

CHAPTER VIII

NONPROFIT INSTITUTIONS

1. MAIN DEVELOPMENTS

AFTER RISING by an appreciable 11 percent in real terms in 1971, in the year reviewed this sector's activity expanded by only 4 percent; this reflected an 18 percent nominal growth of expenditure and a 14 percent average advance in prices.

The changes in the composition of the sector's expenditure and income by and large represented a continuation of the long-run trends evident for many years. These include, on the income side, a decline in the share of the institutions' own resources¹ and a rise in the weight of public sector transfers, and on the expenditure side, an increase in the weight of outlays on education.

Expenditure totalled more than IL 2,300 million in 1972, as against some IL 2,000 million the year before. The increase stemmed from a rise of 21 percent in investment (after an exceptionally strong 43 percent increase in 1971) and of 17 percent in purchases on current account. Payroll outlay went up 20 percent, about the same as in the preceding year, while the growth of other current-account items slowed from 24 percent in 1971 to 10 percent.

Transfers from domestic sectors covered about 60 percent of the nonprofit institutions' expenditure, while transfers from abroad and receipts from the sale of services and goods covered another 16 percent each. To finance the balance the institutions had to step up their borrowing from other sectors by IL 156 million, or 14 percent.

The incremental credit covered only 30 percent of the sector's demand surplus; the greater part was financed by foreign transfers. The demand surplus, which rose 21 percent to IL 524 million, added to the inflationary pressures prevailing in the economy in 1972.

Since nonprofit institutions provide their services and goods at less than cost or without any direct charge, they are always in a deficit position and consequently are dependent on other sectors for financing.

The sector's current deficit² has been widening steadily, and in 1972 it reached IL 847 million, as contrasted with IL 321 million in 1968. The institutions are becoming increasingly dependent on outside sources for financing

¹ Receipts from sales and transfers from the private sector.

² The surplus of purchases on current account over receipts from sales and private sector transfers.

Table VIII-1
SOURCES AND USES OF NONPROFIT INSTITUTIONS, 1968-72
 (IL million)

	1968	1969	1970	1971	1972	Percent annual increase			
						1969	1970	1971	1972
Uses									
Payroll	605.5	663.4	816.3	988.9	1,191.1	10	23	21	20
Other purchases on current account ^a	338.3	409.5	488.4	608.6	672.3	21	19	25	10
Purchases on capital account	177.5	222.4	258.2	370.2	449.4	25	16	43	21
Total uses	1,121.3	1,295.3	1,562.9	1,967.7	2,312.8	16	21	26	18
Sources									
Sales of goods and services	227.5	259.7	302.3	353.9	419.9	14	16	17	19
Net transfers	834.9	928.1	1,112.1	1,476.8	1,736.7	11	20	33	18
From the public sector	286.7	320.0	419.4	630.9	772.0	12	31	50	22
From the private sector	395.3	430.1	467.2	550.2	596.8	9	9	18	8
From abroad	152.9	178.0	225.5	295.7	367.9	16	27	31	24
Other transfers	58.9	107.5	148.5	137.0	156.2	..	..	..	..
Total sources	1,121.3	1,295.3	1,562.9	1,967.7	2,312.8	16	21	26	18
Current deficit ^b	321.0	383.1	535.2	693.4	846.7	19	40	30	22
Own resources ^c as a percent of current-account purchases	66	64	59	57	55	..	..	..	..
Other resources ^d as a percent of total uses	44	47	51	54	56	..	..	..	..

^a Including net interest paid.

^b Payroll outlay and other current purchases, less sales and transfers from the private sector.

^c Sales and private transfers.

^d Public sector transfers, transfers from abroad, and the increase in outstanding credit.

their current operations: whereas in 1968 own resources covered 66 percent of total purchases on current account, their weight has shrunk gradually until in 1972 it came to 55 percent. The share of other resources in total uses has also risen at the expense of own resources—from 44 percent in 1968 to 56 percent in the year reviewed.

Nonprofit institutions operate in three main spheres: education (which accounts for about 45 percent of the sector's total outlays), health (37 percent), and social welfare (9 percent). The remaining institutions are in such other fields as culture, religion, professional associations, etc. The number of institutions comes to an impressive 6,500, but more than 5,000 of them are synagogues. Testifying to the high degree of concentration of this sector is the fact that over 70 percent of total expenditure is accounted for by 17 large institutions.³

Table VIII-2
EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY,
IN SELECTED YEARS, 1962-72
(percentages)

	1962	1965	1969	1972
Health	41	41	38	37
Education and research	32	34	41	45
Social welfare	14	12	10	9
Other	13	13	11	9
Total	100	100	100	100

The composition of the sector's expenditure is fairly similar in all fields of activity: about half consists of payroll outlay, while the balance is divided fairly evenly between current purchases and investment. By contrast, the composition of income varies widely: the educational institutions are financed mainly by public sector transfers (in 1972 about 58 percent of their total income came from this source), and partly from own resources and transfers from abroad (about 20 percent). In the health field sales and private sector transfers cover the bulk of the outlays (73 percent in 1972); in social welfare the main sources are still own resources (44 percent) and the rest of the world (38 percent), with the public sector contributing only a small share (17 percent in 1972).

Because of the growing weight of the educational institutions, developments in this field greatly influence the development of the sector as a whole. In 1972 they accounted for about 45 percent of the sector's total expenditure, and in investment alone their share reached 65 percent.

³ The latest check was made in 1967.

2. USES OF FUNDS

In 1972 the sector's sources of funds totalled IL 2,313 million, about IL 345 million (18 percent) more than in the previous year. The lion's share of the increment went on payrolls, which rose 20 percent (IL 202 million) to IL 1,191 million; thus the weight of this item in total expenditure, which for years has stood at around 50 percent, held steady in 1972.

About IL 63 million of the additional funds were spent on current-account purchases; these went up 10 percent to IL 672 million, but since prices advanced 14 percent, there was actually a decrease in quantitative terms.

The remaining IL 79 million incremental resources went to investment, bringing its level up by 21 percent to IL 450 million. In real terms, the rise came to about 5 percent.

Table VIII-3
CAPITAL EXPENDITURE OF NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1970-72
(IL million)

	1970	1971	1972	Percent annual increase		Capital outlays as a percent of total payments		
				1971	1972	1970	1971	1972
Health	66.9	77.2	93.0	15	20	10	10	11
Education and research	146.3	238.8	293.0	63	23	22	26	27
Social welfare	28.6	35.0	42.0	25	22	17	18	19
Other	16.2	18.3	21.4	13	17	10	10	10
Total	258.0	369.3	449.4	22	20	19	19	19

From the aspect of both the weight of investment in total uses and its rate of growth, the educational institutions occupy first place. In 1972 they accounted for nearly 65 percent of the sector's IL 450 million total investment, after stepping up their real capital spending by 6 percent, even though in the previous year they had posted a record 43 percent real increase. In the other fields real investment more or less held steady in the year reviewed.

Purchases on current account were up IL 265 million, or 17 percent, and totalled IL 1,863 million. The increase reflected varying developments in payroll outlay and other current-account items.

In common with the rest of the economy, the nonprofit institutions' wage bill rose relatively steeply, as in 1971. The increase was 20 percent, bringing this item (which accounts for about half of total expenditure) up to IL 1,191 million.

Table VIII-4

**NONPROFIT INSTITUTION PURCHASES ON CURRENT ACCOUNT,
BY FIELD OF ACTIVITY, 1970-72**

(IL million)

	1970	1971	1972	Percent annual increase		Payroll and transfers as a percent of total payments		
				1971	1972	1970	1971	1972
				Health	552.5	667.3	782.9	21
Payroll	293.9	350.2	431.7	19	23	49	47	49
Other current purchases ^a	258.6	317.1	351.2	23	11	40	42	40
Education and research	502.3	652.3	762.5	30	17	77	73	72
Payroll	359.2	458.1	542.8	28	18	55	52	52
Other current purchases ^a	143.1	194.2	219.7	36	13	22	21	20
Social welfare	103.9	123.8	139.6	19	13	74	71	67
Payroll	65.3	79.4	99.2	22	25	48	47	49
Other current purchases ^a	38.6	44.4	40.4	15	-9	26	24	18
Other	138.1	154.1	178.4	12	16	87	86	86
Payroll	89.9	101.2	117.4	13	16	57	57	57
Other current purchases ^a	48.2	52.9	61.0	10	15	30	29	29
Total purchases on current account	1,296.8	1,597.5	1,863.4	23	17	82	80	79
Payroll	808.3	988.9	1,191.1	22	20	52	50	51
Other current purchases ^a	488.5	608.6	672.3	25	10	30	30	28

^a Includes interest paid, less interest received.

The sector's purchases on current account were, at IL 672 million, up 10 percent; in real terms, however, the level turned downward. But, as may be seen in Table VIII-5, the decrease took place in only one field—the social welfare institutions, which display considerable irregularity in this item. In other fields purchases remained at about their 1971 level.

3. SOURCES OF FUNDS

After advancing, as already noted, by 26 percent in 1971, the institutions' sources of funds grew by an additional 18 percent in the year reviewed and totalled IL 2,313 million.

Table VIII-5
NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1970-72

(IL million)

	1970	1971	1972	Percent annual increase		Transfers as a percent of total receipts		
				1971	1972	1970	1971	1972
Health	79.4	108.6	143.1	37	32	14	16	18
Education and research	307.6	481.9	578.5	57	20	52	58	59
Social welfare	19.2	25.6	33.5	33	31	13	14	17
Other	13.1	14.8	16.9	13	14	8	8	8
Total	419.3	630.9	772.0	50	22	29	33	34

Among the sources of funds public transfers have been steadily gaining in importance, mainly because they are the principal source for the educational institutions. The sum transferred in 1972 for educational purposes was IL 579 million,⁴ out of a total of IL 772 million for the entire sector (i.e. about 75 percent). It should be noted that the 22 percent rise in this item in 1972 came on top of a 50 percent gain in the previous year.

Table VIII-6
TRANSFERS FROM ABROAD TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1970-72

(IL million)

	1970	1971	1972	Percent annual increase		Transfers as a percent of total receipts		
				1971	1972	1970	1971	1972
Health	42.3	59.2	68.4	40	16	7	8	9
Education and research	119.8	156.8	208.5	31	33	21	19	20
Social welfare	51.8	66.6	76.6	29	15	34	37	38
Other	11.5	13.1	14.4	14	10	7	7	7
Total	225.4	295.7	367.9	31	24	16	16	16

⁴ There is a discrepancy between the amount of transfers as reported by the nonprofit institutions and that recorded by the public sector; this stems from the fact that the institutions also list as transfers an appreciable part of their loans from the public sector.

In 1972 foreign transfers added up to IL 368 million, compared with IL 296 million the year before. Here, too, the greater part of the funds was intended for education. The importance of this source varies widely among the different types of institutions; in 1972 it constituted 3.5 percent of total receipts in the social welfare field, 20 percent in education and research, only 9 percent in health, and even less in the "other institutions".

As may be seen from Table VIII-7, the sector's own resources totalled IL 1,017 million in 1972—a rise of about 13 percent. However, an examination of the weight of these sources in total receipts shows a long-run declining trend.

Table VIII-7
NONPROFIT INSTITUTION SALES AND NET TRANSFERS
FROM THE PRIVATE SECTOR, BY FIELD OF ACTIVITY, 1970-72
(IL million)

	1970	1971	1972	Percent annual increase		Transfers and sales as a percent of total receipts		
				1971	1972	1970	1971	1972
Health	432.4	518.6	576.2	20	11	78	75	73
Education and research	136.9	161.5	181.2	18	12	26	21	20
Social welfare	55.0	64.2	83.7	17	30	46	41	44
Other	140.5	159.7	175.6	14	10	84	83	83
Total	764.8	904.0	1,016.7	18	12	54	50	47

But there are marked intrasector differences in the share of total expenditure financed from this source, ranging in 1972 from only 20 percent in the educational field to 73 percent in the health institutions.

4. THE DEMAND SURPLUS⁵ AND ITS FINANCING

In 1972 the nonprofit institutions dissaved IL 112 million—28 percent more than in the preceding year. The sector's current deficit and its domestic transfer receipts (the difference between them represents the sector's contribution to national saving) moved up at about the same rate, but since the deficit always exceeds transfers, there was an increase in negative saving.

If purchases on capital account are added to the current deficit, the demand surplus totalled IL 524 million in 1972, compared with IL 433 million in 1971—a rise of 21 percent.

⁵ The demand surplus of the nonprofit institutions is defined as the excess of net purchases (purchases less sales) over transfers from other domestic sectors.

A large part of the surplus—about IL 368 million—was financed by foreign transfers, which were up 24 percent in 1972; the balance was covered by credit from the domestic sectors.

The sector invariably runs a sizable demand surplus relative to the volume of its activity; it has been able to do this thanks to the financing received from foreign sources (in 1972 these covered 70 percent of the demand surplus). This characteristic is structural in nature, since some of the institutions receive their funds from overseas headquarters and part of the transfers are earmarked for specific building projects.

In 1972 foreign transfers financed 57 percent of total capital expenditure, about the same rate as in the previous year. The ratio between the demand surplus and total purchases, which is one yardstick of the sector's dependence on foreign transfers and domestic credit, also remained at about its 1971 level.

Table VIII-8

**CONTRIBUTION OF NONPROFIT INSTITUTIONS TO NATIONAL SAVING,
THEIR DEMAND SURPLUS, AND ITS FINANCING, 1970-72**

(IL million)

	1970	1971	1972
Contribution of sector to national saving			
1. Net transfers on current account from other domestic sectors	874.6	1,156.1	1,330.8
2. Less: Purchases on current account net of sales	1,002.5	1,243.6	1,443.0
3. Contribution of sector to national saving (1-2)	-127.9	-87.5	-112.2
Demand surplus			
4. Purchases on capital account	258.0	370.2	449.4
5. Less: Net transfers on capital account from the public sector	12.0	25.0	38.0
6. Subtotal (4-5)	246.0	345.2	411.4
7. Demand surplus (6-3)	373.9	432.7	523.6
Financing of demand surplus			
8. Transfers from the rest of the world	225.5	295.7	367.9
9. Net credit from other domestic sectors	148.4	137.0	155.7
Total	373.9	432.7	523.6
Share of transfers from abroad in financing purchases			
on capital account $\left(\frac{8+3}{4}\right)$	38	56	57
Demand surplus as a percent of gross purchases	24	22	23
Demand surplus as a percent of purchases net of sales	30	27	28