/

CHAPTER VIII

NONPROFIT INSTITUTIONS

1. Main Developments

During the past three years this sector's activity expanded at a fairly steady nominal rate of about 27 percent per annum. But because of the sharpening of inflation in the last two years the real increase varied widely, sinking from 12 percent in 1971 and 1972 to almost nil in the year reviewed.

In general, 1973 saw a continuation of the long-run trends prevailing in this sector, including its growing dependence on the public sector and the declining share of the institutions' own resources.[1] But in contrast to previous years, the weight of health institutions rose following an accelerated investment in such services.

The sector's expenditure totalled IL 3,300 million in 1973, some IL 700 million more than in the previous year. The small 2 percent real rise was made possible by an increase of 20 percent in foreign transfer receipts (from IL 390 million to IL 470 million) and of 40 percent in net borrowing (from IL 270 million to IL 375 million). The composition of expenditure has been relatively stable for a number of years: about half goes on payrolls, 30 percent on current-account purchases, and the remaining 20 percent on capital-account purchases.[2]

Domestic sources[3] (transfers from domestic sectors and sales of services and goods) financed some 76 percent of the sector's outlays, while foreign sources covered 11 percent, compared with 16 percent in 1972. To finance the balance the institutions therefore had to step up their net borrowing from other domestic sectors, as already mentioned, to some IL 375 million.

The sector's demand surplus practically doubled over the past two years and reached IL 840 million (it should be noted here that the big institutions are largely controlled by the public sector). This no doubt contributed to the aggravation of the inflationary pressures prevailing in the economy during this period. In 1973 the demand surplus grew by 27 percent, after jumping more than 50 percent the year before. While these are nominal rates, the significance of the sheer size of the surplus cannot be ignored. Its weight in total uses is on

1 Sales and private sector transfers.
2 Including construction and equipment.
3 Excluding credit.

Table VIII-1

SOURCES AND USES OF NONPROFIT INSTITUTION FUNDS, 1969–73

(IL million)

	1969	1970	1971	1972	1973	Percent annual increase			
						1970	1971	1972	1973
Uses									
Payroll	663.4	816.3	988.9	1,279.3	1,582.9	23	21	29	24
Other purchases on current account[a]	409.5	488.4	621.8	766.6	1,002.0	19	27	23	31
Purchases on capital account	222.4	258.2	370.2	489.0	630.5	16	43	32	29
Total uses	**1,295.3**	**1,562.9**	**1,980.9**	**2,534.9**	**3,215.4**	**21**	**27**	**28**	**27**
Sources									
Sales of services and goods	259.7	302.3	367.1	434.3	525.7	16	21	18	21
Net transfers	928.1	1,112.1	1,476.3	1,831.6	2,316.9	20	33	24	26
From the public sector	320.0	419.4	630.4	815.5	1,102.8	31	50	29	35
From the private sector	430.1	467.2	550.2	623.0	746.8	9	18	13	20
From abroad	178.0	225.5	295.7	393.1	467.3	27	31	33	19
Net credit from other sectors	107.5	148.5	137.5	269.0	372.8	. .	. .	. .	. .
Total sources	**1,295.3**	**1,562.9**	**1,980.9**	**2,534.9**	**3,215.4**	**21**	**27**	**28**	**27**
Current deficit[b]	383.1	535.2	693.4	988.6	1,312.4	40	30	42	33
Own resources[c] as a percent of current-account purchases	64	59	57	52	49	. .	. .	. .	. .
Other resources[d] as a percent of total uses	47	51	54	58	60	. .	. .	. .	. .

[a] Including net interest paid.
[b] *Payroll outlay and other current purchases, less sales and transfers from the private sector.*
[c] Sales and private sector transfers.
[d] Public sector transfers, transfers from abroad, and the increase in outstanding credit.

the rise, while the share of foreign transfer receipts in financing capital expenditures is declining (from 58 percent in 1971 to 43 percent in 1972 and 40 percent in 1973—see Table VIII-8).

Despite the general conditions prevailing in the domestic credit market, this sector, at least, apparently did not experience much difficulty in borrowing more heavily during the year, and this enabled it to enlarge its demand surplus. No data are available on the gross credit received by the institutions, but an indirect estimate of the net inflow shows a change in the financing of the demand surplus: whereas in 1971 net credit from domestic sources covered less than a third of the surplus, in 1973 its weight rose to nearly half.

The characteristic feature of the nonprofit institutions is that they provide their services and goods at less than cost or without any direct charge; hence they are almost without exception in a deficit position and consequently are dependent on other sectors for financing. The sector's current deficit[4] has been moving up by an average of 30 percent a year and in 1973 it amounted to IL 1,300 million. A glance at Table VIII-1 reveals the growing dependence of the institutions on other sectors for financing its current operations: the share of independent sources has been drifting downward for many years, and in 1973 they covered less than half the expenditure on current account.

2. Structure of the Sector

Nonprofit institutions operate in three main spheres: education, health, and social welfare. The remaining institutions are in such other fields as religion (excluding education), sport, professional associations, fund raising, etc. Their total number comes to an impressive 6,500, but this includes numerous small institutions, among them more than 5,000 synagogues. The degree of con-

Table VIII–2

EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, IN SELECTED YEARS, 1962–73

(percentages)

	1962	1965	1969	1971	1973
Health	41	41	38	37	40
Education and research	32	34	41	45	44
Social welfare	14	12	10	9	8
Other	13	13	11	9	8
Total	**100**	**100**	**100**	**100**	**100**

[4] The surplus of purchases on current account over receipts from sales and transfers from the private sector.

centration is exemplified by the fact that some three-quarters of the total expenditure is accounted for by 20 large institutions.[5]

The unbroken uptrend in the weight of the educational institutions was interrupted in 1973, when a substantial increase in the health institutions' activities, mainly investment (by Hadassah and Sha'arei Zedek hospitals), brought up their weight in the sector's total expenditures from 37 percent in 1972 to 40 percent.

In education, the share of the institutions of higher learning has been moving steadily upward, and in 1973 it reached some 70 percent. Other institutions in this field are vocational, secondary, and agricultural schools, religious schools, and research and cultural institutes. Pacing the health institutions are the Sick Funds, which account for more than 80 percent of total outlays; they are followed by hospitals with 15 percent, while the remaining institutions are of a very heterogeneous nature.

The composition of the sector's expenditure is fairly similar in all fields of activity: about half consists of payroll outlays, 30 percent are current-account purchases, and 20 percent goes on investment. By contrast, the composition of income varies greatly: the educational institutions are financed mainly by public sector transfers (58 percent of their total income derived from this source in 1973), and partly by foreign transfers (20 percent); the remainder comes from their independent sources, namely sales of services and goods and transfers from the private sector. The health organizations, on the other hand, display a greater measure of "independence", with some two-thirds of their income in 1973 originating in sales (including members' dues) and private sector transfers. Nevertheless, public sector support is growing in importance, rising from 16 percent in 1971 to 24 percent in the year reviewed. Social welfare is still financed mainly from overseas and independent sources, with the contribution of the public sector being relatively small (only 13 percent in 1973).

3. Use of Resources

In 1973 the sector's sources of funds totalled IL 3,215 million, some IL 680 million (27 percent) more than in the previous year. The increment enabled the institutions to increase their payrolls by 24 percent (as against 29 percent in 1972), purchases on current account by 31 percent (23 percent in 1972), and capital spending by 29 percent (a real rise of only some 3 percent).

Of the sector's total investment of IL 630 million in 1973, 90 percent was in educational and health services. The slacker growth of the sector's capital expenditures is apparently explained by the fact that several large projects in the educational field (which accounts for more than 60 percent of the sector total) neared completion. The health institutions, on the other hand, recorded

[5] The latest check of the composition of the sector's expenditure was for the year 1971.

Table VIII-3

CAPITAL EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1971-73

(IL million)

	1971	1972	1973	Percent annual increase		Capital outlays as a percent of total payments		
				1972	1973	1971	1972	1973
Health	77.2	122.7	177.1	59	44	10	12	13
Education and research	238.8	302.9	377.3	27	25	26	27	26
Social welfare	35.9	42.0	48.3	17	15	19	19	17
Other	18.3	21.4	27.8	17	30	10	10	10
Total	**370.2**	**489.0**	**630.5**	**32**	**29**	**18**	**19**	**19**

a further increase in 1973—14 percent in real terms, as contrasted with 40 percent the year before.

Purchases on current account rose by IL 540 million to hit IL 1,583 million. This 26 percent increase was similar to the rate in 1972, but there was some

Table VIII-4

NONPROFIT INSTITUTION PURCHASES ON CURRENT ACCOUNT, BY FIELD OF ACTIVITY, 1971-73

(IL million)

	1971	1972	1973	Percent annual increase		Percent of total payments		
				1972	1973	1971	1972	1973
Health	668.9	914.1	1,141.7	37	25	90	87	85
Payroll	350.2	500.1	603.9	43	21	47	48	45
Other current purchases[a]	318.7	414.0	537.8	30	30	43	39	40
Education and research	657.2	797.3	1,013.5	21	27	72	71	70
Payroll	458.1	562.6	704.4	23	25	50	50	49
Other current purchases[a]	199.1	234.7	309.1	18	32	22	21	22
Social welfare	128.1	154.6	199.4	21	29	66	70	72
Payroll	79.4	99.2	127.8	25	29	42	45	46
Other current purchases[a]	48.7	55.4	71.6	14	29	16	25	26
Other	156.5	179.9	230.3	15	28	86	86	86
Payroll	101.2	117.4	146.8	16	25	56	56	55
Other current purchases[a]	55.3	62.5	83.5	13	34	30	30	31
Total purchases on current account	**1,610.7**	**2,045.9**	**2,584.9**	**27**	**26**	**80**	**78**	**78**
Payroll	**988.9**	**1,279.3**	**1,582.9**	**29**	**24**	**49**	**49**	**48**
Other current purchases[a]	**621.8**	**766.6**	**1,002.0**	**23**	**31**	**31**	**29**	**30**

[a] Includes interest paid.

change in the composition of the increment: the sector's wage bill went up less than in 1972 (when wage differentials were paid on account of earlier years) and even trailed behind the rise in other purchases; apparently the rise was also below the national average in terms of wages and salaries per employee.

4. Resources

After having advanced 27 percent in 1972, the institutions' sources of funds expanded to a similar extent in the year surveyed, and totalled IL 3,215 million. As stated, public sector transfers are gaining in importance from year to year, especially in education and health. In 1973 such receipts rose 35 percent, following a respectable 30 percent gain the year before, and totalled IL 1,103 million;[6] this brought up their weight in total receipts to 37 percent. The public sector transferred some IL 760 million (69 percent of its total transfer payments to the sector) to educational institutions and IL 280 million to health institutions (this is 70 percent more than in 1972, and it was these receipts that enabled these institutions to refrain from borrowing more heavily in 1973).

Table VIII–5

NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1971–73

(IL million)

	1971	1972	1973	Percent annual increase		Transfers as a percent of total receipts		
				1972	1973	1971	1972	1973
Health	108.6	164.5	282.0	51	71	16	19	24
Education and research	481.9	601.1	760.2	25	26	58	56	58
Social welfare	25.2	33.1	39.7	31	20	14	15	13
Other	14.7	16.8	20.9	14	24	8	8	8
Total	**630.4**	**815.5**	**1,102.8**	**30**	**35**	**33**	**34**	**37**

Foreign transfers added up to IL 467 million in 1973, compared with IL 393 million the year before. As in 1972, the lion's share of the funds (about 60 percent) was for education. This is also an important source for social welfare institutions too, accounting for about a third of their total funds.

[6] There is a discrepancy between the amount of transfers as reported by the nonprofit institutions and that recorded by the public sector; this stems from the fact that the institutions also list as transfers their loans from the public sector.

Table VIII-6

TRANSFERS FROM ABROAD TO NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1971-73

(IL million)

	1971	1972	1973	Percent annual increase		Transfers as a percent of total receipts		
				1972	1973	1971	1972	1973
Health	59.2	65.1	101.2	10	55	9	8	9
Education and research	156.8	237.0	261.5	51	10	19	22	20
Social welfare	66.6	76.6	85.2	15	11	37	35	33
Other	13.1	14.4	19.4	10	35	7	7	8
Total	**295.7**	**393.1**	**467.3**	**33**	**19**	**16**	**17**	**16**

Table VIII-7 presents the sector's own resources, i.e. funds obtained or raised through its own activities. The importance of this source is on the decline, and in 1973 it accounted for some 43 percent of the sector's total funds, as against 45 percent in 1972 and 48 percent in 1971. This long-run trend indicates the mounting dependence of the nonprofit institutions on other sectors, in particular the public sector.

Table VIII-7

NONPROFIT INSTITUTION SALES AND NET TRANSFERS FROM THE PRIVATE SECTOR, BY FIELD OF ACTIVITY, 1971-73

(IL million)

	1971	1972	1973	Percent annual increase		Transfers and sales as a percent of total receipts		
				1972	1973	1971	1972	1973
Health	520.2	613.1	744.9	18	21	75	71	86
Education and research	166.4	180.6	226.7	9	26	20	21	17
Social welfare	68.5	86.4	95.2	26	10	38	39	38
Other	162.2	177.2	205.7	9	16	83	82	80
Total	**917.3**	**1,057.3**	**1,272.5**	**15**	**20**	**48**	**45**	**43**

5. The Demand Surplus[7] and Its Financing

The contribution of the nonprofit institutions to national saving was of a negative magnitude—an estimated –IL 255 million, compared with –IL 211 million in 1972; their dissaving rose during the year from IL 1,612 million to

[7] The demand surplus of the nonprofit institutions is defined as the excess of net purchases (purchases less sales) over net transfers from other domestic sectors.

IL 2,059 million, or by 28 percent. Both components of the demand surplus—the sector's current deficit and its domestic transfer receipts (the difference between them represents the sector's contribution to national saving)—moved up at about the same rate in 1973, but so far the current deficit has always exceeded transfers.

If capital-account purchases payable in the current year are added to the net saving, the demand surplus came to IL 840 million in 1973, a 27 percent increase. It should be stressed here that the institutions' demand surplus shot up in the last two years, apparently contributing greatly to the sharpening of inflationary pressures in the economy—a conclusion strengthened by an analysis of the way in which the demand surplus was financed.

More than 55 percent of the surplus was covered by transfers from abroad (this is a structural characteristic, since some of the institutions receive their funds from overseas sources and part of the transfers are earmarked for specific building projects). At the same time, the share of domestic transfers in financing the demand surplus is drifting downward, while that of domestic borrowed receipts is increasing. At the time of writing this chapter complete data were not yet available on the gross credit flows between the nonprofit institutions and the other sectors, but even partial data suggest the existence of substantial bilateral flows.

Table VIII–8
CONTRIBUTION OF NONPROFIT INSTITUTIONS TO NATIONAL SAVING, THEIR DEMAND SURPLUS, AND ITS FINANCING, 1971–73
(IL million)

	1971	1972	1973
Contribution of sector to national saving			
1. Net transfers on current account from other domestic sectors	1,155.6	1,400.5	1,804.6
2. Less: Purchases on current acount, net of sales	1,243.6	1,611.6	2,059.2
3. Contribution of sector to national saving (1–2)	**–88.0**	**–211.1**	**–254.6**
Demand surplus			
4. Purchases on capital account	370.2	489.0	630.5
5. Less: Net transfers on capital account from the public sector	25.0	38.0	45.0
6. Subtotal (4–5)	345.2	451.0	585.5
7. Demand surplus (6–3)	**433.2**	**662.1**	**840.1**
Financing of demand surplus			
8. Transfers from the rest of the world	295.7	393.1	467.3
9. Net credit from other domestic sectors	137.5	269.0	372.8
Total	**433.2**	**662.1**	**840.1**
Share of transfers from abroad in financing purchases		**Percentages**	
on capital account $\left(\frac{8+3}{4}\right)$	58	43	40
Demand surplus as a percent of gross purchases	22	25	26
Demand surplus as a percent of purchases net of sales	27	31	32