

CHAPTER V

GOVERNMENT AND NONGOVERNMENT PUBLIC SECTOR¹

Direct domestic demands of the public sector expanded 2.3 percent in 1982, after moving up at a 1.3 percent average rate in the four preceding years. A sharp cutback in public housing construction (21.4 percent) moderated the growth of demands, while the war in Lebanon increased public domestic consumption by 4.8 percent—far above the average of the last few years.² The siphoning out of liquidity through net tax collections³ has displayed very sharp swings of late. Thus the year reviewed witnessed a 47 percent increase in this item, after a 24 percent contraction in 1981. This year's upturn reflected a rise in all the main tax components and a steep drop in subsidies and transfer payments. The high absorption growth rate exceeded the increase in demands, with the result that the public sector's demand surplus shrank appreciably, and its weight in relation to the gross national product again reached 9 percent⁴ (similar to the figure for 1978–80), as against 16 percent in 1981.

The growth of demands since 1978–80 has had an expansionary effect, even though it has been accompanied by a larger absorption. That is, the demand surplus has not risen, since an increased tax revenue, which finances a heavier public consumption, only partly depresses private consumption, while to some extent it also pulls down the private saving rate. The growth of aggregate demand will be reflected by pressure on the domestic product and prices, or by a worsening of the balance of payments.

In the three years since 1980 economic policy has changed direction several times, alternating between a restrictive and an expansionary course. This has reflected divergent views about the effect of the subsidies and taxes on the rate of inflation, as well as various budget constraints. In 1980, following another world oil price shock and the escalation of inflation in this country, a tight fiscal policy was introduced, which provided for the slashing of subsidies on basic goods and services (by 24.4 percent), the curbing of civilian spending (1.2 percent), and the lowering of real wages

¹ The public sector comprises the central government, local authorities, and National Institutions. The analysis of civilian consumption and the sectoral distribution of employment also cover nonprofit institutions. This chapter deals with the sector's real activities; monetary developments are discussed more fully in Chapter VIII.

² 1.8 percent in 1977–81.

³ The reference is to income from taxes, compulsory payments, and property and entrepreneurial income, less transfer payments and subsidies.

⁴ The demand surplus declined in 1982 despite the stagnation of the product and the reduction of national income, which in themselves dampened tax revenue.

in the public sector by 7 percent.⁵ This policy enjoyed some success as regards the balance of payments, but the cutting of subsidies immediately gave another twist to the inflationary spiral, and the measures adopted were pursued for only a comparatively brief spell. In 1981 priority was accorded to fighting inflation, with the policy measures being directly aimed at controlled prices: a much slower adjustment of such prices for an increase in real costs, and the lowering of purchase taxes on civilian imports and domestic production. The subsidy item again turned up, by a resounding 190 percent in real terms. Net transfer payments expanded by 10 percent, the erosion of income tax brackets was rectified, and real wages of public servants were hiked 8 percent. Inflation dipped from 133 percent in 1980 to about 100 percent. But despite a larger tax collection, an outcome of the buoyant level of economic activity that year, the demand surplus rose 78 percent. The heavy fiscal burden which this policy involved did not permit its continuation, and in 1982 the government pursued an opposite course in most areas. In the year reviewed as well the fight against inflation was the declared paramount policy objective,⁶ but this time entirely different measures were followed: the reduction of the demand surplus, wage restraint in the public sector,⁷ a slower nominal depreciation of the sheqel (since the fourth quarter of the year) with the intention of directly influencing a wide range of tradable product prices, and an attempt to more quickly adjust wages for the rise in prices (at the end of 1982 and beginning of 1983).

Subsidies were pruned by 23 percent in 1982,⁸ and total revenue from taxes and transfer payments from the public⁹ fell 9 percent.¹⁰ The increase in tax collections can be credited to the upping of VAT from 12 to 15 percent, the imposition of a 3 percent levy on imports¹¹ and a 2 percent levy on sales of securities on the Tel Aviv Stock Exchange, the taxing of oversubscriptions to new security issues on the Exchange, and the reintroduction of a foreign travel tax (for the three summer months); in addition, a compulsory loan was collected from employees, self-employed, and companies at differential rates.¹² The lowering of purchase taxes on imports in mid-

⁵ The restrictive measures taken this year led to an endogenous decrease in tax receipts, but the demand surplus nevertheless declined.

⁶ See the budget proposal for 1982, p. 27 (in Hebrew).

⁷ Wages in the public sector, including the defense establishment, were down 2 percent in 1982. In this connection it should be noted that this was the second year of the biennial wage agreement, and as a rule this period has of late seen a modest increase in wages.

⁸ The reduction of subsidies can be partly attributed to the decline in world raw material prices (including oil). For several products the subsidy rate was not changed, and in some cases it was even raised.

⁹ Transfer payments from the public include the land betterment tax and the levy on sales of securities on the Tel Aviv Stock Exchange.

¹⁰ The budget for 1982/83 was based on a greatly increased tax collection. When the war in Lebanon broke out, the government imposed new taxes in the knowledge that the public was ready to shoulder an additional burden. It turned out that these extra taxes yielded far more income than was required for financing the war effort in 1982.

¹¹ This levy was replaced during the year by a customs duty at a similar rate.

¹² The differential rates result in some distortion, i.e. discrimination between the three above-mentioned groups of assesseees. In addition, this loan is retrogressive, in that it is exempt from income tax.

Table V-1
INDICATORS OF PUBLIC SECTOR OPERATIONS, 1960-82
 (Percent of GNP unless otherwise stated; at current prices)

	Average									Percent real annual increase				
	1960-1965	1966-1967	1968-1972	1973-1974	1975-1977	1978	1979	1980	1981	1982	1979	1980	1981	1982
Direct domestic demand (net)	25	27	30	37	34	30	32	32	31	32	4.2	2.8	0.2	2.3
Absorption	22	21	26	26	20	20	25	23	16	23	29.5	-5.3	-24.4	47.1
Absorption, incl. credit subsidy					14	14	14	14	10	19	8.6	1.5	-21.0	102.3
Domestic demand surplus	3	6	4	11	14	10	7	9	16	9	-21.8	25.8	91.8	-40.4
Domestic demand surplus, incl. credit subsidy					20	16	18	18	21	13	16.3	1.9	31.0	-38.9
Civilian consumption	11	13	11	12	12	12	13	12	12	12	2.0	-1.2	0.7	0.1
Civilian services	17	19	17	18	19	20	21	20	20	19				
Weight of civilian services in total employment (%)	21		24	25	28	27	29	29	30	30				
Noncivilian consumption (net)	10	14	22	32	29	26	21	24	26	23	-13.7	14.7	9.2	-9.8
Domestic	6	9	13	17	15	14	14	14	15	16	2.2	4.8	1.8	8.8
Direct defense imports	4	5	9	15	14	12	7	10	11	7	-33.1	33.3	20.3	-33.1
Investment	5	5	5	6	5	5	5	4	4	4	8.8	-10.7	-6.1	6.6
Public construction	4	2	3	5	3	1	2	3	3	2	26.6	48.6	-4.7	-21.7
Total civilian consumption/total noncivilian consumption (%)	115	98	51	35	41	47	61	51	47	51				
Public sector injection/narrow monetary base (%) ^a				25	85	79	32	141	243	214				

^a Public sector injection in relation to the monetary base at the end of the previous year. The data for 1978-82 were calculated by deflating the monthly injections by the consumer price index based on the previous December.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

1981 and the slower depreciation of the sheqel at the end of 1982 induced a larger import (mainly of consumer durable goods), with a consequent 27 percent gain in import tax revenue.

The government's absorption policy included two ingredients unrelated to the current policy measures:

(a) A real decrease in disbursements of the credit subsidy (4.7 percent), and the reduction of the subsidy. This is explained by the linkage of credit (since 1979) and the erosion of the outstanding balance of unlinked loans (owing to inflation).

(b) A 5 percent decline in the government's interest payments to the public on bond issues reaching maturity in 1982 (these bonds were issued on a modest scale during the year following the Yom Kippur War). This was in contrast to the long-run rising trend in the interest expenditure item.

All told, the burden of taxes (gross) and transfer payments from the public reached 49 percent of GNP in 1982, the highest figure in the past ten years.

The restraining of public civilian consumption, which has characterized the last three or four years, was maintained in 1982, when such spending remained flat and its weight in relation to the product, which had drifted down steadily in the past few years, fell to 11.6 percent. This was still well above the level of the early and mid-1970s (10–11 percent). The war in Lebanon was directly responsible for the heavy domestic military outlays, and their share in the product rose from 15 percent in 1981 to 16 percent, which was close to the record level of 1973–75.

Analysis of the public sector's revenue and expenditure items shows that most of the real growth took place in the second half of the year reviewed.¹³ Domestic consumption rose 7.7 percent between the first and second halves, while the tax burden (including credit concessions)¹⁴ went up by an estimated 58 percent (according to partial data). The demand surplus at the end of 1982 thus stood below its average level for the year.

Long-term borrowing from the public played a smaller role in financing the demand surplus in 1982 than in the previous year. In other words, the government injection shrank to a lesser extent than the demand surplus.¹⁵ The way in which this surplus is financed (through an injection or by borrowing from the public) has no clearcut implications as regards the rate of inflation: in the long run borrowing from the public may prove to be more inflationary (since there is also need to finance the interest payments on the debt); but in the short run a massive injection (the printing of money) will almost certainly have a greater inflationary impact.¹⁶ In 1982 the

¹³ On the expenditure side there was a jump in noncivilian consumption after the outbreak of war, and on the revenue side tax receipts rose following the imposition of the new war-related taxes.

¹⁴ These concessions include the granting of low-interest loans to the business sector and households.

¹⁵ The reference here is to the injection as defined in this chapter. The injection as defined in Chapter VIII declined in 1982 by a modest 4 percent.

¹⁶ The reasons for the smaller amount borrowed from the public this year are discussed in Chapter VIII.

Table V-2
FINANCING OF THE PUBLIC SECTOR DEMAND SURPLUS, 1978-82
 (IS million, at current prices)

	1978	1979	1980	1981	1982
A. Domestic demand surplus					
1. Domestic demand surplus ^a	2,254	3,141	9,128	37,965	49,833
2. Long-term borrowing from the public (adjusted) ^b	1,200	2,670	5,616	17,412	14,261
3. Public sector injection (adjusted) ^c	1,107	811	3,010	11,630	21,500
4. Bank of Israel's net income ^d	-59	377	1,424	819	5,782
5. Net financing of public housing construction	-77	220	1,444	2,944	4,513
6. Domestic finance differential ^e (2+3+4+5-1)	-83	937	2,366	-5,160	-3,777
B. Foreign demand surplus					
7. Foreign demand surplus ^f	566	-1,149	-219	8,669	5,899
8. Long-term financing from abroad	1,508	2,861	6,932	14,830	31,403
9. Foreign finance differential (8-7) ^g	942	4,010	7,151	6,161	25,504

^a The measurement of the domestic demand surplus in this chapter is based on the estimated demands and absorption as defined in the national accounts. In Chapter VIII the term "injection generated by the demand surplus" is conceptually similar to the domestic demand surplus, but there it is calculated on a cash basis, and so activities that do not involve a cash flow are not captured in the estimates. For example, public housing construction that does not involve any public financing in the current year is included in the demand surplus but not in the injection generated by the demand surplus. Additional differences stem from two other sources: (1) inclusion of interest on the government's debt in the demand surplus but not in the injection generated by the demand surplus; and (2) inclusion of the operations of several government enterprises (which produce for the private sector) in the Chapter VIII definition but not in the definition of the demand surplus in this chapter.

Since the items which finance the demand surplus are of a monetary character, they have to be adjusted to the demand surplus definitions. But after adjusting them there remains a gap between the demand surplus and its total financing, which arises from the differences between the national accounts accrual basis estimates and the cash flow estimates. This gap can be treated as short-term borrowing from the public.

^b Long-term borrowing from the public, less credit to the private sector adjusted for net interest receipts (line 3 in Table V-A13).

^c Public sector injection, less early redemption of Israel Bonds and the injection generated by exports of government enterprises (line 8 in Table V-A13).

^d Before revaluation and excluding government interest payments.

^e Includes short-term finance and errors and omissions.

^f The difference between the public sector's purchases and grants received, income of the Jewish Agency, and the Bank of Israel's net income before revaluation (line 16 in Table V-A13).

^g The foreign finance differential results in changes in the public sector's foreign currency balances, the outstanding government credit balance with the Bank of Israel, and the financing of the public sector's domestic demand surplus. The differential arises *inter alia* from conceptual differences between the national accounts accrual basis estimates and the budget cash flow estimates, as well from errors and omissions.

SOURCE: Table V-A13.

public sector injection amounted to 214 percent of the monetary base narrowly defined, compared with 243 percent in 1981 and 141 percent in 1980.

World economic developments (see Chapter VII) and the government's policy led to some erosion of the country's current account position in 1982 (the civilian deficit rose by some \$900 million), and apparently also to a more sluggish growth of GNP. Inflation accelerated, with the consumer price index moving up 131.5 percent in the course of the year, compared with 101.5 percent in 1981.

It is hard to assess the contribution of economic policy to the trends prevailing within the short space of one year, especially as some of the policy ingredients were introduced toward the end of 1982. Inflation, the reduction of which was set as one of the main targets, is influenced by monetary and other factors, some of which operate with a lag. It is almost certain that some elements of the short-term restrictive policy in 1982 had an opposite effect from the declared objective. The experience of the last three years has shown that direct action on controlled prices (i.e. changing the subsidy and indirect tax rates) is effective in the short run, while the influence of changes in the demand surplus on prices is a slower process, and the amount of time it takes to make their impress felt is not clear. In this context it should be noted that in recent years uncontrolled prices have gone up much more slowly than the consumer price index; this may indicate that the changes in subsidies are not a dominant factor in the basic domestic inflation rate (see the discussion in Chapter III).

In the past few years it has been customary to attribute an important role to inflationary expectations in explaining the rise of prices. The success of the policies pursued in 1981 and 1982 (and also at the beginning of 1983) largely hinged on moderating these expectations, but the frequent revision of policy and the stressing of the income side were not conducive to creating a feeling that the price advance would be retarded; the public evidently did not believe that the government would persist in these measures for any length of time.

Reducing the demand surplus through taxes has less of a real effect on domestic demands than does the reduction of public consumption.¹⁷ It is generally assumed (according to accepted Keynesian models) that taxes influence consumption only to the extent of the marginal propensity to consume. The permanent income approach holds that it is what the individual regards as his long-term income that influences private consumption, and even big changes in taxes, if the public does not believe they will be long-lived, do not have much of an impact on consumption.¹⁸ Hence in

¹⁷ This statement relates to the direct effect on domestic demands, and not the dampening of the demand surplus by depressing private consumption and investment through a stringent monetary policy. In other words, we are discussing the effect which the manner of financing the demand surplus (by a liquidity injection or borrowing from the public) has on other variables, such as the rate of inflation.

¹⁸ According to a more extreme approach, the amount of tax rational consumers take into account is exactly equal to public consumption, since in the long run all of the consumption must be financed through taxes (including the inflation tax). This is discussed more fully in Chapter II.

order to divert resources to stepping up investment or exports (i.e. to increase national saving) while simultaneously harnessing inflation by reducing the demand surplus, a more efficient way must be pursued, and this is to trim public spending. This may not have been suitable in 1982, when demands weakened because, among other things, of slumping exports and the shift of domestic demands to imports. But with the world market expected to snap out of its slump, the reduction of public spending is to be preferred. Moreover, the share of taxes (gross) in the national product reached a record high in 1982; this no doubt has an inhibiting effect on overall productivity and does not encourage growth, besides distorting relative prices in the economy.¹⁹ Since it is necessary to cut public spending, including that for civilian purposes, the government should attempt to transfer some functions from the public to the private sector rather than lower the quality of services.

Thought should also be given to curbing subsidies: the supporting of various prices leads to inefficiency, distortions, and waste, for the prices of basic products and services do not reflect their true cost. Another source of inefficiency lies in the supporting of production in order to compensate for the impairment of the economy's competitiveness, even if this is financed with the help of taxes. The objective of releasing resources for export production and reducing imports—one way of achieving which is through incentives designed to effect a real depreciation of the currency—depends on the degree of success in dampening private sector income. Under full-employment conditions an increase in such incentives will not depress income because of the inability to collect an inflation tax. In addition, the imposition of taxes for financing these incentives has negative repercussions, as already pointed out. There is therefore need to coordinate the changes in the system of taxes and incentives with the maintenance of an appropriate real exchange rate (see the discussion in Chapter II).

¹⁹ An attempt to stimulate production by reducing costs was made in October 1982, when the government lowered employers' national insurance contribution rates from 17 to 15.8 percent of the gross pay. This, however, was a minor change, and in 1982 unit labor costs actually rose (see the discussion in Chapter IV).

Table
DIRECT DEMANDS OF THE
(IS million, at

	1977	1978	1979	1980	1981	1982
A. Public consumption						
1. Civilian						
Wages and salaries	1,241	1,983	4,159	9,183	21,376	45,977
Purchases	515	829	1,472	3,394	7,662	17,369
Total	1,756	2,812	5,631	12,577	29,038	63,346
Thereof: Government n.e.s.	120	202	333	758	1,449	3,191
2. Noncivilian						
Wages and salaries	779	1,221	2,533	5,514	13,162	31,348
Domestic purchases	1,315	2,069	3,857	9,427	23,130	58,182
Purchases abroad	1,354	3,070	3,440	10,280	28,178	41,348
Total, gross	3,448	6,360	9,830	25,221	64,470	130,878
Less: Foreign sales	-64	-340	-542	-700	-2,317	-6,040
Total, net	3,384	6,020	9,288	24,521	62,153	124,838
Total public consumption	5,140	8,832	14,919	37,098	91,191	188,184
3. Public domestic consumption						
Civilian	1,636	2,610	5,298	11,819	27,589	60,155
Government	1,013	1,571	3,251	7,112	16,829	36,423
Local authorities	565	923	1,830	4,184	9,458	20,851
National Institutions	68	116	217	523	1,302	2,881
Noncivilian	2,094	3,290	6,390	14,941	36,292	89,530
Less: Domestic component of foreign sales ^b	-26	-136	-217	-280	-927	-2,416
Total, net	2,068	3,154	6,173	14,661	35,365	87,114
Total public domestic consumption	3,704	5,764	11,471	26,480	62,954	147,269
B. Public sector investment						
1. Nondwelling investment	630	1,047	2,070	3,971	8,821	21,057
Investment less direct import component	552	873	1,670	3,306	7,160	16,539
2. Housing construction initiated by public sector	216	269	742	2,853	6,363	10,897
C. Total direct demands	5,986	10,148	17,731	43,922	106,375	220,138
Thereof: Domestic demands	2,806	6,906	13,883	32,639	76,477	174,705

^a Rates of change in price and quantity in 1978-80 were calculated at 1975 prices, and for 1981-82 at 1980 prices.

^b The domestic component of foreign sales is taken to be 40 percent, the ratio between domestic purchases (excluding construction) and total purchases (long-term average).

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

V-A1

PUBLIC SECTOR, 1977-82
(current prices)

Percent annual increase ^a									
Price					Quantity				
1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
52.7	103.8	119.7	130.2	115.1	4.6	2.9	0.5	1.1	0.0
50.6	77.0	141.4	132.7	125.3	6.9	-0.3	-4.5	-0.3	0.6
51.9	96.3	126.0	129.3	117.9	5.4	2.0	-1.2	0.7	0.1
36.2	107.6	127.6	141.0	109.1	23.6	-20.6	0.0	-20.7	5.3
50.0	97.6	117.7	142.6	118.7	4.5	5.0	0.0	-1.6	8.9
60.0	86.6	133.2	134.1	130.8	-1.7	-0.1	4.8	4.8	9.0
67.2	63.1	137.5	126.5	112.0	35.6	-31.3	25.8	21.0	-30.8
61.8	78.5	130.5	132.4	122.6	14.0	-13.4	11.3	10.0	-8.8
62.0	78.8	142.2	138.4	115.0	9.8	-13.7	14.7	9.2	-9.8
58.5	84.8	128.1	131.2	120.9	8.4	-8.6	9.0	6.3	-6.6
53.4	95.2	125.8	128.6	118.6	4.0	4.0	-1.2	2.1	-0.1
52.9	96.7	120.1	127.1	116.6	1.4	5.2	-0.6	4.2	-0.1
51.3	92.9	134.7	131.1	120.7	8.0	2.8	-2.6	-2.2	-0.1
56.5	88.7	138.2	131.4	122.8	9.0	-0.7	1.0	7.6	-0.7
56.3	90.8	127.0	137.0	126.3	0.5	1.8	3.0	2.5	9.0
56.1	91.5	126.6	136.9	126.4	-2.3	2.2	4.8	1.8	8.8
55.2	93.2	126.1	133.3	123.2	0.3	3.0	2.1	1.9	4.8
71.1	81.7	114.8	136.6	123.9	-2.9	8.8	-10.7	-6.1	6.6
65.6	85.0	115.9	139.3	126.7	-4.5	3.4	-8.3	-9.5	1.9
64.5	117.9	158.7	134.0	118.7	-24.3	26.6	48.6	-4.7	-21.7
69.5	85.3	128.7	131.7	121.1	0.0	-5.7	8.3	4.5	-6.4
150.6	92.9	128.7	133.8	123.3	-1.8	4.2	2.8	0.2	2.3

Table V-A2

INDICATORS OF THE GROWTH OF PUBLIC CIVILIAN SERVICES, 1970-82
(Percentages at current prices, unless otherwise indicated)

	1970	1972	1974	1976	1978	1979	1980	1981	1982
Public civilian consumption/GNP ^a	10.3	9.9	10.5	10.9	11.9	12.7	12.1	11.8	11.6
Public civilian consumption/private consumption ^b	18.8	19.5	18.9	19.4	21.0	22.3	22.4	21.3	19.9
Public civilian consumption per capita ^c	2,730	2,920	3,020	3,180	3,320	3,310	3,190	3,170	3,120
Public civilian services/GNP ^d	16.6	16.1	16.9	17.9	19.4	20.6	19.8	19.6	19.2
Public civilian services/private consumption ^b	30.2	31.7	30.2	31.0	34.3	36.4	36.5	35.3	32.9
Public civilian services per capita ^c	4,490	4,730	4,920	5,160	5,340	5,710	5,220	5,240	5,160

^a Distribution expenditures in connection with Israel Bonds are excluded from public consumption.

^b Private consumption excludes nonprofit institution services.

^c At constant 1980 prices, in IS.

^d Public civilian services include the public sector and nonprofit institutions.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table V-A3
CONSUMPTION OF PUBLIC CIVILIAN SERVICES BY FUNCTION, 1969-82^a
 (Percentages, at constant prices)

	Average annual increase						Distribution						
	1969- 1972	1972- 1974	1974- 1976	1976- 1978	1978- 1980	1980- 1982	1969	1972	1974	1976	1978	1980	1982
Education	9.5	7.8	5.2	4.7	1.6	0.6	34.5	37.0	38.5	38.9	39.3	40.2	40.3
Health	10.6	1.3	7.6	5.2	-0.3	2.9	18.2	20.2	18.6	19.6	20.0	19.7	20.6
Other welfare and social services	4.8	8.9	6.5	5.8	2.3	1.1	19.4	18.4	19.6	20.2	20.9	21.7	21.7
Total social welfare services	8.5	6.3	6.1	5.1	1.3	1.2	72.1	75.6	76.7	78.7	80.2	81.6	82.6
Economic and other services	2.0	3.0	0.2	0.5	-3.2	-2.5	27.9	24.4	23.3	21.3	19.8	18.4	17.4
Total public civilian and nonprofit institution consumption	7.0	5.6	4.7	4.2	0.9	1.0	100.0						

^a The estimates of total public consumption and consumption of nonprofit institution services are based on Central Bureau of Statistics data. The rates of increase in the components of public civilian services were calculated for 1969-80 on the basis of public civilian expenditure by function, and for 1980-82 on the basis of the increase in the number of employee posts in the relevant sectors.

SOURCE: Central Bureau of Statistics data from National Insurance Institute sources.

Table V-A4
INDICATORS OF DEFENSE EXPENDITURES, 1964-82
 (Percentages, at current prices)

	Weight in GNP					Weight of defense sector in total wages (6)
	Total non-civilian consumption (1)	Total non-civilian consumption, excl. military grants ^a (2)	Total non-civilian consumption, excl. total grants (3)	Domestic noncivilian consumption ^b (4)	Domestic defense expenditures, foreign currency expenditures, and loan repayments ^c (5)	
1964-66	10	10	9	6		5
1967	18	18	17	10		8
1968-69	19	19	19	12		8
1970	26	26	26	14	22	9
1971-72	22	20	19	13	19	9
1973-75	32	23	21	16	21	11
1976-78	26	20	14	14	19	10
1979-82	24	20	14	15	20	10
1979	21	16	8	14	20	10
1980	24	19	13	14	19	10
1981	26	22	18	15	19	10
1982	23	21	16	16	22	11

NOTE: Columns 1-4 and 6 are based on definitions of the National Accounts Department of the Central Bureau of Statistics; the estimates in column 5 are based on government budget data adjusted to calendar years.

^a Grants include the grant equivalent of U.S. government defense loans. The subsidized loans can be broken down into two elements—the loan proper and the grant equivalent, the latter being the difference between the loan proceeds and the present value of the repayments calculated at the going commercial interest rate. This alternative interest is assumed to be 10 percent for 1964-77 and 12 percent for 1978-82 (see also Oded Liviatan, "Israel's External Debt", Bank of Israel *Economic Review*, 48-49, 1980).

^b Gross domestic consumption less the domestic component of foreign sales (see Table V-A1)

^c Loan repayments include principal and interest on account of U.S. government defense loans.

SOURCE: Columns 1-4 and 6—Central Bureau of Statistics and Bank of Israel calculations; column 5—Ministry of Finance and Bank of Israel calculations.

Table V-A5
GROSS WAGES, TAXES, AND NET WAGES PER EMPLOYEE POST, 1977-82^a
 (Percentages)

	Weight in gross wages							Percent real annual increase ^b			
	1977	1978	1979	1980	1981	1982		1980	1981	1982	
						Total	1st half				2nd half
A. Average actual wage									-3	10	-1
Income tax ^c	14	14	18	19	17	18	16	19	-1	-5	6
Net taxes ^d	10	11	17	18	16	17	15	18	4	-7	6
Net wages	90	89	83	82	84	83	85	82	-5	14	-2
B. Average real wage^e									0	0	0
Income tax	12	12	15	16	13	15	13	16	10	-19	13
Net taxes	8	8	12	14	10	12	10	14	19	-28	17
Net wages	92	92	88	86	90	88	90	86	-3	5	-2
C. Double the actual average wage									-3	10	-1
Income tax	25	26	31	32	30	31	30	33	-1	2	3
Net taxes	25	26	32	33	32	33	32	34	3	3	2
Net wages	75	74	68	67	68	67	68	66	-6	13	-3
D. Double the average real wage^e									0	0	0
Income tax	23	24	27	28	24	26	24	27	6	-15	5
Net taxes	23	24	27	29	25	26	25	27	8	-14	5
Net wages	77	76	73	71	75	74	75	73	-3	6	-2

^a Employee post as defined by the National Insurance Institute.

^b Deflated monthly by the consumer price index.

^c Assuming that only the head of the family works and that there are no other deductions or credits. From July 1982 includes the Peace for Galilee Loan.

^d Net taxes: Income tax and national insurance contributions, less the child allowance. National insurance: Employees' contributions only; it is assumed that all wage income is subject to national insurance (up to the income ceiling stipulated for this purpose). Child allowance: Assuming that the employee has two children.

^e Real wages at their July 1975 level, inflated monthly by the consumer price index.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table V-A6
TAXES, SUBSIDIES, AND TRANSFER PAYMENTS, 1970-82
 (Percentages, at current prices)

	Weight in GNP								Percent real annual increase ^a			
	1970- 1974	1975- 1977	1978- 1982	1978	1979	1980	1981	1982	1979	1980	1981	1982
1. Tax burden ^b												
a. Incl. credit subsidy (2+5-3-4)	..	13	14	14	14	15	11	19	5	11	-22	78
b. Excl. credit subsidy (2+5-3)	20	22	24	22	26	27	19	25	25	1	-22	33
2. Total taxes and transfer payments from the public	39	46	47	46	48	47	45	49	11	-2	6	9
3. Total direct subsidies and transfer payments to the public	21	27	25	25	24	23	28	27	4	-3	34	-5
4. Total credit subsidy ^c	..	9	9	9	13	11	8	6	59	-10	-21	-25
5. Property and entrepreneurial income ^d	2	2	3	1	3	3	2	3	110	9	-22	37
6. a. Net direct taxes ^e (6b-6d)	5	5	6	4	6	7	6	7	60	28	-5	17
b. Direct taxes and transfer payments from the public	19	24	26	25	26	27	26	28	11	7	7	5
c. Income tax	12	15	17	16	17	18	18	18	15	9	7	3
d. Transfer payments to the public	14	19	21	21	20	20	20	21	1	1	7	2

7. a. Net indirect taxes on domestic production (7b-7c-7d)	8	2	2	3	0	3	0	3
b. Indirect taxes	10	13	13	13	13	13	12	12	7	0	-3	6
c. Direct subsidies on domestic production	2	3	4	3	3	3	7	5	10	-18	158	-28
d. Credit subsidy on domestic production ^c	..	8	7	7	10	8	5	4	47	-21	-26	-21
8. Net taxes on foreign trade	5	5	4	6	5	2	3	5	-5	-54	19	102

^a Deflated by the consumer price index, average level.

^b Civilian taxes, property and entrepreneurial income, and transfer payments from the public, less subsidies and transfers. Taxes do not include compulsory loans, and subsidies do not include compulsory loan redemption.

^c The subsidy component of credit to businesses and households (including credit granted in previous years).

^d Excludes Bank of Israel income from government interest payments.

^e Income tax, national insurance contributions, and inventory surtax, less net transfer payments, excluding compulsory loan redemption and government interest payments to the Bank of Israel.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table V-A7
ESTIMATED VALUE OF INCOME TAX BRACKETS AND CREDIT POINT, 1979-82
 (IS)

	Upper bound of tax bracket (Monthly average, at 1976 prices)				Percent real increase				
	July 1975- March 1976 ^a	1979	1980	1981	1982	1982 as against July 1975- March 1976	Annual		
						1980	1981	1982	
Deflated by the consumer price index									
First (lowest) tax bracket (25%)	365.8	250.6	236.3	339.6	351.4	-4	-6	44	3
Second bracket (35%)	670.7	458.9	433.6	492.1	479.4	-29	-6	13	-3
Third bracket (45%)	792.7	542.3	512.3	633.3	632.2	-20	-6	24	0
Fourth bracket (50%)	1,036.6	709.0	669.2	858.7	865.7	-16	-6	28	1
Credit point	12.2	10.0	9.1	10.6	10.2	-16	-9	16	-4
Deflated by the index of average wages per employee post									
First bracket (25%)	360.6	204.0	198.1	257.3	269.4	-25	-3	30	5
Second bracket (35%)	661.0	373.5	363.5	373.8	367.5	-44	-3	3	-2
Third bracket (45%)	781.2	441.4	429.4	480.5	484.6	-37	-3	12	1
Fourth bracket (50%)	1,021.6	577.1	560.9	651.3	663.5	-35	-3	16	2
Credit point	12.0	8.1	7.7	8.0	7.8	-34	-6	5	-3

^a The income tax reform went into effect at a time when inflation was running at 40 percent; as a result, the tax brackets set in July 1975 eroded steadily until their initial adjustment in April 1976. The average monthly bracket during this period serves as an approximation of the level which the system of indexation was supposed to preserve.

SOURCE: Bank of Israel calculations.

Table V-A8
ESTIMATED VALUE OF VARIOUS ALLOWANCES, 1979-82
 (Average monthly allowance at 1976 prices, in IS)

	July 1975- March 1976 ^a	1979	1980	1981	1982	Percent real increase			
						1982 as against July 1975- March 1976	Annual		
							1980	1981	1982
Deflated by the consumer price index^b									
Allowance for family with 2 children	24.4	20.1	18.4	21.1	20.4	-16	-8	15	-3
Allowance for family with 4 children ^c	76.2	66.9	58.4	66.0	63.7	-16	-13	13	-3
Income maintenance for single persons ^d	72.6	71.3	80.0	89.8	93.5	29	12	12	4
Deflated by the index of average wages per employee post^b									
Allowance for family with 2 children	24.0	16.4	15.5	16.0	15.6	-35	-5	3	-3
Allowance for family with 4 children ^c	75.1	54.5	49.2	50.2	48.9	-35	-10	2	-3
Income maintenance for single persons ^d	71.6	58.3	67.1	68.3	71.8	-0	15	2	5

^a The income tax reform was instituted during a period when inflation was running at 40 percent, and so the value of the allowances as fixed in July 1975 fell monthly until updated in April 1976. The average monthly allowance during this period serves as an approximation of the amount which the indexation system was supposed to preserve.

^b Deflated monthly.

^c Includes the allowance for veterans.

^d The rate of change of the disability allowance is identical to the change in income maintenance.

SOURCE: National Insurance Institute and Bank of Israel calculations.

Table V-A9
INDIRECT TAXES AND SUBSIDIES ON DOMESTIC PRODUCTION, 1979-82
 (IS million, at current prices)

	1979	1980	1981	1982	Percent real annual increase ^a		
					1980	1981	1982
A. Total indirect taxes on domestic production	5,886	13,551	28,362	66,307	-0.3	-3.5	6.1
Taxes on economic activity	4,492	10,194	21,409	51,584	-1.8	-3.1	9.3
Value added tax	2,271	5,326	12,400	32,859	1.5	7.4	20.3
Purchase tax	562	985	2,135	3,588	-24.1	0.0	-23.7
Fuel tax	448	930	1,723	4,180	-10.1	-14.6	10.1
Employers tax	726	1,900	3,095	6,604	13.2	-24.9	-3.2
Other taxes on economic activity ^b	485	1,053	2,056	4,353	-6.0	-10.0	-3.9
Property tax	349	801	1,316	2,569	-0.7	-24.3	-11.4
Local authority rates	447	1,088	2,748	5,797	5.4	16.5	-4.3
Other taxes ^c	598	1,468	2,889	6,357	6.3	-9.2	-0.2
B. Subsidies on domestic production	3,359	6,758	23,448	39,391	-12.9	60.0	-23.8
Direct subsidies	1,511	2,845	15,919	25,086	-18.5	158.1	-28.5
Imputed credit subsidy	1,848	3,913	7,529	14,305	-8.3	-11.3	-13.8
C. Net taxes on domestic production							
Excl. imputed credit subsidy	4,375	10,706	12,443	41,221	5.9	-46.4	50.3
Incl. imputed credit subsidy	2,527	6,793	4,914	26,916	16.4	-66.6	148.6

^a Deflated by the consumer price index, average level.

^b Tobacco and cement excise, revenue stamp tax, various fees and licenses, defense stamp tax.

^c Post and ports surpluses and taxes on earmarked income.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table V-A10
TAXES AND SUBSIDIES ON IMPORTS, 1978-82
 (IS million, at current prices)

	1978	1979	1980	1981	1982	Percent real annual increase ^a			
						1979	1980	1981	1982
1. Taxes on civilian imports	1,832	3,805	6,314	16,725	47,140	16.5	-28.2	22.2	27.9
Value added tax	671	1,411	2,682	6,643	18,195	18.0	-17.7	14.2	24.3
Customs ^b	527	1,014	1,584	4,277	13,836	7.8	-32.4	24.6	46.8
Purchase and other taxes ^c	634	1,380	2,048	5,806	15,109	22.1	-35.8	30.7	18.1
2. Import subsidies	97	169	95	1,645	-9	-2.3	-75.7	698.7	..
3. Net taxes on civilian imports (1-2)	1,735	3,636	6,219	15,080	47,149	17.6	-26.0	11.9	41.9
4. Taxes on defense imports	326	320	965	2,666	4,847	-44.9	30.5	27.4	-17.5

^a Deflated by the consumer price index, average level.

^b In 1982 includes the import levy.

^c Other taxes include adjustments to balance of payments definitions; in 1982 they also include the foreign travel tax.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table V-A11
DOMESTIC DEMAND SURPLUS, 1978-82
 (IS million, at current prices)

	1978	1979	1980	1981	1982	Percent real annual increase ^a			
						1979	1980	1981	1982
A. Domestic demand surplus									
1. Demand surplus, as customarily defined (6-12)	2,254	3,141	9,128	37,965	49,833	-21.8	25.8	91.8	-40.4
Excl. construction (1-5)	1,985	2,399	6,275	31,602	38,936	-32.2	13.2	132.3	-44.1
2. Demand surplus, incl. credit subsidy (6-15)	3,736	7,747	18,245	51,824	69,766	16.3	1.9	31.0	-38.9
B. Direct public domestic demand									
3. Public domestic consumption ^b	5,764	11,471	26,480	62,954	147,269	3.0	2.1	1.9	4.8
4. Public domestic investment	873	1,670	3,306	7,160	16,539	3.4	-8.3	-9.5	1.9
5. Residential construction initiated by the public sector	269	742	2,853	6,363	10,897	26.6	48.6	-4.7	-21.7
6. Total direct domestic demand	6,906	13,883	32,639	76,477	174,705	4.2	2.8	0.2	2.3
C. Absorption									
7. Taxes ^c and compulsory loans	10,443	20,726	46,003	106,227	255,820	11.3	-3.9	6.5	9.3
8. Property and entrepreneurial income of the public sector ^d	340	1,273	3,199	5,383	16,303	110.0	8.8	-22.4	37.4
9. Subsidies ^e	898	1,761	3,075	19,236	32,839	10.0	-24.4	188.5	-22.5
10. Transfer payments, net ^d	4,733	8,495	20,054	47,817	101,772	0.7	2.2	10.0	-3.4

11. Government subsidization of credit (actual disbursements) ^f	500	1,001	2,562	6,045	12,700	12.3	10.8	8.8	-4.7
12. Total absorption, as customarily defined ^g (7+8-9-10-11)	4,652	10,742	23,511	38,512	124,872	29.5	-5.3	-24.4	47.1
13. Subsidy component of credit to business sector	1,577	4,444	9,687	17,587	28,008	58.1	-5.6	-16.2	-27.7
14. Subsidy component of credit to households ^h	405	1,163	1,992	2,317	4,625	61.1	-25.9	-46.3	-9.4
15. Absorption, incl. credit subsidy (11+12-13-14)	3,170	6,136	14,394	24,653	104,939	8.6	1.5	-21.0	102.3

^a Deflated by the consumer price index, except for direct public domestic demand components, which were deflated by the relevant indexes.

^b Civilian and noncivilian.

^c Direct and indirect (on domestic production and imports).

^d Excludes interest paid to the Bank of Israel.

^e On domestic production, exports, and imports (excluding imputed credit subsidy).

^f This sum is included in line 13.

^g Taxes less the credit subsidy (i.e. less actual disbursements of subsidized credit, plus public sector property and entrepreneurial income).

^h The difference between a real interest rate of 4 percent and the average nominal interest rate paid by households, multiplied by the average nonindexed credit balance.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table V-A12
DIRECT TAXES, COMPULSORY LOANS, AND TRANSFER PAYMENTS, 1978-82
 (IS million, at current prices)

	1978	1979	1980	1981	1982	Percent real annual increase ^a			
						1979	1980	1981	1982
1. Income tax	3,602	7,369	18,549	42,899	97,608	14.7	9.0	6.7	3.3
Wages	1,409	3,136	8,288	18,820	42,439	24.9	14.4	4.7	2.3
Nonwage income	2,194	4,233	10,261	24,079	55,170	8.2	4.9	8.2	4.0
Companies	957	1,854	3,615	8,430	18,968	8.6	-15.6	7.5	2.1
Self-employed	511	971	2,209	4,905	11,444	6.7	-1.6	2.4	5.9
Company directors and members of cooperatives	239	563	1,703	4,140	9,130	32.0	30.9	12.1	0.1
Deductions at source	486	844	2,734	6,604	15,628	-2.6	40.2	11.4	7.4
2. National insurance contributions	1,575	2,997	7,342	18,211	38,834	6.7	6.1	14.4	-3.2
Wages ^b	1,456	2,783	6,851	17,184	36,733	7.2	6.6	15.7	-3.0
Nonwage income	119	214	491	1,027	2,101	0.8	-0.6	-3.5	-7.1
3. Inventory surtax	51	36	64	29	73	-60.9	-23.0	-79.0	13.5
4. Total direct taxes (1+2+3)	5,229	10,401	25,955	61,139	136,515	11.6	8.0	8.7	1.3
5. Compulsory loans	298	634	183	0	5,857	19.5	-87.5
6. Total taxes and compulsory loans (4+5)	5,526	11,035	26,138	61,139	142,372	12.0	2.5	7.9	5.7
7. Transfer payments to households	2,018	3,513	8,649	20,839	47,247	-2.4	6.6	11.1	2.9
Through National Insurance Institute	1,332	2,342	5,845	14,927	34,237	-1.4	8.0	17.8	4.1
Provident, pension, and other transfers	686	1,171	2,804	5,912	13,010	-4.2	3.7	-2.8	-0.1
8. Transfer payments to nonprofit institutions	1,411	2,781	6,301	13,716	31,462	10.6	-1.9	0.4	4.1
Current transfers	1,327	2,630	5,969	13,066	30,097	11.2	-1.8	1.0	4.5
Thereof: Employers' contributions	286	574	1,565	3,991	8,625	12.8	18.0	17.6	-1.9
Transfers on capital account ^c	84	151	332	650	1,365	1.0	-4.8	-9.8	-4.7
9. Capital transfers to business ^c	164	436	1,202	3,109	7,400	49.1	19.4	19.3	8.0
10. Interest payments on domestic loans ^d	1,268	2,144	4,551	12,000	25,180	-5.2	-8.1	21.6	-4.8
11. Redemption of compulsory loans	351	505	1,253	1,390	3,065	-19.4	7.4	-48.8	0.1

12. Total transfer payments to the public (7 to 11)	5,212	9,379	21,956	51,054	114,354	0.9	1.3	7.3	1.6
13. Transfer payments from the public	479	884	1,903	3,237	12,582	3.6	-6.9	-21.5	76.4
On current account from households	158	226	488	973	2,021	-19.6	-6.5	-8.0	-5.7
On current account from nonprofit institutions	141	291	650	864	1,295	15.8	-3.3	-38.7	-32.0
On capital account ^{c,e}	180	367	765	1,400	9,266	14.4	-9.9	-15.6	200.4
14. Total net transfer payments (12-13)	4,733	8,495	20,054	47,817	101,772	0.7	2.2	10.0	-3.4
15. Net transfer payments, less compulsory loan redemption (14-11)	4,382	7,990	18,801	46,427	98,707	2.3	1.9	13.9	-3.5
16. Net transfer payments, less interest (14-10)	3,465	6,351	15,503	35,817	76,592	2.8	5.7	6.6	-3.0
17. Direct taxes and compulsory loans, less transfer payments (6-14)	793	2,540	6,084	13,322	40,600	79.7	3.7	1.0	38.3
18. Direct taxes and compulsory loans, less transfer payments to households and business (17+8-13 line b)	2,063	5,031	11,736	26,174	70,767	36.8	1.0	2.9	22.7
19. Direct taxes, less transfer payments minus compulsory loan redemption (4-15)	847	2,412	7,154	14,712	37,808	59.7	28.4	-5.1	16.6
20. Direct taxes, less transfer payments to households and business and compul- sory loan redemption (19+8-13 line b)	2,117	4,902	12,806	27,564	67,975	29.9	13.1	-0.7	11.2

^a Deflated by the consumer price index.

^b Includes contributions on account of managers' salaries.

^c Estimate for 1981 and provisional data for 1982.

^d Excludes government interest payments to the Bank of Israel; these amounted to IS172 million, IS57 million, IS379 million, IS4,600 million, and IS13,500 million in 1978 to 1982 respectively.

^e In 1982 includes IS6,176 million on account of the levy on sales of securities on the stock exchange and oversubscriptions to new share issues.

SOURCE: Central Bureau of Statistics, Ministry of Finance, and Bank of Israel.

Table V-A13
FINANCING OF THE PUBLIC SECTOR DEMAND SURPLUS, 1978-82
 (IS million, at current prices)

	1978	1979	1980	1981	1982
A. 1. Net long-term borrowing from the public by the public sector ^a	-68	526	1,059	9,527	244
2. Interest payments, excl. payments to the Bank of Israel	1,268	2,144	4,557	7,885	14,017
3. Long-term borrowing from the public (adjusted)	1,200	2,670	5,616	17,412	14,261
4. Thereof: Sale of tradable bonds ^b	-456	117	1,217	-2,663	-1,909
5. Public sector injection ^a	1,447	1,480	4,916	17,235	34,036
B. 6. Early redemption of Israel Bonds	240	469	812	2,695	4,160
7. Injection by government enterprises	100	200	1,094	2,910	8,376
8. Public sector injection, adjusted (5-6-7)	1,107	811	3,010	11,630	21,500
9. Basic injection (4+5)	991	1,597	6,136	14,571	32,127
10. Injection generated by domestic demand surplus (1+5-6)	1,139	1,537	5,163	24,067	30,120
C. 11. Public sector purchases abroad ^c	3,247	3,855	11,238	29,748	46,003
12. Taxes on defense imports ^d	326	320	965	2,666	4,847
13. Net public sector purchases abroad (11-12)	2,921	3,535	10,273	27,082	41,156
14. Income from abroad ^e	2,355	4,684	10,492	18,383	35,257
15. Thereof: Intergovernmental transfers	1,828	3,959	8,626	16,389	28,832
16. Foreign demand surplus (13-14)	566	1,149	-219	8,669	5,899

^a Interest receipts and payments are included in the public sector domestic demand surplus and in net long-term borrowing from the public (line 1). To avoid double-counting they should be added to net long-term borrowing from the public.

^b A component of line 1.

^c See Table V-A1.

^d See Table V-A10.

^e U.S. government grants, Jewish Agency transfers for financing its operations in Israel, and net foreign currency income of the Bank of Israel (less revaluation).

SOURCE: Bank of Israel.