

CHAPTER II

RESOURCES, USES, AND INCOMEⁱ

1. MAIN DEVELOPMENTS

(a) *January–September 1973*

THE FIRST nine months of the year reviewed saw a faster growth of total resource use,² as opposed to a more sluggish expansion of the gross national product—8 percent as against 10 percent in each of the two preceding years—and the swelling of the import surplus. These developments were accompanied by the continued full employment of the labor force, reflected *inter alia* by the stabilization of the unemployment rate³ at 2.5 percent—the lowest level ever recorded for the Israeli economy.

The rapid expansion of demands and the import surplus, even though import prices climbed sharply for the third consecutive year (see Table II-1), along with the continued intensive utilization of the civilian labor force, suggests that the sharpening of inflation—indicated by the further acceleration of the GNP price rise from the previous year's 14 percent to 19.5 percent in the first three quarters of 1973—reflected the continuation of the excess demand which prevailed in 1972 (discussed in section 2 below).

GNP growth weakened for several reasons. On the supply side there was a

¹ In calculating the rates of real change in this chapter all series are expressed in constant 1970 prices. In previous *Annual Reports* they were computed in terms of the preceding year's prices. If the same procedure had been followed this year—i.e. had the data for the first three quarters of 1973 been calculated at 1972 prices—we would obtain a smaller GNP gain—about 7 percent only. A detailed explanation appears in the appendix to this chapter (in Hebrew only).

² If ships and aircraft, direct defense imports, and changes in inventories are excluded from the calculation, the vigorous uptrend still carried over through the first nine months of 1973—a 10.5 percent advance, which is roughly the same as in 1972. These three items are eliminated from the analysis in this chapter for the following reasons: ships and aircraft and direct defense imports display erratic year-to-year fluctuations, which are largely due to factors exogenous to the Israeli economy, while the inventory item has been marked in recent years by sharp swings, with the data being of very low statistical reliability.

³ If we take the average number of unemployed days per jobless as an indicator of unemployment, there was a further drop in the first nine months of 1973—from 1.9 days in January–September 1972 to 1.5 during the same period in the year reviewed. But it should be noted that these figures are not strictly comparable with those for previous years because of the revision of the statistical series of the National Employment Service in January 1973.

Table
RESOURCES AND
(IL million, at

	1971	1972		1973	
		Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
Resources					
1. Gross national product	23,246.4	21,222.5	29,190.0	27,418.6	37,584.0
2. Imports ^c	13,464.6	11,999.9	16,615.3	17,023.1	26,466.5
3. Imports, excluding ships and aircraft and direct defense imports	10,672.8	10,012.4	13,886.5	14,375.6	19,059.8
4. Import surplus (2-13)	5,618.7	4,632.5	6,393.9	7,305.3	13,977.8
5. Total resources available for domestic use (1+4)	28,865.1	25,855.0	35,583.9	34,723.9	51,561.8
6. Total resources (1+2)	36,711.0	33,222.4	45,805.3	44,441.7	64,050.5
Uses					
7. Private consumption	13,555.7	12,355.9	17,025.4	16,473.7	21,948.1
8. Public consumption	7,940.0	6,795.0	9,242.0	8,018.0	16,627.0
9. Public consumption, excl. direct defense imports	5,833.0	4,958.0	6,729.0	6,159.0	10,037.0
10. Gross domestic investment	7,369.4	6,704.1	9,316.5	10,232.2	12,986.7
11. Gross domestic investment, excl. ships and aircraft	6,684.6	6,553.6	9,100.7	9,443.7	12,080.0
12. Total domestic uses (7+8+10)	28,865.1	25,855.0	35,583.9	34,723.9	51,561.8
13. Exports ^a	7,845.9	7,367.4	10,221.4	9,717.8	12,488.7
14. Total uses, excl. ships and aircraft and direct defense imports (7+9+11+13)	33,919.2	31,234.9	43,076.5	41,794.2	56,553.8
15. Total uses (12+13)	36,711.0	33,222.4	45,805.3	44,441.7	64,050.5

NOTE: The 1973 GNP estimate presented here and in Table II-3 was revised by the addition of IL 90 million (in current prices) to the investment item shortly before the original Hebrew edition of the *Annual Report* went to press. There was no time to include this in the other tables.

^a Calculated at 1970 prices; see note 1 on p. 17.

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USES, 1971-73

current prices)

Percent annual increase or decrease (-)									
Quantity ^a					Prices				
1970	1971	1972	1973		1970	1971	1972	1973	
			Jan.-Sept. ^b	Entire year				Jan.-Sept. ^b	Entire year
8.0	9.9	10.0	7.9	6.3	9.4	13.3	14.2	19.7	21.1
16.6	12.1	2.2	20.6	31.3	4.2	16.2	20.7	17.7	21.3
5.7	15.3	9.7	20.3	12.3	4.4	16.3	18.6	19.3	22.2
25.8	-0.9	-11.6	38.5	84.1	5.1	17.2	28.7	13.9	18.7
11.2	7.7	5.9	12.7	18.4	8.6	14.0	16.4	19.2	22.4
10.9	10.7	7.2	12.2	14.9	7.6	14.3	16.4	19.2	21.7
3.0	5.1	8.8	12.4	8.5	7.9	12.7	15.4	18.6	18.8
26.3	1.3	-1.9	0.5	44.8	8.2	16.5	18.7	17.4	24.2
11.3	10.5	1.1	2.8	17.0	10.0	16.1	14.1	20.8	27.5
13.5	21.4	8.7	24.9	12.5	10.7	13.7	16.3	22.2	23.9
11.6	13.9	17.3	18.2	7.3	10.7	14.2	16.1	21.9	23.7
11.2	7.7	5.9	12.7	18.4	8.6	14.0	16.4	19.2	22.4
9.5	23.5	12.0	10.6	1.8	3.6	15.6	16.3	19.3	20.0
7.3	11.5	9.9	11.7	8.0	7.8	14.2	15.6	19.8	21.6
10.9	10.7	7.2	12.2	14.9	7.6	14.3	16.4	19.2	21.7

^b Compared with January-September, 1972.^c Valued at c.i.f. prices and at the effective rate of exchange. Includes imports from the administered areas; excludes interest paid by the public sector to the rest of the world.^d Valued at f.o.b. prices and at the effective rate of exchange. Includes exports to the administered areas; excludes interest received by the public sector from the rest of the world.

shortage of manpower, which precluded a more rapid expansion of sectors and branches experiencing an overdemand for their output, while agriculture suffered damage from natural causes. There were also special demand factors at work: a decline in tourism and defense construction, resulting in some unemployment of labor and capital which could not be quickly shifted to other branches (this depressed hotel occupancy rates and the average number of hours flown by El Al aircraft and led to some idleness of earthmoving equipment).

The decline in the product of agriculture, tourism, and defense construction explains 1–1.5 percentage points of the decrease in the GNP growth rate.

The outstanding change in resource use during this period was an appreciable 12.5 percent increase in private consumption; this is equivalent to 9 percent per capita, and compares with a 5.5 percent rise in 1972 and a very mild one in 1970–71.

The growth of private consumption per capita in the first three quarters of 1973 therefore outpaced the real growth of disposable private income per capita. This contrasts with the picture in earlier years, when private consumption lagged behind the rise in disposable income. In other words, the rate of private saving⁴ moved down somewhat during the period reviewed, from 27.6 percent in January–September 1972 to 26.3 percent, thus reversing the upward trend begun in 1968. One reason for the 1973 decline is that private consumption apparently accommodated itself to the surge of real disposable income in the two preceding years. Another possible explanation is that the prevailing feeling that indirect taxes would be hiked after the Knesset elections scheduled for the end of 1973 induced the advancing of purchases of consumer durable goods, which was unquestionably facilitated by the buildup of the public's liquid asset reserves during 1972.

Whereas in 1970–71 the Government pursued a very restrictive fiscal policy, which pulled the nominal growth rate of disposable private income below that of GNP, the situation was reversed in the last two years, with disposable private income outgaining the product. This policy, along with the slightly lower rate of private saving during the first nine months of 1973, made it possible for private consumption to expand faster than GNP during this period and to channel more of incremental GNP to this destination (see Table II–3).

Swelling private consumption was thus the major cause of the more vigorous increase in demand, as reflected by the jump in the share of this destination in incremental uses from 19 percent in 1971 to 36 percent in 1972 and 42 percent in the first three quarters of 1973. Investment in inventories also rose notably in the period reviewed,⁵ whereas the uptrend in fixed investment and exports

⁴ The rate of gross private saving out of domestic sources, less net compulsory loans.

⁵ This reflects a heavier outlay on imported raw materials, following the drawing down of stocks in 1972.

Table II-2
DISTRIBUTION OF TOTAL AND INCREMENTAL RESOURCES AND USES, 1970-73
 (percentages; at 1970 prices)

	1970	1971	Total resources and uses				Incremental resources and uses				
			1972		1973		1970	1971	1972	1973	
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year				Jan.- Sept.	Entire year
Including direct defense imports and ships and aircraft											
Resources											
Gross national product	64.4	63.9	65.8	65.6	63.3	60.7	48.5	59.7	88.9	42.5	27.2
Imports ^a	35.6	36.1	34.2	34.4	36.7	39.3	51.5	40.3	11.1	57.5	72.8
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Uses											
Private consumption	39.5	37.5	38.3	38.0	38.4	36.0	11.8	18.7	46.1	38.9	21.9
Public consumption	23.2	21.2	19.6	19.4	17.5	24.5	49.2	2.8	-5.6	0.8	59.0
Civilian	6.8	6.4	6.5	6.5	6.3	6.0	2.3	3.3	7.0	5.3	3.0
Noncivilian	16.4	14.8	13.1	12.9	11.2	18.5	46.9	-0.5	-12.6	-4.5	56.0
Gross domestic investment	18.4	20.2	20.2	20.5	22.5	19.9	22.3	36.8	24.3	41.3	16.4
Exports ^a	18.9	21.1	21.9	22.1	21.6	19.6	16.7	41.7	35.2	19.0	2.7
Total uses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Excluding direct defense imports and ships and aircraft											
Resources											
Gross national product	70.1	69.1	69.4	69.2	67.0	67.9	76.5	60.4	69.7	46.8	52.8
Imports ^a	29.9	30.9	30.6	30.8	33.0	32.1	23.5	39.6	30.3	53.2	47.2
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Uses											
Private consumption	43.0	40.5	40.4	40.1	40.6	40.3	18.6	19.0	36.1	42.9	42.4
Public consumption	17.1	16.9	15.7	15.6	14.5	16.9	25.6	15.6	1.9	3.8	33.0
Gross domestic investment	19.3	19.7	20.8	21.0	22.0	20.9	29.5	23.3	34.4	32.4	19.5
Exports ^a	20.6	22.9	23.1	23.3	22.9	21.9	26.3	42.1	27.6	20.9	5.3
Total uses	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a See notes to Table II-1.

SOURCE: Central Bureau of Statistics.

sagged significantly. It should be noted, however, that the 1972 advance in both dwelling and nondwelling fixed investment had been exceptionally strong. The leveling off of industrial investment during the first nine months of 1973 is surprising, given the sustained rapid expansion of industrial production and the higher rate of return earned per unit of capital in 1972-73. Also worthy of note is the slackening of export growth for the second consecutive year, which brought down the weight of this demand in incremental uses (excluding ships and aircraft and direct defense imports) from 28 percent in 1972 to 21 percent. This was apparently due to the diversion of a greater share of incremental production to meet the buoyant domestic demands (discussed below in this chapter and in particular in Chapter III).

Public sector domestic consumption continued upward at a very laggard pace, reflecting the cutting back of defense orders placed with local industry and the precipitate rise in civilian spending. All told, final uses (excluding ships and aircraft and direct defense imports) went up about 11.5 percent during the first nine months of the year, a shade higher than the 10 percent recorded in 1972.

The gross domestic product of the private sector⁶ advanced by a slow 4 percent during the first three quarters of 1973, about the same as in the previous year. But the product per man-hour moved up somewhat more rapidly during this period—5 percent as against 3 percent in 1972.

According to all indicators, the gain in productivity during the first nine months of 1973 was therefore below the average for the 1960s. Several specific factors were responsible for this: the serious damage suffered by agriculture from drought and frost, the drop in hotel occupancy rates and in the average number of hours flown by El Al aircraft, and the laying up of some earth-moving equipment. In addition, changes in the composition of the employed labor force—in the main a significant increase in the proportion of part-time workers—apparently also depressed the productivity growth rate. But all these seem to only partly account for the marked deceleration of the past two years, which remains to be fully explained.

Finally, it should be noted that imports expanded notably during the first nine months of 1973, after rising only slightly the year before. Even if direct defense imports and the ships and aircraft item are omitted from the calculation, the level still went up rapidly—by 20 percent as against 10 percent in 1972.

The faster growth of imports was due to a number of factors:

- (a) The return during the first nine months of 1973 of imports of production inputs (excluding rough diamonds) to the level required for current production, after running far below requirements in 1972.
- (b) A significant buildup of rough diamond stocks.

⁶ The product of the private economy is defined as the total product less public sector and nonprofit institution services.

(c) The appreciable expansion of demands in 1973, which resulted in a 22 percent greater purchase of imported final products, compared with an 18 percent increase in 1972. This brought up the weight of direct imports in end uses (excluding ships and aircraft, direct defense imports, and inventory investment⁷) from 9.5 and 10 percent in 1971 and 1972 respectively to 11 percent during the first nine months of 1973.

(b) *Developments in the last quarter of 1973*

The October war depressed the level of economic activity in the last three months of the year well below the average for the preceding nine months. The domestic product of the private economy was down 7.5 percent from January-September, reducing the annual average growth rate to 5.5 percent, compared with the 9 percent posted in the first three quarters of the year.⁸ In other words, the war shaved off 3.5 percent from the year's product, on the assumption that the initial growth rate would otherwise have been sustained.

The major cause of the contraction of economic activity was the slack in production capacity due to the widespread mobilization of manpower and civilian equipment (especially trucks). Total private sector employment (excluding workers called up for active service) plunged 15 percent below its average level for the first nine months of the year—twice as much as the loss in product (for the year as a whole, private sector employment was down 5 percent).

Even if we treat the fourth-quarter estimate of the gross product of the private economy with reserve, it can be safely stated that production capacity was not affected by more than can be attributed to the manpower call-up. The fourth-quarter product figure cited above implies a steep rise in the incremental product per employed—from some 4 percent during the first nine months of the year to 8 percent in the last three (this pulled up the annual rate to about 6 percent). This occurred despite the severe bottlenecks which arose because of a grave shortage of trucking capacity and the mobilization of many key men in the productive system—factors which had a downward effect on measured productivity. But even if the fourth-quarter product estimate has a slight upward bias, the conclusion that the uptrend in the product per employed did not weaken in the last quarter of the year still holds.

Of the various civilian demands investment and exports were most affected, slumping about 10 percent each on an annual basis. Private consumption was hit less; per capita, the level was down 11 percent from the previous quarter,

⁷ Investment in inventories is not included since the direct import component is not known.

⁸ Product estimates for the final quarter of 1973 should be treated with caution, mainly because of the difficulty of estimating inventory changes during this period, which seems to have resulted in an upwardly biased product figure.

Table II-3
CHANGE IN RESOURCES AND USES, QUARTERLY DATA, 1972-73
 (percentages; at 1970 prices)

	Increase of decrease (-) from same period the year before						4th quarter 1973 compared with average for Jan.- Sept.
	1972			1973			
	Entire year	Jan.- Sept.	Oct.- Dec.	Entire year	Jan.- Sept.	Oct.- Dec.	
Resources							
1. Gross national product	10.0	9.9	10.2	6.3	7.9	1.9	99.6
2. Imports ^a	2.2	0.1	8.5	31.3	20.6	60.4	146.3
3. Imports, excl. ships and aircraft and direct defense imports	9.7	9.4	10.7	12.3	20.3	-9.7	82.6
4. Total resources (1+2)	7.2	6.4	9.6	14.9	12.2	22.4	116.9
Uses							
5. Private consumption	8.9	8.4	10.1	8.5	12.4	-2.9	90.2
6. Public consumption	-1.9	-3.7	3.6	44.8	0.5	2.7	281.7
7. Public consumption, excl. direct defense imports	1.1	1.2	0.9	17.0	2.8	58.4	157.9
8. Gross domestic investment	8.7	5.8	17.1	12.5	24.9	-20.7	71.2
9. Gross domestic investment, excl. ships and aircraft	17.3	15.5	22.5	7.3	18.2	-21.8	73.9
10. Exports ^b	12.0	13.7	7.6	1.8	10.6	-22.1	77.4
11. Total uses, excl. ships and aircraft and direct defense imports	9.9	9.8	10.4	8.0	11.7	-2.3	93.5
12. Total uses	7.2	6.4	9.6	14.9	12.2	22.4	116.9
Gross domestic product of the private sector				5.6	9.0	-4.0	92.5

^a See note ^c to Table II-1.

^b See note ^d to Table II-1.

SOURCE: Bank of Israel calculations based on Central Bureau of Statistics data.

reducing the annual level by 3.5 percent. Most of the decline was in consumer durable goods.

Real disposable private income per capita did not suffer much from the war, and its average growth for the year remained at the level reached during the first nine months—about 6 percent (before deduction of compulsory loans). Excluding compulsory loans, the gain in such income from domestic sources came to 6 percent for the year as a whole, as against 7 percent in the first three quarters. The one point drop was due to collections of the War Loan.

To sum up, disposable income was hardly changed by the war,⁹ whereas the decline in private consumption may be largely regarded as “deferred demand”, which is likely to revive with the restoration of normal life.

2. THE INFLATION AND ITS CAUSES

The economy expanded less vigorously in the first nine months of 1973, as reflected by the rate of increase in the product, and even when account is taken of the various special factors at work during the year (discussed in section 1 above). This was accompanied by a more sluggish rise in the labor input, but prices in all sectors climbed much faster than in the two preceding years and even earlier boom periods (see Chapter VI).

In this context it should be recalled that all Western economies were plagued by high inflation, and this undoubtedly had implications on developments in Israel. But the inflation in this country was much greater and, as will be discussed below, was mostly an outcome of internal developments.

Although the labor input slowed during the first nine months of 1973, the unemployment rate sank to its lowest level ever—a 2.4 percent average. The number of workers from the administered areas employed in Israel went up faster than the number of Israeli employed, but it trailed behind the rate posted in the two preceding years. Here too it should be stressed that unemployment in the areas has almost completely disappeared, and stepping up the numbers working in Israel is becoming increasingly harder, involving more than the offering of higher wages (the hiring of workers from more remote villages, their transport, accommodations, and so forth).

Wages and salaries per employee post rose 25 percent—a higher rate than in the last few years. But this did not bring up the share of income from employment in national income to any significant degree; therefore the higher earnings in 1973 cannot be regarded as a major factor in the sharpening of inflation. From the foregoing it may safely be inferred that the labor market continued to be tight in the year reviewed, with the buoyant demand for workers evident in the two preceding years continuing. Nonetheless, in certain branches and

⁹ Although the level of economic activity (as measured by the private sector product) was hit by the war, disposable private income was hardly affected, since it also included payments to mobilized reservists by the National Insurance Institute and the Defense Forces.

sectors it seems that it was not the shortage of workers that constrained the expansion of product (discussed in detail in Chapter IX).

In analyzing the inflationary trends in 1973, two further developments must be taken into account: (a) the rise in uses, not counting direct defense imports and ships and aircraft, gained some impetus during the first nine months of 1973 as compared with the previous year; (b) there was a huge increase in the import surplus. Exports made only sluggish headway during this period, whereas imports, both of finished goods and of intermediates, went up very rapidly; the latter component was fairly close to what was required for current production, while direct imports for private consumption far exceeded the growth of this demand.

From the above description of economic developments (continued pressure in the labor market, the accelerated increase in uses and imports, and the slackening of the export advance) it may be concluded that the flagging of GNP growth was due chiefly to supply constraints, and that the more precipitate rise in prices primarily reflected the excess demand in the economy.

The overbuoyant demand and the inflation prevailing during the first three quarters of 1973 represent a continuation, on a more intensified scale, of the trends begun in the middle of 1970. The main reasons for the excess demand during the past three years were the enormously larger volume of private sector transfers from abroad and the domestic demand surplus of the public sector, with the relative importance of these two factors varying from time to time. These factors influenced real demands not only directly but also indirectly, through the resulting rapid monetary expansion; in 1971 and 1972 the rate of monetary expansion was in fact greater than the growth of the national product. Part of the incremental liquidity flowed to the securities and real estate markets, thereby easing some of the pressure in the commodity and service markets. This is reflected in the circulation velocity of the money supply (in relation to both the product and total uses, as it is customarily measured), which edged down fractionally during these two years. In 1973 monetary expansion, as conventionally defined, was slower than in the two preceding years, but nevertheless the inflation became much more severe.

Several reasons can be advanced to explain this: (a) theoretically the velocity of circulation of money should be measured in relation to the total volume of transactions in the economy and not merely to the product (or to total final uses). During the first three quarters of 1973 real estate transactions apparently fell off (or at least expanded at a much slacker pace), so that total transactions trailed behind the growth of GNP. In other words, during these months a larger share of the incremental liquidity found its way into the commodity market. (b) With galloping inflation becoming a virtually permanent feature of the local scene, the demand for money, as narrowly defined, is on the downgrade, and the public is switching more and more to interest-bearing liquid assets (in the main value-linked). What is more, in view of these developments

the very definition of the concept "liquid assets" probably has to be revised in order to render it meaningful for purposes of economic analysis. Indeed, redefining liquid assets to include linked bonds, for example, significantly alters the rate of monetary expansion (discussed in Chapter XIII).

Another factor fueling the inflation in 1972 and the first nine months of 1973 is the fact that the public's disposable income moved up faster than the national product (in current prices). Such a development, which mirrors the influence of the overall tax structure (direct and indirect taxes, subsidies, etc.), is expansionary in nature, since it permits private consumption to go up more rapidly than GNP. In 1972 its effect was offset by a drop in the average propensity to consume, so that private consumption did not outpace the growth of GNP. But during the period reviewed this factor was not operative; on the contrary, for the first time in several years the propensity to consume inched up a little (although not nearly as much as in the past). It is important to note in this connection that if the propensity to consume is returning to its level of earlier years, then the share of private consumption can be kept down only by stepping up net tax collections by more than the percentage increase in the product. In 1972 and 1973, as already mentioned, the opposite took place.

The inflation besetting this country during the period reviewed must be viewed in conjunction with the movement of prices abroad. Since the Israeli economy is an open one, it may be expected to be sensitive to developments in foreign markets. All Western Europe and the U.S. were saddled with mounting inflation, but it should nonetheless be noted that in these countries prices went up only a third as fast as in Israel. What is more, even if allowance is made for the specific price increases with which the local economy had to contend during the period reviewed, the inflation here was still greater than can be attributed to the direct effect of the dearer imports (see Chapter VI).

It must be stressed that, whereas a higher import bill is a relatively new phenomenon in Europe, in Israel imports have been becoming appreciably costlier for the past three years. In 1971-72 the larger import bill was partly due to the imposition of a 20 percent defense levy in the summer of 1970 and the devaluation of the IL in the summer of 1971. This steady rise in the cost of imports—at an annual rate of about 20 percent—has probably had a cumulative effect on prices, exceeding that of the immediate one-time passing on of the price rise. For example, the increased import bill affects the general price level indirectly through the cost-of-living allowance arrangement, whereby employees are compensated for at least part of the additional cost of imports. This wage increment, of course, augments production costs, thus giving another twist to the wage-price spiral.

To sum up, while the sharply higher cost of imports drove up the local price level, there was also a strong demand-pull on prices during the last three years (stemming from the Government's domestic demand surplus and the huge inflow of private capital from abroad). Thus it was possible to pass on

all (and even more) of the import price rise to the consumer, while expanding total uses and the domestic product, reducing unemployment, and increasing the balance of payments deficit. If imports had become less dear, this might have moderated the domestic inflation somewhat, but given the extremely lively domestic demand, this apparently would have been at the expense of an even bigger rise in the deficit.

3. USE OF RESOURCES

The uptrend in total resource use gained impetus during the first nine months of 1973 compared with the same period the year before—12 vs. 7 percent. If we disregard direct defense imports and the ships and aircraft item, which is subject to erratic swings due mostly to factors outside the domestic economy, the growth of uses was milder—11.5 as against 10 percent.

Private consumption was mainly responsible for the acceleration of total uses (excluding ships and aircraft and direct defense imports). This is clearly seen in the weight of this demand in incremental uses, which jumped from 19 percent in 1971 to 36 percent in 1972 and 43 percent in the first three quarters of 1973. The rise in the private consumption growth rate, from 9 percent in the

Table II-4
EFFECT OF RESOURCE USE ON THE PRODUCT,^a 1970-73

(percentages; at 1968/69 prices)

	Distribution of the product by final use				Distribution of the product increment by final use			
	1970	1971	1972	1973 ^b	1970	1971	1972	1973 ^b
Private consumption	45.0	42.4	42.0	42.8	30.4	20.8	37.3	50.3
Public consumption	19.6	19.2	17.9	16.7	24.8	15.6	3.7	3.2
Gross domestic investment ^c	15.2	15.5	17.3	17.8	23.0	18.4	36.7	25.6
Exports ^d	20.2	22.9	22.8	22.7	21.8	45.2	22.3	20.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

^a Gross domestic product at factor cost.

^b January-September.

^c Excluding changes in inventories.

^d Excluding factor receipts from abroad and public sector interest receipts from abroad.

SOURCE: Central Bureau of Statistics data, adjusted in accordance with input-output data for 1968/69, which differ somewhat from CBS estimates.

Table II-5
SHARE OF PUBLIC CONSUMPTION IN GNP, 1961-73
 (percentages)

	Average		1969	1970	1971	1972	1973	
	1961- 1966	1967- 1972					Jan.- Sept.	Entire year
At current prices								
Civilian public consumption	11.0	10.9	10.8	10.5	10.7	10.4	11.1	11.0
Noncivilian public consumption	9.7	21.5	20.3	25.5	23.5	21.2	18.1	33.3
Total	20.7	32.4	31.1	36.0	34.2	31.6	29.2	44.3
At 1970 prices								
Civilian public consumption	12.1	10.8	11.0	10.6	10.1	9.9	10.0	10.0
Noncivilian public consumption	10.2	21.0	19.7	25.4	23.1	19.7	17.7	30.4
Total	22.3	31.8	30.7	36.0	33.2	29.6	27.7	40.4

first three quarters of 1972 to 12.5 percent during the corresponding period in 1973, even though the expansion of real disposable private income slowed from 12 to 10.5 percent, chiefly reflects the adjustment of private consumption to the real disposable income gain of 1971-72, when private consumption per capita limped behind disposable income per capita. The feeling that indirect taxes would be boosted after the elections probably induced many to make purchases earlier than planned; this applies especially to consumer durable goods, which shot up 36 percent during the period reviewed, as opposed to 14 percent in 1972 (see the discussion in section 7 below).

In contrast to 1972, the growth of real fixed investment (excluding ships and aircraft) sagged noticeably in the period discussed here—13 as against 23 percent. Moreover, the decline occurred in both residential and nonresidential construction, which, because of their especially high product component, strongly influence economic activity. The value of residential construction put in place was up 16 percent during the period reviewed, compared with 29 percent in 1972. The slowdown was apparently due to demand developments,¹⁰ as reflected by the levelling off of residential building starts in the second half of 1972 and the beginning of 1973, apparently because of a reduction or tapering off of home purchases for speculative reasons.

¹⁰ An indicator of the weakening of demand for homes is the fact that during 1973 dwelling prices went up 24 percent, even though residential construction input prices rose 35 percent (in previous years an opposite situation obtained).

Nondwelling investment (excluding ships and aircraft) likewise showed a much more sluggish increase during the period reviewed—10 percent as against 19.5 percent in 1972. It is important to note that this item is subject to big year-to-year swings, and in 1972 it had risen exceptionally fast. The laggard growth of industrial investment is particularly surprising—2 percent as against 11 percent in 1972 and 10 percent in 1971—and this even though the return per unit of capital has advanced steadily in recent years and the industrial product expanded more than 10 percent in real terms in each of the last three years. Only in land transport, postal services, and miscellaneous services did capital expenditures continue to rise rapidly. One possible explanation of the slacker growth of nondwelling investment is the completion of several large projects launched in 1971–72 (at the chemical complex at Arad, the refineries at Ashdod, and big Israel Electric Corporation outlays on gas turbines).

Investment in ships and aircraft quadrupled during the period reviewed in comparison with the same period in 1972.

Public consumption edged up by a mere 0.5 percent between January and September 1973, with domestic spending continuing to rise at a very slack rate—about 3 percent as against 1 percent in 1972. It is therefore obvious that public consumption was not directly responsible for the greatly accelerated growth of domestic demands.

The weight of noncivilian public consumption in the national product continued downward and that of civilian public consumption upward (see Table II-4). The decline in the former was due to the cutting back of both overseas and local procurement orders.

Exports made only sluggish headway, for the second year running. In real terms, sales of goods and services were up 10.5 percent during the first three quarters of 1973, compared with 12 percent in 1972 and 23.5 percent in 1971. The weight of exports in incremental uses (excluding ships and aircraft and direct defense imports) therefore fell further—from 42 percent in 1971 and 28 percent in 1972 to 21 percent in the first nine months of 1973. Less diamonds, the real gain amounted to only 7.5 percent. The further strong advance in diamonds can be attributed primarily to the brisker demand for this item as a hedge against the depreciation of the dollar and the global inflation.

The faltering of the uptrend in nondiamond industrial exports (2 percent only during the period surveyed, after a rise of 7 percent in 1972 and 20 percent in 1971) was partly due to specific developments in certain branches, but in the main it apparently reflected the excess demand prevailing in the economy. The latter apparently resulted in the diversion of an increasing proportion of nondiamond industrial output to meet the lively domestic demand. Another factor working in this direction was the jump in domestic production costs, which resulted in export profitability plateauing in 1972 and edging up only slightly in the first nine months of 1973. But it should be noted that the

relatively formidable rise in export prices (24 percent) during the first nine months of 1973 largely reflects the decline of the dollar against the major European currencies, a development which was reversed toward the end of the year, when the dollar strengthened.¹¹ In other words, that part of the export price increase which stemmed from the effective devaluation of the dollar involved a great deal of uncertainty, and presumably had only a minor effect in stimulating exports.

In service exports the most noteworthy feature was the standstill in tourism (in real terms), which came on top of a marked slowdown in 1972 (a detailed discussion of exports appears in Chapter III, "The Balance of Payments").

4. RESOURCES

Aggregate demand (excluding ships and aircraft and direct defense imports) went up at a slightly faster rate in the first nine months of 1973—11.5 percent as against 10 percent in 1972. But the growth of GNP was down a notch—8 vs. 10 percent. The latter can apparently be ascribed to a number of factors:

(a) A noticeably slower rise in the input of Israeli labor¹²—a 2.3 percent increase in the number of man-hours worked during the period reviewed, as against 6.2 percent in 1972. This was accompanied by the full utilization of the civilian labor force: the unemployment rate continued downward, from 2.7 percent in 1972 to 2.5 percent during the first nine months of 1973, while the average number of unemployed days per jobless declined from 1.9 to 1.5 during this period. The slower increase in the labor input apparently precluded a more vigorous expansion of those sectors and branches experiencing a heavy demand for their output, especially industry.

(b) The contraction of output in agriculture, tourism, and defense construction was accompanied by some idleness of manpower and capital stock which could not be readily transferred to other branches (see sections 1 and 5 in this chapter). In tourism and defense construction demand factors were mainly responsible for the dampening of output, while the drop in agriculture was a result of natural causes. These output decreases explain 1–1.5 percentage points of the decline in the product growth rate.

To sum up, during the first nine months of 1973 factors on the supply side apparently combined with special demand factors to retard the growth of the national product. Excluding direct defense imports and the ships and aircraft item, imports rose 20 percent in real terms during the period reviewed, com-

¹¹ At the beginning of February 1974 the dollar again weakened.

¹² The uptrend in the total labor input (i.e. including workers from the administered areas), as measured by the number of man-hours worked, also sagged considerably—3.3 percent in the first nine months of 1973, compared with 7.7 percent in 1972—and this even though the input of labor from the administered areas soared 25 percent (the rise in the number of workers from the areas was 24 percent).

Table II-6
COMPOSITION OF RESOURCES FOR DOMESTIC USE, 1968-73
 (percentages)

	1968	1969	1970	1971	1972		1973	
					Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
At current prices								
Total resources available for domestic use								
Import surplus ^a	16.1	18.8	20.6	19.5	17.9	18.0	21.0	27.2
Gross national product	38.9	81.2	79.4	80.5	82.1	82.0	79.0	72.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total resources available for domestic use, less direct defense imports								
Import surplus ^a	11.4	13.4	12.5	13.1	11.6	11.7	16.6	16.5
Gross national product	88.6	86.6	87.5	86.9	88.4	88.3	83.4	83.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
At 1970 prices								
Total resources available for domestic use								
Import surplus ^a	16.2	18.2	20.6	18.9	15.7	15.8	19.3	24.6
Gross national product	83.8	81.8	79.4	81.1	84.3	84.2	80.7	75.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total resources available for domestic use, less direct defense imports								
Import surplus ^a	11.7	13.1	12.5	12.8	10.3	10.4	15.1	14.5
Gross national product	88.3	86.9	87.5	87.2	89.7	89.6	84.9	85.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a Calculated at the effective rates of exchange.
 SOURCE: Central Bureau of Statistics.

pared with 9.5 percent in 1972. This steep increase can be ascribed to three main developments:

(a) The return during the first three quarters of 1973 of imports of current production inputs to a level consistent with that of economic activity, after falling far short of current production requirements in 1972.¹³ The difference between actual imports in 1972 and those calculated according to total demands (using constant import coefficients) is estimated at \$ 90 million.

(b) A large speculative buildup of rough diamond stocks following the depreciation of the dollar in the first half of 1973.

(c) The excess demand prevailing in the economy, reflected on the one hand by the sustained vigorous expansion of industrial production and of imported inputs for this sector, and on the other hand by a heavier demand for imported consumer items (e.g. cars and travel abroad). This can be seen in the jump in consumer goods imports during the first nine months of 1973—31 percent as contrasted with 16 percent in 1972—while the increase in the consumption of goods was running at 16 as against 11 percent respectively.

The weight of imports in total resources, excluding direct defense imports and ships and aircraft, therefore edged up during the period reviewed from 31 to 33 percent. Its rise stands out more in incremental resources, excluding direct defense imports and ships and aircraft—from 30 percent in 1972 to 53 percent.

Imports of ships and aircraft and direct defense items were up 33 percent, following a 2 percent decline in 1972.

As a result of these developments, during the first three quarters of 1973 the total import bill rose 21 percent, about the same as imports excluding the two aforementioned items. In 1972 total imports inched up by a mere 2 percent (slower than imports exclusive of ships and aircraft).

5. GROSS NATIONAL PRODUCT AND PRODUCTIVITY

In the first nine months of 1973 the gross domestic product of the private sector, excluding ownership of dwellings, expanded by 9 percent, as against 12 percent in 1972. A measurement of the product by sectoral origin according to various indicators yields similar results (see Table II-8).

As already mentioned in sections 1 and 4, the slacker growth of the product can apparently be attributed primarily to factors at work on both the supply side—the shortage of manpower and the losses to agriculture from natural causes—and to special demand factors—the contraction of output in the tourist and defense construction industries.

¹³ Imports of current production inputs, excluding diamonds, went up by only 1 percent in quantitative terms in 1972, whereas the domestic product of the private sector expanded by 12 percent.

Table II-7
SECTORAL ORIGIN OF THE NET DOMESTIC PRODUCT
AT FACTOR COST,^a 1968-73^b

(percentages; at 1970 prices)

	1968	1969	1970	1971	1972	1973 ^b
Agriculture, forestry, fisheries	6.9	6.5	6.4	6.5	6.4	5.8
Industry, mining and quarrying	22.5	23.5	23.9	24.9	25.3	26.2
Construction and public services	9.6	11.0	12.0	12.1	13.0	13.2
Transportation and communications	8.2	8.3	8.8	9.3	9.6	9.8
Finance, trade, and business and personal services	25.6	24.5	22.9	22.2	21.8	21.5
Public and community services	19.7	19.2	19.1	18.3	17.4	17.1
Ownership of dwellings	7.5	7.0	6.9	6.7	6.5	6.4
Net domestic product (at factor cost) ^a	100.0	100.0	100.0	100.0	100.0	100.0

^a Before inventory and depreciation adjustments.

^b January-September.

SOURCE: Based on Table II-8.

The gross domestic product of the private sector per employed rose 4 percent, similar to the rate in 1972. The product per man-hour, on the other hand, went up a little faster during the period reviewed—5.3 percent as against 3.2 percent in 1972. The decline in the average number of man-hours per employed was due to an increase in the proportion of part-time workers,¹⁴ rather than to any greater flexibility in adjusting the number of man-hours per employed to short-run changes in economic activity.

The measurement of product per factor unit (capital and labor) is influenced by the method of calculating the labor input (see Table II-9).

According to all indicators, the productivity gain in the first nine months of 1973 was below the average for the 1960s (the same was true of 1972). As already noted (section 1), several specific factors caused productivity to run below the long-run average growth rate.

In agriculture frost and drought damage led to a drop of about 5 percent in the product and the levelling off of the product per employed. In tourism the number of arrivals between January and September 1973 held steady; since several new hotels were opened during the year, the number of tourist nights in recommended hotels was down 5 percent and the hotel occupancy rate fell to the same extent. There was also a sharp drop in the product per employed in this industry. The decline in tourism resulted in a slower growth

¹⁴ Calculations based on manpower survey data show that the number of man-hours per employed of full-time workers remained unchanged during the first three quarters of 1973 compared with the same period the year before; on the other hand, the number of man-hours worked by part-time labor inched up 1.5 percent.

Table II-8

NET DOMESTIC PRODUCT AT FACTOR COST,^a BY SECTORAL ORIGIN, 1969-73^b

(at 1970 prices)

	1970 (IL million, at current prices)	Percent annual real increase or decrease (-)				
		1969	1970	1971	1972	1973 ^b
1. Agriculture, forestry, fisheries	1,038	4.1	5.7	10.8	8.5	-3.0
2. Industry, mining and quarrying	3,872	15.9	10.4	12.6	11.7	11.9
3. Construction and public services	1,947	27.6	16.8	10.0	18.0	9.7
4. Transportation and communications	1,427	12.7	13.5	15.2	13.1	10.6
5. Finance, trade, and services	3,713	5.8	0.4	6.1	7.4	6.5
6. Ownership of dwellings	1,116	4.0	4.8	5.7	6.9	7.4
7. Public and community services	3,106	8.2	7.1	4.8	4.3	5.9
Net domestic product						
Total economy	16,219	10.9	7.6	8.9	9.7	8.0
Private sector ^c (excl. residential rents)	11,997	12.4	8.0	10.3	11.3	8.5

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

- (1) Current account of agriculture, with the data converted from agricultural into calendar-year terms.
- (2) Index of industrial production.
- (3) Construction output, as calculated in Chapter V.
- (4) As calculated in Chapter XII. In calculating the rates of change there the change in the output of each subbranch was weighted by its share in the 1968/69 product, as estimated on the basis of input-output data.
- (5) According to the rates of change in employment as measured by manpower surveys.
- (6) According to the housing services item in private consumption.
- (7) According to national accounts data.

^a Before inventory and depreciation adjustments.

^b January-September.

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

of El Al's operations and some decrease in the average number of hours flown by the company's aircraft during the period reviewed (this datum may serve as an indicator of the utilization of its flying equipment). The continued sharp cutback in construction jobs for the defense establishment during the first nine months of 1973 resulted in some laying up of earthmoving equipment.

The changed composition of the employed labor force—an increase in the proportion of part-time workers (50 percent of the total incremental employed during the period reviewed were engaged in part-time work) apparently also braked the rise in productivity, since most of these workers presumably came from the relatively high age groups and have a below-average working capacity.

Table II-9
CHANGES IN GROSS DOMESTIC PRODUCT, FACTOR INPUTS, AND PRODUCTIVITY OF THE PRIVATE SECTOR,^a 1961-73
 (percent annual increase)

	Average		1969	1970	1971	1972	1973 ^b
	1961-65	1966-72					
Gross domestic product (excl. residential rents) ^c	10.9	9.3	14.7	9.1	11.8	11.9	9.0
Stock of fixed nondwelling capital (beginning of year)	9.9	7.5	7.4	8.3	7.8	9.7	8.2
Labor input ^d							
Number of employed	4.5	2.9	4.4	1.5	4.5	7.2	4.8
Man-hours	4.2	3.0	4.7	1.7	4.1	8.3	3.5
Capital stock per employed	5.2	4.5	2.9	6.7	3.2	2.3	3.2
Capital stock per man-hour	5.5	4.4	2.6	6.5	3.6	1.3	4.5
Product per employed	6.1	6.2	9.9	7.5	7.0	4.4	4.0
Product per man-hour	6.4	6.1	9.6	7.3	7.4	3.3	5.3
Product per factor unit (productivity) ^e							
Labor measured by number of employed ^f							
A	3.5	3.9	8.3	4.0	5.3	3.2	2.3
B	4.3	4.7	8.8	5.1	5.9	3.6	2.9
Labor measured by man-hours							
A	3.6	3.8	8.2	3.9	5.5	2.7	3.0
B	4.5	4.6	8.6	5.0	6.1	2.9	3.7

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

^b January-September 1973 compared with January-September 1972.

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

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

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

^d Including workers from the administered areas.

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

^f Variant A—labor weighted $\frac{1}{2}$; variant B—labor weighted $\frac{2}{3}$.

SOURCE: Based on Central Bureau of Statistics data.

GROWTH OF ISRAELI EMPLOYED, 1970-73

(percentages)

	1970	1971	1972	1973 ^a
Total Israeli employed	1.8	3.5	5.0	3.9
Full-time	1.4	2.3	5.9	1.5
Part-time	1.8	7.6	2.2	11.1

^a January-September, 1973 compared with January-September, 1972.

The continued rise in the proportion of women and of workers from the administered areas (who probably have a below-average skill level) pulled down the productivity growth rate compared with 1972 (see Table II-10).

These developments only partly account for the slower productivity advance; the exact reasons for the precipitate decline in the growth rate over the last two years, even in comparison with the average for the 1960s, are still not entirely clear.

Table II-10

PERCENT CHANGE IN LOCAL EMPLOYMENT AND PRODUCT PER EMPLOYED IN THE PRIVATE SECTOR, 1968-73

	Local employment		Product per employed	
	Total before adjustment	Adjusted total ^a	Unadjusted	Adjusted
1968	10.8	10.2	7.5	8.1
1969	4.4	3.3	9.9	11.0
1970	1.5	0.9	7.5	8.1
1971	4.6	3.6	6.9	7.9
1972	7.2	5.9	4.4	5.7
1973 (Jan.-Sept.) ^b	4.8	4.3	4.0	4.5
Average 1968-72	5.7	4.8	7.3	8.3

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

^b Compared with January-September, 1972.

6. INCOME

In analyzing private sector income, the comparison will be made both with the changes in the product during the same period and with the changes in income in the previous period. As already noted, during the first three quarters of 1973 disposable private income from domestic sources outpaced the growth of the product, with the differential conceptually being the net result of all the fiscal measures in force.

Table II-11

NATIONAL PRODUCT AND INCOME, 1970-73

(IL million, at current prices)

	1970	1971	1972		1973		Percent annual increase				
			Jan.- Sept. ^a	Entire year	Jan.- Sept.	Entire year	1970	1971	1972	1973	
										Jan.- Sept.	Entire year
1. Gross national product at market prices ^b	18,670	23,246	21,222	29,190	27,419	37,494	18.1	24.5	25.6	29.2	28.4
2. Depreciation	1,822	2,274	2,179	2,905	2,885	3,846	20.2	24.8	27.7	32.4	32.4
3. Net national product (1-2)	16,848	20,972	19,043	26,285	24,534	33,648	17.9	24.5	25.3	28.8	28.0
4. Indirect taxes on domestic production	1,973	2,425	2,175	2,968	2,725	3,629	18.5	22.9	22.4	25.3	22.3
5. Subsidies on domestic production	317	398	365	496	630	867	11.2	25.6	24.6	72.6	74.8
6. Net taxes on domestic production (4-5)	1,656	2,027	1,810	2,472	2,095	2,762	20.0	22.4	22.0	15.7	11.7
7. National income (3-6)	15,192	18,945	17,223	23,813	22,439	30,886	17.7	24.7	25.7	30.2	29.7
8. National income per capital (IL)	5,135	6,220	5,501	7,569	6,932	9,492	14.5	21.2	21.7	26.0	25.4

^a Compared with January-September, 1972.^b At effective rates of exchange.

SOURCE: Central Bureau of Statistics.

GROWTH OF GNP AND INCOME, 1970-73

(percent nominal change)

	1970	1971	1972	1973 ^a
Gross national product	18.1	24.5	25.6	29.2
Gross private income from economic activity	17.9	24.7	26.1	30.6
Gross disposable private income from domestic sources (excl. net compulsory loans)	10.3	22.2	29.1	30.9

^a January-September, 1973 compared with January-September, 1972.

In 1972 a similar development had taken place, with the disparity in the growth rates being more pronounced. In that year the main factor was the more sluggish increase in direct tax revenue, whereas in 1973 it was the much heavier indirect Government subsidization, designed to moderate the rise in domestic prices.

A comparison of income growth during the period reviewed with the previous year shows the principal change to be a slightly slower increase in real disposable income per capita (from domestic sources, less compulsory loans)—7 percent during the first three quarters of 1973, as against 8 percent in 1972.

INCREASE IN GROSS DISPOSABLE PRIVATE INCOME PER CAPITA, 1970-73

(percent real change)

	1970	1971	1972	1973 ^a
Gross disposable private income per capita				
From economic activity	6.3	7.4	5.8	6.6
From domestic sources, excl. net compulsory loans	-0.6	5.3	8.3	6.8

^a January-September.

The decelerated growth of real disposable income per capita is explained entirely by the much higher percentage increase during the period reviewed in net collections of direct taxes and compulsory loans. Gross private income per capita from economic activity¹⁵ was up 6.6 percent in real terms, compared

¹⁵ Disposable private income from economic activity is defined as national income less the domestic income of the public sector from property and entrepreneurship (before deduction of direct taxes and compulsory loans).

Table II-12
TOTAL AND DISPOSABLE GROSS PRIVATE INCOME, 1970-73
 (IL million, at current prices)

	1970	1971	1972		1973		Percent annual increase or decrease (-)				
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	1970	1971	1972	1973	
										Jan.- Sept. ^a	Entire year
1. National income	15,192	18,945	17,233	23,813	22,439	30,886	17.7	24.7	25.7	30.2	29.7
2. Public sector property and entrepreneurial income	346	430	380 ^b	509	475 ^b	630 ^b	21.0	24.3	18.4	25.0	23.8
3. Depreciation	1,822	2,274	2,179	2,905	2,885	3,846	20.5	24.8	27.8	32.4	32.4
4. Private income from economic activity (1-2+3)	16,668	20,789	19,032	26,209	24,849	34,102	17.9	24.7	26.1	30.6	30.1
5. Income tax	2,232	2,768	2,405	3,311	3,368	4,555	26.0	24.0	19.6	40.0	37.6
6. National Insurance contributions	826	1,242	1,069	1,479	1,302	1,750	77.6	50.4	19.1	21.8	18.3
7. Total direct taxes (5+6)	3,058	4,010	3,474	4,790	4,670	6,305	36.7	31.1	19.5	34.4	31.5
8. Net compulsory loans ^c	388	978	783	1,025	886	1,305	—	150.0	4.8	13.2	27.3
9. Total compulsory payments (7+8)	3,446	4,988	4,257	5,815	5,556	7,610	60.5	44.8	16.6	30.5	30.8
10. Net transfer payments	1,627	2,351	2,290 ^b	3,038	3,050 ^b	4,000 ^b	10.4	44.5	29.2	33.2	31.7
11. Gross disposable income from domestic sources											
a. Incl. net compulsory loans (4-7+10)	15,237	19,130	17,848	24,457	23,229	31,797	14.0	25.6	27.8	30.1	30.0
b. Excl. net compulsory loans (4-9+10)	14,849	18,152	17,065	23,432	22,343	30,492	10.3	22.2	29.1	30.9	30.1
12. Personal transfers from abroad	1,551	2,283	2,505	3,293	2,389	3,268	28.1	47.2	44.2	-4.6	-0.8
13. Gross disposable income from all sources											
a. Incl. net compulsory loans (11a+12)	16,788	21,413	20,353	27,750	25,618	35,065	15.1	27.5	29.6	25.9	26.4
b. Excl. net compulsory loans (11b+12)	16,400	20,435	19,570	26,725	24,732	33,760	11.7	24.6	30.8	26.4	26.3

^a Compared with January-September, 1972.

^b Estimate.

^c Collections less loan certificates distributed.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table II-13

CHANGES IN INCOME AND INCOME DISTRIBUTION, 1961-73

(percentages)

	Average			1968	1969	1970	1971	1972		1973	
	1961- 1965	1966- 1967	1968- 1972					Jan.- Sept.	Entire year	Jan.- Sept. ^a	Entire year
Increase in real private income per capita ^b											
From domestic sources	6.6	0.7	7.6	10.8	8.4	2.8	8.2		7.2	6.2	5.8
From all sources	6.6	0.0	8.7	13.1	7.6	3.8	9.8		8.7	2.8	2.9
Share of employee compensation in total income from economic activity ^c											
Gross income	60.0	64.5	59.0	60.2	58.7	60.5	59.1	58.2	57.5	57.9	
Net of direct taxes	60.8	64.7	58.7	59.8	58.7	61.0	58.8	57.4	56.7	57.4	

^a Compared with January-September, 1972.^b Gross income before deducting net compulsory loans.^c Gross income, less the imputed net rental value of owner-occupied dwellings.

Source: Central Bureau of Statistics and Bank of Israel.

with 5.8 percent in 1972; in other words, private income from economic activity even moved up a little faster than in the previous year, in contrast to the slackening of the uptrend in disposable income.¹⁶

Total revenue from direct taxes and compulsory loans, net of transfer payments to the public, expanded much more strongly during the period reviewed—27 percent as against 6 percent in 1972.

The low rate of increase in net collections of direct taxes and compulsory loans in 1972 therefore resulted in disposable income moving up faster than the private sector's gross income from economic activity. During the first nine months of 1973, however, tax and compulsory loan collections trailed slightly behind the growth of gross income from economic activity, with the consequence that the uptrend in disposable income did not change significantly.

Nominal earnings per employee¹⁷ went up much more rapidly during the period reviewed than in the previous year—25 vs. 14.5 percent. This was mainly due to the excess demand for labor, the payment of cost-of-living allowance increments, and extraordinarily large retroactive wage and salary increments paid to a substantial proportion of the country's employees. But the gain in earnings per employee was nevertheless similar to that in gross income per employed (less imputed residential rents). As a result, the share of wages and salaries in national income held fairly steady at 58 percent, thereby checking the declining trend of the two preceding years. It follows that wages were not a factor in the aggravation of inflation. It should also be stressed that the reference here is to the distribution of national income between wage and nonwage income and not the distribution of income between wage earners and nonwage earners, for the former also have earnings from other sources and

**LORENZ COEFFICIENT OF INEQUALITY,
1968-73^a**

1968	0.329
1969	0.314
1970	0.305
1971	0.293
1972	
Jan.-Sept.	0.295
Entire year	0.298
1973 ^b	0.298

^a The coefficient of inequality ranges between a value of 0 when there is absolute equality and 1 when there is absolute inequality.

^b January-September.

¹⁶ Nevertheless, the much heavier Government subsidization of domestic production (up 73 percent) kept the prices of private consumption goods from rising more than they actually did, thereby preventing a further moderation of real income growth.

¹⁷ Wages and salaries per employee post according to National Insurance Institute data.

Table II-14
GROSS PRIVATE SAVING,^a 1970-73
 (IL million, at current prices)

	1970	1971	1972		1973		Percent annual increase					
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year	1970	1971	1972	1973		
										Jan.- Sept. ^b	Entire year	
1. Gross disposable private income from domestic sources												
Incl. compulsory loans	15,237	19,130	17,848	24,457	23,229	31,797	14.0	25.6	27.8	30.1	30.0	
Excl. compulsory loans	14,849	18,152	17,065	23,432	22,343	30,492	10.3	22.2	29.1	30.9	30.1	
2. Gross disposable private income from all sources												
Incl. compulsory loans	16,788	21,413	20,353	27,750	25,618	35,065	15.1	27.5	29.6	25.9	26.4	
Excl. compulsory loans	16,400	20,435	19,570	26,725	24,732	33,760	11.7	24.6	30.8	26.4	26.3	
3. Private consumption	11,444	13,556	12,356	17,025	16,474	21,948	11.2	18.5	25.6	33.3	28.9	
4. Gross private saving from domestic sources (1-3)												
Incl. compulsory loans	3,793	5,574	5,492	7,432	6,755	9,849	23.2	47.0	33.3	23.0	32.5	
Excl. compulsory loans	3,405	4,596	4,709	6,407	5,869	8,544	7.5	35.0	39.4	24.6	33.4	
5. Gross private saving from all sources (2-3)												
Incl. compulsory loans	5,344	7,857	7,997	10,725	9,144	13,117	24.6	47.0	36.5	14.3	22.3	
Excl. compulsory loans	4,956	6,879	7,214	9,700	8,258	11,812	13.2	38.8	41.0	14.5	21.8	
6. Rate of gross saving from domestic sources (4 ÷ 1)			Percentages									
Incl. compulsory loans	25.0	29.1	30.8	30.4	29.1	31.0						
Excl. compulsory loans	22.9	25.3	27.6	27.3	26.3	28.0						
7. Rate of gross saving from all sources (5 ÷ 2)												
Incl. compulsory loans	31.8	36.7	39.3	38.6	35.7	37.4						
Excl. compulsory loans	30.2	33.7	36.9	36.3	33.4	35.0						

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

^b Compared with January-September, 1972.

part of the remuneration of labor is given in the form of various benefits that are not defined as wages.

Income survey¹⁸ data show that there was no significant change in the distribution of wage income among employees during the first nine months of 1973.

7. NATIONAL SAVING

After two years of rapid growth, the rate of national saving moved up only a fraction during the first three quarters of 1973. Calculated in relation to the gross national product, it came to 11 percent as against 10 percent in 1972; this was similar to the average for the 1960s before the Six Day War (10 percent). National saving from all sources (the gross national product plus unilateral transfers from abroad) dipped slightly during the period reviewed, from 21 percent in 1972 to 20 percent.

The return of the national saving rate during the past two years to its level in the first half of the 1960s occurred despite the relatively large share of public consumption in total resource use—about 18 percent in the first nine months of 1973 and an average of 21 percent in 1968–72, compared with 14 percent in 1960–66. The tapering off of the national saving rate during the period reviewed mainly reflects a slightly slower increase in the private sector, whereas public sector dissaving fell from 16–18 percent in the two preceding years to 12 percent. Since unrequited receipts from abroad went up at a very laggard pace this year, the rate of national saving from all sources inched down about 1 percent from its 1972 level.

The smaller percentage rise in the public sector's dissaving during the period reviewed can be credited to the strong 24 percent revenue gain, while non-civilian consumption spending continued upward at a slack rate—8.5 percent in current prices.

The uptrend in private saving, as already noted, slowed during the period reviewed. The percent of income from internal sources exclusive of compulsory loans that was saved dropped from 31 percent in January–September, 1972 to 29 percent. The rate of saving from all sources fell off even more, owing to an absolute drop in personal transfers from abroad.

One reason for the poorer private sector saving performance in 1973 is the adjustment of private consumption to the change in disposable income, after private consumption per capita had lagged behind the growth of disposable income per capita in the two preceding years; it is plausible to assume that the adjustment process lasts more than a year. In addition, the uncertainty as to whether indirect taxes would be hiked after the elections (e.g. the mooted introduction of a value-added tax) apparently induced the advancing of consumer goods purchases.

No significant changes took place during the period discussed in the distribu-

¹⁸ Conducted within the framework of the manpower surveys.

Table II-15
NATIONAL SAVING, 1970-73
(IL million, at current prices)

	1970	1971	1972		1973	
			Jan.- Sept.	Entire year	Jan.- Sept.	Entire year
1. Gross private saving ^a	3,793	5,574	5,492	7,432	6,755	9,849
2. Public sector saving	-3,295	-3,824	-3,421	-4,509	-3,828	-10,930
Net public sector income ^b	3,433	4,116	3,374	4,733	4,190	5,697
Less: Public consumption	6,728	7,940	6,795	9,242	8,018	16,627
3. Gross national saving from GNP (1+2)	498	1,750	2,071	2,923	2,927	-1,081
4. Unilateral transfers from abroad ^c	2,026	2,710	3,075	4,213	3,240	9,229
5. Gross national saving from all sources (3+4)	2,524	4,460	5,146	7,136	6,167	8,148
6. Depreciation	1,822	2,274	2,179	2,905	2,885	3,846
7. Net national saving from NNP (3-6)	-1,324	-524	-108	18	42	-4,927
8. Net national saving from all sources (5-6)	702	2,186	2,967	4,231	3,282	4,302
		Percentages				
9. Rate of gross saving from GNP	2.7	7.5	9.8	10.0	10.7	-2.9
10. Rate of gross saving from all sources	12.2	17.2	21.2	21.4	20.1	17.4
11. Rate of net saving from NNP	-7.9	-2.5	-0.4	0.1	0.2	-14.6
12. Rate of net saving from all sources (less depreciation)	3.7	9.3	13.4	13.9	11.8	10.0

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

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

^c Less net interest payments of the public sector.

tion of national income between labor and nonlabor income or in the distribution of labor income among the wage and salary earners (according to income survey data). Thus this factor apparently did not have any perceptible effect on the rate of private saving in the first nine months of 1973.

The slacker sale of homes also had a downward impact on the rate of saving during the period reviewed, although this was not a very weighty factor. Furthermore, whereas the burden of current debt repayments connected with the acquisition of a home generally causes the family to cut down its current consumption, the rapid growth of nominal income in the first three quarters of 1973 (with only a small percentage of the debts linked to the cost-of-living index) reduced the proportion of total current income going on current debt repayment, thereby depressing the rate of saving.