

## CHAPTER II

# RESOURCES, USES, AND INCOME

### 1. MAIN DEVELOPMENTS

Economic activity was stagnant in 1975 in real terms, for the first time since the 1966-67 recession. Resource use (at constant prices and excluding ships and aircraft and direct defense imports) did not increase, and the gross domestic product edged up by a mere percent. The tailing off of uses and GDP in 1975 followed the deceleration of growth the year before to 8 and 6.7 respectively, after they had moved up at a fairly vigorous average annual rate of 12.8 and 11.7 percent respectively in 1968-72.

The lacklustre performance of the economy was due to the cooling of demands, which began in the second half of 1974, after economic activity had rebounded in the first half upon the release of the bulk of the reservists called up during the Yom Kippur War. The 1.3 percent expansion of the civilian labor force and that of 6-7 percent in the capital stock would have permitted a much bigger product gain. What is more, the domestic product of the business sector<sup>1</sup> was about 10 percent smaller than what the available factors of production and long-run advancing productivity trend would have allowed.<sup>2</sup>

The zero growth of uses, and to some extent the cumulative rise in the relative price of imports, resulted in a 1.4 percent smaller real import (excluding ships and aircraft and direct defense imports), after it had expanded in 1968-74 at a comparatively rapid 15 percent average annual rate. It nevertheless seems that devaluation expectations caused imports to run far above current requirements. Exports made a little headway<sup>3</sup> in constant

1. The product of the business sector is defined as the total product less that originating in public and community services and the nonprofit institutions.

2. For an explanation of this estimate see section 4 below.

3. Exports are discussed in greater detail below.

price terms, and so the real import surplus (excluding ships and aircraft and direct defense imports) was whittled down a bit, although in nominal dollar terms it rose a notch to \$2.1 billion. Because of the much heavier direct defense import this year, the nominal overall deficit grew from \$3.4 billion in 1974 to about \$4 billion.

**Table II-1**  
**RESOURCES AND USES, 1972-75**  
(IL million, at current prices)

	1972	1973	1974	1975	Percent annual increase					
					Quantity <sup>a</sup>			Prices		
					1973	1974	1975	1973	1974	1975
<b>Resources</b>										
1. Gross national product	29,484	37,548	54,235	74,864	5.5	6.8	0.4	20.7	35.2	37.4
2. Imports <sup>b</sup>	16,690	26,942	38,579	57,808	34.1	2.7	4.6	20.3	39.4	43.2
3. Imports, excl. ships and aircraft and direct defense imports	13,961	19,445	30,774	43,873	15.4	10.5	-1.4	20.7	43.2	44.7
4. Import surplus (2-13)	6,209	14,139	20,131	30,633	93.8	-0.7	6.0	17.5	43.4	43.5
5. Total resources available for domestic use (1+4)	35,693	51,687	74,366	105,497	18.8	5.0	1.7	21.9	37.1	39.4
6. Total resources (1+2)	<b>46,174</b>	<b>64,490</b>	<b>92,814</b>	<b>132,672</b>	<b>15.3</b>	<b>5.2</b>	<b>2.1</b>	<b>21.1</b>	<b>36.8</b>	<b>40.0</b>
<b>Uses</b>										
7. Private consumption	16,683	21,839	32,518	45,372	9.5	7.5	-0.6	19.6	38.5	40.3
8. Public consumption	9,242	16,396	22,281	34,727	46.4	2.6	10.9	21.2	32.4	40.5
9. Public consumption, excl. direct defense imports	6,729	9,806	15,155	21,049	19.0	12.6	-0.4	22.4	37.3	39.5
10. Gross domestic investment	9,768	13,452	19,567	25,398	10.2	3.3	-5.0	25.0	40.8	36.7
11. Gross domestic investment, excl. ships and aircraft	9,552	12,545	18,888	25,141	5.3	7.4	-3.0	24.8	40.1	37.2
12. Total domestic uses (7+8+10)	<b>35,693</b>	<b>51,687</b>	<b>74,366</b>	<b>105,497</b>	<b>18.8</b>	<b>5.0</b>	<b>1.7</b>	<b>21.9</b>	<b>37.1</b>	<b>39.4</b>
13. Exports <sup>c</sup>	10,481	12,803	18,448	27,175	3.2	6.1	3.4	18.3	35.9	42.5
14. Total uses, excl. ships and aircraft and direct defense imports (7+9+11+13)	<b>43,445</b>	<b>56,993</b>	<b>85,009</b>	<b>118,737</b>	<b>8.5</b>	<b>8.0</b>	<b>-0.2</b>	<b>20.9</b>	<b>38.1</b>	<b>39.9</b>
15. Total uses (12+13)	<b>46,174</b>	<b>64,490</b>	<b>92,814</b>	<b>132,672</b>	<b>15.3</b>	<b>5.2</b>	<b>2.1</b>	<b>21.1</b>	<b>36.8</b>	<b>40.0</b>
16. Factor payments abroad, net	517	1,147	1,644	2,822						
17. Gross domestic product (1+16)	30,001	38,695	55,879	77,686	6.7	6.7	1.0	20.9	35.3	37.6

<sup>a</sup> Calculated at constant 1970 prices.

<sup>b</sup> Valued at c.i.f. prices and at the effective rate of exchange. Includes imports from the administered areas; excludes interest paid by the public sector to the rest of the world.

<sup>c</sup> 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.

As stated, the economy's performance this year is explained by the ebbing of demand, evident since mid-1974. There were several reasons for this. One was the government's policy of retrenchment, chiefly with respect to disposable private income and public sector investment; this was designed to release factors of production from nonexport to

export branches (because of the overriding need to bring the import surplus more into line with the anticipated capital import in the years ahead). Other factors were a much more sluggish export advance and the cutting back of construction activity; the latter is attributable to the softening of the housing market because of the speculative accumulation of a stock of unsold dwellings and a sharp fall in the net migration balance in 1974.

These retarding forces continued to operate in 1975, particularly in the first six months:<sup>4</sup>

(a) The government continued its restrictive policy in the commodity and service markets, and this reduced the real domestic demand surplus of the public sector. The latter was the resultant of the tapering off of the sector's aggregate domestic demand and

#### DOMESTIC DEMAND SURPLUS OF THE PUBLIC SECTOR, 1973-75

(percent real change)

	1973	1974	1975
1. Total domestic demand of the public sector <sup>a</sup>	17	11	1
2. Net domestic revenue of the sector <sup>b</sup>	-20	-8	15
3. Net taxes on foreign trade	-2	44	-21
4. Domestic demand surplus			
(a) At the effective rate of exchange (1-2)	55	20	-5
(b) At the official rate of exchange (1-2-3)	88	14	1

NOTE: The definitions in this table differ from those in Chapter X. Following are the definitions used here.

(1) Total domestic demand of the public sector = domestic public consumption (excluding direct defense imports and the Development and Independence Loans), plus the sector's nondwelling investment (excluding public sector companies and imported equipment) and public housing construction.

(2) Net domestic revenue of the sector = indirect taxes on gross domestic production, plus property and entrepreneurial income, income tax receipts, and national insurance collections, less subsidies on domestic production and net transfer payments to the public.

(3) Net taxes on foreign trade = gross taxes on imports (excluding direct defense items), less commodity import subsidies and indirect tax rebates to exporters.

<sup>a</sup> To measure the public sector's demand surplus not only should its investment in housing be included but its income from the sale of homes as well. The latter, however, was not included here for lack of data, but various indicators show a significant drop in such sales over the last two years, so that its inclusion would have resulted in a faster growth of the demand surplus.

<sup>b</sup> The taxes on imports and the indirect tax rebates to exporters may be considered respectively as the absorption and injection of liquidity via the country's balance of payment.

4. Several variables work through the multiplier to determine disposable private income. Their weights in 1974 in disposable private income from domestic sources (less the direct and indirect import components of the effective exchange rate) were as follows (in percent):

Domestic demand surplus of the public sector	24
Exports	20
Private housing construction	7
Business sector nondwelling investment	5

a real growth of net revenue from internal sources.<sup>5</sup> The stabilization of the sector's demand was in itself a positive development, although given the strong uptrend in the preceding two years and the problems facing the economy in 1975, it was insufficient. It reflected mixed trends: the contraction of domestic defense spending and nondwelling investment<sup>6</sup> (excluding that of public sector companies) on the one hand, and a much heavier civilian consumption and housing investment on the other.

The government's efforts to leash domestic demands in the real sphere were not accompanied by the freezing of employment in the public sector and nonprofit institutions, which is a prerequisite for restructuring employment and the economy, nor was there an adequate curbing of monetary growth.

(b) The export advance slowed from a real 11 percent rate in the first nine months of 1973 and 6 percent in 1974 to 3.5 percent in the year reviewed, and this despite the weakening of domestic demands in 1975 and the higher relative price commanded by Israel's foreign sales. The slump which hit most of the country's overseas markets, and which deepened in the first half of 1975, blocked progress in this sphere, but the real contraction of industrial sales might have been arrested had there been a bigger improvement in their relative price. In fact, toward the end of the year the relative price of industrial exports turned downward, and this is liable to have a detrimental effect on the 1976 export performance.

(c) Demand for private sector housing sagged further. This is indicated by the volume of home sales in 17 large urban centers, which continued to slip this year, at a 24 percent rate.

(d) The net migration balance, after tumbling from 50,000 in 1973 to 14,000 in 1974, reached rock-bottom in the year reviewed. Besides its moderating impact on the home construction market, this factor depressed private consumption, notably durables.

Contrary to expectations, capital spending by the business sector (including public sector companies) did not put a drag on economic activity in 1975,<sup>7</sup> despite the buildup of unutilized capacity. That there was an increase in spare capacity is indicated by the fact that the sector's capital stock expanded 25.5 percent in 1974-75 (beginning-of-year levels), whereas its gross domestic product gained only 11.5 percent.

The private sector's nondwelling investment slowed from 11.9 percent in 1974 to a mere

5. Nominal income deflated by the index of private consumption prices reflects the absorption of real purchasing power from the public.

6. Less direct equipment imports.

7. This is explained in the text.

1.5 percent, but that of public sector companies accelerated, due to a sizable expenditure on new projects in the electricity and mining industries. Despite the deceleration of the sector's non dwelling investment, it apparently still ran much higher than warranted by the output gains of the three preceding years. Had it not been for the unlinked cheap credit available under the Law for the Encouragement of Capital Investments and the hyperinflationary conditions prevailing in the last few years, presumably there would not have been such a sizable buildup of unutilized capacity.

In summary, the cutting back of private sector housing investment and the real drop in the public sector's demand surplus were not fully set off by the niggardly growth of overseas sales and business sector non dwelling investment (excluding imported equipment). As a result, disposable private income and private consumption (which is a function of the former) fell off in constant price terms. What is more, the decline in real private consumption per capita was a little more modest than that in real disposable income per capita, and consequently the rate of private saving inched down a bit. This too helped to brake the reduction of demands.

As mentioned, the policy of economic stringency was designed to dampen aggregate domestic demand, so as to permit the transfer of factors of production to export and to harness spending on imported commodities, thereby whittling down the country's big current deficit. (This policy was complemented to some extent by an increase in the relative prices of imports and exports, chiefly through the devaluation of the IL against the dollar.)

This policy, however, was not accompanied by a proper one on employment. The government did not manage to keep the public sector and nonprofit institutions from enlarging their personnel in 1975, which swelled by an unprecedented 14,000. This represented nearly all the civilian labor force increment, and prevented the creation of a manpower reserve that could be diverted to export production with the anticipated rebounding, at the end of 1975, of the western economies and in its wake Israel's overseas marketing. Furthermore, although some of the business sector's workforce became redundant in 1975, this led to a reduction in the number of hours worked per employed rather than the dismissal of idle labor. As a consequence, some export industries experienced a shortage of manpower, which might have been averted had not the public sector and nonprofit institutions taken all the accretion to the civilian labor force.

This persistent, relatively heavy demand for personnel on the part of the public sector and nonprofit institutions has two negative effects in the long run: (a) It leads to educational and occupational choices not necessarily compatible with the needs of the

economy, given the mounting balance of payments deficit. (b) It will hamper the bridling of public sector spending, since the extra staff taken on in a given year will augment the sector's future demand to a greater extent than is the case with goods and services.

**Table II-2**  
**DISTRIBUTION OF TOTAL AND INCREMENTAL RESOURCES AND USES, 1972-75**  
(percentages, at 1970 prices)

	Total resources and uses				Incremental resources and uses		
	1972	1973	1974	1975	1973	1974	1975
<b>Including direct defense imports and ships and aircraft</b>							
<b>Resources</b>							
Gross national product	65.8	60.2	61.1	60.1	23.6	79.1	13.0
Imports <sup>a</sup>	34.2	39.8	38.9	39.9	76.4	20.9	87.0
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Uses</b>							
Private consumption	37.1	35.3	36.0	35.1	23.0	51.1	-10.2
Public consumption	19.2	24.3	23.7	25.8	58.1	12.4	125.4
Civilian	6.4	5.9	5.9	6.0	2.9	4.6	13.7
Noncivilian	12.8	18.4	17.9	19.8	55.2	7.8	111.6
Gross domestic investment	21.1	20.2	19.8	18.5	14.1	12.9	-48.3
Exports <sup>a</sup>	22.5	20.2	20.4	20.6	4.8	23.6	33.1
Total uses	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Excluding direct defense imports and ships and aircraft</b>							
<b>Resources</b>							
Gross national product	69.3	67.3	66.6	67.0	44.6	57.2	-154.1
Imports <sup>a</sup>	30.7	32.7	33.4	33.0	55.4	42.8	254.1
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Uses</b>							
Private consumption	39.1	39.5	39.3	39.1	43.4	36.9	120.3
Public consumption	15.3	16.8	17.5	17.5	34.1	26.4	40.5
Gross domestic investment	21.8	21.1	21.0	20.4	13.4	19.6	331.1
Exports <sup>a</sup>	23.8	22.6	22.2	23.0	9.0	17.1	-391.9
Total uses	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> See notes to Table II-1.

SOURCE: Central Bureau of Statistics.

In addition, the government's direct action to rein in domestic demands was not accompanied by sufficiently restrictive monetary measures, with the consequence that the public sector's operations pumped more than IL5.5 billion into the economy <sup>8</sup> This large injection, however, did not stoke domestic demand for goods and services to a noticeable degree, since most of it was absorbed through private sector purchases of foreign currency. This was used for financing the sector's structural deficit, building up

8. The public sector's liquidity injection was even higher if we assume that net taxes on foreign trade have an absorptive effect, since they constitute a substitute for an official devaluation of the IL.

imported commodity stocks, purchasing foreign currency assets, and repaying debts abroad. This too contributed to the failure to fully achieve the balance of payments policy objectives. While the massive liquidity injection did not stimulate domestic demands very much, it is important to note that it did permit the further spiraling of prices without a slackening of economic activity.

While the real gross domestic product of the business sector did not forge ahead in 1975<sup>9</sup>(after turning down at the end of 1974), the sector's labor input did not decrease, so that there was a zero growth, or even a slight decline, in GDP per employed. One possible reason for this was that the ebbing of demand in 1975 affected the various branches of the economy more or less equally, so that they could weather the slump without sacking workers. The average annual advance in GDP per employed in 1973-75 was roughly the same as during the 1966-67 recession, and in both periods it fell short of the long-run trend.

The stabilization of employment (including those called up for reserve duty) in the business sector and the big increase in the public sector forestalled a significant rise in overt unemployment, even though the civilian labor force expanded by about 15,000. The modest growth of the labor supply is explained primarily by the much lower net migration balance this year. The fairly steep adjustment of national insurance benefit payments may also have induced some persons to leave the labor force, which is not recorded as unemployment.

The year reviewed witnessed some toning down of price inflation,<sup>10</sup> but it still ran at a fairly high 23.5 percent, as opposed to 56.2 percent in 1974; discounting the effects of the government's measures of November 1974, the rise that year was 36 percent. The escalation of prices can probably be ascribed chiefly to the government's direct policy moves (devaluations, stiffening of indirect taxes, and lifting of subsidies), and indirectly to the higher wage bill stemming from the payment of cost-of-living allowance increments in the wake of these measures. In fact, prices rose fastest in the first quarter of the year, following the action taken at the end of 1974, and in the final quarter, on the heels of the devaluation and the hiking of indirect taxes and fuel prices; during the rest of the year the level was fairly steady.

The assumption that the upward pressure on prices was mainly due to wage-push is supported by the fact that the share of payrolls in business sector GDP (at factor cost)

9. See the reservation expressed in section 4 below.

10. As reflected in the consumer price index.

rose in 1975; this took place despite the letting up of demand for goods and services, which prevented businesses from upping prices further in order to maintain the ratio between the return to capital and that to labor.

## 2. RESOURCE USE

After moving up at a quite rapid 13 percent average annual rate in 1968-73, total resource use decelerated noticeably in 1974 (up 5 percent) and 1975 (2 percent). If direct defense imports and the ships and aircraft item are excluded, the slowdown was even more pronounced--from a 12 percent average real advance in 1968-73 to 8 percent in 1974 and nil in 1975.

The zero growth in the year reviewed is explained by the slight downturn in private consumption and investment (excluding ships and aircraft), which was almost entirely set off by the export gain; real domestic public consumption spending remained practically static. As may be seen from the table, there was no significant disparity in the contribution of the various component items to the zero growth of total uses.

### CONTRIBUTION OF FINAL USES TO THE GROWTH OF TOTAL USES, 1972-75

(percent real change)

	1972	1973	1974	1975
Private consumption	3.7	3.7	3.0	-0.3
Public consumption	0.2	2.9	2.1	-0.1
Civilian	0.5	0.5	0.3	0.3
Noncivilian	-0.3	2.4	1.9	-0.4
Investment, excl. ships and aircraft	4.3	1.1	1.5	-0.6
Exports	3.2	0.8	1.4	0.8
Total uses, excl. ships and aircraft and direct defense imports	<b>11.4</b>	<b>8.5</b>	<b>8.0</b>	<b>-0.2</b>

Even though the various uses veered widely from their 1974 growth pattern, which to some extent at least can be ascribed to the government's attempt to curb domestic demands, the shares of private consumption and domestic public consumption remained unchanged while that of investment continued to slip. Exports inched up 1 percent, but still fell below their 1972 level.

A distribution of the business sector product by final use (Table II-3) reveals a similar picture. In this context it should be noted that economic policy aimed not so much to dampen activity per se as to alter the composition of uses, and especially to reduce

the weight of consumption. This was not achieved in 1975.

Total private consumption drifted down 0.6 percent, or about 3 percent per capita; this followed a steady growth of per capita spending at a 5 percent average annual rate in 1968-74. Moreover, during the 1966-67 slowdown the per capita figure fell only 1.7 percent all told. The downturn in 1975 encompassed nearly all items and was especially sharp in durables. Spending on clothing and footwear was up about 1 percent per capita. It should be pointed out in this connection that the private consumption data include nonprofit institution services and imputed residential rents; as a rule, current changes in these items are not determined by households, and both outpaced the growth of population. Deducting them from the total figure therefore pulls down even more the per capita spending directly determined by households.

The sharp turnabout in per capita private consumption in 1975 should be viewed against the 5.5 percent real decline in per capita disposable private income from all sources, after it had hardly increased the year before. The outcome of these developments was the slumping of the rate of private saving from all sources, in line with the trend evident in 1974.

**Table II-3**  
**EFFECT OF RESOURCE USE ON THE BUSINESS SECTOR PRODUCT,<sup>a</sup> 1972-75**  
(percentages, at 1968/69 prices)

	Distribution of the product by final use				Distribution of the product increment by final use			
	1972	1973	1974	1975	1972	1973	1974	1975
Private consumption	40.5	40.9	40.4	40.4	36.8	50.9	31.9	30.9
Public consumption	10.9	11.3	13.0	12.4	0.5	20.5	39.2	-52.4
Gross domestic investment <sup>b</sup>	22.5	22.7	21.5	20.6	38.3	26.0	2.0	-78.3
Exports	26.0	25.0	25.2	26.5	24.4	2.6	26.9	190.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

NOTE: The data here have been calculated on the basis of input-output coefficients. In order to render them comparable with the data on resource uses, the latter have been adjusted downward as follows: private consumption excludes ownership of dwellings and compensation of employees (wages and salaries plus fringe benefits) of nonprofit institutions; public consumption excludes compensation of public sector employees; and exports exclude factor payments abroad, rent, and sundry domestic factor income. In addition, the direct import component has been deducted from all uses.

<sup>a</sup> Gross domestic product at factor cost, excluding the product originating in public sector and nonprofit institution services.

<sup>b</sup> Excludes changes in inventories.

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

Given the high inflation of the last few years, the real rate of interest paid by the private sector on its net unlinked indebtedness was negative. This of course augmented its wealth. Economic theory holds that this spurs the public to step up its current spending,

Table II-4

GROWTH OF BUSINESS SECTOR PRODUCT, BY FINAL USE,<sup>a</sup> 1972-75

(percentages, at 1968/69 prices)

	1972	1973	1974	1975
Private consumption	4.3	2.2	2.0	0.3
Public consumption	0.1	0.9	2.5	-0.4 <sup>b</sup>
Gross domestic investment	4.4	1.2	0.1	-0.6
Exports	2.8	0.1	1.7	1.6
Total product	11.6	4.4	6.3	0.9

<sup>a</sup> 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 business sector product.

<sup>b</sup> Public consumption as a whole did not contribute to the growth of product, a decline in defense purchases being offset by a 3.5 percent increase in civilian purchases.

thereby depressing the rate of saving from current income. The appreciation of the sector's foreign current assets in 1975 and the expectation that they would continue to rise in value had the same effect on the sector's saving performance.

Total public consumption expanded at a substantial 11 percent real rate, surpassing the previous year's 2.5 percent rise; this was after it had shot up to a very high level in the 1973 war-year. The weight of public consumption in total uses consequently reached 26 percent, eclipsing the 1973 figure. But if direct defense imports, which soared 35 percent in the year reviewed, are deducted, domestic public consumption more or less tapered off, after spurting 12.6 and 19 percent in 1974 and 1973 respectively.

This stabilization of domestic public consumption in 1975 reflected mixed trends: a

Table II-5

## SHARE OF PUBLIC CONSUMPTION IN GNP, 1972-75

(percentages)

	Average 1967-72	1972	1973	1974	1975
			<b>At current prices</b>		
Civilian public consumption	10.8	10.3	11.0	10.7	11.0
Noncivilian public consumption	21.3	21.0	32.6	30.4	35.4
Total	32.1	31.3	43.7	41.1	46.4
			<b>At 1970 prices</b>		
Civilian public consumption	10.7	9.7	9.9	9.6	10.0
Noncivilian public consumption	20.8	19.4	30.6	29.2	32.9
Total	31.5	29.1	40.5	38.8	42.9

SOURCE: Based on Central Bureau of Statistics data.

rapid 5 percent rise in civilian consumption and a 3.5 percent drop in defense spending. Civilian public consumption was up 3 percent per capita, compared with the 3 percent decline in private consumption. The contraction of domestic defense expenditure encompassed both real payroll outlay, which sank below its exceptionally high level in the first half of 1974 (when a large number of reservists had been called up for extended spells of duty), and military orders placed with local suppliers, notably manufacturers.<sup>11</sup>

Total fixed investment (excluding ships and aircraft) dipped 2 percent, after having risen to the same extent in 1974. Residential construction continued downward by 3 percent, while nondwelling investment fell off 1.7 percent, after a 3.3 percent advance in 1974. The smaller investment in housing in the past two years is explained entirely by the cutback in private building, an outcome of the continued cooling of housing demand evident even before the war (see section 1). The number of private units started in 1975 fell below the 1969 figure--21,000 vs. 23,000. All the decline in nondwelling investment occurred in motor vehicles, whereas the other items moved up 9 percent in all, surpassing their 2.3 percent growth the year before. The much smaller outlay on motor vehicles should be viewed against the heavy expenditure in 1973-74, mainly on trucks. This was done with the encouragement of the government, in the light of the transport shortage that cropped up upon the mobilization of civilian vehicles during the Yom Kippur War.

A sectoral breakdown of nondwelling investment (excluding transport equipment) shows that the figure for the public sector (excluding its corporations) edged up 1.6 percent, that for nonprofit institutions was static, while the business sector (including public sector companies) posted a 7 percent increase. The biggest advance was registered by public sector companies, owing to the launching of new large projects (phosphates at Nahal Zin and petrochemicals). That the private sector stepped up its capital spending (excluding transport equipment) even modestly is surprising, considering that it was saddled with plenty of unused capacity; this applies in particular to industry, which boosted its investment by 11 percent in 1975. The availability of ample subsidized credit under the Law for the Encouragement of Capital Investments, which in recent years has carried a negative rate of real interest, unquestionably goes a long way to explain the overinvestment. The structural change in the manufacturing sector was probably another contributory factor.

Expenditure on plant and equipment (excluding transport) was up 10 percent in real terms in 1975, with imports outstripping locally produced items. This, of course, pulled

11. The data on Defense Ministry purchases are provisional and based on updated budget figures.

up the weight of imported equipment in total plant and equipment expenditure, especially in industry. This may have reflected the persistent expectation of a change in the IL exchange rate, and it is particularly noteworthy since the price rise was faster in imported than in locally manufactured plant and equipment, contrary to the 1974 trend.

Exports continued to move ahead at a sluggish 3 percent real rate, roughly the same as the average for 1973-74; excluding the administered areas, the real increase came to only 2 percent. As already pointed out, the niggardly advance was apparently due mainly to the economic retreat in most of Israel's foreign markets, which largely nullified the rise in the relative price commanded by the country's sales abroad. Manufactures fared worst of all, slipping 2 percent in real terms after a 7 percent gain in 1974. Another item badly hit by the recession in the western world was transport services. An exception to the general trend was agricultural exports, which racked up a 23 percent gain in quantities and 20 percent in prices, with both citrus and other products contributing to the impressive performance.

The 16 percent tonnage and 30 percent price increase in citrus sales can be credited to the special demand conditions prevailing this year in Israel's European markets. The 24 percent physical gain in noncitrus products can be partly attributed to their stagnation in 1974, when the wartime conditions precluded the full utilization of productive capacity. Even if an adjustment is made for the effect of the war, there was still a notable advance in 1975 despite the slump experienced by Israel's leading customers for farm produce (see the explanation in Chapter IV).

### 3. RESOURCES

The stagnation of the gross national product in 1975 was accompanied by a 1.4 percent real decline in imports (excluding ships and aircraft and direct defense items). In the previous two years real imports (as defined above) far outpaced the product growth. The import component of total resources (excluding the aforementioned items) thus plateaued in 1975.

That imports were a shade lower this year is explained by the standstill in uses and to some extent by the 11.5 percent rise in the relative price of imports over the past two years. The biggest decrease was in commodities (excluding ships and aircraft), which were down 5 percent after an unbroken real increase in 1967-74.<sup>12</sup> The decline permeated all

12. In 1967 commodity imports dipped 8 percent in real terms, after being static the year before.

**Table II-6**  
**COMPOSITION OF RESOURCES FOR DOMESTIC USE, 1972-75**

(percentages)

	1972	1973	1974	1975
<b>At current prices</b>				
Total resources available for domestic use				
Import surplus <sup>a</sup>	17.4	27.4	27.1	29.0
Gross national product	82.6	72.6	72.9	71.0
Total	100.0	100.0	100.0	100.0
Total resources available for domestic use, less direct defense imports				
Import surplus <sup>a</sup>	11.1	16.7	19.3	18.5
Gross national product	88.9	83.3	80.7	81.5
Total	100.0	100.0	100.0	100.0
<b>At 1970 prices</b>				
Total resources available for domestic use				
Import surplus <sup>a</sup>	15.1	24.6	23.3	24.2
Gross national product	84.9	75.4	76.7	75.8
Total	100.0	100.0	100.0	100.0
Total resources available for domestic use, less direct defense imports				
Import surplus <sup>a</sup>	9.7	14.7	15.1	13.2
Gross national product	90.3	85.3	84.9	86.8
Total	100.0	100.0	100.0	100.0

<sup>a</sup> Calculated at the effective rates of exchange.  
SOURCE: Central Bureau of Statistics.

groups: capital goods,<sup>13</sup> intermediates, and especially consumer goods (16 percent).

The year surveyed apparently saw a continued stockpiling of imported goods, but to a much smaller extent than in 1974 and roughly the same as in 1973.<sup>14</sup> The smaller inventory investment in 1975 is understandable given the rise in the relative price of imports and the nongrowth of economic activity. The import component of total resources (including ships and aircraft and direct defense imports) rose a bit to almost regain its 1973 level (40 percent); this was because of the much larger direct defense import.

The composition of resources for domestic use moved closely in step with that of total resources, except that the downswing in the import share of total resources for domestic use (less direct defense imports in both items) was sharper.

13. The smaller import of capital goods was due wholly to the 56 percent drop in motor vehicles, while plant and equipment spending rose at a strong 13 percent real rate.

14. The gap between required raw material imports, as calculated according to input-output coefficients, and their actual import (excluding diamonds and fuel) amounted to \$364 million in 1974 and \$218 million in 1975. Some of the divergence might have been due to errors and omissions and did not reflect the accumulation of stocks. Moreover, required imports according to input-output data do not take into account domestic production for stock.

#### 4. GROSS NATIONAL PRODUCT AND PRODUCTIVITY

After expanding by 7 percent in 1974 and an average of 13.5 percent between 1968 and the first nine months in 1973, the business sector's domestic product failed to advance in the year reviewed. A measurement of the product by sectoral origin, according to various indicators, reveals a less pronounced slump in 1975--a real 1.5 percent rise as opposed to 4.5 percent in 1974.<sup>15</sup> This slim gain was the net outcome of a drop in construction and in transportation and communications, a sluggish growth in industry and business services, and a vigorous upswing in agriculture.

The slight dent in the construction product (including defense) reflected a smaller investment in both private housing and nonresidential construction and a real rise in the other components (including defense). The transportation and communications product lost ground, mainly because of a downturn in civil aviation and land transport.

Industrial production expanded at a laggard pace compared with earlier years. This was due to the weakening of demand for manufactures in both the home and overseas markets (including the administered areas).<sup>16</sup> The small output gain represents the average for 1975, and does not mirror developments in the course of the year. The first half saw a distinct rebounding of industrial production owing to a simultaneous revival of exports and private consumption.

Table II-7

#### SECTORAL ORIGIN OF THE NET DOMESTIC PRODUCT AT FACTOR COST,<sup>a</sup> 1970-75

(percentages, at 1970 prices)

	1970	1971	1972	1973	1974	1975
Agriculture, forestry, fisheries	6.4	6.5	6.4	6.0	6.3	6.8
Industry, mining and quarrying	23.7	24.1	24.6	24.5	24.5	24.5
Construction, electricity, water	12.0	12.4	13.1	12.6	12.7	12.3
Transportation and communications	8.8	9.3	9.6	9.3	9.3	9.0
Finance, trade, and business and personal services	22.8	22.3	21.8	20.8	20.1	20.0
Public and community services	19.1	18.3	17.5	19.7	19.8	19.7
Ownership of dwellings	7.2	7.1	7.0	7.1	7.3	7.7
Net domestic product (at factor cost) <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> Before inventory and depreciation adjustments.  
SOURCE: Based on Table II-8.

15. An input-output analysis of resource uses and their effect on the business sector product shows that in 1975 it drifted up about 1 percent, after a 6.3 percent increase the year before.

16. According\*to input-output data.

The big strides made by the agricultural product contrasts vividly with the standstill in the majority of sectors. This advance was achieved even though the country was partly drought-stricken and the uptrend in livestock farming faltered; it can be credited to the much bigger output this year in the crop branches (notably citrus for the foreign market) and the deceleration of inputs.

The stagnation of economic activity, which began in the second half of 1974, caused the number of Israeli employed (including reservists) in the business sector to drift down 0.4 percent, after a 0.7 percent fall the year before (this represented a decrease of 10,000 over the past two years). Furthermore, the number of man-hours worked in this sector in 1975 still fell short of the 1972 figure, even though it moved up a shade faster than in 1974. The labor input did not fully adjust to current domestic activity, with the result that product per employed slumped in the year reviewed.

Table II-8

NET DOMESTIC PRODUCT AT FACTOR COST,<sup>a</sup> BY SECTORAL ORIGIN, 1966-67 AND 1972-75

	1970 (IL million, at current prices)	Percent annual increase, at 1970 prices					
		1966	1967	1972	1973	1974	1975
1. Agriculture, forestry, fisheries	1,039	3.3	15.5	8.5	-1.3	10.0	9.5
2. Industry, mining and quarrying	3,854	1.3	-3.1	11.9	5.5	5.0	2.2
3. Construction, electricity, water	1,947	-12.4	-17.0	16.1	2.0	5.3	-1.0
4. Transportation and communications	1,427	0.0	1.0	13.0	3.0	4.7	-1.3
5. Finance, trade, and services	3,713	2.1	-1.9	7.4	1.0	1.5	1.5
6. Ownership of dwellings	1,162	7.0	5.5	8.4	8.2	7.1	7.4
7. Public and community services	3,097	7.7	12.2	4.6	18.7	5.5	2.2
Net domestic product <sup>a</sup>							
Total economy	16,239	1.4	0.9	9.7	5.9	4.8	2.2
Business sector <sup>b</sup> (excl. residential rents)	11,980	-0.9	-2.7	11.0	2.7	4.4	1.6

NOTE: The absolute figures for the base year 1970 are from the national accounts. The real rates of change listed here do not necessarily coincide with those in Tables II-1 and II-9, since they have been calculated here according to sector. The sources for calculating the real rates of change 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; electricity and water are 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<sup>1</sup> 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 1973-75 additional indicators were used.
- (6) According to the housing services item in private consumption.
- (7) According to national accounts data.

<sup>a</sup> Before inventory and depreciation adjustments.

<sup>b</sup> Defined as the total product less public and community services.

Table II-9

**CHANGES IN GROSS DOMESTIC PRODUCT, FACTOR INPUTS, AND PRODUCTIVITY OF THE BUSINESS SECTOR,<sup>a</sup> 1966-67 AND 1972-75**

(percent annual increase<sup>b</sup>)

	Average		1966	1967	1972	1973	1974	1975
	1961-65	1966-72						
Gross domestic product (excl. residential rents) <sup>c</sup>	10.9	9.7	-0.9	0.8	14.1	4.3	7.0	0.0
Stock of fixed nondwelling capital (beginning of year)	10.4	7.4	8.6	6.2	9.7	8.0	8.6	7.1
Labor input <sup>d</sup>								
Number of employed	4.5	2.9	-1.3	-5.9	7.2	0.9 <sup>e</sup>	0.3 <sup>e</sup>	1.4
Man-hours	4.2	3.0	-1.7	-9.8	8.3	-3.2	0.5	0.6
Capital stock per employed	5.6	4.4	10.0	12.9	2.3	7.0	8.3	5.6
Capital stock per man-hour	6.0	4.3	10.5	17.7	1.3	11.6	8.1	6.5
Product per employed	6.1	6.6	0.4	7.1	6.4	3.4	6.7	-1.4
Product per man-hour	6.4	6.5	0.8	11.8	5.4	7.7	6.5	-0.6
Product per factor unit (productivity) <sup>f</sup>								
Labor measured by number of employed <sup>g</sup>								
A	3.2	4.3	-4.4	0.6	5.2	-0.1	2.4	-4.1
B	4.2	5.1	-2.8	2.7	5.6	1.0	3.8	-3.2
Labor measured by man-hours								
A	3.4	4.3	-4.2	2.6	4.7	1.9	2.3	-3.7
B	4.4	5.0	-2.6	5.5	4.9	3.7	3.7	-2.7

<sup>a</sup> Defined as the total economy less public sector and nonprofit institution services.

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

<sup>c</sup> 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.

<sup>d</sup> Includes workers from the administered areas.

<sup>e</sup> Excludes reservists on active duty.

<sup>f</sup> 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. 49-61). We have therefore used both weights for weighting the labor input.

<sup>g</sup> Variant A — labor weighted one-half; variant B — labor weighted two-thirds.

SOURCE: Based on Central Bureau of Statistics data.

The sector's unit product weighted by the factors of production (with the labor input, measured by the number of employed,<sup>17</sup> weighted two-thirds) rose 2 percent all told in 1973-75, whereas the 4 percent long-run rising productivity trend (see Table II-9) would have permitted a 12 percent increase; in other words, in 1975 the product was 10 percent lower than what the factors of production would have allowed.

17. The number of employed is used here as the labor input indicator, since the number of hours worked per employed reflects the demand pressure in the labor market. It would have been desirable to allow for the decrease in the labor force participation rate caused by the slackening of the economy, but this is hard to estimate.

In this context it is interesting to note that during the 1966-67 slump too employment did not completely adjust to the contraction of economic activity, and the product per employed grew at a similar rate in both periods--an average of 3.7 percent per annum in 1966-67 and 3 percent in 1973-75. The product per man-hour, however, shows a bigger divergence--a 6.2 percent average in 1966-67 vs. 4.5 percent in 1973-75. The small adjustment differential between the two periods can probably be ascribed to the nature of the retreat in economic activity. Whereas in 1966-67 the level moved steadily downward (chiefly in construction and industry), in 1975, while it failed to move up on an annual average, there was some revival during the year (for example, the index of industrial production in the first half of the year ran 2 percent below its level in January-September 1973, but in the second half it was 6 percent higher).

The failure of the labor input to adjust (on an annual average) to the level of current economic activity in 1973-75 cannot be attributed to any particular sector; all the major sectors were responsible--industry, construction, and transportation and communications.

#### GROWTH OF PRODUCT PER EMPLOYED, BY SECTOR, 1969-75

(percent real change)

	Average 1969-72	Average 1973-75
Agriculture	7.3	12.2
Industry	7.4	1.2
Construction	4.0	2.2
Transportation and communications	9.9	0.4
Total business sector product	7.6	2.9

Table II-10

#### GROWTH OF LOCAL EMPLOYMENT AND PRODUCT PER EMPLOYED IN THE BUSINESS SECTOR, 1968-75

(percentages)

	Local employment		Product per employed	
	Total before adjustment	Adjusted total <sup>a</sup>	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	0.9	-0.1	3.4	4.4
1974	0.3	0.1	6.7	6.9
1975	1.4	1.9	-1.4	-1.9
Average 1968-72	5.7	4.8	7.8	8.8

NOTE: In 1973-75 those called up for reserve duty were deducted from total employed in the sector.

<sup>a</sup> 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.

The accommodation of the capital stock to changes in the product is a much more protracted process than in the case of the labor input, and in the short run the capital stock is actually fixed. Consequently, a marked slowdown in the business sector product immediately shows up in the capital stock utilization rate. It is nonetheless surprising that there were still no distinct signs in 1975 of the adjustment of the capital stock to the flattening of economic growth, especially as this was the third consecutive year that the capital stock expanded more than warranted by the expansion of economic activity (see the discussion in Chapter VIII).

## 5. INCOME

Real disposable income per capita from all sources dipped 5.5 percent in 1975, after it had hardly increased the year before. This reversed the steady uptrend begun after the 1966-67 recession. Disposable per capita income from domestic sources also fell off 5.5 percent in real terms in the year surveyed.

**Table II-11**  
**NATIONAL PRODUCT AND INCOME, 1972-75**

(IL million, at current prices)

	1972	1973	1974	1975	Percent annual increase		
					1973	1974	1975
1. Gross national product at market prices <sup>a</sup>	29,484	37,548	54,235	74,864	27.4	44.4	38.0
2. Depreciation	2,979	4,058	6,202	9,270	36.2	52.8	49.5
3. Net national product (1-2)	<b>26,505</b>	<b>33,490</b>	<b>48,033</b>	<b>65,594</b>	<b>26.4</b>	<b>43.4</b>	<b>36.6</b>
4. Indirect taxes on domestic production	2,988	3,583	5,255	8,752 <sup>b</sup>	19.9	46.7	66.5
5. Subsidies on domestic production	496	879	1,095	1,785	77.2	24.6	63.0
6. Net taxes on domestic production (4-5)	2,492	2,704	4,160	6,967	8.5	53.8	67.5
7. National income (3-6)	<b>24,013</b>	<b>30,786</b>	<b>43,873</b>	<b>58,627</b>	<b>28.2</b>	<b>42.5</b>	<b>33.6</b>
8. National income per capita (IL)	7,632	9,469	13,104	17,117	24.1	38.4	30.6

<sup>a</sup> At the effective rates of exchange.

<sup>b</sup> Includes the payroll tax, collection of which began in 1975.

SOURCE: Central Bureau of Statistics.

Two main factors lay behind the downswing in real disposable income per capita. The first was the stagnation of economic activity (reflected in the zero growth of uses and GNP). The second factor was the fiscal squeeze policy pursued by the government,<sup>18</sup> which

18. The tax element in compulsory loans conceptually represents the difference between the present value of income earned on an investment in the free market and that earned on nontradable compulsory loans. This method of calculation is valid when the income data refer to permanent income, but the data here relate to current disposable income and tax revenue is computed on a cash basis (see the note to the table on disposable income). It

caused disposable private income to trail behind the growth of the product (in money terms). This contrasted with the trend in the two preceding years (1973-74), when the fiscal measures led to some acceleration of disposable private income.

#### GROWTH OF GNP AND INCOME, 1973-75

(percent nominal change)

	1973	1974	1975
Gross national product	27.4	44.4	38.0
Gross private income from economic activity	30.6	43.4	35.3
Gross disposable private income from domestic sources <sup>a</sup>	33.0	46.7	35.4

<sup>a</sup> Net compulsory loans not deducted.

Under the government's retrenchment policy indirect taxes were stiffened and subsidies lifted. As a result, revenue from indirect taxes on domestic production (including the payroll tax) shot up 67 percent, as contrasted with a 38 percent expansion of GNP at current market prices. Income tax revenue also expanded conspicuously in 1975. To some extent this was probably due to the direct tax reform introduced during the year, which replaced some of the compulsory loans whose collection was terminated with the raising of income tax rates.

#### GROWTH OF PUBLIC SECTOR REVENUE, 1973-75

(percent nominal change)

	1973	1974	1975
Taxes and property and entrepreneurial income			
Gross	20.9	42.1	57.7
Net <sup>b</sup>	-3.9	26.9	61.2

<sup>a</sup> Excludes import taxes.

<sup>b</sup> Excludes subsidies on local production and net transfer payments to the public.

#### LABOR SHARE OF THE DOMESTIC PRODUCT, 1972-75

	1972	1973	1974	1975
Compensation of employees as a percent of business sector product at factor cost <sup>a</sup>	45.3	45.2	43.0	45.1

<sup>a</sup> Gross domestic product, excluding imputed residential rents.

is possible to argue against this approach: for example, the public probably does not on nontradable compulsory loans as saving, since the government will redeem them in the future by increasing taxes, so that the net effect on disposable income is nil. At a rate, in contrast to previous years, in our analysis of trends we have not treated the collection of compulsory loans as a fiscal instrument that absorbs purchasing power from the public, but as a monetary policy tool, whereas in the tables we have generally treated net compulsory loan receipts as in the past.

**Table II-12**  
**TOTAL AND DISPOSABLE GROSS PRIVATE INCOME, 1972-75**

(IL million, at current prices)

	1972	1973	1974	1975	Percent annual increase		
					1973	1974	1975
1. National income	24,013	30,786	43,873	58,627	28.2	42.5	33.6
2. Public sector property and entrepreneurial income <sup>a</sup>	675	470	775	1,200	-30.4	64.9	54.8
3. Depreciation	2,979	4,058	6,202	9,270	36.2	52.8	49.5
4. Gross private income from economic activity (1-2+3)	26,317	34,374	49,300	66,697	30.6	43.4	35.3
5. Income tax <sup>b</sup>	3,285	4,385	6,102	9,473	33.5	39.2	55.2
6. National insurance contributions	1,479	1,751	2,349	3,414	18.4	34.2	45.3
7. Total direct taxes (5+6)	4,764	6,136	8,451	12,887	28.8	37.7	52.5
8. Net compulsory loans <sup>c</sup>	1,025	1,305	2,478	1,877	27.3	89.9	-24.3
9. Total compulsory payments (7+8)	5,789	7,441	10,929	14,764	28.5	46.9	35.1
10. Net transfer payments	3,415	4,970	7,880	12,180	45.5	58.6	54.6
11. Gross disposable income from domestic sources							
a. Incl. net compulsory loans (4-7+10)	<b>24,968</b>	<b>33,208</b>	<b>48,729</b>	<b>65,990</b>	<b>33.0</b>	<b>46.7</b>	<b>35.4</b>
b. Excl. net compulsory loans (4-9+10)	<b>23,943</b>	<b>31,903</b>	<b>46,251</b>	<b>64,113</b>	<b>33.2</b>	<b>45.0</b>	<b>38.6</b>
12. Personal transfers from abroad	3,293	3,268	3,443	4,578	-0.8	5.4	33.0
13. Gross disposable income from all sources							
a. Incl. net compulsory loans (11a+12)	<b>28,261</b>	<b>36,476</b>	<b>52,172</b>	<b>70,568</b>	<b>29.1</b>	<b>43.0</b>	<b>35.3</b>
b. Excl. net compulsory loans (11b+12)	<b>27,236</b>	<b>35,171</b>	<b>49,694</b>	<b>68,691</b>	<b>29.1</b>	<b>41.3</b>	<b>38.2</b>

<sup>a</sup> 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.

<sup>b</sup> Excludes the change in the estimated balance due under the tax debt payment arrangement, as follows: 1972 — IL 26 million; 1973 — IL 134 million; 1974 — IL 333 million; 1975 — IL 886 million.

In our calculations tax receipts (including collections on account of previous years) are recorded on a cash basis; hence we have deducted the above sums (which are included in the figures of the State Revenue Administration). The U.N. recommends that data on tax revenue pertain to the period when the income on which the taxes were levied was earned; however, this system cannot be applied here, since the information on tax debts is received after a lag of at least two years. Admittedly, according to the permanent income theory, the balance due under the tax debt payment arrangement may be treated as tax revenue, but the data on disposable income in this chapter do not refer to permanent income.

<sup>c</sup> Collections less loan certificates distributed and Compulsory Savings Loan redemptions.

SOURCE: Central Bureau of Statistics.

A glance at Table II-13 shows that labor's share of total income from economic activity rose in 1975, after having declined the year before. The proportion of wages in the business sector's product at factor cost went up fractionally to regain its level of 1972-73. This can be attributed to the 42 percent jump in earnings per employee, whereas the sector's product per employed moved up only 34 percent in money terms. Since private consumption prices soared about 40 percent, real earnings per employee were a bit higher in the year reviewed. From the standpoint of the producer the increase in the latter was even faster, as the implicit price deflator of the sector's product at factor cost limped behind the consumer price index.

**Table II-13**  
**CHANGES IN INCOME AND INCOME DISTRIBUTION, 1961-75**

(percentages)

	Average				1974	1975
	1961-65	1966-67	1968-72	1973		
Increase in real private income per capita <sup>a</sup>						
From domestic sources	6.6	0.7	8.5	7.7	2.8	-5.7
From all sources	6.6	0.0	9.6	4.5	0.2	-5.7
Share of employee compensation in total income from economic activity <sup>b</sup>						
Gross income	60.0	64.5	58.9	58.3	56.4	59.0
Income net of direct taxes	60.8	64.7	58.5	57.8	55.9	59.8

<sup>a</sup> Gross income before deducting net compulsory loans.

<sup>b</sup> Gross income less imputed net rental value of owner-occupied dwellings. The total wage bill in 1974-75 was estimated according to National Insurance Institute data.

SOURCE: Central Bureau of Statistics and Bank of Israel.

**Table II-14**  
**GROSS PRIVATE SAVING,<sup>a</sup> 1972-75**

(IL million, at current prices)

	1972	1973	1974	1975	Percent annual increase		
					1973	1974	1975
1. Gross disposable private income from domestic sources							
Incl. compulsory loans	24,968	33,208	48,729	65,990	33.0	46.7	35.4
Excl. compulsory loans	23,943	31,903	46,251	64,113	33.2	45.0	38.6
2. Gross disposable private income from all sources							
Incl. compulsory loans	28,261	36,476	52,172	70,568	29.1	43.0	35.3
Excl. compulsory loans	27,236	35,171	49,694	68,691	29.1	41.3	38.2
3. Private consumption	16,683	21,839	32,518	45,372	30.9	48.9	39.5
4. Gross private saving from domestic sources (1-3)							
Incl. compulsory loans	8,285	11,369	16,211	20,618	37.2	42.6	27.2
Excl. compulsory loans	7,260	10,064	13,733	18,741	38.6	36.5	36.5
5. Gross private saving from all sources (2-3)							
Incl. compulsory loans	11,578	14,637	19,654	25,196	26.4	34.3	28.2
Excl. compulsory loans	10,553	13,332	17,176	23,319	26.3	28.8	35.8
	<b>Percentages</b>						
6. Rate of gross saving from domestic sources (4÷1)							
Incl. compulsory loans	33.2	34.2	33.3	31.2			
Excl. compulsory loans	30.3	31.5	29.7	29.2			
7. Rate of gross saving from all sources (5÷2)							
Incl. compulsory loans	41.0	40.1	37.7	35.7			
Excl. compulsory loans	38.7	37.9	34.6	33.9			

<sup>a</sup> Of households, business, and nonprofit institutions, for which there are no separate data.

## 6. NATIONAL INCOME

The rate of national saving calculated in relation to the gross national product was negative in the year reviewed, amounting to an unprecedented -7 percent. It even surpassed the rate of dissaving in the 1973 war-year.

This highlights the dependence of the Israeli economy on external sources, which has been mounting since the Yom Kippur War. The steep rise in the rate of dissaving is explained primarily by the high level of public consumption (chiefly defense), which began during the period of fighting and continued upward in the last two years. This brought up the share of public consumption in GNP to 46.5 percent, as contrasted with 44 percent in 1973 and a 32 percent average in 1967-72.

The public sector's current revenue from domestic sources rocketed 61 percent in 1975, eclipsing the 56 percent growth of current consumption spending. But because of the big divergence between the sector's domestic expenditure and revenue, its negative saving from such sources swelled 54 percent in 1975.

In contrast to 1974, in the year reviewed the rate of national saving (gross and net alike) from all sources declined to about the same extent as that from domestic sources. The poorer saving performance of the private sector also pulled down the national rate.

**Table II-15**  
**NATIONAL SAVINGS, 1972-75**  
(IL million, at current prices)

	1972	1973	1974	1975
1. Gross private saving <sup>a</sup>	8,285	11,369	16,211	20,618
2. Public sector saving	-4,726	-12,056	-16,775	-25,853
Net public sector income <sup>b</sup>	4,516	4,340	5,506	8,874
Less: Public consumption	9,242	16,396	22,281	34,727
3. Gross national saving from GNP (1+2)	3,559	-687	-564	-5,235
4. Unilateral transfers from abroad <sup>c</sup>	4,023	9,067	7,463	10,185
5. Gross national saving from all sources (3+4)	7,582	8,380	6,899	4,950
6. Depreciation	2,979	4,058	6,202	9,270
7. Net national saving from NNP (3-6)	580	-4,745	-6,766	-14,502
8. Net national saving from all sources (5-6)	4,603	4,322	697	-4,320
		<b>Percentages</b>		
9. Rate of gross saving from GNP	12.1	-1.8	-1.0	-7.0
10. Rate of gross saving from all sources	22.6	18.0	11.2	5.8
11. Rate of net saving from NNP	2.2	-14.2	-14.1	-22.1
12. Rate of net saving from all sources (less depreciation)	15.1	10.2	1.3	-5.7

<sup>a</sup> Out of income from domestic sources, before deduction of compulsory loans.

<sup>b</sup> Excludes net taxes on imports, which are included in the import surplus when calculating the effective rate of exchange.

<sup>c</sup> Less net interest payments of the public sector.