CHAPTER II

RESOURCES, USES, AND INCOME

1. Main Developments

Economic growth slackened in 1970, when full employment was reached. The gross national product expanded by 7 percent in real terms,[1] compared with 9.3 percent in 1969 and 14.6 percent in 1968. Imports, however, continued upward at an even faster rate than in 1969 because of much heavier defense purchases abroad, and this led to the widening of the balance of payments deficit on current account and a steep increase in the external debt.

Once full employment was attained after two years of declining unemployment, which had permitted a strong rate of economic expansion, the growth rate reached its limit. The defense burden showed no signs of letting up, and its repercussions on the balance of payments and the external debt grew more acute. In view of this situation, the Government introduced stringent fiscal measures to restrain private demand and increased export incentives. These steps succeeded in averting the inflationary pressures which might have arisen in the wake of the more sluggish growth of GNP. They also helped to brake the increase in civilian imports and stimulated exports. Nevertheless, defense outlays in foreign currency rose steeply in 1970, far outweighing any improvement in the balance of payments due to economic activity. The total deficit on current account shot up by $ 340 million, of which $ 290 million stemmed from the Government's direct defense expenditures. A worsening in the terms of trade (higher import prices and the lower prices fetched by diamonds and citrus abroad) added another $ 70 million to the deficit. If account is also taken of the increase in net interest payments to the rest of the world—this too largely connected with the heavier defense imports—it may be concluded that the economic forces at work in the country had a dampening effect on the current deficit in 1970.

[1] In previous *Annual Reports* imports and exports were evaluated at the official exchange rate. GNP, which represents the difference between domestic resource use and the import surplus, therefore included net taxes on the import surplus. In recent years there was little difference between the effective and official exchange rates; however, the divergence widened in 1970 following the levying of a surcharge on imports and an increase in export incentives. Consequently, this year we present import and export figures valued at effective exchange rates (i.e. the IL value of imports includes net import duties, and the IL value of exports includes export subsidies). The change in method affects primarily the absolute level of GNP, and to a relatively small extent its real year-to-year growth.

Table II–1

RESOURCES AND USES, 1967–70

	IL million, at current prices				Percent annual increase or decrease (–) in quantity			Percent annual increase or decrease (–) in price		
	1967	1968	1969	1970	1968	1969	1970	1968	1969	1970
Uses										
Private consumption	8,113	9,244	10,612	11,681	12.0	10.8	3.0	1.7	3.6	6.8
Public consumption	3,599	4,152	4,956	6,799	8.9	16.1	26.3	5.9	2.8	8.6
Gross investment	2,039	3,213	3,909	4,687	48.2	15.6	8.8	6.3	5.3	10.3
Total domestic uses	**13,751**	**16,609**	**19,477**	**23,167**	**16.6**	**13.1**	**10.1**	**3.6**	**3.7**	**8.0**
Resources										
Imports[a]	4,761	6,884	8,441	10,143	28.1	17.2	15.7	12.9	4.6	3.8
Exports[b]	2,982	4,312	4,846	5,432	27.1	7.6	9.4	13.8	4.5	2.5
Import surplus	1,779	2,572	3,595	4,711	29.8	33.4	24.3	11.4	4.8	5.4
Gross national product	11,972	14,037	15,882	18,456	14.6	9.3	6.9	2.3	3.5	8.7
Total resources available for domestic uses	**13,751**	**16,609**	**19,477**	**23,167**	**16.6**	**13.1**	**10.1**	**3.6**	**3.7**	**8.0**
Imports and exports at the official exchange rate										
Imports	4,349	6,219	7,446	8,979	25.6	14.7	17.6	13.8	4.4	2.5
Exports	2,811	4,076	4,576	5,022	27.3	7.5	9.2	13.9	4.5	0.5
Import surplus	1,538	2,143	2,870	3,957	22.6	28.5	30.9	13.7	4.2	5.3

[a] Valued at c.i.f. prices and at the effective exchange rate. Includes imports from the administered areas; excludes interest paid to the rest of the world by the public sector.

[b] Valued at f.o.b. prices and at the effective exchange rate. Includes exports to the administered areas; excludes interest received by the public sector from the rest of the world.

SOURCE: Central Bureau of Statistics.

The fiscal measures adopted by the Government during the year 1970/71 included the levying of new indirect taxes (mainly a surtax on imports), the raising of direct taxes, the reduction of subsidies on some consumer products, and the imposition of nonnegotiable compulsory loans (see section 5). These measures curbed to an appreciable degree the growth of real disposable income and private consumption. A somewhat slower rise of incomes was in any case to be expected because of the slackening of the GNP growth rate from 9.3 to 7 percent, but the Government's fiscal measures intensified this effect; real private disposable income from domestic sources thus edged up by only 1.5 percent, compared with 11 percent in 1969.[1] Another factor braking the growth of private consumption in the year reviewed was the large-scale advance purchases made at the end of 1969 in anticipation of devaluation and tax hikes, and a compensatory cutback in 1970.

As a result of the Government's liquidity absorption policy and the advance purchases made in 1969, the year reviewed saw a drastic change in the trend of private consumption. It rose by only 3 percent, or much less than the 7 percent growth of GNP; this contrasts with the situation in previous years, when product and consumption traced a roughly similar path. Moreover, the 3 percent figure for 1970 is an annual average affected by the rapid increase during 1969; in the course of 1970 private consumption held steady, and in fact declined in per capita terms.

The marked slowdown in private consumption helped to ease demand pressure for locally produced goods, but its chief effect was on imports. Whereas in 1969 private consumption was responsible for a 4.5 percent increase in imports, in 1970 its effect on imports was negligible—not only did private consumption grow more slowly but its composition changed, with the share of import-intensive commodities declining.

The expansion of investment likewise fell off, from 15.5 percent in 1969 to 9 percent. This was not due only, or even mainly, to developments during 1970; presumably investment was also affected by the adjustment of the economy's stock of capital assets to changes in the rate of economic activity and by the completion of several large projects (the timing of such projects in a given year is often fortuitous). Dwelling investment continued upward at a vigorous rate, particularly in immigrant and low-income housing, but infrastructure investment and that in public buildings, which are initiated and financed by the Government, was cut back.

The main effect of the slower expansion of investment was on the national product. In 1969 value added originating in domestic investment contributed 4 percent to GNP growth, while the corresponding figure for 1970 was only 1 percent (see Table II–3).

Real public consumption was up 26 percent, much faster than the 16 percent

[1] Net compulsory loans are not included in disposable income for purposes of this calculation.

recorded in 1969. This acceleration stemmed from a 40 percent increase in defense outlays and a relatively sluggish 3 percent rise in other expenditures. The jump in public consumption was reflected mainly in imports, since 73 percent of the additional defense outlays were made abroad and accounted for about two-thirds of the growth of the economy's import bill. On the other hand, the contribution of public consumption to the expansion of the national product was smaller than in 1969.

Exports (at constant prices) were up 9.5 percent in 1970, compared with a 7.5 percent rise the year before. Export incentives were increased during the year, and overseas sales rose at a particularly vigorous rate in the second half. Nevertheless, foreign currency receipts grew more slowly than in 1969 because of the smaller prices commanded by citrus and diamonds.

The deceleration of investment and private consumption was partly responsible for the weaker demand in 1970 for domestically produced goods and services, but GNP growth was also held down by constraints on the supply side, arising from the fact that the economy had already used up most of the idle reserves of factors of production created during the recession. The supply of labor grew more slowly than in 1969, and the stronger demand was reflected in both a further reduction of unemployment and an increased employment of workers from the administered areas. The domestic civilian labor force edged up only 1 percent in 1970, and the 3 percent growth in total employment was made possible by the hiring of additional workers from the administered areas and by a slight decrease in unemployment. These developments testify to a tight labor market, which, however, seems to have loosened up somewhat when labor costs per employee jumped 13 percent (compared with 5 percent in 1969—see Chapter IX). The big increase in wages per employee, most of it in conformity with the "package deal", was only partly responsible for driving up prices well above their 1969 level, since some of the extra costs were absorbed by producers, owing *inter alia* to the administrative restraints imposed by the Government to keep prices down, which apparently were effective for part of the year. The consumer price index began to climb rapidly toward the end of the year, after another round of new indirect taxes and the abolition of some subsidies; the average increase for the year was 6.1 percent, compared with 2.5 percent in 1969.

National saving dropped steeply in 1970, owing to a much heavier public sector dissaving. Private saving was well above its 1969 level, and the rate of such saving out of disposable income went up slightly.

2. Use of Resources

The growth of total resource use sagged further in 1970, when it came to 10 percent compared with 12 percent in 1969 and 19 percent in 1968. However, different factors were at work in the last two years. In 1969 the slowdown

Table II–2

RESOURCES AND USES AND THEIR GROWTH, BY COMPONENT, 1968–70

(IL million, at 1970 prices)

	Resources and uses			Annual increase			Percentage distribution of resources and uses			Percentage distribution of incremental resources and uses		
	1968	1969	1970	1968	1969	1970	1968	1969	1970	1968	1969	1970
Uses												
Private consumption	10,228	11,334	11,681	1,096	1,106	347	44.1	43.6	40.8	29.9	39.8	13.3
Public consumption, excl. direct defense imports	3,674	4,155	4,615	499	481	460	15.8	16.0	16.1	13.6	17.3	17.7
Direct defense imports	961	1,227	2,184	–120	266	957	4.1	4.7	7.7	–3.3	9.5	36.7
Gross investment	3,729	4,311	4,687	1,213	582	376	16.1	16.6	16.4	33.0	20.9	14.4
Exports[a]	4,619	4,967	5,432	985	348	465	19.9	19.1	19.0	26.8	12.5	17.9
Total use of resources	**23,211**	**25,994**	**28,599**	**3,673**	**2,783**	**2,605**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Resources												
Gross national product	15,730	17,224	18,456	2,032	1,494	1,232	67.8	66.3	64.5	55.3	53.7	47.3
Imports,[a] excl. direct defense imports	6,520	7,543	7,959	1,761	1,023	416	28.1	29.0	27.8	48.0	36.8	16.0
Direct defense imports	961	1,227	2,184	–120	266	957	4.1	4.7	7.7	–3.3	9.5	36.7
Total resources	**23,211**	**25,994**	**28,599**	**3,673**	**2,783**	**2,605**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[a] See notes to Table II–1.
SOURCE: Central Bureau of Statistics.

was a compensatory response to the exceptionally strong growth (due to special factors) of investment and exports in the previous year, and there were no marked changes in internal economic forces. In 1970, however, demand expanded more slowly, reflecting a change in economic trends, which must be ascribed largely to Government policy. The principal factor stimulating demand in 1970 was the 40 percent jump in defense outlays (22 percent in 1969), which swallowed up 52 percent of the incremental resources. Civilian public consumption rose by 3 percent, and accounted for only 2 percent of the increment. In view of the much heavier defense spending, the Government introduced measures to curb domestic civilian demand, thereby averting the generation of inflationary pressures which might have arisen in the prevailing full employment conditions. Defense requirements have grown enormously since the Six Day War, but until 1970 civilian demand also moved up at a strong rate and ate up a considerable part of the resource increment. The strong upswing in economic activity with the recovery from the recession considerably augmented factor incomes, and in the absence of a new fiscal policy, private disposable income also mounted rapidly. As a result, private consumption demand absorbed a good part of the country's additional resources. In 1968 and 1969 real per capita private consumption increased by 8 percent per annum and accounted for 35 percent of the resource increment. In 1970 private consumption levelled off, and in per capita terms apparently even dropped. The average 1970 level was 3 percent above 1969 because of the rising trend during 1969. The change which occurred in 1970 greatly eased the pressure of private consumption on resources, and its weight in the resource increment dropped to 13 percent (from an average of 35 percent in the two preceding years).

The tapering-off of private consumption in 1970 can be ascribed primarily to the Government's fiscal policy, which damped down the growth of real private income (see section 5, "Income"). Another factor was the heavy speculative purchases, particularly of durables, made toward the end of 1969. This in itself depressed purchases in 1970, although it is difficult to asses its effect precisely. In 1969 purchases of consumer durables soared 35 percent in real terms, or by IL 350 million at 1969 prices, and in 1970 dropped by 18 percent, or IL 200 million (at 1969 prices). This speculative demand explains only part of the marked disparity between the two years; the principal cause is to be found in the slowdown of real disposable income.

The growth of gross investment fell off from 15.5 percent in 1969 to 9 percent. Most of the 1970 increase was in dwellings. Nondwelling investment, which rose by 19 percent in 1969, levelled off in 1970; in part this was a reflection of current trends, and in part it was due to the Government's direct activities in financing and implementing investments. The main contractionary influences were the sagging growth of economic activity, in particular private consumption, and the cutback in the Government's infrastructure outlays. On the other hand, noncivilian investment and that in export industries, which received considerable encouragement in 1970, apparently continued upward. The increase in dwelling investment was 32.5 percent, compared with 38 percent in 1969, and it accounted for all of the 1970 incremental fixed capital formation. This vigorous growth was largely connected with the public sector's housing operations (for immigrants and some other population groups), while private construction seems to have slackened somewhat.

Exports were up 9.5 percent (at constant prices), compared with 7.5 percent in 1969; this brought up their share in incremental resource use from 12.5 to 18 percent. Most of the 1970 export gain, which can be credited in part to the increased incentives, occurred in manufactures other than diamonds and mine and quarry products. Foreign currency receipts rose more slowly than in 1969 because of the lower prices obtained for citrus and diamonds.

3. Resources

The resource increment came to about IL 2,600 million in 1970, compared with IL 2,780 million the year before (at 1970 prices). The decline affected GNP most, growth here amounting to IL 1,230 million compared with IL 1,500 million in 1969. The import increment continued to rise and accounted for 53 percent of the total expansion of resources, compared with 46 percent in 1969 (see Table II–2).

All domestic uses, including public consumption, contributed to the dampening of the GNP growth rate in 1970. About two-thirds of the decline is ascribable to the change in gross investment and the rise in its import component (see Table II–3), while private consumption accounted for about one percentage point.

The accelerated uptrend in public consumption, which was due to the steep rise in defense outlays, was reflected primarily in imports, while its product component reduced total product growth by one percentage point. On the other hand, the influence of exports on GNP growth is estimated at 1.5–2 percentage points, roughly the same as in 1969.

The much heavier defense spending in 1970 explains all of the increase in imports. The other uses, particularly private consumption, had a downward effect on the growth rate. The moderate 3 percent rise in private consumption had hardly any impact on imports, since it was offset by a much smaller consumption of import-intensive commodities. The more sluggish expansion of investment shaved more than one percentage point from the import growth rate. These moderating influences were outweighed, however, by the soaring foreign currency defense outlays, which contributed 12 percentage points to the import increment, compared with 6 in 1969.

The more vigorous growth of exports and the slower growth of imports for private consumption and investment were thus an outcome of the forces at work in the economy, and even more of the Government's economic-policy

Table II–3

THE EFFECT OF RESOURCE USES ON THE NATIONAL PRODUCT[a] AND IMPORTS,[b] 1969–70

(percentages)

	Distribution of incremental GNP by final use		Contribution of final uses to GNP growth rate		Distribution of incremental imports by final use		Contribution of final uses to import growth rate	
	1969	1970	1969	1970	1969	1970	1969	1970
	(at 1965/66 prices)				(at 1968 prices)			
Private consumption[c]	31.2	35.9	3.6	2.7	25.9	2.7	4.3	0.5
Public consumption	22.7	26.4	2.7	2.0	38.4	73.4	6.4	12.3
Gross investment	33.2	14.7	3.9	1.1	24.5	16.4	4.1	2.7
Exports[d]	12.9	23.0	1.5	1.8	11.2	7.5	1.9	1.2
Total	**100.0**	**100.0**	**11.7**	**7.6**	**100.0**	**100.0**	**16.7**	**16.7**

[a] Gross national product at factor cost.
[b] Imports in dollars, excluding capital services.
[c] Excluding the imputed net rental value of owner-occupied dwellings.
[d] Excluding capital services.
SOURCE: Provisional data from the 1965/66 input-output table prepared by the Bank of Israel. These data differ somewhat from those of the Central Bureau of Statistics and should be treated with caution.

Table II-4
COMPOSITION OF RESOURCES, 1966–70
(IL million, at current prices)

	1966	1967	1968	1969	1970
Import surplus[a]	12.5	12.9	15.5	18.5	20.3
Gross national product	87.5	87.1	84.5	81.5	79.7
Total resources at the disposal of the economy	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[a] At the effective exchange rate.

measures. Nevertheless, the country failed to reduce its dependence on the rest of the world, since these positive trends were more than nullified by the steep increase in foreign currency outlays for defense purposes.

4. National Product and Productivity

Economic growth slackened in 1970, when a state of full employment was reached. The reserves of idle productive factors created during the recession were drawn down in the following two years, permitting GNP to move up by a

Table II-5
CHANGES IN GROSS NATIONAL PRODUCT, FACTORS OF PRODUCTION, AND PRODUCTIVITY, 1966–70
(percentages)

	1966	1967	1968	1969	1970
Gross domestic product[a] (excl. dwelling rentals)	1.8	3.0	16.0	10.5	7.2
Labor input[b]					
Number of employed	–0.6	–4.3	9.0	3.8	1.8
Man-days	–0.8	–5.2	11.9	4.5	1.4
Stock of fixed nondwelling assets					
(at beginning of year)	9.4	6.8	4.7	8.2	9.0
Product/labor ratio					
Per employed	2.4	7.6	6.4	6.4	5.3
Per man-day	2.6	8.6	3.7	5.7	5.7
Product per factor unit (factor productivity)					
Measured by number of employed					
A[c]	–2.5	1.8	8.6	4.2	1.7
B[d]	–1.0	3.6	7.8	4.9	2.9
Measured by number of man-days					
A[c]	–2.4	2.2	7.2	3.9	1.9
B[d]	–0.8	3.2	5.9	4.4	3.2

[a] Calculated at the effective exchange rate.
[b] Employment data do not include workers from the administered areas.
[c] With the labor input assigned a weight of ½.
[d] With the labor input assigned a weight of ⅔.
SOURCE: Central Bureau of Statistics.

rapid 14.6 and 9.3 percent in 1968 and 1969 respectively. In 1970, with no more unemployment left, the national product could grow no faster than the economy's productive capacity permitted, and the increase came to only 7 percent. Full employment also affected productivity: whereas in 1968 and 1969 it grew rapidly thanks largely to the utilization of idle capacity, in 1970 the rising trend slowed down to about the rate of 1961–65.

5. Income

Gross private income from economic activity advanced 15.4 percent in 1970, which was faster than in the previous year. Although economic activity and real product grew more slowly than in 1969, producer prices rose at a stronger rate, so that nominal factor incomes also showed a higher percentage gain.[1] Net private income (i.e. less depreciation) from economic activity was up 14.8 percent, compared with 12.5 percent in 1969.

Income from personal restitution and other private foreign transfers rose by an appreciable 26 percent (compared with 4 percent in 1969), and accounted for about 12 percent of the increase in gross income from all sources.

Despite this acceleration of nominal private income from economic activity, the growth of real disposable income sagged noticeably, amounting to 6.1 percent as against 9.4 percent in 1969. If compulsory loans are deducted, the increases were 2.9 and 10.1 percent respectively. In other words, real per capita disposable income, which advanced 7.4 percent in 1969, hardly rose at all in 1970 (the average population expanded by 2.6 and 2.7 percent in 1969 and 1970 respectively).

The much more sluggish growth of real disposable income was an outcome of the fiscal policy introduced by the Government in 1970. Direct tax rates were raised in April 1970, bringing up revenue from this source by 37 percent, as against 24 percent in 1969. Direct taxes net of public sector transfers were 86 percent over their 1969 level, compared with a 6 percent rise that year, and siphoned off 26 percent of the additional gross income from all sources, as contrasted with 3 percent in 1969.

Compulsory loans were levied as part of the Government's fiscal policy, and from April to the end of 1970 they absorbed about IL 600 million from the public. The effect of these loans is not clear-cut. On the face of it, they have little or no effect on the net worth of households[2] and hence do not affect

[1] The accelerated rise of producer prices is largely explained by the increased prices of locally produced investment assets and the higher wages per employee paid in the public sector, which drove up the price of the product originating in this sector. The rise of consumer prices was apparently another contributory factor.

[2] If their yield is low in relation to the market yield at the time of acquisition, such loans slightly reduce the net worth of households.

Table II-6

NATIONAL PRODUCT AND INCOME, 1967–70

(IL million, at current prices)

	1967	1968	1969	1970	Percent annual increase		
					1968	1969	1970
Gross national product at market prices[a]	11,972	14,037	15,882	18,465	17.2	13.1	16.2
Indirect taxes on domestic production	1,261	1,433	1,665	1,981	13.6	16.2	19.0
Subsidies on domestic production	205	271	285	310	32.2	5.2	8.8
Net taxes on domestic production	1,056	1,162	1,380	1,671	10.0	18.8	21.1
Gross national product at factor cost	**10,916**	**12,875**	**14,502**	**16,785**	**17.9**	**12.6**	**15.7**
Depreciation	1,190	1,319	1,483	1,793	10.8	12.4	20.9
National income	**9,726**	**11,556**	**13,019**	**14,992**	**18.8**	**12.7**	**15.2**

[a] At effective exchange rates.
SOURCE: Central Bureau of Statistics.

Table II–7

PRIVATE INCOME, 1966–70

(IL million, at current prices)

	1966	1967	1968	1969	1970	Percent annual increase or decrease (–) 1967	1968	1969	1970
1. National income	9,342	9,726	11,556	13,019	14,992	4.1	18.8	12.7	15.2
2. Depreciation	1,105	1,190	1,319	1,483	1,793	7.7	10.8	12.4	20.9
3. Gross national income (1+2)	10,447	10,916	12,875	14,502	16,785	4.5	17.9	12.6	15.7
4. Public sector domestic income from property	202	163	236	286	373	–19.3	44.8	21.2	30.4
5. Gross private income from economic activity (3–4)	10,245	10,753	12,639	14,216	16,412	5.0	17.5	12.5	15.4
6. Income tax	1,146	1,128	1,408	1,772	2,232	–1.6	24.8	25.9	26.0
7. National Insurance contributions	334	332	399	465	825	–0.6	23.9	16.5	77.4
8. Total direct taxes (6+7)	1,480	1,460	1,807	2,237	3,057	–1.4	23.8	23.8	36.7
9. Net transfers from the public sector	670	862	1,089	1,474	1,639	28.7	26.3	35.4	11.2
10. Direct taxes less net transfers (8–9)	810	598	718	763	1,418	–26.2	20.1	6.3	85.8
11. Gross private disposable income from domestic sources (5–10)	9,435	10,155	11,921	13,453	14,994	7.6	17.4	12.8	11.4
12. Private transfers from the rest of the world	703	762	1,159	1,207	1,519	8.4	52.1	4.1	25.8
13. Gross private disposable income from all sources (11+12)	10,138	10,917	13,080	14,660	16,513	7.7	19.8	12.1	12.6
14. Net compulsory loans[a]	161	112	19	(–)87	413	—	—	—	—
15. Gross private disposable income from all sources, less net compulsory loans (13–14)	9,977	10,805	13,061	14,747	16,100	8.3	20.9	12.9	9.2

[a] Collections from the public on account of the Absorption, Compulsory Savings, and Defense Loans, less the value of certificates distributed to the public.

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

current consumption. But presumably a large number of households—those with no liquid assets and which are in no position to tide themselves over by borrowing until the loans become negotiable—in the short run behave as though these loans were taxes and cut down on their current consumption. The behavior of these households is apparently dictated by their liquidity position,[1] i.e. the amount collected on account of the loan, less the value of loan certificates received.[2] In 1970 collections from the public—mostly on account of the Defense and Compulsory Savings Loans—added up to IL 610 million, while IL 200 million of negotiable certificates of the loans levied in previous years were distributed. This contrasts with the situation in 1969, when collections were of a negative magnitude, since the value of certificates distributed exceeded loan receipts by about IL 90 million. The increase in net loan receipts thus came to IL 500 million, equal to 20 percent of the incremental gross income from all sources. The new round of direct taxes and net loan receipts together thus mopped up 46 percent of the additional gross income from all sources.

Table II–8

CHANGES IN INCOME AND INCOME DISTRIBUTION, 1966–70

(percentages)

	1966	1967	1968	1969	1970
Real private income from economic activity[a] (per capita)	–2.2	–0.2	12.1	6.9	5.3
Real disposable private income from domestic sources[a] (per capita)	–2.5	2.7	12.0	7.3	1.2
Real disposable private income from all sources[a] (per capita)	–3.8	2.8	14.5	6.5	2.5
Real income[b] per employed	0.9	7.8	7.6	5.8	5.3
Real wage income[c] per employee	10.3	–1.2	1.1	2.6	2.9
Weight of employee compensation in total private income from economic activity[d]	74.9	72.8	67.3	67.2	71.0

[a] Nominal private income as shown in Table II–7, deflated by the consumer price index.
[b] Private income from economic activity as shown in Table II–7, row 5, less the imputed net rental value of owner-occupied dwellings. The number of employed is from Central Bureau of Statistics manpower surveys.
[c] According to data of the National Insurance Institute, which exclude fringe benefits.
[d] Excluding the imputed net rental value of owner-occupied dwellings. Compensation of employees comprises all wage outlays of employers, including fringe benefits, according to the Central Bureau of Statistics.

[1] The value of loan certificates received by the public in a given year doubtless has a greater bearing on consumption than the volume of redemption has, since once the certificates become negotiable the loans no longer constitute a liquidity constraint on consumption.

[2] That part of the public which is not influenced by liquidity considerations may also have reduced its consumption, if it assumed that in the future a new round of taxes would be levied in order to redeem the loans.

Private consumption prices climbed faster in 1970 than in the previous year, largely because of the hiking of import and other indirect taxes and the abolition of some subsidies. The price rise, particularly at the end of the year, was to a great extent the result of Government measures designed to curtail purchasing power by making consumption dearer. This kind of price increase reduces real income, since consumer prices move up without a corresponding growth in factor incomes.

The Government's larger net receipts from direct taxes and compulsory loans and the increase in consumer prices together mopped up 82 percent of the incremental gross income from all sources, so that real disposable income went up by only 2.9 percent, while per capita it did not grow at all.

Real wage income per employee rose by 2.9 percent in 1970, compared with 5 percent for real income from economic activity per employed person. But if fringe benefits, which were enlarged considerably in 1970, are taken into account, total real compensation of employees was up 6 percent, which is similar to the rate for other employed persons. The weight of employee compensation in total private income from economic activity edged up slightly in 1970 (see Table II–8), mainly because the number of employees grew faster than the number of other employed.

6. National Saving

National saving declined further in 1970. Gross national product at current prices expanded by IL 2,570 million, and total consumption (private and public) by IL 2,910 million. Gross saving out of GNP thus fell by IL 340 million, turning negative for the first time in several years (see Table II–9). This means that in 1970 the country's import surplus exceeded gross domestic investment. Net saving out of net national product fell by IL 650 million and was, as in previous years, negative: the 1970 dissaving was IL 1,820 million.

The drop in national saving and in the saving rate was chiefly due to the continued decline in public sector saving, itself an outcome of the much heavier defense spending.

In contrast to the striking decline in public saving, gross private saving from domestic sources rose from IL 2,840 million in 1969 to IL 3,310 million (see Table II–10). There was little change in the rate of saving from domestic sources, the figure being 21 and 22 percent in 1969 and 1970 respectively. This was apparently the resultant of several opposing influences: the slacker growth of private disposable income from domestic sources, the lagged adjustment of consumption to changes in income, and the much larger volume of personal restitution receipts depressed the rate of saving, while the large sums siphoned off from the public by way of nonnegotiable compulsory loans tended to reduce consumption and increase the saving rate.

Table II-9

NATIONAL SAVING, 1966–70

(*IL million, at current prices*)

	1966	1967	1968	1969	1970
1. Gross national product[a]	11,500	11,972	14,037	15,882	18,456
2. Unilateral transfers from abroad[b]	785	1,477	1,399	1,472	1,949
3. Subtotal	12,285	13,449	15,436	17,354	20,405
4. Private consumption	7,909	8,113	9,244	10,612	11,681
5. Public consumption	2,627	3,599	4,152	4,956	6,799
6. Total consumption	10,536	11,712	13,396	15,568	18,480
7. Depreciation	1,105	1,190	1,319	1,483	1,793
8. Gross national saving out of GNP (1–6)	964	260	641	314	–24
9. Gross saving out of GNP and unilateral transfers (3–6)	1,749	1,737	2,040	1,786	1,925
10. Net national saving out of NNP (8–7)	–141	–930	–678	–1,169	–1,817
11. Net national saving out of NNP and unilateral transfers (9–7)	644	547	721	303	132
			Percentages		
12. Gross saving out of GNP (8÷1)	8.4	2.2	4.6	2.0	–0.1
13. Gross saving out of GNP and unilateral transfers (9÷3)	14.2	12.9	13.2	10.3	9.4
14. Net saving out of NNP (10÷[1–7])	–1.4	–8.6	–5.3	–8.1	–10.9
15. Net saving out of NNP and unilateral transfers (11÷[3–7])	5.8	4.5	5.1	1.9	0.1

[a] Calculated at effective exchange rates; net taxes on the import surplus are therefore excluded.
[b] Less net interest payments of the public sector to the rest of the world, which are included in the services account of the balance of payments.
SOURCE: Based on Central Bureau of Statistics data.

Table II-10

PRIVATE SAVING, 1966–70

(IL million, at current prices)

	1966	1967	1968	1969	1970
1. Gross private disposable income from domestic sources	9,435	10,155	11,921	13,453	14,994
2. Private transfers from abroad	703	762	1,159	1,207	1,519
3. Gross private disposable income from all sources (1+2)	10,138	10,917	13,080	14,660	16,513
4. Private consumption	7,909	8,113	9,244	10,612	11,681
5. Net compulsory loans	161	112	19	–87	413
6. Gross private saving out of gross disposable income from domestic sources					
a. Incl. net compulsory loans	1,526	2,042	2,677	2,841	3,313
b. Excl. net compulsory loans	1,365	1,930	2,658	2,928	2,900
7. Gross private saving out of gross disposable income from all sources					
a. Incl. net compulsory loans (3–4)	2,229	2,804	3,836	4,048	4,832
b. Excl. net compulsory loans (7a–5)	2,068	2,692	3,817	4,135	4,419
			Percentages		
8. Gross saving out of gross disposable income from domestic sources					
a. Incl. net compulsory loans ([1–4]÷1)	16.2	20.1	22.5	21.1	22.1
b. Excl. net compulsory loans ([1–5–4]÷[1–5])	14.7	19.2	22.3	21.6	19.9
9. Gross saving out of disposable income from all sources					
a. Incl. net compulsory loans ([3–4]÷3)	22.0	25.7	29.3	27.6	29.3
b. Excl. net compulsory loans ([3–5–4]÷[3–5]	20.7	24.9	29.2	28.0	27.4

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