

## CHAPTER VII

# GOVERNMENT AND NON-GOVERNMENT PUBLIC SECTOR

### 1. CONSOLIDATED ACCOUNT<sup>1</sup>

#### (a) *Influence of the public sector<sup>2</sup> on the demand level*

CONSUMPTION of the Government and non-Government public sector rose in 1969 by 13.9 percent at current prices, and totalled IL 5,009 million. This amounted to 25.6 percent of total domestic uses, and compares with 26.1 percent in 1968 and 26.2 percent in 1967. (The latter year saw a record increase of 37 percent, stemming largely from the much heavier defense spending shortly before and after the Six Day War.) The share of gross national product accounted for by public consumption came to nearly 30 percent during the past three years, as against roughly 20 percent per annum in 1965–66. Defense expenditure, the leading component in the sector's consumption, rose in the year reviewed by 17.1 percent to reach approximately IL 3,242 million. This accounted for 19.6 percent of the national product, as compared with 19.2 percent in 1968 and 17.3 percent in 1967, the latter being almost double the figure of the two previous years.

Tax revenue was, at IL 4,900 million, up 24.6 percent—about the same rate as in 1968. In 1967 revenue from this source had fallen off in the wake of sagging economic activity. The main factors augmenting income from indirect taxation in 1969 were the much higher levels of private consumption and im-

<sup>1</sup> This sector comprises the Government (including the National Insurance Institute), local authorities (including religious councils and the municipal expenditure of cooperative agricultural settlements), and a number of voluntary institutions (the Jewish Agency, World Zionist Organization, Jewish National Fund, and Keren Hayesod) engaged principally in welfare and cultural activities for the general public.

Current income and expenditure of business-type enterprises (e.g. the Post Office, Israel Railways, and municipal waterworks) are not included except for their surpluses or deficits. The data in this chapter are for calendar years and are based primarily on financial reports of the various public sector authorities and partly on data from the Central Bureau of Statistics. Some of the data for 1969 are based on provisional summaries, the financial reports for fiscal 1969/70 not having been published when this chapter was prepared. Data for 1968 have been revised.

<sup>2</sup> For the sake of brevity the Government and non-Government public sector will be referred to simply as the "public sector".

ports of consumer durable goods and the raising of taxes on a number of products and services as of May 1969; the larger direct tax revenue can be attributed to the expansion of GNP and national income. The share of the sector's tax receipts in GNP rose during the year to 29.6 percent, an all-time high.

Along with the increased absorption of funds from the public by way of taxes, there was a noticeable increase in the sector's outflow of transfer payments, grants, and subsidies. The net amount siphoned off from the public<sup>1</sup> therefore came to only IL 2,861 million, equal to 22.8 percent of total private income from economic activity.

The influence of this sector on the level of domestic demand has been estimated below by means of two indicators: the sector's demand surplus<sup>2</sup> and the amount of net credit it channelled to other sectors.

In 1969 the upward trend in the sector's demand surplus was largely checked, the figure reaching IL 2,368 million as compared with IL 2,321 million in 1968 and IL 1,939 million in 1967. Net credit to other domestic sectors added up to IL 111 million, as contrasted with a net credit inflow of IL 114 million in 1968. The combination of influences measured by the aforementioned indicators therefore reveals that in 1969 the sector's operations had a slightly expansionary effect on the level of aggregate demand in comparison with 1968.

As in the preceding year, there was an increase in direct expenditure abroad, whereas the excess of local expenditure over the amount absorbed from the public decreased. If the indirect effect of the sector's operations on imports (i.e. the import component of its purchases in the local market) is also taken into account, it follows that the growth of the demand surplus during the past two years found expression in the balance of payments deficit on current account, while the stimulative effect on the domestic demand level weakened after a strong increase in 1967.

The net credit outflow to the rest of the economy<sup>3</sup> was IL 225 million greater in 1969. This consisted of an increase of IL 74 million in net development budget loans by the Government and National Institutions (chiefly to public sector companies for financing investments) and a decline of IL 151 million in net

<sup>1</sup> The reference is to the collection of taxes and other compulsory payments, less transfers, domestic interest payments, grants, and subsidies (see Table VII-1).

<sup>2</sup> The demand surplus of the public sector is defined as the difference between its use of real resources (purchases on current and capital account) and its absorption of resources from other domestic sectors (net receipts from taxes and other domestic transfers—see the discussion in Chapter XV, "Flow of Funds"). Changes in the demand surplus reflect the sector's influence on the level of domestic economic activity or on the import surplus, or both. In order to assess the sector's overall influence on the demand level, financial transactions also have to be taken into account, for by granting net credit to other sectors, the public sector enables them to increase and finance their demand surpluses, and by receiving credit from other sectors, it reduces their demand in some degree.

<sup>3</sup> Excluding transactions with the banking system.

**Table VII-1**  
**INDICATORS OF PUBLIC SECTOR OPERATIONS, 1965-69**  
 (IL million)

	1965	1966	1967	1968	1969	Percent annual increase or decrease (-)			
						Average 1961-66	1967	1968	1969
1. Public sector consumption	2,173	2,627	3,599	4,399	5,009	21.4	37.0	22.2	13.9
2. Revenue from taxes	2,826	3,247	3,169	3,932	4,900	18.3	-2.4	24.1	24.6
Direct taxes	1,227	1,480	1,460	1,807	2,237	23.2	-1.4	23.8	23.8
Indirect taxes	1,599	1,767	1,709	2,125	2,663	15.1	-3.3	24.3	25.3
3. Total transfer receipts from the public, net <sup>a</sup>	2,057	2,255	1,898	2,310	2,861	18.1	-15.8	21.7	23.9
4. Public sector saving	58	-149	-1,505	-1,797	-1,817				
5. Demand surplus	453	688	1,939	2,321	2,368		181.8	19.7	2.0
6. Net credit outflow <sup>b</sup>	259	12	7	-114	111				
Net credit granted	499	508	724	865	939		42.5	19.5	8.6
Net credit received	240	496	717	979	828		44.6	36.5	-15.4
7. Outstanding Government loans on March 31	4,416	4,948	5,747	8,006	9,388	21.6	16.1	39.3	17.3

Domestic <sup>c</sup>	1,233	1,428	1,870	2,838	3,663	28.5	31.0	51.8	29.1
Foreign <sup>d</sup>	3,183	3,520	3,877	5,168	5,725	19.4	10.1	33.3	10.8

## Percentages

Weight of public sector consumption									
in total domestic uses	17.5	20.0	26.2	26.2	25.6				
Weight of public sector consumption									
in GNP	19.9	22.1	29.5	30.5	30.3				
Weight of public sector consumption									
expenditure on security in GNP <sup>e</sup>	9.1	9.8	17.3	19.2	19.6				
Weight of public sector tax revenue									
in GNP	25.9	27.3	25.9	27.3	29.6				
Weight of net transfer receipts in total									
private income from economic activity	24.6	24.9	20.1	20.7	22.8				
Weight of net revenue from taxes on									
local production in GNP <sup>f</sup>	8.3	8.9	8.6	8.1	8.4				

<sup>a</sup> Taxes and other compulsory payments, less transfers, domestic interest payments, and subsidies.

<sup>b</sup> Excluding transactions with the banking system.

<sup>c</sup> Excluding loans from the National Insurance Institute, Development Authority, War Risk Insurance (Arnona) Fund, and Bank of Israel.

<sup>d</sup> Including foreign loans repayable in Israeli pounds.

<sup>e</sup> Excluding defense expenditure not classified as public consumption.

<sup>f</sup> Indirect taxes levied on domestic production, less subsidies on domestic production.

credit received, nearly all of it short-term (net proceeds from bond sales and from other loans increased). These changes diminished somewhat the expansionary effect of the sector's net credit outflow, since the decrease in receipts was in short-term credit—in the main from business—whereas most of the additional funds absorbed through long-term loans was by way of the Defense Loan, which has a low liquidity and a relatively strong contractionary effect.

The increase in net proceeds from bond sales and other long-term loan receipts brought up the public sector's domestic debt to IL 5,680 million as of December 31, 1969.<sup>1</sup> In recent years the debt has mounted rapidly, increasing the burden of principal and interest payments and reducing the flexibility of the sector's operations through its budgetary expenditure; this applies in particular to the Government, which accounts for about 85 percent of the sector's total domestic and foreign liabilities.<sup>2</sup>

The growth of the public sector's demand surplus and net credit outflow over the past three years was due to a number of factors. In 1967 the Government adopted a reflationary policy in order to check the decline in economic activity and reduce unemployment. This, together with the special defense requirements and the drop in tax revenue because of sagging economic activity, resulted in the tripling of the demand surplus that year.

In 1968 and 1969 the demand surplus expanded at a more moderate rate. The strong pickup in economic activity was accompanied by a much greater absorption of funds through taxes, but this was set off by a noticeable rise in transfers to the public and by a heavier public sector consumption.<sup>3</sup>

To finance its demand surplus and net credit outflow, the public sector resorted to foreign sources and the banking system. In 1969 such financing rose by 12.3 percent to IL 2,479 million. Net unilateral transfers<sup>4</sup> and borrowed receipts from abroad fell by IL 181 million to IL 956 million; of this, IL 648 million represented net loans and credits, where most of the decrease took place.

Credit from the banking system continued to increase, amounting in 1969

<sup>1</sup> Of this amount, about IL 4,290 million represented domestic Government liabilities (not including loans from the National Insurance Institute, Development Authority, War Risk Insurance Fund, and the Bank of Israel, but including loans received from other banking institutions). The data on the public debt are for the end of fiscal years. About IL 990 million of the sector's liabilities were owed by local authorities and approximately IL 400 million by the National Institutions (the voluntary institutions referred to in note 1 on p. 102); the balances do not include loans received from the Government and the Bank of Israel.

<sup>2</sup> The public debt (including foreign liabilities) amounted to close to IL 12,400 million on December 31, 1969.

<sup>3</sup> This is discussed in section 2 (a).

<sup>4</sup> Unilateral receipts from abroad, less interest paid abroad, net participation in the budgets of the administered areas, and overseas expenditure of the National Institutions.

Table VII-2

**DEMAND SURPLUS AND DOMESTIC CREDIT OUTFLOW OF THE PUBLIC SECTOR  
AND SOURCES OF FINANCING, 1967-69**

(IL million, at current prices)

	1967	1968	1969	Annual increase or de- crease (-) in 1969
<b>A. Demand surplus</b>				
1. Payments				
Public sector consumption	3,599	4,399	5,009	610
Net purchases on capital account	498	587	646	59
Transfer payments, grants, and subsidies <sup>a</sup>	1,549	1,951	2,413	462
Total	5,646	6,937	8,068	1,131
2. Revenue				
Taxes	3,169	3,932	4,900	968
Misc. income and transfers from the public	538	684	800	116
Total	3,707	4,616	5,700	1,084
Demand surplus (1-2)	1,939	2,321	2,368	47
<b>B. Net domestic credit granted<sup>b</sup></b>				
Loans granted	724	865	939	74
Less: Loans and credit received	717	979	828	-151
Total	7	-114	111	225
<b>Sources financing the demand surplus and net domestic credit granted</b>				
<b>C. Foreign sources</b>				
Net loans and credit	713	848	648	-200
Unilateral transfers	923	615	644	29
Less: Transfer payments to the rest of the world <sup>c</sup>	300	326	336	10
Total	1,336	1,137	956	-181
<b>D. Banking system<sup>d</sup></b>				
From the Bank of Israel	189	954	1,250	296
From banking institutions	203	116	273	157
Total	392	1,070	1,523	453
<b>E. Devaluation increments<sup>e</sup></b>				
Total (C+D+E)	1,946	2,207	2,479	272

<sup>a</sup> Including interest paid in Israel.

<sup>b</sup> Excluding transactions with the banking system.

<sup>c</sup> Interest paid abroad, overseas expenditure of the National Institutions, and net participation in budgets of the administered areas.

<sup>d</sup> Including changes in public sector deposits with the banking system.

<sup>e</sup> Exchange rate differentials on deposits held with the banking system and abroad, arising from the devaluation of November 1967.

**Table VII-3**  
**PUBLIC SECTOR SAVING AND DEMAND SURPLUS, 1968-69**  
 (IL million, at current prices)

	1968			1969			Increase or decrease (-)
	Government and National Institutions	Local authorities	Total	Government and National Institutions	Local authorities	Total	
<b>A. Revenue on current account</b>							
Taxes	3,637	295	3,932	4,593	307	4,900	968
Other revenue <sup>a</sup>	436	102	538	519	108	627	89
Total	<b>4,073</b>	<b>397</b>	<b>4,470</b>	<b>5,112</b>	<b>415</b>	<b>5,527</b>	<b>1,057</b>
<b>B. Expenditure on current account</b>							
Public sector consumption <sup>b</sup>	3,883	516	4,399	4,448	561	5,009	610
Transfers	933	95	1,028	1,161	114	1,275	247
Domestic interest paid	247	60	307	409	74	483	176
Subsidies	533	—	533	577	—	577	44
Net transfers to local authorities	200	-200	—	289	-289	—	—
Total	<b>5,796</b>	<b>471</b>	<b>6,267</b>	<b>6,884</b>	<b>460</b>	<b>7,344</b>	<b>1,077</b>
<b>C. Saving (A-B)</b>	<b>-1,723</b>	<b>-74</b>	<b>-1,797</b>	<b>-1,772</b>	<b>-45</b>	<b>-1,817</b>	<b>-20</b>
<b>D. Expenditure on capital account</b>							
Purchases (less sales)	387	200	587	431	215	646	59
Net transfers <sup>c</sup>	9	-72	-63	-20	-75	-95	-32
Net transfers to local authorities	37	-37	—	29	-29	—	—
Total	<b>433</b>	<b>91</b>	<b>524</b>	<b>440</b>	<b>111</b>	<b>551</b>	<b>27</b>
<b>E. Demand surplus (D-C)</b>	<b>2,156</b>	<b>165</b>	<b>2,321</b>	<b>2,212</b>	<b>156</b>	<b>2,368</b>	<b>47</b>

NOTE: Public sector saving as shown here differs from that in Table II-2 in Chapter II, which also includes net transfers on capital account.

<sup>a</sup> Current transfers, income from property, and domestic interest receipts.

<sup>b</sup> Purchases on current account less sales.

<sup>c</sup> Domestic transfers on capital account: to the Government—mainly land betterment tax and inheritance tax; to local authorities—mainly participation of property owners in development outlays.

to IL 1,523 million. Most of the growth was in the Government's debt to the Bank of Israel.

Table VII-3 shows the calculation of public sector saving, which is defined as the excess of current revenue (chiefly from taxation) over current expenditure (purchases, transfer payments, subsidies, and domestic interest payments). The figure was fairly similar in the past two years: a dissaving of IL 1,797 million in 1968 and of IL 1,817 million in 1969.

The Government and National Institutions were responsible for the larger dissaving, as their current revenue fell behind the growth of their consumption and other current expenditure. Local authorities, however, showed an opposite development, thereby counterbalancing to some degree the increased negative saving of the other two public sector authorities. The National Institutions always dissave,<sup>1</sup> since their current income from domestic sources constitutes only a small percentage of their total income; their leading income item is unilateral transfers from abroad, and these are not treated as current income in calculating saving. For this reason, the Institutions' dissaving fluctuates with changes in their current expenditure.

The "balance of payments" of the public sector is presented in the appendix to this chapter (in Hebrew only). The changes that took place in the component items are described below in the discussion of the various public sector authorities (sections 2[b] and 3).

#### (b) *Functional composition of public sector expenditure*

A breakdown of public sector expenditure by function and public sector authority for the years 1968 and 1969 is shown in Table VII-4.

Changes in the composition of the sector's expenditure relate chiefly to the Government and National Institutions, which account for over 90 percent of the total outlay. Security, National Insurance, and the promotion of production and exports are the exclusive province of the Government, which also accounts for the major share of other items. Until 1967 the National Institutions dealt principally with immigration and agriculture, and their weight in total public sector expenditure had declined steadily. In 1967 the Institutions expanded their activities following a big increase in proceeds from the emergency fund-raising campaigns conducted abroad, and they even assumed responsibility for a number of social services. As a result, the share of the Institutions in total public sector expenditure has been on the rise of late.

The operations of the local authorities are confined mainly to the municipal sphere (sanitation and sewage disposal, fire protection, street lighting, supply of potable water, etc.) and to social services (education, health, social welfare). Their weight within total expenditure moved upward until 1966, but since

<sup>1</sup> The Institutions' saving is not shown separately in Table VII-3.

**Table VII-4**  
**PUBLIC SECTOR EXPENDITURE, BY FUNCTION,<sup>a</sup> 1968-69**

(IL million)

	1968	1969	Percentage distribution	
			1968	1969
<b>General services</b>				
General administration	336	353	3.7	3.3
Security and special budgets	2,813	3,313	31.0	31.4
Police and justice	165	176	1.8	1.7
Community services, n.e.s. <sup>b</sup>	277	348	3.1	3.3
<b>Total</b>	<b>3,591</b>	<b>4,190</b>	<b>39.6</b>	<b>39.7</b>
<b>Social services</b>				
Education, culture, religion	1,081	1,204	11.9	11.4
National Insurance and social welfare	666	727	7.3	6.9
Health	283	348	3.1	3.3
Housing	325	470	3.6	4.5
<b>Total</b>	<b>2,355</b>	<b>2,749</b>	<b>25.9</b>	<b>26.1</b>
<b>Economic services</b>				
Agriculture and water development	536	566	5.9	5.4
Industry, mining and quarrying	612	623	6.7	5.9
Transportation and communications	466	456	5.1	4.3
Other economic services	161	141	1.8	1.3
<b>Total</b>	<b>1,775</b>	<b>1,786</b>	<b>19.5</b>	<b>16.9</b>
<b>Unallocable services</b>				
Interest payments	563	754	6.2	7.1
Debt repayments <sup>c</sup>	766	1,005	8.4	9.5
Miscellaneous	37	70	0.4	0.7
<b>Total</b>	<b>1,366</b>	<b>1,829</b>	<b>15.0</b>	<b>17.3</b>
<b>Grand total</b>	<b>9,087</b>	<b>10,554</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Excluding current outlays of public sector enterprises, such as the Post Office, Israel Railways, the ports, and municipal waterworks, but including the expenditure of the National Insurance Institute. The data in this table are net of intrasector transfers.

<sup>b</sup> Not elsewhere specified; mainly strictly municipal services (such as sanitation, sewerage, fire protection, and street lighting), general research, direct immigration services, and National Institution expenditure abroad.

<sup>c</sup> Repayments of long-term loans.

1967 it has declined owing to the much larger volume of Government and National Institution outlays.

Security and special budgets, the largest expenditure item, constituted 31.4 percent of the sector's total outlay in 1969, compared with 31.0 percent the year before.

Social services accounted for about 26 percent of total expenditure in the

last two years, after declining steeply in 1967. In 1969 the weight of education and social welfare fell off, while that of housing went up.

The weight of economic services dropped from 19.5 percent in 1968 to 16.9 percent. Expenditure on transportation and communications decreased in absolute terms, while that on industry, mining and quarrying, and oil pipelines fell off in percentage terms.

The share of interest outlay and debt repayments continued to move up in 1969, reaching 16.6 percent as against 14.6 percent in 1968 and 14.4 percent in 1967.

## 2. THE GOVERNMENT AND NATIONAL INSTITUTIONS

### (a) *The influence of the Government and National Institutions on domestic demand*

The Government dominates the public sector, accounting, together with the National Institutions, for some 90 percent of total expenditure.

The influence exerted by these two authorities on the demand level through their fiscal activities and financial expenditures is estimated below in terms of their demand surplus and net credit outflow to other domestic sectors.

The demand surplus of the Government and National Institutions rose slightly in the year reviewed, totalling IL 2,212 million as against IL 2,156 million in 1968 and IL 1,767 million in 1967. The net amount of credit provided to other domestic sectors came to IL 181 million in 1969, compared with a net credit inflow of IL 4 million in 1968. To finance their demand surplus and lending operations, the Government and National Institutions required IL 2,393 million in 1969, as contrasted with IL 2,152 million in 1968 and IL 1,840 million in 1967. These sums were obtained from abroad and from the banking system.

The operations of the Government and National Institutions in 1969 thus had an expansionary effect on the aggregate demand level.

The change in the demand surplus in 1969 was due almost entirely to the increase in direct purchases abroad, whereas the surplus of expenditure over income from domestic sources declined. If allowance is made for the indirect effect of the Government's and National Institutions' operations on imports through their purchases in the domestic market,<sup>1</sup> it turns out that the growth of the demand surplus in the year surveyed was mainly reflected in the balance of payments deficit on current account, while the expansionary influence of Government and National Institution operations on domestic demand diminished.

<sup>1</sup> A Bank of Israel input-output estimate shows that imports deriving from such purchases increased in 1969.

Table VII-5

**SAVING AND DEMAND SURPLUS OF THE GOVERNMENT AND  
NATIONAL INSTITUTIONS, 1967-69**

(IL million, at current prices)

	1967	1968	1969	Annual increase or de- crease (-) in 1969
<b>A. Income on current account</b>				
Taxes	2,855	3,637	4,593	956
Other revenue <sup>a</sup>	328	436	519	83
Total	<b>3,183</b>	<b>4,073</b>	<b>5,112</b>	<b>1,039</b>
<b>B. Expenditure on current account</b>				
Consumption <sup>b</sup>	3,132	3,883	4,448	565
Transfers to households and nonprofit institutions	709	933	1,161	228
Domestic interest paid	216	247	409	162
Subsidies	410	533	577	44
Net transfers to local authorities	150	200	289	89
Total	<b>4,617</b>	<b>5,796</b>	<b>6,884</b>	<b>1,088</b>
<b>C. Saving (A-B)</b>	<b>-1,434</b>	<b>-1,723</b>	<b>-1,772</b>	<b>-49</b>
<b>D. Expenditure on capital account</b>				
Purchases (less sales)	326	387	431	44
Net transfers	-7	9	-20	-29
Net transfers to local authorities	14	37	29	-8
Total	<b>333</b>	<b>433</b>	<b>440</b>	<b>7</b>
<b>E. Demand surplus (D-C)</b>	<b>1,767</b>	<b>2,156</b>	<b>2,212</b>	<b>56</b>
<b>F. Composition of incremental demand surplus</b>				
Increase in excess of expenditure over revenue from domestic sources				-146
Increase in purchases abroad <sup>c</sup>				202
Total				<b>56</b>

<sup>a</sup> Current transfers, income from property, and domestic interest receipts.

<sup>b</sup> Purchases on current account less sales.

<sup>c</sup> Estimated direct imports of the Government.

After almost trebling in 1967 and rising by a further 22 percent in 1968, the demand surplus tapered off at the high level of some IL 2,210 million. The deceleration of the growth rate at a time when Government and National Institution expenditure was expanding rapidly is explained primarily by the continued vigorous growth of the economy which, along with the rise in national income, production, private consumption, and imports, increased the Government's revenue from taxes and other compulsory payments. Tax revenue

Table VII-6

**DEMAND SURPLUS AND DOMESTIC CREDIT OUTFLOW OF THE GOVERNMENT  
AND NATIONAL INSTITUTIONS AND SOURCES OF FINANCING, 1967-69**

(IL million, at current prices)

	1967	1968	1969	Annual increase or de- crease (-) in 1969
<b>A. Demand surplus</b>	<b>1,767</b>	<b>2,156</b>	<b>2,212</b>	<b>56</b>
<b>B. Net domestic credit granted<sup>a</sup></b>				
Net loans granted	731	915	975	60
Less: Net loans and credit received <sup>b</sup>	658	919	794	-125
Total	73	-4	181	185
<b>Sources financing the demand surplus and net domestic credit granted</b>				
<b>C. Foreign sources</b>				
Net loans and credit	714	848	648	-200
Unilateral receipts	923	615	644	29
Less: Transfer payments to the rest of the world <sup>c</sup>	300	326	336	10
Total	<b>1,337</b>	<b>1,137</b>	<b>956</b>	<b>-181</b>
<b>D. From the banking system<sup>d</sup></b>				
Bank of Israel	189	954	1,250	296
Banking institutions	96	61	187	126
Total	<b>285</b>	<b>1,015</b>	<b>1,437</b>	<b>422</b>
<b>E. Devaluation increments<sup>e</sup></b>	218	—	—	—
Total (C+D+E)	<b>1,840</b>	<b>2,152</b>	<b>2,393</b>	<b>241</b>

<sup>a</sup> Excluding transactions with the banking system.

<sup>b</sup> See details in Table VII-12.

<sup>c</sup> Interest, expenditure of the National Institutions abroad, and net participation in the budgets of the administered areas.

<sup>d</sup> Including changes in Government deposits with the banking system.

<sup>e</sup> Receipts from the revaluation of deposits with the banking system and abroad after the devaluation of November 1967.

was up IL 956 million in 1969, after rising by IL 782 million in the preceding year and contracting in 1967. The 26.3 percent increase in 1969 and that of 27.4 percent in the previous year far exceeded the average annual rise before the recession (19.3 percent in 1960-65). However, the increased absorption of funds from the public was partly offset by a large-scale flow in the other direction as the result of a much heavier volume of transfers, subsidies, and grants from the Government and National Institutions to the rest of the economy. In 1969 these payments increased by IL 509 million, and in the previous year by IL 448 million (see Table VII-7).

Government and National Institution consumption also expanded more slowly in the year reviewed, by IL 565 million (at current prices), or 14.6 percent, as against 24 percent in 1967 and a very steep 44.5 percent in 1967. The deceleration was caused primarily by the more sluggish increase in outlays on security and special budgets, the leading consumption item—17.1 percent in 1969, as contrasted with 31.4 percent in 1968 and nearly 80 percent in 1967, when the Six Day War took place.

The net credit outflow of the Government and National Institutions to other sectors had an expansionary effect in 1969. The amount provided through the development budgets was stepped up (the outstanding balance went up by IL 60 million to IL 975 million), while the amount of funds absorbed from the public by way of bond issues and credit was down IL 125 million. Long-term loan receipts increased by about IL 100 million, but this was more than offset by a drop in short-term credit. The total amount of net credit granted by the Government and National Institutions was IL 185 million greater than in 1968.

It should be noted that the stimulative effect of the lending operations of the Government and National Institutions on aggregate domestic demand usually outweighs the contractionary influence of credit received from the public, since a large percentage of the funds made available to other economic sectors is directly connected with the execution of investments (e.g. credit granted to public sector companies, which are financed chiefly by the Government and the National Institutions). The expansionary effect was somewhat weaker in 1969, because the decline in net borrowed receipts occurred in short-term credit, in the main from business. On the other hand, there was an increase in receipts from long-term loans, particularly the Defense Loan, which has a low liquidity and a relatively strong contractionary effect.

Incremental revenue from taxes and other transfers from the public exceeded incremental domestic expenditure in 1969, so that the expansionary effect of Government and National Institution operations on the level of domestic demand was smaller than in 1968. If the increase in the expansionary effect of the net credit outflow to other sectors is added, it is reasonable to assume that the overall domestic expansionary influence was approximately the same in both years. However, it should be noted that in 1968 the expansionary influence of Government and National Institution operations occurred against the background of a vigorous upturn in GNP and economic activity following the slump of the preceding year, and when unemployment was still of fairly substantial proportions; by contrast, in 1969 it occurred against the background of declining unemployment and with the economy nearing a state of full employment and full utilization of productive factors. Thus, although the measured expansionary impact of the Government and National Institution operations was similar in these two years, greater pressure was exerted on available resources in 1969 than in the previous year.

The demand surplus and net credit outflow were financed from foreign sources

and the local banking system. Whereas in previous years most of the necessary financing came from abroad in the form of loans, credit, and net unilateral transfers,<sup>1</sup> in 1968 these sources supplied only about half of the required amount and in 1969 approximately 40 percent. During the year reviewed the Government and National Institutions required IL 2,393 million, 11.1 percent more than in 1968. Of this sum, IL 1,437 million represented an increase in the debt to the banking system; this consisted of IL 1,250 million in loans and withdrawals from deposits with the Bank of Israel, and IL 187 million in bond sales to banking institutions and the expansion of deposits and credit.

Unilateral transfers and net credit receipts from abroad contracted by IL 181 million and totalled IL 956 million; of this, IL 648 million represented net loans and credit, and IL 308 million net unilateral receipts (the former accounted for most of the decline).

A quarterly analysis of the financing of the demand surplus and net credit granted to other sectors reveals the changes that took place in these magnitudes.<sup>2</sup> The data show an increase in the second quarter of 1968, a decline in the third, and a continuation of the downtrend in the last quarter. However, these data cannot indicate with any degree of certainty the changes that occurred in the course of the year in the expansionary influence of the Government and National Institution operations.

In the first quarter of 1969 the Government operated in accordance with the budget for the fiscal year 1968/69, which was geared to a reflationary policy and provided for a larger demand surplus and net credit inflow than did the previous budget.<sup>3</sup>

As from the second quarter of 1969, the Government followed a policy designed to check the expansionary influences to some extent. The budget for 1969/70 called for a moderate growth in development expenditure (apart from housing and industry) and only a slight increase in current outlays of Government departments and in the subsidization of production and exports. At the same time it provided for heavier security spending and a larger volume of debt repayments and expenditure on immigration.<sup>4</sup> Despite the substantially bigger tax revenue anticipated, the demand surplus and net credit outflow planned for 1969/70 were similar in size to those of the preceding year. However, as some

<sup>1</sup> Transfer receipts from abroad, less interest paid abroad, foreign transfer payments, net participation in the budgets of the administered areas, and overseas expenditure of the National Institutions.

<sup>2</sup> No data are available on the development of the demand surplus and the net credit outflow of the Government and National Institutions to other sectors in the course of the year. The estimated quarterly financing of these magnitudes is presented in Table VII-2 in the appendix (in Hebrew only).

<sup>3</sup> The reference is to the original budget for 1968/69 and two supplementary budgets approved by the Knesset during the year.

<sup>4</sup> See "Explanatory Notes to the Budget Proposal for Fiscal 1969/70", p. 19 (in Hebrew).

of the revenue items, particularly domestic loans, fell far short of the estimates, and in view of the heavier security spending (including a supplementary budget approved in November 1969), the demand surplus and net credit outflow expanded despite the much larger volume of tax receipts. As a result, the Government had to resort to financing from the banking system and unilateral receipts from abroad to a total of nearly IL 2,400 million, about IL 240 million more than in the preceding year.

(b) *The "balance of payments" of the Government and National Institutions*

Table VII-7 presents the "balance of payments" of the Government and National Institutions for the years 1968 and 1969. The table distinguishes between transfers and transactions in goods and services on the one hand and financial transactions on the other. Transactions with the local authorities have been recorded separately.

Total payments by the Government and National Institutions, including long-term debt repayments, amounted to IL 9,846 million in 1969, up 17 percent from the 1968 level.

Following are the principal changes in Government and National Institution operations, as reflected in their "balance of payments".

Government tax receipts were 26.3 percent larger in 1969. Indirect taxes yielded 28.7 percent more than in the previous year, and direct taxes 23.8 percent more. Collections started to move upward at a strong rate in 1968 with the revival of economic activity—the accelerated growth of the national product and private consumption, as well as the expansion of commodity imports and investment. The foremost factor influencing the growth of indirect tax receipts was the larger consumption and import of durable consumer goods. Income from this source also went up as a result of the heavier taxation of a number of products as of May 1969. The increase in direct tax revenue can be ascribed primarily to the growth of national income and the larger collection of current tax debts<sup>1</sup> and prepayments from companies.

Unilateral receipts from abroad rose by 4.7 percent, after falling off the year before, and totalled IL 644 million.<sup>2</sup> Emergency fund-raising campaigns were held in 1969 as well, with proceeds being on a scale similar to that of 1968. Receipts from the Independence and Development Loans, which also reflect world Jewry's efforts on behalf of Israel, declined in 1969, net proceeds amounting to IL 222 million as against IL 273 million in 1968. Most of the decrease was due to heavy redemptions, which almost doubled in volume.

<sup>1</sup> The reference is to the difference between the final assessment and the prepayment.

<sup>2</sup> This figure differs from that cited in Chapter III, "The Balance of Payments" (section 5), where unilateral transfers from abroad are shown net of transfer payments abroad (interest and overseas purchases of the National Institutions), as well as of the change in total financial transactions of the National Institutions with the rest of the world.

Table VII-7

## "BALANCE OF PAYMENTS" OF THE GOVERNMENT AND NATIONAL INSTITUTIONS, 1968-69

(IL million)

Receipts	1968	1969	Increase or decrease (-)	Payments	1968	1969	Increase or decrease (-)
<b>Transfers and transactions in goods and services</b>							
Taxes <sup>a</sup>	3,637	4,593	956	Purchases			
Miscellaneous revenue	534	630	96	On current account	3,924	4,480	556
				On capital account	388	432	44
				Interest paid	503	680	177
				Transfers and grants	998	1,219	221
				Subsidies	533	577	44
Subtotal	4,171	5,223	1,052	Subtotal	6,346	7,388	1,042
				Net participation in the budgets of the administered areas	25	10	-15
Unilateral receipts from abroad	615	644	29	Expenditure of National Institutions abroad	45	55	10
Total	4,786	5,867	1,081	Total	6,416	7,453	1,037
<b>Transactions in financial claims</b>							
Collections on long-term loans	143	164	21	Long-term loans and participation in share capital	1,002	1,097	95
Long-term loans received				Repayments on long-term loans			
Foreign	1,065	1,296	231	Foreign	484	667	183
Domestic <sup>b</sup>	829	980	151	Domestic	217	269	52
Short-term credit (net)							
Foreign	267	19	-248				
Domestic <sup>b</sup>	307	83	-224				
Credit from the banking system <sup>c</sup>	1,015	1,437	422				
Total	3,626	3,979	353	Total	1,703	2,033	330
<b>Transactions with the rest of the public sector</b>							
				To local authorities (net)	293	360	67
Total receipts	8,412	9,846	1,434	Total payments	8,412	9,846	1,434

<sup>a</sup> Including collections on account of National Insurance.<sup>b</sup> Excluding credit from the banking system.<sup>c</sup> Including changes in deposit balances, long-term loans, and purchases of Government bonds.

Other net long- and medium-term loans from abroad increased somewhat, but receipts from short-term foreign borrowing fell off. Domestic loans show a similar picture: a rise in net long-term receipts, chiefly because of the larger income from the Defense Loan, and a decline in short-term credit.

Government and National Institution consumption (current purchases less sales) increased by 14.6 percent at current prices, and totalled IL 4,448 million, with most of the increase being in security expenditure. The wage bill was only 4.4 percent larger in the year reviewed.

Transfer payments went up by a substantial 22.1 percent to reach IL 1,219 million. Subsidy payments were only 8.3 percent above the 1968 figure.

Purchases on capital account rose by 11.3 percent, with the erection of public buildings accounting for most of the growth.

Long-term lending and participation in share capital by the Government and National Institutions rose by 9.5 percent. Loans for housing, industrial, and agricultural purposes increased, while those for transportation and oil pipelines declined.

## (c) *Receipts*

### 1. *Taxes*

Government tax revenue was, at IL 4,593 million, 26.3 percent over the previous year's figure; this followed a 27.4 percent rise in 1968.

Of the additional income from this source in 1969, IL 526 million (55 percent) derived from indirect taxation, which was up 28.7 percent to IL 2,356 million. This year too most of the increase, in both percentage and absolute terms, was in customs duties and purchase tax. The increment stemmed in part from the raising, on May 28, 1969, of purchase tax rates on a number of consumer goods as well as of the foreign travel tax.

The growth of direct tax revenue came to 23.8 percent, bringing the level up to IL 2,237 million.

The weight of taxes on income (i.e. direct taxes) within total tax receipts edged down from 49.7 percent in 1968 to 48.7 percent. An increase of about 43 percent in revenue from import taxes brought up the weight of this item from 19 percent of total tax revenue in 1968 to 21.5 percent. Taxes on domestic production rose moderately compared with other items, with the result that their weight declined from 22.3 percent in 1968 to 21 percent.

### 2. *Direct taxes*

Receipts from income tax and the defense levy totalled IL 1,772 million in 1969, compared with IL 1,408 million the year before—an increase of IL 364 million or 25.9 percent. This far exceeded the growth of national income (12.8

**Table VII-8**  
**GOVERNMENT TAX REVENUE, 1968-69**  
(IL million)

	1968	1969	Increase	
			IL m.	%
<b>Direct taxes</b>				
Income tax	1,408	1,772	364	25.9
National Insurance	399	465	66	16.5
Total	1,807	2,237	430	23.8
<b>Indirect taxes</b>				
Customs duties	508	699	191	37.6
Purchase tax	433	599	166	38.5
Fuel tax	198	225	27	13.6
Property taxes	149	185	36	24.2
Tobacco excise	100	110	10	10.0
Cement excise	36	53	17	47.6
Excise on beverages	33	29	-4	-12.9
Stamp tax	68	88	20	30.1
Defense stamp tax	72	86	14	16.4
Vehicle license fees	51	59	8	15.0
Foreign travel tax	30	43	13	42.6
Licenses, fees, misc. service charges, and other taxes	81	89	8	9.9
Current surplus of the Post Office and ports				
Office and ports	71	91	20	28.1
Total	1,830	2,356	526	28.7
Grand total	3,637	4,593	956	26.3

NOTE: The definitions of direct and indirect taxes in this table are based on conventional national accounting procedures and differ somewhat from those employed by the Accountant General. This table excludes compulsory payments which in the national accounts are defined as transfers—namely, the inheritance tax, land betterment tax, fines, and certain fees and licenses (e.g. drivers licenses and passport fees). On the other hand, this table includes the net profit of the Post Office and the ports (deficits of Israel Railways are included with subsidies).

SOURCE: State Revenue Administration, Accountant General, and National Insurance Institute.

percent), a development due primarily to the larger sum collected from companies, which rose by IL 140 million, or some 60 percent, to reach IL 390 million.

This appreciable rise can be attributed to several factors. First, company profits began to swell in the final quarter of 1967. During the 1967 tax year net corporate profits aggregated 37 percent<sup>1</sup> more than in the preceding year, in which there had been a decrease of 4 percent.<sup>2</sup> In 1968 many companies succeeded in making up their losses of the recession period, and this resulted in a

<sup>1</sup> Net of losses incurred by companies.

<sup>2</sup> See A. Arian, "Trends in the Development of Israeli Companies, 1965-1967", published by the State Revenue Administration, Ministry of Finance.

**Table VII-9**  
**GOVERNMENT TAX REVENUE, BY MAJOR CATEGORY, 1967-69**

	1967	1968	1969	Annual increase in 1969	
				IL m.	%
			<b>IL million</b>		
Taxes on income	1,460	1,807	2,237	430	23.8
Taxes on expenditure					
Imports	448	692	989	297	42.9
Local production	693	812	964	152	18.7
Taxes on property	130	166	208	42	25.3
Fees and licenses	124	160	195	35	21.9
Total	2,855	3,637	4,593	956	26.3
			<b>Percentages</b>		
Taxes on income	51.1	49.7	48.7		
Taxes on expenditure					
Imports	15.7	19.0	21.5		
Local production	24.3	22.3	21.0		
Taxes on property	4.6	4.6	4.5		
Fees and licenses	4.3	4.4	4.3		
Total	100.0	100.0	100.0		

NOTE: Taxes on income consist of income tax and National Insurance contributions. Taxes on imports consist of general customs duties and purchase tax on imports, surtax, and foreign travel tax. Taxes on local production consist of the purchase tax, excises, current surplus of the Post Office and ports, entertainment tax, defense stamp tax on production, and various other levies. Taxes on property consist of the property tax and land registration fees. Fees and licenses include the stamp tax, defense stamp tax, fees, and licenses, but exclude land registration fees.

SOURCE: Taxes on income—State Revenue Administration and National Insurance Institute; taxes on expenditure—Central Bureau of Statistics.

bigger total net profit in that year too. As a consequence, collections on account of current tax debts<sup>1</sup> also rose.

Another factor was the collection of a 20 percent larger tax advance from companies in 1969 in view of the optimistic forecast of corporate profits.

Receipts from wage earners<sup>2</sup> amounted to about IL 900 million, up IL 130 million or 16.8 percent. This reflected a rise of some 7 percent in the number of employees and of about 4.5 percent in average pay.

Collections from self-employed totalled IL 435 million, a rise of IL 90 million (26 percent). Here too most of the increment—IL 60 million—was in prepayments, a result of the growth of current incomes and a 25 percent increase in the rate.

<sup>1</sup> See note <sup>1</sup> on p. 116.

<sup>2</sup> Including directors of companies who are listed as salaried employees and members of co-operatives.

Following these developments, the share of total revenue from income tax and the defense levy derived from wage earners fell from 54.6 percent in 1968 to 50.7 percent, while that from companies moved up from 17.7 to 22.0 percent. After rising slightly in 1968, the share of the self-employed held steady at about 24.5 percent.

National Insurance contributions were up IL 66 million, or 16.5 percent, and totalled IL 465 million. This was a smaller increase than in the previous year, when the maximum monthly income subject to National Insurance was raised from IL 550 to IL 700 per month per employee.

### 3. *Indirect taxes*

Indirect tax revenue totalled IL 2,356 million in 1969, up IL 526 million or 28.7 percent. More than two-thirds of the increment stemmed from collections of customs duties and purchase tax, but there were also outstanding increases in the amount yielded by the cement excise, foreign travel tax, and defense stamp duties.

Much of the growth of indirect tax revenue is explained by the larger volume of imports (mainly of consumer goods), the higher level of private consumption, and the bigger investment in dwellings. Part of the increase, as noted above, stemmed from the raising of the purchase tax and the foreign travel tax at the end of May 1969.

Following are the most striking changes in indirect tax revenue during the year reviewed. Customs revenue was, at IL 699 million, up 37.6 percent over 1968. This was due primarily to the approximately 28 percent larger import of consumer goods, attributable in the main to expectations of a devaluation and an increase in taxes and prices which cropped up in the last quarter of the year and led to an accelerated clearance of goods through the customs, along with heavier purchases of consumer durables and cars. About half of the additional customs receipts derived from two items: television sets, which yielded nearly IL 43 million more, and cars and spare parts, which produced about IL 49 million more. Striking rises were also recorded in other consumer goods, particularly cigarettes and durable goods, and various building materials.

Purchase tax receipts soared 38.5 percent to IL 599 million. This was due largely to the growth of private consumption, particularly of goods subject to a high tax. The biggest increase derived from imported goods, notably durables, where there was a steep rise of approximately 60 percent in imports. About IL 45 million of the additional purchase tax revenue stemmed from the upward revision, as of May 28, 1969, of the tax levied on cars, TV sets, and other durable goods.

Revenue from the fuel tax was, at IL 225 million, 13.6 percent more than in 1968. The increment can be ascribed to the larger number of vehicles on the roads, an 11 percent greater fuel consumption, and the continued switch to higher octane fuel, which is more heavily taxed.

Property tax collections totalled IL 185 million, 24.2 percent over 1968. The main growth factor was the expansion of private building, which drove up land values and produced a larger revenue from rates on new dwellings and collections of arrears. A much larger sum was also yielded by the property tax on vehicles following the growth of the number of vehicles, as well as that on equipment and stocks.

Revenue from stamp duties rose by IL 88 million (30 percent) in 1969, following an increase in taxable transactions. Income from the cement excise went up by an appreciable 47.6 percent to reach IL 53 million. This was due principally to the much larger volume of private building, reflected by an expansion of some 40 percent in dwelling investment and of 23 percent in the area of starts.

Receipts from the foreign travel tax totalled IL 43 million, up 42.6 percent. About 70 percent of the increment can be attributed to the 50–60 percent increase in tax rates as of May 1969, and the remainder to the 8.8 percent rise in the number of persons travelling abroad during the year, as well as to the larger proportion of the total who flew (airplane fares are taxed relatively more heavily).

#### 4. *Miscellaneous revenue*

Revenue from domestic transfers, interest, dividends, and sales rose from IL 534 million in 1968 to IL 630 million. Of this sum, IL 273 million represented interest and dividends (up 24.2 percent over 1968); IL 76 million—Bank of Israel profits transferred to the Government (down IL 10 million); IL 78 million—transfers on capital account, consisting chiefly of the Government's receipts from its enterprises on account of depreciation, as well as revenue from the land betterment tax and the inheritance tax<sup>1</sup> (up 39.2 percent). Current transfers by households for services supplied by health and educational institutions, drivers license fees, donations, fines, etc. increased by IL 8 million to reach IL 83 million.

##### (d) *Payments*

Government and National Institution expenditure on current and capital account, excluding financial transactions, added up to IL 7,453 million in 1969—a rise of IL 1,037 million at current rates, or 16.2 percent. Current purchases, including payrolls and security expenditure, were up 14.2 percent, after rising 24.2 percent in 1968. Transfers, including interest payments, went up 26.5 percent, while subsidies were enlarged by only 8.3 percent, after a 34.1 percent increase in 1968. Purchases on capital account were 13.4 percent greater in the year reviewed.

<sup>1</sup> In accordance with conventional national accounting definitions, these receipts are classified as transfers on capital account.

### 1. Purchases on current and capital account

Current purchases of the Government and National Institutions, excluding interest paid abroad, overseas expenditure of the National Institutions, and net participation in the budgets of the administered areas,<sup>1</sup> rose by 14.2 percent to stand at IL 4,480 million. Of this amount, consumption expenditure on security accounted for IL 3,242 million—17.1 percent over 1968.

Payroll outlay (excluding the Ministry of Defense and Government enterprises) totalled IL 802 million, 4.4 percent more than in 1968. The rise stemmed primarily from the expansion of Government and National Institution personnel.

Other current purchases (i.e. other than security outlays and wages) expanded by nearly 11 percent.

Government and National Institution purchases on capital account increased by 11.3 percent to IL 432 million. More than half of the sum—IL 240 million—was invested in transportation and communications (roads, postal enterprises, the railway, and airports); here the rise amounted to 5.3 percent, mostly in road construction. There was a similar increase in agricultural and irrigation investment, in the main in the National Water Carrier and in projects carried out by

Table VII-10

#### PURCHASES OF THE GOVERNMENT AND NATIONAL INSTITUTIONS ON CURRENT AND CAPITAL ACCOUNT, 1968-69

(IL million)

	1968	1969	Increase	
			IL m.	%
<b>Purchases on current account</b>				
Wages and salaries of civilian employees	768	808	40	5.2
Consumption expenditure on security	2,768	3,242	474	17.1
Other purchases	388	430	42	10.8
<b>Total purchases on current account</b>	<b>3,924</b>	<b>4,480</b>	<b>556</b>	<b>14.2</b>
<b>Purchases on capital account</b>				
Agriculture and irrigation	69	73	4	5.8
Transportation and communications	228	240	12	5.3
Public buildings and services	91	119	28	30.8
<b>Total purchases on capital account</b>	<b>388</b>	<b>432</b>	<b>44</b>	<b>11.3</b>
<b>Grand total</b>	<b>4,312</b>	<b>4,912</b>	<b>600</b>	<b>13.9</b>

<sup>1</sup> These expenditure items are treated in the national accounts as transfer payments to the rest of the world and hence are excluded from Government and National Institution consumption.

the Jewish National Fund. In addition, a much larger sum was expended on the construction of public buildings and installations, which rose by 30.8 percent to IL 119 million.

## 2. *Subsidies and transfer payments*

Subsidies and transfers paid by the Government and National Institutions reached IL 1,796 million in 1969, an increase of 17.3 percent, compared with 32.6 percent in the preceding year. Subsidies totalled IL 577 million, a rise of only 8.3 percent, compared with 34.1 percent in 1968.

This item consists of direct price supports, participation in the costs of producers and other enterprises, outlays by Government departments to encourage production and exports, Government participation in funds run jointly with producers with the object of promoting production and exports, the subsidization of imported foodstuffs, and the covering of deficits incurred by Government business-type enterprises.<sup>1</sup>

Export subsidies were enlarged from IL 236 million in 1968 to IL 279 million. The increment consisted primarily of rebates of taxes and various other outlays, and also of outright grants and direct export incentives. The slower expansion of these subsidies is explained primarily by the smaller percentage increase in exports in 1969. The subsidization of local production, including the covering of deficits of Government enterprises, totalled IL 280 million in 1969, a rise of 3.3 percent. Agricultural factor subsidies were trimmed in the year reviewed, following an increase in 1968.

Transfer payments to households and nonprofit institutions were up 24.3 percent in 1969 to stand at IL 1,162 million. Of this amount, IL 386 million represented National Insurance benefit payments, which increased by IL 54 million. The growth of such payments, excluding those under the "employees' children allowance" scheme, stemmed from a rise of about 5 percent in the number of beneficiaries and of 11.5 percent in the average payment. The latter was due in part to the upward revision of benefit rates in the old-age and survivors branch by 16.6 percent in August 1969.

Provident and pension payments added up to IL 123 million. These consist of compensation paid to victims of Nazi persecution and war invalids and pensions paid to retired Government and National Institution employees. Other transfer payments to households increased appreciably in 1969, reaching IL 345 million. These consist of participations in graded secondary school fees, expenditure on food in Government health, educational, and welfare institutions, Government and National Institution participation in hospitalization fees, old-age and survivors pensions paid by the National Insurance Institute, grants to

<sup>1</sup> Excluding grants received by industrial enterprises under the Law for the Encouragement of Capital Investments. These grants are classified in the national accounts as transfers on capital account.

Table VII-11

**TRANSFER PAYMENTS, GRANTS, AND SUBSIDIES BY THE GOVERNMENT  
AND NATIONAL INSTITUTIONS, 1968-69**

(IL million)

	1968	1969	Increase or decrease (-)	
			IL m.	%
<b>Transfer payments on current account to households and nonprofit institutions</b>				
National Insurance benefits	332	386	54	16.3
Provident and pension payments	103	123	20	19.4
Other transfer payments to households	263	345	82	31.2
Transfer payments to nonprofit institutions	237	308	71	30.0
<b>Total</b>	<b>935</b>	<b>1,162</b>	<b>227</b>	<b>24.3</b>
<b>Transfer payments on capital account</b>				
To business	44	36	-8	-18.2
To households	13	14	1	7.7
To nonprofit institutions	6	7	1	16.7
<b>Total</b>	<b>63</b>	<b>57</b>	<b>-6</b>	<b>-9.5</b>
<b>Subsidies</b>				
On locally produced goods and services	271	280	9	3.3
On imported goods	26	18	-8	-30.8
On exports	236	279	43	18.2
<b>Total</b>	<b>533</b>	<b>577</b>	<b>44</b>	<b>8.3</b>
<b>Total transfer payments and subsidies</b>	<b>1,531</b>	<b>1,796</b>	<b>265</b>	<b>17.3</b>

low-income families to compensate for the rise of prices, and relief allotments to needy families.

Allocations to nonprofit institutions on current and capital account were increased to IL 315 million in 1969. Educational institutions received IL 242 million, health institutions IL 54 million, and political parties IL 10 million.<sup>1</sup>

Transfer payments to business enterprises on capital account declined from IL 44 million in 1968 to IL 36 million. Most of this sum consisted of grants to industrial concerns under the Law for the Encouragement of Capital Investments.

Interest payments (excluding those to the National Insurance Institute and the War Risk Insurance Fund) rose by an appreciable 35.1 percent to IL 680 million. Most of the increase was in domestic payments; interest on foreign debts rose by only 5.8 percent to IL 271 million.

<sup>1</sup> See Chapter VIII, "Nonprofit Institutions", section 3(a).

### 3. *Transfers and net credit to local authorities*

Government transfers and net credit to local authorities continued upward in 1969, reaching IL 360 million as against IL 293 million the year before. Most of the increment consisted of ordinary and extraordinary budget grants to the authorities, which were stepped up by IL 50 million to IL 105 million. Another item showing a higher figure was "shared revenue", comprising some 60 percent of the Government's income from property tax, approximately 40 percent of its revenue from vehicle license fees, and 5 percent of its purchase tax receipts. Owing to the much larger collection of these taxes in 1969, the sum transferred to the local authorities increased by IL 30 million to nearly IL 140 million. There was also an increase in other Government and National Institution transfers, which include participations in various local authority expenditures, such as the participation of various Government departments in outlays on social services, that of the Fund for the Prevention of Road Accidents, and of the War Risk Insurance Fund (for fire protection). These transfers added up to IL 50 million in the year surveyed.

Net loans and grants to the local authorities from the Government's development budget and the Israel Education Fund were pared by IL 93 million in 1968 to IL 71 million. About half of this amount was for the construction of schools and other educational institutions, while the remainder went to finance municipal services, such as roads, sewerage, street lighting, waterworks, public buildings, and various enterprises.

#### (e) *Financial transactions*

Net borrowed receipts of the Government and National Institutions increased in 1969 by 3.5 percent to reach IL 2,879 million. More than 80 percent of this amount represented long- and medium-term loans, which rose at a rapid rate.

Net proceeds from foreign loans and credit fell to IL 648 million, depressing their share in total loan receipts to about 22 percent, as against 30 percent in 1968 and 43 percent in 1967.

#### 1. *Foreign loans*

Long-term foreign loan receipts in 1969 amounted to IL 1,296 million, while foreign debt repayments came to IL 667 million. Together with receipts from short-term credit, net foreign borrowing totalled IL 648 million, as against IL 848 million in 1968. Most of the decline was in short-term credit, which was far below the previous year's level.

Net foreign long- and medium-term loan receipts rose by IL 48 million. This is explained by the loans received from various sources for covering Ministry of Defense procurement orders. Other items declined, owing chiefly to an increase in repayments.

Net income from the Independence and Development Loans aggregated IL 222 million, compared with IL 273 million the year before. Gross sales<sup>1</sup> topped the previous year's figure, but redemptions almost doubled to IL 398 million.

There was also a decline in net proceeds from U.S. Government loans (development loans and those in connection with agricultural surpluses), as well as loans granted through the Industrial Development Bank and World Bank loans, owing primarily to the larger volume of repayments thereon.

Net long-term loan receipts of the National Institutions were down IL 18 million, about the same amount as in the previous year. In 1969 the National Institutions continued to repay various foreign debts, after receiving a special loan for this purpose from the Bank of Israel.

## 2. *Domestic loans*

Long- and medium-term domestic borrowing, including long-term loans from the banking system, netted IL 1,771 million all told in 1969, as against IL 1,087 million the year before. Net indebtedness to the Bank of Israel and other banking institutions has been on the rise for several years; in 1969 the increase came to IL 1,437 million, compared with IL 1,015 million in 1968 and IL 285 million in 1967. Most of the 1969 increment—IL 1,250 million—was in borrowings from the Bank of Israel, including IL 974 million in long-term loans (compared with IL 380 million in the previous year) and IL 276 million in short-term credit and withdrawals of deposits (compared with IL 574 million in 1968, mostly in the form of deposit withdrawals).

Credit from the other banking institutions totalled IL 187 million, as contrasted with IL 61 million in 1968. This consisted of IL 86 million in additional purchases of Government securities by the banking institutions (as against an increase of IL 95 million the year before), and IL 101 million in credit and deposit withdrawals.

Net proceeds of the Government and National Institutions from bond sales and long-term loans, including bonds sold to the banking system, aggregated IL 797 million, as against IL 707 million in 1968.

Receipts from the Defense Loan, including sales to the banking system, totalled IL 337 million, compared with IL 196 million in 1968. Receipts from other Government and National Institution bond issues yielded less in the year reviewed. There was a net redemption of the compulsory Absorption Loan, following the discontinuation of collections in April 1968. The development loans and other long-term bonds netted IL 29 million in 1969, as against IL 81 million the year before.

Proceeds of bond issues floated by financial institutions and deposited with

<sup>1</sup> Before deducting distribution costs.

Table VII-12

## CHANGES IN GOVERNMENT AND NATIONAL INSTITUTION LIABILITIES, 1968-69

(IL million)

	1968	1969			Change in net receipts in 1969
	Net receipts	Loans received	Loans repaid	Net receipts	
<b>A. Foreign loans and credit</b>					
(1) Long- and medium-term loans:					
Independence and Development Loans <sup>a</sup>	273	620	398	222	-51
U.S. Government loans <sup>b</sup>	127	175	97	78	-49
Loan from the West German Government	122	118	—	118	-4
World Bank loans	-7	—	8	-8	-1
Misc. loans to the Government	84	285	48	237	153
Misc. loans to the National Institutions	-18	98	116	-18	—
Total	581	1,296	667	629	48
(2) Short-term credit (net)	267	19	—	19	-248
Total foreign loans and credit	848	1,315	667	648	-200
<b>B. Domestic loans and credit</b>					
(1) Long- and medium-term loans:					
Defense Loan	196	337	—	337	141
Absorption and Compulsory Savings Loan	53	22	42	-20	-73

Other Government bond issues <sup>c</sup>	81	149	120	29	-52
Proceeds of security issues deposited with the Treasury	276	330	48	282	6
Loans to the Govt. from financial institutions and insurance companies	65	140	16	124	59
Security issues by and loans to the National Institutions	36	88	43	45	9
<b>Total</b>	<b>707</b>	<b>1,066</b>	<b>269</b>	<b>797</b>	<b>90</b>
(2) Short-term credit (net)	307	83	—	83	-224
<b>Total domestic loans and credit</b>	<b>1,014</b>	<b>1,166</b>	<b>269</b>	<b>880</b>	<b>-134</b>
<b>C. Net credit from the banking system<sup>d</sup></b>					
(1) Long- and medium-term loans and credit from the Bank of Israel	380	974	—	974	594
(2) Short-term credit (net):					
Changes in deposits with and credit from the Bank of Israel	574	276	—	276	-298
Changes in deposits with and credit from banking institutions	-34	101	—	101	135
<b>Total short-term credit</b>	<b>540</b>	<b>377</b>	<b>—</b>	<b>377</b>	<b>-163</b>
<b>Total credit from the banking system</b>	<b>920</b>	<b>1,351</b>	<b>—</b>	<b>1,351</b>	<b>431</b>
<b>D. Total loans and credit</b>					
(1) Long- and medium-term	1,585	3,262	936	2,326	741
(2) Short-term (net)	1,197	681	128	553	-644
<b>Grand total</b>	<b>2,782</b>	<b>3,943</b>	<b>1,064</b>	<b>2,879</b>	<b>97</b>

<sup>a</sup> Before deducting distribution costs.

<sup>b</sup> Development loans, loans in connection with food surpluses, and Export-Import Bank loans.

<sup>c</sup> Including bonds purchased by the banking system.

<sup>d</sup> Excluding bonds purchased by the banking system.

the Accountant General aggregated IL 282 million, slightly more than in the previous year. The Government also received loans directly from various institutions (financial institutions, social insurance funds and insurance companies, and the State Lottery), in order to finance specific projects within the framework of the development budget. Net receipts from these loans rose appreciably, from IL 65 million in 1968 to IL 124 million.

It should be noted that the market for new bond issues is controlled by the Government. It approves all domestic issues, and is thus able to regulate the volume of issues, both those floated by itself and those by other bodies. For this reason, the volume of Government issues is not always determined by fluctuations in demand for these bonds.

Nonbank short-term credit totalled IL 83 million net, compared with IL 307 million in 1968, when there was a big increase in Government liabilities to contractors and suppliers for goods and services received. Short-term credit does not include the net receipts from the Short-Term Loan, since transactions in the latter reflect Bank of Israel operations in the open market and hence are not included in the financial transactions of the Government.<sup>1</sup>

### *3. Credit outflow*

In 1969 the Government and National Institutions lent IL 1,097 million to other sectors of the economy (not including local authorities); this was 9.5 percent above the 1968 figure. The growth of development budget credit continued to slow down. In 1967 the amount of such financing was stepped up by 38.5 percent as a result of the Government's investment encouragement policy; in 1968 the growth rate fell to 21.8 percent.

A breakdown shows that the principal changes in the credit outflow were as follows: Housing loans<sup>2</sup> rose by IL 137 million to IL 446 million, a development due to the larger number of publicly financed dwellings completed during the year. Outstanding loans for agriculture and irrigation increased to IL 180 million; half of this sum consisted of Jewish Agency loans to agricultural settlements, which were up 14 percent. About a quarter of the loans under this head were granted to agricultural settlements for bolstering their financial position and were therefore not connected with new investments. The remaining loans were granted chiefly for the development of the irrigation network. A larger amount of credit was provided to industry (mainly through industrial finance

<sup>1</sup> Under an agreement between the Government and the Bank of Israel, the latter does not transfer to the Government Short-Term Loan proceeds in excess of IL 240 million. This ceiling was reached in October 1966 (at the end of 1969 the excess amounted to IL 513 million).

<sup>2</sup> Residential and other buildings temporarily held by the Government are not recorded as Government investment. Credit for financing housing is treated as credit to the public, even if part of the publicly sponsored housing has not yet been actually handed over to buyers or to public housing companies.

Table VII-13

DEVELOPMENT BUDGET LOANS<sup>a</sup> GRANTED BY THE GOVERNMENT  
AND NATIONAL INSTITUTIONS, BY ECONOMIC SECTOR, 1968-69

(IL million)

	1968	1969	Increase or decrease (-)
Housing <sup>b</sup>	309	446	137
Agriculture and irrigation <sup>c</sup>	138	180	42
Mining, quarrying, oil drilling	159	84	-75
Industry and crafts	124	173	49
Transportation and communications	84	57	-27
Electric power	29	21	-8
Tourism	25	33	8
Services and misc.	134	103	-31
Total, excl. local authorities	<b>1,002</b>	<b>1,097</b>	<b>95</b>
To local authorities	68	56	-12
Grand total	<b>1,070</b>	<b>1,153</b>	<b>83</b>

<sup>a</sup> Including participations in company share capital; excluding investments of the Government and National Institutions.

<sup>b</sup> The entire amount of financing provided for housing is treated as loans to the public, even if part of the public housing has not yet been actually handed over to the buyers or to the public housing companies, but is temporarily being held by the Government.

<sup>c</sup> Excluding loans for housing in agricultural settlements.

institutions), as well as for financing tourism. The amount of loan capital provided for electric power generation, transportation, and mineral extraction was smaller than in the previous year.

Loan collections (including the sale of shares) totalled IL 164 million, of which IL 154 million was on Government development budget loans. The Government's outstanding claims arising out of development budget operations reached IL 4,630 million at the end of March 1969.<sup>1</sup> Of this sum, approximately IL 1,190 million represented investment in shares and bonds (including amounts originally granted as loans but later converted into share capital), while as regards a further IL 640 million no decision has yet been taken whether to treat it as a loan or equity investment. The balance of loans to be collected thus totalled IL 2,800 million at the end of March 1969. Loan collections (excluding the sale of shares) were equal in 1969 to 5.2 percent of total Government loans outstanding on March 31, 1969; this compares with 4.6 percent in 1968 and 3.4 percent in 1967. A not inconsiderable part of the balance consisted of loans

<sup>1</sup> Excluding loans to the National Institutions, local authorities, and the Ports Authority, as well as the amount charged to the National Water Carrier, concerning which it has not yet been decided whether or not to treat it as a loan to the Mekorot Water Company. In this chapter, expenditures on the National Water Carrier and on port development have been treated as direct Government investment.

**Table VII-14**  
**GOVERNMENT AND NATIONAL INSTITUTION EXPENDITURE,<sup>a</sup> BY FUNCTION, 1968-69**  
 (IL million)

	1969				1968		Percent of total expenditure	
	Current expenditure	Interest and debt re-payment	Purchases on capital account	Credit granted	Total expenditure	Total expenditure	1969	1968
<b>General services</b>								
General administration	240	—	17	1	258	250	2.6	3.0
Security and special budgets	3,291	—	—	—	3,291	2,801	33.4	33.2
Police and justice	168	—	8	—	176	165	1.8	1.9
Community services, n.e.s. <sup>b</sup>	135	—	14	10	159	109	1.6	1.3
Total	3,834	—	39	11	3,884	3,325	39.4	39.4
<b>Social services</b>								
Education, culture, religion	756	—	28	94	878	768	8.9	9.1
National Insurance and social welfare	683	—	11	8	702	638	7.1	7.5
Health	256	—	31	9	296	245	3.0	2.9
Housing	24	—	—	445	469	318	4.8	3.8
Total	1,719	—	70	556	2,345	1,969	23.8	23.3
<b>Economic services</b>								
Agriculture and water development	296	—	73	184	553	541	5.6	6.4
Industry, mining and quarrying, oil drilling, and pipelines	340	—	5	277	622	607	6.3	7.2
Transportation and communications	83	—	236	60	379	405	3.8	4.8
Other economic services	86	—	5	46	137	151	1.4	1.8
Total	805	—	319	567	1,691	1,704	17.1	20.2
<b>Unallocable services</b>								
Debt repayments <sup>c</sup>	—	936	—	—	936	701	9.5	8.3
Interest payments	—	680	—	—	680	503	6.9	6.0
Miscellaneous <sup>d</sup>	305	—	4	19	328	239	3.3	2.8
Total	305	1,616	4	19	1,944	1,443	19.7	17.1
<b>Grand total</b>	<b>6,663</b>	<b>1,616</b>	<b>432</b>	<b>1,153</b>	<b>9,864</b>	<b>8,441</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Excluding the current expenditure of the postal and transport enterprises; including transfers and loans to local authorities and all expenditures of the National Insurance Institute.

<sup>b</sup> Not elsewhere specified; mainly the broadcasting services, general research, direct immigration services, and expenditure of the National Institutions abroad.

<sup>c</sup> Repayments on long-term loans.

on which only interest is collected or whose redemption date either has not been fixed or has been deferred.

(f) *Functional composition of expenditure*

A breakdown of Government and National Institution expenditure in 1968–69 by function is presented in Table VII–14.<sup>1</sup>

The most striking change in 1969 was the drop in the weight of economic services in total outlays, after an increase in the previous year. The decrease encompassed all component items, in particular transportation, industry, quarrying and mining, and oil pipelines.

The share of security and special budgets, the leading expenditure item, came to 33.4 percent of the total, a slightly higher level than in 1968.

The share of social services edged up to 23.8 percent. There was a rise in housing and a decline in social welfare.

The weight of long-term debt repayments and interest payments moved up for the third year running, reaching 16.4 percent as against 14.3 percent in 1968 and 13.7 percent in 1967.

### 3. THE LOCAL AUTHORITIES<sup>2</sup>

(a) *Operations of the local authorities*

Local authority operations continued to expand in 1969, the volume of payments, as shown in their “balance of payments”, rising by 10.3 percent to IL 1,068 million.<sup>3</sup>

Tax receipts and transfers from the public increased in 1969, after falling off the year before following the unification of municipal and Government property taxes and the assumption by the Government of responsibility for collection. In return for their property tax revenue, the Government increased its allocations to the authorities during the past two years. It likewise stepped up its other participations in their outlays. The total growth in the authorities’ revenue, the bulk of which came from the Government, exceeded that in their expenditure. As a result, the authorities’ demand surplus declined to IL 156 million, after standing at IL 165 million in 1968 and IL 172 million in 1967.

The demand surplus is financed by domestic borrowing. Net loans from the

<sup>1</sup> Expenditure in this table includes transfers and loans to local authorities.

<sup>2</sup> Municipalities (including East Jerusalem), local councils, regional councils, religious councils, and regional authorities. Also included are the municipal expenditures of kibbutzim and moshavim (cooperative agricultural settlements).

<sup>3</sup> With long-term loans recorded on a gross basis, and short-term credit and loans from the rest of the public sector and the banking system recorded on a net basis. (If all loans were recorded net, payments would rise by 10.6 percent to IL 999 million.)

Table VII-15

**DEMAND SURPLUS OF THE LOCAL AUTHORITIES AND ITS FINANCING, 1967-69**  
(IL million)

	1967	1968	1969	Annual increase or decrease (-) in 1969
<b>A. Revenue on current account</b>				
Taxes	314	295	307	12
Other revenue <sup>a</sup>	91	102	108	6
Transfers from the Government and National Institutions	150	200	289	89
Total	<b>555</b>	<b>597</b>	<b>704</b>	<b>107</b>
<b>B. Expenditure on current account</b>				
Consumption <sup>b</sup>	467	516	561	45
Transfers	109	95	114	19
Interest	50	60	74	14
Total	<b>626</b>	<b>671</b>	<b>749</b>	<b>78</b>
<b>C. Saving (A-B)</b>	<b>-71</b>	<b>-74</b>	<b>-45</b>	<b>29</b>
<b>D. Expenditure on capital account</b>				
Purchases (net of sales)	172	200	215	15
Less:				
Net transfers <sup>c</sup>	57	72	75	3
Transfers from the Government and National Institutions	14	37	29	-8
Total	<b>101</b>	<b>91</b>	<b>111</b>	<b>20</b>
<b>E. Demand surplus (D-C)</b>	<b>172</b>	<b>165</b>	<b>156</b>	<b>-9</b>
<b>Sources financing the demand surplus</b>				
<b>F. Credit (net)</b>				
Government and National Institutions	14	56	42	-14
Banking system	107	55	86	31
Other domestic sectors	51	54	28	-26
Total	<b>172</b>	<b>165</b>	<b>156</b>	<b>-9</b>

<sup>a</sup> Domestic transfers and income from property.

<sup>b</sup> Purchases on current account less sales.

<sup>c</sup> Mainly participation of property owners in development costs.

Government and National Institutions were down from IL 56 million in 1968 to IL 42 million. The debt to the banking system increased by IL 86 million, as against IL 55 million in 1968, while liabilities to financial institutions and other sources (social insurance funds, the State Lottery, contractors, and suppliers) went up by IL 28 million, compared with an increase of IL 54 million in the preceding year.

(b) *The "balance of payments" of the local authorities*

The "balance of payments" of the local authorities for 1968–69 is presented in Table VII–16. The table distinguishes between transactions in goods and services, financial transactions, and transactions with the rest of the public sector.

1. *Receipts*

Tax revenue in the year reviewed was, at IL 307 million, up 4.1 percent. This followed a decline in 1968, which was due, as already explained, to the transfer of the collection of the municipal property tax to the Government. Together with the authorities' receipts from the Government on account of such taxes, their tax revenue totalled about IL 415 million—a rise of 13 percent, compared with some 16 percent in 1968.

Municipal rates were hardly changed during the last two years, following sharp increases in various taxes (including the business tax and charges for various services) in 1966 and 1967. Whereas the growth of tax revenue in 1966 and 1967 stemmed from the revision of rates, the increase in 1968 and 1969 can be ascribed primarily to the revival of the real estate market and the larger volume of building starts, which yielded the local authorities a higher income from these sources.

Other compulsory levies added up to IL 212 million in 1969. Nearly 45 percent of total revenue from this source derived from property owners, representing their participation in the financing of roads, sidewalks, sewage disposal, and the installation of water meters. These receipts rose to IL 95 million. Another IL 105 million was collected as participations in the cost of various services, including service charges in primary schools and various other educational institutions.

2. *Participation of the Government and National Institutions*

Municipal tax rates were raised in fiscal 1966/67 after the Government had held them down for nearly four years under its price stabilization policy. In return, the Government had stepped up its general grant-in-aid to the local authorities, as well as its participation in various budgetary outlays. With the lifting of the municipal tax freeze in 1966, the increase in the general grant slowed down, as did other Government participations in local authority activities.

The raising of tax rates led to only a small increase in the authorities' revenue, owing to the economic slowdown and the slump in the real estate market and in construction. The Government came to the aid of the authorities by consolidating their debts and granting them various allocations, covering *inter alia* the deficits of municipal hospitals and the authorities' expenditure on graded secondary school fees. On their part, the local authorities undertook, under an agreement

Table VII-16

## "BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, 1968-69

(IL million)

Receipts	1968	1969	Increase or decrease (-)	Payments	1968	1969	Increase or decrease (-)
<b>Transfers and transactions in goods and services</b>							
Taxes	295	307	12	Purchases			
Miscellaneous income	200	212	12	On current account	519	565	46
				On capital account	205	220	15
				Interest payments	60	74	14
				Transfers	113	134	21
Total	495	519	24	Total	897	993	96
<b>Transactions in financial claims</b>							
Long-term loans	86	83	-3	Participation in share capital	6	6	—
Loans and credit from the banking system	55	86	31	Repayments on long-term loans	65	69	4
Short-term credit	39	20	-19				
Total	180	189	9	Total	71	75	4
<b>Transactions with the rest of the public sector</b>							
From the Government and National Institutions							
Net participations	237	318	81				
Net loans	56	42	-14				
Total	293	360	67				
Total receipts	968	1,068	100	Total payments	968	1,068	100

concluded by the Government and the Union of Local Authorities, to take steps to reduce their staff and administrative expenses and to cut projected development budget outlays during a four-year period (starting with 1966/67) to about half the level of the four preceding years. Beginning in 1968, the Government increased its participation in the budget of the local authorities, after the unification of the municipal and governmental property taxes.

The net participation of the Government and National Institutions in the authorities' budgets<sup>1</sup> was enlarged in 1969 by IL 67 million to IL 360 million. The biggest increase was in general and extraordinary grants,<sup>2</sup> which were stepped up by IL 50 million to IL 105 million. Another item showing a higher figure in 1969 was "shared revenue", comprising some 60 percent of the Government's property tax revenue, 5 percent of its purchase tax receipts, and about 40 percent of its income from vehicle license fees. These allocations were increased in 1969 by about IL 30 million to IL 140 million, thanks chiefly to the growth of the Government's tax receipts.

Various Government departments and the National Institutions participate in certain other local authority outlays, such as the participation of the Ministry of Labor in unemployment relief projects, the Ministry of Transport in road safety projects through the Fund for the Prevention of Road Accidents, the War Risk Insurance Fund in fire protection services, and the Ministries of Social Welfare, Health, Education, and Religious Affairs in expenditures on social services. In addition, the local authorities receive grants for various construction projects from the Government development budget and from the Education Fund of the National Institutions. In 1969 these participations aggregated IL 70 million, about the same as in the previous year.

Net loans from the Government and National Institutions declined from IL 56 million to IL 42 million. Most of these loans came from the Government's development budget; about a third of the sum was for financing investments in educational institutions, while the remainder was for financing municipal services, such as roads, sidewalks, sewerage, street lighting, waterworks, public buildings, and shelters.

### 3. *Payments*

Local authority expenditure, excluding debt repayments, rose in 1969 by 10.7 percent to IL 993 million.

<sup>1</sup> Allocations, grants, and net loans granted, less interest paid to the Government by the local authorities and their participation in various Government outlays.

<sup>2</sup> The general grant-in-aid is allocated to the local authorities according to various criteria: the number of inhabitants, the age structure of the population, per capita receipts from various taxes, and per capita expenditure on social welfare. The authorities have been classified into ten groups according to these criteria, the size of the per capita grant varying according to group.

The authorities' consumption<sup>1</sup> went up 8.7 percent to IL 561 million, of which IL 382 million was on payrolls. These outlays increased during 1969 by 9 percent, following a 5.5 percent growth in personnel and a 3.3 percent rise in average pay per employee.

Transfer payments increased to IL 134 million, of which IL 30 million went to nonprofit institutions (health and education) and IL 104 million to households.

Local authority investment expanded for the second year in succession, reaching IL 220 million. All component items showed higher figures—education (which accounted for over half of total capital expenditure), roads, sidewalks, traffic facilities (about a quarter of the total), and various other municipal services.

#### 4. *Financial transactions*

Net proceeds from borrowing, excluding loans from the Government and the National Institutions, totalled IL 124 million in 1969, compared with IL 109 million the year before. Most of the loans were received from banking and financial institutions and from social insurance funds, with the remainder being provided by the State Lottery, contractors, and suppliers. The growth of net borrowed receipts was reflected by a big increase in liabilities to the banking system, which was only partly offset by a fall in short-term credit received (chiefly from contractors and suppliers) and in liabilities to financial institutions.

##### (c) *Functional composition of expenditure*

The functional composition of the local authorities' expenditure is shown in Table VII-17.

The authorities' main fields of activity are education, social welfare, and municipal services—such as sanitation and sewage disposal, street lighting, fire protection, public gardens, town planning, and the supervision of construction. In the economic sphere, their operations are confined to transportation—road construction, paving of sidewalks, and traffic regulation.

About half of the authorities' expenditure is on social services. The chief change here in 1969 was the decline in the proportion allocated for education, culture, and religion.

The weight of expenditure on municipal services edged up to 18.2 percent of the total. The share of economic services also moved up, to 9.8 percent, owing to the larger amount spent on traffic regulation and roads. The increase in interest payments and debt redemption brought up their weight from 11.3 and 12.9 percent in 1967 and 1968 respectively to 13.4 percent in the year reviewed.

<sup>1</sup> Current purchases net of sales.

**Table VII-17**  
**LOCAL AUTHORITY EXPENDITURE,<sup>a</sup> BY FUNCTION, 1968-69**  
(IL million)

	1968	1969	Percent annual increase	
			1968	1969
<b>General services</b>				
General administration	87	96	9.0	9.0
Security	16	22	1.6	2.0
Municipal services	173	194	17.9	18.2
<b>Total</b>	<b>276</b>	<b>312</b>	<b>28.5</b>	<b>29.2</b>
<b>Social services</b>				
Education, culture, religion	383	398	39.6	37.2
Health	38	52	3.9	4.9
Social welfare	51	54	5.3	5.1
Housing	7	4	0.7	0.4
<b>Total</b>	<b>479</b>	<b>508</b>	<b>49.5</b>	<b>47.6</b>
<b>Economic services</b>				
Agriculture	7	17	0.7	1.6
Transportation	65	81	6.7	7.5
Other	16	7	1.7	0.7
<b>Total</b>	<b>88</b>	<b>105</b>	<b>9.1</b>	<b>9.8</b>
<b>Unallocable services</b>				
Interest payments	60	74	6.2	6.9
Debt repayments <sup>b</sup>	65	69	6.7	6.5
<b>Total</b>	<b>125</b>	<b>143</b>	<b>12.9</b>	<b>13.4</b>
<b>Grand total</b>	<b>968</b>	<b>1,068</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Excluding the current expenditure of waterworks and transport enterprises.

<sup>b</sup> Repayments on long-term loans.