

CHAPTER II

RESOURCES, USES, AND INCOMES

1. MAIN DEVELOPMENTS

THE GROWTH of demand, which began in the middle of 1967, carried over through the year reviewed, being reflected by a rapid increase in the national product, incomes and employment, as well as by a sharp rise in the import surplus and the shrinkage of foreign exchange reserves. The relative stability of the price level, however, was maintained.

Domestic resource use expanded by approximately 15 percent in 1968, compared with 3 percent the year before. Public consumption grew by 7.5 percent, and this after an unprecedented rise of 36 percent in 1967. Private consumption and investment demand likewise expanded appreciably during the year reviewed. Total private consumption was up 12 percent in real terms, after remaining stable in 1967, while per capita the increase was 8.2 percent, following a drop in 1967. There was an especially strong rise in durable goods spending in 1968. Gross domestic capital formation, which had been declining since 1965, expanded by 44 percent. Fixed nondwelling investment regained its level of 1964-65, but investment in residential construction was still well below the figure for these two years. The gross national product increased by 13.2 percent in real terms, following a rise of only 1 percent in 1967. The large reserve of idle factors of production, which marked the period of economic slowdown, contracted sharply. Gainful employment advanced 9 percent in 1968, after declining by 5 percent the year before, and the average rate of unemployment fell from 10.5 percent of the civilian labor force in 1967 to 6 percent in 1968. In the last quarter of 1968 the figure dipped to 5.5 percent, and the downward trend carried over into the early months of 1969.

The much stronger demand in 1968 was not reflected by a significant rise in prices, since there was still some unemployment in the economy, wages went up relatively little, and part of the demand was for imports. The consumer price index edged up by some 2 percent during the year, and the wholesale price index of industrial output by 3 percent. Thus prices remained relatively stable in 1968, in contrast to the steep rise of previous boom periods.

The intensification of economic activity resulted in a substantially higher income level. Disposable private income per capita from domestic sources expanded in 1968 by 9 percent in real terms, after remaining unchanged in 1967 and declining by 2 percent in 1966. Since wages were comparatively

Table II-1
RESOURCES AND USES, 1966-68

	IL million, at current prices			Percent increase or decrease (-) in quantity				Percent increase or decrease (-) in price			
	1966	1967	1968	Average 1961-65	1965 to 1966	1966 to 1967	1967 to 1968	Average 1961-65	1965 to 1966	1966 to 1967	1967 to 1968
Uses											
Private consumption	7,909	8,113	9,289	10.3	3.1	1.4	11.9	7.2	7.5	1.2	2.3
Public consumption	2,627	3,599	4,109	10.1	8.3	36.0	7.5	10.3	11.6	0.7	6.2
Gross investment	2,597	1,924	2,945	10.8	-14.8	-26.3	44.0	8.7	0.9	0.5	6.3
Total domestic uses	13,133	13,636	16,343	10.4	-0.4	2.9	15.3	8.1	6.9	0.9	4.0
Resources											
Imports ^a	3,788	4,349	6,325	12.3	1.4	12.2	27.7	11.1	2.0	2.3	13.9
Exports ^b	2,536	2,811	4,027	13.3	12.0	8.5	25.8	13.1	3.8	2.1	13.9
Import surplus	1,252	1,538	2,298	11.1	-14.2	19.9	31.3	8.9	-1.6	2.4	13.9
Gross national product	11,881	12,098	14,045	10.3	1.5	1.1	13.2	7.9	8.0	0.7	2.6
Total resources	13,133	13,636	16,343	10.4	-0.4	2.9	15.3	8.1	6.9	0.9	4.0

^a Valued at c.i.f. prices and at the official exchange rate; includes imports from the administered areas. The value of imports cited here differs from that in the balance of payments, since this table does not include interest paid abroad by the public sector.

^b Valued at f.o.b. prices and at the official exchange rate. Includes exports to the administered areas; excludes interest received by the public sector from abroad.

SOURCE: Central Bureau of Statistics.

stable, it follows that the growth occurred predominantly in nonwage incomes, which had declined during the period of economic retrenchment. Real income per capita from all sources¹ grew by approximately 11 percent—here too after holding steady in 1967 and falling in 1966.

Gross national saving expanded by IL 260 million in 1968, after contracting by some IL 960 million the year before, and totalled IL 650 million—i.e. 22 percent of gross domestic capital formation and 4.5 percent of the gross national product. While these ratios are somewhat higher than in 1967, they are far below those for the years 1960–65; this is ascribable to the big public sector dissaving, which totalled approximately –IL 1,500 million, the same as in 1967. Private sector saving continued upward in 1968: the rate of net saving from disposable income from domestic sources edged up from 7.9 percent in 1967 to 8.0 percent, but that from disposable income from all sources rose from 15.5 to 17.2 percent. Net national saving was negative, totalling –IL 700 million.

Export growth accelerated in 1968,² particularly of industrial goods and tourist and transport services. Total exports increased by 26 percent, compared with 9 percent in 1967, and reached IL 4,030 million. Imports expanded at an even faster rate—by 28 percent—to stand at some IL 6,330 million. The import surplus was, at IL 2,300 million, 31 percent above the 1967 figure. The much larger current deficit was reflected by a rise in the weight of the import surplus within total available resources from 10–11 percent in 1966 and 1967 to 14 percent in the year surveyed, and by a sizable decrease in foreign currency balances.

2. ECONOMIC TRENDS IN 1968

In 1967 the Government followed a reflationary, higher spending, policy in view of the mounting unemployment and sagging economic activity. In the middle of 1967 the downward trend in economic activity was reversed, following a huge rise in Government outlays due to the war and tense security situation. The much heavier Government spending, which was covered by deficit financing, stimulated activity in the various productive sectors and led to the rapid growth of employment and incomes. These developments, coupled with the optimistic expectation of their continuation, were reinforced by the marked increase in private consumption and investment demand. The effects of these trends were already felt in the second half of 1967. Gainful employment moved up 2.4 percent during the last six months of the year, after declining by 4.5 percent in the first half, while the number of jobless fell by some 18 percent in the second half, after rising by 16 percent in the first half. There was also an upswing in private consumption and investment demand and in imports, following an opposite trend in the first half of 1967.

¹ Including private transfers from abroad.

² Import and export data have been calculated in IL terms and at constant prices; they include trade with the administered areas.

Public consumption continued upward in 1968, contributing to the expansion of aggregate demand. The growth rate—7.5 percent—was slower than in the previous year, when the figure was the highest ever. Other factors—which were of relatively lesser importance in 1967—also helped to stimulate demand in the year reviewed. One was the sharp acceleration of investment, which was connected not only with the growth of civilian demand but also with the swelling defense requirements. Secondly, exports were stepped up appreciably in 1968, especially of industrial goods and tourist and transport services. This rapid growth of exports and investment, as well as the continued upsurge of public consumption, led to an increase in employment and incomes. This in turn further stimulated private consumption demand, giving added impetus to the revival of economic activity.

The growth of demand at a time when there was still considerable underemployment of factors of production was reflected by a decline in the number of jobless and a conspicuous rise in employment and in the national product. The unemployment rate fell from an average of 10.5 percent of the civilian labor force in 1967 to 6 percent, while the number of gainfully employed increased by 9 percent, after having declined by 4.5 percent in 1967. Gross national product expanded by nearly 13 percent in 1968, following a standstill during the recession. Despite the much stronger rate of economic activity in 1968, there was still some underutilization of the available factors of production. In the last quarter of the year unemployment still amounted to 5.5 percent of the civilian labor force, compared with 3.5 percent in the previous boom period. The labor force participation rate at the end of 1968 was also lower than in the prerecession years. However, toward the end of 1968 a shortage of skilled labor

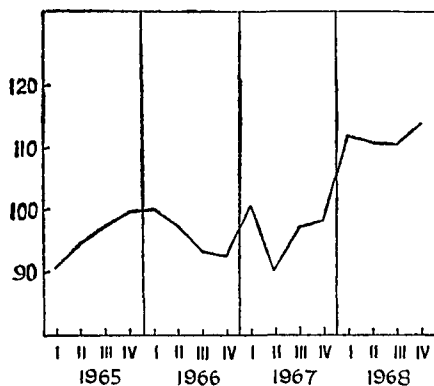
began to be felt in various branches, and provisional data for the first months of 1969 indicate that the number of idle workers continued to decline.

GNP expanded at an exceptionally strong rate at the beginning of the year reviewed, but apparently slowed down thereafter; this is suggested by a number of employment and output indicators (see the discussion of the national product below). This deceleration presumably did not signal a turn in the economic growth rate, but was a natural outcome of the emergence from the recession. This process began with a jump in demand, which in part was due to special, nonrecurrent factors. After the influence of these factors diminished,

Diagram II-1

**GROSS NATIONAL PRODUCT,
QUARTERLY, 1965-68***

(Average for entire period=100)



* Based on quarterly sectoral estimates.

demand continued upward, but at a more moderate pace. It can also be assumed that as the economy approached a state of full employment, the possibilities of rapidly adjusting the production system to demand decreased, so that bottlenecks arose on the supply side. Indeed, at the end of 1968 there were already signs of a shortage of skilled labor in various branches, side by side with unemployment in certain other categories of labor.

The much larger aggregate demand in 1968 did not result in a significant rise of prices. The consumer price index went up by 2 percent and the wholesale price index of industrial output by 3 percent, about the same rates as in 1967. Thus prices held fairly steady compared with 1961–65. The relative stability of the price level in 1968, despite the growth of demand, is explained by two main factors: first, a large percentage of the demand was for goods and services with a relatively high import component, so that it did not press on the domestic price level. Secondly, because of the unemployment still existing in the country, there was no rise in production costs. The wage-freeze agreements could be implemented, with the result that nominal earnings per employee advanced only 3 percent, while hourly earnings remained unchanged. In addition, there was surplus production capacity in most branches, and this made it possible to expand output without pushing up unit production costs.

The growth of demand found expression in a much larger balance of payments deficit on current account. While 1968 saw an impressive expansion of exports, especially of industrial goods and tourist services, imports went up even more rapidly, so that the import surplus increased by 31 percent. The worsening of the current deficit resulted, for the first time in many years, in a heavy drain on the economy's dollar reserves.

3. RESOURCES AND USES

(a) *National product*

Gross national product increased by 13.2 percent in 1968, after remaining relatively stationary in 1966–67. All the major sectors reported gains, with industry, construction, and transportation and communications leading the way. Industrial output expanded by 29 percent in 1968, after declining by some 4 percent the year before. Construction showed a 21 percent advance, compared with a decline of 16 percent in 1967. In transportation and communications the figure was up 25 percent, after remaining stable in 1967. The public sector likewise experienced a significant rise of about 10 percent. The agricultural product remained unchanged, following a considerable expansion in 1967, which was due primarily to the favorable weather conditions that year.

These differential growth rates changed the sectoral composition of the product somewhat. A comparison with 1966–67 shows a striking rise in the share of the industrial sector. As compared with 1965, the main changes were

Table II-2
NATIONAL PRODUCT AND ESTIMATED REAL CHANGE, BY SECTORAL ORIGIN, 1966-68
 (IL million, at current prices)

	1966			1967			Real change in GNP (%) ^b	
	Net national product at factor cost	Depre- ciation and net indirect taxes on domestic output ^a	Gross national product at market prices (1+2)	Net national product at factor cost	Depre- ciation and net indirect taxes on domestic output ^a	Gross national product at market prices (4+5)	1967	1968
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Agriculture								
Industry	727.8	-33.2	694.6	835.9	-36.4	799.5	20.6	0.4
Construction	2,136.8	804.1	2,940.9	2,094.5	745.8	2,840.3	-3.3	30.0
Transportation and communications	783.8	121.6	905.4	691.8	135.5	827.3	-16.0	21.0
Public sector and nonprofit institutions	793.1	348.1	1,141.2	826.3	373.7	1,200.0	1.0	25.0
Housing ^c	2,015.5	113.8	2,129.3	2,190.6	132.1	2,322.7	11.2	10.0
Finance, commerce, and personal services	587.9	568.2	1,156.1	605.3	592.3	1,197.6	5.4	4.0
Subtotal	2,286.1	143.4	2,429.5	2,363.6	135.0	2,498.6	-4.6	8.4
Taxes on imports	9,331.0	2,066.0	11,397.0	9,608.0	2,078.0	11,686.0	0.9	15.5
			484.0			412.0		
Gross national product			11,881.0			12,098.0		

^a Indirect taxes on domestic output are net of subsidies (domestic and export). The sectoral allocation of depreciation (including some other adjustments) is based on A.L. Gaathon's estimates.

^b Average change (all sectors) weighted by base-year distribution of gross national product at market prices (columns 3 and 6). The changes in each sector were estimated as follows: agriculture and industry—direct estimates (see Chapters XI and XII); construction—real rate of change in investment in buildings and earthwork; transportation and communications—real rate of change in gross output (see Chapter XIV); public sector and nonprofit institutions—according to total wage bill (the major component), deflated by the rise in hourly wages; housing—according to real change in stock of dwellings (see Chapter IV); finance, commerce, and personal services—according to National Insurance wage data, deflated by the rise in hourly wages.

^c Most of this item is an imputation.

SOURCE: Central Bureau of Statistics.

the larger shares of industry and the public sector and the smaller shares of construction and housing.

The growth of GNP, as already mentioned, was particularly rapid at the beginning of 1968, slowing down later on (see Diagram II-1). One of the relevant indicators is developments in the sphere of employment during the year. In the first half of 1968 the number of gainfully employed went up 5.2 percent as compared with the last half of 1967, while the number of jobless dropped 29 percent. In the second half of the year, gainful employment moved up only 3.5 percent compared with the first half, while unemployment fell by another 11 percent. A further indicator is the index of industrial production; this rose faster in the early months of 1968.

Table II-3

SECTORAL ORIGIN OF GROSS NATIONAL PRODUCT, AT FACTOR COST, 1965-68
(percentages, at current prices)

	1965	1966	1967	1968
Agriculture	8.3	7.8	8.7	7.8
Industry	24.0	22.9	21.8	24.6
Construction	9.9	8.4	7.2	7.5
Transportation and communications	8.1	8.5	8.6	8.8
Public sector and nonprofit institutions	19.1	21.6	22.8	20.8
Housing	6.7	6.3	6.3	5.9
Finance, commerce, personal services	23.9	24.5	24.6	24.6
Total	100.0	100.0	100.0	100.0

SOURCE: Based on Table II-2.

After a strong spurt in the early part of the year—which, as already mentioned, was associated with special factors—demand continued upward in the second half of 1968, but at a more moderate pace. The decelerated growth of the product during the second half of the year apparently reflected the development of demand over the year and the adjustment of production to changes therein. Presumably the potential GNP growth rate also slowed down as the economy approached a state of full employment; in fact, toward the end of 1968 skilled labor was already in short supply in some branches. The development of the product during the year thus reflected the transition from a situation of large-scale unemployment to a state of full employment—a process that evidently was not yet completed at the end of 1968, when there was still a substantial reserve of idle factors of production.

(b) *Import surplus*¹

The adverse balance in the country's goods and services account grew by a further 31 percent in 1968, after rising by 20 percent the year before. The 1968 import surplus reached IL 2,300 million, or some 14 percent of total resources at the disposal of the economy, as compared with some 11 percent in 1967 and 10 percent in 1966. Thus the weight of the import surplus within total resources returned to its level of 1960-64 (see Table II-4).

The steep rise in the import surplus in 1968 was not due to the same factors that were responsible for the 1967 increase. While the trend of the economy turned in 1967, on balance this was a year of stability in economic activity and an improvement in the trade balance. On the other hand, the deficit on services account grew by approximately IL 600 million in 1967, mainly because of the huge increase in foreign currency outlays on security. In 1968 Government imports grew more slowly, while exports of industrial goods and tourist and transportation services expanded at a relatively strong rate. On the other hand,

Table II-4
COMPOSITION OF RESOURCES AND USES, 1960-68

(percentages; at current prices)

	Annual average 1960-64		1965		1966		1967		1968		
Uses											
Private consumption	57.7		57.9		60.2		59.5		56.8		
Private consumption	17.1		17.6		20.0		26.4		25.1		
Gross investment	25.2		24.5		19.8		14.1		18.1		
Total uses	100.0		100.0		100.0		100.0		100.0		
Resources											
Import surplus	14.2 ^a	17.7 ^b	12.0 ^a	15.7 ^b	9.5 ^a	12.5 ^b	11.3 ^a	13.0 ^b	14.1 ^a	16.7 ^b	
GNP	85.8 ^a	82.3 ^b	88.0 ^a	84.3 ^b	90.5 ^a	87.5 ^b	88.7 ^a	87.0 ^b	85.9 ^a	83.3 ^b	
Total resources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

^a At the official exchange rate.

^b At the effective exchange rate.

SOURCE: Central Bureau of Statistics.

¹ Import and export data include trade with the administered areas.

commodity imports soared 42 percent in 1968; this was partly connected with the higher level of current economic activity, and in part it reflected the comparatively low level of investment during the recession, the smaller volume of durable goods purchases during this period, and the running-down of inventories in 1967.

The crucial problem facing Israel's economy—the big deficit on current account—thus became more acute in 1968, being reflected for the first time in many years by a substantial depletion of foreign exchange reserves.

(c) *Composition of domestic resource use*

Domestic resource use increased by approximately 15 percent in 1968, as compared with a rise of only some 3 percent the year before and virtual stability in 1966. The biggest increases were in investment and private consumption. The former went up 44 percent, after having contracted in 1965–67. This still did not bring the level up to that of 1964–65, since residential construction was far below its prerecession volume. Gross fixed nondwelling investment (i.e. total investment less that in dwellings and changes in inventories) expanded by 39 percent in 1968, and practically regained its level of 1964–65. Despite this relatively strong growth of capital formation, the economy's capital stock was only 6 percent larger in 1968, compared with a 10–11 percent annual rise during the boom period. This can be ascribed to the sharp cutback in investment during the economic slowdown. The weight of investment in total domestic uses was 18 percent in 1968, compared with approximately 17 percent in 1966–67. During the years of buoyant activity (1960–64), the economy allocated an average of 25 percent of its available resources to investment.

The growth of private consumption slowed down to an average of some 2 percent in 1966–67, compared with 10–11 percent during the first half of the decade. However, its weight in total domestic uses edged up from an average of 57.7 percent in 1960–65 to 60 percent. In 1968 growth amounted to 12 percent, but this was not enough to keep the weight of this item from declining to 57 percent.

Whereas the changes in investment and private consumption reflect the emergence of the economy from the recession, the changes in public consumption were connected chiefly with the heavier security spending since 1967. Owing to the sharp rise in such outlays, public consumption went up in 1967 by 36 percent in real terms, and its weight in total domestic uses rose from an average of 17 percent in 1960–65 to 26.5 percent. Following the steep increase in 1967, public consumption expanded by a further 7.5 percent in 1968, absorbing approximately 19 percent of the economy's incremental resources. While the expansion of public consumption was more moderate in 1968, it should be noted that the growth this year occurred at a time when the economy was approaching a state of full employment.

The years 1966–67 witnessed drastic changes in the allocation of available resources, the main ones being the decline in the share of investment—which slowed down the growth of capital stock—and the rise in the share of public consumption. While investment was much higher in 1968, its weight in total domestic uses was still below the level of 1960–64.

4. PRODUCTIVITY¹

In 1961–65 gross national product rose at an average annual rate of 10 percent in real terms. This rapid expansion is only partly explained by the quantitative increase in the factors of production at the economy's disposal—i.e. the stock of capital assets and the number of gainfully employed. Much of the growth can be attributed to the rise in factor productivity, which stemmed from technological advances and from an improvement in the quality and allocation of the factors of production.

Table II-5
CHANGES IN THE REAL PRODUCT, FACTORS OF PRODUCTION,
AND PRODUCTIVITY, 1961–68^a

(percentages)

	Annual average 1961– 1965	1966	1967	1968	Annual average 1966– 1968
Real gross national product	10.6	–0.5	–0.8	14.9	4.5
Labour input					
Gainfully employed	4.6	–1.4	–5.5	9.5	0.9
Man-days	4.4	–1.4	–10.5	14.1	0.7
Stock of fixed reproducible assets at the beginning of year	10.3	8.8	5.8	4.3	6.3
Product/labor ratio					
Per gainfully employed	5.7	0.9	5.0	4.9	3.6
Per man-day	5.9	0.9	10.8	0.7	4.1
Product per factor unit (factor productivity)					
Measured by number of gainfully employed	4.4	–1.9	2.5	6.4	2.3
Measured by number of man-days	4.4	–1.9	6.8	3.1	2.7

^a In measuring the quantitative change in factors of production for the purpose of calculating the change in productivity, the changes in the labor and capital inputs have been weighted according to the weights of the return on labor and capital. The data exclude the public sector, nonprofit institutions, and housing.

¹ Productivity is defined here as the product per combined unit of capital and labor. The input of capital and labor has been calculated according to the preceding year's weights of the return on capital and labor. The calculations of the product, capital, employment, and productivity in this section exclude the public sector, nonprofit institutions, and housing.

In order to measure productivity in this sense, we have to estimate the actual input to production and exclude idle factors. But as this cannot be done satisfactorily by the conventional methods of measurement (measured productivity largely reflects changes in factor utilization during periods of fluctuating business activity rather than productivity in the usual sense), the data on measured productivity for the years 1966–68 are of limited significance only.

The economy slowed down appreciably in 1966, and the national product edged up by a mere 1 percent. The advancing trend in productivity was likewise checked in 1966, owing mainly to the lower factor utilization rate. On the other hand, the stock of capital assets increased considerably that year, but the utilization rate fell. The deceleration of economic activity in 1966 was not immediately reflected by a decrease in the gainfully employed labor force, so that there was apparently some hidden unemployment. Consequently, productivity declined by approximately 2.5 percent. In 1967 a number of factors, acting in opposite directions, influenced productivity. On the one hand, there was a further decline in the utilization of capital stocks, and this tended to depress productivity. On the other hand, there was a substantial contraction of employment, so that hidden unemployment apparently declined. Another factor helping to raise productivity in 1967 was the favorable weather conditions, which led to a sizable increase in agricultural output. Productivity went up by 6.8 percent in 1967 if the labor input is measured by the number of man-hours, but by only 2.5 percent if the labor input is measured by the number of gainfully employed.

In 1968 productivity rose steeply, mainly because of the greater utilization of capital with the expansion of economic activity. The level moved up by 3.1 percent if the labor input is measured according to the number of man-hours, and by 6.4 percent if it is measured by the number of gainfully employed. Industry experienced the most noticeable advance: output per industrial worker (which is an indicator of the change in productivity) rose by 12 percent in 1968, after an increase of 2 percent the year before. Output per man-day in this sector expanded by 8.2 percent in 1968, as against 4.4 percent in 1967.

5. INCOMES

The buoyant state of the economy in 1968 was reflected by a substantially higher income level. Per capita private income from economic activity rose by approximately 9.5 percent in real terms, after having declined in 1966 and 1967 (see Tables II-6 and II-8). Disposable private income per capita from domestic sources was up some 8.5 percent in real terms, after declining in 1966 and remaining stable in 1967.

Income tax payments slowed down in 1967, owing to the slower growth of incomes and the progressive nature of the tax. On the other hand, transfer payments were considerably larger, so that disposable income from domestic

Table II-6
CHANGES IN INCOMES AND INCOME DISTRIBUTION, 1963-68
(percentages)

	1963	1964	1965	1966	1967	1968
Real private income from economic activity (per capita)	9.8	6.2	8.5	-1.8	-1.5	9.4
Real disposable income from domestic sources (per capita)	9.3	5.3	8.5	-2.0	0.8	8.5
Real disposable income from all sources (per capita)	7.1	3.7	6.1	-3.1	0.8	10.8
Real income per gainfully employed ^a	10.5	4.3	9.0	1.4	6.2	4.7
Real wage income per employee ^b	4.7	7.0	9.4	10.3	-1.2	0.9
Index of inequality in the distribution of wage income ^c	0.304	0.326	0.362	0.339

^a Excludes imputed income from home ownership. The number of gainfully employed is from manpower surveys.

^b Wages per employee according to data of the National Insurance Institute, deflated by the rise in the consumer price index.

^c The Lorenz index, calculated according to income survey data of the Central Bureau of Statistics. The index stands at 0 when there is complete equality in the distribution of incomes, and at 1 when there is complete inequality.

sources outpaced income from economic activity. The rise in incomes and the progressiveness of the tax accelerated income tax collections in 1968, and revenue from this source went up more rapidly than income from economic activity—26 as against 15.5 percent. This was accompanied by the continued growth of net transfer payments to the public, which advanced 21.5 percent. The resultant of the faster expansion of tax revenue and the continued growth of transfer payments to the public was a rise of 14.5 percent in disposable private income, as compared with 15.5 percent in private income from economic activity.

Disposable per capita income from all sources was up 10.8 percent in real terms, after remaining stable in 1967 and declining in 1966. This substantial rise reflects the higher IL value of transfers to the public from abroad; these soared 40 percent in 1968, as contrasted with 6 percent in 1967, and reached IL 1,095 million, or some 10 percent of disposable private income from all sources. The growth of this item was due to the larger volume of dollar transfers and to the devaluation of November 1967, which increased their value in terms of Israeli pounds.

Nonwage incomes increased at an especially rapid rate in 1968 (see Table II-6). Real income per gainfully employed advanced by some 5 percent, while wage earnings per employee rose by only 1 percent. The previous year showed a similar picture: real income per gainfully employed increased by approximately 6 percent, while wage earnings per employee even declined somewhat. These

Table II-7

NATIONAL PRODUCT AND INCOME 1960-68

(IL million, at current prices)

	1960	1961	1962	1963	1964	1965	1966	1967	1968
1. Gross national product	4,527	5,438	6,522	7,847	9,132	10,845	11,881	12,098	14,045
2. Indirect taxes on domestic output	493	634	721	850	980	1,071	1,256	1,261	1,394
3. Subsidies on domestic output	88	73	98	133	153	176	200	202	244
4. Net taxes on domestic output (2-3)	405	561	623	717	827	895	1,056	1,059	1,150
5. Taxes on imports	263	339	336	354	425	489	484	412	663
6. Export subsidies	105	148	44	31	34	43	95	171	235
7. Import taxes net of export subsidies (5-6)	158	191	292	323	391	446	389	241	428
8. Total indirect taxes, net (4+7)	563	752	915	1,040	1,218	1,341	1,445	1,300	1,578
9. Depreciation	362	438	623	748	853	990	1,105	1,190	1,317
10. National income*	3,602	4,248	4,984	6,059	7,061	8,514	9,331	9,608	11,150

* According to the GNP approach (the production account).
 SOURCE: Central Bureau of Statistics.

Table II-8
PRIVATE INCOME, 1964-68
(IL million, at current prices)

	1964	1965	1966	1967	1968	Percent increase or decrease (-) as against previous year			
						1965	1966	1967	1968
1. National income	7,061	8,514	9,331	9,608	11,150	20.6	9.6	3.0	16.0
2. Public sector income from property	184	204	281	261	355	10.9	37.7	-7.1	36.0
3. Private income from economic activity (1-2)	6,877	8,310	9,050	9,347	10,795	20.8	8.9	3.3	15.5
4. Total compulsory payments	996	1,227	1,480	1,460	1,819	23.2	20.6	-1.4	24.6
Income tax	815	993	1,146	1,128	1,420	21.8	15.4	-1.6	25.9
National Insurance contributions	181	234	334	332	399	29.3	42.7	-0.6	20.2
5. Transfer payments, net	476	597	766	926	1,125	25.4	28.3	20.9	21.5
6. Total compulsory payments, less transfer payments (4-5)	520	630	714	535	694	21.2	13.3	-25.2	30.0
7. Disposable private income from domestic sources (3-6)	6,357	7,680	8,336	8,813	10,101	20.8	8.5	5.7	14.6
8. Private transfers from abroad	800	770	740	784	1,124	-3.7	-3.9	5.9	43.4
9. Disposable private income from all sources (7+8)	7,157	8,450	9,076	9,597	11,225	18.1	7.4	5.7	17.0
10. Gross disposable private income from all sources ^a	8,010	9,440	10,181	10,787	12,542	17.9	7.8	6.0	16.3

^a Including depreciation.

SOURCE: Central Bureau of Statistics.

developments followed a steep rise of about 10 percent in real earnings per employee in 1966, whereas average real income per gainfully employed edged up only 1 percent. The changed income distribution in 1967 and 1968 apparently represents a return to the 1965 pattern of income distribution between employees and nonemployed. In 1965 the weight of the wage bill in total private income from economic activity¹ was approximately 70 percent; in 1966 it rose to 76 percent, but in the following year it again moved downward, followed by a rise in 1968 which brought the figure back to its 1965 level of some 70 percent.

It should be stressed that a comparison of the incomes of employees with those of other gainfully employed can only serve as a rough indicator of trends in income distribution, since the average income per employee does not differ significantly from that per self-employed.² It would be more relevant to examine the changes in income distribution according to a more significant yardstick, e.g. income groups. The existing data make it possible to examine only the distribution of the incomes of wage-earners' families according to this criterion. Such an analysis shows that the inequality of income distribution among employees' families was narrowed in 1968, after widening in 1967. These fluctuations in income distribution apparently reflect the changes that occurred in employment during these years: the decline in employment in 1967 resulted in a greater degree of inequality, while the expansion of employment in 1968 had the opposite effect.

6. NATIONAL SAVING

Gross national saving increased by IL 260 million in 1968, after declining sharply the year before, and totalled IL 650 million. Despite this growth, the rate was still substantially smaller—in relation to both the national product and capital formation—than in the prerecession years. The ratio of gross saving to gross national product was less than 5 percent, compared with 13–14 percent in 1960–65. In 1968 gross national saving amounted to only 20 percent of gross domestic investment, whereas in 1960–65 it averaged 45 percent.

Though net national saving increased by approximately IL 130 million in 1968, it remained negative, totalling –IL 670 million.

The growth of national saving was the resultant of two contrary trends: a substantial increase in private sector saving and large-scale public sector dissaving, as in 1967.

Gross private saving from gross disposable income from domestic sources increased by some IL 240 million to reach IL 2,130 million, or approximately 19 percent of gross disposable income (see Table II–10). Net saving from disposable income from domestic sources expanded by about IL 110 million, and amounted

¹ Excluding imputed income from home ownership.

² See the saving surveys for 1963/64 and 1964/65.

Table II-9
NATIONAL SAVING, 1964-68
(IL million, at current prices)

	Gross national product	Depreciation	Net national product	Gross saving from GNP		Net saving from NNP	
				IL m.	%	IL m.	%
1964	9,132	853	8,279	1,302	14.3	449	5.4
1965	10,845	990	9,855	1,536	14.2	546	5.5
1966	11,881	1,105	10,776	1,345	11.3	240	2.2
1967	12,098	1,190	10,908	386	3.2	-804	-7.4
1968	14,045	1,317	12,728	647	4.6	-670	-5.3

SOURCE: Central Bureau of Statistics.

to about 8 percent of such income. Gross saving from disposable income from all sources (i.e. including transfers from abroad) grew by some IL 580 million and totalled IL 3,250 million, or approximately 26 percent of such income. As can be seen from Table II-10, though private saving expanded appreciably, there was no significant change in the rate of saving relative to income, which remained at much the same level as in 1967. The stability of the rates of private saving

Table II-10
GROSS AND NET PRIVATE SAVING,^a 1964-68
(at current prices)

	Gross saving from gross private income from domestic sources ^b		Net saving from net disposable private income from domestic sources ^c		Gross saving from gross private disposable income from all sources ^d		Net saving from net private disposable income from all sources ^e	
	IL m.	%	IL m.	%	IL m.	%	IL m.	%
1964	1,123	15.6	270	4.2	1,923	24.0	1,070	15.0
1965	1,534	17.7	544	7.1	2,304	24.4	1,314	15.6
1966	1,532	16.2	427	5.1	2,272	22.3	1,167	12.9
1967	1,890	18.9	700	7.9	2,674	24.8	1,484	15.5
1968	2,129	18.6	812	8.0	3,253	25.9	1,936	17.2

^a Including nonprofit institutions.

^b Gross national product, less net current revenue of the public sector from the public and private consumption.

^c Gross disposable income from domestic sources, less depreciation and private consumption.

^d Gross private disposable income from domestic sources, plus transfers to the private sector from abroad, less private consumption.

^e Gross disposable private income from all sources, less depreciation and private consumption.

SOURCE: Central Bureau of Statistics.

during the year reviewed was the resultant of several influences operating in different directions. On the one hand, the very emergence of the economy from the recession and the optimistic atmosphere engendered thereby apparently induced consumers to spend more than their incremental earnings, after having reduced their current consumption and purchases of durable goods in the two preceding years. On the other hand, the changes in income distribution in 1968 tended to increase the average rate of private saving. The biggest increase was in nonwage incomes (see the section on incomes), the propensity to save from which is apparently higher than for wage earnings. Another factor operating in the same direction was the contraction of unemployment. In 1967 there was a large number of unemployed, whose contribution to saving was negative. In 1968 a considerable percentage of the unemployed found work, so that their dissaving decreased, thereby exerting an upward effect on the average rate of national saving.

The combined effect of these factors was a comparatively stable saving rate compared with 1967, but slightly higher than the prerecession years (see the detailed discussion in Chapter IV, "Private Consumption and Saving").

The public sector continued to dissave in 1968 on about the same scale as in 1967—approximately -IL 1,500 million. It had a negative saving in several other years as well (see Table II-11), but because of the enormous defense outlays in the last two years, the dissaving reached unprecedented proportions and depressed national saving to a marked extent during this period.

Table II-11

**GROSS SAVING FROM GROSS NATIONAL PRODUCT, BY SECTOR,
1964-68**

(IL million, at current prices)

	Private sector saving	Public sector saving	Total gross saving
1964	1,123	179	1,302
1965	1,534	2	1,536
1966	1,532	-187	1,345
1967	1,890	-1,504	386
1968	2,129	-1,482	647

SOURCE: Central Bureau of Statistics.