

CHAPTER XIX

SAVING

1. MAIN DEVELOPMENTS

NATIONAL SAVING declined sharply in 1967. Gross saving, at IL 594 million, was down IL 627 million, or more than 50 percent, from the previous year's level; net saving was negative, standing at -IL 646 million, compared with a positive saving of IL 77 million in 1966.

This decline was the outcome of two conflicting developments: a sharp drop in public sector saving and a rise in private saving. Gross dissaving of the public sector soared from -IL 191 million in 1966 to -IL 1,254 million (i.e. by IL 1,063 million), while gross private saving went up by IL 412 million to IL 1,899 million. The dissaving of nonprofit institutions was reduced from -IL 75 million to -IL 51 million.

The much larger public sector dissaving stemmed from the steep rise in current Government expenditure. In 1967 the Government followed a counter-cyclical policy in order to check the recession and mounting unemployment. But most of the increase in Government spending was due to the heavy defense burden in the wake of the tense security situation and the Six Day War. In addition, tax revenues declined considerably. The incremental outlays were financed by domestic credit and by borrowed and transfer receipts from abroad, with a consequent big rise in the negative saving of the Government and the public sector.

Table XIX-1
NATIONAL SAVING, 1964-67
(IL million, at current prices)

Year	Gross national product	Depre- ciation	Net national product (1)-(2)	Gross saving out of GNP		Net saving out of NNP	
				IL m.	%	IL m.	%
	(1)	(2)	(3)	(4)		(5)	
1964	9,142	878	8,264	1,250	13.7	372	4.5
1965	10,825	1,022	9,803	1,482	13.7	460	4.7
1966	11,773	1,144	10,629	1,221	10.4	77	0.7
1967	12,141	1,240	10,901	594	4.9	-646	-5.9

Gross saving of the private sector was up IL 412 million to IL 1,899 million, while net saving rose by IL 325 million to reach IL 765 million. Both grew faster than private sector income. The gross saving rate went up from 16.9 to 20.1 percent of disposable gross private income, and the net saving rate rose from 5.7 to 9.2 percent of net private income.

The much higher private saving rate in the year reviewed does not signify any change in saving habits, and should be viewed in the light of economic developments in the last few years.

Before 1966, when the economy was growing rapidly, private consumption and income rose at roughly the same rate, and gross private saving was fairly stable, ranging between 18 and 20 percent of gross private income.

Table XIX-2

GROSS SAVING OUT OF GROSS NATIONAL PRODUCT, BY SECTOR, 1964-67

(at current prices)

Year	IL million				Percentages			
	Private sector	Non-profit institutions	Public sector	All domestic sectors	Private sector	Non-profit institutions	Public sector	All domestic sectors
1964	1,209	-47	88	1,250	96.7	-3.7	7.0	100
1965	1,612	-93	-37	1,482	108.8	-6.3	-2.5	100
1966	1,487	-75	-191	1,221	121.8	-6.2	-15.6	100
1967	1,899	-51	-1,254 ^a	594	319.7	-8.6	-211.1	100

^a This figure differs from that cited in Chapter VII, since it includes public consumption in the administered areas.

In 1966 real per capita income, which had advanced steadily in the preceding years, declined, and the growth of private consumption tapered off at the 1965 level. Households apparently expected a stable rather than a steadily declining income level, and did not immediately reduce consumption. In any case, some types of consumption cannot be cut back in the short run. As a result, the rate of saving dropped in 1966. In 1967, however, there was an economic revival, which was especially noticeable in the second half of the year. Monetary expansion and the growth of the public sector demand surplus led to a rise in private income, and real per capita income went up 2.5 percent. Per capita consumption, however, remained at the 1966 level. As in 1966, consumption did not immediately adjust to the change in income, but taking the two years together, there was no conspicuous change in the rate of saving compared with previous years: in 1966 real income dropped and consumption was stable, while in 1967 real income rose and again the level of per capita consumption did not change much.

As in 1966, there was a stronger demand for liquid assets (cash, short-term deposits, and bonds), while demand for less liquid assets (real estate) weakened. The appreciable increase in the public's liquidity preference in the last two years is a reflection of the private sector's adjustment to the changed economic climate—the uncertain outlook and price stability, which made it more profitable to invest in liquid rather than real assets.

Some of the growth in private saving can apparently be attributed to increased business saving. Several indicators suggest that profitability rose in the second half of the year, and presumably not all of the additional profits were distributed.

2. PRIVATE SAVING

The private sector, as defined here, comprises households, financial institutions, private business, and public sector companies. Each of these groups has a different saving behavioral pattern, and should be discussed separately. However, separate data are not available for all of them. The discussion will therefore focus mainly on households, which account for the predominant share of private saving and for which relatively more information is available.

Table XIX-3
GROSS AND NET PRIVATE SAVING,^a 1964-67

(IL million, at current prices)

	Gross disposable private income ^b	Depreciation	Net disposable private income	Private consumption ^c	Gross saving out of gross income		Net saving out of net income	
					IL m.	%	IL m.	%
	(1)	(2)	(3)	(4)	(5)		(6)	
1964	6,866	814	6,052	5,657	1,209	17.6	395	6.5
1965	8,210	941	7,269	6,598	1,612	19.6	671	9.2
1966	8,802	1,047	7,755	7,315	1,487	16.9	440	5.7
1967	9,422	1,134	8,288	7,523	1,899	20.1	765	9.2

^a Excluding nonprofit institutions.

^b Equals GNP less net current income of the public sector and nonprofit institutions.

^c Private consumption in this table equals private consumption in Chapter II, "Resources, Uses, and Incomes", less consumption of the nonprofit institutions, as given in Chapter VIII, "Nonprofit Institutions".

Net private saving rose by IL 325 million in the year reviewed, after declining by IL 231 million in 1966, and totalled IL 765 million. The ratio of gross saving to gross private disposable income went up from 16.9 to 20.1 percent, and the ratio of net saving to net disposable income advanced from 5.7 to 9.2 percent. In 1966 there was a change in the opposite direction: the gross saving

rate fell from 19.6 to 16.9 percent, and the net saving rate from 9.2 to 5.7 percent.

In order to understand the changes of the last two years, it is necessary to survey briefly some earlier developments, since consumption and saving are determined not only by the current economic situation but also by past experience and future expectations. In the boom years, when real per capita income was growing steadily, real per capita consumption rose proportionally and the gross saving rate remained fairly constant at about 18–20 percent of gross disposable income. In 1966, the recession was reflected by a drop in real per capita consumption, which remained at roughly the 1965 level. Consumption does not immediately adjust to a change in income, particularly a decline, for two reasons: First, households do not react to a short-run change as they would to a long-range one, but treat it as a temporary development and therefore do not tend to curtail consumption. Second, some components of consumption display a downward rigidity in the short run. In 1967 the economy began to pick up and real per capita income rose by 2.5 percent, mostly in the second half of the year, when unemployment fell appreciably. However, real per capita consumption remained about the same as in 1966. The fact that consumption did not immediately adjust to a change in income was reflected by a reduced saving rate in 1966 and by a higher rate in 1967. Taking the two years together, the figures show that real per capita income and consumption held steady, and the average rate of saving was similar to that of previous years.

Another noteworthy development was the marked change in the composition of saving. In 1966 households began to show a growing preference for liquid assets over real estate, and this trend was maintained in 1967, when purchases of real estate slowed down further and those of liquid assets accelerated appreciably (see Diagram XIX-1). Most of the rise was in cash holdings, time deposits, approved saving schemes, and Government bonds, while the balance of bank-negotiated bill credits shrank (for further details see section 3). In 1966 the expansion of financial asset holdings of the public was accompanied by a decrease in private saving, whereas in 1967 both grew.

Business saving, which is included in private saving,¹ cannot be evaluated owing to lack of data. Various indicators point to a rise in profitability in the second half of 1967; since changes in profitability do not immediately affect the pattern of profit distribution, it must be assumed that undistributed profits (i.e. business saving) grew during the second half of the year.

¹ Business saving is defined as the total undistributed profits of firms and self-employed. In Israel it is particularly important to segregate households from business, since a considerable share of the equity capital of firms is held by the public sector, the Histadrut sector, and foreign investors. A large proportion of undistributed profits thus does not constitute an addition to the net worth of households. For this reason, the discussion of private sector income and saving is of somewhat limited significance.

3. COMPOSITION OF HOUSEHOLD SAVING

The better saving performance of households in 1967 was accompanied by marked changes in the composition of their asset portfolio. The information on changes in the sector's assets and liabilities is incomplete, but what there is indicates that the principal shift was a steep rise in liquid asset balances. The switch from real estate to liquid assets began in 1966 and carried over through 1967; it is especially striking when measured in real terms.

The uncertainty engendered by the fluctuations in incomes and employment induced households to build up a reserve of liquid assets at the expense of real estate. Another factor operating in the same direction was the change in relative yields: in the earlier years of mounting prices, the return on real assets, such as property, was particularly high; in the past two years, however, the price rise was checked and the real relative yield on various financial assets increased. The mounting demand for financial assets exerted downward pressure on

Table XIX-4

CHANGES IN SELECTED COMPONENTS OF HOUSEHOLD SAVING, 1963-67

(IL million, at current prices and official exchange rates)

	Increase or decrease (-) as against previous year				
	1963	1964	1965	1966	1967
Changes in financial assets					
Cash	77	43	45	63	143
Demand deposits	124	23	40	18	159
Time deposits	-13	-11	-12	118	371
Bank-negotiated bills ^a	171	179	161	247	-279
Dollar-linked deposits (Pazak)	99	128	135	120	287 ^b (148)
Foreign-currency time deposits (Tamam)	-14	2	36	37	111 ^b (56)
Securities					
Incl. Absorption and Defense Loans and foreign currency securities	c	c	c	274	621
Excl. Absorption and Defense Loans but incl. foreign currency securities	c	c	c	103	178
Approved saving schemes in banks	20	31	56	42	161
Claims on social insurance funds	213	249	270	305	323
Claims on insurance companies ^d	18	22	30	36	40
Contractors' deposits in mortgage banks	c	5	30	15	—
Changes in liabilities					
Debt to social insurance funds	19	19	29	23	-2
Debt to mortgage banks	105	133	109	119	58
Debt to other financial institutions	5	14	3	9	3

^a Data include some credit given other than by households, but the share of households is predominant.

^b Figures in parentheses indicate the change excluding linkage differentials.

^c Data not identified.

^d Increase in life insurance funds of companies operating in Israel.

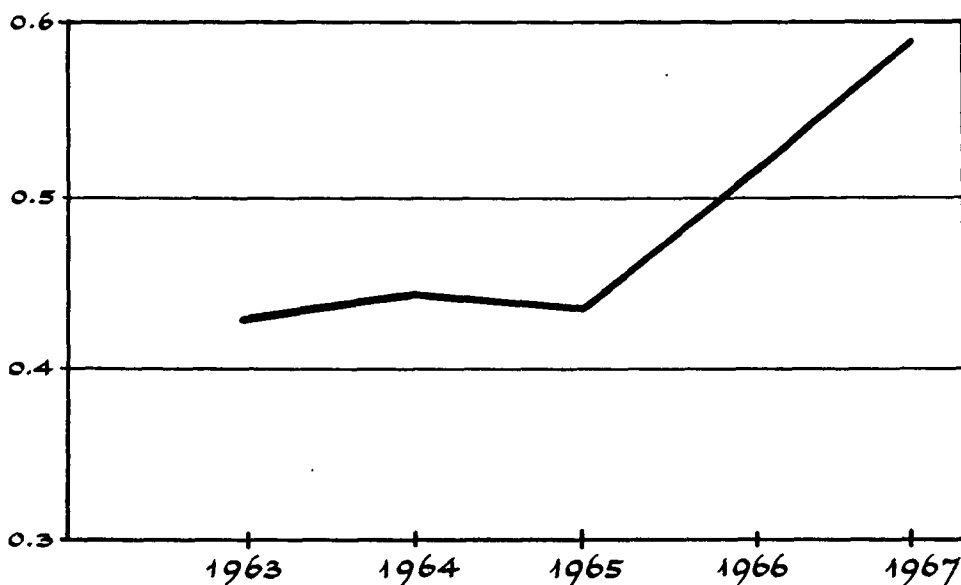
nominal interest rates, a development reinforced by the monetary policy which operated in the same direction, so that rates of interest on a considerable proportion of these assets dropped.

Demand was particularly heavy in the case of approved saving schemes (run mainly by banks), and the accumulation amounted to IL 161 million, or IL 120 million more than in 1966. Most of the increase was in the option-type schemes, with other schemes growing moderately or decreasing. New saving in the option-type schemes came to IL 200 million, compared with IL 35 million in 1966. These schemes permit the saver to choose, upon termination of the period of the deposit, between a high interest rate of 9 percent per annum without linkage of the principal, and a lower rate (up to 4 percent per annum) with the principal linked to the consumer price index. The growth of these schemes is explained not only by the rising demand for financial assets in general, but also by the relative increase in their yield, which induced a shift from other financial assets. The deposit funds are invested mainly in optional bonds of the Government and financial institutions, and as the interest on this type of loan was not reduced, the banks did not alter the saving scheme terms.

Accumulation in children's and secondary education schemes was slower this year and came to IL 12 million. Balances in the linked and nonlinked

Diagram XIX-1

RATIO BETWEEN LIQUID ASSET HOLDINGS^a OF HOUSEHOLDS
AND DISPOSABLE PRIVATE INCOME, 1963-67



^a Cash, demand deposits, time deposits, bills purchased through banks (bill brokerage), Short-Term Loan, deposits linked to the exchange rate (Pazak), Tamam foreign currency deposits, approved saving scheme deposits.

Table XIX-5
APPROVED SAVING SCHEMES, 1965-67
(IL million)

	Accumulation			Balance at end of year		
	1965	1966	1967	1965	1966	1967
General saving schemes						
Old schemes	-8.9	-4.6	-12.6	28.3	23.7	11.1
Linked schemes	8.4	7.7	-24.8	31.1	38.8	14.0
Nonlinked schemes	-2.8	-1.0	-10.0	18.5	17.5	7.5
Option-type schemes	36.1	34.5	200.9	64.0	98.5	299.4
Total	32.8	36.6	153.5	141.9	178.5	332.0
Special saving schemes						
Children and youth	6.2	5.8	4.0	39.0	44.8	48.8
Saving for secondary education	8.1	8.2	8.2	33.0	41.2	49.4
Saving for commercial vehicles	0.6	0.6	-0.2	2.7	3.3	3.1
Saving-for-Housing	8.1	-8.8	-4.8	110.3	91.5	86.7
Total	23.0	5.8	7.2	175.0	180.8	188.0
Grand total	55.8	42.4	160.7	316.9	359.3	520.0

schemes diminished as a result of the shift to the optional schemes. There was also a decline in the Saving-for-Housing and commercial vehicle schemes owing to the reduced demand for these commodities.

Interest rates fell in the bill brokerage market as well, by 3 to 4 percent; but in contrast to the stronger demand for other financial assets, there was a decline in bill brokerage transactions. The losses suffered in this market as a result of the involvement of the Feuchtwanger Bank deterred investors, and a large percentage of the funds released flowed into the banks as time deposits. Although banks lowered the rate of interest on these deposits, the balance soared by IL 371 million.

Securities held by the public, including the Defense and Absorption Loans, increased by IL 621 million, compared with IL 274 million in 1966. The business sector acquired some of these loan issues, but it is not possible to isolate the amounts. Excluding the Defense and Absorption Loans, outstanding holdings totalled IL 178 million in 1967 and IL 103 million in 1966.

Tamam and Pazak balances of households also rose, by IL 398 million (including IL 195 million in devaluation increments).

While liquid saving increased appreciably, contractual saving showed only a moderate growth compared with previous years. Accumulation through social insurance funds, which constitutes the bulk of contractual saving, rose 6 per-

cent to stand at IL 323 million. In view of the mounting unemployment, wage stability, and increase in provident, pension, and severance payments to retired or dismissed workers, the annual accumulation could have been expected to diminish. That it grew may be primarily explained by a rise in the proportion of members belonging to pension funds (where employee and employer contributions are above average), by a decline in the proportion belonging to provident and severance pay funds, and by the retroactive acquisition of pension rights. Accumulation grew considerably in funds with voluntary membership, and this suggests a rise in the propensity to save; however, the relative share of the voluntary funds is small, and their expansion offset the slowdown in the other types of funds to only a slight degree.

Accumulation through life insurance companies was up 11 percent to reach IL 40 million. This is a slower rate than in previous years, and presumably it can be attributed to the low liquidity of this type of saving. Accumulation was particularly sluggish in the first half of 1967, when the increment to the linked life insurance portfolio was 25 percent below that in the corresponding period of 1966. In the second half of the year, accumulation was 27 percent higher than in the second half of 1966 and 70 percent more than in the first half of 1967. This improvement was connected with the economic recovery and apparently also with the war. It should nevertheless be noted that life insurance still does not constitute an important saving instrument in Israel, as it does in developed countries. Saving surveys of recent years show that saving in the form of life insurance amounts to only about 0.5 percent of the disposable income of households.

Whereas most components of financial saving rose considerably in 1967, investment in real estate slowed down noticeably¹ according to various indicators. In the past, and especially in the boom years, property investment was the principal component of household saving. Reduced incomes, general price stability, expectations that housing prices would fall or at least not rise, and the low liquidity of real estate were the chief factors explaining the shift in 1967 to other types of saving, in the main liquid assets. This trend is reflected in the fact that household mortgage indebtedness grew by only IL 58 million, about half as much as in 1966.

Early redemption of mortgages, which reached sizable proportions in previous years, fell off considerably, owing to the uncertainty about the retroactive application of the abolition of value linkage, the expectation of price stability, and the stronger liquidity preference.

¹ This meant that households reduced their total demand for goods and services, which includes expenditure on consumption and investment in real estate, and enabled other sectors to increase their purchases. In previous years, although households saved part of their income, they also invested heavily in real estate, and this of course pressed on the commodity market.

4. PRIVATE SAVING, INCLUDING CONSUMER DURABLES

Purchases of durable consumer goods are generally treated in the national accounts as current consumption in the year of acquisition. But since they provide their owners with services over an extended period, they should be regarded as a form of saving. Net saving through consumer durables is calculated by deducting depreciation from purchases. The treatment of consumer durables as current consumption implies that the value of annual acquisitions equals the depreciation on existing stock, an assumption that has been found correct in many countries. In Israel, however, annual purchases considerably exceed annual depreciation, and there are therefore grounds for including the net acquisition in saving. Accordingly, private consumption as given by this definition does not include the current outlay on consumer durables, but only depreciation and interest on the stock.¹ This, of course, also yields a higher saving estimate.

The inclusion of consumer durables raises the rate of net private saving out of disposable domestic income from 6.6 percent in 1966 to 9.7 percent in 1967. Adding these assets to saving does not, therefore, alter the rate of saving in the last two years to any great extent, but it widens the differences between the last two years and the preceding years, when purchases were on a larger scale. In 1967 the bulk of the purchases were made in the second half of the year, following a rise in incomes and the paring of taxes on some of the items.

Table XIX-6

NET PRIVATE SAVING, INCLUDING SELECTED CONSUMER DURABLES,^a 1964-67

(IL million, at current prices)

	Domestic disposable income ^b	Net saving excl. durables	Purchases of durables			Saving incl. durables	Ratio of net saving to disposable income (%)	
			Gross	Depreciation ^c	Net		Excl. durables	Incl. durables
1964	6,107	395	329	145	184	579	6.5	9.5
1965	7,335	671	303	196	107	778	9.2	10.6
1966	7,767	440	258	186	72	512	5.7	6.6
1967	8,361	765	215	172	43	808	9.2	9.7

^a Private cars, electric refrigerators, gas cookers, washing machines, radio and television sets.

^b Including interest on stock of consumer durables.

^c Depreciation is calculated at current prices, and therefore in years when prices of durables fall (as in 1967), depreciation may decline.

¹ Interest is imputed at 8 percent. Annual depreciation has been calculated at current prices (a detailed explanation of the depreciation estimates is given in the appendix to this Report—in Hebrew only).

5. SAVING OF THE PUBLIC SECTOR AND NONPROFIT INSTITUTIONS

In 1967 the gross dissaving of the public sector increased by over IL 1,000 million and totalled -IL 1,254 million, equal to over half the sector's current income. Most of this increase was accounted for by the Government and can be ascribed to the country's economic situation and the war. In view of the persistence and deepening of the recession, the Government adopted a counter-cyclical policy providing for a much larger current expenditure and deficit financing. Defense spending was stepped up considerably around mid-year and

Table XIX-7

GROSS AND NET SAVING OF THE PUBLIC SECTOR AND NONPROFIT INSTITUTIONS, 1965-67

(IL million, at current prices)

A. Net Saving of the Public Sector and Nonprofit Institutions						
	Net current income ^a	Consump- tion	Depre- ciation	Net current income, less depreciation (1)-(3)	Net saving out of net current income (4)-(2)	
	(1)	(2)	(3)	(4)	IL m.	%
	(1)	(2)	(3)	(4)	(5)	(6)
1965	2,615	2,745	81	2,534	-211	-8.3
1966	2,971	3,237	97	2,874	-363	-12.6
1967	2,719	4,024	106	2,613	-1,411	-54.0
B. Gross Saving of the Public Sector						
	Net current income ^a	Consumption	Gross saving out of net current income (1)-(2)			
	(1)	(2)	%		IL m.	
	(1)	(2)	(3)	(4)	(3)	(4)
1965	2,170	2,207	-37	-1.7		
1966	2,452	2,643	-191 ^b	-7.8		
1967	2,157	3,411 ^b	-1,254	-57.7		
C. Gross Saving of Nonprofit Institutions						
1965	445	538	-93	-20.9		
1966	519	594	-75	-14.5		
1967	562	613	-51	-9.1		

^a Income from taxes, domestic transfers, interest and property, less transfer payments and subsidies.

^b See note to Table XIX-2.

throughout the second half of the year, as a result of the security situation before and after the war. Since the economy still showed signs of sluggishness, and in view of the urgent need to raise large sums for financing the increased expenditure, the Government preferred to resort to deficit financing rather than boost taxes. As a result, tax collections were below the previous year's level, and this, together with the other developments described, gave rise to a large negative saving compared with preceding years.

The public sector's dissaving in 1967 differed from that in the past. In former years, when the economy was booming, there was cogent reason to curtail the sector's negative saving in order to permit an increase in capital formation without inflationary pressures. But at a time of depression and underemployment of productive factors, deficit financing can give a needed thrust to the economy. In other words, at a time of full employment an increase in investment can be financed *inter alia* through a growth in public sector saving; but when there is unemployment, the creation of a dissaving can give a fillip to the economy, as actually happened in 1967.¹

The gross negative saving of the nonprofit institutions declined by IL 24 million in 1967 to stand at -IL 51 million. Their dissaving declined in the previous year as well—by IL 18 million. The main reasons for the shrinking dissaving are the slower growth of the institutions' outlays and the greater participation of the public sector in financing their operations.

¹ There are, of course, other ways of stimulating the economy, such as an increase in direct public sector investment.