (with the imputed labor return to the self-employed taken to be equal to the average earnings per employee). It has been argued in various studies that the elasticity of product with respect to labor is lower than labor's actual share of the product (see, for example, Michael Bruno, "Estimation of Factor Contribution to Growth Under Structural Disequilibrium", *International Economic Review*, Vol. IX, No. 1 (February 1968), pp. 49-62). We have therefore used both weights for weighting the labor input.

ⁱ Variant A—labor weighted one-half; variant B—labor weighted two-thirds.

SOURCE: Based on Central Bureau of Statistics data.

Table II-10
GROWTH OF LOCAL EMPLOYMENT AND PRODUCT PER EMPLOYED
IN THE PRIVATE SECTOR, 1968-74

(percentages)

	Local employment		Product per employed	
	Total before adjustment	Adjusted total ^a	Unadjusted	Adjusted
1968	10.8	10.2	7.5	8.1
1969	4.4	3.3	10.1	11.3
1970	1.5	0.9	8.1	8.7
1971	4.6	3.6	6.8	7.7
1972	7.2	5.9	6.3	7.7
1973				
Jan.-Sept. ^b	4.8	4.3	1.7	2.2
Entire year	1.0	-0.1	3.0	4.0
1974	0.2	0.1	3.4	3.6
Average 1968-72	5.7	4.8	7.8	8.8

^a The adjustment was made according to the following weights: males—1.00; females—0.60; workers from the administered areas—0.45. The weights were determined according to the average relative wages of these groups, on the assumption that the wages reflect the value of their marginal output.

^b Compared with January-September 1972.

1974 it also resulted in an absolute decrease in the per unit product weighted by capital and labor (overall productivity—see Table II-9). This was the first time since 1966 that such a development occurred in the Israeli economy.

The steady increase in the proportion of workers from the administered areas (whose skill level is probably below average) did not depress productivity below the long-run trend this year (see Table II-10).

5. INCOME

Private sector income showed a change of trend in 1974, when real per capita disposable income (less compulsory loans) dipped 3.6 percent and per capita disposable income from total sources fell even more steeply. This checked the

advance that had persisted since the emergence of the economy from the slump of 1966-67.

GROWTH OF GROSS DISPOSABLE PRIVATE INCOME PER CAPITA, 1971-74

(percent real change)

	1971	1972	1973		1974
			Jan.-Sept. ^a	Entire year	
Gross disposable private income per capita					
From economic activity	7.8	7.5	5.9	5.2	-3.1
From domestic sources, excl. net compulsory loans	5.5	11.6	7.2	6.7	-3.6

^a Compared with January-September 1972.

The real decline in disposable per capita income in 1974 was due to two factors. One was the slowdown of economic activity (as reflected in the gross national product). The second factor was the government's policy of fiscal restraint, which caused disposable income to move up 2.5 percentage points more slowly than GNP (in money terms); in 1972-73 the government's policy had resulted in disposable private income leading GNP by 5 points.

GROWTH OF GNP AND INCOME, 1971-74

(percentages; in current IL)

	1971	1972	1973		1974
			Jan.-Sept. ^a	Entire year	
Gross national product	24.1	28.0	27.5	27.2	39.8
Gross private income from economic activity	24.2	28.0	30.3	30.3	37.9
Gross disposable private income from domestic sources (excl. net compulsory loans)	21.6	32.9	31.9	32.2	37.2

^a Compared with January-September 1972.

Table
NATIONAL PRODUCT
(IL million, at

	1970	1971	1972	
			Jan.- Sept.	Entire year
1. Gross national product at market prices ^b	18,795	23,323	21,804	29,843
2. Depreciation	1,824	2,274	2,037	2,910
3. Net national product (1-2)	16,971	21,049	19,767	26,933
4. Indirect taxes on domestic production	1,973	2,425	2,175	2,968
5. Subsidies on domestic production	317	398	365	496
6. Net taxes on domestic production (4-5)	1,656	2,027	1,810	2,472
7. National income (3-6)	15,315	19,022	17,957	24,461
8. National income per capita (IL)	5,176	6,246	5,732	7,775

^a Compared with January-September 1972.

^b At effective rates of exchange.

SOURCE: Central Bureau of Statistics.

The most salient features of the government's fiscal policy were the jacking up of indirect tax rates and compulsory loans and the lifting of subsidies. The outcome was a 50 percent jump in public sector revenue (far above the figures for 1972-73), compared with a 40 percent gain in GNP.

GROWTH OF PUBLIC SECTOR REVENUE, 1971-74

(percentages; in current IL)

	1971	1972	1973		1974
			Jan.- Sept. ^a	Entire year	
Taxes, compulsory loans, property and entrepreneurial income ^b					
Gross	36.2	20.4	24.1	23.3	49.7
Net ^c	33.6	10.5	8.8	6.1	55.3

^a Compared with January-September 1972.

^b Excluding import taxes.

^c Excluding subsidies on local production and net transfer payments to the public.

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AND INCOME, 1970-74

current prices)

1973		Percent annual increase					
Jan.- Sept.	Entire year	1974	1971	1972	1973		
					Jan.- Sept. ^a	Entire year	1974
27,803	37,954	53,046	24.1	28.0	27.5	27.2	39.8
2,712	3,875	6,069	24.7	28.0	33.1	33.2	56.6
25,091	34,079	46,977	24.0	27.9	26.9	26.5	37.8
2,679	3,551	5,196	22.9	22.4	23.2	19.6	46.3
637	879	1,113	25.5	24.6	74.5	77.2	26.6
2,042	2,672	4,083	22.4	21.9	12.8	8.1	52.8
23,049	31,407	42,894	24.2	28.6	28.3	28.4	36.6
7,122	9,660	12,813	20.7	24.5	24.2	24.2	32.6

No significant change took place this year in the distribution of income from economic activity between labor and nonlabor income (see Table II-14); the share of the former in the private sector product (at factor cost) also remained unchanged, for the second consecutive year.

The stability of the share of labor in the domestic product (at factor cost) reflected similar growth rates in the product per employed and in earnings per employee—36 percent. Since private consumption prices moved up at a faster pace, employees suffered a real drop in earnings this year.

	1971	1972	1973	1974
Compensation of employees as a percent of private sector product at factor cost ^a	46.7	45.3	45.4	45.5

^a Gross domestic product, excluding imputed residential rents.

Table:

TOTAL AND DISPOSABLE GROSS

(IL million, at

	1970	1971	1972	
			Jan.- Sept.	Entire year
1. National income	15,315	19,022	17,957	24,461
2. Public sector property and entrepreneurial income ^b	406	519	560 ^c	769
3. Depreciation	1,824	2,274	2,037	2,910
4. Private income from economic activity (1-2+3)	16,733	20,777	19,434	26,602
5. Income tax	2,232	2,768	2,402	3,311
6. National insurance contributions	826	1,242	1,069	1,479
7. Total direct taxes (5+6)	3,058	4,010	3,471	4,790
8. Net compulsory loans ^d	388	978	783	1,025
9. Total compulsory payments (7+8)	3,446	4,988	4,254	5,815
10. Net transfer payments	1,627	2,351	2,497	3,329
11. Gross disposable income from domestic sources				
a. Incl. net compulsory loans (4-7+10)	15,302	19,118	18,460	25,141
b. Excl. net compulsory loans (4-9+10)	14,914	18,140	17,677	24,116
12. Personal transfers from abroad	1,551	2,283	2,505	3,293
13. Gross disposable income from all sources				
a. Incl. net compulsory loans (11a+12)	16,853	21,401	20,965	28,434
b. Excl. net compulsory loans (11b+12)	16,465	20,423	20,182	27,409

^a Compared with January-September 1972.^b The data on this item have been revised because of a change in the CBS definition of the public sector's interest income from abroad.

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PRIVATE INCOME, 1970-74

current prices)

1973			Percent annual increase				
Jan.- Sept.	Entire year	1974	1971	1972	1973		1974
					Jan.- Sept. ^a	Entire year	
23,049	31,407	42,894	24.2	28.6	28.4	28.4	36.6
435 ^c	611	1,167 ^c	27.8	48.2	-22.1	-20.5	91.0
2,712	3,875	6,069	24.7	28.0	33.1	33.2	56.6
25,326	34,671	47,796	24.2	28.0	30.3	30.3	37.9
3,372	4,556	6,492	24.0	19.6	40.4	37.6	42.5
1,303	1,751	2,294	50.4	19.1	21.9	18.4	31.0
4,675	6,307	8,786	31.1	19.5	34.7	31.7	39.3
886	1,305	2,478	152.1	4.8	13.2	27.3	89.9
5,561	7,612	11,264	44.7	16.6	30.7	30.9	48.0
3,550	4,818	7,200 ^c	44.5	41.6	42.2	44.7	49.4
24,201	33,182	46,210	24.9	31.5	31.1	32.0	39.3
23,315	31,877	43,732	21.6	32.9	31.9	32.2	37.2
2,389	3,268	3,467	47.2	44.2	-4.6	-0.8	6.1
26,590	36,450	49,677	27.0	32.9	26.8	28.2	36.3
25,704	35,145	47,199	24.0	34.2	27.4	28.2	34.3

^c Estimate.^d Collections less loan certificates distributed.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table
GROSS PRIVATE
(IL million, at

	1970	1971	1972	
			Jan.- Sept.	Entire year
1. Gross disposable private income from domestic sources				
Incl. compulsory loans	15,302	19,118	18,460	25,141
Excl. compulsory loans	14,914	18,140	17,677	24,116
2. Gross disposable private income from all sources				
Incl. compulsory loans	16,853	21,401	20,965	28,434
Excl. compulsory loans	16,465	20,423	20,182	27,409
3. Private consumption	11,543	13,554	12,426	17,056
4. Gross private saving from domestic sources (1-3)				
Incl. compulsory loans	3,759	5,564	6,034	8,085
Excl. compulsory loans	3,371	4,586	5,251	7,060
5. Gross private saving from all sources (2-3)				
Incl. compulsory loans	5,310	7,847	8,539	11,378
Excl. compulsory loans	4,922	6,869	7,756	10,353
				Per
6. Rate of gross saving from domestic sources (4 ÷ 1)				
Incl. compulsory loans	24.6	29.1	32.7	32.2
Excl. compulsory loans	22.6	25.3	29.7	29.3
7. Rate of gross saving from all sources (5 ÷ 2)				
Incl. compulsory loans	31.5	36.7	40.8	40.0
Excl. compulsory loans	29.9	33.6	38.4	37.8

* Of households, business, and nonprofit institutions, for which there are no separate data.

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SAVING,^a 1970-74

(current prices)

			Percent annual increase				
1973		1974	1973				
Jan.- Sept.	Entire year		1971	1972	Jan.- Sept.	Entire year	1974
24,201	33,182	46,210	24.9	31.5	31.1	32.0	39.3
23,315	31,877	43,732	21.6	32.9	31.9	32.2	37.2
26,590	36,450	49,677	27.0	32.9	26.8	28.2	36.3
25,704	35,145	47,199	24.0	34.2	27.4	28.2	34.3
16,812	22,386	33,170	17.4	25.8	35.3	31.2	48.2
7,389	10,796	13,040	48.0	45.3	22.5	33.5	20.8
6,503	9,491	10,562	36.0	53.9	23.8	34.4	11.3
9,778	14,064	16,507	47.8	45.0	14.5	23.6	17.4
8,892	12,759	14,029	39.6	50.7	14.6	23.2	10.0
centages							
30.5	32.5	28.2					
27.9	29.8	24.2					
36.8	38.6	33.2					
34.6	36.3	29.7					

Table II-14
CHANGES IN INCOME AND INCOME DISTRIBUTION, 1961-74
 (percentages)

	Average			1968	1969	1970	1971	1972		1973		1974
	1961-1965	1966-1967	1968-1972					Jan.-Sept.	Entire year	Jan.-Sept.	Entire year	
Increase in real private income per capita ^a												
From domestic sources	6.6	0.7	8.5	11.2	9.2	3.4	8.4		10.4	6.6	6.6	-2.1
From all sources	6.6	0.0	9.6	13.5	8.3	4.6	10.2		11.6	3.1	3.5	-4.2
Share of employee compensation in total income from economic activity ^b												
Gross income	60.0	64.5	58.9	60.5	58.7	60.3	59.2	57.7	57.2	58.4	58.8	59.1
Net of direct taxes	60.8	64.7	58.6	60.2	58.7	60.8	58.9	56.7	56.2	58.2	58.7	59.6

^a Gross income before deducting net compulsory loans.

^b Gross income, less the imputed net rental value of owner-occupied dwellings.

SOURCE: Central Bureau of Statistics and Bank of Israel.

6. NATIONAL SAVING

In 1974 the rate of national saving calculated in relation to the gross national product was negative, as in the previous year. Saving (both gross and net) from domestic sources edged down a notch in 1974, whereas the year before it had fallen precipitately. This change of trend in the last two years was mainly due to the high level of public sector consumption (mainly noncivilian), which began during the period of fighting and continued through 1974. The share of public consumption in GNP came to over 40 percent in 1973 and 1974, up sharply from the 30 percent recorded in 1972 and the first nine months of 1973.

Public sector revenue rose 40 percent in 1974, and expenditure by only 33 percent. But because of the big gap between the sector's expenditure and revenue from domestic sources, there was an increase in its dissaving from such sources in 1974. The rate of national saving (both gross and net) from all sources dipped more sharply than that from internal sources. This was due to the tumbling of foreign unilateral receipts by 23.4 percent in 1974 after they had more than doubled the year before. Another major factor pulling down the national saving rate in 1974 was the significant drop in private saving in 1974, in line with the trend begun in the first nine months of 1973, after it had risen in the two preceding years.

The main influences depressing the private sector saving rate were discussed above (see section 2 and also Chapter VII). Another factor, which was more potent this year, was the "money illusion effect": the steep nominal rise in the public's income created the illusion of a real growth of disposable income, thereby inducing the public to increase its consumption, whereas it actually suffered a decline in real income. In stepping up its consumption spending, the public reduced its rate of saving, but it is difficult to quantify the effect of this factor.

Table II-15
NATIONAL SAVING, 1971-74
 (IL million, at current prices)

	1971	1972		1973		1974
		Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	
1. Gross private saving ^a	5,564	6,034	8,085	7,389	10,796	13,040
2. Public sector saving	-3,735	-3,412	-4,540	-4,372	-11,624	-15,009
Net public sector income ^b	4,205	3,344	4,702	3,602	4,772	6,836
Less: Public consumption	7,940	6,756	7,942	7,974	16,396	21,845
3. Gross national saving from GNP (1+2)	1,829	2,622	3,545	3,017	-828	-1,969
4. Unilateral transfers from abroad ^c	2,687	2,927	4,023	3,158	9,062	6,939
5. Gross national saving from all sources (3+4)	4,516	5,549	7,568	6,175	8,234	4,970
6. Depreciation	2,274	2,037	2,910	2,712	3,875	6,069
7. Net national saving from NNP (3-6)	-445	585	635	305	-4,703	-8,038
8. Net national saving from all sources (5-6)	2,242	3,512	4,658	3,463	4,359	-1,099
Percentages						
9. Rate of gross saving from GNP	7.8	15.3	11.9	13.0	-2.2	-3.7
10. Rate of gross saving from all sources	17.4	22.4	22.3	20.0	17.5	8.3
11. Rate of net saving from NNP	-2.1	-3.0	2.4	1.2	-13.8	-17.1
12. Rate of net saving from all sources (less depreciation)	9.4	15.5	15.0	12.3	10.1	-2.0

^a Out of income from domestic sources, including compulsory loans.

^b Excluding net taxes on imports, which are included in the import surplus when calculating the effective rate of exchange.

^c Less net interest payments of the public sector.