

## CHAPTER VII

### GOVERNMENT AND NON-GOVERNMENT PUBLIC SECTOR

#### 1. CONSOLIDATED ACCOUNT<sup>1</sup>

PUBLIC SECTOR OPERATIONS in 1970 were decisively influenced by the Government's far-reaching restrictive fiscal measures: higher tax rates, the imposition of compulsory loans, and a more limited increase of budgetary expenditures (except for security, housing, and obligatory payments).

Both the sector's consumption and demand surplus rose strongly in 1970, after the growth rate fell off in the two preceding years. However, the increase in the demand surplus resulted overwhelmingly from the sector's direct overseas outlays, while the excess of domestic expenditure over domestic revenue declined; that is to say, the increase in the demand surplus in 1970 was reflected by a widening of the balance of payments deficit without this having a stimulative effect on aggregate demand in the economy. Furthermore, the reduction of the domestic demand surplus and the larger net credit inflow from the rest of the economy indicate that public sector operations had a contractionary influence on economic activity in 1970 in comparison with the previous year.

The sector's consumption went up by 26.3 percent at constant prices, or 37.2 percent at current prices (as opposed to nominal increases of 19.4 percent in 1969 and 15.4 percent in 1968), and totalled IL 6,800 million. The accelerated rise was due primarily to the much heavier defense spending, which jumped 50 percent at current prices and accounted for 71 percent of total public consumption, compared with 65 percent in 1969. Civilian public consumption, on the other hand, rose by only 14 percent at current prices, with most of the increment stemming from higher wage payments.

<sup>1</sup> This sector comprises the Government (including the National Insurance Institute), local authorities (including religious councils and the municipal expenditure of cooperative agricultural settlements), and a number of voluntary institutions (the Jewish Agency, World Zionist Organization, Jewish National Fund, and Keren Hayesod) engaged principally in welfare and cultural activities for the general public.

Current income and expenditure of business-type enterprises (e.g. the Post Office, Israel Railways, and municipal waterworks) are not included except for their surpluses or deficits. The data in this chapter are for calendar years, and are based primarily on financial reports of the various public sector authorities and partly on data from the Central Bureau of Statistics. Some of the data for 1970 are based on provisional summaries, as the financial reports for fiscal 1970/71 were not yet published when this chapter was prepared. Data for 1969 have been revised.

**Table VII-1**  
**INDICATORS OF PUBLIC SECTOR OPERATIONS, 1966-70**  
 (IL million)

	1966	1967	1968	1969	1970	Percent annual increase or decrease (-)				
						Average 1961-66	1967	1968	1969	1970
1. Public sector consumption	2,627	3,599	4,152	4,956	6,799	21.4	37.0	15.4	19.4	37.2
2. Revenue from taxes	3,247	3,169	3,932	4,909	6,226	18.3	-2.4	24.1	24.9	26.8
Direct taxes	1,480	1,460	1,807	2,237	3,057	23.2	-1.4	23.8	23.8	36.7
Indirect taxes	1,767	1,709	2,125	2,672	3,169	15.1	-3.3	24.3	25.7	18.6
3. Total transfer receipts from the public, net <sup>a</sup>	2,255	1,898	2,310	2,868	3,857	18.1	-15.8	21.7	24.2	34.3
4. Public sector saving	-275	-1,741	-1,813	-1,985	-2,902					
5. Demand surplus	814	2,175	2,400	2,652	3,641		167.2	10.3	10.5	37.3
6. Net credit outflow <sup>b</sup>	12	7	-114	-3	-183					
Net credit granted	508	724	865	920	1,229		42.5	19.5	6.4	33.6
Net credit received	496	717	979	923	1,412		44.6	36.5	-5.7	53.0
Compulsory loans <sup>c</sup>	171	344	168	235	543		101.2	-51.2	39.9	131.1
Other	325	373	811	688	869		14.8	117.4	-15.2	26.3
7. Outstanding Government loans on March 31	4,948	5,747	8,006	9,388	11,248	21.6	16.1	39.3	17.3	19.8
Domestic <sup>d</sup>	1,428	1,870	2,838	3,663	4,558	28.5	31.0	51.8	29.1	24.4
Foreign <sup>e</sup>	3,520	3,877	5,168	5,725	6,690	19.4	10.1	33.3	10.8	16.9
<b>Percentages</b>										
Weight of public sector consumption in total domestic uses	20.0	26.2	25.0	25.5	29.4					
Weight of public sector consumption in GNP	22.9	30.1	29.6	31.2	36.8					
Weight of public sector consumption expenditure on defense in GNP <sup>f</sup>	10.2	17.6	18.0	20.2	26.0					
Weight of public sector tax revenue in GNP	28.2	26.5	28.0	30.9	33.7					
Weight of public sector revenue from taxes and compulsory loans in GNP	29.8	29.4	29.4	32.6	36.9					
Weight of net transfer receipts in total private income from economic activity	24.7	19.9	20.4	22.4	26.3					

<sup>a</sup> Taxes and other compulsory payments, less transfers, domestic interest payments, and subsidies.

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

<sup>c</sup> Including voluntary Defense Loan issues; excluding the special issues for banking institutions.

<sup>d</sup> Excluding loans from the National Insurance Institute, Development Authority, War Risks Insurance (Arnona) Fund, and Bank of Israel.

<sup>e</sup> Including foreign loans repayable in Israeli pounds.

<sup>f</sup> Excluding defense expenditure not classified as public consumption.

This rapid growth of public consumption brought up its weight in incremental domestic uses to about 50 percent, and its weight in total domestic uses to 29.4 percent, compared with 25.5 percent in 1969 and 25 percent in 1968.

The weight of the public sector's consumption in the gross national product went up from an average of about 30 percent in the three years 1967-69 to 36.8 percent in 1970. The weight of its consumption expenditure on defense in GNP amounted to 26 percent in 1970, as opposed to 18-20 percent in the years 1967-69 and 9-10 percent in 1965-66.

Tax revenue in the year reviewed was, at IL 6,226 million, up 27 percent—a slightly faster advance than in 1968 and 1969. Together with gross receipts from the compulsory loans imposed on the public (i.e. not counting the special Defense Loan issue taken up by the banks), the increase came to IL 6,844 million, or 32 percent, as against 26 percent in 1969. This was the highest rate of growth in the past decade, and it is attributable to the raising of both direct taxes (including the compulsory loans) and indirect taxes, as well as to the expansion of the tax base with the growth of the national product, income, and private consumption. In 1970 the public sector absorbed some 35 percent of incremental national income by way of higher taxes.

The weight of the sector's revenue from taxes and compulsory loans in GNP rose to a record high of 36.9 percent, compared with 32.6 percent in 1969 and an average of 29.5 percent in 1966-68.

Along with the larger amount of funds siphoned off from the public, the sector stepped up its transfer payments and subsidies. Total net transfers from the public—which consist of the sector's receipts from taxes and other compulsory payments (apart from the forced loans), less transfers to households and nonprofit institutions, domestic interest payments, and subsidies—reached IL 3,851 million; this was 34.5 percent more than in 1969 and equivalent to 26.3 percent of total private income from economic activity in 1970. If net compulsory loan proceeds are added, the figure rises to 30.1 percent as against 24.4 percent in 1969.

As noted above, the sector's overall demand surplus was much larger in the year surveyed, standing at IL 3,641 million as compared with IL 2,652 million in 1969 and IL 2,400 million in 1968.

However, the domestic demand surplus (the overall surplus net of purchases and other outlays abroad) dropped by 5 percent to IL 826 million. The decline in this aggregate, which serves as a measure of the public sector's influence on the demand level in the economy,<sup>1</sup> indicates that its domestic operations had a restrictive effect in 1970.<sup>2</sup>

<sup>1</sup> The domestic demand surplus as defined above does not take into account the indirect effect of the sector's operations on imports (i.e. through the import component of its purchases in the local market).

<sup>2</sup> The influence of the changes in the demand surplus on the level of economic activity and the import surplus is discussed in Chapter XV, "Flow of Funds".

The above calculation of the demand surplus does not take account of net compulsory loan receipts, which are included with the sector's credit transactions.

**Table VII-2**  
**PUBLIC SECTOR OPERATIONS, 1968-70**  
(IL million, at current prices)

	1968	1969	1970	Increase or decrease (-) in 1970
<b>A. Expenditure</b>				
Public consumption <sup>a</sup>	4,152	4,956	6,799	1,843
Purchases on capital account	587	667	739	72
Transfers to households and nonprofit institutions	1,067	1,316	1,437	121
Interest paid	563	737	910	173
Subsidies and transfers to business	577	603	799	196
Misc. expenditure abroad <sup>b</sup>	70	75	80	5
<b>Total</b>	<b>7,016</b>	<b>8,354</b>	<b>10,764</b>	<b>2,410</b>
<b>B. Revenue</b>				
Taxes	3,932	4,909	6,226	1,317
Other domestic revenue	684	793	897	104
<b>Total</b>	<b>4,616</b>	<b>5,702</b>	<b>7,123</b>	<b>1,421</b>
<b>C. Demand surplus (A-B)</b>	<b>2,400</b>	<b>2,652</b>	<b>3,641</b>	<b>989</b>
Less Purchases and expenditure abroad	1,635	1,784	2,815	1,031
<b>D. Domestic demand surplus</b>	<b>765</b>	<b>868</b>	<b>826</b>	<b>-42</b>
<b>E. Net domestic credit granted</b>				
Net loans granted	865	920	1,229	309
Less:				
Net compulsory loan receipts <sup>c</sup>	168	235	543	308
Other net credit	811	688	869	181
<b>Total</b>	<b>-114</b>	<b>-3</b>	<b>-183</b>	<b>-180</b>
<b>F. Balance to be financed (C+E)</b>	<b>2,286</b>	<b>2,649</b>	<b>3,458</b>	<b>809</b>
<b>G. Financing</b>				
From the banking system	1,070	1,505	1,121	-384
Bank of Israel	954	1,253	894	-359
Banking institutions	116	252	227	-25
Unilateral receipts and net credit from abroad	1,216	1,144	2,337	1,193
<b>Total</b>	<b>2,286</b>	<b>2,649</b>	<b>3,458</b>	<b>809</b>
<b>H. Liquidity infusion</b>				
Domestic demand surplus (D)	765	868	826	-42
Less: Net interest paid to the Bank of Israel	-43	26	53	27
Net domestic credit granted (E)	-114	-3	-183	-180
Plus: Foreign loan repayments in IL	21	29	27	-2
<b>Total</b>	<b>715</b>	<b>868</b>	<b>617</b>	<b>-251</b>

<sup>a</sup> Purchases on current account less sales.

<sup>b</sup> National Institution expenditure abroad and participation in the budgets of the administered areas.

<sup>c</sup> Absorption Loans, Compulsory Savings Loan, and Defense Loans (including voluntary issues, but excluding the special issues for banking institutions).

The latter showed a net inflow from the rest of the economy of IL 183 million,<sup>1</sup> as against only IL 3 million in 1969.

In analyzing the net credit flows between the public sector and the rest of the economy, it would be useful to divide them into two groups according to their effect on the level of domestic demand. One set of credit transactions consists of net compulsory loan receipts from the public, while the other is composed of the remaining credit transactions: on the one hand, net loans granted to other sectors (mainly through the development budgets of the Government and National Institutions), and on the other hand, borrowed receipts and net proceeds from bond issues.

Compulsory loans generally have a very low liquidity, particularly in the period immediately after their collection. Those levied in 1970 are totally illiquid, as special steps were taken to make them nonnegotiable. Therefore, these loans, especially those imposed in 1970, have a tax-like effect on the economy. Net proceeds from this source (excluding the special issue taken up by banking institutions) soared in the year reviewed—IL 543 million as contrasted with IL 235 million in 1969 and IL 168 million in 1968—and this had a very strong contractionary impact.

Excluding compulsory loans, the public sector was a net lender; the outflow grew from IL 232 million in 1969 to IL 360 million, largely because of the much greater amount of development budget financing provided to the rest of the economy, in the main for housing purposes. Outstanding loans granted jumped 34 percent in 1970, the steepest rise in the past five years, bringing the total up to IL 1,229 million. This was partly set off by a smaller increase in outstanding loans and credit from the public (not counting the compulsory loans), which totalled IL 869 million.

The influence of the sector's demand surplus less the net credit inflow on aggregate demand in the economy is also measured below in terms of the sector's contribution to the change in the money supply. The total amount of liquidity which it pumped into the economy<sup>2</sup> was, at IL 617 million, smaller than in the two preceding years. Since GNP expanded in 1970, this decline is indicative of a restrictive effect on the level of demand.<sup>3</sup>

The aggregate demand surplus less the net credit inflow from the rest of the economy was financed from foreign sources and the domestic banking system. In 1970 the total amount of financing rose by 30 percent to stand at IL 3,458 million; of this, IL 2,337 million represented unilateral receipts and net credit from abroad—these doubled in the year reviewed after declining in 1969.

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

<sup>2</sup> This consists of the domestic demand surplus (excluding net interest paid to the Bank of Israel) and net credit granted to the economy (plus foreign loan repayments in Israeli currency). It is financed by net credit from the banking system, less the deficit in the sector's total foreign currency transactions.

<sup>3</sup> See the discussion in section 2(a) below.

**Table VII-3**  
**PUBLIC SECTOR SAVING AND DEMAND SURPLUS, 1969-70**  
 (IL million, at current prices)

	1969			1970			Increase or decrease (-) in 1970
	Government and National Institutions	Local authorities	Total	Government and National Institutions	Local authorities	Total	
A. Revenue on current account							
Taxes	4,606	303	4,909	5,893	333	6,226	1,317
Other revenue <sup>a</sup>	590	203	793	679	218	897	104
Total	5,196	506	5,702	6,572	551	7,123	1,421
B. Expenditure							
Public sector consumption <sup>b</sup>	4,402	554	4,956	6,162	637	6,799	1,843
Transfers	1,182	134	1,316	1,294	143	1,437	121
Domestic interest paid	663	74	737	820	90	910	173
Subsidies and transfer payments to business	603	—	603	799	—	799	196
Net transfers to local authorities	318	-318	—	358	-358	—	—
Misc. expenditure abroad <sup>c</sup>	75	—	75	80	—	80	5
Total	7,243	444	7,687	9,513	512	10,025	2,338
C. Saving (A-B)	-2,047	62	-1,985	-2,941	39	-2,902	-917
D. Expenditure on capital account <sup>d</sup>	431	236	667	493	246	739	72
E. Demand surplus (D-C)	2,478	174	2,652	3,434	207	3,641	989

NOTE: Public sector saving as calculated here includes transfers and payments defined in the national accounts as transfers on capital account. In previous *Annual Reports* these were not included in the saving calculation, and therefore the data in this table are not strictly comparable with the corresponding data on public sector saving presented in previous years.

<sup>a</sup> Transfers from the public, income from property, and domestic interest receipts.

<sup>b</sup> Purchases on current account less sales.

<sup>c</sup> National Institution expenditure abroad and participation in the budgets of the administered areas.

<sup>d</sup> Purchases on capital account less sales.

Bank credit fell to IL 1,121 million, of which IL 894 million came from the Bank of Israel.<sup>1</sup>

Table VII-3 shows the computation of public sector saving, which is defined as the excess of income over expenditure, excluding net purchases on capital account.<sup>2</sup>

The negative saving of the sector rose sharply—from IL 1,985 million in 1969 to IL 2,921 million. The Government and National Institutions were responsible for most of the increased dissaving, as their incremental income lagged behind the growth of their consumption and other outlays. A similar development occurred in the local authorities, but on a smaller scale. The National Institutions always dissave,<sup>3</sup> since their current income from domestic sources constitutes only a small fraction of their total income; their leading income item is unilateral transfers from abroad, and these are not treated as current income in computing saving. For this reason, the Institutions' dissaving fluctuates with changes in their current expenditure.

The "balance of payments" of the public sector is presented in the appendix to this chapter (in Hebrew only). The changes that took place in the component items are described below in the discussion of the various public sector authorities (sections 2[b] and 3).

## 2. THE GOVERNMENT AND THE NATIONAL INSTITUTIONS

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

The Government dominates the public sector, accounting, together with the National Institutions, for more than 90 percent of total expenditure. The influence exerted by these two authorities on the demand level is estimated below in terms of their demand surplus, net credit inflow from other domestic sectors, and their contribution to the increase in the money supply.

In 1970 the Government adopted a contractionary policy, the main features of which, as embodied in the 1970/71 budget, were as follows:<sup>4</sup>

<sup>1</sup> It should be noted that there is a difference between credit from the Bank of Israel and that part of the credit from banking institutions which is not granted from their free reserves but diminishes their loanable funds available for other sectors. As regards their influence on aggregate demand in the economy, there is no difference between the inflow of such credit from the banking institutions and net credit from other economic sectors.

<sup>2</sup> This definition differs from that employed in this chapter in previous *Annual Reports*, in that net transfers on capital account have also been included in the calculation, in accordance with the procedure followed in Chapter II, "Resources, Uses, and Income". On the other hand, public sector saving in Chapter II does not include net revenue from import taxes or expenditure on export subsidies.

<sup>3</sup> National Institution saving is not shown separately in Table VII-3.

<sup>4</sup> See "Explanatory Notes to the Budget Proposal for Fiscal 1969/70," p. 21; and the Minister of Finance's Budget Message to the Seventh Knesset, February 16, 1970, pp. 13-15 (both publications in Hebrew).

1. The expenditure budget was enlarged to meet higher defense requirements and debt repayments, with the current operations of Government ministries being expanded only insofar as necessary for meeting the needs of the population increment.

2. Indirect tax rebates to exporters were increased.

3. Development budget allocations for immigrant housing were stepped up in view of the greater influx of newcomers; most of the other development budget items were cut.

4. Direct taxes (in the main National Insurance contribution rates) were raised.

5. Indirect taxes were increased to only a minor extent so as to preserve price stability.

6. A Compulsory Savings Loan was imposed and the Defense Loan was converted from a voluntary to a forced loan.

The revision of tax rates and the levying of compulsory loans were part of the "package deal" signed at the end of January 1970 by the Government, Histadrut (General Federation of Labor), and Coordinating Bureau of Economic Organizations (representing the employers), and which dealt with wage policy, prices, and taxes for 1970 and 1971.

Another measure to absorb purchasing power—not included in the Government budget—was the requirement imposed on importers of a long list of products to deposit, beginning in January 1970, 50 percent of the c.i.f. value of the goods for a six months period.

With defense outlays mounting rapidly as the year progressed, two supplementary budgets were submitted to the Knesset in August 1970. The first earmarked another IL 1,175 million for defense, while the second, totalling IL 70 million, was for covering indirect tax refunds to exporters, since the supplementary budgets were partly financed by way of higher taxes, particularly on imports.

The demand surplus and net credit flow projected in the 1970–71 draft and supplementary budgets were roughly of the same order of magnitude as that actually recorded in the previous year. However, a shortfall in some of the revenue estimates (taxes and compulsory and other domestic loans) resulted in a greater demand surplus and a smaller absorption of credit than projected.

The demand surplus of the Government and National Institutions in 1970 added up to IL 3,434 million, compared with IL 2,478 million in 1969 and IL 2,235 million in 1968. Whereas in 1969 these two authorities had been a net lender to other economic sectors to the tune of IL 85 million, in 1970 they had a net credit inflow of IL 36 million. To cover their demand surplus and credit operations, the Government and National Institutions required IL 3,398 million, as compared with IL 2,563 million in 1969 and IL 2,231 million in 1968; this financing was obtained from abroad and from the domestic banking system.

The growth of the demand surplus of the Government and National Institu-



**Table VII-4**  
**GOVERNMENT AND NATIONAL INSTITUTION OPERATIONS, 1968-70**  
(IL million, at current prices)

	1968	1969	1970	Increase or decrease (-) in 1970
<b>A. Expenditure</b>				
Consumption <sup>a</sup>	3,636	4,402	6,162	1,760
Purchases on capital account	387	431	493	62
Transfers to households and nonprofit institutions	954	1,182	1,294	112
Net transfers to local authorities	237	318	358	40
Interest	503	663	820	157
Subsidies and transfers to business	577	603	799	196
Misc. expenditure abroad <sup>b</sup>	70	75	80	5
<b>Total</b>	<b>6,364</b>	<b>7,674</b>	<b>10,006</b>	<b>2,332</b>
<b>B. Revenue</b>				
Taxes	3,637	4,606	5,893	1,287
Other domestic revenue	492	590	679	89
<b>Total</b>	<b>4,129</b>	<b>5,196</b>	<b>6,572</b>	<b>1,376</b>
<b>C. Demand surplus (A + B)</b>	<b>2,235</b>	<b>2,478</b>	<b>3,434</b>	<b>956</b>
Less: Purchases and expenditure abroad	1,635	1,784	2,815	1,031
<b>D. Domestic demand surplus</b>	<b>600</b>	<b>694</b>	<b>619</b>	<b>-75</b>
<b>E. Net domestic credit granted</b>				
Net loans granted	915	956	1,256	300
Less:				
Net compulsory loan receipts <sup>c</sup>	168	235	543	308
Other net credit	751	636	749	113
<b>Total</b>	<b>-4</b>	<b>85</b>	<b>-36</b>	<b>-121</b>
<b>F. Balance to be financed (C + E)</b>	<b>2,231</b>	<b>2,563</b>	<b>3,398</b>	<b>835</b>
<b>G. Financing</b>				
From the banking system	1,015	1,419	1,061	-358
Bank of Israel	954	1,253	894	-359
Banking institutions	61	166	167	1
Unilateral receipts and net credit from abroad	1,216	1,144	2,337	1,193
<b>Total</b>	<b>2,231</b>	<b>2,563</b>	<b>3,398</b>	<b>835</b>
<b>H. Liquidity infusion</b>				
Domestic demand surplus (D)	600	694	638	-56
Less: Net interest paid to the Bank of Israel	-43	26	53	27
Net domestic credit granted (E)	-4	85	-55	-140
Plus: Foreign loan repayments in IL	21	29	27	-2
<b>Total</b>	<b>660</b>	<b>782</b>	<b>557</b>	<b>-225</b>

<sup>a</sup> Purchases on current account less sales.

<sup>b</sup> National Institution expenditure abroad and participation in the budgets of the administered areas.

<sup>c</sup> Absorption Loans, Compulsory Savings Loan, and Defense Loans (including voluntary issues but excluding the special issues for banking institutions).

tions over the past three years was mainly due to the larger volume of direct purchases abroad, while the excess of domestic revenue over expenditure (i.e. the domestic demand surplus) rose only slightly or even declined. In 1970 overseas expenditure jumped by IL 1,031 million, or 57 percent, while incremental domestic outlays of IL 1,301 million were more than covered by an increase of IL 1,376 million in domestic income, so that the domestic demand surplus shrank by IL 75 million. The contractionary effect on aggregate domestic demand of the smaller domestic demand surplus was, however, offset to some extent by the indirect influence of Government and National Institution operations on imports (i.e. the import component of their purchases in the domestic market).<sup>1</sup>

The 39.5 percent rise in the combined demand surplus of the Government and National Institutions in 1970 came after a slackening of the upward trend in the two preceding years. To be sure, in 1969 there had been an increase in outlays, but this was partly set off by the influence of the continued vigorous expansion of the economy which, along with the growth of national income, private consumption, and imports, yielded the Government a much larger revenue from taxes and other compulsory payments.

The advancing trend in Government revenue was sustained in 1970, when tax proceeds went up 28 percent as against 26.5 percent in 1969. The growth in the past two years was much higher than the average annual increase in the pre-1969 period (19.3 percent in 1960-65 and 11.7 percent in 1965-68). But even this strong gain could not match the enormously larger expenditure in 1970, in particular defense outlays; the latter soared by IL 1,595 million, or 50 percent—the biggest rise since 1967, the year of the Six Day War. The heavier defense spending accounted for the bulk of the incremental Government and National Institution consumption, which jumped 40 percent to IL 6,162 million at current prices. The 17.2 percent higher wage bill of these two authorities in 1970—the steepest increase since 1966—also contributed to the larger volume of consumption.

Excluded from the above computations are net compulsory loan receipts, which amounted to IL 543 million in 1970, as against IL 235 million in 1969.<sup>2</sup> The additional income thus absorbed had a strong contractionary impact on the economy.

Other credit transactions of the Government and National Institutions<sup>3</sup> resulted in a net outflow of IL 507 million, compared with IL 320 million in 1969.

<sup>1</sup> Government and National Institution purchases and expenditure abroad include, in addition to direct Government purchases, imports through agents. The indirect import component of their purchases in the domestic market rose by approximately IL 80 million in 1970, according to estimates based on input-output tables for the Israeli economy prepared by the Research Department of the Bank of Israel.

<sup>2</sup> Excluding the compulsory loan issues taken by banking institutions.

<sup>3</sup> Excluding compulsory loans and transactions with the banking system.

It is difficult to assess the overall influence on aggregate domestic demand of the changes in the net credit flow discussed above, since it is an aggregate of a number of gross flows with disparate stimulative or restrictive effects.

On the one hand, the amount of development budget credit provided increased by a substantial IL 300 million to IL 1,256 million. It should be noted that the expansionary influence of loans granted by the Government and the National Institutions on aggregate demand in the economy is generally stronger than the contractionary effect of borrowed receipts from the public, since a large part of the outflow is directly connected with the implementation of investments (in particular in the case of public sector companies), and from the aspect of their influence on demand, there is not much difference between such credit and direct investments by the Government.

On the other hand, net proceeds from loans and other credit went up by IL 113 million to IL 749 million, but this increase was accompanied by a structural change, with the share of short-term, more liquid, loans rising, and that of long-term loans declining (see Table VII-10).

The combined influence on the level of aggregate demand of the Government's and National Institutions' demand surplus and net credit flow can also be estimated in terms of the changes in the money supply attributable to their operations.

The amount of liquidity pumped into the economy by these two authorities totalled IL 557 million in 1970, as against IL 782 million in 1969 and IL 660 million in 1968. Since the decline in 1970 coincided with a rise in GNP, it is obvious that the Government's activities exerted a contractionary effect relative to the preceding year.

The demand surplus and net credit flow were financed from foreign sources and the domestic banking system. These receipts amounted to IL 3,398 million, of which IL 2,337 million—double the previous year's figure and equal to two-thirds of the total financing—came from overseas, with U.S. Government loans, Independence and Development Bond sales, and unilateral transfers accounting for most of the increment. The remaining IL 1,061 million was provided by the banking system: IL 894 million derived from an increase in loans and a change in deposit balances with the Bank of Israel, and IL 167 million from changes in deposit balances with, and sales of fixed-interest securities (including Defense Loans) to, the banking institutions.

Part of the credit from the local banking institutions was in the form of purchases of long-term Government bonds. These acquisitions, together with some of the other credit extended to the Government, did not come from the banks' free reserves, but reduced the amount of funds available for lending to other economic sectors. Thus the liquidity infusion by the Government and National Institutions was actually smaller than would appear from the above figures.

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

Table VII-5 presents the "balance of payments" of the Government and the National Institutions for 1969 and 1970. The table distinguishes between transfers and transactions in goods and services on the one hand and financial transactions on the other. Transactions with the local authorities have been recorded separately.

Total payments by the Government and National Institutions, including long-term debt repayments, amounted to IL 12,311 million—26.5 percent over the 1969 level.

Following are the principal changes in the operations of these two authorities, as reflected in their "balance of payments":

Government tax receipts were up 28 percent in 1970, with indirect taxes producing 19.7 percent more than in 1969, and direct taxes (excluding compulsory loan receipts) 36.7 percent more. Most of the upward thrust came from the direct and indirect tax hikes (in February, April, and August 1970).

Unilateral receipts from abroad soared 56 percent (after increasing by only some 5 percent in 1969 and declining in 1968) and totalled IL 1,004 million.<sup>1</sup> The emergency fund-raising campaigns conducted abroad yielded much more than in 1969. Sales of Independence and Development Bonds, which also reflect the efforts of world Jewry on behalf of Israel, were exceptionally brisk, netting IL 458 million as against only IL 183 million in 1969, when they hit a trough (principally because of heavy redemptions).

Consumption by the Government and the National Institutions increased by 40 percent at current prices (30 percent at constant prices) and totalled IL 6,162 million; most of the increase was in defense and payroll outlays.

Transfer payments, subsidies, and interest went up by 18 percent. Purchases on capital account were up 14.5 percent, with the transportation and communications sector accounting for most of the increase.

Gross long-term loans and participations in share capital by the Government and National Institutions rose 25 percent. The bulk of the increment was in loans; credit for other purposes, with the exception of transportation and communications, declined.

(c) *Receipts*

1. *Taxes*

Government tax revenue was, at IL 5,893 million, up 28 percent; this came on the heels of a 26.5 percent gain in 1969. Of the additional income from this source in 1970, IL 820 million (65 percent) derived from direct taxation,<sup>2</sup>

<sup>1</sup> This figure differs from that cited in Chapter III (section 5), where unilateral transfers from abroad are shown net of transfer payments abroad (interest and overseas purchases of the National Institutions), as well as of changes in the financial transactions of the Institutions with the rest of the world.

<sup>2</sup> Unless otherwise specified, the discussion in this section does not include compulsory loans.

**Table VII-5**  
**"BALANCE OF PAYMENTS" OF THE GOVERNMENT AND NATIONAL INSTITUTIONS, 1969-70**  
(IL million)

Receipts	1969	1970	decrease (-) Increase or	Payments	1969	1970	Increase or decrease (-)
<b>Transfers and transactions in goods and services</b>							
Taxes <sup>a</sup>	4,606	5,893	1,287	Purchases			
Other revenue				On current account	4,434	6,198	1,764
Transfers from the public	162	229	67	On capital account	432	494	62
Interest received	273	332	59	Interest paid	663	820	157
Income from property	155	118	-37	Transfers to households and nonprofit institutions	1,182	1,294	112
Sales	33	37	4	Subsidies and transfers to business	603	799	196
Unilateral receipts from abroad	644	1,004	360	Misc. expenditure abroad <sup>d</sup>	75	80	5
Total	5,873	7,613	1,740	Total	7,389	9,685	2,296
<b>Transactions in financial claims</b>							
Collections on long-term loans	182	153	-29	Long-term loans and participation in share capital	1,096	1,377	281
Long-term loans received				Repayments on long-term loans			
Foreign	1,220	1,792	572	Foreign	609	504	-105
Domestic <sup>b</sup>	1,000	1,052	52	Domestic	268	355	87
Short-term credit, net							
Foreign	-111	45	156				
Domestic <sup>b</sup>	139	595	456				
Credit from the banking system <sup>c</sup>	1,419	1,061	-358				
Total	3,849	4,698	849	Total	1,973	2,236	263
<b>Transactions with the rest of the public sector</b>							
				To local authorities (net)	360	390	30
Total receipts	9,722	12,311	2,589	Total payments	9,722	12,311	2,589

<sup>a</sup> Including collections on account of National Insurance.

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

<sup>c</sup> Including changes in deposit balances, long-term loans, and purchases of Government bonds.

<sup>d</sup> National Institution expenditure abroad and participation in the budgets of the administered areas.

**Table VII-6**  
**GOVERNMENT TAX REVENUE, 1969-70**  
(IL million)

	1969	1970	Increase	
			IL m.	% <sup>a</sup>
<b>Direct taxes</b>				
Income tax	1,772	2,232	460	25.9
National Insurance	465	825	360	77.3
Total	2,237	3,057	820	36.7
<b>Indirect taxes</b>				
Custom duties	699	890	191	27.2
Purchase tax	599	666	67	11.2
Fuel tax	225	252	27	11.9
Property taxes	185	233	48	25.5
Tobacco excise	110	134	24	22.1
Cement excise	53	60	7	14.2
Excise on beverages	29	29	0	-1.0
Revenue stamp tax	88	123	35	39.5
Defense stamp tax	86	101	15	17.4
Vehicle license fees	59	65	6	10.7
Foreign travel tax	43	51	8	19.5
Licenses, fees, misc. service charges, and other taxes	102	131	29	28.4
Current surplus of the Post Office and ports	91	101	10	11.0
Total	2,369	2,836	467	19.7
Grand total	4,606	5,893	1,287	27.9

NOTE: The definitions of direct and indirect taxes in this table are based on conventional national accounting procedures and differ somewhat from those used by the Accountant General. This table excludes compulsory payments which in the national accounts are defined as transfers—namely, the inheritance tax, land betterment tax, fines, and certain fees and licenses (e.g. drivers licenses and passport fees). On the other hand, this table includes the net profit of the Post Office and the ports (deficits of Israel Railways are included with subsidies).

<sup>a</sup> Calculated from unrounded figures.

SOURCE: State Revenue Administration, Accountant General, and National Insurance Institute.

which was up 36.7 percent to IL 3,057 million. Indirect tax receipts rose by 19.7 percent, as against 28.7 percent the year before, and reached IL 2,836 million.

The share of taxes on income (i.e. direct taxes) in total tax receipts edged up from 48.6 percent in 1969 to 51.9 percent. With compulsory loan collections added, their weight would be much greater.

The weight of import taxes—which yielded only 18 percent more in 1970, as contrasted with a 43 percent increase in the preceding year—drifted down

from 21.9 to 20.2 percent. As in 1969, revenue from taxes on domestic production rose by less than that from other taxes, and its share in total tax revenue dropped from 20.9 to 18.5 percent.

## 2. Direct taxes

Receipts from income tax and the defense levy added up to IL 2,232 million in 1970—IL 460 million (25.9 percent) more than the IL 1,772 million collected in the previous year. This rate of increase exceeded the 15.2 percent gain in national income, for several reasons:

(a) An increase in the defense levy, effective April 1970, from 10 to 15 percent of the total tax assessed.

(b) The deduction of income tax at source, as of June 1970, from payments to subcontractors and Government suppliers.

**Table VII-7**  
**GOVERNMENT TAX REVENUE, BY MAIN CATEGORY, 1968-70**

	1968	1969	1970	Annual increase in 1970	
				IL m.	%
IL million					
Taxes on income	1,807	2,237	3,057	820	36.7
Taxes on expenditure					
Imports	692	1,007	1,188	181	18.0
Local production	812	964	1,092	128	13.3
Taxes on property	166	208	253	45	21.6
Fees and licenses	160	190	303	113	59.5
Total	3,637	4,606	5,893	1,287	27.9
Percentages					
Taxes on income	49.7	48.6	51.9		
Taxes on expenditure					
Imports	19.0	21.9	20.2		
Local production	22.3	20.9	18.5		
Taxes on property	4.6	4.5	4.3		
Fees and licenses	4.4	4.1	5.1		
Total	100.0	100.0	100.0		

NOTE: Taxes on income consist of income tax and National Insurance contributions. Taxes on imports consist of general customs duties and purchase tax on imports, surtax, and foreign travel tax. Taxes on local production consist of purchase tax, excises, the current surplus of the Post Office and ports, entertainment tax, defense stamp tax on production, and various other levies. Taxes on property consist of the property tax and land registration fees. Fees and licenses include *inter alia* the revenue stamp tax and the defense stamp tax.

SOURCE: Taxes on income—State Revenue Administration and National Insurance Institute; taxes on expenditure—Central Bureau of Statistics.

(c) The upward revision of company income tax rates as of August 1970 (this increase was only partly reflected in company tax receipts for the year).

(d) In view of the continued uptrend in company profits (which began in 1968), the base for tax prepayments was again raised in April 1970; it was set at 135 percent of the 1967 assessment, or 120 percent of the 1968 assessment, depending on the latest year for which a final assessment had been made.

(e) The tax prepayment rates for the self-employed were raised at the same time to 135 percent of the 1967 assessment, or 125 percent of the 1968 assessment, depending on the last final assessment.

Additional reasons for the higher income tax collections, apart from the aforementioned increases in rates and at-source deductions, were the growth of national income, the increased earnings of self-employed and companies, the larger number of wage earners and the rise in their average pay, and the progressive nature of the tax structure.

The most striking increase was in company income tax receipts; these totalled approximately IL 550 million, 35 percent more than the IL 400 million collected in 1969. In addition, some IL 45 million was deducted at source from payments to Government subcontractors and suppliers, most of them companies.

Income tax receipts from wage and salary earners<sup>1</sup> added up to IL 1,050 million, 19.5 percent over the preceding year's level; this reflected a growth of 4 percent in the number of employees and of 9 percent in their average earnings.

Receipts from the self-employed went up almost as rapidly—19 percent—and amounted to IL 440 million.

As a result of these developments, the proportion of total income tax receipts collected from employees dropped from 49.1 percent in 1969 to 46.9 percent, and that from the self-employed declined from 20.8 to 19.8 percent; the figure for companies, including at-source deductions, went up from 22.7 to 26.3 percent.

If the compulsory loans collected by the income tax authorities in 1969 and 1970 are added,<sup>2</sup> the rise in income tax revenue in 1970 amounts to 54 percent, bringing the total up to IL 2,770 million. The share of employees in combined income tax and compulsory loan payments was slightly higher than their share in income tax payments alone—47.8 percent as against 46.9 percent.

National Insurance collections rose by IL 360 million, or 77.3 percent, to total IL 825 million, after advancing by only IL 66 million in 1969. This substantial increase followed the raising of the ceiling on employees' income subject to National Insurance from IL 700 to IL 1,500 a month, the revision of contribution

<sup>1</sup> Including directors of companies listed as salaried employees and members of cooperatives.

<sup>2</sup> The reference is to compulsory loans linked to wages and income, namely the Absorption Loans, Compulsory Savings Loan, and the compulsory Defense Loan (excluding the series issued specifically for banking institutions).



rates for all insurance schemes, and the introduction in April 1970 of two new schemes—disability and unemployment—and the imposition of a defense levy.

National Insurance contributions per employee (excluding the workmen's compensation item) were fixed at 13.9 percent of the wage up to the new ceiling of IL 1,500 a month, as compared with a 7.6 percent rate in the previous year. Employers pay 10.6 percent and are entitled to collect the remaining 3.3 percent from their employees. Rates for the self-employed were raised in April 1970 from 5.7 to 9.4 percent.

### 3. *Indirect taxes*

Indirect tax revenue in 1970 totalled IL 2,836 million, IL 467 million (19.7 percent) more than in the previous year, but substantially lower than the 1969 advance of IL 526 million (28.7 percent). This decline, in both relative and absolute terms, is particularly striking in view of the various tax hikes during 1970: in February the liquor excise, defense stamp tax on vehicles, and purchase tax rates on a number of products were increased; in March the revenue stamp tax (on documents) was raised; and in August a 20 percent surcharge was imposed on numerous imports, stiffer customs duties and purchase taxes were levied on a long list of products, and the tobacco and liquor excises and the foreign travel tax were increased. On the other hand, entertainment tax rates were reduced somewhat in April, and the customs duty on a number of products was cut by 5 percent in October 1970 in conformity with an agreement with the European Common Market.

The import surcharge and the higher tax rates mentioned above accounted for over half the incremental revenue from indirect taxes on both imports and domestic production.

Customs revenue went up 27.2 percent, after a 37.6 percent gain in 1969, and reached IL 890 million. The growth of commodity imports fell off precipitately, from 19 percent in 1969 to 9 percent, and there was a change in their composition. Imports of consumer goods edged down 1 percent, compared with a 27 percent rise in 1969, with durables alone dropping by 19 percent after soaring 60 percent in the preceding year. The most conspicuous changes in consumer durables were a 54 percent drop in imported television sets, following a steep 61 percent rise in 1969, and a 20 percent decline in passenger cars, following a 62 percent jump the year before.

These developments were largely responsible for the smaller customs revenue in 1970. The revision of duty rates and the imposition of an import surcharge operated, of course, in the opposite direction.

The above import developments and the sharply curtailed rise in private consumption affected purchase tax revenue, which, at IL 666 million, was up only 11.2 percent as against 38.5 percent the year before. Collections on imports fell off by 5.6 percent, depressing their share in total purchase tax receipts

from 44.5 percent in 1969 to 37.5 percent. The tax on domestic production yielded nearly IL 420 million in 1970, up 26.6 percent. Much of the incremental revenue stemmed from the higher rates put into effect in August 1970, particularly those on luxury items and on services, and the extension of the tax to products previously exempt.

Revenue from the fuel tax reached IL 233 million, an increase of 11.9 percent. This can be ascribed to the larger fuel consumption, chiefly of higher octane fuel, which is more heavily taxed.

Property tax collections amounted to IL 233 million, 25.5 percent over the 1969 figure. Rates were not revised in 1970; all of the increment stemmed from the continued increase in immovable property and the number of vehicles.

Income from the stamp tax (on documents) soared 39.5 percent to reach IL 123 million. About half the gain is attributable to the raising in March of the tax by rates ranging from 25 to 100 percent.

The cement excise yielded IL 60 million in 1970, a rise of only 14.2 percent as against 47.6 percent in the previous year. The slower growth is explained by the existing constraints on local production. The cement factories almost reached full capacity in 1970, and on top of this they were hit by a slowdown strike. In 1970 some 70,000 tons of cement were imported, but the tax thereon is not included with the cement excise.

The tobacco excise, defense stamp tax, and the travel tax likewise yielded considerably more in 1970, thanks to an increase in their rates. Receipts from these and other taxes are detailed in Table VII-6.

#### *4. Miscellaneous revenue*

Domestic transfers, income from property, interest and dividend receipts, and sales proceeds rose from IL 623 million in 1969 to IL 712 million. Interest and dividends were, at IL 332 million, up 21.6 percent; Bank of Israel profits transferred to the Government rose by 28 percent to IL 103 million; and transfers on capital account (consisting chiefly of the Government's receipts from its enterprises on account of depreciation, as well as revenue from the land betterment tax and the inheritance tax)<sup>1</sup> increased by 23 percent to IL 96 million. Current transfers by households for services supplied by public health and educational institutions, as well as drivers license fees, donations, and fines, jumped 57 percent to IL 131 million.

##### *(d) Payments*

Expenditure by the Government and the National Institutions on current and capital account, excluding financial transactions, added up to IL 9,685 million

<sup>1</sup> In accordance with conventional national accounting definitions, these receipts are classified as transfers on capital account.

in 1970—an increase of IL 2,296 million at current prices, or 31 percent. Current purchases, including payrolls and defense expenditure, rose by 40 percent, after moving up only 13 percent in 1969. By contrast, transfer payments, including domestic interest paid and subsidies, expanded more slowly than in 1969—by 18 as against 23.5 percent.

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

Current purchases of the Government and National Institutions, excluding interest paid abroad, overseas outlays of the National Institutions, and net participation in the budgets of the administered areas,<sup>1</sup> increased by 30 percent at constant prices and 40 percent at current prices, and totalled IL 6,198 million at year's end. Of this amount, IL 4,795 million was expended on defense and special budgets—50 percent more than in 1969.

Payroll outlay, excluding the Ministry of Defense and Government enterprises, amounted to IL 947 million, up 17.2 percent from the 1969 level. The

Table VII-8

## **PURCHASES OF THE GOVERNMENT AND NATIONAL INSTITUTIONS ON CURRENT AND CAPITAL ACCOUNT, 1969-70**

(IL million)

	1969	1970	Increase	
			IL m.	%
<b>Purchases on current account</b>				
Wages and salaries of civilian employees	808	947	139	17.2
Defense and special budgets	3,200	4,795	1,595	49.8
Other purchases	426	456	30	7.0
<b>Total purchases on current account</b>	<b>4,434</b>	<b>6,198</b>	<b>1,764</b>	<b>39.8</b>
<b>Purchases on capital account</b>				
Agriculture and irrigation	73	56	-17	-23.3
Transportation and communications	240	303	63	26.3
Public buildings and services	119	135	16	13.5
<b>Total purchases on capital account</b>	<b>432</b>	<b>494</b>	<b>62</b>	<b>14.4</b>
<b>Grand total</b>	<b>4,866</b>	<b>6,692</b>	<b>1,826</b>	<b>37.5</b>

<sup>1</sup> These expenditure items are treated in the national accounts as transfer payments to the rest of the world, and hence are excluded from Government and National Institution consumption.

increase stemmed from a 13.1 percent rise in average expenditure per employee and a 3.6 percent growth of personnel.

Government and National Institution purchases on capital account<sup>1</sup> increased by 14.5 percent to IL 494 million. Approximately 60 percent of this sum (IL 303 million) was invested in transportation and communications (roads, postal enterprises, the railway, and airports); here the rise amounted to 26 percent, most of it in Post Office investments. Expenditure on public buildings and services moved up 13.5 percent to IL 135 million, while capital outlays on agriculture and irrigation (including projects carried out by the Jewish National Fund) fell off, with most of the decline being in the National Water Carrier.

## *2. Subsidies and transfer payments*

Subsidies and transfers paid by the Government and the National Institutions reached IL 2,594 million in 1970, an increase of 18 percent. Subsidies totalled IL 744 million, a rise of 31 percent compared with 6.5 percent in 1969. This item consists of direct price supports, participation in the costs of producers and other enterprises, outlays by Government departments to encourage production and exports, Government participation in funds administered jointly with producers with the object of promoting production and exports, the subsidization of imported foodstuffs, and the covering of deficits incurred by Government business-type enterprises.<sup>2</sup>

Most of the increase under this head was in export subsidies, which were up 52 percent to IL 410 million. This substantial rise despite the decelerated growth of overseas sales is mainly explained by the larger incentives granted exporters (these were revised twice during the year, in February and August).

The subsidization of local production, including the covering of deficits of Government enterprises, totalled IL 310 million—a rise of 9 percent. In this context it should be noted that agricultural factor subsidies were trimmed for the second consecutive year.

Transfer payments to households and nonprofit institutions totalled IL 1,294 million in 1970. Of this amount, IL 458 million represented National Insurance benefit payments, which were IL 72 million over the 1969 level. The growth of such benefits, excluding those under the “employees’ children allowance” scheme, stemmed from a rise of about 9 percent in the number of beneficiaries and of 12 percent in the average payment. The latter is attributable to the

<sup>1</sup> These purchases are not identical with the share of the Government and National Institutions in gross domestic investment, since they include purchases of existing assets and other expenditures which are not included under the head of domestic investment (e.g. the undersea cable).

<sup>2</sup> Excluding grants received by industrial enterprises under the Law for the Encouragement of Capital Investments.

**Table VII-9**  
**TRANSFER PAYMENTS, GRANTS, AND SUBSIDIES BY THE GOVERNMENT AND**  
**NATIONAL INSTITUTIONS, 1969-70**

(IL million)

	1969	1970	Increase or decrease (-)	
			IL m.	%
<b>Transfer payments and grants to households and nonprofit institutions</b>				
National Insurance benefits	386	458	72	18.7
Provident and pension payments	123	146	23	18.7
Other transfer payments to households	358	351	-7	-2.0
Transfer payments to nonprofit institutions	315	339	24	7.6
<b>Total</b>	<b>1,182</b>	<b>1,294</b>	<b>112</b>	<b>9.5</b>
<b>Transfer payments on capital account to business</b>	<b>36</b>	<b>55</b>	<b>19</b>	<b>52.8</b>
<b>Subsidies</b>				
On locally produced goods and services	285	310	25	8.8
On imported goods	12	24	12	100.0
On exports	270	410	140	51.9
<b>Total</b>	<b>567</b>	<b>744</b>	<b>177</b>	<b>31.2</b>
<b>Domestic interest payments</b>	<b>410</b>	<b>501</b>	<b>91</b>	<b>22.2</b>
<b>Total transfer payments and subsidies</b>	<b>2,195</b>	<b>2,594</b>	<b>399</b>	<b>18.2</b>

upward revision of benefit rates in most National Insurance schemes in April and September 1970.

Provident and pension payments added up to IL 146 million. These consist of compensation paid to victims of Nazi persecution and war invalids and pensions paid to retired Government and National Institution employees. Other transfer payments to households, after going up sharply in 1969, remained constant in the year reviewed at IL 351 million. These payments consist of participations in graded secondary school fees, expenditure on food in Government health, educational, and welfare institutions, Government and National Institution participation in hospitalization fees, old-age and survivors pensions paid by the National Insurance Institute, grants to low-income families to compensate for price rises, and relief allotments to needy families.

Allocations to nonprofit institutions on current and capital account were increased by 7.5 percent to IL 339 million. Educational institutions received the major share—IL 260 million.<sup>1</sup>

Transfer payments to business on capital account, which had decreased in 1969, went up from IL 36 million to IL 55 million in the year reviewed. Most

<sup>1</sup> See Chapter VIII, "Nonprofit Institutions", section 3(a).

of this sum consisted of grants to industrial concerns under the Law for the Encouragement of Capital Investments.

Interest outlays (excluding those to the National Insurance Institute and the War Risk Insurance Fund) went up by 13.7 percent to IL 820 million. Of this sum, IL 501 million was paid in Israel (an increase of 22.2 percent) and IL 319 million was paid abroad.

Government transfers and net credit to local authorities were, at IL 390 million, up 8.3 percent—a slower rise than in previous years. Ordinary and extraordinary budget grants declined to IL 75 million, but the amount of Government tax revenue shared with the local authorities increased to IL 145 million because of larger tax collections. Another transfer item—participations of various Government departments in local authority expenditures, in the main those of the Ministries of Social Welfare, Education, and Health on social services—rose to IL 120 million.

Net loans and grants to the local authorities from the Government's development budget and the Israel Education Fund went up to about IL 80 million in 1970. About half of this amount was for the construction of schools and other educational institutions, while the remainder went to finance municipal services, such as roads, sewerage, street lighting, waterworks, public buildings, and various enterprises.

### (c) *Financial transactions*

Net borrowed receipts of the Government and the National Institutions from foreign and domestic sources rose by 33 percent to reach IL 3,686 million, the bulk of which consisted of medium- and long-term loans. After declining in 1969, net foreign borrowed receipts increased to IL 1,333 million and accounted for 36 percent of total net loan proceeds, as against less than 20 percent the year before.

#### 1. *Foreign loans*

Long-term foreign loan receipts amounted in 1970 to IL 1,837 million, while foreign debt repayments came to IL 504 million. Together with short-term credit, net foreign borrowing totalled IL 1,333 million, as against IL 500 million in 1969. Most of the rise was in long-term credit, which was double the previous year's figure. Two factors contributed to this growth: on the one hand, a much larger volume of U.S. Government loans, a substantial part of which was for covering Ministry of Defense procurement orders in that country, and of Independence and Development Loan receipts; and on the other hand, a decline in debt repayments following an increase in 1969 (mainly because of large-scale redemptions of Independence and Development Bonds).

Net long-term foreign loan receipts of the National Institutions dropped by IL 32 million. These also fell off in 1968 and 1969, after the Institutions had

Table VII-10

## CHANGES IN GOVERNMENT AND NATIONAL INSTITUTION LIABILITIES, 1969-70

(IL million)

	1969	1970			Change in net receipts in 1970
	Net receipts	Loans received	Loans repaid	Net receipts	
<b>A. Foreign loans and credit</b>					
(1) Long and medium-term loans					
Independence and Development Loans <sup>a</sup>	183	702	244	458	275
U.S. Government loans <sup>b</sup>	363	828	153	675	312
Loans from the West German Government	118	116	—	116	-2
Other loans	-53	146	107	39	92
Total	<b>611</b>	<b>1,792</b>	<b>504</b>	<b>1,288</b>	<b>677</b>
(2) Short-term credit (net)	-111	45	—	45	156
Total foreign loans and credit	<b>500</b>	<b>1,837</b>	<b>504</b>	<b>1,333</b>	<b>833</b>
<b>B. Domestic loans and credit</b>					
(1) Long- and medium-term loans					
Compulsory Defense Loan	—	247	—	247	247
Other Defense Loans <sup>c</sup>	337	162	—	162	-175
Compulsory Savings Loan	—	276	—	276	276
Absorption Loan and 1962 Compulsory Savings Loan	-21	15	67	-52	-31

Other Government bond issues <sup>d</sup>	17	35	65	-30	-47
Proceeds of issues deposited with the Treasury and loans from financial institutions and insurance companies	483	413	223	190	-293
Total	816	1,148	355	793	-23
(2) Net short-term credit	139	595	—	595	456
Total domestic loans and credit	955	1,743	355	1,388	433
<b>C. Net credit from the banking system*</b>					
(1) Long- and medium-term loans from the Bank of Israel	1,115	1,170	—	1,170	55
(2) Short-term credit					
Changes in deposits with and credit from Bank of Israel	138	-276	—	-276	-414
Changes in deposits with and credit from banking institutions	82	71	—	71	-11
Total short-term credit	220	-205	—	-205	-425
Total credit from the banking system	1,335	965	—	965	-370
<b>D. Total loans and credit</b>					
(1) Long- and medium-term	2,542	4,110	859	3,251	709
(2) Short-term (net)	248	435	—	435	187
Grand total	2,790	4,545	859	3,686	896

NOTE: The data are from reports of the Accountant General, Ministry of Finance, and National Institutions, and differ from the data published by the Central Bureau of Statistics.

\* Before deducting distribution costs.

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

<sup>c</sup> Including sales of the voluntary Defense Loan issues and the special issues for banking institutions.

<sup>d</sup> Including bonds purchased by the banking system.

\* Excluding bonds purchased by the banking system.



received a special loan from the Bank of Israel to repay various foreign debts.

## *2. Domestic loans*

Long- and medium-term domestic borrowing from nonbank sources totalled IL 1,052 million in 1970, while debt repayments amounted to IL 355 million. Together with short-term credit and that from the banking system, net domestic borrowed receipts reached IL 2,353 million, as against IL 1,290 million in 1969.

Net proceeds of the Government and the National Institutions from long-term loans and bond sales, including those to the banking institutions, added up to IL 793 million, less than the IL 876 million recorded in 1969.

Most of the decrease was in loans from various institutions (financial institutions, insurance companies, social insurance funds, and the State Lottery). These sums consist of the proceeds of issues floated by various institutions and deposited with the Treasury, as well as of loans received directly for financing specific projects within the framework of the development budget.

Net receipts from these loans fell by IL 293 million, mainly because of an increase in repayments, and stood at IL 190 million. Receipts from the sale of long- and medium-term bonds (excluding the Defense Loans other than the issues sold to the banking institutions) also dropped. In 1970 there was a net repayment of IL 30 million on bond issues of the Government and the National Institutions, as compared with net sales of IL 77 million in 1969.

It should be noted that the market for new bond issues is controlled by the Government. It approves all domestic issues, and is thus able to regulate the volume of issues floated not only by itself but also by other entities. Consequently, changes in the volume of Government issues are not always determined by fluctuations in the demand for these bonds. In 1970 sales of new Government bond issues were limited by the heavy issue of compulsory loans.

The increase in the Government's receipts from compulsory loans in 1970 consisted of the following items:

The compulsory Defense Loan yielded IL 247 million, of which IL 167 million was collected from employees, IL 53 million from companies, and IL 27 million from the self-employed. Collections on account of this loan, which began in April 1970, are at a flat rate of 7 percent of taxable income (applicable to employees, self-employed, and companies alike); interest is at 5 percent, tax-free, and the principal is pegged to the cost-of-living index. The loan will be redeemed in 1986 in twelve equal monthly installments, while interest will be paid in three equal triennial installments, beginning October 1977.

The Compulsory Savings Loan brought in IL 276 million, of which IL 173 million was collected from employers and IL 103 million from employees. Collection of this loan also began in April 1970, but at varying rates: for

employees and self-employed it is 4 percent of total income, and for companies and cooperative societies—2 percent of total income; employers purchase an additional amount, equivalent to 4 percent of their gross wage payments. This loan also bears 5 percent interest, tax-free, with the principal linked to the cost-of-living index. It will be redeemed in three annual payments, beginning October 1975.

Receipts from the voluntary Defense Loans amounted to IL 162 million, of which IL 87 million came from the issues sold to banks and IL 75 million from the 1969 issue sold to the public, most of it in the first four months of the year. In 1969 proceeds from the Defense Loans aggregated IL 337 million, of which the banks accounted for IL 82 million.

The public sector's debt to the banking system rose by IL 1,061 million in 1970, compared with IL 1,419 million the year before. Most of the increase—IL 894 million—was in loans from the Bank of Israel; this sum consisted of IL 1,170 million in long-term loans (compared with IL 1,115 million in 1969), from which must be deducted IL 276 million in incremental deposits and other short-term transactions. Net credit from other banking institutions totalled IL 167 million, about the same as in 1969. This sum consisted of an increase of IL 96 million in purchases of Government securities by the banking institutions and of IL 71 million in other credit and changes in deposit balances.

Nonbank short-term credit soared from IL 139 million to IL 595 million, with most of the increase being in Government liabilities to contractors and suppliers.

### *3. Credit outflow*

In 1970 the Government and the National Institutions lent IL 1,433 million to the rest of the economy (including the local authorities); this was 24.5 percent over the 1969 figure. Housing loans jumped 88 percent to IL 839 million, but loans for other purposes dropped, as detailed below.

Outstanding loans for agriculture and irrigation decreased by IL 29 million to stand at IL 150 million. The decline stemmed from the smaller amount of financing supplied to agricultural settlements for bolstering their financial position. Loans from the Jewish Agency, on the other hand, rose to IL 83 million.

Loan capital provided for mining, quarrying, oil drilling, and pipelines fell to IL 38 million, less than half the 1969 figure. The completion of the Eilat-Ashkelon pipeline, which had required large amounts of financing in 1969, accounted for most of the decrease.

After rising in 1969, loans to industry and crafts fell sharply in the year reviewed to IL 80 million. Most of the decline was in the loan and investment portfolios of those industrial finance institutions that have begun to operate more with their own than with Government funds. The smaller volume of direct Government credit granted to industry does not imply a diminution of public

Table VII-11

**DEVELOPMENT BUDGET LOANS<sup>a</sup> GRANTED BY THE GOVERNMENT  
AND NATIONAL INSTITUTIONS, BY ECONOMIC SECTOR, 1969-70**

(IL million)

	1969	1970	Increase or decrease (-)	
			IL m.	%
Housing <sup>b</sup>	446	839	393	88.1
Agriculture and irrigation	179	150	-29	-16.2
Mining, quarrying, oil drilling	84	38	-46	-54.8
Industry and crafts	173	80	-93	-52.8
Transportation and communications	57	94	37	64.9
Electric power	21	33	12	57.1
Tourism	33	45	12	36.4
Services and misc.	103	98	-5	-4.8
Total <sup>c</sup>	1,096	1,377	281	25.6
To local authorities	56	56	—	—
Grand total	1,152	1,433	281	24.4

<sup>a</sup> Including participations in company share capital; excluding investments of the Government and National Institutions.

<sup>b</sup> The entire amount of financing provided for housing is treated as loans to the public, even if part of the public housing has not yet been actually handed over to the buyers or to the public housing companies, but is being held temporarily by the Government.

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

financing of this sector, since a good deal of the public credit allocated to industry is channelled through the industrial development banks and is not necessarily extended in the form of development budget loans.

Further details on Government and National Institution loans are presented in Table VII-11.

Loan collections totalled IL 153 million, of which IL 135 million was on Government development budget loans. The Government's outstanding claims arising out of development budget operations totalled IL 5,570 million at the end of March 1970.<sup>1</sup> Of this sum, approximately IL 1,440 million represented investments in shares and bonds (including amounts originally granted as loans but later converted into share capital), while as regards a further IL 730 million no decision has yet been taken whether to treat it as a loan or equity investment. The balance of loans to be collected thus totalled IL 3,400 million at the end

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

of March 1970. Loan collections (excluding the sale of shares) were equal in 1970 to 4 percent of total Government loans outstanding on March 31, 1970; this compares with 5.2 percent in 1969. A sizable part of the balance consisted of loans on which only interest is collected or whose redemption date either has not been fixed or has been deferred.

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

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

Local authority operations continued to expand in 1970, their expenditure, as shown in their "balance of payments", rising by 13.5 percent to IL 1,205 million.

Tax receipts and transfers from the public moved up faster than in the previous year, after dropping off in 1968 as a result of the unification of municipal and Government property taxes and the assumption by the Government of responsibility for their collection. In return for their property tax revenue, the Government increased its allocations to the authorities during the past three years. It likewise stepped up its grants and other participations in their outlays.

Net receipts from the Government and National Institutions, including net loans, comprised a third of the authorities' total receipts (see Table VII-13).

Incremental expenditure trailed behind the authorities' additional receipts, depressing their saving and increasing their demand surplus from IL 174 million in 1969 to IL 207 million.

The demand surplus is financed by domestic borrowing. Net loans from the Government and the National Institutions continued downward, from IL 56 million in 1968 and IL 42 million in 1969 to IL 32 million. The debt to the banking system rose by IL 100 million, after an IL 86 million increase in 1969, while liabilities to financial institutions and other local sources (social insurance funds, the State Lottery, and contractors and suppliers) went up by IL 75 million, compared with a IL 46 million rise in the preceding year.

#### (b) *The "balance of payments" of the local authorities*

The "balance of payments" of the local authorities for 1969-70 is presented in Table VII-13. The table distinguishes between transactions in goods and services, financial transactions, and transactions with the rest of the public sector.

#### 1. *Receipts*

Tax revenue in 1970 was, at IL 333 million, up nearly 10 percent. This contrasts with a rise of only 3 percent in 1969 and a decline in 1968, which was

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

Table VII-12

## DEMAND SURPLUS OF THE LOCAL AUTHORITIES AND ITS FINANCING, 1968-70

(IL million)

	1968	1969	1970	Annual increase or decrease (-) in 1970
<b>A. Expenditure on current account</b>				
Consumption <sup>a</sup>	516	554	637	83
Transfers to households and nonprofit institutions	113	134	143	9
Interest	60	74	90	16
Total	689	762	870	108
<b>B. Revenue on current account</b>				
Taxes	295	303	333	30
Other domestic revenue	192	203	218	15
Net transfers from the Government and National Institutions	237	318	358	40
Total	724	824	909	85
<b>C. Saving (B-A)</b>	35	62	39	-23
<b>D. Purchases on capital account</b> (less sales)	200	236	246	10
<b>E. Demand surplus (D-C)</b>	165	174	207	33
<b>Sources financing the demand surplus</b>				
<b>F. Credit (net)</b>				
Government and National Institutions	56	42	32	-10
Banking system	55	86	100	14
Other domestic sectors	54	46	75	29
Total	165	174	207	33

<sup>a</sup> Purchases on current account less sales.

due, as explained above, to the transfer of the collection of the property tax to the Government.

Municipal rates were hardly changed during the past three years, following sharp increases in various taxes (including the business tax and charges for sundry services) by most of the authorities in 1966 and 1967. Under the tripartite "package deal" concluded in 1970,<sup>1</sup> the authorities were prevented from raising municipal rates.

Whereas the growth of tax revenue in 1966 and 1967 stemmed from the revision of rates, the increases in subsequent years were due primarily to the upswing in economic activity, especially the revival of the real estate market and the larger volume of building starts and completions.

<sup>1</sup> See Chapter IX, section 5.

**Table VII-13**  
**"BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, 1969-70**  
 (IL million)

Receipts	1969	1970	Increase or decrease (-)	Payments	1969	1970	Increase or decrease (-)
<b>Transfers and transactions in goods and services</b>							
Taxes	303	333	30	Purchases			
Misc. revenue	212	227	15	On current account	558	641	83
				On capital account	241	251	10
				Interest payments	74	90	16
				Transfers	134	143	9
<b>Total</b>	<b>515</b>	<b>560</b>	<b>45</b>	<b>Total</b>	<b>1,007</b>	<b>1,125</b>	<b>118</b>
<b>Transactions in financial claims</b>							
Long-term loans	101	129	28	Participation in			
Loans and credit from				share capital	6	5	-1
the banking system	86	100	14	Repayments on			
Short-term credit	20	26	6	long-term loans	69	75	6
<b>Total</b>	<b>207</b>	<b>255</b>	<b>48</b>	<b>Total</b>	<b>75</b>	<b>80</b>	<b>5</b>
<b>Transactions with the rest of the public sector</b>							
From the Government and							
National Institutions							
Net participations	318	358	40				
Net loans	42	32	-10				
<b>Total</b>	<b>360</b>	<b>390</b>	<b>30</b>				
<b>Total receipts</b>	<b>1,082</b>	<b>1,205</b>	<b>123</b>	<b>Total payments</b>	<b>1,082</b>	<b>1,205</b>	<b>123</b>

Other compulsory levies (apart from taxes) added up to IL 227 million in 1970. Approximately IL 100 million (40 percent) of the total income from this source derived from property owners, representing their participation in the financing of roads, sidewalks, sewage disposal, and installation of water meters. A further IL 115 million was collected as participations in the costs of various services, including service charges in primary schools and tuition fees in other educational institutions.

The net participation<sup>1</sup> of the Government and National Institutions in local authority budgets was stepped up in 1970 by IL 30 million to IL 390 million. Most of the increase is explained by the greater participation of various Government departments and the National Institutions in certain other local authority expenditures, such as the participation of the Ministry of Transport in road safety projects, the War Risk Insurance Fund in fire protection services, and the Ministries of Social Welfare, Health, Education, and Religious Affairs in expenditures on social services. In addition, the local authorities receive grants for various construction projects from the Government's development budget and from the Education Fund of the National Institutions. In the year reviewed these participations aggregated IL 120 million, IL 40 million more than in the previous year.

Another item showing a higher figure in 1970 was "shared revenue", comprising 5 percent of the Government's purchase tax receipts, 42 percent of its income from vehicle license fees, and some 4.4 percent of its total revenue from taxes and license fees (in return for the Government's collection of the municipal property tax). These allocations were increased in 1970 to IL 145 million, thanks chiefly to the growth of the Government's tax receipts. The general grant-in-aid<sup>2</sup> and extraordinary grants to the local authorities, on the other hand, declined from IL 100 million in 1969 to IL 75 million; extraordinary grants, which were stepped up appreciably in 1969, fell off most in the year reviewed.

Gross receipts from Government loans averaged IL 56 million per annum in the past two years, but net loans from the Government and the National Institutions were down from IL 42 million to IL 32 million, mainly because of larger repayments on outstanding Government loans. Most of the new loans were granted through the Government's development budget; about a third of the sum was for financing investments in educational institutions and the remainder for financing municipal services, such as roads, sidewalks, sewage disposal, street lighting, waterworks, public buildings, and shelters.

<sup>1</sup> Allocations, grants, and net loans extended, less interest paid to the Government by the local authorities and their participations in various Government outlays.

<sup>2</sup> The general grant-in-aid is allocated to the local authorities according to various criteria: the number of inhabitants, the age structure of the population, per capita receipts from various taxes, and per capita expenditure on social welfare. The authorities have been classified into ten groups according to these criteria, the size of the per capita grant varying according to group.

Net loans from sources other than the Government and the National Institutions totalled IL 175 million, as compared with IL 132 million in 1969. The bulk of the loans came from banking and financial institutions and social insurance funds, with the remainder being provided by the State Lottery, contractors, and suppliers. Most of the incremental net credit in 1970 was from the banking system and financial institutions.

## *2. Payments*

Local authority expenditure, excluding debt repayments, rose in 1970 by 11.5 percent to reach IL 1,125 million. The authorities' consumption went up 15 percent to IL 637 million, of which IL 438 million was on payrolls. These outlays increased in 1970 by 17 percent (about the same as in the Government), following a 3.5 percent growth in personnel and a 13 percent rise in average pay per employee.

Transfer payments amounted to IL 143 million, of which IL 33 million went to nonprofit institutions (health and education) and IL 110 million to households.

Local authority investment continued upward, reaching IL 251 million. Increases were recorded in educational services, which alone accounted for over half of total capital spending, and in other municipal services. There was no increase in transportation investment (roads, sidewalks, and traffic regulation), which accounted for a quarter of the authorities' total capital expenditure in 1970.