

CHAPTER XI

NONPROFIT INSTITUTIONS

1. MAIN DEVELOPMENTS

In 1975 nonprofit institution activity amounted to IL5.6 billion, a 32 percent nominal increase, similar to the rate during the past three years.

The uniformity in the nominal increase of the sector's activities did not reflect parallel growth in real terms, as inflation rates varied during these years. In real terms, the sector's operations grew by more than 10 percent in 1971 and 1972, by over 5 percent in 1973, but dropped by about 3 percent in 1974 and 1975. Therefore, a slight contraction occurred in the sector's economic activities as a proportion of total domestic expenditures. While the sector's share in total domestic expenditures had remained stable (at 6 percent) over the past several years, in 1975 it declined to 5.5 percent. The sector's expenditures on wages came to 8.5 percent of the national wage-bill in 1975, as against 9 percent in 1974 and in the preceding years. In 1975 payroll outlays increased by about 40 percent as compared to a rise of 33 percent in 1974; in health institutions those expenditures increased by more than the whole sector average, while in educational institutions they were below this average.

Table XI-1^a
ACTIVITIES OF NONPROFIT INSTITUTIONS: MAIN INDICATORS, 1962-75
(percentages)

	Average 1962-72	1973	1974	1975
Resources as a percent of total domestic resources	6.5	6.5	6.0	5.5
Wages as a percent of total domestic wages	9.0 ^a	9.0	9.0	8.5
Current purchases as a percent of total private consumption	4.0 ^a	5.0	4.0	4.0
Capital expenditure as a percent of total gross investment	5.0	4.5	4.0	3.5

^a Average for 1966-1972.

Current purchases of nonprofit institutions increased nominally by 37 percent in 1975, as compared to 30 percent in 1974, but the real terms volume of activity remained stable. In contrast, there was a sharp drop in the sector's real investments in 1975; nominally these investments were up 8 percent, as compared to 25 percent in 1974. The share of the sector's investments in total gross capital formation declined slightly: from 5 percent in most of the previous years to 3.5 percent in 1975.

Table XI-2
SOURCES AND USES OF NONPROFIT INSTITUTIONS, 1973-75
(IL million)

	1973	1974	1975	Percent annual increase	
				1974	1975
Uses					
Wages	1,588.0	2,106.5	2,940.9	33	40
Other purchases on current accounts ^a	1,048.8	1,370.4	1,877.7	31	37
Purchases on capital account	610.8	762.3	823.0	25	8
Total uses	3,247.6	4,239.2	5,642.1	31	33
Sources					
Sales of services and goods ^a	1,284.4	1,627.6	2,310.7	27	42
Net transfers	1,705.8	2,188.1	2,877.7	28	29
Public sector	1,192.6	1,608.3	2,147.9	35	33
Private sector	50.7	38.4	36.7	-24	-4
Rest of the world	462.5	541.4	693.1	17	28
Net credit from other sectors	257.4	423.5	453.7	64	7
Total sources	3,247.6	4,239.2	5,642.1	31	33
Current deficit ^b	1,310.7	1,810.9	2,471.2	38	36
		(Percentages)			
Own resources ^c as a percent of current-account purchases	51	48	49		
Other resources ^d as a percent of total uses	59	61	58		

^a Purchases on current account and sales include payments and receipts of interest.

^b Purchases on current account less sales of goods and services and private sector transfers.

^c Sales and private sector transfers (including members' fees).

^d Public sector transfers, transfers from abroad and net credit.

The sector's receipts increased by 36 percent in 1975 and amounted to IL5.2 billion, of which 41 percent were transfers from the public sector, 13 percent transfers from abroad while sales and members' dues and fees accounted for the remainder. The various institutions can be distinguished through their share in public sector transfers. In the first place are the educational institutions whose share of public sector transfers amounted to 69 percent during the last two years (as against 64 percent in 1973). On the other hand health institutions shared only 26 percent in 1975, similar to the previous two years. Because of their social nature nonprofit institutions normally supply goods and services below cost or without any direct charge and are therefore dependent on other

sectors for their financial resources (because of this dependence the institutions are not free to set prices and it is the supporting institution, in most cases the government, who determine them). The sector's current expenditures were in excess of income from sales and of private sector transfers to the tune of IL2.5 billion, as compared to IL1.8 billion in 1974. In recent years the current deficit¹ of health institutions has grown faster than that of educational institutions. The sector's demand surplus² grew by only 19 percent in 1975, in contrast to a marked increase in 1974 (34 percent). Educational institutions, especially institutions of higher education, contributed substantially to this slowdown.

2. STRUCTURE OF THE SECTOR

Nonprofit institutions operate mainly in three spheres: education, health, welfare, and other social services. The remaining institutions operate in spheres such as religion, sport, professional associations, etc. Their total number is impressive (about 6,500), however 75 percent of the sector's expenditure is concentrated in 20 institutions.

Education and health institutions account for about 83 percent of the sector's total activity, social welfare and other institutions for 10 percent and 7 percent respectively. The share of welfare and other institutions in the sector's total activities has declined in recent years; from about 27 percent in the early 60s to 17 percent more recently.

The period till 1971 witnessed a rapid expansion in education and research institutions: their share in the sector's total activities rose to a peak in 1971 when it reached 45 percent, while the expansion rate of health institutions was comparatively slow, their share in the sector's total activities having reached 37 percent in that year. Since then there has been a definite reversal of this trend, and the rapid expansion of educational institutions (especially institutions of higher education) gave way to a contraction imposed on them by the government. Health institutions, on the other hand, began to expand both in investment and in current expenditures, and they constituted 45 percent of the sector's total activities in 1975; the share of educational institutions fell 37 percent in the same year.

1. Expenditures on current account less own resources; expenditures on current account include wages and current purchases.

2. See definition in Table XI-9.

Table XI-3
EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY,
IN SELECTED YEARS, 1962-75
 (percentages)

	1962	1965	1969	1972	1973	1974	1975
Health	41	41	38	39	42	45	46
Education and research	32	34	41	44	40	38	37
Social welfare	14	12	10	9	10	10	10
Other	13	13	11	8	8	7	7
Total	100	100	100	100	100	100	100

3. USES OF FUNDS

The sector's total uses amounted to IL5,642 million, an increase of IL1,403 million over 1974. The weight of wages in total expenditures reached 52 percent in 1975, as against 50 percent in the previous year, a rate which has been rather constant during most years previously. Likewise, the weight of purchases on current account stabilized itself at around 33 percent in 1975 amounting to IL1,870 million.

In contrast to the stable share of purchases and wages, there was a conspicuous fall in the share of investments. They formed some IL823 million, which was a nominal increase of IL375 million or 8 percent, but signified a decrease in real terms of about 20 percent.³ This decrease stems from the government's cutdown in aid to educational, research, and welfare institutions which was reflected in their reduced development budgets. As current expenditures are rather inflexible, pressure to cut expenditures, especially in educational institutions, was concentrated on a relatively more flexible expenditure item, namely, investments. Investments in educational institutions as a proportion of their

Table XI-4
CAPITAL EXPENDITURE OF NONPROFIT INSTITUTIONS AND THEIR SHARE
IN TOTAL EXPENDITURES, BY FIELD OF ACTIVITY, 1973-75
 (IL million)

	1973	1974	1975	Percent annual increase		Capital outlays as a percent of total expenditure		
				1974	1975	1973	1974	1975
Health	224.2	326.2	395.1	46	21	16	17	15
Education and research	309.0	345.2	348.7	11	1	24	21	17
Social welfare and miscellaneous	77.6	90.9	79.7	17	-12	14	13	8
Total	610.8	762.3	823.5	25	8	19	18	15

3. It should be noted that part of the data regarding investments of certain institutions were based on the budget proposals, which are likely to have changed.

total economic activities fell from 24 percent in 1973 to 17 percent in 1975.

There was a nominal rise of about 21 percent in investments of health institutions, and consequently investments as part of total expenditure in these institutions did not change. The health institutions' current expenditure (purchases and wages) in real terms rose some 10 percent, following a 4 percent fall in 1974, and an annual average rise of 10 percent between 1971 and 1973. In contrast, current expenditures of educational institutions remained stable in 1975, following a real drop of 3 percent in 1974 and an average annual real increase of 8 percent between 1971 and 1973.

4. SOURCES OF FUNDS

Total resources of the sector amounted to IL5.2 billion, including receipts from the sale of goods and services (inclusive of Sick Fund membership fees), and net transfers from the public and private sectors and from overseas. In 1974, total resources amounted to IL3.8 billion. In order to finance the rise in expenditures, which exceeded the rise in receipts, the sector borrowed IL450 million, as compared to IL423 million in 1974.

Transfers from the public sector (government, national institutions, and local authorities) amounted to about IL2.1 billion, in comparison to IL1.6 billion in 1974. About 64 percent of this sum was allocated to educational institutions, 2 percent down on each one of the two preceding years. The share of health institutions in public sector transfers rose from 26 percent in 1974 to 28 percent in 1975.

Table XI-5
NONPROFIT INSTITUTIONS' EXPENDITURE ON CURRENT ACCOUNT,
BY FIELD OF ACTIVITY, 1973-75
(IL million)

	1973	1974	1975	Percent annual increase		Percent of total expenditure in the field of activity		
				1974	1975	1973	1974	1975
Health	1,148.1	1,564.6	2,237.5	36	43	84	83	85
Wages	607.5	872.6	1,296.4	44	49	44	46	49
Total current purchases	540.5	692.0	941.4	28	36	39	37	36
Education and research	996.0	1,278.2	1,700.2	28	33	76	79	83
Wages	676.2	871.6	1,152.8	29	32	52	53	56
Total current purchases	319.8	415.6	547.4	30	32	25	25	27
Social welfare and miscellaneous	492.7	625.1	880.9	27	41	86	87	92
Wages	304.2	362.3	491.7	19	36	53	51	51
Total current purchases	188.5	262.8	389.2	39	48	33	37	40
Total purchases on current account	2,636.8	3,476.9	4,818.6	32	39	81	82	85
Wages	1,588.0	2,106.5	2,940.9	33	40	49	50	52
Total current purchases	1,048.0	1,370.4	1,877.7	31	37	32	32	33

NOTE: Current purchases include interest.

Public sector transfers, which accounted for 60 percent of the resources at the disposal of educational institutions in 1973, rose to 67 percent in 1975, while transfers to health institutions remained stable during these years accounting for 22 percent of their activities. In other words, health institutions financed their current operations out of their own resources at a greater rate than educational institutions. Furthermore, public sector transfers to educational institutions grew from year to year, while the institutions' own resources became relatively less significant. The sector obtains its own resources from current operations, which include sales, members' fees, and private sector transfers. These resources amounted to IL2.3 billion in 1975 and financed 42 percent of the total expenditures of nonprofit institutions.

Transfers from abroad totalled IL693 million, an increase of 25 percent, as against 17 percent in 1974. There was a particular increase in overseas transfers to health institutions, while the increase in transfers to educational institutions was 13 percent, following stability in 1973 and 1974. Despite the nominal increase in transfers from abroad, there was a real decline both in terms of local prices and of foreign currency rates.

Table XI-6
NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1973-75
(IL million)

	1973	1974	1975	Percent annual increase		Transfers as a percent of total receipts in the field of activity		
				1974	1975	1973	1974	1975
Health	305.5	417.0	600.0	37	44	25	26	26
Education and research	783.3	1,059.5	1,364.9	35	29	64	68	69
Social welfare and miscellaneous	103.8	131.8	183.0	27	39	19	20	20
Total	1,192.6	1,608.3	2,147.9	35	34	40	42	41

Table XI-7
FOREIGN TRANSFERS TO NONPROFIT INSTITUTIONS, BY FIELD
OF ACTIVITY, 1973-75
(IL million)

	1973	1974	1975	Percent annual increase		Resources as a percent of total receipts in the field of activity		
				1974	1975	1973	1974	1975
Health	125.7	157.4	222.6	25	41	10	10	10
Education and research	218.0	225.4	253.5	3	13	18	14	13
Social welfare and other, etc.	118.8	158.6	217.0	34	37	21	24	24
Total	462.5	541.4	693.1	17	28	16	14	13

Table XI-8
NONPROFIT INSTITUTION SALES AND NET TRANSFERS FROM THE PRIVATE SECTOR,^a
BY FIELD OF ACTIVITY, 1973-75
(IL million)

	1973	1974	1975	Percent annual increase		Transfers and sales as a percent of total receipts in the field of activity		
				1974	1975	1973	1974	1975
Health	786.9	1,005.1	1,464.2	28	46	65	64	64
Education and research	217.0	278.1	368.4	28	32	18	18	19
Social welfare and other, etc.	331.2	382.8	514.8	16	35	60	57	56
Total	1,335.1	1,666.0	2,347.4	25	41	45	44	45

^a Including members' due and fees.

5. THE DEMAND SURPLUS AND ITS FINANCING

The demand surplus of nonprofit institutions amounted to IL1.1 billion in 1975, an increase of IL182 million, or about 19 percent, as compared to an increase of 34 percent in the previous year. The demand surplus is defined as the sector's expenditures on current and capital account over its receipts from sales and transfers from other domestic sectors. The demand surplus is financed by overseas transfers and by credit, and its size is a measure of the sector's impact on domestic demand.

Table XI-9
EFFECT OF NONPROFIT INSTITUTIONS ON NATIONAL SAVING, THEIR DEMAND SURPLUS, AND ITS FINANCING, 1973-75
(IL million)

	1973	1974	1975
Demand surplus			
1. Expenditure on current account, less sales	2,019.2	2,668.2	3,731.4
2. Less: Net transfers from other domestic sectors ^a	1,910.1	2,465.6	3,408.1
3. Dissaving on current operations	109.1	202.6	323.3
4. Purchases on capital account	610.8	762.3	823.5
5. Demand surplus (3+4)	719.9	964.9	1,146.8
Financing of demand surplus			
6. Transfers from the rest of the world	462.5	541.4	693.1
7. Net credit from other domestic sectors	257.4	423.5	453.7
8. Total	719.9	964.9	1,146.8
		(Percentages)	
Share of foreign transfer receipts in financing of capital-account purchases (6-3)/4	58	44	45
Demand surplus as a percent of total uses, less own resources	38	38	35
Share of demand surplus financed by credit (7/8)	36	44	40

^a Including members' dues and fees.

The marked slackening in the growth of the demand surplus in 1975 stands out prominently against the backdrop of the preceding years, during which the nonprofit sector contributed to the intensification of the inflationary pressures on the economy. In the past few years many nonprofit institutions submitted deficit budgets and succeeded in mobilizing funds to finance these deficits. In 1975, the increase in interest rates made borrowing from banking institutions more difficult and curbed its growth. It can be assumed that, to some extent, the high cost of borrowing contributed to the reduction in the sector's demand surplus.

It should be noted that in 1975 the slackening in the growth of the demand surplus was concentrated in educational institutions; their demand surplus grew by only about 7 percent in 1975. In health institutions the demand surplus grew by 21 percent in that year. (Developments in demand surplus reflect, to a large extent, changes in expenditures on capital account.)