

CHAPTER VIII

NONPROFIT INSTITUTIONS

This sector numbers more than 6,000 institutions¹ supplying social services in various spheres, with health and education together accounting for nearly 80 percent of the sector's total expenditure. The other institutions provide services in social welfare and other fields, such as culture, religion, and labor. Testifying to the high degree of concentration of this sector is the fact that over 70 percent of the total expenditure is accounted for by 17 large institutions.²

The composition of expenditure is fairly uniform in all fields of activity: about half the total consists of wage, salary, and fringe benefit payments; about a third represents current purchases; and the balance consists of investments. This breakdown held steady during the past decade and carried over through the year reviewed.

The same uniformity does not characterize the sector's income: in 1971 about 80 percent of the total revenue of health institutions and professional and social organizations came from "independent" sources (transfers from households and business and the sale of services and goods), but these sources provided less than half the revenue of the welfare and only 21 percent of that of the educational and research institutions. Educational and research institutions are financed chiefly by net transfers from the public sector (61 percent in 1971), while the bulk of the social welfare institutions' funds (35 percent) consists of transfers from abroad.

Analysis of the sector's receipts shows a long-run rising trend in the weight of public sector transfers and a decline in foreign transfers and in independent sources. Developments in the education and research sphere are responsible for this trend.

1. MAIN DEVELOPMENTS

Nonprofit institution expenditure was up 24 percent in 1971³ to reach IL 1,969 million. Since the institutions' consumption prices rose 14 percent and investment prices by 15 percent, the real growth of expenditure was approximately 8 percent. By far the greater part of this increase took place in education and research, while the other institutions more or less maintained their 1970 level of real expenditure.

1. Including more than 5,000 synagogues.
2. The latest check was made in 1967.
3. The reference throughout is to financial and not calendar years. The absence of reports on the current operations of this sector precludes the calculation of reliable estimates for calendar years, as the institutions' balance sheets are submitted for financial years only.

Table VIII – 1
FLOW-OF-FUNDS STATEMENT OF NONPROFIT INSTITUTIONS, 1969-71
 (IL million)

Receipts	1969	1970 ^a	1971 ^b	Percent increase or decrease (–)		Payments	1969	1970 ^a	1971 ^b	Percent increase or decrease (–)	
				1970	1971					1970	1971
Transfers and transactions in services and goods											
Net transfers from the public sector	320.0	419.4	604.2	31	44	Purchases on current account	1,072.5	1,304.8	1,565.2	21	20
Net transfers from abroad	178.0	225.5	268.1	27	19	Purchases on capital account	222.4	258.0	377.5	16	46
Transfers from households and business	455.2	494.4	564.4	9	14	Transfers to households	25.1	27.2	26.2	8	–3
Membership dues and taxes	393.6	434.7	493.7	10	14						
Other transfers	61.6	59.7	70.7	–3	18						
Sales of services and goods	259.7	302.3	345.0	16	14						
Total	1,212.9	1,441.6	1,781.7	19	24	Total	1,320.0	1,590.0	1,969.0	20	24
Financial transactions and intrasector transfers											
Net credit from other domestic sectors ^c	107.1	148.4	187.1	38	26	Intrasector transfers	20.2	24.3	24.0	20	–1
Intrasector transfers	20.2	24.3	24.0	20	–1						
Total receipts	1,340.2	1,614.3	1,993.0	20	23	Total payments	1,340.2	1,614.3	1,993.0	20	23

^a Revised data.

^b Provisional data.

^c Credit data are obtained residually and hence are not very reliable.

The percentage rise in expenditure was accompanied by a corresponding growth of income in all fields of activity; the total gain was 24 percent, bringing the level up to IL 1,782 million. Since the institutions' expenditure outweighs their income, their demand surplus increased in absolute terms and they had to borrow more heavily from other domestic sectors – IL 187 million as against IL 39 million in 1970.

The sector reduced its dissaving in the year reviewed by IL 32 million, or by one quarter compared with 1970. This, however, cannot be credited to the growth of the institutions' independent sources; on the contrary, current purchases expanded by IL 261 million, while sales proceeds went up by only IL 43 million. The smaller negative saving stemmed solely from the sharply larger volume of public sector transfers during the year – these soared by 44 percent to IL 604 million.

On the other hand, the sector's investment (net of public sector transfers on capital account) rose by IL 113 million. As a consequence, the institutions' demand surplus went up by IL 81 million to IL 455 million. The proportion of the surplus financed by transfers from abroad came to 59 percent (compared with 60 percent in 1970 and 63 percent in 1969), while the incremental credit from other domestic sectors provided the balance.

Developments in the sphere of education and research overshadowed all other activities of the sector. In 1970 the Government imposed a number of anti-inflationary restrictions on institutions in this field; in 1971 these were lifted and capital spending shot up 47 percent in real terms. The discontinuation of fund-raising activities, in accordance with an agreement concluded in 1970 between the Treasury and the institutions (which provided for their recompensation by the Treasury for the resulting loss of income) found full expression in 1971, when there was a nominal rise of 56 percent in net public sector transfers to educational and research institutions. It must be remembered, however, that this followed a real decline in the institutions' capital expenditure in 1970.

2. FLOW OF FUNDS

(a) *Receipts*

Most of the sector's 24 percent additional receipts were absorbed by higher prices (up 14 percent); the only real resource increment went to educational institutions. The composition of receipts continued to change in line with the trend evident for the past several years: a decline in the weight of foreign transfers and of independent sources and a rise in public sector transfers.

1. *Transfers from households and business*⁴

Transfers from households and business and sales of services and goods, which actually constitute the sector's independent source of income, were up 14 percent in

4. The overwhelming share – over 80 percent – of these transfers consists of membership dues and taxes, which actually constitute a form of payment for services and commodities provided by the nonprofit institutions. There is therefore no point in distinguishing between these transfers and sales.

Table VIII – 2
TRANSFERS FROM HOUSEHOLDS AND BUSINESS AND SALES BY
NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1969-71
(IL million)

Field of activity	1969	1970	1971	Percent increase or decrease (-)		Transfers and sales as a percent of total receipts		
				1970	1971	1969	1970	1971
Health	380.3	432.4	493.4	14	14	81	78	77
Education and research	139.8	153.8	175.4	10	14	29	26	22
Social welfare	66.8	68.0	78.2	2	15	56	46	46
Other	128.1	142.5	162.4	11	14	85	84	84
Total	714.9	796.7	909.4	11	14	59	54	50

1971 to stand at IL 909 million. A glance at Table VIII-2 shows, however, that there has been a consistent downtrend in the weight of these items over the past three years.

As mentioned above, health institutions and professional and social organizations are among the most "independent" of the sector's institutions so defined: sales receipts and transfers from households and business financed about 67 percent of the health institutions' total expenditure and about 90 percent of that of the professional and social organizations. In the rest of the sector the figures are much lower (a mere 19 percent in education and 48 percent in social welfare).

2. Public sector transfers

The weight of net public sector transfers in total receipts has been rising for the past several years. In 1971 they swelled by IL 185 million (44 percent) to reach IL 604

Table VIII – 3
NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1969-71
(IL million)

Field of activity	1969	1970	1971	Percent increase or decrease (-)		Public sector transfers as a percent of total receipts		
				1970	1971	1969	1970	1971
Health	55.9	79.4	84.8	42	7	12	14	13
Education and research	239.3	307.6	481.5	29	56	49	52	61
Social welfare	12.7	19.2	22.8	51	19	10	13	14
Other	12.1	13.1	15.2	8	16	8	8	8
Total	320.0	419.4	604.2	31	44	26	29	33

million, bringing their weight up to 33 percent. The reasons for this growth were explained above.

As in the past, the lion's share of public sector transfers went to educational and research institutions (about 80 percent). But it should be pointed out that in both 1970 and 1971 some IL 50 million was recorded under this head even though it actually represented long-term Government loans.⁵

3. *Transfers from the rest-of-the-world sector*

Transfers from abroad to the nonprofit institutions added up to IL 268 million, a rise of only 19 percent as opposed to 27 percent in 1970. The deceleration was due to the 1970 agreement to discontinue the overseas fund-raising activities of a number of institutions of higher education. Owing to the formidable weight of the educational and research institutions among the recipients of such funds, this step of the Treasury slowed down the rate of growth of these transfers to the sector as a whole, despite the respectable 36 percent increase in the case of health institutions.⁶

Table VIII – 4
TRANSFERS FROM ABROAD TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1969-71
(IL million)

	1969	1970	1971	Percent increase or decrease (–)		Transfers from abroad as a percent of total receipts		
				1970	1971	1969	1970	1971
Health	30.5	42.3	57.6	39	36	7	84	9
Education and research	97.0	119.8	137.8	24	15	20	21	17
Social welfare	39.5	51.8	59.6	31	15	32	34	35
Other	11.0	11.5	13.1	5	14	7	7	7
Total	178.0	225.5	268.1	27	19	15	16	15

(b) *Payments*

Purchases on current account totalled IL1,565 million, a real rise of 5 percent compared with 1970. All of the increment stemmed from the heavier consumption spending by educational and research institutions, whose current purchases and payroll outlay were up 28 percent at current prices.

Purchases on capital account also rose noticeably, by IL 119 million or 27 percent in real terms. This can be attributed to the steep 47 percent increase recorded by educational institutions (part of the outlays were on projects that had been deferred in 1970).

5. Hence the differences between the data cited in this chapter and those in Chapter VII.

6. In 1971 a fairly large number of overseas donors provided funds for the establishment of health institutions throughout the country.

Table VIII – 5
EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF
ACTIVITY, IN SELECTED YEARS, 1962–71

	(percentages)				
	1962	1965	1969	1970	1971
Health	41	41	38	38	36
Education and research	32	34	41	41	43
Social welfare	14	12	10	10	10
Other	13	13	11	11	11
Total	100	100	100	100	100

Other payments, namely transfers to households, account for only a small fraction of the sector's total expenditure (about 2 percent). In the year reviewed these payments (chiefly scholarships and welfare allotments) added up to IL 27 million.

As may be seen from Table VIII-5, 80 percent of the sector's total expenditure is concentrated in health and education. Some degree of substitution has manifested itself between these two spheres: while the weight of education and research is on the ascendant, that of health has been drifting downward. In consequence, the composition of the educational institutions' expenditure is increasingly dominating the pattern for the sector as a whole.

1. Purchases on current account

As mentioned above, purchases on current account totalled IL 1,565 million in 1971 – a nominal rise of 20 percent. Both payroll outlay and the other items moved up at roughly the same rate.

Table VIII–6
WAGES AND TRANSFERS PAID TO HOUSEHOLDS AND BUSINESS BY
NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1969-71
 (IL million)

Field of activity	1969	1970	1971	Percent increase or decrease (–)		Wages and transfers as a percent of total payments on current account		
				1970	1971	1969	1970	1971
				Health	245.3	320.1	364.3	30
Education and research	295.1	361.5	464.3	22	28	53	55	52
Social welfare	66.3	72.3	83.1	9	15	52	48	48
Other	81.7	89.7	103.9	10	16	57	57	58
Total	688.4	843.5	1015.7	23	20	52	52	51

Payrolls aggregated IL 990 million, compared with IL 816 million in 1970. This 21 percent increment reflected a 28 percent rise in the educational institutions (after the teachers went out on strike they were awarded increases under an agreement signed in April 1971) and one of 15 percent in other institutions.⁷

The sector's other current-account purchases totalled IL 576 million in 1971, up 18 percent. Developments here resembled those for wage payments: there was a substantial 27 percent rise in educational and research institutions and a more moderate 14 percent rise in the other fields. The appreciable increase in the former came after the real level had tapered off in 1970.

Table VII-7
NONPROFIT INSTITUTION PURCHASES ON CURRENT ACCOUNT,^a
BY FIELD OF ACTIVITY, 1969-71
(IL million)

Field of activity	1969	1970	1971	Percent increase or decrease (-)		Current-account purchases as a percent of total payments.		
				1970	1971	1969	1970	1971
Health	210.3	258.6	295.3	23	14	41	40	40
Education and research	125.1	143.1	182.3	14	27	22	22	20
Social welfare	44.5	38.6	44.3	-13	15	35	26	26
Other	46.0	48.2	53.8	5	12	32	30	30
Total	425.9	488.4	575.9	15	18	31	30	29

^a Interest paid is included net of interest received.

2. *Purchases on capital account*

The predominant influence exerted by the educational and research institutions on the sector's development in 1971 stands out especially in the investment item. Compared with the IL 258 million spent by the sector on capital purchases in 1970, outlays in the year reviewed reached IL 377 million, with 85 percent of the increment being in education. Capital-account purchases of educational institutions soared 47 percent in real terms, pushing up the figure for the entire sector by 27 percent (46 percent in nominal terms), even though the real level remained unchanged in other fields.

(c) *Demand surplus⁸ and financing of capital-account purchases*

The sector's dissaving declined in the year surveyed from IL 128 million to IL 96 million. The chief factor in the contraction was the appreciable IL 185 million increase in

7. Substantial wage and salary hikes were also awarded in 1971 to health personnel, but since most of these were paid by April 1971 (see note 3), they appear in the figures for 1970 (see Table VIII-6).

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

Table VIII – 8
CAPITAL EXPENDITURE OF NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1969-71
(IL million)

	1969	1970	1971	Percent increase or decrease (-)		Capital expenditure as a percent of total payments		
				1970	1971	1969	1970	1971
Health	51.7	66.9	79.1	29	18	10	10	11
Education and research	138.0	146.3	247.3	6	69	25	22	28
Social welfare	17.0	28.6	32.9	68	15	13	19	19
Other	15.7	16.2	18.3	3	13	11	10	10
Total	222.4	258.2	377.5	16	46	17	16	19

Table VIII – 9
CONTRIBUTION OF NONPROFIT INSTITUTIONS TO NATIONAL
SAVING, THEIR DEMAND SURPLUS, AND ITS FINANCING, 1969-71
(IL million)

	1969	1970	1971
Contribution of sector to national saving			
1. Net transfers on current account from other domestic sectors	742.1	874.6	1,124.4
2. Less: Purchases on current account net of sales	813.2	1,002.5	1,220.2
3. Contribution of sector to national saving (1-2)	-71.1	-127.9	-95.8
Demand surplus			
4. Purchases on capital account	222.4	258.0	377.5
5. Less: Net transfers on capital account from the public sector	8.0	12.0	18.0
6. Subtotal (4-5)	214.4	246.0	359.5
7. Demand surplus (6-3)	285.5	373.9	455.3
Financing of demand surplus			
8. Transfers from the rest of the world	178.9	225.5	268.1
9. Net credit from other domestic sectors	107.5	148.4	187.1
Total	285.5	373.9	455.3
Share of transfers from abroad in financing purchases			
on capital account $\left(\frac{8+3}{4}\right)$	48	38	46
Demand surplus as a percent of total purchases	22	24	23
Demand surplus as a percent of purchases net of sales	27	30	29

public sector transfers; 94 percent of the sum was channelled to educational and research institutions, enabling them to show, for the first time, a positive saving (IL 8 million).

Despite the better saving figure in 1971, the sector's demand surplus swelled, as already noted, by IL 81 million (22 percent) and totalled IL 445 million. This was due to the much heavier capital spending by educational and research institutions, which registered a 54 percent real increase and accounted for 85 percent of the sector's total growth in capital-account outlays.

Transfers from abroad covered 59 percent of the sector's demand surplus, while the balance was financed by borrowing IL 39 million more from other domestic sectors, bringing the total of such credit up to IL 187 million.⁹

The nonprofit institutions invariably run a sizable demand surplus, since about two-thirds of it is financed every year by overseas sources. This phenomenon is partly structural, for some of the institutions obtain the bulk of their funds from their overseas headquarters; moreover, a substantial portion of the foreign transfers is earmarked for specific building projects.

Because of the better saving performance in the year surveyed, a larger share of the transfers was available for financing investment, and 48 percent of total capital-account purchases was covered from this source, as opposed to 38 percent in 1970.

One yardstick of the sector's dependence on foreign transfers and credit from other domestic sectors is the ratio between its demand surplus and total purchases. The long-run downtrend in this ratio, which began in 1957, was reversed in 1965 and again in 1970 – in both cases apparently because of the sharply higher wage bill; in 1971 the ratio continued downward but did not reach its 1969 level.

9. The decline in the weight of overseas transfers in financing investment in 1970 was due to the need to divert more of these receipts to covering the sector's increased dissaving caused by the heavier payroll outlay.