

## CHAPTER VII

### PUBLIC SECTOR OPERATIONS

#### 1. THE PUBLIC SECTOR—CONSOLIDATED ACCOUNT<sup>1</sup>

##### *(a) Influence of the public sector on the demand level*

PUBLIC SECTOR OPERATIONS had an expansionary effect on the level of aggregate domestic demand in 1967. The sector's demand surplus more than doubled during the year, reaching IL 1,652 million as against IL 728 million in 1966 and IL 491 million in 1965. Net credit to other sectors of the economy was increased by IL 71 million, after contracting by IL 247 million in 1966.

In 1967 the Government adopted a policy aimed at checking the decline in economic activity and reducing unemployment. Toward this end, the budget for fiscal 1967/68 provided a larger sum for development—mainly loans for financing investments designed to provide additional jobs—as well as an increase in export subsidies so as to reduce the balance of payments deficit on current account, and in transfer payments to households and nonprofit institutions. Tax rates were not raised in order to prevent the further weakening of domestic demand. Though an increase in total tax revenue was projected, it had already become clear by the time the budget was tabled in the Knesset that the estimate could not be realized due to the continued decline in economic activity. Consequently, the budget proposal embodied a much larger demand surplus than originally planned.<sup>2</sup> In view of the special security requirements arising immediately before and after the war, and the existence of large-scale unemployment, the Knesset approved two supplements to the 1967/68 budget which provided for

<sup>1</sup> The Government (including the National Insurance Institute), the National Institutions (Jewish Agency, World Zionist Organization, Jewish National Fund, and Keren Hayesod), and local authorities (including religious councils and municipal expenditures of co-operative agricultural settlements). Current income and expenses of trading enterprises (such as the Post Office, Israel Railways, and municipal waterworks) have been excluded, except for their surpluses or deficits.

The data in this chapter refer to calendar years, and are based chiefly on financial reports of the public sector authorities, and in part on data from the Central Bureau of Statistics. Some of the data for 1967 are based on provisional monthly summaries, since the financial reports for fiscal 1967/68 have not yet been published. Data for 1966 have been revised.

<sup>2</sup> See Explanatory Notes to the Budget Proposal for Fiscal 1967/68, p. 6 (Hebrew) and the discussion in section 2(a) below.

an increased security expenditure and advanced the execution of development projects in order to relieve the unemployment situation.

The implementation of the aforementioned Government policy against the background of the various developments in the economy in 1967—especially the Six Day War and the decline in economic activity during the first half of the year, which caused the Government's tax revenue to lag far behind the estimates—resulted in public sector operations exerting a strong expansionary effect on the level of demand in the country, as measured by the two indicators mentioned above: the sector's demand surplus and net credit extended to other economic sectors (see Table VII-1).

The public sector's demand surplus represents the difference between its use of real resources and its contribution to the expansion of the economy's total resources.<sup>1</sup> The change in this figure reflects the sector's influence on the level of domestic economic activity or on the import surplus, or both. In order to determine the overall influence of the public sector on the demand level, financial transactions also have to be taken into account, for by granting credit to other sectors it enables them to increase and finance their demand surpluses.<sup>2</sup> As already mentioned, the demand surplus of the public sector swelled in 1967, as did its net credit outflow to other sectors. The demand surplus amounted to approximately 12.3 percent of the economy's total demand in 1967, compared with 5.6 percent in 1966 and 4.9 percent in 1965.

The growth in the expansionary influence of the sector's operations occurred mainly in the second and third quarters of the year reviewed, and it was financed by Bank of Israel credits and large-scale receipts from the special emergency campaigns conducted abroad in connection with the war. In the latter part of the year the expansionary effect of the sector's activities diminished owing to the reduction of its expenditures, a rise in tax revenue following the revival of economic activity, and the absorption of funds from the public by means of the Defense Loan and other Government bonds.

The net volume of credit provided by the public sector to the rest of the

<sup>1</sup> This is discussed in Chapter XVI, "Flow of Funds". The demand surplus of the public sector is defined as the excess of its purchases on current and capital account (i.e. its use of real resources) over its net receipts from taxes and other domestic transfers (i.e. its absorption of resources from other sectors).

In accordance with this definition, interest payments abroad have not been included for the purpose of calculating the demand surplus, but have been deducted from unilateral receipts from abroad in calculating the financing of the demand surplus. In this respect, the definition of the demand surplus differs from that in previous Bank of Israel Annual Reports, and hence the data thereon are not strictly comparable with those cited in preceding years.

<sup>2</sup> Most of the public sector credit goes to public sector companies. These are financed wholly or predominantly by the Government and the Jewish Agency, which also largely determine the scope of their operations and investments. Accordingly, the distinction between the direct demand of the public sector and the granting of credit to these companies is not always meaningful.

Table VII-1

**DEMAND SURPLUS AND DOMESTIC CREDIT OUTFLOW OF THE PUBLIC  
SECTOR AND SOURCES OF FINANCING, 1965-67**

(IL million, at current prices)

	1965	1966	1967	Change from 1966 to 1967
<b>A. Demand surplus</b>				
Purchases on current and capital account <sup>a</sup>	2,762	3,276	3,881	605
Less: Net taxes and transfers from the public <sup>b</sup>	2,271	2,548	2,229	-321
<b>Total</b>	<b>491</b>	<b>728</b>	<b>1,652</b>	<b>924</b>
<b>B. Net domestic credit granted</b>				
Loans granted <sup>c</sup>	499	508	734	226
Less: Loans and credit received <sup>d</sup>	240	496	651	155
<b>Total</b>	<b>259</b>	<b>12</b>	<b>83</b>	<b>71</b>
<b>Sources financing the demand surplus and net domestic credit</b>				
<b>C. Foreign sources</b>				
Net loans and credit	546	492	463	-29
Unilateral transfers	287	183	923	740
<b>Subtotal</b>	<b>833</b>	<b>675</b>	<b>1,386</b>	<b>711</b>
Less: Participation in budgets of administered areas	—	—	41	41
Interest paid abroad	177	182	225	43
<b>Total</b>	<b>656</b>	<b>493</b>	<b>1,120</b>	<b>627</b>
<b>D. Banking system</b>	<b>94</b>	<b>247</b>	<b>397</b>	<b>150</b>
<b>E. Devaluation increments<sup>e</sup></b>	<b>—</b>	<b>—</b>	<b>218</b>	<b>218</b>
<b>Total (C+D+E)</b>	<b>750</b>	<b>740</b>	<b>1,735</b>	<b>995</b>
Of which:				
Government	495	509	1,223	714
National Institutions	204	179	458	279
Local authorities	51	52	54	2

<sup>a</sup> Purchases less sales.

<sup>b</sup> Income from taxes (less collections on account of the Absorption Loan) and domestic transfers on current and capital account (including net domestic interest receipts), less transfer payments and subsidies.

<sup>c</sup> Excluding transactions with the banking system.

<sup>d</sup> Net of repayments.

<sup>e</sup> Exchange rate differentials on deposits held with the banking system and abroad, including Bank of Israel devaluation gains transferred to the Treasury.

economy<sup>1</sup> totalled IL 83 million in 1967, as against IL 12 million the year before. This increase occurred despite the aforementioned big growth in net sales of Government and National Institution bonds during the year, which was one manifestation of the general change in investors' preferences in favor of liquid assets over real estate and other assets with a low liquidity. The incremental net credit pumped into the economy was in the form of long-term development budget loans granted by the Government as part of its effort to stimulate investments—the volume of such loans was increased by more than IL 220 million. The local authorities also contributed somewhat to the incremental net credit by way of a sharp decrease in their credit inflow from the financial sectors.<sup>2</sup>

To finance its demand surplus and net credit outflow, the public sector resorted mainly to foreign sources and to a lesser extent to the banking system. In 1967 the total amount of financing procured added up to IL 1,735 million, as contrasted with IL 740 million in 1966 and IL 750 million in 1965.

Net receipts from the rest of the world<sup>3</sup> were up IL 627 million during the year reviewed to stand at IL 1,120 million, of which IL 463 million represented net loans and credit. Proceeds from the Independence and Development Loans swelled far beyond their 1966 level (IL 540 million as against IL 53 million—see Table VII-15). Unilateral transfers from abroad soared from IL 183 million in 1966 to IL 923 million.

Credit from the banking system continued to expand, reaching IL 397 million in 1967. The main increase was in the Government's debt to the Bank of Israel, which under the reflationary policy financed a considerable proportion of the Government's deficit.

An additional source of financing was the sector's gains from the revaluation of its foreign currency deposits with the banking system and abroad after the alteration of the exchange rate in November 1967 (these profits include Bank of Israel devaluation increments transferred to the Treasury). Such income does not derive from current economic activity of the sector and is not treated as revenue for the purpose of calculating its saving and demand surplus.<sup>4</sup>

#### (b) *The "balance of payments" of the public sector*

The "balance of payments" of the public sector for 1966 and 1967, by type of receipt and payment, is set forth in Table VII-2. The table distinguishes between transfers and transactions in goods and services on the one hand (the

<sup>1</sup> Excluding transactions with the banking system.

<sup>2</sup> The local authorities are net recipients of credit, whereas the Government and National Institutions are net suppliers of credit to other economic sectors.

<sup>3</sup> Net loans and credit plus unilateral transfers, less interest paid abroad and participation in the budgets of the administered areas. Foreign receipts have been converted into Israeli pounds at the official exchange rate in force when they were transferred.

<sup>4</sup> Apart from the sector's foreign currency deposits, none of the asset and liability items have been revaluated for exchange rate differentials.

“real account”) and financial transactions on the other (the “financial account”). The volume of public sector payments, as reflected in the “balance of payments”, increased by IL 1,284 million during the year reviewed to reach IL 7,146 million<sup>1</sup>—a rise of about 22 percent compared with 17 percent in the previous year.

Following are the principal changes in public sector operations, as reflected by its “balance of payments”:

For the first time in many years, the sector’s tax revenue declined in 1967; this came after a deceleration in the growth rate in 1966, and can be attributed to the slackening of economic activity. Most of the decrease was in indirect taxes, which, at IL 1,716 million, were 3.8 percent below the 1966 level. Of this figure, IL 1,380 million represents indirect tax collections by the Government, which were down 6.9 percent. On the other hand, collections by local authorities increased by 11.6 percent, mainly because of the raising of municipal tax rates, and totalled IL 336 million. Revenue from direct taxes (income tax and the receipts of the National Insurance Institute) were up 2.7 percent to stand at IL 1,520 million. All of the increment resulted from the revision of income tax rates with the imposition of a defense levy in June 1967. Exclusive of the levy, direct tax revenue also declined.

The weight of direct and indirect taxes within the gross national product dropped from 28.1 percent in 1966 to 26.7 percent as a result of the smaller collections. In this connection it should be noted that most of the growth in the gross national product in 1967 occurred during the second half of the year, and will be reflected by a rise in tax collections only in the following year.<sup>2</sup>

Unilateral receipts from abroad were, at IL 923 million, about five times larger than in the previous year. Most of the increase, as already mentioned, originated in receipts from the emergency appeals. It should be noted that other overseas campaigns of the National Institutions also brought in more money, after a fall in such income in 1966. Foreign long-term borrowed receipts were up 58 percent to reach IL 1,091 million. Approximately two-thirds of this amount represents gross proceeds from the Independence and Development Loans. Foreign debt redemption declined in the year reviewed, a result of the smaller amount of Independence and Development Bonds repaid, following a marked rise in 1966 (see Table VII-15). Short-term credit from overseas sources contracted, owing to the growth of Government deposits abroad. The total volume of net

<sup>1</sup> With long-term loans and credit recorded gross and short-term loans and credit recorded net. (If all loans and credit had been recorded on a net basis, the volume of payments would have risen by IL 1,187 million to IL 6,457 million.)

<sup>2</sup> See the discussion in section 2(c). Most of the incremental national income in 1967 was earned by the self-employed. There is a time-lag between a rise in nonwage incomes (chiefly company profits and earnings of self-employed) and a rise in tax collections thereon.

## "BALANCE OF PAYMENTS" OF THE PUBLIC SECTOR, BY TYPE OF RECEIPT AND PAYMENT, 1966-67

(IL million)

Receipts	1966	1967	Increase or decrease (-)	Payments	1966	1967	Increase or decrease (-)
<b>Transfers and transactions in goods and services</b>							
Taxes <sup>a</sup>	3,263	3,236	-27	Purchases			
Miscellaneous income	589	569	-20	On current account	2,674	3,413	739
				On capital account	642	504	-138
				Interest payments	379	485	106
				Transfer payments and grants	741	875	134
				Subsidies	326	405	79
Subtotal	3,852	3,805	-47	Subtotal	4,762	5,682	920
Unilateral receipts from abroad	183	923	740	Participation in budgets of the administered areas	—	41	41
Total	4,035	4,728	693	Total	4,762	5,723	961
<b>Transactions in financial claims</b>							
Collections on account of				Long-term loans granted and			
long-term loans	90	105	15	participation in share capital	598	839	241
Long-term loans received				Repayment of long-term loans			
Domestic <sup>b</sup>	572	926	354	Domestic	149	264	115
Foreign	689	1,091	402	Foreign	353	320	-33
Short-term credit (net)							
Domestic <sup>b</sup>	73	-11	-84				
Foreign	156	-308	-464				
From the banking system <sup>c</sup>	247	397	150				
Devaluation increments <sup>d</sup>	—	218	218				
Total	1,827	2,710	591	Total	1,100	1,423	323
Total receipts	5,862	7,146	1,284	Total payments	5,862	7,146	1,284

<sup>a</sup> Including collections on account of National Insurance, but not on account of the Absorption Loan.<sup>b</sup> Excluding credit from the banking system.<sup>c</sup> Including long-term loans and securities.<sup>d</sup> On deposits with the banking system and abroad, including Bank of Israel devaluation gain; transferred to the Treasury.

credit from the rest of the world reached IL 463 million, compared with IL 492 million the year before.

Net domestic borrowed receipts were considerably higher in 1967. The main increase was in medium- and long-term bonds sold to the public (including the Absorption and Defense Loans). Short-term credit from domestic sources shrank in 1967, after having expanded in the previous year. The main reason for the drop was the decrease in the Government's net revenue from the Short-Term Loan.<sup>1</sup>

Public sector purchases on current account totalled IL 3,413 million, a rise of 27.5 percent, compared with approximately 21 percent in the previous year. Public consumption (net purchases of the public sector on current account) rose to a similar extent—28 percent—to stand at IL 3,383 million.<sup>2</sup> This increase, coupled with the slower growth of private consumption and the decline in gross capital formation, brought up the weight of public consumption within total domestic resource use from 20.2 percent in 1966 to 25.2 percent. The expansion of public consumption stemmed entirely from the 64 percent rise in defense outlays.

Civilian payroll expenditure edged down 1.2 percent in 1967 and totalled IL 1,058 million. In 1966 retroactive wage adjustments had been paid to many public sector employees, whereas in the year reviewed no adjustments were paid, except in several local authorities—hence the decline in the sector's wage bill. If retroactive adjustments are deducted, the wage bill was 2.5 percent higher in the year reviewed—the result of wage drift. The average number of persons employed in the sector held steady in 1967. Wage and salary rates remained unchanged, and no cost-of-living allowance increment was paid.

Subsidy payments were, at IL 405 million, 24 percent larger in 1967. Almost all of the growth was in export incentives, which were increased by over 80 percent. Transfer payments and interest outlay in Israel and abroad went up steeply. There was a striking rise of 35 percent in interest payments by local authorities, and of 28 percent in those by the National Institutions.

Investments of the public sector were off 21.5 percent. The decline occurred mainly in Government stocks, capital spending by Government enterprises (such as the Post Office, Israel Railways, and the ports), and local authority investments. At the same time, Government outlays on the National Water Carrier

<sup>1</sup> In 1966 the Government's proceeds from the Short-Term Loan increased, while in 1967 it derived no income whatever from this source, despite the larger volume of sales by the Bank of Israel. Under an agreement signed by the Government and the Bank of Israel in June 1966, all proceeds from the sale of this loan over and above a certain fixed sum were to be applied to the repayment of the Government's long-term debts to the Bank of Israel (see the discussion on the open-market operations of the Bank of Israel in Chapter XV, "Money Supply, Credit, and the Banking Institutions").

<sup>2</sup> These data differ from those cited in Chapter II, "Resources, Uses, and Incomes", where the Government's participation in the budgets of the Israel-controlled areas was treated as part of public consumption.

rose, and the Jewish National Fund and the Government spent a large sum on development projects intended to provide more jobs.

Long-term lending by the public sector increased by 40 percent in 1967 to reach IL 839 million. This growth, which can be mainly ascribed to the Government's policy of stimulating investments, was reflected by the larger volume of loans granted to public housing companies and to public sector companies in the industrial and mining and quarrying sectors, as well as by the greater amount of loan and investment capital provided to industrial finance institutions. In previous years the growth of long-term lending by the public sector had slowed down owing to the transfer of part of the investment financing function to financial institutions, the increased possibilities for firms to receive loans from domestic and foreign sources through the Government's guarantee instead of borrowing directly from the Government, and the economic retrenchment policy pursued in 1966.

The curtailment of domestic capital formation in 1967, coupled with the larger volume of investment financed by the public sector, brought up the share of the latter to 68 percent of total investment financing.<sup>1</sup>

### (c) *Public sector saving*

The saving of the public sector is defined as the excess of current revenue (mainly taxes) over current expenditure (purchases, transfer payments, subsidies, and domestic interest payments).<sup>2</sup> A positive saving of IL 20 million in 1965 turned into a dissaving of IL 189 million in 1966 and IL 1,225 million in 1967.

The Government and the National Institutions were responsible for the increased dissaving, for they considerably expanded their current outlays, while current revenue (including income from property and net domestic interest receipts) fell off. The local authorities showed an opposite development: the growth of revenue outstripped that of current expenditure, so that their dissaving declined. The National Institutions always have a negative saving,<sup>3</sup> since current income from domestic sources constitutes only a small percentage of total income; their leading income item is unilateral transfers from abroad, and these are not

<sup>1</sup> The reference is to long-term loans granted by the public sector and its direct investments expressed as a percentage of total domestic investment. Since the provision of investment capital and the implementation of the investment do not always coincide, this is not an entirely satisfactory yardstick for measuring the share of the public sector in financing domestic investment in a given year. See section 7 in Chapter V, "Domestic Investment".

<sup>2</sup> This definition of saving differs from that in previous Bank of Israel Annual Reports in that interest paid abroad is not included as an expenditure for the purpose of calculating saving (see note <sup>1</sup> on page 155).

<sup>3</sup> National Institution saving is not listed separately in Table VII-3, as the Government and the National Institutions are discussed together this year.



**Table VII-3**  
**PUBLIC SECTOR SAVING AND DEMAND SURPLUS, 1966-67**

(IL million, at current prices)

	1966			1967			Increase or decrease (-) from 1966 to 1967
	Government and National Institutions	Local authorities	Total	Government and National Institutions	Local authorities	Total	
<b>A. Income on current account</b>							
Taxes <sup>a</sup>	2,962	301	3,263	2,900	336	3,236	-27
Current transfers	67	80	147	69	90	159	12
Income from property and net domestic interest received	114	-30	84	7 43	-42	1	-83
<b>Total</b>	<b>3,143</b>	<b>351</b>	<b>3,494</b>	<b>3,012</b>	<b>384</b>	<b>3,396</b>	<b>-98</b>
<b>B. Expenditure on current account</b>							
Purchases (net of sales) <sup>b</sup>	2,205	436	2,641	2,927	455	3,382	741
Transfers	622	94	716	728	106	834	118
Subsidies	326	—	326	405	—	405	79
Transfers to local authorities (net)	127	-127	—	151	-151	—	—
<b>Total</b>	<b>3,280</b>	<b>403</b>	<b>3,683</b>	<b>4,211</b>	<b>410</b>	<b>4,621</b>	<b>938</b>
<b>C. Saving (A-B)</b>	<b>-137</b>	<b>-52</b>	<b>-189</b>	<b>-1,199</b>	<b>-26</b>	<b>-1,225</b>	<b>-1,036</b>
<b>D. Expenditure on capital account</b>							
Purchases (net of sales)	440	195	635	336	162	498	-137
Transfers (net) <sup>c</sup>	-32	-64	-96	-12	-59	-71	25
Transfers to local authorities (net)	12	-12	—	14	-14	—	—
<b>Total</b>	<b>420</b>	<b>119</b>	<b>539</b>	<b>338</b>	<b>89</b>	<b>427</b>	<b>-112</b>
<b>E. Demand surplus (D-C)</b>	<b>557</b>	<b>171</b>	<b>728</b>	<b>1,537</b>	<b>115</b>	<b>1,652</b>	<b>924</b>

<sup>a</sup> Excluding collections on account of the Absorption Loan.

<sup>b</sup> Excluding participation in the budgets of the administered areas.

<sup>c</sup> Domestic transfers on capital account: to the Government—mainly land betterment tax and inheritance tax; to local authorities—mainly participation of home-owners in development expenditure.

treated as current income in calculating saving. For this reason, the National Institutions' dissaving fluctuates with changes in their current expenditure.

(d) *Functional composition of expenditure*

A breakdown of public sector expenditure for the years 1966 and 1967 by function and by public sector authority is shown in Table VII-4.<sup>1</sup>

Changes in the composition of the sector's expenditure mainly relate to the Government, as it accounts for over 80 percent of the total outlay. Security, National Insurance, and the promotion of production and exports are the exclusive province of the Government, which also accounts for a major part of other expenditure items.

The National Institutions deal chiefly with immigration and agriculture. Their weight within public sector expenditure had declined steadily until 1966. In 1967, however, the Institutions expanded their activities following a big increase in proceeds from the emergency appeals, and they even assumed responsibility for several social services previously provided by the Government. In consequence, there was a temporary rise in the share of the Institutions in total expenditure.

The operations of the local authorities are confined mainly to the municipal sphere (sanitation and sewage disposal, fire protection, street lighting, supply of potable water, etc.) and to social services (education, health, social welfare). Their weight within total expenditure moved upward until 1966. It declined in 1967, both because Government and National Institution outlays were considerably stepped up and because of the much more sluggish growth of local authority operations during the year.

Security and special budgets constituted 26.7 percent of the sector's total outlay in 1967, compared with 19.3 percent the year before. The big increase in military spending was in fact responsible for the relative decrease in the weight of most other expenditure items, though some of the latter expanded appreciably in absolute terms.

The weight of social services, which totalled IL 2,054 million, declined from 32.6 to 28.7 percent. Even if their weight is measured in relation to the sector's total civilian expenditure (i.e. exclusive of security and special budgets), it still decreased. This development reversed the rising trend of the last several years, and can be attributed primarily to smaller payroll outlay. The decrease occurred in health and educational services, chiefly primary schooling following a reduction in the number of teachers and pupils.

Expenditure on economic services totalled IL 1,327 million in 1967, and its

<sup>1</sup> Table VII-4 is based on data from Tables VII-17 and VII-20. Outlays have been recorded net of transfers between public sector authorities, which are treated as expenditure of the executing authority and not of the financing authority. Hence Table VII-4 is not strictly comparable with the other two tables mentioned.

**Table VII-4**  
**PUBLIC SECTOR EXPENDITURE, BY FUNCTION,<sup>a</sup> 1966-67**  
(IL million)

	1966	1967			Weight in total (%)	
	Total sector	Government and National Institutions	Local authorities	Total	1966	1967
<b>General services</b>						
General administration	300	199	89	288	5.2	4.0
Security and special budgets	1,132	1,908	—	1,908	19.3	26.7
Police and justice	130	149	—	149	2.2	2.1
Community services n.e.s. <sup>b</sup>	241	80	146	226	4.1	3.2
<b>Total</b>	<b>1,803</b>	<b>2,336</b>	<b>235</b>	<b>2,571</b>	<b>30.8</b>	<b>36.0</b>
<b>Social services</b>						
Education, culture, religion	885	568	311	879	15.1	12.3
National Insurance and social welfare	466	499	89	588	7.9	8.2
Health	252	205	41	246	4.3	3.4
Housing	311	336	5	341	5.3	4.8
<b>Total</b>	<b>1,914</b>	<b>1,608</b>	<b>446</b>	<b>2,054</b>	<b>32.6</b>	<b>28.7</b>
<b>Economic services</b>						
Agriculture and water development	405	464	9	473	6.9	6.6
Industry, mining and quarrying	156	321	4	325	2.7	4.6
Transportation and communications	425	333	51	384	7.2	5.4
Other economic services	112	145	—	145	1.9	2.0
<b>Total</b>	<b>1,098</b>	<b>1,263</b>	<b>64</b>	<b>1,327</b>	<b>18.7</b>	<b>18.6</b>
<b>Unallocable services</b>						
Interest payments	379	441	44	485	6.6	6.8
Debt redemption	501	525	59	584	8.5	8.2
Miscellaneous <sup>c</sup>	167	125	—	125	2.8	1.7
<b>Total</b>	<b>1,047</b>	<b>1,091</b>	<b>103</b>	<b>1,194</b>	<b>17.9</b>	<b>16.7</b>
<b>Grand total</b>	<b>5,862</b>	<b>6,298</b>	<b>848</b>	<b>7,146</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Excluding current outlays of public sector enterprises, such as the Post Office, Israel Railways, the ports, and municipal waterworks, but including the expenditure of the National Insurance Institute. Intrasector transfers have been disregarded—hence the difference between the data in this table and the corresponding data in Tables VII-17 and VII-20.

<sup>b</sup> Not elsewhere specified; mainly strictly municipal services (such as sanitation sewerage, fire protection, and street lighting), general research, direct immigration services, and Jewish Agency expenditures abroad (including those on educational activities).

<sup>c</sup> Mainly subsidies on imported commodities and stocks in Government warehouses.

weight remained unchanged. There was a striking increase in industry and the mining and quarrying branch, where the figure doubled as a result of the larger volume of credit provided by the Government under its development policy. The amount spent on transportation and communications declined, the items affected being Government investment in posts, railways, and ports, and local authority investment in roads, sidewalks, and traffic regulation.

The share of general services (excluding security and special budgets) in total outlay continued downward in 1967. The amount spent on general administration and community services even contracted in absolute terms. There was a particularly big decrease in municipal services supplied by the local authorities.

Interest payments and debt redemption added up to IL 1,069 million in 1967. Their combined weight was, at about 15 percent, the same as in 1967.

## 2. THE GOVERNMENT AND NATIONAL INSTITUTIONS

### (a) *The influence of the Government and National Institutions on domestic demand*

In 1967 the Government pursued a policy intended to expand economic activity and reduce unemployment. The budget for 1967/68 provided for a deficit and appropriated a larger sum for development, especially in the form of loans for financing investments designed to furnish additional jobs, and for export subsidization in order to trim the adverse balance in the country's goods and service account, as well as a much larger volume of transfer payments to households and nonprofit institutions. No new taxes were imposed and tax rates were not raised, so as to stave off a further weakening of domestic demand.<sup>1</sup>

Table VII-5 analyzes the performance of the budget in 1966/67 and 1967/68. The increase in the demand surplus and net credit to other economic sectors planned for 1967/68 was greater than shown in this table (items C, D, and E) because the tax estimate for 1967/68 was based on the assumption that the level of economic activity would be higher than in the previous budgetary year. But even when the budget was presented to the Knesset, it was obvious that economic activity would continue to slacken and that the revenue estimates would not be realized. The budget therefore contained a large hidden deficit, the size of which can be estimated by comparing actual tax revenue in 1966/67 with the estimate for 1967/68.<sup>2</sup>

<sup>1</sup> See Explanatory Notes to the Budget Proposal for Fiscal 1967/68, p. 6 (in Hebrew).

<sup>2</sup> The tax estimate in the 1967/68 budget was 28 percent higher than actual revenue during the budgetary year 1966/67. This is an exceptionally big increase, considering that the average annual rise in tax revenue during the previous decade was 18 percent. It should be noted, moreover, that in 1966/67 this item included a large sum of nonrecurrent income from taxes on retroactive wage adjustments. Exclusive of these receipts, the projected increase in tax revenue in the 1967/68 budget would have been still larger than indicated above.

**Table VII-5**  
**DEMAND SURPLUS AND DOMESTIC CREDIT OUTFLOW OF THE GOVERNMENT**  
**AND SOURCES OF FINANCING,<sup>a</sup> 1966/67 and 1967/68**  
(IL million)

	1966/67		1967/68			Change in original budget proposal for 1967/68 compared with final outturn in 1966/67
	Budget proposal	Final outturn	Original budget proposal	Supple- mentary budgets <sup>b</sup>	Total budget proposal	
<b>A. Expenditure</b>						
Ministry of Defense budget	984	984	984	400	1,384	—
Special budgets and reserves	543	239	520	23	543	281
Wages and other purchases on current account	969	955	1,026	—	1,026	71
Purchases on capital account	351	374	403	28	431	29
Transfers to households and nonprofit institutions	305	325	343	—	343	18
Interest payments	272	289	316	—	316	27
Subsidies	241	320	393	36	429	73
<b>Total</b>	<b>3,665</b>	<b>3,486</b>	<b>3,985</b>	<b>487</b>	<b>4,472</b>	<b>499</b>
<b>B. Revenue</b>						
Taxes	3,083	2,537	3,242	100	3,342	705
Other revenue <sup>c</sup>	449	434	437	—	437	3
<b>Total</b>	<b>3,532</b>	<b>2,971</b>	<b>3,679</b>	<b>100</b>	<b>3,779</b>	<b>708</b>
<b>C. Demand surplus (A-B)<sup>d</sup></b>	<b>133</b>	<b>515</b>	<b>306</b>	<b>387</b>	<b>693</b>	<b>-209</b>
<b>D. Transfers to rest of public sector<sup>e</sup></b>	<b>195</b>	<b>190</b>	<b>244</b>	<b>29</b>	<b>273</b>	<b>54</b>
<b>E. Net credit to other domestic sectors</b>						
Loans granted	423	458	506	356	862	48
Less: Loans and credit received	418	525	473	200	673	-52
<b>Total</b>	<b>5</b>	<b>-67</b>	<b>33</b>	<b>156</b>	<b>189</b>	<b>100</b>
<b>Sources financing the demand surplus and net domestic credit granted</b>						
Net loans and transfers from abroad	333	276	463	330	793	187
Net credit from the banking system <sup>f</sup>	—	362	120	242	362	-242
<b>Total financing</b>	<b>333</b>	<b>638</b>	<b>583</b>	<b>572</b>	<b>1,155</b>	<b>-55</b>

<sup>a</sup> Based on the economic analysis of the Treasury's Budget Department in the Explanatory Notes to the Budget Proposal for Fiscal 1966/67 and for 1967/68. The National Insurance Institute is not included in the table.

<sup>b</sup> Two supplementary budgets, in June and September 1967.

<sup>c</sup> Transfers, income from property, sales, and interest received.

<sup>d</sup> Excluding transactions with the rest of the public sector.

<sup>e</sup> Including long-term loans.

<sup>f</sup> The final outturn in 1967/68 represents the excess of expenditure over revenue, which is mostly financed by credit from the banking system.

SOURCE: The Accountant General and the Budget Department, Ministry of Finance.

In the first quarter of 1967 the Government was still operating in accordance with the 1966/67 budget, which had been geared to a policy of economic retrenchment and whose effect on the demand level in the economy was the opposite of that of the 1967/68 budget. It contained a number of anti-inflationary measures, calculated to reduce the demand surplus and net credit outflow to other economic sectors. But because of the recession in 1966, the Government deviated from its surplus budget policy, by keeping expenditures as planned while tax revenue fell. In the last quarter of 1966 and the first quarter of 1967, the Government even began to introduce reflationary measures, although on a limited scale: outlays on subsidies and unemployment relief projects were increased somewhat. The Government's demand surplus and net credit outflow held virtually steady throughout the second half of 1966 and the first quarter of 1967.

Table VII-9 shows the estimated sources of financing the Government's demand surplus and net credit outflow, by quarters.<sup>1</sup> In the first quarter of 1967 the volume of financing contracted somewhat as compared with the last quarter of 1966, but taking into account that there are seasonal fluctuations in the Government's demand surplus due to the seasonal pattern of tax collections (collections are larger in the first quarter of the calendar year, which is the last quarter of the fiscal year, and hence the demand surplus tends to drop during this quarter), the changes in financing in the first quarter of 1967 should be compared with those in the first quarter of 1966. This shows the demand surplus and net credit outflow to be relatively greater in the first quarter of 1967.

In the second quarter of 1967, when the 1967/68 budget went into effect, and in view of the additional requirements connected with the war and the preceding period of tension, the demand surplus and net credit outflow of the Government and the National Institutions rose substantially. Tax collections fell to their nadir, while expenditure rose steeply, especially that on security.

The financing of the demand surplus and credit outflow assumed much larger proportions during this quarter. In April and May Bank of Israel credit to the Government was stepped up considerably, and in June there was a rise in unilateral transfers from abroad, mainly income from the special campaigns conducted by World Jewry.

After the war, the Knesset approved two supplementary budgets for 1967/68, the main objects of which were to increase security spending and to relieve unemployment, chiefly by advancing the execution of development projects. In addition, the burden of maintaining various social services was transferred from

<sup>1</sup> No data are available on the development of the demand surplus and net credit outflow of the Government and the National Institutions to other sectors in the course of the year. The estimated financing of these magnitudes can serve only as an indicator.

**Table VII-6**  
**SAVING AND DEMAND SURPLUS OF THE GOVERNMENT AND**  
**NATIONAL INSTITUTIONS, 1965-67**

(IL million, at current prices)

	1965	1966	1967	Increase or decrease (-) from 1966 to 1967
<b>A. Income on current account</b>				
Taxes <sup>a</sup>	2,571	2,962	2,900	-62
Current transfers	54	67	69	2
Income from property and net domestic interest receipts	63	114	43	-71
<b>Total</b>	<b>2,688</b>	<b>3,143</b>	<b>3,012</b>	<b>-131</b>
<b>B. Expenditure on current account</b>				
Purchases (net of sales)	1,807	2,205	2,927	722
Transfer payments	473	622	728	106
Subsidies	259	326	405	79
Net transfers to local authorities	113	127	151	24
<b>Total</b>	<b>2,652</b>	<b>3,280</b>	<b>4,211</b>	<b>931</b>
<b>C. Saving (A-B)</b>	<b>36</b>	<b>-137</b>	<b>-1,199</b>	<b>-1,062</b>
<b>D. Expenditure on capital account</b>				
Purchases (net of sales)	376	440	336	-104
Transfers (net) <sup>b</sup>	-23	-32	-12	20
Transfers to local authorities (net)	2	12	14	2
<b>Total</b>	<b>355</b>	<b>420</b>	<b>338</b>	<b>-82</b>
<b>E. Demand surplus (D-C)</b>	<b>319</b>	<b>557</b>	<b>1,537</b>	<b>980</b>

<sup>a</sup> Excluding revenue from the Absorption Loan.

<sup>b</sup> Government transfers on capital account, less collections on account of the land betterment tax and inheritance tax.

the Government to the Jewish Agency, which enlarged its 1967/68 budget following the receipt of the emergency campaign funds.<sup>1</sup>

The two supplementary budgets doubled the demand surplus originally planned for 1967/68 and considerably augmented the projected volume of credit to other sectors, since they involved a further increase in deficit financing, in the main in unilateral transfers and loans from abroad and in bank credit. A much

<sup>1</sup> Because of the much larger expenditure of the National Institutions due to the temporary expansion of their social services for the above-mentioned reason, the Institutions' operations have not been analyzed separately this year.

smaller share of the revenue was to come from a special Defense Loan, the raising of income tax rates, and a temporary increase in fuel taxes. Of the additional outlays, IL 400 million was earmarked for defense purposes, IL 350 million for granting long-term loans, and the rest for covering the additional expenditures made in the second quarter of 1967 before the Knesset approved the supplementary budgets.

In the third quarter the economy began to show signs of recovery. Government tax revenues rose, reaching a level similar to that of the third quarter of 1966, but at the same time the demand surplus expanded appreciably. During this period the amount of net credit provided by the Government to other sectors contracted, owing to the mobilization of large sums from the public through the Defense Loan and other Government bond issues. Gross sales of Government bonds to the public (excluding bonds purchased by the banking system) were three times larger in this quarter than in the second quarter and five times larger than in the first quarter of the year. Total funds for financing the demand surplus and net credit outflow expanded during the third quarter, with most of the increase being in long-term foreign loans (mainly the Independence and Development Loans) and bank credit (mainly Bank of Israel advances to the Government).

In the final quarter of 1967 Government tax revenue increased further, and stood approximately 5 percent higher than in the corresponding quarter of 1966. The volume of Government and National Institution payments contracted somewhat, diminishing the demand surplus. In this quarter too, a large sum was absorbed from the public through the sale of Government bonds and the Defense Loan, but not to the same extent as in the previous quarter.

Summing up the effect of Government and National Institution operations on the demand level in 1967, as measured by their demand surplus and net credit channelled to other sectors, the following picture emerges (according to the partial indicators cited in Table VII-9): a stimulative effect in each of the first three quarters of the year, and especially in the second and third quarters, and a relatively restrictive effect in the last quarter. The overall effect in 1967 is presented in Tables VII-6, VII-7, and VII-8.

The demand surplus of the Government and the National Institutions totalled IL 1,537 million in 1967, compared with IL 557 million in 1966 and IL 319 million in 1965. Net purchases (on both current and capital account) expanded by 23.3 percent in 1967, while other current expenditures (subsidies and interest payments) went up 22.4 percent. Tax revenue and domestic transfers were down 2.6 percent.

The growth of the demand surplus stemmed from the expansion of foreign purchases and the rise in the excess of expenditure over revenue from domestic sources, the latter accounting for nearly 80 percent of the increment. Not all of the increase in this excess, which reached IL 756 million in 1967 (see Table VII-7), reflects the influence of the Government and National Institu-



Table VII-7

**INCREASE IN THE DEMAND SURPLUS OF THE GOVERNMENT AND NATIONAL INSTITUTIONS, BY COMPONENT, 1966-67**

(IL million, at current prices)

	Change from 1965 to 1966			Change from 1966 to 1967		
	Factors increasing demand surplus	Factors decreasing demand surplus	Total increase in demand surplus	Factors increasing demand surplus	Factors decreasing demand surplus	Total increase in demand surplus
<b>A. Changes in payments</b>						
Wages and salaries	175				21	
Security and special budgets	172			715		
Other purchases on current account	40			26		
Investment in inventories	72				94	
Purchases on capital account (excl. investment in inventories)		14			11	
Transfers to households and nonprofit institutions (net)	127			123		
Subsidies	67			79		
Domestic interest payments (net)		17		44		
Transfers to local authorities (net)	24			26		
<b>B. Changes in receipts</b>						
Direct taxes		253			40	
Indirect taxes		138		102		
Sales and income from property		17		31		
<b>Total</b>	<b>677</b>	<b>439</b>	<b>238</b>	<b>1,146</b>	<b>166</b>	<b>980</b>
Of which:						
Increase in surplus of domestic expenditure over domestic revenue			169			756
Increase in foreign purchases <sup>a</sup>			69			224

<sup>a</sup> Estimated direct imports of the Government, including equipment and goods for Ministry of Commerce and Industry stores, and other foreign purchases of the Government and the National Institutions.

tions on effective demand in the economy, since there exists a significant degree of substitution between domestic purchases and imports—the substitution of domestic purchases for imports by one sector can lead to a larger import by another. Nevertheless, it is obvious that an increase in domestic purchases of such proportions had an expansionary effect, helping to check the deceleration of economic activity at the beginning of 1967 and contributing to the upswing toward the end of the year.

The net amount of credit supplied by the Government and the National Institutions to the rest of the economy reached IL 144 million in 1967, as against IL 131 million in 1966 and IL 380 million in 1965. A much larger sum was mobilized from the public in the year reviewed through the Absorption Loan, a special Defense Loan, development loans, and other bond issues of the Government, Jewish Agency, and Keren Hayesod. However, this was offset by the huge increase in development budget loans granted.

The net credit outflow of the Government and the Institutions had an expansionary effect in 1967. It cannot be measured by the increase in this magnitude between 1966 and 1967 (which was only IL 13 million), since the stimulative effect of the credit granted by the Government and the National Institutions is usually stronger than the restrictive effect of credit absorption from the public. A large percentage of the credit is directly connected with investments, such as that granted to most of the public sector companies (which are largely financed by the Government and National Institutions); as a rule, almost all of the credit supplied to such companies is reflected by a rise in the demand surplus.<sup>1</sup> Another portion of the credit flows affect the overall demand surplus indirectly, depending on the volume of investment by the companies receiving such credit, their current deficits, and the alternative sources of financing available to them. At the same time, it should be noted that some of the credit hardly affects domestic demand at all, such as that granted to firms for the import of equipment, ships, aircraft, and various investment goods.

The contractionary effect of mobilizing funds from the public through loans is likewise not uniform, depending on the liquidity of the loans and the sources of funds available to the lenders. The Absorption Loan, for instance, has a stronger effect because of its low liquidity in the first few years after its compulsory collection. In certain respects the loan has had a similar effect as tax collections. On the other hand, loans granted by financial institutions from funds raised abroad have no contractionary effect whatsoever.

The increase in net long-term loans granted—IL 744 million as compared with IL 523 million in 1966 and IL 525 million in 1965—can be ascribed to

<sup>1</sup> The investments of public sector companies increased by about a third in 1967, and for the most part were financed through Government loans. The additional credit granted by the Government in 1967 exceeded the companies' incremental investments, i.e. part of the credit was used to pay liabilities and increase financial asset holdings (see Chapter XVI, "Money Flows").

Table VII-8

**DEMAND SURPLUS AND DOMESTIC CREDIT OUTFLOW OF THE GOVERNMENT  
AND NATIONAL INSTITUTIONS AND SOURCES OF FINANCING, 1965-67**

(IL million, at current prices)

	1965	1966	1967	Increase or decrease (-) from 1966 to 1967
<b>A. Demand surplus</b>	319	557	1,537	980
<b>B. Net domestic credit granted<sup>a</sup></b>				
1. Loans granted <sup>b</sup>				
To local authorities	29	19	14	-5
To public sector companies <sup>c</sup>	93	88	170	82
For housing and public buildings	325	292	344	52
To financial institutions	1	4	73	69
To the rest of the economy	77	120	143	23
Total	525	523	744	221
2. Loans and credit received <sup>d</sup>				
Absorption Loan	127	171	161	-10
Defense Loan	—	—	183	183
Government bonds and other long-term loans	82	140	190	50
National Institution bonds and other long-term loans	58	33	62	29
Short-term loans	-76	71	—	-71
Other short-term credit	-46	-23	4	27
Total	145	392	600	208
Net domestic credit granted (1-2)	380	131	144	13
<b>Sources financing demand surplus and net domestic credit granted</b>				
<b>C. Foreign sources</b>				
Net loans and credit	547	490	464	-26
Unilateral receipts	287	183	923	740
Total	834	673	1,387	714
Less: Participation in budgets of administered areas	—	—	41	41
Interest paid abroad	177	182	225	43
Total	657	491	1,121	630
<b>D. From the banking system</b>	42	197	342	145
<b>E. Devaluation increments<sup>e</sup></b>	—	—	218	218
Total (C+D+E)	699	688	1,681	993

<sup>a</sup> Excluding transactions with the banking system.

<sup>b</sup> Net of repayments.

<sup>c</sup> Excluding financing for housing.

<sup>d</sup> Net of repayments.

<sup>e</sup> Receipts from the revaluation of deposits with the banking system and abroad after the devaluation of November 1967; including Bank of Israel devaluation gains transferred to the Treasury.

the Government's policy of stimulating investment. The stability in 1966 was also due to Government policy, this time aimed at deliberately moderating economic activity, one of the main aspects of which was the curtailment of investment.

The demand surplus and the net credit outflow were financed in the main from foreign sources and to a minor extent by the banking system. In 1967 the Government and the Institutions required IL 1,681 million in financing, compared with IL 688 million in 1966 and IL 699 million in 1965. Approximately two-thirds of the sum was received from abroad, while the remainder came from the banking system and from devaluation increments on deposits held with the banking system and abroad.<sup>1</sup>

Receipts from the rest of the world (loans, net credit, and unilateral transfers, less interest paid abroad and participation in the budgets of the administered

Table VII-9

INDICATORS OF CHANGES IN THE DEMAND SURPLUS AND NET CREDIT  
OUTFLOW OF THE GOVERNMENT AND NATIONAL INSTITUTIONS,  
QUARTERLY, 1966-67

(IL million)

	1966				1967			
	I	II	III	IV	I	II	III	IV
Estimated financing of import surplus and net credit granted <sup>a</sup>	3	333	133	139	129	415	792	261
Government tax revenue <sup>b</sup>	894	695	769	782	782	637	760	820
Direct taxes	451	383	426	429	430	342	411	438
Indirect taxes	443	312	343	353	352	295	349	382
Sales of long-term Government loans to the public <sup>c</sup>								
Gross	24	19	9	26	56	88	255	166
Net	18	13	2	9	50	70	228	132

<sup>a</sup> Unilateral transfers and net loans from abroad (according to balance of payments data of the Central Bureau of Statistics) and net credit from the banking system to the Government. (Because of a change in definitions, the balance of payments data differ somewhat from the corresponding data in other tables in this chapter; consequently, the data here are not strictly comparable with those in other tables.)

<sup>b</sup> Based on data of the State Revenue Administration, which differ somewhat from those published by the Accountant General. Direct taxes include the Absorption Loan, while indirect taxes exclude the surpluses in equalization funds and the current surpluses of Government trading enterprises.

<sup>c</sup> According to the State Loans Administration; excluding sales by the Bank of Israel as part of its open-market operations.

<sup>1</sup> Including Bank of Israel devaluation gains, which were transferred to the Government.

areas) expanded by IL 630 million to reach IL 1,121 million, of which IL 464 million represented loans and net credit. Unilateral transfers rose strongly as a result of the growth of income from the special emergency appeals conducted overseas, and totalled IL 923 million.<sup>1</sup>

The indebtedness of the Government and National Institutions to the banking system increased by IL 342 million in 1967. The main components in this rise were some IL 590 million in Bank of Israel advances to the Government (including both ordinary advances for financing the budget and special advances earmarked for the repayment of foreign currency liabilities) and IL 250 million in net sales of bonds and treasury bills to the Bank of Israel and other banking institutions, less the increase of approximately IL 510 million in Government and National Institution deposits (mostly the proceeds of the emergency appeals) with the Bank of Israel.

(b) *The "balance of payments" of the Government and National Institutions*

Table VII-10 presents the "balance of payments" of the Government and the National Institutions for the years 1966 and 1967. The table distinguishes between transfers and transactions in goods and services on the one hand and transactions in financial assets on the other. Transactions with the local authorities have been recorded separately.

Total payments, including redemption of long-term liabilities, came to IL 6,477 million in 1967—an increase of IL 1,286 million or some 25 percent; this compares with a rise of 18 percent in 1966.

Following are the principal changes in Government and National Institution operations, as reflected by their "balance of payments". Current purchases were up 32 percent, due mainly to larger security outlays. Payroll expenditure was down 2.8 percent, while other current purchases increased by 7.2 percent. Government and National Institution consumption<sup>2</sup> expanded by approximately a third to reach IL 2,926 million; this brought up its weight within total domestic demand from 16.8 percent in 1966 to 21.8 percent.

There was a substantial growth in transfer payments and grants (19 percent), in subsidies (24 percent), and in interest payments (27 percent). The rise was particularly sharp in Government transfers through the National Insurance Institute and in export subsidies.

Purchases on capital account contracted, most of the decrease being in Government investment in stocks. Other Government and National Institution investments were down by some 3 percent; the biggest decline was in Government

<sup>1</sup> Transfers from abroad have been converted into IL terms at the official exchange rate in force at the time of receipt.

<sup>2</sup> Net purchases on current account, excluding participation in the budgets of the administered areas.

Table VII-10

**"BALANCE OF PAYMENTS" OF THE GOVERNMENT AND NATIONAL INSTITUTIONS, BY TYPE OF RECEIPT  
AND PAYMENT, 1966-67  
(IL million)**

Receipts	1966	1967	Increase or decrease (-)	Payments	1966	1967	Increase or decrease (-)
<b>Transfers and transactions in goods and services</b>							
Taxes <sup>a</sup>	2,962	2,900	-62	Purchases			
Miscellaneous revenue	426	400	-26	On current account	2,236	2,956	720
				On capital account	442	337	-105
				Interest payments	347	441	94
				Transfer payments and grants	637	758	121
				Subsidies	326	405	79
Subtotal	3,388	3,300	-88	Subtotal	3,988	4,897	909
Unilateral receipts from abroad	183	923	740	Participation in budgets of administered areas	—	41	41
Total	3,571	4,223	652	Total	3,988	4,938	950
<b>Transactions in financial claims</b>							
Collections on long-term loans	90	105	15	Long-term loans granted and participation in share capital	594	835	241
Long-term loans received				Redemption of long-term loans			
Foreign	686	1,091	405	Foreign	352	319	-33
Domestic <sup>b</sup>	443	802	359	Domestic	99	206	107
Short-term credit (net)							
Foreign	156	-308	-464				
Domestic <sup>b</sup>	48	4	-44				
From the banking system <sup>c</sup>	197	342	145				
Devaluation increments <sup>d</sup>	—	218	218				
Total	1,620	2,254	634	Total	1,045	1,360	315
<b>Transactions with the rest of the public sector</b>							
				To local authorities (net)	158	179	21
Total receipts	5,191	6,477	1,286	Total payments	5,191	6,477	1,286

<sup>a</sup> Including collections on account of National Insurance but not on account of the Absorption Loan.

<sup>b</sup> Excluding credit from the banking system.

<sup>c</sup> Including long-term loans and securities.

<sup>d</sup> On deposits with the banking system and abroad, including Bank of Israel devaluation gains which were transferred to the Treasury.

expenditure on postal and transport enterprises, which was partly balanced by larger outlays on the National Water Carrier and unemployment relief projects.

Government tax revenue was 2.1 percent smaller in 1967; income from indirect taxes declined by 6.9 percent, and that from direct taxes increased by 2.7 percent. Indirect tax revenue began falling off in 1966; this was due mainly to the deceleration of economic activity, reflected by a more sluggish growth of the national product and private consumption and the contraction of commodity imports and investments. The main factors depressing indirect tax receipts were the decreases in consumption and imports of durable goods, which are taxed quite heavily. Direct tax rates were raised by the imposition of a defense levy. This was responsible for the entire increase in direct tax revenue; minus the levy, such revenue also fell off.

Unilateral receipts from abroad were about five times larger than in 1966, the result of the special emergency campaigns conducted by World Jewry. A further manifestation of its assistance was the big increase in proceeds from the Independence and Development Loans.

Domestic loan receipts soared 64 percent. All of the increase was in long-term loans, there being an especially big rise in proceeds from the development loans and the special Defense Loan. Domestic short-term credit, on the other hand, fell off, in particular net income from the Short-Term Loan. Long-term lending and participation in share capital by the Government and the National Institutions were up 40 percent. The most conspicuous rise was in Government loans to and participation in industrial finance institutions and public housing companies.

### (c) *Receipts*

#### 1. *Taxes*

The Government's tax revenue contracted by IL 62 million in 1967 to stand at IL 2,900 million. This followed a protracted steady uptrend (an average growth of 18 percent per annum) during the preceding decade. Indirect tax revenue began to fall off in 1966, following the slowdown of economic activity. In 1967 it dropped by a further 6.9 percent and totalled IL 1,380 million. The reduction occurred in all components except the fuel tax, tobacco excise, and the defense stamp. Revenue from direct taxes rose 2.7 percent, following the revision of rates, to reach IL 1,520 million.

As a result of these developments, the weight of taxes on income within total tax revenue moved up from 47.7 percent in 1965 to 50.0 percent in 1966 and 52.4 percent in 1967. The decline in the relative share of indirect taxes was due mainly to the fall in revenue from import taxes, whose weight in total tax revenue dropped from 20.5 percent in 1965 to 15.4 percent in the year reviewed (see Table VII-12).

**Table VII-11**  
**GOVERNMENT TAX REVENUE, 1966-67**  
(IL million)

	1966	1967	Increase or decrease (-)	
			IL m.	% <sup>a</sup>
<b>Direct taxes</b>				
Income tax	1,146	1,172	26	2.2
National Insurance	334	348	14	4.3
Total	1,480	1,520	40	2.7
<b>Indirect taxes</b>				
Customs duties	375	341	-34	-9.1
Purchase tax	360	305	-55	-15.2
Fuel tax	171	187	16	9.3
Property taxes	140	106	-34	-24.0
Tobacco excise	85	95	10	10.8
Cement excise	39	27	-12	-30.4
Excise on beverages	33	27	-6	-18.3
Stamp tax	57	57	—	1.4
Defense stamp tax	60	66	6	10.4
Vehicle license fees	41	39	-2	-5.8
Foreign travel tax	27	26	-1	-4.5
Licenses, fees, misc. service charges, and other taxes	49	44	-5	-12.2
Current surplus of Post Office and ports	45	60	15	35.9
Total	1,482	1,380	-102	-6.9
Grand total	2,962	2,900	-62	-2.1

**NOTE:**

1. The definitions of direct and indirect taxes in this table are based on conventional national accounting procedures and differ somewhat from those employed by the Accountant General. This table excludes compulsory payments which in the national accounts are defined as transfers—namely, the inheritance tax, the land betterment tax, fines, and certain fees and licenses (e.g. driving licenses and passport fees). On the other hand, this table includes the net profits of the Post Office and the ports (deficits of Israel Railways are included with subsidies).
2. Receipts from the Absorption Loan and compulsory saving have not been classified as direct tax revenue.

<sup>a</sup> Percentage changes have been calculated from unrounded figures.

SOURCE: Accountant General and National Insurance Institute.

## 2. Direct taxes

Income tax receipts totalled IL 1,172 million in 1967, an increase of IL 26 million or 2.2 percent. This rise was smaller than what could have been expected after the upward revision of tax rates and the growth of national income (by 4.2 percent),<sup>1</sup> and can be attributed to several factors:

<sup>1</sup> The average annual rate of increase in income tax receipts is usually higher than that for national income.



(a) In 1966 taxes on retroactive wage adjustments yielded a sizable income, whereas in 1967 there was no revenue whatsoever from this source.

(b) About half the assessments made in 1967 for self-employed and companies related to 1965 and 1966. In many cases profits during these two years were lower than anticipated when the tax advances were fixed, so that a large amount of tax was refunded in 1967.

(c) The tax advances for 1967 were set at a time of recession and hence were based on pessimistic expectations.

(d) Companies fell further behind in their tax payments, especially of ad-

Table VII-12

GOVERNMENT TAX REVENUE, BY MAJOR CATEGORY, 1965-67

	1965	1966	1967	Increase or decrease (-) from 1966 to 1967	
				IL m.	%
<hr/>					
	IL. million				
Taxes on income	1,227	1,480	1,520	40	2.7
Taxes on expenditure					
Imports	528	511	448	-63	-12.3
Local production	582	700	706	6	0.9
Taxes on property	126	140	106	-34	-24.3
Fees and licenses	108	131	120	-11	-8.4
<hr/>					
Total	2,571	2,962	2,900	-62	-2.1
<hr/>					
	Percentages				
Taxes on income	47.7	50.0	52.4		
Taxes on expenditure					
Imports	20.5	17.3	15.4		
Local production	22.7	23.6	24.3		
Taxes on property	4.9	4.7	3.7		
Fees and licenses	4.2	4.4	4.2		
<hr/>					
Total	100.0	100.0	100.0		

NOTE: Taxes on income include income tax and National Insurance contributions, but not the Absorption Loan.

Taxes on imports include general customs duty and purchase tax on imports, surtax, and foreign travel tax.

Taxes on local production include the purchase tax, excise tax, current surplus of the Post Office and ports, entertainment tax, defense stamp tax on production, and various other levies.

Taxes on property include the property tax and land registration fees.

Fees and licenses include the stamp tax, defense stamp tax on documents, and licenses, but exclude land registration fees.

justments due for previous years; this is apparently explained by the easing of the terms of payment in view of the decline in profitability in the first half of 1967.

(e) The growth of national income in 1967 was accompanied by a change in the relative shares of wage and nonwage incomes. A transition from slump to recovery generally results in an immediate rise in nonwage incomes, while a rise in wage incomes occurs (or is likely to occur) only after a certain time-lag. The growth of national income in 1967 was reflected by an increase in nonwage incomes, while the economy's wage bill decreased.<sup>1</sup> Since there is a lag between changes in nonwage incomes and tax collections thereon, the growth of national income in the last months of 1967 did not produce a larger income-tax revenue in the current year, but will be reflected by larger collections in the future on account of the increased assessments.

In contrast to these factors, which tended to reduce direct tax revenue in the year reviewed, the raising of tax rates worked in the opposite direction. In June 1967 a defense levy was imposed at the rate of  $8\frac{1}{3}$  percent of the income tax paid by individuals and 2 percent of company income liable to tax. The revenue from this levy was also lower than projected.

In view of the developments described above, the share of wage earners<sup>2</sup> in total tax collections rose from 53.4 percent in 1966 to 56.4 percent. The share of the self-employed edged down from 19.6 to 19.2 percent, and that of companies from 19.9 to 16.5 percent. The remaining revenue consists of at-source deductions of tax on income from interest and dividends, the weight of which went up from 7.1 to 7.9 percent.

National Insurance contributions increased by IL 14 million during the year reviewed to reach IL 348 million. About half the increase stemmed from the growth of the Equalization Fund for Compensation for Reservists.

### 3. *Indirect taxes*

The slower growth of the national product and private consumption, as well as the curtailment of commodity imports and investments, were clearly reflected by the Government's revenue from indirect taxes, which declined by 6.9 percent in 1967. The main factors depressing the figure were the smaller sale of durable consumer goods, which was accompanied by a reduced import of such items; the decline in other dutiable imports; the smaller volume of investments, which resulted in less revenue from taxes on building materials; and the listless state of the real estate market, which affected revenue from property taxes.

In the third quarter of 1967 income from indirect taxes began to rise. This advance was partly seasonal, but to some extent it was also due to the revival

<sup>1</sup> The economy's wage bill decreased by 0.3 percent (see Chapter X, "Wages").

<sup>2</sup> Including directors of firms and enterprises and members of cooperatives (see Table VII-1 in the appendix to this chapter—in Hebrew only).

of economic activity. The upward trend continued in the last quarter, with most items contributing to the growth, but it was not sufficient to counterbalance the decline in the first half of the year.

The most noteworthy changes in indirect taxes were as follows:

Revenue from customs duties declined by 9.1 percent to IL 341 million. This is ascribable to the decrease in commodity imports, and to the change in the composition of imports, which reduced the proportion of dutiable items. Moreover, the cuts in the customs tariff introduced in November 1966, when the liberalization policy was extended, began to make themselves felt in 1967. With the devaluation of the Israeli pound in November 1967, customs rates were trimmed by an average of 15 percent in order to keep the prices of imported goods from rising by more than the rate of the devaluation. However, these reductions had only a slight effect on customs receipts in 1967.

Income from purchase tax fell by 15.2 percent and totalled IL 305 million. Tax collections on imported goods declined for the above-mentioned reasons, while in the case of locally produced goods, the main factor was the smaller sale of consumer durables.

In August 1967 the purchase tax on most durables was reduced with a view to stimulating sales. Sales picked up shortly after the new rates went into force, but presumably this was due primarily to other factors. In November 1967 purchase tax rates were again reduced in the wake of the devaluation.

Income from the fuel tax was up 9.3 percent to IL 187 million. Most of the increase is explained by the raising of the tax by 10 to 12 agorot per liter of gasoline during the months of June-August 1967. In part it was also due to the larger consumption of fuel.

Revenue from property taxes was down 24 percent. This can be attributed mainly to the decline in the value of real estate and vacant plots following the contraction of real estate transactions (such property is assessed currently, so that the tax is affected by changes in market values). There was also a sharp fall in tax collections on equipment and inventories following the decrease in the latter item. Revenue from land registration fees likewise declined.

Income from the cement excise continued downward in 1967; this is ascribable to smaller sales of cement because of the slump in construction and other investments, as well as to the reduction of the excise.

The tobacco excise and defense stamp produced a larger revenue in 1967, owing to the increased consumption of the goods and services subject to these taxes (tobacco products, telephone services, electric power, and domestic passenger transportation).

#### *4. Miscellaneous revenue*

Revenue from domestic transfers, interest, dividends, and sales added up to IL 400 million in 1967, compared with IL 426 million in the preceding year.

Most of the decline stemmed from the smaller amount of current Bank of Israel profits transferred to the Treasury.<sup>1</sup>

Income from transfers on capital account also fell off, chiefly because of the reduced revenue from the land betterment tax and the inheritance tax.<sup>2</sup>

Current transfers by households for services supplied by health and educational institutions, driving license fees, donations, fines, etc. rose slightly to IL 69 million.

Unilateral transfers from abroad, as already mentioned, showed a huge growth during the year. In addition to the receipts from the United Jewish Appeal and the special emergency campaigns, which reached approximately IL 900 million, this item includes IL 24 million in contributions to the Jewish National Fund.

#### (d) *Payments*

The expenditure of the Government and the National Institutions on current and capital account, excluding financial transactions and participation in the budgets of the Israel-held areas, totalled IL 4,897 million in 1967—an increase of IL 909 million, or 23 percent, compared with 21 percent in the previous year. Current purchases, inclusive of wages and security expenditure, rose by 32 percent, after having expanded by 21 percent in 1966. Purchases on capital account contracted by 23.5 percent, as contrasted with a rise of 15 percent in 1966. Other expenditures—subsidies and transfers (including interest payments)—increased to a similar extent in both years.

##### 1. *Purchases on current account*

Government and National Institution purchases on current account (excluding interest) increased by 32 percent in 1967, and totalled IL 2,956 million. Expenditure on security and special budgets<sup>3</sup> rose by 64 percent during the year to stand at IL 1,835 million.

Payroll expenditure (excluding the Ministry of Defense and Government enterprises) declined by 2.8 percent to IL 737 million. The decrease, which occurred despite the stability in the number of employees, can be attributed to the fact that a large sum was paid in 1966 on account of retroactive wage and salary adjustments and none whatsoever was paid in 1967. If these retroactive adjustments are eliminated, payroll outlay was up 2 percent.

<sup>1</sup> Excluding gains arising from exchange rate adjustments after the devaluation. Such income does not originate in the current economic operations of the Bank, and is not considered income for the purpose of calculating the saving and demand surplus of the Government (see Table VII-8). The devaluation gains totalled IL 63 million in 1967.

<sup>2</sup> In accordance with conventional national accounting definitions, these receipts are classified as transfers on capital account.

<sup>3</sup> Excluding the financing of budgetary deficits in the administered territories.

Table VII-13

PURCHASES ON CURRENT AND CAPITAL ACCOUNT BY THE GOVERNMENT  
AND NATIONAL INSTITUTIONS, 1966-67

(IL million)

	1966	1967	Increase or decrease (-)
<b>Purchases on current account</b>			
Wages and salaries of civilian employees <sup>a</sup>	758	737	-21
Other purchases <sup>b</sup>	1,478	2,219	741
<b>Total purchases on current account</b>	<b>2,236</b>	<b>2,956</b>	<b>720</b>
<b>Purchases on capital account</b>			
Postal and transport enterprises <sup>c</sup>	202	162	-40
National Water Carrier	24	36	12
JNF and Government outlay on unemployment relief projects	34	56	22
Roadbuilding <sup>d</sup>	48	50	2
Public buildings	40	38	-2
Miscellaneous investments	37	32	-5
<b>Subtotal</b>	<b>385</b>	<b>374</b>	<b>-11</b>
<b>Change in inventories<sup>e</sup></b>			
Ministry of Commerce and Industry stores <sup>e</sup>	50	-32	-82
Other Government stores	7	-5	-12
<b>Total purchases on capital account</b>	<b>442</b>	<b>337</b>	<b>-105</b>
<b>Grand total</b>	<b>2,678</b>	<b>3,293</b>	<b>615</b>

<sup>a</sup> According to the Central Bureau of Statistics.<sup>b</sup> Including security and special budgets; excluding participation in the budgets of the administered areas.<sup>c</sup> Uninstalled equipment of the postal and transport enterprises is recorded in this table as investment in these enterprises and not as an investment in inventories.<sup>d</sup> Excluding outlays on unemployment relief projects.<sup>e</sup> Mainly foodstuffs.

Other current purchases, exclusive of wages and security expenditure, increased by 7.2 percent to IL 385 million.

## 2. Subsidies and transfer payments

Subsidy payments totalled IL 405 million in 1967—a rise of 24 percent. This item consists of direct price supports, participation in the costs of manufacturers and other enterprises, outlays by various Government departments to stimulate production and exports, Government participation in funds run jointly with producers with the object of promoting production and exports, the subsi-

dization of imported foodstuffs, and the covering of deficits incurred by Government business-type enterprises.

Export subsidies were enlarged by IL 43 million in 1965, IL 95 million in 1966, and IL 173 million in 1967. About two-thirds of the 1967 increase was in the form of direct grants and export incentives, about a quarter went to producers, and the remainder represents the increased expenditure of the Ministry of Commerce and Industry and other departments for furthering exports.

Subsidies on local production, including the covering of deficits of Government enterprises, totalled IL 194 million; this was IL 11 million below the 1966 figure—in the main a result of the smaller volume of drought compensation payments. There were increases in the financing of deficits of Government enterprises and the subsidization of agricultural production. Most of the growth in the latter item was in factor subsidies (water, fodder, fertilizers, etc.). Direct supports on final products were also expanded, following a contraction in 1966.<sup>1</sup>

Subsidies on imported foodstuffs, which had declined in the two preceding years, were also enlarged in 1967 following a rise in world market prices.

Transfer payments to households and nonprofit institutions were, at IL 758 million, 19 percent higher than in 1966. Of this sum, IL 290 million represents National Insurance benefit payments, which expanded by IL 35 million. The increment stemmed from a growth of 7 percent in the number of beneficiaries and of 8 percent in the average payment.<sup>2</sup>

Benefit rates were revised upward for some classes of insurance. In the largest of these—old-age and survivors—the basic allowance was raised by about 4 percent in July 1967. In March the large-family allowance was also increased.

Provident and pension payments totalled IL 92 million. These include compensation to victims of Nazi persecution and war invalids, as well as pensions to retired Government and National Institution employees. Other transfer payments to households rose strongly in 1967, reaching IL 167 million. These consist of participation in graded secondary school fees, expenditure on food in Government health, educational, and welfare institutions, Government and National Institution participation in hospitalization fees, old-age and survivors pensions paid by the National Insurance Institute, relief allotments to needy families not granted directly by local social welfare offices, and grants to low-income families to compensate for the rise of prices. Most of the growth in transfer payments was accounted for by the last two items following the raising of rates in January 1967.

Allocations to nonprofit institutions were increased to IL 211 million in 1967.<sup>3</sup>

<sup>1</sup> See the section on "Incomes" in Chapter XI, "Agriculture".

<sup>2</sup> The reference is to benefit payments other than those under the "insurance for employees' children" scheme, which were only 3.5 percent larger in 1967.

<sup>3</sup> See the section on "Transfers from the public sector" in Chapter VIII, "Nonprofit Institutions".

Table VII-14

**TRANSFER PAYMENTS, GRANTS, AND SUBSIDIES BY THE GOVERNMENT AND  
NATIONAL INSTITUTIONS, 1966-67**

(IL million)

	1966	1967	Increase or decrease (-)
<b>Transfer payments and grants to households</b>			
National Insurance benefits	255	290	35
Provident and pension payments	75	92	17
Other transfer payments	114	165	51
<b>Total</b>	<b>444</b>	<b>547</b>	<b>103</b>
<b>Transfer payments to nonprofit institutions</b>			
Education and culture	138	146	8
Health	42	42	—
Social welfare and other organizations	13	23	10
<b>Total</b>	<b>193</b>	<b>211</b>	<b>18</b>
<b>Total transfer payments and grants</b>	<b>637</b>	<b>758</b>	<b>121</b>
<b>Subsidies</b>			
On locally produced goods and services	204	194	-10
On imported goods	27	38	11
On exports	95	173	78
<b>Total subsidies</b>	<b>326</b>	<b>405</b>	<b>79</b>
<b>Total transfer payments, grants, and subsidies</b>	<b>963</b>	<b>1,163</b>	<b>200</b>
<b>Participation in local authority budgets</b>			
Ordinary budget	135	158	23
Development budget	13	14	1
<b>Grand total</b>	<b>1,111</b>	<b>1,335</b>	<b>224</b>

Of this sum, IL 146 million went to educational institutions and IL 23 million to social welfare and other organizations. Transfers to health institutions remained unchanged at IL 42 million.

Interest payments<sup>1</sup> (excluding interest to the National Insurance Institute and the War Risk Insurance Fund) increased by 27 percent to IL 441 million, of which IL 225 million was on foreign debts.

Interest outlay by the National Institutions was up by a substantial 28.5

<sup>1</sup> In the national accounts interest payments are treated as transfers and not as consumption.

percent to IL 99 million. This brought up the weight of interest in the Institutions' total expenditure (excluding financial transactions) to about 28 percent.<sup>1</sup>

### *3. Purchases on capital account*

Government and National Institution purchases on capital account decreased by 23.5 percent. Almost all of the decline was in stocks in Government warehouses,<sup>2</sup> direct investments falling by only 2.8 percent. In 1966 Government stocks, particularly those of the Ministry of Commerce and Industry, were considerably enlarged, with the increase being financed for the most part by short-term credit from foreign suppliers. After the Six Day War purchases on short-term credit were discontinued and stocks were drawn down.

Government investment in postal and transport enterprises was curtailed by IL 40 million, or some 20 percent, while outlay by the Jewish National Fund and the Government on unemployment relief projects was stepped up by IL 22 million. The Government expended a further IL12 million on the National Water Carrier in 1967.

### *4. Transfers to local authorities*

Grants and subsidies to local authorities added up to IL 176 million in 1967, as compared with IL 154 million the year before.

General grant-in-aid, provided through the Ministry of the Interior, was unchanged in 1967, totalling IL 43 million. In 1964 and 1965 it was considerably enlarged in order to cover part of the additional local authority expenditure and thus prevent the raising of municipal rates. When the municipal "tax freeze", in force for nearly four years, was lifted in 1966/67, the grant was not increased further.

The Government grant to local authorities included transferred revenue, comprising 40 percent of the Government's revenue from vehicle license fees and 5 percent of its purchase tax receipts. Such transfers were 20 percent lower in 1967, owing to the decline in purchase tax collections.

Other Government and National Institution participations in local authority budgets—such as that of various Government departments in outlays on education, health, social welfare, and religion; that of the Fund for the Prevention of Road Accidents and the War Risk Insurance Fund (firefighting services); and participation in development and construction projects by way of grants from the Government development budget and the Israel Education Fund—added up

<sup>1</sup> The relative share of interest in the National Institutions' total expenditure is an indication of their debt burden. In 1967 part of the Government's outlay on social services was transferred to the Jewish Agency, and this temporarily increased the Institutions' expenditure. The weight of interest in their expenditure (excluding these temporary outlays) reached 36 percent in 1967, as against 31 percent the year before.

<sup>2</sup> Excluding the inventories of Government enterprises, which are recorded as investments of the latter and not of the Government.



to IL 105 million in 1967, as against IL 75 million in the previous year. The biggest increases were in allocations of the Ministry of Health for the maintenance of municipal hospitals and of the Ministry of Education for meals for school-children.

Net transfers of the Government and National Institutions to the local authorities—including net credit and loans granted, less the authorities' transfers to the Government (participation in the financing of various services)—totalled IL 179 million, as against IL 158 million in 1966.

#### (e) *Financial transactions*

Net borrowed receipts of the Government and the National Institutions amounted to IL 1,406 million in 1967, of which IL 1,368 million represented long- and medium-term loans, and IL 38 million short-term credit.

Total loan and credit receipts in 1967 were 30 percent higher than in 1966. Net foreign borrowing declined by IL 26 million, and its weight within total net loan receipts fell to about a third. Net proceeds from domestic loans and credit increased by IL 353 million; about 40 percent of the increment stemmed from the growth of Government and National Institution liabilities to the banking system.

##### 1. *Foreign loans*

Long-term foreign loan receipts totalled IL 1,091 million in 1967, while foreign debt repayment came to IL 319 million. After deducting the decline in short-term credit, net foreign borrowing amounted to IL 464 million, compared with IL 490 million in 1966. Gross income from the Independence and Development Loans<sup>1</sup> totalled IL 711 million, in contrast to IL 300 million in 1966. Net income from these loans was ten times larger than in the previous year, when bond redemption assumed very large dimensions. Net income from U.S. Government loans (including those by the Export-Import Bank), World Bank loans, and those through the Industrial Development Bank decreased appreciably, because of both a reduction in borrowing and larger repayments. As in 1966, the Federal Republic of Germany provided a IL 120 million loan. Net loan receipts of the National Institutions increased; the main sources of such funds are financial institutions, insurance companies in the United States and Europe, and the Ampal America-Israel Corporation.

Short-term credit contracted, chiefly because of the expansion of Government deposits abroad.

##### 2. *Domestic loans*

Long-term domestic loan receipts totalled IL 802 million in 1967 and repayments IL 206 million, so that net receipts amounted to IL 596 million. These

<sup>1</sup> Before deducting distribution costs.

figures do not include IL 136 million in sales of long-term Government bonds to the banking system.<sup>1</sup>

Together with the latter, gross sales of Government and National Institution loans and bonds aggregated IL 726 million. Of this figure, IL 171 million represents the Absorption Loan, IL 283 million the special Defense Loan, IL 193 million development loans and other Government bonds, and IL 79 million—bonds issued by the Jewish Agency, Keren Hayesod, and Hollis Ltd.<sup>2</sup> Approximately 40 percent of these issues were taken up by the banking system and by social insurance funds as part of their approved investments, while the remainder was purchased by households and other investors.

The Government's credit requirements for financing its special needs in 1967 were largely met by these loans, demand for which increased during the year reviewed. This demand growth reflected the switch in investors' preferences in favor of liquid financial assets—a development stimulated also by the relatively larger return on these loans in 1967 following the fall of interest rates on alternative investment outlets, such as bill brokerage and the Short-Term Loan.

Besides raising loans from the public, the Government obtained large sums from financial institutions—chiefly the proceeds of debentures issued by these institutions and which were deposited with the Accountant General. Together with other long-term loans (mainly from the State Lottery), net borrowed receipts from financial and other institutions reached IL 112 million.

The net debt to the banking system rose for the fifth straight year—by IL 342 million compared with IL 197 million in 1966. The increment consisted of the aforementioned increase of IL 136 million in purchases of Government securities by the banking system, an increase of IL 587 million in Bank of Israel advances to the Government for financing its budget, the purchase of IL 115 million worth of treasury bills by the Bank of Israel, and the deposit with the Accountant General of IL 47 million in proceeds from a security issue floated by a banking institution; these were partly offset by the growth of the Government's and National Institutions' foreign currency deposits with the Bank of Israel and other banks.

Nonbank short-term credit expanded by only IL 4 million, as contrasted with IL 48 million in 1966. This was due to the smaller receipts on account of the Short-Term Loan, despite the larger volume of sales by the Bank of Israel.<sup>3</sup>

<sup>1</sup> The reference is to net purchases, inclusive of the Defense Loan but excluding the purchase of IL 115 million worth of treasury bills by the Bank of Israel.

<sup>2</sup> A Jewish Agency subsidiary registered abroad. Its debentures are denominated in foreign currency and are purchased mainly from foreign currency deposits of Israeli residents.

<sup>3</sup> An agreement signed by the Government and the Bank of Israel in June 1966 stipulated that proceeds from the Short-Term Loan in excess of IL 240 million were not to be transferred to the Government but were to be used to repay long-term Government liabilities to the Bank of Israel. The ceiling of IL 240 million was reached in October 1966.

Table VII-15

**CHANGES IN GOVERNMENT AND NATIONAL INSTITUTION BORROWING,  
BY LENDING SECTOR AND MATURITIES, 1966-67**

(IL million)

	1966	1967			Change in net receipts from 1966 to 1967
	Net receipts	Loans received	Loans repaid	Net receipts	
<b>A. Foreign loans and credit</b>					
(1) Long- and medium-term loans					
Independence and Development Loans <sup>a</sup>	53	711	171	540	487
U.S. Government loans <sup>b</sup>	131	124	46	78	-53
Loans from West German Government	120	120	—	120	—
World Bank loans	25	14	6	8	-17
Through the Industrial Development Bank	-11	—	18	-18	-7
Misc. loans to the Government <sup>c</sup>	-5	—	6	-6	-1
Misc. loans to the National Institutions	21	122	72	50	29
Total	334	1,091	319	772	438
(2) Short-term credit (net)	156	-308	—	-308	-464
Total foreign loans and credit	490	783	319	464	-26

**B. Domestic loans and credit**

## (1) Long- and medium-term loans

Absorption Loan	171	171	10	161	-10
Defense Loan	—	183	—	183	183
Government security issues <sup>a</sup>	6	157	72	85	79
National Institution security issues	32	79	24	55	23
From financial institutions and social insurance funds	126	206	99	107	-19
Miscellaneous <sup>e</sup>	9	6	1	5	-4
<b>Total</b>	<b>344</b>	<b>802</b>	<b>206</b>	<b>596</b>	<b>252</b>

## (2) Short-term credit

Short-term loans <sup>d</sup>	71	—	—	—	-71
From the banking system (net)	197	342	—	342	145
Other net credit	-23	4	—	4	27
<b>Total</b>	<b>245</b>	<b>346</b>	<b>—</b>	<b>346</b>	<b>101</b>
<b>Total domestic loans and credit</b>	<b>589</b>	<b>1,148</b>	<b>206</b>	<b>942</b>	<b>353</b>

**C. Total loans and credit**

(1) Long- and medium-term	678	1,893	525	1,368	690
(2) Short-term (net)	401	38	—	38	-363
<b>Grand total</b>	<b>1,079</b>	<b>1,931</b>	<b>525</b>	<b>1,406</b>	<b>327</b>

NOTE: Long- and medium-term loans are for three years or more, including the option-type bonds, which may be cashed in before three years. Government securities purchased by the banking system are included in the Government's debt to the banking system.

<sup>a</sup> Before deducting distribution costs.

<sup>b</sup> Including loans from the Export-Import Bank.

<sup>c</sup> Repayments on account of the French and Canadian loans.

<sup>d</sup> Less securities purchased by the banking system.

<sup>e</sup> Mainly from the State Lottery.

### 3. Credit outflow

In 1967 the Government and the National Institutions lent IL 835 million to other sectors of the economy—about 40 percent more than in the previous year. It also lent IL 25 million to local authorities. The increase in the credit outflow can be attributed to the Government's policy of encouraging investment, and was reflected primarily in the following components: Housing loans (which accounted for approximately 40 percent of all loans granted) expanded by IL 51 million to reach IL 335 million. The biggest rises were in the financing of immigrant housing in agricultural settlements and slum-clearance projects. Less financing was provided in 1967 for housing in development areas. Loans for agriculture and irrigation were increased to IL 148 million (of which IL 66 million was granted by the Jewish Agency). A larger amount of financing

Table VII-16

**DEVELOPMENT BUDGET LOANS<sup>a</sup> GRANTED BY THE GOVERNMENT AND THE JEWISH AGENCY, BY ECONOMIC BRANCH AND BORROWING SECTOR, 1966-67**  
(IL million)

	1966	1967	Increase or decrease (-)
<b>Economic branch</b>			
Housing	284	335	51
Agriculture and irrigation <sup>b</sup>	132	148	16
Mining, quarrying, oil drilling	34	79	45
Industry and crafts	29	96	67
Transportation and communications	27	54	27
Electric power	18	13	-5
Services and misc.	70	110	40
<b>Total<sup>c</sup></b>	<b>594</b>	<b>835</b>	<b>241</b>
<b>Borrowing sector</b>			
Households	184	218	34
Public sector companies	254	365	111
Private business enterprises	131	153	22
Financial institutions	7	79	72
Nonprofit institutions	18	20	2
<b>Total<sup>c</sup></b>	<b>594</b>	<b>835</b>	<b>241</b>
<b>To local authorities</b>	<b>24</b>	<b>25</b>	<b>1</b>
<b>Total loans</b>	<b>618</b>	<b>860</b>	<b>242</b>

<sup>a</sup> Including participation in company share capital, but excluding Government investments. Loans granted through banks and other financial institutions are classified by the sector of final destination and not as loans to the financial sector.

<sup>b</sup> Excluding loans for housing in agricultural settlements.

<sup>c</sup> Excluding loans to local authorities.

was provided to industry, mainly by way of increased participation in industrial finance institutions, as well as for transportation and communications and to the mining and quarrying sector (mainly the Dead Sea Works).

Loan collections totalled IL 105 million in 1967, of which IL 94 million was on account of Government development budget loans. The Government's credit balance arising out of development budget operations reached IL 3,640 million at the end of March 1967.<sup>1</sup> Of this amount, about IL 1,000 million represents loans and participation in share capital (including amounts originally given as loans but later converted into share capital), while as regards a further IL 90 million, it has not yet been decided whether it is to be treated as a loan or as equity investment. Outstanding loans payable thus totalled IL 2,550 million at the end of March 1967. Loan collections<sup>2</sup> in 1967 were equal to only 2.8 percent of total Government loans outstanding at the end of March 1967; this compares with 3.1 percent in 1966 and 4.5 percent in 1965. A not insignificant part of this balance consists of loans on which only interest is collected or whose redemption date has not been fixed or has been deferred. The decline in collections in 1966 and 1967 was due both to the smaller proportion of loans on which principal is being collected and to the deferred redemption of loans granted to some public sector companies.

(f) *Functional composition of expenditure*

A breakdown of Government and National Institution expenditures by function in 1966 and 1967 is presented in Table VII-17.<sup>3</sup>

The sharp rise in security spending, which accounted for some 29.4 percent of total outlays in 1967 as compared with 21.8 percent in 1966, depressed the weight of most other expenditure items. The most noticeable decrease was in social services—from 30.2 percent of total expenditure in 1966 to 26.4 percent. Another factor reducing the share of these services was the contraction of the wage bill following the payment in 1966 of substantial retroactive wage adjustments. Within this category, the biggest decrease was in the proportion spent on education, culture, and religion, though in absolute terms there was no change from 1966. Expenditure on secondary education and allocations to institutions of higher education were increased, but the amount spent on elementary schooling was pared, owing to the reduction in the number of teachers and pupils.

The share of social services and the National Insurance Institute in total

<sup>1</sup> Excluding loans to the National Institutions, local authorities, and the Ports Authority, and the amount charged to the National Water Carrier, concerning which it has not yet been decided if it is to be treated as a loan to Mekorot. In this chapter, the expenditures on the National Water Carrier and on port development have been treated as direct Government investment.

<sup>2</sup> Collections on account of development budget loans, excluding income from the sale of shares.

<sup>3</sup> Expenditure in this table includes transfers and loans to local authorities.

**Table VII-17**  
**GOVERNMENT AND NATIONAL INSTITUTION EXPENDITURE,<sup>a</sup> BY FUNCTION, 1966-67**  
 (IL million)

	1967					1966	Percentage distribution of total outlay	
	Current outlay	Interest and debt redemption	Purchases on capital account	Credit granted	Total outlay	Total outlay	1967	1966
<b>General services</b>								
General administration	186	—	13	—	199	214	3.0	4.1
Security and special budgets	1,908	—	—	1	1,909	1,136	29.4	21.8
Police and justice	141	—	8	—	149	130	2.3	2.5
Community services n.e.s. <sup>b</sup>	72	—	5	14	91	89	1.4	1.7
<b>Total</b>	<b>2,307</b>	<b>—</b>	<b>26</b>	<b>15</b>	<b>2,348</b>	<b>1,569</b>	<b>36.1</b>	<b>30.1</b>
<b>Social services</b>								
Education, culture, religion	557	—	4	55	616	616	9.5	11.8
National Insurance and social welfare	506	—	30	4	540	430	8.3	8.3
Health	203	—	19	1	223	219	3.4	4.2
Housing	8	—	-7	335	336	307	5.2	5.9
<b>Total</b>	<b>1,274</b>	<b>—</b>	<b>46</b>	<b>395</b>	<b>1,715</b>	<b>1,572</b>	<b>26.4</b>	<b>30.2</b>
<b>Economic services</b>								
Agriculture and water development	251	—	70	148	469	400	7.2	7.7
Industry, mining and quarrying	137	—	1	188	326	149	5.0	2.9
Transportation and communications	59	—	216	59	334	357	5.1	6.9
Other economic services	95	—	7	45	147	112	2.3	2.1
<b>Total</b>	<b>542</b>	<b>—</b>	<b>294</b>	<b>440</b>	<b>1,276</b>	<b>1,018</b>	<b>19.6</b>	<b>19.6</b>
<b>Unallocable services</b>								
Debt redemption <sup>c</sup>	—	525	—	—	525	451	8.1	8.7
Interest payments	—	441	—	—	441	347	6.8	6.7
Miscellaneous <sup>d</sup>	217	—	-29	10	198	247	3.0	4.7
<b>Total</b>	<b>217</b>	<b>966</b>	<b>-29</b>	<b>10</b>	<b>1,164</b>	<b>1,045</b>	<b>17.9</b>	<b>20.1</b>
<b>Grand total</b>	<b>4,340</b>	<b>966</b>	<b>337</b>	<b>860</b>	<b>6,503</b>	<b>5,204</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Excluding current expenditure of the postal and transport enterprises, but including transfers to local authorities and all expenditures of the National Insurance Institute.

<sup>b</sup> Not elsewhere specified; mainly the broadcasting services, general research, direct immigration services, and expenditures of Jewish Agency offices abroad.

<sup>c</sup> Redemption of long-term loans.

<sup>d</sup> Mainly grants to local authorities, subsidies on imported goods, and stocks in Government warehouses.

outlays held steady in the year reviewed, but in absolute terms there was an appreciable rise in these two items. The most conspicuous increases were in National Insurance benefit payments and in various social benefits paid by the Government through the National Insurance Institute.

The weight of general services (excluding security and special budgets) within total expenditure declined. Outlays on general administration even decreased in absolute terms.

The percentage spent on economic services remained unchanged. There was a relative increase in expenditure on industry and mining, owing to the larger amount of credit granted to industrial firms and to institutions financing industry. On the other hand, a smaller sum was invested in 1967 in transportation and communications, as the Government reduced its outlay on postal enterprises, the railway, and ports.

### 3. THE LOCAL AUTHORITIES<sup>1</sup>

#### (a) *Operations of the local authorities*

The slowdown in the growth of local authority operations carried over through 1967. The volume of payments, as measured by the authorities' "balance of payments", amounted to IL 848 million in the year reviewed—an increase of 2.3 percent, compared with 10.2 percent in 1966 and an average of 23 percent per annum during 1959–65. The expansion of current purchases decelerated, while investments fell off sharply, after having declined in 1966 too. The percentage increase in tax collections and miscellaneous revenue likewise declined, but less sharply than expenditure. Accordingly, there was a decrease in the authorities' dissaving and demand surplus.

During the year reviewed municipal tax rates continued upward, in accordance with an agreement with the Government. The revision of rates began at the start of the fiscal year 1966/67, after the Government had prevented any increase for nearly four years (since 1962/63) under its price stabilization policy. In return, the Government had stepped up its general grant-in-aid to the local authorities and its participation in the financing of various activities. After the defreezing of municipal rates, the growth of the general grant slowed down. In 1966 there was also a smaller percentage rise in other Government participations in local expenditure; in 1967, however, these again increased following the renewal in February 1967 of the agreement whereby the Govern-

<sup>1</sup> Municipalities (including East Jerusalem), local councils, regional councils, religious councils, and regional authorities. Also included are the municipal expenditures of kibbutzim and moshavim.

<sup>2</sup> With long-term loans recorded on a gross basis, and short-term credit and loans from the rest of the public sector and the banking system recorded on a net basis. (If all loans were recorded net, payments would rise to almost the same extent and stand at IL 789 million.)



Table VII-18

DEMAND SURPLUS OF THE LOCAL AUTHORITIES AND FINANCING THEREOF,  
1965-67

(IL million, at current prices)

	1965	1966	1967	Increase or decrease (-) from 1966 to 1967
<b>A. Revenue on current account</b>				
Taxes	268	301	336	35
Other revenue <sup>a</sup>	64	82	92	10
Transfers from the Government and National Institutions	113	127	151	24
<b>Total</b>	<b>445</b>	<b>510</b>	<b>579</b>	<b>69</b>
<b>B. Expenditure on current account</b>				
Purchases (net of sales)	358	436	455	19
Transfers and subsidies	80	94	106	12
Interest	23	32	44	12
<b>Total</b>	<b>461</b>	<b>562</b>	<b>605</b>	<b>43</b>
<b>C. Saving (A-B)</b>	<b>-16</b>	<b>-52</b>	<b>-26</b>	<b>26</b>
<b>D. Expenditure on capital account</b>				
Purchases (net of sales)	221	195	162	-33
Less: Transfers (net) <sup>b</sup>	63	64	59	-5
Transfers from the Government and National Institutions <sup>c</sup>	2	12	14	2
<b>Total</b>	<b>156</b>	<b>119</b>	<b>89</b>	<b>-30</b>
<b>E. Demand surplus (D-C)</b>	<b>172</b>	<b>171</b>	<b>115</b>	<b>-56</b>
<b>Sources financing the demand surplus</b>				
<b>F. Credit (net)</b>				
Government and National Institutions	29	19	14	-5
Banking system	52	50	55	5
Other domestic sectors	92	100	47	-53
Foreign	-1	2	-1	-3
<b>Total</b>	<b>172</b>	<b>171</b>	<b>115</b>	<b>-56</b>

<sup>a</sup> Domestic transfers and income from property.<sup>b</sup> Mainly participation of property owners in development expenditure.<sup>c</sup> Mainly grants from the Government's development budget.

ment undertook to finance the deficits of municipal hospitals and the local authorities' expenditure on graded secondary school fees.

The more sluggish expansion of the authorities' purchases on current account—4.3 percent as contrasted with 21.5 percent in 1966—can be mainly attributed to the relatively small increase in payrolls following a steep rise in 1966. The decline in capital expenditure continued, as already mentioned, the previous year's trend, and was due chiefly to the Government's policy of paring the authorities' development budgets.

The authorities' demand surplus shrank in 1967 by IL 56 million, after having expanded for several years running, and totalled IL 115 million. The decline resulted primarily from the smaller volume of investment.

In calculating the demand surplus, transfers from the rest of the public sector have been included; these totalled IL 165 million, and for the most part were used to finance current operations. The weight of such transfers, together with the net amount lent the authorities by the Government and the National Institutions, in financing the demand surplus (calculated minus transfers from the rest of the public sector) reached 64 percent in 1967, compared with 50 percent in 1966 and 1965.

The remainder of the demand surplus was covered by net borrowed receipts from other domestic sectors. The debt to the banking system increased by IL 55 million,<sup>1</sup> while liabilities to financial institutions and other domestic sources (social insurance funds, the State Lottery, and contractors and suppliers) expanded by IL 47 million, after having increased by IL 100 million in 1966. The deceleration was due chiefly to the decline in the authorities' debts to contractors and suppliers.

The "balance of payments" of the local authorities for 1966 and 1967 is presented in Table VII-19.

## (b) *Receipts*

### 1. *Taxes and other compulsory levies*

Tax revenue increased by 11.6 percent in 1967 to reach IL 336 million. In the years 1962-64 the authorities' tax receipts had expanded by an average of approximately 24 percent per annum, despite the virtually complete freezing of rates. This can be ascribed to the widening of the tax base: the higher assessments on buildings and vacant plots whose value had risen as a result of the real estate boom and an increase in the number of rooms—the main basis for the collection of municipal taxes—particularly in new suburbs and in larger dwellings, which pay above-average rates.

<sup>1</sup> Excluding the consolidation of debts transferred by financial institutions and the State Lottery to the banking system for collection.

Table VII-19

## "BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, BY TYPE OF RECEIPT AND PAYMENT, 1966-67

(IL million)

Receipts	1966	1967	Increase or decrease (-) from 1966 to 1967	Payments	1966	1967	Increase or decrease (-) from 1966 to 1967
<b>Transfers and transactions in goods and services</b>							
Taxes	301	336	35	Purchases			
Miscellaneous income	163	169	6	On current account	438	457	19
				On capital account	200	167	-33
				Interest payments	32	44	12
				Transfers and subsidies <sup>a</sup>	104	117	13
<b>Total</b>	<b>464</b>	<b>505</b>	<b>41</b>	<b>Total</b>	<b>774</b>	<b>785</b>	<b>11</b>
<b>Transactions in financial claims</b>							
Long-term loans				Participation in share capital	4	4	—
Foreign	3	—	-3	Redemption of long-term loans			
Domestic	129	124	-5	Foreign	1	1	—
Short-term credit (net)				Domestic	50	58	8
From the banking system	50	55	5				
From other domestic sources	25	-15	-40				
<b>Total</b>	<b>207</b>	<b>164</b>	<b>-43</b>	<b>Total</b>	<b>55</b>	<b>63</b>	<b>8</b>
<b>Transactions with the rest of the public sector</b>							
From the Government and National Institutions							
Participations (net)	139	165	26				
Loans (net)	19	14	-5				
<b>Total</b>	<b>158</b>	<b>179</b>	<b>21</b>				
<b>Total receipts</b>	<b>829</b>	<b>848</b>	<b>19</b>	<b>Total payments</b>	<b>829</b>	<b>848</b>	<b>19</b>

<sup>a</sup> Including current deficits of waterworks and other enterprises.

In 1965 the slump in the real estate market and the decline in building starts resulted in a smaller revenue from property taxes and a much slower rise in total tax receipts—7.2 percent only. In 1966 most local authorities raised tax rates substantially, including the business tax and charges for various services, and this explains most of the 12.3 percent growth in tax revenue in 1966 despite the continued listlessness of the real estate market and the slower expansion of the tax base, due largely to the smaller number of dwellings completed. The real estate slump carried over into 1967, and the area of starts continued downward. Moreover, the curtailment of building starts in previous years was reflected in 1967 by a drop in the number of units completed (the main basis for collecting local rates). This tended to slow the growth of the authorities' tax revenue, but the raising of rates in fiscal 1967/68 had an opposite effect and was responsible for much of the incremental tax revenue during the year reviewed.

Receipts from compulsory levies (i.e. other than taxes) totalled IL 169 million. The growth rate fell in 1967 to 3.7 percent only, as contrasted with 14.5 percent in 1965 and 1966. Approximately 40 percent of total revenue from this source came from assessments on property owners for financing roads, sidewalks, sewage disposal, and the installation of water meters. Such receipts dropped to IL 70 million in 1967. Another IL 90 million approximately was collected as participations in the cost of various services, including service charges in primary schools, tuition in other schools run by the authorities, hospitalization fees in municipal hospitals, and parents' participation in the cost of meals provided in schools and summer camps. These receipts increased by 13 percent in 1967, about the same as in 1966. In both years the growth was due mainly to the higher rates charged.

## *2. Government grants*

Government allocations to the local authorities were increased substantially after the devaluation of 1962 as compensation for mounting costs and to permit the expansion of municipal services without raising tax rates. With the revision of rates at the beginning of fiscal 1966/67, the growth of Government allocations slowed down.

After it became clear that the tax estimates for 1966/67 would not be realized because of the economic recession and the curtailment of investments, the Government agreed to help the local authorities defer the redemption of debts by permitting them to receive a consolidation loan in 1966/67, and it stepped up its financial assistance for 1967/68. In return, the local authorities undertook, under an agreement concluded by the Government and the Union of Local Authorities, to reduce their staff and administrative expenses and to cut development budget outlay during a four-year period (starting with 1966/67) to about half the level of the four preceding years.

The net participation of the Government and the National Institutions in

local authority budgets<sup>1</sup> was augmented in 1967 by IL 21 million to IL 179 million. The bulk of this sum consisted of general grant-in-aid allocated according to various criteria.<sup>2</sup> In addition, 5 percent of the Government's purchase tax receipts and 40 percent of its revenue from vehicle licenses were transferred to the authorities. The general grant and the transferred revenue together came to IL 72 million in 1967; this was IL 6 million less than in 1966 and can be attributed to the decline in purchase tax receipts.

In addition, Government departments participate in various outlays of the authorities, such as the Ministry of Labor in unemployment relief projects, the Ministry of Transport in road safety projects (through the Fund for the Prevention of Road accidents), the War Risk Insurance Fund in fire protection services, and the Ministries of Education, Health, Religious Affairs, and Social Welfare in expenditure on social services. Moreover, the local authorities receive grants for construction projects from the development budget and the Education Fund of the Jewish Agency. The total amount of these participations rose 36 percent in 1967 to stand at IL 98 million. Most of the increase was in Ministry of Health transfers for covering the deficits of municipal hospitals and in Ministry of Education participation in the authorities' outlay on graded secondary school fees and meals for schoolchildren.

Net loans from the Government and the National Institutions decreased from IL 19 million in 1966 to IL 14 million. Many of these loans were granted from the Government's development budget for financing roads, sidewalks, sewage disposal, street lighting, waterworks, public buildings, and schools. In addition to the direct Government loans, the authorities received IL 45 million from the proceeds of bond issues sold by financial institutions for consolidating their debts. Moreover, the Government guaranteed local authority bond issues, taken up mainly by social insurance funds.

### *3. Change in indebtedness*

Net proceeds from borrowing (excluding loans from the rest of the public sector) totalled IL 102 million in 1967, as against IL 150 million in 1966. Most of the loans were received from financial institutions, social insurance funds, and banks, while the remainder came from the State Lottery, contractors, suppliers and households (parents of schoolchildren).

Most of the decrease in net borrowed receipts was caused by the contraction of short-term credit (from suppliers, contractors, and other creditors). Net loans

<sup>1</sup> Allocations and net loans granted, less interest paid by the local authorities and their participation in various Government outlays.

<sup>2</sup> The number of inhabitants, the age structure of the population, the authorities' per capita receipts from various taxes, and per capita expenditure on social welfare. The authorities were classified into 10 groups according to these criteria, the size of the per capita grant varying between the groups.

from financial institutions and social insurance funds were, at IL 40 million, somewhat lower than in 1966. The net amount received from the State Lottery (exclusive of grants) totalled approximately IL 25 million. The debt to the banking system rose to IL 55 million.<sup>1</sup>

### (c) *Payments*

Local authority expenditure, excluding debt repayment and operating expenses of municipal enterprises, increased by IL 11 million in 1967 to reach IL 785 million. Approximately three-quarters of this amount represents current expenditure, which went up 7.6 percent to IL 618 million. Investments dropped by 16.5 percent to IL 167 million.

Purchases on current account were 4.3 percent larger in 1967 and totalled IL 457 million; this contrasts with a rise of 21.5 percent the year before. The slower growth is primarily explained by the relatively small rise in payroll outlay, which increased considerably in 1966 when the reclassification of administrative personnel was completed in most authorities and large retroactive wage and salary adjustments were paid. Such adjustments were also paid in 1967, but in a much smaller amount. The authorities' wage bill came to IL 321 million in 1967, compared with IL 313 million in the preceding year.

Transfer payments and grants totalled IL 117 million, including IL 26 million transferred to educational and health nonprofit institutions. The balance went to households, and consisted of social welfare allotments to needy families and participations in graded secondary-school fees, expenditure on food in schools and municipal social welfare and educational institutions, and pension payments to retired employees of the authorities. In 1967 the municipal waterworks and other municipal enterprises did not incur any operating losses, so that no grants were given for covering such deficits.<sup>2</sup>

After rising steadily until 1965, local authority investments declined in 1966 and continued downward in the year reviewed, the figure standing at IL 167 million, compared with IL 200 million in 1966 and IL 226 million in 1965. The decline was mainly due to steps deliberately taken by the Government to reduce the authorities' development spending.

Investments in educational institutions, which accounted for over half of total capital expenditure in 1967, were somewhat lower than in the previous year. The amount spent on roads, sidewalks, and traffic facilities contracted sharply,

<sup>1</sup> Excluding the change in the local authorities' debt to the banking system arising from the transfer of IL 60 million in old debts of various authorities from financial institutions and the State Lottery to a number of banking institutions for collection. The data cited here therefore differ from those in Tables XV-12 and XV-13 below.

<sup>2</sup> The amount expended by the local authorities for covering the current deficits of municipal enterprises is listed under grants. (If there is a current surplus, it is recorded as tax revenue.)

Table VII-20

LOCAL AUTHORITY EXPENDITURE,<sup>a</sup> BY FUNCTION, 1965-67

(percentages)

	1965	1966	1967
<b>General services</b>			
General administration	10.1	10.2	10.5
Municipal services	20.2	18.9	17.2
Total	30.3	29.1	27.7
<b>Social services</b>			
Education, culture, religion	35.5	36.4	36.4
Health	4.8	4.8	4.9
Social welfare	8.8	7.9	10.9
Housing	1.0	0.5	0.6
Total	50.1	49.6	52.8
<b>Economic services</b>			
Transportation	8.9	9.5	5.9
Agriculture, industry, electricity	1.9	2.0	1.6
Total	10.8	11.5	7.5
<b>Unallocable services</b>			
Interest payments	3.1	3.8	5.1
Debt redemption	5.7	6.0	6.9
Total	8.8	9.8	12.0
Grand total	100.0	100.0	100.0
Grand total in IL million	750	837	853

<sup>a</sup> Excluding the current expenditure of waterworks and transport enterprises. In the absence of detailed data on the implementation of the budget for the calendar year, this table gives the functional composition of expenditure in the fiscal years 1964/65, 1965/66, and 1966/67.

SOURCE: Based on summary data prepared by the Central Bureau of Statistics.

constituting only some 15 percent of the authorities' total capital expenditure, as against 25 percent in 1966. There were no striking changes in other investment items.

(d) *Functional composition of expenditure*

The local authorities' main fields of activity are education, social welfare, and municipal services, such as sanitation and sewage disposal, street lighting, fire protection, public gardens, town planning, and supervision of construction. In the economic sphere, their operations are confined to the transportation sector, roads, sidewalks, and traffic regulation.

Social services accounted for over half of total expenditure in 1967. The proportion spent on social welfare, health, and housing rose in the year reviewed.

The weight of expenditure on municipal services has been declining since 1960, and in 1967 it accounted for only 17.2 percent of total outlays.

The share of economic services fell sharply as a result of the smaller amount spent on traffic regulation, roads, land reclamation, and drainage.

The rise in interest payments and debt redemption brought up their weight within the authorities' total expenditure to 12 percent, as compared with 8.8 percent in 1965 and 9.8 percent in 1966.