

## CHAPTER II

### RESOURCES, USES, AND INCOME

#### 1. MAIN DEVELOPMENTS

ECONOMIC ACTIVITY continued at a very vigorous pace in 1972: the product expanded at about the same rate as in the previous year—by 10 percent—with employment increasing strongly and unemployment sinking to an all-time low of 2.7 percent of the civilian labor force. Since the growth of economic activity was accompanied by the continued existence of excess demand (evident since the middle of the 1970), prices continued to mount rapidly in all spheres, at the rate of 13–15 percent.

The price rises in the year reviewed, which were roughly of the same magnitude as in 1971, were not accompanied by strong pressure on the price level from the costs side, such as that generated by the import levy of August 1970 and the devaluation of the Israeli pound in August 1971. Since unemployment was on the decline throughout most of the year and the product continued upward at a rapid rate, the price rises of 1972 undoubtedly reflected the excess demand that prevailed in the economy during most of the year. This excess demand affected prices both directly (mostly in the real estate market) and indirectly (via the labor market and wages).

Total resource use was up about 7 percent in 1972 in real terms, after advancing 11 percent the year before. The smaller growth in 1972 can be partly attributed to direct defense imports and imports of ships and aircraft—two items that display marked year-to-year fluctuations and are largely affected by factors exogenous to the domestic economy (in the sense that they are not the outgrowth of current internal developments in the economy nor do they influence these developments, at least not in the short run). Net of these two items, the deceleration was milder—from 12 to 9.4 percent.

Disregarding ships and aircraft and direct defense imports, the percentage increase in uses was roughly the same as for the national product. By contrast, in 1971 uses far outstripped the growth of the product. To some extent this pattern was due to a changed composition of uses during these two years.

The last two years were similar in the rate of product growth and the existence of inflationary pressures, but they differed as regards the sources of the incremental demands that fueled the expansion of GNP. In 1971 exports were the foremost factor, while investment and public consumption (excluding direct defense imports) were of lesser importance. In 1972, however, the ex-

Table II-1  
RESOURCES AND USES, 1968-72  
(IL million, at current prices)

|   | 1968     | 1969     | 1970     | 1971     | 1972     | Percent annual increase or decrease (-) |      |      |       |       |      |      |      |
|---|----------|----------|----------|----------|----------|---|------|------|-------|-------|------|------|------|
|   |          |          |          |          |          | Quantity                                |      |      |       | Price |      |      |      |
|   |          |          |          |          |          | 1969                                    | 1970 | 1971 | 1972  | 1969  | 1970 | 1971 | 1972 |
| <b>Resources</b>  |          |          |          |          |          |   |      |      |       |       |      |      |      |
| 1. Gross national product   | 13,730.3 | 15,800.9 | 18,666.1 | 23,357.1 | 28,957.9 | 11.8                                    | 8.0  | 10.0 | 10.2  | 2.9   | 9.4  | 13.7 | 12.5 |
| 2. Imports <sup>a</sup>   | 6,337.7  | 8,507.1  | 10,335.4 | 13,529.2 | 16,507.5 | 15.5                                    | 16.6 | 13.9 | 0.7   | 6.2   | 4.2  | 14.9 | 21.2 |
| 3. Thereof: Excluding ships and aircraft and direct defense imports             | 5,886.1  | 7,209.7  | 7,962.0  | 10,683.4 | 13,701.7 | 15.2                                    | 5.5  | 16.9 | 7.6   | 6.3   | 4.6  | 14.9 | 19.2 |
| 4. Import surplus (2-13)  | 2,625.7  | 3,660.9  | 4,839.6  | 5,683.2  | 6,323.0  | 28.9                                    | 26.3 | 2.6  | -15.3 | 8.2   | 4.6  | 14.5 | 31.3 |
| 5. Total resources available for domestic use (1+4)                             | 16,356.0 | 19,461.8 | 23,505.7 | 29,040.3 | 35,280.9 | 14.5                                    | 11.4 | 8.5  | 5.2   | 3.9   | 8.4  | 13.9 | 15.4 |
| 6. Total resources  | 20,668.0 | 24,308.0 | 29,001.5 | 36,886.3 | 45,465.4 | 13.0                                    | 11.0 | 11.4 | 6.7   | 4.0   | 7.5  | 14.2 | 15.5 |
| <b>Uses</b>   |          |          |          |          |          |   |      |      |       |       |      |      |      |
| 7. Private consumption  | 9,041.2  | 10,291.9 | 11,432.7 | 13,542.9 | 16,728.1 | 10.0                                    | 3.1  | 5.1  | 8.7   | 3.5   | 7.7  | 12.7 | 13.6 |
| 8. Public consumption   | 4,093.0  | 4,919.0  | 6,728.0  | 8,015.0  | 9,172.0  | 16.9                                    | 27.2 | 2.5  | -3.6  | 2.8   | 7.5  | 16.2 | 18.7 |
| 9. Public consumption, excl. direct defense imports                             | 3,231.0  | 3,713.0  | 4,547.0  | 5,854.0  | 6,582.0  | 12.6                                    | 11.4 | 10.9 | -1.1  | 2.1   | 9.9  | 16.1 | 13.7 |
| 10. Gross domestic investment   | 3,221.8  | 4,250.9  | 5,345.0  | 7,482.4  | 9,380.8  | 24.4                                    | 13.4 | 23.3 | 8.4   | 6.1   | 10.8 | 13.5 | 15.6 |
| 11. Gross domestic investment excl. ships and aircraft                          | 3,032.2  | 4,159.5  | 5,147.4  | 6,797.6  | 9,165.0  | 29.3                                    | 11.2 | 16.0 | 16.6  | 6.1   | 11.3 | 13.9 | 15.7 |
| 12. Total domestic uses (7+8+10)  | 16,356.0 | 19,461.8 | 23,505.7 | 29,040.3 | 35,280.9 | 14.5                                    | 11.4 | 8.5  | 5.2   | 3.9   | 8.4  | 13.9 | 15.4 |
| 13. Exports <sup>b</sup>  | 4,312.0  | 4,846.2  | 5,495.8  | 7,846.0  | 10,184.5 | 7.4                                     | 9.3  | 23.9 | 12.3  | 4.6   | 3.8  | 15.2 | 15.6 |
| 14. Total uses, excl. ships and aircraft and direct defense imports (7+9+11+13) | 19,616.4 | 23,010.6 | 26,622.9 | 34,040.5 | 42,659.6 | 12.8                                    | 7.2  | 12.1 | 9.4   | 4.0   | 7.9  | 14.1 | 14.5 |
| 15. Total uses (12+13)  | 20,668.0 | 24,308.0 | 29,001.5 | 36,886.3 | 45,465.4 | 13.0                                    | 11.0 | 11.4 | 6.7   | 4.0   | 7.5  | 14.2 | 15.5 |

<sup>a</sup> 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.

<sup>b</sup> 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.

SOURCE: Central Bureau of Statistics.

pansion of exports slackened noticeably, with the result that their share in total incremental uses (excluding investment in ships and aircraft and public sector expenditure on direct defense imports) fell from 41 to about 30 percent. There was a similar development in public consumption (excluding direct defense imports), while investment (less ships and aircraft) accelerated somewhat, its weight in total incremental uses, as defined above, advancing from 26 percent in 1971 to 35 percent.

Another striking difference between the two years was the renewed rapid increase in private consumption, at a rate roughly similar to that of GNP. After two years of very sluggish growth, and a concomitant decline in its share in total uses, the level moved up 9 percent in 1972, or by 5 percent per capita. As a consequence, its share in incremental uses (as defined above) more than doubled. In 1970 the deceleration in private consumption was attributed to the policy measures adopted by the Government that year, which dampened the growth of the public's disposable income. The continued slow rise in consumption in 1971 occurred despite the resumption of the uptrend in the public's spendable income. While consumption accelerated in 1972, it still failed to match the growth of spendable income. In other words, during the past two years there was a marked rise in the rate of private sector saving.

The tendency for private consumption to trail behind the growth of spendable income stands out even more sharply if it is recalled that spendable income, as calculated here, does not include the revaluation of the public's foreign currency assets (mainly personal restitution receipts from Germany) in the wake of the August 1971 devaluation of the Israeli pound. This asset appreciation was, at least partly, of a nonrecurrent nature, and, even though it is not included in the income data, it too presumably contributed to the heavier consumption spending in the year reviewed.

One reason for the better saving performance in recent years is the much larger volume of home sales (which are treated, as already noted, as investment). This undoubtedly led to a much greater debt repayment, which was partly at the expense of current consumption. There are no data as yet on the extent of such debt repayment, but it is reasonable to assume that it can only partly explain the higher rate of saving.

In the year reviewed imports held steady in real terms. This can be ascribed primarily to an absolute decline in two major items: direct defense procurements, and ships and aircraft. Less these two items, there was a real increase of about 8 percent, but this too was somewhat slower than in the previous year. The possibility was examined that the structural change in uses was responsible for the dampening of import growth, but the results did not confirm this hypothesis. The investigation pointed mainly to the raw materials item (excluding diamonds), in which there was no import growth at all, with the result that imported raw material stocks were drawn down somewhat. One

**Table II-2**  
**DISTRIBUTION OF TOTAL AND INCREMENTAL RESOURCES AND USES, 1969-72**  
 (percentages; at 1971 prices)

|   | Total resources and uses                                       |              |              |              | Incremental resources and uses |              |              |              |
|---|--|--------------|--------------|--------------|--------------------------------|--------------|--------------|--------------|
|   | 1969   | 1970         | 1971         | 1972         | 1969                           | 1970         | 1971         | 1972         |
|   | <b>Including direct defense imports and ships and aircraft</b> |              |              |              |                                |              |              |              |
| <b>Resources</b>                                    |  |              |              |              |                                |              |              |              |
| Gross national product                              | 65.8   | 64.1         | 63.3         | 65.4         | 60.1                           | 48.3         | 56.6         | 96.2         |
| Imports <sup>a</sup>                                | 34.2   | 35.9         | 36.7         | 34.6         | 39.9                           | 51.7         | 43.4         | 3.8          |
| Total resources                                     | <b>100.0</b>   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| <b>Uses</b>   |  |              |              |              |                                |              |              |              |
| Private consumption                                 | 41.9   | 38.9         | 36.7         | 37.4         | 32.4                           | 11.7         | 17.4         | 47.5         |
| Public consumption                                  | 20.7   | 23.6         | 21.7         | 19.6         | 25.4                           | 50.2         | 5.0          | -11.6        |
| Civilian  | 7.6  | 7.1          | 6.7          | 6.8          | 3.9                            | 2.6          | 3.2          | 7.3          |
| Noncivilian   | 13.1   | 16.5         | 15.0         | 12.8         | 21.5                           | 47.6         | 1.8          | -18.9        |
| Gross domestic investment                           | 18.0   | 18.4         | 20.3         | 20.6         | 30.8                           | 21.6         | 37.3         | 25.3         |
| Exports <sup>a</sup>                                | 19.4   | 19.1         | 21.3         | 22.4         | 11.4                           | 16.5         | 40.3         | 38.8         |
| Total uses  | <b>100.0</b>   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
|   | <b>Excluding direct defense imports and ships and aircraft</b> |              |              |              |                                |              |              |              |
| <b>Resources</b>                                    |  |              |              |              |                                |              |              |              |
| Gross national product                              | 69.4   | 69.9         | 68.6         | 69.1         | 64.5                           | 76.9         | 57.9         | 74.5         |
| Imports <sup>a</sup>                                | 30.6   | 30.1         | 31.4         | 30.9         | 35.5                           | 23.1         | 42.1         | 25.5         |
| Total resources                                     | <b>100.0</b>   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| <b>Uses</b>   |  |              |              |              |                                |              |              |              |
| Private consumption                                 | 44.2   | 42.4         | 39.8         | 39.5         | 34.9                           | 18.6         | 17.8         | 36.8         |
| Public consumption, excl. direct defense imports    | 16.7   | 17.4         | 17.2         | 15.5         | 16.2                           | 26.3         | 15.6         | -1.9         |
| Gross domestic investment, excl. ships and aircraft | 18.6   | 19.3         | 20.0         | 21.3         | 36.7                           | 28.8         | 25.5         | 35.1         |
| Exports <sup>a</sup>                                | 20.5   | 20.9         | 23.0         | 23.7         | 12.2                           | 26.3         | 41.1         | 30.0         |
| Total uses  | <b>100.0</b>   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>                   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

<sup>a</sup> See notes to Table II-1.

SOURCE: Central Bureau of Statistics.

possible reason for this was the evaporation of devaluation expectations; but it may be argued that the mounting of prices and the expansion of economic activity should have involved an enlargement of stocks, so that it is not clear what was the net influence of these different factors. At any rate, there are at present no reliable estimates on stocks of imported raw materials.

The growth of aggregate domestic demand led to a stronger demand for labor. The labor supply expanded more rapidly than in 1971, the increase in Israeli employed reaching 5 percent—an especially high rate considering that there was already full employment. This was made possible both by the faster growth of population (more immigration) and by an increase in labor force participation rates, in particular among women (see the discussion in Chapter IX). The increase in workers from the administered areas was greater still, bringing the total increment up to 6.6 percent.

The uptrend in the product per employed (and in overall factor productivity) sagged noticeably in the year reviewed. This may have been connected with the slower expansion of the capital stock per employed, as well as with the larger number of persons newly joining the labor force with a below-average skill level. In 1971 and 1972 the average change in productivity and product per employed was very similar to that in the early 1960s.

## 2. THE INFLATION AND ITS CAUSES

The year reviewed witnessed a continuation of rapid economic growth—the product expanded by 10 percent—accompanied by a precipitate rise in prices (this too at about the same rate in 1971) and the continued existence of pressure in the labor market. An indicator of the latter development is the increase in the input of Israeli labor in 1972 at a rate almost double that of the working-age population. This difference in growth rates reflects a rise in the labor force participation rate, an increase in man-hours per employed, and a drop in the unemployment rate. Including workers from the administered areas, the increase in the labor input was even greater.

The pressure in the labor market was not fully reflected by the actual wage and salary payments. These went up by an appreciable 14 percent approximately, but this is still an underestimate.

To understand this, the institutional structure of the labor market should be noted: in many sectors of the economy wages and salaries are largely determined by the collective agreements signed between workers and employers. In 1972 the renegotiation of many agreements had not yet been concluded by year's end, so that if the increments that will be paid on account of this year in 1973 are added to the 1972 data, the increase will greatly exceed 14 percent (a more detailed discussion of this is found in Chapter IX).

Toward the end of 1970 and the beginning of 1971 the inflow of capital, it will be recalled, expanded significantly, and this trend carried over through

1971 and part of 1972. Part of this capital import flowed directly to the financial market, but part was also used for financing the demand for real assets, in particular real estate. In addition, the Government ran a sizable domestic demand surplus at the end of 1970 and the first half of 1971, and this resulted in a large-scale liquidity infusion. The combined result of these developments (the brisker demand of the foreign sector for real estate, the large demand surpluses of the Government, and the big increase in the economy's liquidity) was the generation of inflationary pressures, which in turn drove up prices.

At the same time there was also strong pressure on the price level from the costs side (the 20 percent import levy in the summer of 1970 and the devaluation of the Israeli pound by a similar rate in August 1971). Thus we see that in these years the price level was affected by developments on both the costs and demand sides, both of which were decisively affected by the increased cost of imports during this period.

In 1972 there was no undue pressure on prices from the costs side, apart from the steep rise in foreign prices (as in 1971). However, the average level of prices in 1972 was influenced by developments during the previous year, so that it also reflects the impact of the devaluation. The various price indexes show that the advance of prices was more or less monotonic, at the rate of 12-15 percent.

Nor was the wage-labor item responsible for most of the upward pressure on the price level, although the prevailing expectation of big hikes in the wake of the renegotiation of wage agreements in 1972 may have contributed to the accelerated mounting of prices. According to the available data—which are provisional and liable to change—in the past two years real wages trailed slightly behind growth of real GNP per employed, which is an indicator of the change in labor productivity. Even if wages are adjusted for retroactive increments (see above), this will not significantly alter the picture for the past few years.

In view of all the developments described above, it seems that the inflation can definitely be attributed to excess demand.

In 1972 the inflation seemed to have proceeded along two main paths. On one hand, the demand pressure affected prices indirectly, especially in industry: it led to an intensified demand for workers, with a resulting tightness in the labor market and a rise in wages. These extra labor costs were passed on to the customer, with the price rises also reflecting the retroactive wage increments to be paid to workers after the signing of the wage agreements. At the same time, prices went up in direct response to the demand pressures. This applies to sectors where price control was less stringent—for example, in construction and uncontrolled services.

Monetary expansion continued to be rapid in 1972, in line with the trend evident since the middle of 1970. The money supply expanded by 29 percent in the course of the year, and its average level stood 30 percent higher than

in 1971. In other words, the money supply went up faster than the supply of goods and services, whether measured in relation to the product or to domestic uses (9-10 percent), so that this was one of the major sources fueling aggregate demand in the year reviewed.

The increased liquidity of the economy also led to more lively activity in the real estate and financial markets (mainly stocks and value-linked bonds); this absorbed part of the additional money that had been pumped into the economy,<sup>1</sup> so that not all of the increment was reflected by a rise in commodity and service prices.

The sole cause of the monetary expansion in 1972 was the import of capital by the private sector, in contrast to the situation the year before, when the Government's budgetary operations injected considerable liquidity into the economy. The energetic monetary measures introduced by the Bank of Israel and the Government nullified much of the potential monetary expansion. However, it should be noted that the mobilization of loan capital abroad by the financial institutions, which was one of the main components of the private capital inflow, was carried out with the encouragement and direction of the Government, and to some extent was a substitute for direct Government action in this sphere.

In the middle of 1972 the pace of monetary expansion began to sag, owing to some ebbing of the inflow of private capital (due partly to the restrictions introduced by the Government on the receipt of private foreign loans) and the contractionary monetary measures which the Bank of Israel and the Government continued to pursue. Since monetary changes tend to lag behind changes in the real sectors, the deceleration of monetary expansion did not make its full impact felt in the course of the year.

There were two developments in 1972 that helped to ease somewhat the inflationary pressures. First was a further rise in the private sector saving rate, which came on top of a notable growth the year before. If the propensity to consume had remained at the previous years' level, the inflationary pressure in 1972 would have been much greater than it actually was. Second, capital investment lagged behind the growth of available financing, primarily in industry and agriculture. Financial institution data show that the incremental gross long-term credit granted to these two sectors exceeded their capital expenditure—even though the latter went up to about the same extent as in 1971, thereby enlarging the sectors' capital stock at about the same rate as their product. In other words, part of the credit was used for financial transactions (debt repayment and the purchase of financial assets), thereby easing somewhat the demand pressures in the commodity market.

<sup>1</sup> Presumably part of the private sector capital import, which was one of the main causes of monetary expansion, was intended from the outset for these markets.

### 3. USE OF RESOURCES

As already noted in section 1, one of the main factors stimulating demand in 1972 was investment (excluding ships and aircraft), especially in dwellings, which soared 25.5 percent. Considerable importance is attached to the latter development, for the product component of dwelling investment is very high.

**Table II-3**  
**EFFECT OF RESOURCE USE ON THE PRODUCT,<sup>a</sup> 1969-72**

(percentages; at 1965/66 prices)

|  | Distribution of the product<br>by final use |              |              |              | Distribution of the product<br>increment by final use |              |              |              |
|--|---|--------------|--------------|--------------|---|--------------|--------------|--------------|
|  | 1969  | 1970         | 1971         | 1972         | 1969  | 1970         | 1971         | 1972         |
| Private consumption                    | 47.9  | 46.6         | 43.7         | 43.9         | 31.9  | 32.2         | 20.0         | 45.8         |
| Public consumption                     | 19.4  | 19.9         | 19.5         | 17.6         | 21.4  | 25.9         | 15.8         | -5.4         |
| Gross domestic investment <sup>b</sup> | 14.9  | 15.5         | 16.1         | 17.7         | 34.9  | 22.1         | 21.2         | 37.1         |
| Exports <sup>c</sup>                   | 17.8  | 18.0         | 20.7         | 20.8         | 11.8  | 19.8         | 43.0         | 22.5         |
| <b>Total</b>                           | <b>100.0</b>                                | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

NOTE: In calculating the gross domestic product of the various sectors according to final use 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), 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. The percentage changes in the product originating in the various sectors (the private economy) as obtained from an input-output analysis differed somewhat from those calculated from national accounts data:

#### Rate of Change in Private Sector Gross Domestic Product

|                 | According<br>to<br>national<br>accounts | According<br>to input-<br>output<br>analysis |
|-----------------|---|--|
| 1969            | 13.9                                    | 12.6   |
| 1970            | 9.0                                     | 10.2   |
| 1971            | 11.9                                    | 12.9   |
| 1972            | 12.0                                    | 9.5  |
| Average 1969-72 | 11.6                                    | 11.3   |

The big discrepancy in 1972 can apparently be partly explained by the difference between actual raw material imports and those calculated according to input-output tables (see Chapter III).

<sup>a</sup> Gross domestic product at factor cost.

<sup>b</sup> Excluding changes in inventories.

<sup>c</sup> Excluding factor receipts from abroad, public sector interest receipts from abroad, and exports to the administered areas.

SOURCE: Central Bureau of Statistics data, adjusted in accordance with input-output data for 1965/66, which differ somewhat from CBS estimates.

Total capital formation was up 8 percent in 1972, after a 23 percent advance in the previous year. The deceleration, as already noted, was due entirely to a sharp cutback in ships and aircraft. Disregarding this item, the growth rate was a shade higher in 1972—16.6 percent vs. 16 percent in 1971.

Also stimulating demand was the larger private consumption in 1972, which to some extent represented an adjustment to the previous year's appreciable disposable income growth.

Public consumption was down 3.5 percent, after a very slow rise in 1971. This stabilization, and even decline, in public consumption is noteworthy in view of the enormous increase in 1967–70. But whereas in 1971 the stability of public consumption spending was the net result of a smaller direct defense import and an 11 percent increase in civilian public consumption, in 1972 the decline in direct defense imports was accompanied by a drop of about one percent in domestic public consumption. In other words, in 1972 public consumption contributed to some improvement in the balance of payments and the diminution of domestic demand pressure.

Export growth slumped noticeably in 1972, the real rise amounting to 12 percent as against 24 percent the year before. This depressed the share of exports in incremental uses (excluding investment in ships and aircraft and public sector spending on direct defense imports) from 41 percent in 1971 to 30 percent. The slowdown in exports encompassed the bulk of the items, apart from diamonds, which advanced strongly. The more sluggish growth of nondiamond industrial exports can be partly attributed to developments in the overseas markets, but to some extent it also reflected a decline in the relative profitability of exports because of the brisk domestic demand, the attendant rise of prices over and above the increase in export returns, and the steep wage hikes awarded during the year.

In service exports the most outstanding development was the slower growth of revenue from tourism, after an unprecedented gain in 1971 (a detailed discussion of exports appears in Chapter III).

Another outstanding feature of 1972 was the 8.7 percent increase in private consumption (5.2 percent per capita), after two years of lagging far behind the growth of product (the acceleration took place entirely in commodities, in particular durables, while the growth of services slowed compared with earlier years). This was not a surprising development, given the increase in the public's disposable income. As already mentioned, it is hard to explain why private consumption rose slowly in 1971 in spite of the renewed growth of spendable income that year. If private consumption increases at about the same rate as the product, it becomes difficult to step up the share of export and investment (uses which contribute to the easing of the balance of payments strain and to the future pace of economic growth) without a corresponding rise in imports. But it should be stressed that private consumption growth can be restrained over

Table II-4

## SHARE OF PUBLIC CONSUMPTION IN GNP, 1966-72

(percentages)

|                                | Average     |             | 1966        | 1967        | 1968        | 1969        | 1970        | 1971        | 1972        |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                | 1961-66     | 1967-72     |             |             |             |             |             |             |             |
| <b>At current prices</b>       |             |             |             |             |             |             |             |             |             |
| Civilian public consumption    | 11.0        | 10.9        | 12.6        | 12.3        | 11.6        | 10.8        | 10.5        | 10.6        | 10.5        |
| Noncivilian public consumption | 9.7         | 21.5        | 10.1        | 17.4        | 18.2        | 20.3        | 25.5        | 23.7        | 21.2        |
| <b>Total</b>                   | <b>20.7</b> | <b>32.4</b> | <b>22.7</b> | <b>29.7</b> | <b>29.8</b> | <b>31.1</b> | <b>36.0</b> | <b>34.3</b> | <b>31.7</b> |
| <b>At 1971 prices</b>          |             |             |             |             |             |             |             |             |             |
| Civilian public consumption    | 12.7        | 11.3        | 12.9        | 13.1        | 12.2        | 11.6        | 11.1        | 10.6        | 10.4        |
| Noncivilian public consumption | 10.2        | 21.1        | 10.8        | 18.5        | 18.0        | 19.9        | 25.7        | 23.7        | 19.6        |
| <b>Total</b>                   | <b>22.9</b> | <b>32.4</b> | <b>23.7</b> | <b>31.6</b> | <b>30.2</b> | <b>31.5</b> | <b>36.8</b> | <b>34.3</b> | <b>30.0</b> |

time only through the pursuance of an increasingly stringent fiscal policy. And indeed, after the measures introduced in 1970 the uptrend in private consumption was temporarily checked, but in the absence of further steps its growth rate has again more or less caught with that of GNP.

Although it reached a high level in 1972, the consumption growth rate again failed to match the gain in disposable income, so that there was a further slight increase in the private sector saving rate, a trend evident for the past several years (especially since 1968). One possible reason for this, as already noted, is apparently the larger volume of home sales, which to some extent dampened current consumption spending.

Another (although minor) factor is the change in income distribution. The available data on compensation of employees (wages and salaries plus fringe benefits) do not point to any significantly greater inequality in the distribution of incomes; it should be stressed, however, that the data must be accepted with caution since they exclude various benefits not defined as part of wages and salaries, such as car and telephone maintenance allowance, whose weight is apparently larger in the higher income groups. A breakdown of the income data between wage-labor and profits likewise does not indicate any drastic changes that might help to account for the above development. It follows that only a marked change in the distribution of nonwage income may possibly explain it, but no quantitative data are available on this.

#### 4. RESOURCES

The growth of aggregate demand (excluding ships and aircraft and direct defense imports) fell off somewhat this year—9.5 vs. 12 percent in 1971. Despite this deceleration, GNP expanded at about the same rate as in 1971—10 percent. The sustained rapid gain in GNP despite the more sluggish increase in demand can be attributed only partly to the structural change in the latter—the more rapid rise in private consumption demand for the output of the construction industry, which has a relatively low import component, and the faltering of export growth. This development accords with the estimates of GNP calculated according to sectoral origin (rather than according to final uses): the slacker increase in 1972 in industry and international transport, and the accelerated rise in agriculture, construction, domestic transport, and the service sectors (finance, trade, and personal services). But even after allowing for these changes, there is a difference of about \$ 90 million between actual imports and imports calculated according to constant import coefficients.<sup>2</sup> This differential can be ascribed only partly to the relative increase in import prices, which also contributed to the stronger demand for domestically produced goods.

<sup>2</sup> For a more detailed discussion of this see Chapter III.

**Table II-5**  
**COMPOSITION OF RESOURCES FOR DOMESTIC USE, 1965-72**  
 (percentages)

|  | Average                  |         | 1965  | 1966  | 1967  | 1968  | 1969  | 1970  | 1971  | 1972  |
|--|--------------------------|---------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | 1960-66                  | 1967-72 |       |       |       |       |       |       |       |       |
|  | <b>At current prices</b> |         |       |       |       |       |       |       |       |       |
| Total resources available for domestic use                                 |                          |         |       |       |       |       |       |       |       |       |
| Import surplus <sup>a</sup>  | 16.2                     | 18.1    | 15.6  | 12.5  | 13.1  | 16.0  | 18.8  | 20.6  | 19.6  | 17.9  |
| Gross national product   | 83.8                     | 81.9    | 84.4  | 87.5  | 86.9  | 84.0  | 81.2  | 79.4  | 80.4  | 82.1  |
| Total  | 100.0                    | 100.0   | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total resources available for domestic use,<br>less direct defense imports |                          |         |       |       |       |       |       |       |       |       |
| Import surplus <sup>a</sup>  | 13.7                     | 11.8    | 13.1  | 10.0  | 7.0   | 11.4  | 13.5  | 12.5  | 13.1  | 11.4  |
| Gross national product   | 86.3                     | 88.2    | 86.9  | 90.0  | 93.0  | 88.6  | 86.5  | 87.5  | 86.9  | 88.6  |
| Total  | 100.0                    | 100.0   | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
|  | <b>At 1971 prices</b>    |         |       |       |       |       |       |       |       |       |
| Total resources available for domestic use                                 |                          |         |       |       |       |       |       |       |       |       |
| Import surplus <sup>a</sup>  | 16.2                     | 17.7    | 15.6  | 13.4  | 14.4  | 16.3  | 18.4  | 20.8  | 19.6  | 15.8  |
| Gross national product   | 83.8                     | 82.3    | 84.4  | 86.6  | 85.6  | 83.7  | 81.6  | 79.2  | 80.4  | 84.2  |
| Total  | 100.0                    | 100.0   | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total resources available for domestic use,<br>less direct defense imports |                          |         |       |       |       |       |       |       |       |       |
| Import surplus <sup>a</sup>  | 13.8                     | 11.6    | 13.2  | 10.9  | 8.2   | 11.7  | 13.1  | 12.5  | 13.1  | 10.1  |
| Gross national product   | 86.2                     | 88.4    | 86.8  | 89.1  | 91.8  | 88.3  | 86.9  | 87.5  | 86.9  | 89.9  |
| Total  | 100.0                    | 100.0   | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

<sup>a</sup> Calculated at the effective rate of exchange.

SOURCE: Central Bureau of Statistics.

Table II-6

SECTORAL ORIGIN OF THE NET DOMESTIC PRODUCT AT FACTOR COST,<sup>a</sup> 1968-72

(percentages; at current prices)

|  | Average |         |         | 1968  | 1969  | 1970  | 1971  | 1972  |
|--|---------|---------|---------|-------|-------|-------|-------|-------|
|  | 1956-60 | 1961-65 | 1966-70 |       |       |       |       |       |
| Agriculture, forestry, fisheries                   | 12.2    | 9.5     | 6.9     | 7.7   | 7.0   | 6.4   | 6.4   | 6.2   |
| Industry, mining and quarrying                     | 22.7    | 24.3    | 23.4    | 23.6  | 24.1  | 24.0  | 23.3  | 23.5  |
| Construction and public services                   | 9.7     | 11.1    | 11.5    | 9.0   | 10.8  | 12.0  | 13.0  | 13.9  |
| Transportation and communications                  | 7.8     | 8.1     | 8.9     | 9.3   | 9.1   | 8.8   | 9.0   | 8.7   |
| Finance, trade, and business and personal services | 22.4    | 22.6    | 23.0    | 24.4  | 24.0  | 22.8  | 22.2  | 22.0  |
| Public and community services                      | 19.5    | 17.7    | 19.3    | 19.7  | 18.9  | 19.1  | 19.0  | 18.0  |
| Ownership of dwellings                             | 5.8     | 6.7     | 7.0     | 6.3   | 6.1   | 6.9   | 7.1   | 7.7   |
| Net domestic product (at factor cost) <sup>a</sup> | 100.0   | 100.0   | 100.0   | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

<sup>a</sup> Before inventory and depreciation adjustments.  
SOURCE: Central Bureau of Statistics.

Not counting ships and aircraft and direct defense imports, there was a 7.5 percent quantitative increase in imports this year, compared with 17 percent in 1971. The weight of GNP in total resources, excluding direct defense imports and the ships and aircraft item, therefore inched up from 68.6 to 69.1 percent. Its weight in incremental resources went up much more rapidly—from 58 to 74.5 percent.

The above trends stand out more in the composition of total resources (i.e. including direct defense imports and ships and aircraft), where the weight of GNP moved up from 63.3 percent in 1971 to 65.4 percent, and still more in incremental resources, where the figure jumped from 56.6 to 96 percent. The steeper rise here is explained by the decline in both direct defense imports and imports of ships and aircraft, which depressed the growth of total resources from 11.4 percent in 1971 to 6.7 percent.

## 5. GROSS NATIONAL PRODUCT AND PRODUCTIVITY

In 1972 the gross domestic product—excluding ownership of dwellings<sup>3</sup>—went up 12 percent, roughly the same rate as in 1971. A measurement of GNP by sectoral origin yields similar results.

Since in 1972 the factors of production—capital and labor—grew more rapidly than in the previous year, the uptrend in productivity sagged somewhat, and in fact even fell below the average for the 1960s. This deceleration encompassed the principal sectors of the economy: industry, transportation and communications, and construction.

The more sluggish rise in industry may have been connected with the underutilization of productive capacity in a number of branches due to some slackening in noncivilian and export demand (the reference is to metal products, transport equipment, food, and textiles), without a compensatory increase in civilian demand. A somewhat similar development occurred in international transport services—a big increase in the capital stock in 1971 and a moderate growth of output in 1972—and in tourism (a decline in the hotel occupancy rate after a record high in 1971).

The continued change in the composition of the employed labor force—an increase in the number of women and of workers from the administered areas (whose skill level is probably below average)—did not seem to be a major factor in the slower productivity gain in the year reviewed. But it should be noted that in 1968–72 the average annual adjusted domestic labor input<sup>4</sup> trailed behind the increase in the unadjusted input by about 1 percent.

<sup>3</sup> The gross domestic product is defined as the total product less public and nonprofit institution services.

<sup>4</sup> The adjustment was made according to the following weights: males—1.00; females—0.60; workers from the areas—0.45. The weights were determined according to the average relative wages of these groups, assuming that the wages reflect the value of their marginal output.

Table II-7  
NET DOMESTIC PRODUCT AT FACTOR COST,<sup>a</sup> BY SECTORAL ORIGIN, 1968-72  
(IL million, at 1971 prices)

|   | 1968   | 1969   | 1970   | 1971   | 1972   | Percent annual increase |      |      |      |      |
|---|--------|--------|--------|--------|--------|-------------------------|------|------|------|------|
|   |        |        |        |        |        | 1968                    | 1969 | 1970 | 1971 | 1972 |
| 1. Agriculture, forestry, fisheries                   | 1,068  | 1,112  | 1,175  | 1,302  | 1,465  | 0.7                     | 4.1  | 5.7  | 10.8 | 12.5 |
| 2. Industry, mining and quarrying                     | 3,284  | 3,807  | 4,202  | 4,732  | 5,267  | 28.7                    | 15.9 | 10.4 | 12.6 | 11.3 |
| 3. Construction and public services                   | 1,524  | 1,976  | 2,330  | 2,640  | 3,031  | 24.9                    | 29.7 | 17.9 | 13.3 | 14.8 |
| 4. Transportation and communications                  | 1,254  | 1,405  | 1,588  | 1,813  | 2,029  | 24.0                    | 12.0 | 13.0 | 14.2 | 11.9 |
| 5. Public and community services                      | 3,149  | 3,414  | 3,656  | 3,858  | 4,035  | 3.0                     | 8.4  | 7.1  | 5.5  | 4.6  |
| 6. Ownership of dwellings                             | 1,245  | 1,295  | 1,359  | 1,441  | 1,535  | 3.9                     | 4.0  | 5.0  | 6.0  | 6.5  |
| 7. Finance, trade, and services                       | 4,018  | 4,247  | 4,264  | 4,499  | 4,836  | 8.7                     | 5.7  | 0.4  | 5.5  | 7.5  |
| Net domestic product                                  |        |        |        |        |        |                         |      |      |      |      |
| Total economy   | 15,542 | 17,256 | 18,574 | 20,285 | 22,198 | 12.7                    | 11.0 | 7.6  | 9.2  | 9.4  |
| Private sector <sup>b</sup> (excl. residential rents) | 11,148 | 12,547 | 13,559 | 14,986 | 16,628 | 16.9                    | 12.6 | 8.1  | 10.5 | 11.0 |

NOTE: The absolute figures for the base year 1972 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 the relevant chapter in the Bank of Israel *Annual Reports*.
- (4) As calculated in the relevant chapter in the Bank of Israel *Annual Reports*. 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 national accounts data.
- (6) According to the housing services item in private consumption.
- (7) According to the rates of change in employment as measured by manpower surveys.

<sup>a</sup> Before inventory and depreciation adjustments.

<sup>b</sup> Defined as the total product less public and community services.

**Table II-8**  
**CHANGES IN GROSS DOMESTIC PRODUCT, FACTOR INPUT, AND PRODUCTIVITY OF THE PRIVATE SECTOR,<sup>a</sup> 1965-72**  
 (percent annual increase)

|   | Average |         | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|---------|---------|------|------|------|------|------|------|------|------|
|   | 1961-65 | 1966-72 |      |      |      |      |      |      |      |      |
| Gross domestic product (excluding residential rents) <sup>b</sup> | 10.9    | 9.2     | 9.5  | -0.6 | 0.4  | 19.1 | 13.9 | 9.0  | 11.9 | 12.0 |
| Stock of fixed nondwelling capital (beginning of year)            | 9.9     | 7.5     | 10.0 | 8.6  | 6.2  | 4.4  | 7.4  | 8.3  | 7.8  | 9.5  |
| Labor input <sup>c</sup>  |         |         |      |      |      |      |      |      |      |      |
| Number of employed  | 4.5     | 2.9     | 2.0  | -1.3 | -5.9 | 10.8 | 4.4  | 1.5  | 4.5  | 7.2  |
| Man-hours   | 4.2     | 3.0     | 0.7  | -1.7 | -9.8 | 14.9 | 4.7  | 1.6  | 4.3  | 8.4  |
| Product per employed person                                       | 6.1     | 6.1     | 7.4  | 0.7  | 6.7  | 7.5  | 9.1  | 7.4  | 7.1  | 4.5  |
| Product per man-hour  | 6.4     | 6.0     | 8.7  | 1.1  | 11.3 | 3.7  | 8.8  | 7.3  | 7.3  | 3.3  |
| Product per factor unit (productivity) <sup>d</sup>               |         |         |      |      |      |      |      |      |      |      |
| Labor measured by number of employed <sup>e</sup>                 |         |         |      |      |      |      |      |      |      |      |
| A   | 3.5     | 3.8     | 3.3  | -4.1 | 0.2  | 10.7 | 7.6  | 3.9  | 5.4  | 3.4  |
| B   | 3.6     | 3.8     | 3.9  | -3.9 | 2.2  | 9.0  | 7.4  | 3.9  | 5.5  | 2.8  |
| Labor measured by man-hours <sup>e</sup>                          |         |         |      |      |      |      |      |      |      |      |
| A   | 4.3     | 4.6     | 4.6  | -2.5 | 2.3  | 9.6  | 8.1  | 5.1  | 6.0  | 3.7  |
| B   | 4.5     | 4.5     | 5.5  | -2.3 | 5.1  | 6.9  | 7.9  | 5.0  | 6.1  | 3.0  |

<sup>a</sup> Defined as the total economy less public sector services and nonprofit institutions.

<sup>b</sup> 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.

<sup>c</sup> Including workers from the administered areas.

<sup>d</sup> 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). In an econometric study by Michael Bruno ("Factor Productivity and Remuneration in Israel, 1952-1961", *Economic Quarterly*, Vol. X, No. 37-38, Tel Aviv-Hebrew) it was found that the elasticity of product with respect to labor ranged around 50 percent. We have therefore used both weights for weighting the labor input.

<sup>e</sup> Variant A—labor weighted  $\frac{1}{2}$ ; variant B—labor weighted  $\frac{3}{4}$ .

SOURCE: Based on Central Bureau of Statistics data.

**PERCENT CHANGE IN LOCAL EMPLOYMENT, EXCL. THE  
PUBLIC SECTOR AND NONPROFIT INSTITUTIONS, 1968-72**

|                 | Total before<br>adjustment | Adjusted<br>total |
|-----------------|----------------------------|-------------------|
| 1968            | 11.2                       | 10.5              |
| 1969            | 4.4                        | 3.3               |
| 1970            | 1.5                        | 0.9               |
| 1971            | 4.6                        | 3.6               |
| 1972            | 7.2                        | 5.9               |
| Average 1968-72 | 5.7                        | 4.8               |

A further decline in the number of jobless—both relatively and absolutely—presumably also depressed productivity, for such workers probably have a below-average skill level.

Finally, it should be stressed that the concept of productivity has greater significance when applied to longer periods, for the year-to-year fluctuations are liable to reflect random changes. If 1971 and 1972 are taken together, the change in overall productivity and that in GNP per employed were roughly the same as during the 1960s.

## 6. INCOME

Private sector income continued to expand rapidly in 1972. Real disposable income per capita from internal sources went up a little more slowly this year—by 7 percent, as against 9 percent in 1971 and 3 percent in 1970—but if net compulsory loans are deducted, the uptrend accelerated somewhat—8 percent as against 6 percent in 1971. The growth of private foreign transfers sagged fractionally but was still very strong. The gain in real disposable income per capita from all sources came to 9 percent.

The acceleration of private sector income in 1971 and its further notable advance in 1972 can be attributed to several factors: the stronger expansion of real product (from 8 percent in 1970 to 10 percent in 1971 and 1972); the return to a more normal rate of increase in collections of taxes and other compulsory payments after their enormous growth in 1970 with the upward revision of tax rates and the imposition of compulsory loans; and a precipitate rise in transfer payments to the public.

Gross private sector income from economic activity—before deduction of direct taxes and net compulsory loans—went up a little less vigorously than in 1971—by 24 percent as against 25.5 percent. But in nominal disposable income, excluding net compulsory loans, growth was faster this year, mainly because of a smaller percentage increase in the amount of funds absorbed by the Government from the public through taxes and compulsory loans. As regards taxes,

Table II-9

## NATIONAL PRODUCT AND INCOME, 1968-72

(IL million, at current prices)

|   | 1968   | 1969   | 1970   | 1971   | 1972   | Percent annual increase |      |      |      |
|---|--------|--------|--------|--------|--------|-------------------------|------|------|------|
|   |        |        |        |        |        | 1969                    | 1970 | 1971 | 1972 |
| 1. Gross national product at market prices <sup>a</sup> | 13,730 | 15,800 | 18,666 | 23,357 | 28,958 | 15.1                    | 18.1 | 25.1 | 24.0 |
| 2. Depreciation   | 1,350  | 1,516  | 1,822  | 2,274  | 2,905  | 12.3                    | 20.2 | 24.8 | 27.7 |
| 3. Net national product (1-2)                           | 12,380 | 14,284 | 16,844 | 21,083 | 26,053 | 15.4                    | 17.9 | 25.2 | 23.6 |
| 4. Indirect taxes on domestic production                | 1,433  | 1,665  | 1,973  | 2,425  | 2,954  | 16.2                    | 18.5 | 22.9 | 21.8 |
| 5. Subsidies on domestic production                     | 271    | 285    | 317    | 397    | 478    | 5.2                     | 11.2 | 25.2 | 20.2 |
| 6. Net taxes on domestic production (4-5)               | 1,162  | 1,380  | 1,656  | 2,028  | 2,476  | 18.8                    | 20.0 | 22.5 | 22.1 |
| 7. National income (3-6)                                | 11,218 | 12,904 | 15,188 | 19,055 | 23,577 | 15.0                    | 17.7 | 25.5 | 23.7 |
| 8. National income per capita (IL)                      | 4,000  | 4,484  | 5,134  | 6,257  | 7,494  | 12.1                    | 14.5 | 21.9 | 19.8 |

<sup>a</sup> At effective rates of exchange.

SOURCE: Central Bureau of Statistics.

this can be attributed to the lowering of the income tax rates at the beginning of April (the defense levy was reduced from 15 to 10 percent of the total tax assessed) and a more "normal" collection of National Insurance contributions after an enormous increase in the two preceding years following the hiking of contribution rates and the income ceiling subject to National Insurance.<sup>5</sup> The slacker increase in compulsory loan collections was due to two reasons: These loans, it will be recalled, were imposed in April 1970, so that their full effect was felt only during 1971. In addition, the Savings Loan imposed on employers was raised by an additional 2 percentage points in April 1971, and this in itself tended to dampen the growth rate in 1972. What is more, in April 1972 the Government ceased to collect the compulsory Savings Loan from employees. If transfer payments to the public (including nonprofit institutions) are included in the data, it turns out that revenue from direct taxes and net compulsory loans, less transfer payments increased in 1972 by 6 percent, after soaring 45 percent in 1971 and 170 percent in 1970.

From the foregoing we see that, whereas the impact of the fiscal measures adopted in 1970 with a view to checking the growth of the public's income was still felt in 1971, in the year surveyed the Government did not introduce any further fiscal measures toward this end. On the contrary, as already noted, a number of concessions were granted in income tax and compulsory loans alike.

Another notable development in 1972 was the sustained upswing in foreign transfers, which soared 40 percent (in nominal terms) for the second consecutive year, after advances of 28 percent in 1970 and 5 percent in 1969. The appreciably sharper rise in the last two years reflected an increase in foreign currency terms and in the rate of exchange after the devaluation of August 1971.

As in 1971, gross income per employed outpaced the rise in gross income per employee. One reason for this was undoubtedly the fact that many wage agreements had not yet been concluded by the end of 1972 and retroactive increments on account of this year will be paid in the course of 1973. In comparing the change in disposable income per employee with that in disposable income per employed, a statistical difficulty is encountered, as no breakdown is available on transfer payments between employees and nonemployees.

The share of compensation of employees in total national income (less imputed residential rents) edged down slightly in 1972. But, as already mentioned, this may have been due to the fact that part of the wage and salary increments will be paid in 1973. At any rate, it should again be stressed that the reference here is to the distribution of national income between wage and nonwage income, and not between employees and nonemployees, for employees also have

<sup>5</sup> In 1970 National Insurance contributions increased by 78 percent, in 1971 by 50 percent, and in 1972 by only 21 percent. For a more detailed discussion see Chapter VII.

**Table II-10**  
**TOTAL AND DISPOSABLE GROSS PRIVATE INCOME, 1968-72**  
 (IL million, at current prices)

|  | 1968   | 1969   | 1970   | 1971   | 1972   | Percent annual increase |      |      |      |
|--|--------|--------|--------|--------|--------|-------------------------|------|------|------|
|  |        |        |        |        |        | 1969                    | 1970 | 1971 | 1972 |
| 1. National saving                                   | 11,218 | 12,904 | 15,188 | 19,055 | 23,577 | 15.0                    | 17.7 | 25.5 | 23.7 |
| 2. Public sector property and entrepreneurial income | 236    | 286    | 346    | 430    | 509    | 21.2                    | 21.0 | 24.3 | 18.4 |
| 3. Private income from economic activity (1-2)       | 10,982 | 12,618 | 14,842 | 18,625 | 23,068 | 14.9                    | 17.6 | 25.5 | 23.9 |
| 4. Income tax  | 1,408  | 1,772  | 2,232  | 2,768  | 3,311  | 25.9                    | 26.0 | 24.0 | 19.6 |
| 5. National Insurance contributions                  | 399    | 465    | 826    | 1,242  | 1,505  | 16.5                    | 77.6 | 50.4 | 21.2 |
| 6. Total direct taxes (4+5)                          | 1,807  | 2,237  | 3,058  | 4,010  | 4,816  | 23.8                    | 36.7 | 31.1 | 20.1 |
| 7. Net compulsory loans <sup>a</sup>                 | 24     | -90    | 388    | 978    | 1,025  | —                       | —    | 150  | 4.8  |
| 8. Total compulsory payments (6+7)                   | 1,831  | 2,147  | 3,446  | 4,988  | 5,841  | 17.3                    | 60.5 | 44.8 | 17.1 |
| 9. Net transfer payments                             | 1,089  | 1,474  | 1,627  | 2,351  | 3,038  | 35.4                    | 10.4 | 44.5 | 29.2 |
| 10. Depreciation                                     | 1,350  | 1,516  | 1,822  | 2,274  | 2,905  | 12.3                    | 20.5 | 24.8 | 27.8 |
| 11. Gross disposable income from domestic sources    |        |        |        |        |        |                         |      |      |      |
| Incl. net compulsory loans (3-6+9+10)                | 11,614 | 13,371 | 15,233 | 19,240 | 24,195 | 15.1                    | 13.9 | 26.3 | 25.8 |
| Excl. net compulsory loans (3-8+9+10)                | 11,590 | 13,461 | 14,845 | 18,262 | 23,170 | 16.1                    | 10.3 | 23.0 | 26.9 |
| 12. Personal transfers from abroad                   | 1,157  | 1,211  | 1,551  | 2,283  | 3,247  | 4.7                     | 28.1 | 47.2 | 42.2 |
| 13. Gross disposable income from all sources (11+12) |        |        |        |        |        |                         |      |      |      |
| Incl. net compulsory loans                           | 12,771 | 14,582 | 16,784 | 21,523 | 27,442 | 14.2                    | 15.1 | 28.2 | 27.5 |
| Excl. net compulsory loans                           | 12,747 | 14,672 | 16,396 | 20,545 | 26,417 | 15.1                    | 11.8 | 25.3 | 28.6 |

<sup>a</sup> Collections less loan certificates distributed.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table II-11

## CHANGES IN INCOME AND INCOME DISTRIBUTION, 1965-72

(percentages)

|  | Average |         |         | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
|--|---------|---------|---------|------|------|------|------|------|------|------|
|  | 1961-65 | 1966-67 | 1967-72 |      |      |      |      |      |      |      |
| Real private income per capita <sup>a</sup>  |         |         |         |      |      |      |      |      |      |      |
| From domestic sources  | 6.6     | 0.7     | 7.6     | -1.7 | 3.1  | 10.8 | 8.4  | 2.9  | 8.8  | 7.2  |
| From all sources   | 6.6     | 0.0     | 8.7     | -2.9 | 3.0  | 13.1 | 7.6  | 4.0  | 10.4 | 8.7  |
| Share of employee compensation in total private income from economic activity <sup>b</sup> |         |         |         |      |      |      |      |      |      |      |
| Gross  | 60.0    | 64.5    | 58.8    | 65.5 | 63.5 | 59.9 | 58.7 | 60.6 | 58.7 | 57.1 |
| Net of direct taxes  | 60.8    | 64.7    | 58.4    | 66.0 | 63.4 | 59.5 | 58.7 | 61.0 | 58.3 | 56.2 |

<sup>a</sup> Gross income before deducting net compulsory loans.<sup>b</sup> Gross income, less the imputed net rental value of owner-occupied dwellings.

SOURCE: Central Bureau of Statistics and Bank of Israel.

income from other sources, and part of the remuneration of labor is given in the form of various benefits that are not defined as wages.

Income survey<sup>6</sup> data show that the distribution of wage income among employees was a little more unequal in 1971 (the Lorenz coefficient of inequality rose slightly), but the change was not significant.

## 7. NATIONAL INCOME

National income was up appreciably in 1972, for the second year running. The rate of saving out of the gross national product amounted to 11 percent, as against 8 percent in 1971, and even exceeded the average for 1960–65 (10 percent). There was also a rapid increase in national saving out of income from all sources (GNP plus unrequited transfers from abroad)—from 17 percent in 1971 to 22 percent. This rate too is slightly above the average for the first half of the 1960s. It is noteworthy that the return of the national saving rate to the level of the early sixties occurred in spite of an enormously larger public consumption spending: whereas public consumption accounted for 14 percent of total resources in 1960–66, the figure jumped to 21 percent in 1968–72 (see also Table II-4).

This further strong rise in national saving reflects, as in 1971, the higher rate of private sector saving.<sup>7</sup> The public sector continued to dissave, the increase in 1972 amounting to 13 percent as against 17 percent the year before. But it should be pointed out that the sector's dissaving slowed in the last two years owing to a more sluggish rise in defense spending.

The rate of private saving from internal sources (before deduction of compulsory loans) continued upward, reaching 31 percent as against 29.6 percent in 1971. The rate of saving from all sources showed a similar movement.

Only a partial explanation can be offered for this much higher rate of private saving, which has been especially conspicuous since the recession of 1966–67 (see Chapter IV, "Private Consumption and Saving"). Among the contributory factors, the most important is the much larger volume of home purchases, which is treated as investment. The current payments connected with the acquisition of new homes has probably forced households to cut down on their consumption spending. But this, as already noted, only partly explains this development.

|   | 1955–58 | 1959–64 | 1965–67 | 1968–70 | 1971–72 |
|---|---------|---------|---------|---------|---------|
| Rate of private saving out of gross disposable income |         |         |         |         |         |
| From domestic sources                                 | 13.8    | 15.8    | 18.1    | 23.5    | 30.3    |
| From all sources                                      | 20.6    | 23.9    | 24.1    | 30.3    | 38.2    |

<sup>6</sup> Conducted within the framework of the manpower surveys.

<sup>7</sup> The saving of households, private businesses, and nonprofit institutions. The data for the private sector are not broken down into these three components.

Table II-12  
**GROSS PRIVATE SAVING,\* 1968-72**  
 (IL million, at current prices)

|  | 1968   | 1969   | 1970   | 1971   | 1972   | Percent annual increase |      |      |      |
|--|--------|--------|--------|--------|--------|-------------------------|------|------|------|
|  |        |        |        |        |        | 1969                    | 1970 | 1971 | 1972 |
| 1. Gross disposable private income from domestic sources |        |        |        |        |        |                         |      |      |      |
| Incl. compulsory loans                                   | 11,614 | 13,371 | 15,233 | 19,240 | 24,195 | 15.1                    | 13.9 | 26.3 | 25.8 |
| Excl. compulsory loans                                   | 11,590 | 13,461 | 14,845 | 18,262 | 23,170 | 16.1                    | 10.3 | 23.0 | 26.9 |
| 2. Gross disposable private income from all sources      |        |        |        |        |        |                         |      |      |      |
| Incl. compulsory loans                                   | 12,771 | 14,582 | 16,784 | 21,523 | 27,442 | 14.2                    | 15.1 | 28.2 | 27.5 |
| Excl. compulsory loans                                   | 12,747 | 14,672 | 16,396 | 20,545 | 26,417 | 15.1                    | 11.8 | 25.3 | 28.6 |
| 3. Private consumption                                   | 9,041  | 10,292 | 11,433 | 13,543 | 16,728 | 13.8                    | 11.1 | 18.5 | 23.5 |
| 4. Gross private saving from domestic sources (1-3)      |        |        |        |        |        |                         |      |      |      |
| Incl. compulsory loans                                   | 2,573  | 3,079  | 3,800  | 5,697  | 7,467  | 19.7                    | 23.4 | 49.9 | 31.1 |
| Excl. compulsory loans                                   | 2,549  | 3,169  | 3,412  | 4,719  | 6,442  | 24.3                    | 7.7  | 38.3 | 36.5 |
| 5. Gross private saving from all sources (2-3)           |        |        |        |        |        |                         |      |      |      |
| Incl. compulsory loans                                   | 3,730  | 4,290  | 5,351  | 7,980  | 10,714 | 15.0                    | 24.7 | 49.1 | 34.3 |
| Excl. compulsory loans                                   | 3,706  | 4,380  | 4,963  | 7,002  | 9,689  | 18.2                    | 13.3 | 41.1 | 38.3 |
|  |        |        |        |        |        | Percentages             |      |      |      |
| 6. Rate of gross saving from domestic sources            |        |        |        |        |        |                         |      |      |      |
| Incl. compulsory loans                                   | 22.2   | 23.0   | 24.9   | 29.6   | 30.9   |                         |      |      |      |
| Excl. compulsory loans                                   | 22.0   | 23.5   | 23.0   | 25.8   | 27.8   |                         |      |      |      |
| 7. Rate of gross saving from all sources                 |        |        |        |        |        |                         |      |      |      |
| Incl. compulsory loans                                   | 29.2   | 29.4   | 31.9   | 37.1   | 39.1   |                         |      |      |      |
| Excl. compulsory loans                                   | 29.1   | 30.0   | 30.3   | 34.1   | 36.7   |                         |      |      |      |

\* Of households, businesses, and nonprofit institutions, for which there are no separate data.

**Table II-13**  
**NATIONAL SAVING, 1968-72**  
(IL million, at current prices)

|  | 1968   | 1969   | 1970   | 1971   | 1972   |
|--|--------|--------|--------|--------|--------|
| 1. Gross private saving <sup>a</sup>                           | 2,573  | 3,079  | 3,800  | 5,697  | 7,467  |
| 2. Public sector saving  | -1,977 | -2,490 | -3,295 | -3,898 | -4,409 |
| Net public sector income <sup>b</sup>                          | 2,116  | 2,429  | 3,433  | 4,117  | 4,763  |
| Less: Public consumption                                       | 4,093  | 4,919  | 6,728  | 8,015  | 9,172  |
| 3. Gross national saving from GNP (1+2)                        | 596    | 589    | 505    | 1,799  | 3,058  |
| 4. Unilateral transfers from abroad                            | 1,399  | 1,466  | 2,026  | 2,600  | 4,062  |
| 5. Gross national saving from all sources (3+4)                | 1,995  | 2,055  | 2,531  | 4,399  | 7,120  |
| 6. Depreciation  | 1,350  | 1,516  | 1,822  | 2,274  | 2,905  |
| 7. Net national saving from NNP (3-6)                          | -1,399 | -927   | -1,317 | -475   | 153    |
| 8. Net national saving from all sources (5-6)                  | 645    | 539    | 709    | 2,125  | 4,215  |
| <b>Percentages</b>   |        |        |        |        |        |
| 9. Rate of gross saving from GNP                               | 4.3    | 3.7    | 2.7    | 7.7    | 10.6   |
| 10. Rate of gross saving from all sources                      | 13.2   | 11.9   | 12.2   | 17.0   | 21.6   |
| 11. Rate of net saving from NNP                                | -11.3  | -6.5   | -7.8   | -2.3   | 0.6    |
| 12. Rate of net saving from all sources<br>(less depreciation) | 4.7    | 3.4    | 3.8    | 9.0    | 14.0   |

<sup>a</sup> Out of income from domestic sources, including compulsory loans.

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

The decline in the share of compensation of employees in total income from economic activity (less direct taxes) from 60.8 percent in 1961-65 to 58.4 percent in 1968-72 apparently cannot explain the strong increase in the saving rate between these two periods (assuming that the average rate of saving out of nonwage income is higher than that for wage income). There was no significant change in the distribution of income among employee families (according to saving survey data). But, as already indicated, the data on the distribution of

wage income during this period must be accepted with caution, as they do not include various benefits that are actually income from employment, such as car maintenance and telephone allowance, whose weight is apparently larger in the higher income groups. Assuming that the various income groups have disparate rates of saving, the practice of paying part of the wages and salaries in such tax-free forms in itself tends to depress the average rate of saving of employee families.

**LORENZ COEFFICIENT OF INEQUALITY\***

|      |       |
|------|-------|
| 1965 | 0.304 |
| 1966 | 0.326 |
| 1967 | 0.362 |
| 1968 | 0.329 |
| 1969 | 0.314 |
| 1970 | 0.305 |
| 1971 | 0.293 |
| 1972 | 0.298 |

\* The coefficient of inequality ranges between a value of zero, when there is absolute equality, and 1, when there is absolute inequality.