

## CHAPTER VIII

# NONPROFIT INSTITUTIONS<sup>1</sup>

### 1. MAIN DEVELOPMENTS

THIS SECTOR consists of some 6,500 institutions supplying various services, chiefly to households, in the spheres of education, health, social welfare, and religion, as well as in the social and political fields. The institutions differ from one another in size, rate of development, and particularly in the nature of their activities; but a common feature of this heterogeneous group is that the institutions either receive no payment for their services, or sell them at a price covering only part of the cost.

The sector's payments totalled IL 1,275 million in 1969, up more than 11 percent from the previous year.<sup>2</sup> At constant prices, the increase was 10 percent as against 9 percent in 1968. The more rapid rise in 1969, in contrast to the decelerated development experienced by other sectors, is attributable to a big growth in personnel on the one hand and to a much heavier investment on the other. These developments were connected with the accelerated expansion of institutions of higher education, whose weight within the sector has been moving up steadily.

Receipts on real (i.e. nonfinancial) account went up by 8 percent in 1969 to reach IL 1,177 million. A breakdown by component items shows a continuation of the long-run rising trend in the weight of transfers from the public sector and a fall in that of receipts from abroad. This is partly due to the growing weight of educational and research institutions, which rely largely on the public sector for their financing, and a decline in the relative importance of institutions depending more heavily on funds from abroad.

The sector's demand surplus rose by IL 44 million in 1969, leading to a corresponding increase in the credit inflow from other domestic sectors. Its dissaving was reduced by IL 4 million and amounted to -IL 39 million.

<sup>1</sup> The data cited in this chapter do not correspond to those in Chapter IV.

<sup>2</sup> Political parties are not included in this chapter. If they were, nonprofit institution payments would have been over 3 percent higher. (Outlays by political parties in the 1969 election year increased by about IL 40 million.)

**Table VIII-1**  
**FLOW-OF-FUNDS STATEMENT OF NONPROFIT INSTITUTIONS, 1968-69**  
(IL million)

Receipts	1968 <sup>a</sup>	1969 <sup>b</sup>	Percent increase or decrease (-)		Payments	1968 <sup>a</sup>	1969 <sup>b</sup>	Percent increase or decrease (-)	
<b>Transfers and transactions in services and goods</b>									
Net transfers from the public sector	286.7	334.1	47.4	16.7	Purchases				
					On current account	943.8	1,024.1	80.3	8.5
Net transfers from the rest of the world	152.9	157.1	4.2	2.6	On capital account	177.5	224.7	47.2	26.6
Transfers from households and business					Transfers to households	23.7	26.6	2.9	12.2
Membership dues and fees	360.5	372.2	11.7	3.2					
Other transfers	58.5	63.2	4.7	8.0					
Sales of services and goods	227.5	250.2	22.7	10.0					
Total	<b>1,086.1</b>	<b>1,176.8</b>	<b>90.7</b>	<b>8.3</b>	Total	<b>1,145.0</b>	<b>1,275.4</b>	<b>130.4</b>	<b>11.4</b>
<b>Financial transactions and intrasector transfers</b>									
Net credit from other domestic sectors <sup>c</sup>	58.9	98.6	39.7	67.4					
Intrasector transfers	18.0	20.0	2.0	11.1	Intrasector transfers	18.0	20.0	2.0	11.1
Total receipts	<b>1,163.0</b>	<b>1,295.4</b>	<b>132.4</b>	<b>11.4</b>	Total payments	<b>1,163.0</b>	<b>1,295.4</b>	<b>132.4</b>	<b>11.4</b>

<sup>a</sup> Revised data.

<sup>b</sup> Provisional data.

<sup>c</sup> Credit data are obtained residually and hence are not very reliable.

## 2. ROLE OF THE NONPROFIT INSTITUTIONS AND THE PUBLIC SECTOR IN THE PROVISION OF SERVICES<sup>1</sup>

Both nonprofit institutions and the public sector provide services in the spheres of health, education, and social welfare. Health services are supplied mostly by Sick Funds and a number of hospitals; in education, culture, and religion the overwhelming majority of the organizations are institutions of higher learning, research institutes, yeshivot (Talmudic academies), and synagogues. Social welfare institutions consist primarily of various women's organizations, social welfare bodies of the Histadrut (General Federation of Labor), children's institutions (including orphanages), and old-age homes.

The weight of nonprofit institutions in the health and social welfare fields continued downward in the year reviewed, as the public sector expanded its supply of such services at a relatively faster rate. In educational, cultural, and

Table VIII-2

### EXPENDITURE OF NONPROFIT INSTITUTIONS AND THE PUBLIC SECTOR, BY FIELD OF ACTIVITY, 1962-69<sup>a</sup> (IL million)

	Annual average 1962-66	1968	1969
<b>Health</b>			
Public sector	130	227	294
Nonprofit institutions	293	439	472
<b>Education, culture, religion</b>			
Public sector	459	888	949
Nonprofit institutions	281	463	540
<b>Social welfare</b>			
Public sector <sup>b</sup>	310	647	693
Nonprofit institutions	91	113	122
<b>Share of nonprofit institutions in total services provided by public institutions (%)</b>			
Health	69	66	62
Education, culture, religion	38	34	36
Social welfare	23	17	15

<sup>a</sup> The expenditure of nonprofit institutions consists of purchases on current and capital account and transfers to households, but not intrasector transfers; public sector expenditure consists of purchases on current and capital account, welfare payments, and development budget loans, less transfers to nonprofit institutions and intrasector transfers.

<sup>b</sup> Includes expenditure of the National Insurance Institute.

<sup>1</sup> Owing to lack of data on private sector expenditure on the supply of services, a comparison can be made only between the nonprofit institutions and the public sector. The private sector provides services in the fields of education, health, and social welfare, but its share is apparently small compared with those of the other two sectors.

religious services, the decline in the importance of nonprofit institutions was checked, mainly because of the notable expansion of institutions of higher learning on the one hand and the decelerated increase in educational services provided by local authorities on the other.

Public sector expenditure on these services does not include transfers to nonprofit institutions. If these were added to the public sector's outlays, the decline in the share of the nonprofit institutions in these fields would have been even more pronounced, particularly in education, culture, and religion, for which most of the public sector's transfers are intended.

### 3. FLOW-OF-FUNDS STATEMENT OF THE NONPROFIT INSTITUTIONS

#### (a) Receipts

The structure of the institutions' receipts continued to change in line with trends begun in 1962, the most conspicuous of which is the growing weight of public sector transfers and the decline in that of transfers from abroad. The share of public sector transfers in the institutions' receipts moved up from 17 percent in 1962 to 29 percent in 1969, while that of overseas receipts dropped from 23 to 13 percent during this period (see Table VIII-3). The share of other

**Table VIII-3**  
**RECEIPTS OF NONPROFIT INSTITUTIONS, 1962-69**  
(percentages)

	1962	1963	1964	1965	1966	1967	1968	1969
Transfers from households and business <sup>a</sup>	42	41	40	39	40	38	39	37
Transfers from the rest of the world	23	22	22	20	16	16	14	13
Net transfers from the public sector	17	19	19	21	21	24	26	29
Sale of services	18	18	19	20	23	22	21	21
<b>Total</b>	<b>100</b>							

<sup>a</sup> Including membership dues and fees, part of which may be regarded as purchases by households or as sales of services by nonprofit institutions; since it was impossible to separate these from transfers, all membership dues have been treated as transfers.

income items—transfers from households and sales—edged down somewhat, owing mainly to the big growth in public sector transfers and the fact that membership dues to Histadrut institutions and university tuition fees remained unchanged.

#### 1. Transfers from households and business

Transfers from households and business firms to nonprofit institutions rose by IL 16 million to stand at IL 435 million. Membership dues to Sick Funds and

the Histadrut, which went up by 3 percent to IL 372 million, accounted for 70 percent of this increase.

Income from Sick Fund membership consists of the sums paid directly by members and contributions by employers. The former payments are progressive up to a certain income ceiling (IL 700 in the General Sick Fund), while employers' contributions are calculated as a flat percentage of wages and salaries (2.7 percent). In 1969 two-thirds of the incremental receipts from this source stemmed from employers' contributions, while the balance came directly from members.

Transfers from businesses and those from households other than membership dues—i.e. those that are largely of a voluntary and philanthropic nature—were up 8 percent in 1969. Unlike membership dues (especially those paid to Sick Funds), which are generally regarded by households as payments for health and social services, these transfers were not given in return for any services.

Two-thirds of the household transfers went to health institutions and nearly 30 percent to trade unions and social organizations. For these institutions household transfers constitute the main source of income, principally because of the fees system, which in the case of the health institutions essentially constitutes the sale of health insurance.

## 2. *Transfers from the rest of the world*

Transfers from overseas sources added up to IL 157 million, IL 4 million more than in 1968, when dollar transfers from abroad were at their lowest ebb since 1956.

**Table VIII-4**  
**TRANSFERS FROM ABROAD TO NONPROFIT INSTITUTIONS,**  
**BY FIELD OF ACTIVITY, 1967-69**  
(IL million)

	1967	1968	1969	Transfers from abroad as a percent of total receipts in field of activity <sup>a</sup>		
				1967	1968	1969
Health	31.5	31.0	28.7	8	7	6
Education, research, culture	81.8	74.1	77.7	22	18	16
Social welfare	36.9	37.8	39.7	34	34	32
Professional and social organizations <sup>b</sup>	8.6	10.0	11.0	6	7	7
Total—in IL	158.8	152.9	157.1	16	14	13
—in dollars	51.9 <sup>c</sup>	43.7	44.9	—	—	—

<sup>a</sup> Total receipts in each field of activity include transfers from nonprofit institutions, whereas they are excluded from total receipts of the sector.

<sup>b</sup> Including trade unions and workers' councils, religious institutions, and sports and social organizations.

<sup>c</sup> Data on foreign transfer receipts, which are obtained in IL terms, were converted into dollar terms in 1967 at the rate of IL 3.06=\$ 1.

All groups enjoyed larger receipts in 1969, with the exception of the health institutions (due to the completion of a large building project).

Nearly half of all transfers went to educational institutions, in the main research institutes and universities. These institutions utilize most of this income for financing capital outlays, while for covering their current budgets they look to domestic sources, chiefly the Government. In the last two years foreign transfers lagged behind investments; this is true especially of institutions of higher education, which have had to finance part of their investments as well from domestic sources, in the main the Government's development budget.

About a third of the transfers go to a small number of social welfare institutions and social organizations, mostly women's organizations and Malben. These receipts are their major source of income and are utilized primarily for financing current expenditure.

### 3. *Public sector transfers*

Net transfers from the public sector rose by IL 47 million, or 17 percent, and totalled IL 334 million. Transfers to educational and research institutions were up IL 44 million and accounted for about 76 percent of all public sector transfers. The dependence of these institutions, especially universities, on public sector financing has been rising steadily. In 1969 the weight of public sector transfers in their total receipts was 55 percent, as against 40 percent in 1966. The mounting reliance of these institutions on Government financing, coupled with their growing relative importance within the sector, explains the steady increase in the share of public sector transfers in total nonprofit institution receipts.

**Table VIII-5**  
**NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,**  
**BY FIELD OF ACTIVITY, 1967-69**  
(IL million)

	1967	1968	1969	Public sector transfers as a percent of total receipts in field of activity*		
				1967	1968	1969
Health	50.7	54.1	54.6	13	12	12
Education, research, culture	163.8	210.6	254.7	45	51	54
Social welfare	10.5	11.0	12.7	10	10	10
Professional and social organizations	10.4	11.0	12.1	8	8	8
<b>Total</b>	<b>235.4</b>	<b>286.7</b>	<b>334.1</b>	<b>24</b>	<b>26</b>	<b>28</b>

\* See note \* to Table VIII-4.

Nearly all public sector transfers (98 percent) came out of the Government's ordinary budget and were intended to help cover the institutions' current expenditure. In addition to these transfers, the Government provided more development budget loans in 1969 in order to finance the capital outlays of the universities.

Despite the rising importance of the public sector in financing the nonprofit institutions, only in the sphere of education does it constitute the largest source of funds. Here the Government's influence has been growing stronger, since it makes its support conditional on having a say as to increases in salaries and tuition fees and the regulation of building activity.

#### *4. Sales of services and goods*

Sales of services and goods yielded about IL 250 million in 1969—a rise of 10 percent, as against 8 percent in 1968. This source accounted for 21 percent of the sector's total receipts, being especially important in the social welfare and educational institutions (respectively 35 and 24 percent of their total receipts).

Sales proceeds of educational institutions went up 5 percent as the result of an increase in university enrollment and in payments received for research performed for various clients. Larger sales were also reported by the General Sick Funds and hospitals (their receipts include transfers from the National Insurance Institute for hospitalization and treatment). Income of social welfare institutions and social organizations from sales also rose following the upward revision of their tariffs.

As already pointed out, membership dues may be regarded as the sale of medical insurance—chiefly by the Sick Funds. If these dues are added to sales, the weight of sales rises to 52 percent of the sector's total receipts and 80 percent of the health institutions' receipts.

#### *(b) Payments*

Expenditure of nonprofit institutions on current and capital account added up to IL 1,275 million in 1969—a rise of 11 percent, compared with 10 percent in 1968.

Purchases on current account went up by 9 percent and, as in the previous year, accounted for 82 percent of the sector's total expenditure.

The rapid growth of the country's institutions of higher education has (since 1967) moved the educational, research, and cultural institutions into first place as far as the sector's expenditure is concerned; in 1969 they accounted for 42 percent of total outlay. The shares of the other groups, especially the health institutions, has been drifting downward.

Most of the increase in the sector's expenditure in 1969 was in two items—payrolls and purchases on capital account.

Table VIII-6

**EXPENDITURE<sup>a</sup> OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1962-69**  
(percentages)

	1962	1963	1964	1965	1966	1967	1968	1969
Health	41	40	38	41	41	38	38	37
Education, research, culture	32	33	36	34	35	39	40	42
Social welfare	14	14	13	12	11	11	10	10
Professional and social organizations	13	13	13	13	13	12	12	11
<b>Total</b>	<b>100</b>							

<sup>a</sup> Purchases on current and capital account and transfers to households and other nonprofit institutions, less transfers to the public sector and interest received.

*1. Purchases on current account*

Purchases on current account were, at IL 1,024 million, up IL 80 million or 9 percent over the 1968 level. Payroll outlay (wages, salaries, and fringe benefits) rose by more than 9.5 percent, while other items went up by 7 percent.

The higher wage bill in 1969 was largely the result of additions to the sector's personnel, mainly in health and higher education (more than 10 percent), although in social welfare and other institutions the increase was due to larger salaries rather than growth of staff. The insignificant wage increases in the big institutions, principally those of higher learning, is explained by their dependence on the Government, which in the year reviewed made its grants to the universities conditional on the maintenance of a wage freeze.

Table VIII-7

**WAGES AND FRINGE BENEFITS PAID BY NONPROFIT INSTITUTIONS,  
BY FIELD OF ACTIVITY, 1968-69**  
(IL million)

	1968		1969		Wage bill as a percent of total current outlay in field of activity <sup>a</sup>		
	IL m.	%	IL m.	%	1961	1968	1969
Health	236.7	39	250.5	38	63	61	60
Education, research, culture	246.1	40	275.3	41	56	69	70
Social welfare	53.6	9	58.0	9	52	59	59
Professional and social organizations	72.1	12	79.3	12	66	62	61
<b>Total</b>	<b>605.5</b>	<b>100</b>	<b>663.1</b>	<b>100</b>	<b>60</b>	<b>64</b>	<b>63</b>

<sup>a</sup> Including intrasector transfers, which are excluded from total expenditure of the sector.

The expansion of institutions of higher learning, where payrolls accounted for 70 percent of total purchases on current account, brought up the weight of the sector's payroll outlay from 60 percent of total expenditure in 1961 to 65 percent in 1969.

The rise of 7 percent in nonpayroll purchases on current account was distributed evenly over all the sector's fields of activity and all types of purchases, so that no particular activity or type of purchase can be singled out as being primarily responsible for the increase.

## 2. *Purchases on capital account*

Purchases on capital account amounted to IL 225 million in 1969, up IL 47 million (27 percent) from 1968. Investment in educational institutions was expanded by IL 37 million, or 35 percent, following a rise of 33 percent in 1968. The increase can be attributed predominantly to the stepping-up of building activity at the Hebrew University, especially on the Mount Scopus campus.

Of the sector's total capital expenditure in 1969, 63 percent was in educational and research institutions and 22 percent in health institutions. Over three-fourths of these outlays were concentrated in a limited number of institutions (universities and research institutes, the General Sick Fund, and Hadassah).

**Table VIII-8**  
**CAPITAL EXPENDITURE OF NONPROFIT INSTITUTIONS,**  
**BY FIELD OF ACTIVITY, 1967-69**

(IL million)

	1967		1968		1969	
	IL m.	%	IL m.	%	IL m.	%
Health	40.2	27	41.9	24	49.2	22
Education, research, culture	79.5	54	105.9	59	142.8	63
Social welfare	14.9	10	15.4	9	17.0	8
Professional and social organizations	13.6	9	14.3	8	15.7	7
Total	148.2	100	177.5	100	224.7	100

## 3. *Transfers to households*

Transfers of nonprofit institutions to households totalled IL 27 million in 1969—12 percent more than in the previous year. Over half of the increase was in scholarships to university students.

#### 4. DEMAND SURPLUS AND FINANCING OF PURCHASES ON CAPITAL ACCOUNT

##### (a) Demand surplus<sup>1</sup>

The demand surplus of nonprofit institutions amounted in 1969 to IL 256 million, IL 44 million more than in the previous year. Except for the decline in 1967 and the even level of 1968, the demand surplus has risen steadily since 1957. This is explained by the accelerated rise in capital outlays, unaccompanied by an increase in public sector transfers on capital account.

Table VIII-9

#### SHARE OF NONPROFIT INSTITUTIONS IN NATIONAL SAVING, THEIR DEMAND SURPLUS, AND ITS FINANCING, 1967-69 (IL million)

	1967	1968	1969
<b>Share of sector in national saving</b>			
1. Net transfers from other domestic sectors on current account <sup>a</sup>	570.0	673.6	734.9
2. Purchases on current account, less sales	645.4	716.3	773.9
3. Share of sector in national saving (1-2)	-57.4	-42.7	-39.0
<b>Demand surplus</b>			
4. Purchases on capital account	148.2	177.5	224.7
5. Less: Net transfers on capital account from the public sector	13.4	8.4	8.0
6. Subtotal (4-5)	134.8	169.1	216.7
7. Demand surplus (6-3)	210.2	211.8	255.7
<b>Financing of demand surplus</b>			
8. Transfers from the rest of the world	158.7	152.9	157.1
9. Net credit from other domestic sectors	51.5	58.9	98.6
Total	210.2	211.8	255.7
<b>Share of net foreign transfers in financing purchases on capital account <math>\left[ \frac{(8+3)}{4} \right]</math></b>			
Demand surplus as a percent of gross purchases	20.7	18.9	20.4
Demand surplus as a percent of net purchases	26.5	23.7	24.9

<sup>a</sup> All transfers from households have been treated as transfers on current account, since no breakdown into the current- and capital-account components was available.

The sector's demand surplus is partly structural, for the following two reasons: (a) some of the institutions, chiefly in the spheres of education and social welfare,<sup>2</sup> finance most of their current operations by transfers from their overseas headquarters; (b) the financing and implementation of part of the investments

<sup>1</sup> The demand surplus of nonprofit institutions is defined as the excess of net purchases (purchases less sales) over transfers from other domestic sectors.

<sup>2</sup> Malben, Ort, Wizo, Alliance Israélite Universelle, etc.

—primarily in the case of educational institutions—depend on the receipt of funds from abroad for this specific purpose.

Since foreign transfers increased only slightly in 1969, and less than the demand surplus, their share in financing the demand surplus declined from 72 percent in 1968 to 61 percent, while the share of domestic credit receipts rose correspondingly.

One yardstick of the sector's dependence on its demand surplus is the ratio between the latter aggregate and total purchases. This ratio went up to 20 percent in 1969, after having fallen in previous years.

(b) *Saving<sup>1</sup> and the financing of capital expenditure*

An increase of 9 percent in net transfers from other domestic sectors, accompanied by a rise of only 8 percent in current purchases less sales, reduced the institutions' dissaving by 9 percent, to -IL 39 million.

Since foreign transfers finance part of the institutions' current operations, the difference between these receipts and the institutions' dissaving may reflect the weight of this source in financing their investment. This difference has been growing, since the level of dissaving has decreased while receipts from abroad have risen. However, the decline in dissaving and the growth of overseas receipts have lagged behind the expansion of capital outlays, with the result that the weight of these receipts in financing capital-account purchases has fallen.

The larger demand surplus in 1969 forced the sector to borrow more heavily, because the slight increase in foreign transfer receipts was not sufficient to cover the additional investment.

Net credit from other domestic sectors was up two-thirds, with the public and business sectors contributing equally to the increment.

<sup>1</sup> Nonprofit institution saving is defined as the excess of transfers on current account from other domestic sectors over net purchases on current account.