

## CHAPTER XIV

### INDUSTRY

#### 1. MAIN DEVELOPMENTS

Industrial production in 1976 was about 4 percent higher than in the previous year. However, this increase wholly reflects growth which took place in the second half of 1975. During the past year there was no increase in total real output of industry; the fluctuations in production and sales throughout the year mainly originated in the Value Added Tax levied since July of this year. The standstill in overall total production conceals a special and unprecedented development in the composition of production according to end use: industrial exports increased during the year at a real rate of 25 percent, while sales to the domestic market fell in the same period by about 4 percent. By comparing annual averages, it is possible to see a similar development – stability and even a slight decrease – in output and domestic market sales, and an increase in the share of production for export.

The changes in industrial production correspond to the changes which took place in demand in 1976: the industrial product resulting from domestic investments fell by about 13 percent, mainly due to a drop in construction, but also to falling demand for domestically produced machinery and equipment<sup>1</sup>. The product resulting from public consumption also dropped by about 6 percent, with the shrinking of government purchases and the diversion of defense products from the domestic market to export. In contrast, demand for private consumption goods grew somewhat during the year and caused a similar rise (about 4 percent) in industrial production for consumption. In sum, domestic demands contributed a drop of about 2 percent in the industrial product, which increased only owing to the development of exports.

During the last two years, and mainly in 1976, industrial exports in most of the branches expanded (except for mining and quarrying whose exports decreased), but most of the growth was concentrated in diamonds, metal products, transport equipment, electricity and electronics, and clothing. The sharp rise in defense exports is especially worthy of note<sup>2</sup>.

It would seem as though several general factors forced producers to turn to foreign markets, and the combination of these factors created the backdrop for the results of 1976; the economic slowdown, and the subsequent drop in domestic demands in recent

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<sup>1</sup> See Table XVI-6.

<sup>2</sup> For a wider discussion of industrial exports, see Chapter IV, the sections on exports.

TABLE  
INDICATORS OF INDUSTRIAL  
(per

|   | Annual        |               |
|---|---------------|---------------|
|   | 1961–<br>1965 | 1966–<br>1967 |
| Industrial production                         | 13.4          | -0.9          |
| Revenue at current prices                     | 20.5          | 2.7           |
| Number of workers <sup>a</sup>                | 3.3           | -3.7          |
| Man-days worked                               | —             | —             |
| Real investment                               | 6.0           | -23.9         |
| Real gross capital stock <sup>b</sup>         | 11.0          | 4.3           |
| Output per employed <sup>e</sup>              | 9.8           | 2.9           |
| Output per man-day worked <sup>e</sup>        | —             | —             |
| Output per unit of capital <sup>e</sup>       | 2.2           | -5.0          |
| Change in factor productivity A <sup>c</sup>  | 7.0           | 1.2           |
| Change in factor productivity B <sup>d</sup>  | —             | —             |
| Domestic wholesale prices                     | 5.0           | 3.0           |
| Revenue per unit of output, at current prices | 6.3           | 3.6           |
| Industrial exports (\$ FOB)                   | 17.7          | 11.1          |
| Industrial export prices (FOB)                | —             | 1.9           |
| Total payroll outlay                          | —             | 4.8           |
| Capital return rate <sup>f</sup>              | —             | 14            |

<sup>a</sup> Until 1969 calculated according to the index of employees and from 1969 to 1976 according to the index of employed.

<sup>b</sup> At the beginning of the year.

<sup>c</sup> With the change in the labor input measured in terms of the number of employed; such a measurement has no significance in 1973 and 1974 because of the large-scale mobilization of reserves.

## XIV-1

## DEVELOPMENT, 1961-1976

(cent)

| average       |               | Annual increase<br>or (-) decrease |      |      |       |
|---------------|---------------|------------------------------------|------|------|-------|
| 1968-<br>1972 | 1973-<br>1976 | 1973                               | 1974 | 1975 | 1976  |
| 15.3          | 4.1           | 5.5                                | 4.4  | 2.4  | 4.2   |
| 23.2          | 40.3          | 27.4                               | 51.7 | 45.9 | 36.2  |
| 8.0           | 1.6           | 0.9                                | 2.8  | 0.4  | 2.5   |
| 8.5           | -0.2          | -3.1                               | 0.6  | -0.3 | 2.0   |
| 31.5          | 1.1           | -4.3                               | 1.1  | 12.9 | -11.3 |
| 8.5           | 9.1           | 10.5                               | 8.5  | 8.3  | 9.0   |
| 6.7           | 2.5           | 4.6                                | 1.6  | 2.0  | 1.7   |
| 6.2           | 4.3           | 8.9                                | 3.8  | 2.7  | 2.2   |
| 6.6           | -4.4          | -4.6                               | -3.7 | -5.3 | -4.1  |
| 6.9           | -0.8          | 0.3                                | -0.9 | -1.6 | -1.1  |
| 6.6           | 0.2           | 2.5                                | 0.3  | -1.2 | -0.9  |
| 6.3           | 35.6          | 19.1                               | 51.5 | 40.8 | 30.9  |
| 7.1           | 34.8          | 20.8                               | 45.3 | 42.5 | 30.7  |
| 19.0          | 21.2          | 30.3                               | 26.3 | 2.7  | 25.4  |
| 2.6           | 12.0          | 24.8                               | 19.7 | 2.6  | 0.9   |
| 17.0          | 36.3          | 23.3                               | 41.6 | 40.8 | 39.5  |
| 20            | 19            | 18                                 | 22   | 18   | 18    |

<sup>d</sup> With the change in the labor input measured in terms of man-days worked; such a measurement has more significance in 1973 and 1974 than the first variant.

<sup>e</sup> Output here refers to industrial production.

<sup>f</sup> Return includes profits, interest and rents (in other words, added value which is not payment for labor); capital includes fixed assets and product and material stocks. Rate of return is gross, including depreciation.

SOURCE: Central Bureau of Statistics and Bank of Israel.

TABLE  
ANNUAL CHANGE IN PRODUCTION,  
(percent)

|                          | Production |      |      |
|--------------------------|------------|------|------|
|                          | 1974       | 1975 | 1976 |
| Total                    | 4.4        | 2.4  | 4.2  |
| Mining and quarrying     | 3          | 12   | -21  |
| Food, beverages, tobacco | 4          | -1   | 8    |
| Textiles                 | 1          | -3   | 2    |
| Clothing                 | -1         | -3   | 3    |
| Wood & wood products     | -2         | -6   | 6    |
| Paper & carton           | 4          | 2    | 8    |
| Printing & publishing    | 2          | -5   | 2    |
| Leather & leather goods  | -1         | -2   | 5    |
| Rubber & plastics        | -4         | -9   | 5    |
| Chemicals & petroleum    | 9          | 0    | 7    |
| Nonmetallic minerals     | -4         | 8    | 3    |
| Diamonds                 | -6         | -1   | 21   |
| Basic metals             | 2          | -5   | -4   |
| Metal products           | 3          | 10   | 2    |
| Machinery                | 7          | 8    | -8   |
| Electrical equipment     | 19         | 11   | 8    |
| Transport equipment      | 18         | 14   | 9    |
| Miscellaneous            | 10         | 10   | 0    |

SOURCE: Central Bureau of Statistics.

## XIV-2

## EMPLOYMENT AND WAGES, 1974-1976

annual change)

| Average<br>1974-<br>1976 | Actual work days |      |      | Average<br>1974-<br>1976 | Daily wage |      |      | Average<br>1974-<br>1976 |
|--------------------------|------------------|------|------|--------------------------|------------|------|------|--------------------------|
|                          | 1974             | 1975 | 1976 |                          | 1974       | 1975 | 1976 |                          |
| 4                        | 0.6              | -0.3 | 2.0  | 1                        | 41         | 41   | 37   | 40                       |
| -2                       | -5               | 3    | -5   | -2                       | 70         | 38   | 13   | 40                       |
| 4                        | 2                | -5   | 9    | 2                        | 36         | 42   | 35   | 38                       |
| 0                        | -8               | -5   | -1   | -5                       | 41         | 36   | 36   | 38                       |
| 0                        | -6               | -5   | 9    | -1                       | 33         | 38   | 39   | 37                       |
| -1                       | 0                | -5   | 5    | 0                        | 39         | 44   | 31   | 38                       |
| 5                        | 4                | 2    | 1    | 2                        | 41         | 52   | 43   | 45                       |
| 0                        | 5                | -4   | 0    | 0                        | 30         | 35   | 41   | 35                       |
| 1                        | -6               | -7   | 9    | 1                        | 36         | 49   | 38   | 41                       |
| -3                       | -4               | -2   | 4    | -1                       | 41         | 40   | 37   | 39                       |
| 5                        | 11               | 3    | 1    | 5                        | 37         | 46   | 42   | 42                       |
| 2                        | -2               | -3   | 2    | -1                       | 40         | 39   | 31   | 37                       |
| 5                        | -2               | -11  | 8    | -2                       | 34         | 47   | 36   | 39                       |
| -2                       | 7                | -5   | -1   | 0                        | 36         | 43   | 35   | 38                       |
| 5                        | 3                | 2    | 1    | 2                        | 39         | 43   | 37   | 40                       |
| 2                        | 8                | 8    | -8   | 3                        | 35         | 37   | 42   | 38                       |
| 13                       | 7                | 8    | -5   | 3                        | 39         | 36   | 44   | 40                       |
| 14                       | 2                | 15   | -3   | 5                        | 52         | 30   | 48   | 43                       |
| 7                        | 0                | 1    | 5    | 2                        | 36         | 45   | 40   | 40                       |

years, the recovery from the ebb in demand abroad; the efforts to improve export profitability, mainly by means of the creeping devaluation; the encouragement given in the past to investments in export enterprises; and cheap credit for working capital. In addition, it should be emphasized that in several new export branches expansion was made possible, to a great extent, due to special activity in the area of marketing abroad, acquiring advanced know-how, and independent research and development, which mainly took place in a small number of large firms. Most of the above-mentioned branches show a surprising degree of export concentration in the hands of a few large companies: about 84 percent of all exporting in the transport equipment branch was carried out in 1976 by only three exporters; in metal products the three largest firms accounted for about 74 percent of exports, and in the electricity branch, 72 percent<sup>3</sup>. Twenty-five firms exported more than half of the total of industrial exports (excluding diamonds) in the past year.

The problem of marketing and sales abroad, the penetrating of new markets, and the export of know-how resulting from domestic research and development – all form an important limitation to further development of industrial exports. Even the principal policy instrument for stimulating industrial investment – the Capital Investments Encouragement Law – actually discriminates against investments in research and development and in marketing systems abroad. These investments are not entitled to the same convenient terms granted for investments in buildings and plant. An additional limitation to the expansion of exports in the past year was the lack of worker mobility to enterprises equipped to handle export orders, fully utilizing existing capital, and employing more than one shift a day.

When different branches show opposite trends in their development, a drop in productivity can be expected to accompany marked changes in production destination.

This has in fact taken place for two years in a row; productivity has dropped by about one percent each year, after remaining unchanged the year before.

The average increase of about 4 percent in production in 1976 was accompanied by a growth of about 2 percent in labor input and by about 8 percent in real fixed capital stock. The rise in capital stock, which has been continuing for several years at a much higher rate than the rise in production, has led to a considerable accumulation of unutilized capital in various industrial branches. One of the causes of capital under-utilization and loss of the potential product which industry could achieve, may lie in the structural change in industry in the direction of new export branches. And indeed, a comparison of the branch distribution of capital stocks in the last few years with the distribution in 1965 and 1970 shows significant differences. On the one hand, there was an increase in the capital stocks of branches whose production for export increased<sup>4</sup>.

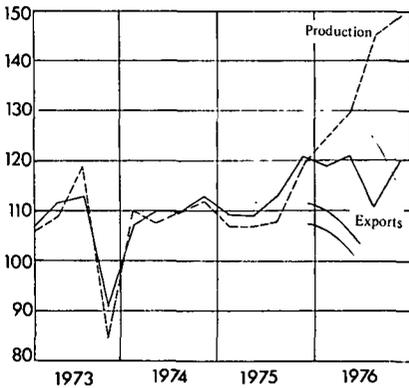
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<sup>3</sup> For full details of export concentration, see Table XIV-4.

Their share rose from about 21 to 31 percent over the whole period, most of the change occurring at the end of the period.

This took place while the share of exports in the output of these branches increased greatly, from an average of 12 percent in 1968–69 to about 22 percent in 1976. On the other hand, in branches where real production dropped or came to a standstill in recent years, much of the capital stock, most of which is not mobile, remained unused. Some

FIGURE XIV-1  
INDUSTRIAL PRODUCTION AND  
EXPORTS, 1973–1976  
(Quarterly, seasonally adjusted,  
at fixed price, 1972=100)



notable examples of this – mines and quarries (including Timna); basic metals; wood and wood products; plastics products; glass and other inputs for construction. The continuous drop in general industrial productivity reflects under-utilization of capital in these branches, together with latent unemployment. The output per man-day of labor increased in 1976 by only about 2 percent, in comparison to an average increase of 6 percent in the period between 1968 and 1972. In many sectors unemployment results from a lack of worker mobility in industry and in the economy at large, mainly as a result of inflexible institutional conditions. Unlike the case of the under-

utilized capital, there is no need to pay this heavy price for achieving the changes of production end uses: on the contrary, the lack of mobility limits the development of export firms.

The structural change in industry, expressed by the increased weight of the export branches in industrial capital stock, is also reflected in the rates of capital return and in producer profitability. The general rate of return on total capital<sup>5</sup> remained more or less at the same level as the previous year and the long-term average since 1973. It may be assumed that there were no outstanding changes in the profitability of the equity capital of industrialists. Nevertheless, there was an improvement in the relative profitability of the export branches in 1976. In addition, it is reasonable to assume that the export branches are generally more profitable than the branches or enterprises whose main production is for the domestic market – either because of the higher risk involved in export,

<sup>4</sup> The branches are: transport equipment, metal products, electrical products, and chemicals and petroleum. See details in Table XIV-5.

<sup>5</sup> See the definition in Table XIV-1, note f. A one percent change in this rate is within the margin of error, which is essentially true of most of the data and estimates in this chapter. Details of the sources of data and calculation methods of the rate of return will be presented in the Appendix to this chapter.

TABLE XIV-3

**ANNUAL CHANGES IN WHOLESALE INDUSTRIAL OUTPUT PRICES FOR  
DOMESTIC DESTINATIONS BY MAIN BRANCHES, 1974-1976**  
(percent)

|  | Annual change |      |      | Change throughout year <sup>a</sup> |      |      |
|--|---------------|------|------|-------------------------------------|------|------|
|  | 1974          | 1975 | 1976 | 1974                                | 1975 | 1976 |
| Total                                  | 51.5          | 40.8 | 30.9 | 69.7                                | 18.8 | 39.5 |
| Mining and quarrying                   | 74.8          | 44.8 | 30.8 | 69.5                                | 30.3 | 39.6 |
| Food, beverages, tobacco               | 53.8          | 57.7 | 26.5 | 111.8                               | 10.9 | 40.4 |
| Textiles                               | 43.8          | 27.1 | 40.5 | 52.5                                | 23.3 | 43.6 |
| Clothing                               | 32.9          | 22.9 | 40.5 | 36.1                                | 21.1 | 44.4 |
| Wood and wood products                 | 49.3          | 35.1 | 35.0 | 47.1                                | 31.6 | 38.0 |
| Paper and paper products               | 67.1          | 53.8 | 32.4 | 85.8                                | 28.7 | 39.2 |
| Leather and leather goods              | 39.4          | 12.1 | 57.9 | 27.0                                | 27.0 | 74.8 |
| Rubber and plastics                    | 64.5          | 33.8 | 31.3 | 56.9                                | 25.2 | 36.7 |
| Chemicals and petroleum                | 64.3          | 39.1 | 26.1 | 70.4                                | 21.4 | 33.2 |
| Nonmetallic mineral products           | 58.0          | 42.0 | 28.9 | 64.9                                | 21.7 | 33.8 |
| Basic metals                           | 68.2          | 35.8 | 29.1 | 71.4                                | 12.4 | 40.2 |
| Metal products                         | 56.4          | 30.5 | 27.6 | 64.1                                | 10.7 | 39.9 |
| Machinery                              | 41.8          | 43.1 | 33.2 | 57.0                                | 28.1 | 39.2 |
| Electrical and electronic<br>equipment | 39.6          | 33.7 | 31.3 | 44.2                                | 21.6 | 38.8 |
| Transport equipment                    | 31.9          | 43.9 | 28.0 | 55.2                                | 27.2 | 30.6 |
| Miscellaneous                          | 39.3          | 41.9 | 33.9 | 59.0                                | 22.6 | 47.6 |

<sup>a</sup> Change throughout the year is calculated on the basis of the price index for December of the year under discussion and January of the following year, compared to the January average of the year under discussion and December of the previous year.

SOURCE: Central Bureau of Statistics.

or because of the lower interest on directed credit for exporting enterprises. This increase in the weight of exports raises the profitability of industry. It may be deduced from this that total producer profitability was not affected in 1976.

The 39 percent increase in total wage payments during the past year, in contrast to a 36 percent growth in the industrial product, caused a slight decrease in total return on capital<sup>6</sup>. The wage per work-day rose by 5 percent more than the increase of producer prices. The wage increases per work-day were highest in electricity, machinery, transport equipment, chemicals and paper, while price increases for sales to the domestic market were especially large in textiles, clothing, leather and wood – mainly private consumption goods. The wage per work-day increased more in branches where there was an actual decrease in work-days and in the number of wage earners; in these branches marginal workers, whose wage is lower than the average (such as workers from the administered areas) were dismissed. It should be remembered that in many cases an especially high wage increase in one year is the compensation for a lower increase in the previous year, and there is a tendency to equalize the rates of wage increases over longer periods of time.

## 2. SALES, PRODUCTION AND LABOR INPUTS

The value of industrial output in 1976 was about IL 72 billion; more than 33 percent of this output was for export, either directly or indirectly. In the last three years the different development of sales to different markets stands out, as shown in the following chart:

### REAL OUTPUT, PERCENT ANNUAL CHANGE

|                           | 1974 | 1975 | 1976 | Average<br>1974–1976 |
|---------------------------|------|------|------|----------------------|
| Output to domestic market | 7    | 0    | –2   | 2                    |
| Exports                   | 8    | 3    | 23   | 11                   |
| Total industrial output   | 8    | 1    | 5    | 5                    |

Growth rates of production have been considerably lower in recent years than the average increase for all previous periods, which is about 12 percent. Nevertheless, the number of workers has increased, though at a very low rate. The general number of workers in industry is estimated at 290–300 thousand, of which about 260 thousand

<sup>6</sup> There should be reservations concerning this result, since there was a greater tendency in 1976 to record as wages the profits of owners of small firms.

TABLE XIV 4

## INDUSTRIAL EXPORTS BY MAIN BRANCH, 1974-1976, AND EXPORT CONCENTRATION, 1976

|                                    | Industrial export value         |       |       | Export share in branch output <sup>a</sup> |      |      | 1976 weight of<br>3 largest firms<br>in branch |     |
|------------------------------------|---------------------------------|-------|-------|--|------|------|--|-----|
|                                    | 1974                            | 1975  | 1976  | 1974                                       | 1975 | 1976 |  |     |
|                                    | (\$ million, at current prices) |       |       | (percent)                                  |      |      | (percent)                                      |     |
| Mining and quarrying               | 90                              | 84    | 62    | 52   | 39   | 49   | 100  | 100 |
| Food, beverages, tobacco           | 129                             | 126   | 155   | 10   | 9    | 10   | 9  | 32  |
| Textiles                           | 63                              | 52    | 61    | 25   | 25   | 28   | 41   | 58  |
| Clothing                           | 98                              | 104   | 125   |  |      |      | 21   | 30  |
| Leather and leather goods          | 7                               | 5     | 8     | 12   | 10   | 12   | 27   | 33  |
| Wood and wood products             | 15                              | 13    | 20    | 7  | 7    | 9    | 37   | 55  |
| Paper and paper products           | 4                               | 3     | 4     | 6  | 7    | 5    | 54   | 65  |
| Printing and publishing            | 19                              | 19    | 11    |  |      |      | 13   | 21  |
| Rubber and plastics                | 36                              | 45    | 54    | 20   | 24   | 28   | 66   | 73  |
| Chemicals and petroleum            | 218                             | 186   | 219   | 25   | 25   | 25   | 46   | 60  |
| Nonmetallic minerals               | 6                               | 6     | 7     | 3  | 3    | 3    | 61   | 86  |
| Basic metals                       | 23                              | 25    | 19    | 14   | 15   | 13   | 83   | 100 |
| Metal products                     | 65                              | 103   | 188   | 13   | 18   | 32   | 74   | 78  |
| Machinery                          | 27                              | 31    | 42    | 8  | 8    | 11   | 28   | 28  |
| Electrical and electronic products | 60                              | 98    | 112   | 15   | 22   | 23   | 72   | 83  |
| Transport equipment                | 40                              | 40    | 92    | 7  | 5    | 10   | 84   | 87  |
| Miscellaneous                      | 28                              | 30    | 42    | 33   | 30   | 41   | 14   | 22  |
| Total exports (excl. diamonds)     | 928                             | 970   | 1,221 | 14   | 15   | 18   | 18   | 29  |
| Diamonds, net                      | 563                             | 549   | 712   | 100  | 100  | 100  |  |     |
| Total industrial exports           | 1,491                           | 1,519 | 1,933 | 21   | 20   | 24   |  |     |

<sup>a</sup> Output and exports are at producer prices (including subsidies, excluding taxes), and at fixed 1968-1969 prices.

<sup>b</sup> Export rates do not include petroleum exports.

SOURCE: Central Bureau of Statistics, Bank of Israel.

are wage earners. In 1976 workers were added mainly in the export branches and those branches producing for private consumption: food, clothing, leather, metal products and diamonds.

The change in the number of work days was generally in the same direction as the change in the number of wage earners, except in the metal products branch, where the number of work days did not increase, though the number of wage earners grew by about 11 percent. It may be possible to find an explanation for this, but the branch data should be considered of low reliability. The rates of change of production, the number of work days and the wage per work day are shown by branch in Table XIV-2. A comparison of the development of production with the development of labor input in any given year, such as 1976, can be surprising, but this should be seen in light of the averages of the last years. Taken this way, there is nothing surprising about a 3 percent drop in the number of wage earners in the electricity and electronics branch during the past year, which was accompanied by an 8 percent rise in real production; nor should one be surprised at the 21 percent decrease in mining production in 1976, followed by an increase of only one percent in the number of wage earners.

The output per work day for industry as a whole grew in 1976 by about 2 percent in comparison with an increase of about 3 percent in the two previous years, and of more than 6 percent on the average in the period between 1968 and 1972. The greatest growth in output per work-unit, both in the past year and in the last three years together, was in the export branches — transport equipment, electrical and electronic equipment (about 9 percent) and diamonds (about 6 percent). In contrast, in the basic metals branch work productivity decreased by about 3 percent over the whole period. It appears that the accumulation of latent unemployment in those branches where production stayed at the same level or even dropped in the past years, did not bring about the dismissal of workers on a broader scale than in previous years. The total number of wage earners declined in five branches in 1976, in nine in 1975, and in five in 1974; however, there is a permanent downward trend in the number of work days and/or work hours per worker in every branch.

The different developments of the demand for industrial goods and of production are reflected in the changes in inventories of product and of inputs in factories. Total industrial inventory grew in 1976 at a nominal rate of 32 percent, or a real drop of about 4 percent<sup>7</sup>. The main quantitative decrease was in raw materials, where there is a high share of imports, after a considerable rise in previous years. There are several reasons for this reduction: the change in expectations of the industrialists concerning the development of prices abroad, exchange rates and the continuation of the slowdown in domestic demands; the increased cost of holding stocks due to the rise in interest rates on working capital. On the other hand, product inventories in several branches actually grew, as

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<sup>7</sup> Between the end of 1975 and the end of 1976 prices rose by about 38 percent.

TABLE XIV-5

**FIXED CAPITAL STOCK<sup>a</sup> BY INDUSTRIAL BRANCH, 1965, 1970, 1975, 1976**  
(percent)

|                           | Stock distribution |      |      | Annual change in quantity |                |
|---------------------------|--------------------|------|------|---------------------------|----------------|
|                           | 1965               | 1970 | 1976 | 1965-<br>1976             | 1975-<br>1976  |
| Total                     | 100                | 100  | 100  | 8                         | 7 <sup>b</sup> |
| Mining and quarrying      | 16                 | 15   | 10   | 5                         | 5              |
| Food, beverages, tobacco  | 16                 | 15   | 14   | 7                         | 6              |
| Textiles and clothing     | 16                 | 16   | 16   | 7                         | 6              |
| Wood and wood products    | 3                  | 3    | 3    | 8                         | 1              |
| Paper and carton          | 3                  | 3    | 3    | 8                         | 13             |
| Printing and publishing   | 2                  | 2    | 2    | 10                        | 4              |
| Leather and leather goods | 1                  | 1    | 1    | 10                        | 4              |
| Rubber and plastics       | 4                  | 4    | 4    | 9                         | 8              |
| Chemicals and petroleum   | 11                 | 10   | 13   | 9                         | 13             |
| Nonmetallic minerals      | 9                  | 7    | 6    | 3                         | 3              |
| Diamonds                  | 0                  | 0    | 0    | 10                        | -1             |
| Basic metals              | 5                  | 5    | 4    | 6                         | 9              |
| Metal products            | 5                  | 5    | 7    | 12                        | 9              |
| Machinery                 | 2                  | 3    | 4    | 14                        | 8              |
| Electrical equipment      | 2                  | 3    | 5    | 16                        | 10             |
| Transport equipment       | 3                  | 6    | 6    | 13                        | 4              |
| Miscellaneous             | 2                  | 2    | 2    | 7                         | 4              |

<sup>a</sup> Plant at beginning of year.

<sup>b</sup> The growth of real capital stocks in industry is different from the growth shown in Table XIV-1. The differences are due to different definitions and methods of calculation, due to the division of the sector into main branches.

SOURCE: Bank of Israel.

in branches producing inputs for construction, nonmetallic minerals, wood and wood products, as well as transport equipment. This involuntary stockpiling of completed products apparently testifies to both selling difficulties in these branches and to the varied timing of large sales.

### 3. EXPORTS<sup>8</sup> AND CAPITAL STOCKS

The steep real growth rate of industrial exports in 1976 is the combined result of suitable investments in fixed assets at the beginning of the 70's, the reduction of domestic demand in the last three years, easy demand terms and rising incomes abroad, and the promise of a high relative profitability in some export branches.

After several years of stability in the share of exports in general industrial sales, its weight rose in the past year by about 3 to 4 percent (see Table XIV-4). This rise is not unique to any particular branch, but characterizes most of the industrial branches. It is especially noticeable in metal products and transport equipment, whose output is directed to the public sector in Israel and abroad; the share of exports also grew in the last two years in clothing, rubber and plastics and "various industries" (a definition including precision instruments, optics and jewellery). Marketing, it seems, is one of the key problems for the expansion of exports in the future, and every producer must find suitable means for marketing his products.

A relatively small number of enterprises produces a considerable share of industrial exports. The three big<sup>9</sup> industrial exporters sold 18 percent of all exports (excluding diamonds); and the exports of 25 big enterprises represented about half of the total exports of 1976 (see Table XIV-4). This concentration is especially noteworthy in those branches whose export has increased recently — transport equipment, metal products, electronics, rubber and plastics.

The expansion of exports in 1976 was made possible, to a great extent, due to investments made over several years in labor-intense branches such as electricity and electronics. In this branch capital stocks grew at the highest rate in the last ten years — an annual average of about 16 percent.

The fixed capital stocks of the metal branches also expanded at considerable rates, higher than the average for industry as a whole (8 percent; see Table XIV-5). In contrast, the capital stock of branches mainly producing for the domestic market, such as food and nonmetallic minerals, grew at a below-average rate. The willingness of the producers

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<sup>8</sup> A wider discussion of industrial exports can be found in Chapter IV in the sections on exports.

<sup>9</sup> A "big exporter" in this context is also a merchant who markets goods in collaboration with many enterprises in the branch.

TABLE XIV-6

**DISTRIBUTION OF INDUSTRIAL PRODUCT BY FINAL USE<sup>a</sup>, 1968–1976**  
(percent)

|                               | Average<br>1968–1972 | 1973  | 1974  | 1975  | 1976  |
|-------------------------------|----------------------|-------|-------|-------|-------|
| Private consumption           | 36.4                 | 33.4  | 32.7  | 32.6  | 32.7  |
| Public consumption            | 15.4                 | 18.0  | 19.5  | 18.5  | 16.6  |
| Investment                    | 18.1                 | 19.9  | 18.4  | 18.4  | 15.2  |
| Total domestic uses           | 69.9                 | 71.3  | 70.6  | 69.5  | 64.5  |
| Exports to administered areas | 2.2                  | 2.5   | 2.6   | 3.1   | 3.1   |
| Exports to rest of world      | 27.9                 | 26.2  | 26.8  | 27.4  | 32.4  |
| Total exports                 | 30.1                 | 28.7  | 29.4  | 30.5  | 35.5  |
| Total final uses              | 100.0                | 100.0 | 100.0 | 100.0 | 100.0 |

<sup>a</sup> Central Bureau of Statistics data on direct final uses and Bank of Israel calculations based on the input-output table for 1968–1969. The data for 1974 should be accepted with caution, as the estimate of noncivilian public consumption is biased upward.

to turn a growing part of production to export products became firmer over a long period, owing to the joint pressure of a shrinking domestic market, accumulating production capacity, and the governmental stimulus policy. The benefits granted under the law for stimulating capital investments, and cheap directed credit, which supplies working capital for exporters, were an incentive for the expansion of exports, but also for over-investments. The excess production capacity which accumulated in many branches could have produced a considerable addition for export, either of goods not yet fully marketed abroad, or in enterprises having difficulties in finding additional workers. It would have been possible to double or triple the production of certain industrial products for foreign orders, only if the plant could be operated during two or three shifts per day. However, the problem of workers lacking in these branches is focused on worker mobility – namely, the possibility of dismissing workers from branches with latent unemployment and receiving them at the same conditions and full rights (including pension) in places where they are needed.