

CHAPTER XI

NONPROFIT INSTITUTIONS

1. MAIN DEVELOPMENTS

In real terms, the activity¹ of nonprofit institutions expanded in 1976 at a rate similar to that of the previous year, and amounted to IL 7.8 billion.

Total uses (wages, current purchases, and capital expenditure) showed a real growth this year of about 2 percent, as compared to 3 percent in 1975.

Whereas in 1975 nonprofit institutions grew at a similar rate to uses of the whole economy (private and public consumption and investment), the sector's growth in 1976 is contrasted by a 4 percent drop in total domestic uses.

In the year under study payroll outlays rose 34 percent as compared to a 41 percent increase in 1975. The increase in these outlays, 3.5 percent in real terms, reflects a rise both in the cost of labor and in the number of workers.

Current purchases of this sector showed a real growth of 5 percent in 1976, compared to a 4 percent drop in 1975. This corresponds to some extent to the change in private consumption: a 4 percent rise in 1976 following a slight drop in 1975.

In contrast to the increases in wages and current purchases, the sector's investments fell by about 9 percent in 1976, after a 4 percent drop in 1975. It should be noted that in 1976 gross domestic investments as well as investments of the public sector fell at a greater rate (13 percent).

Table XI-1 shows the growth and extent of the activity of the nonprofit institutions as compared with the activity of the economy as a whole, and of the public sector. The sector's uses² represent 6 percent of total domestic uses in 1976 (public and private consumption, and investment), as compared to 5.5 percent in 1975 and 6 percent in 1974. By and large, the sector has maintained its share of domestic uses over a long period. On an annual average this share amounted to approximately 6.5 percent between 1962 and 1972.

The various components of the sector's uses (current purchases, wages and investments) have also maintained their share in the corresponding components of the economy

¹ The scope of nonprofit institution activity is based on a sample of 21 large institutions. The data in this chapter are corrected for the year (the correction takes into account the rate of inflation for this period). The uncorrected data will be presented in the Appendix to the Annual Report.

The terms *uses* and *sources* as used in this chapter exclude financial uses and sources.

TABLE XI-1
ACTIVITY OF NONPROFIT INSTITUTIONS: MAIN INDICATORS, 1974-1976
 (percent)

	1974	1975	1976
Uses as a percent of total domestic uses	6.0	5.5	6.0
Wages as a percent of total domestic wages	12.0	12.0	11.5
Current purchases as a percent of total private consumption	5.0	4.0	4.0
Capital expenditure as a percent of total gross investment	4.5	4.5	5.0
Capital expenditure as a percent of total public capital expenditure	73.0	74.0	71.0
Wages as a percent of total wages in public sector (excluding defense)	52.0	52.0	53.0
Uses as a percent of total civilian public consumption	75.0	72.0	72.0

as a whole; for example, current purchases in this sector represented 4 percent of total private consumption in 1976, which is similar to the two previous years and to the long-term average. The sector's investments in 1976 represented approximately 6 percent of gross domestic investment a proportion which has remained stable over the last few years.

The economic activity of the sector was funded by the public sector, by foreign sources, and by its own sources. In 1976, the lion's share of the financing was provided by transfer payments amounting to IL 4.3 billion. Approximately IL 3 billion was earned through sales, and another half-billion pounds were recorded as deficit.

In 1976 the sector's own sources³ represented 39 percent of the total sources at its disposal, a slight rise from 37 percent in the previous two years. This rise was mainly the result of increased hospitalization fees. It also partly explains the fact that this year's deficit forms a smaller proportion of the total resources than in the previous years: 8 percent in 1974, 9 percent in 1975, and only 6.5 percent in 1976. It should be noted that the institutions which support this sector, especially the government, put pressure on it to reduce its deficits, in accordance with the government's general policy of cutting its own budgets.

³ Own sources include sales (together with membership fees) and transfers from the private sector.

It is worth emphasizing here that the purpose of the nonprofit institution sector is to provide public services and products, generally at below-cost price. For this reason nonprofit institutions are dependent on the public sector, which regards their activity as complementing its own welfare functions. Because of the size and complexity of the sector, as well as the large number of its institutions, it is impossible for the government to determine the extent of the sector's activities in accordance with governmental economic policy. This is the reason for deficit budgets and the differences between proposed and actual expenditures, especially in development budgets. Ultimately, the government must support the institutions and cover their losses. The cumulative deficit of the sector expresses the problem clearly: it has grown from IL 600 million at the beginning of 1974 to more than one billion pounds in 1976. The public sector aids institutions by means of grants, loans to consolidate debts, linkage insurance, etc. This support totaled IL 40 million in 1974, grew to IL 200 million in 1975, then to IL 320 million in 1976.

The annual deficit of the nonprofit institutions, remaining after the support of the public sector, was covered by financial sources. These financial sources included revenues from loans and sale of financial assets, and growth of the institutions' funds. This year the financial sources totaled approximately IL 900 million, compared to one billion pounds in 1975. The decrease in 1976 was mainly the outcome of the smaller number of loans following the general increase in interest rates, and of the reduced deficit resulting from a drop in the sector's investment.

Mention must be made of the marked rise in real dissaving of the sector and the growth of independent resources. This was accompanied by a decrease in transfers from the public sector and increased dependence on foreign sources.

The demand surplus of the sector fell in real terms by 3 percent in 1976. This drop is quite small compared to the sharp drop in real terms in the domestic demand surplus of the public sector (see Table XI-4).

2. STRUCTURE OF THE SECTOR

The nonprofit institution sector consists of more than ten thousand institutions. They are generally registered as Ottoman societies, which are taxed at a lower rate than other institutions. The institutions operate in several spheres: education, health, social welfare, and other social services. The latter include religious foundations, sports institutions, professional associations, etc. However, a relatively small number of institutions (about 20) form the main part of the sector.

Education and research institutions accounted for about 39 percent of the sector's uses in 1976, compared to 40 percent in 1975 and 42 percent in 1974. This decline in the share of education continues a trend which began at the beginning of the 70s, when its weight in the sector's uses had reached a high of 44 percent following a period of rapid expansion (primarily in higher education).

TABLE XI-2

**EXPENDITURE AND REAL GROWTH OF THE NONPROFIT INSTITUTION
SECTOR BY FIELD OF ACTIVITY, 1974-1976**

	1974	1975	1976	1975	1976
	(IL million)		(percent)		
Health					
Wages	813.6	1,202.3	1,612.2	12.0	3.5
Current purchases	660.8	912.4	1,311.0	-1.5	11.0
Capital expenditure	299.5	414.7	501.3	4.5	-7.0
Total	1,773.9	2,529.4	3,424.5	6.0	4.5
Education and research					
Wages	938.3	1,252.2	1,678.0	4.5	3.5
Current purchases	473.3	603.3	787.3	-9.0	1.0
Capital expenditure	420.3	532.2	612.7	-4.5	-11.0
Total	1,831.9	2,387.7	3,078.0	-2.5	0.5
Social welfare and miscellaneous					
Wages	343.6	490.6	659.9	8.0	4.0
Current purchases	251.0	359.1	455.6	2.0	-2.0
Capital expenditure	171.5	191.3	233.0	-16.0	-6.0
Total	766.1	1,041.0	1,348.5	1.0	0.0
Sector totals					
Wages	2,095.5	2,945.1	3,950.1	7.0	3.5
Current purchases	1,385.1	1,874.8	2,533.9	-3.5	5.5
Capital expenditures	891.3	1,138.2	1,347.0	-4.0	-9.0
Total	4,379.1	5,858.1	7,851.0	1.5	2.0

NOTE: Current purchases include interest payments. In order to get the real rate, data on wages were discounted by wage rises in the public sector. Current purchases were discounted by the price index of private consumption, and investments – by the price index of investment in the public sector.

Health institutions underwent the opposite trend: these have expanded since 1972 in both investment and current expenditures. Their share of the sector was 44 percent in 1976, compared to 42 percent in 1975. The expansion of health institutions compensated for the contraction of educational institutions. The sector's remaining institutions — social welfare and others — more or less maintained their share of the sector in recent years. They accounted for about 17 percent of the sector's activities in 1976.

These developments are also reflected in real terms: in 1976 there was no change in educational services after a slight drop in 1975, while the real activity of health institutions grew by about 5 percent in 1976, as compared with 6 percent in 1975.

3. USES OF FUNDS

The sector's total uses (excluding financial uses, see below) amounted to IL 7,851 million in 1976, a real increase of 2 percent, similar to the rise of last year.

The uses include wages, capital purchases and current purchases; the latter include interest payments. The weight of wages in total expenditures grew from 48 percent in 1974 to 50 percent in 1976. The weight of current purchases was stable, while that of capital purchases declined from 21 percent in 1974 to approximately 17 percent in 1976. This is a side-effect of the freeze imposed by the government on public building, which together with the budgetary cuts (mainly in the development budget), reduced the resources of the institutions. This even forced the institutions to make use of short-term monetary sources and to increase the size of the cumulative deficit in the development budget. As current expenditures (purchases and wages) are generally difficult to reduce, the public sector concentrated its pressure on the investment budgets of the institution. Meanwhile other uses continued to maintain their share of the total. Nevertheless, the development was different in the various areas; in health institutions current purchases rose in real terms by 11 percent, while capital purchases declined by 7 percent; in educational institutions there was a sharp drop in investments in real terms, while current purchases rose, though at a relatively slow rate.

4. SOURCES OF FUNDS

The sources (excluding financial sources) which financed the economic activity of the sector were independent sources of the sector itself, transfers from the public sector, and transfers from abroad. The annual deficit recorded represents the difference between the total revenues of the sector and the uses.

TABLE XI-3
**TOTAL SOURCES OF THE NONPROFIT INSTITUTION SECTOR
 BY FIELD OF ACTIVITY, 1974-1976**

	1974	1975	1976	Changes as compared to the previous year			
				1975	1976		
	(IL million)			(percent)			
Health							
Net transfers from the public sector	378.3	550.6	650.0	46	20		
Foreign transfers	149.6	224.6	341.7	50	52		
Independent sources	1,016.9	1,396.9	2,016.7	37	44		
Annual deficit	229.1	357.3	407.1	56	14		
Total sources	1,773.9	2,529.4	2,424.5	43	35		
Education and research							
Net transfers from the public sector	1,157.4	1,483.5	1,918.0	28	29		
Foreign transfers	259.4	377.5	554.3	46	47		
Independent sources	311.7	419.8	583.3	35	39		
Annual deficit	103.4	106.9	22.4	3	-80		
Total sources	1,831.9	2,387.7	3,078.0	30	29		
Social welfare and miscellaneous							
Net transfers from the public sector	190.4	238.0	309.7	25	30		
Foreign transfers	275.0	342.6	478.3	25	40		
Independent sources	278.1	378.3	485.6	36	28		
Annual deficit	22.6	82.1	74.9	263	-9		
Total sources	766.1	1,041.0	1,348.5	36	30		
Sector totals							
Net transfers from the public sector	1,726.1	2,272.1	2,886.7	32	27		
Foreign transfers	684.0	994.7	1,374.3	38	45		
Independent sources	1,060.9	2,195.1	3,085.6	37	41		
Annual deficit	355.1	546.3	504.4	54	-8		
Total sources	4,371.9	5,958.1	7,851.0	36	32		

The lion's share of the revenues consists of transfers from the public sector (net transfers)⁴. These declined, in real terms, by approximately 2 percent, compared to a drop of 6 percent in 1975; as a result, the share of net transfers from the public sector in total revenues fell from 43 percent in 1974 to 39 percent in 1976. Government pressure to cut institutional budgets in this sector, as part of its general economic policy, encouraged the institutions to enlarge their income from other sources – from abroad, from independent sources and by means of loans. As a result, the weight of transfers from abroad grew from 17 percent in 1975 to 19 percent in 1976. The weight of independent sources also grew: from 40 percent in 1974 to 42 percent in 1976. It should be mentioned that the public sector granted its support on the condition that the institutions increase their independent sources.

TABLE XI-4

**EFFECT OF NONPROFIT INSTITUTIONS ON NATIONAL SAVING,
THEIR DEMAND SURPLUS, AND ITS FINANCING, 1974–1976**

	1974	1975	1976
	(IL million)		
Demand surplus			
1. Expenditure on current account	3,480.6	4,819.9	6,504.0
2. Less: sales and net transfers from other domestic sectors	3,332.8	4,467.1	5,972.3
3. Dissaving on current operations	147.8	352.8	531.7
4. Capital expenditure	891.3	1,138.2	1,347.0
5. Demand surplus (3)+(4)	1,039.1	1,491.0	1,878.7
Financing of demand surplus			
6. Foreign transfers	684.0	944.7	1,374.3
7. Net credit from other domestic sectors	355.1	546.3	504.4
8. Total	1,039.1	1,491.0	1,878.7

Linkage insurance was given to the sick funds on the condition that medical insurance fees rose and a charge was put on medications. The sector's independent sources did in fact rise in real terms by 9 percent in 1976 after a decline in 1975 of approximately 3 percent.

⁴ The total net transfers from the public sector amounted to IL 2,887 million in 1976. In Chapter X (The Public Sector) transfers totaling IL 3,169 million are recorded. The estimates are based on different data-gathering methods, as well as on a different definition of population.

It is worth noting that public sector support of educational institutions is considerably higher than its support of medical institutions. Two thirds of the revenues of educational institutions come from public sector transfers, in contrast with one quarter of the total revenues of health institutions.

In 1976 foreign transfers increased in real terms, both in relation to local prices (by 12 percent) and prices in foreign currency, after stabilizing in the previous year.

5. THE DEMAND SURPLUS AND ITS FINANCING

A partial estimate of the contribution of the nonprofit institution sector to the general demand of the economy can be made by estimating the demand surplus and the means of financing it (see Table XI-4). The dissaving of the sector, resulting from its current activities, is obtained by deducting from current expenditures (wages and current purchases) the total of all sales and transfers from other sectors of the economy.

Dissaving has grown from IL 148 million in 1974 to about half a billion pounds in 1976, which in real terms represents a substantial increase over the past two years.

If capital purchases are added to the dissaving of the sector, the result is an estimate of its demand surplus, which is a measure of its effect on demand pressure in the economy. The slowdown in investments, compensating for the substantial rise, in real terms, of the dissaving, caused a drop of approximately 3 percent, in real terms, in the demand

TABLE XI-5
FINANCIAL SOURCES AND USES OF THE SECTOR, 1974-1976
(IL million)

	1974	1975	1976
Total financial sources	687.3	1,044.6	896.1
Components: Receipt of long-term loans	245.4	187.3	130.5
Receipt of short-term loans	134.0	306.0	218.7
Foreign loans	25.0	15.6	17.0
Growth of funds	244.6	343.4	207.8
Loans for consolidation of debts and other support	38.3	192.3	322.0
Total financial uses	687.6	1,044.6	896.1
Components: Annual deficit	355.1	546.3	504.4
Growth of current assets (inventory, cash, deposits)	63.6	82.5	55.6
Acquisition of financial assets	197.0	336.6	244.1
Loan repayments	71.6	79.2	92.0

NOTE: Data on financial sources and uses for 1974 and 1975 are based on a sample of 18 institutions, rather than 21 institutions as in the other tables. For 1976 the data from some of the institutions are based on partial information rather than on information derived from the institution budget. All data are based on net growth.

surplus, following a rise of about 3 percent in 1975. The restraint on the activity of the nonprofit institution sector in 1976 was less rigorous than the self-imposed restraint of the public sector. For this reason, the share of the nonprofit institution sector in the demand surplus of the entire public sector (including nonprofit institutions) is 42 percent this year, as opposed to 19 percent in 1975 and in the two previous years.

6. FINANCIAL RESOURCES AND USES

The total financial resources of the sector dropped from a billion pounds in 1975 to IL 900 million in 1976⁵. The largest part of the drop stems from the reduction of credit which the sector's institutions received from banks, the public sector, suppliers, and contractors. There was a noticeable decrease in short-term credit at high interest (which showed a sharp rise in 1976): from IL 300 million in 1975 to IL 200 million⁶ in 1976.

Another aspect of the financial resources which is worth noting is the growth in the support of the public sector for the institutions. Especially significant were the arrangements approved by the Ministerial Committee for Economic Matters in April 1976, for providing sick funds with linkage insurance on linked loans: IL 230 million was thus granted⁷. These loans were intended to consolidate debts, following the increase of deficits caused mainly by the cancellation of hospitalization subsidies⁸.

“Growth of Funds” (which is also one of the components of financial resources) also fell this year from IL 340 million to IL 200 million in 1976. These funds are intended for specific purposes, which are generally determined by the institution.

They include funds for anticipated price rises, stipend funds, advanced-study funds, pension funds, funds for projects which have not yet been carried out. There are also funds whose purpose is determined by foreign sources. Some of the funds are used to finance investment projects, and it is the reduction of the latter which caused the drop in funds in 1976.

The total of financial resources, after deducting financial uses, represents a deficit for the year, which amounted to a half billion pounds in 1976. After deducting support of IL 320 million (most of which is the government's support of the sick funds), the

⁵ The data on financial resources for 1976 are based on a sample of a smaller number of institutions, and derived from partial information from institutions on their balances. As a result, their reliability is lower than other data, which are based on income and expenditure reports or budget proposals.

⁶ This estimate is also based on the differences in credit balances on balance sheets as well as additional information on this credit. It should be seen therefore as a low estimate, and it may be assumed that the actual figure is higher.

⁷ IL 200 million to the General Sick Fund of the Histadrut, and the remainder to other sick funds.

⁸ Financing of approved projects of the General Sick Fund as follows: approximately one third from the State budget; one third budgetary loans; the remainder from independent financing, for which linkage insurance and a 6 percent premium were provided.

deficit amounted to IL 180 million. After deducting the support, the annual deficit adds up, and from the beginning of 1977, the cumulative deficit amounts to IL 1.3 billion.

Finally, mention must be made of the financial uses. Among the most important components of the financial uses are investments in financial assets and the growth in current assets of the institutions (cash supply and deposits). Acquisition of financial assets amounted to IL 240 million in 1976.