

CHAPTER VIII

NONPROFIT INSTITUTIONS¹

1. MAIN DEVELOPMENTS

NONPROFIT INSTITUTIONS form part of the private sector, but their services more closely resemble those supplied by the public sector. The institutions engage in a wide variety of activities, but have the following in common: (a) their services are in the social field; (b) they cater mostly to households, receiving no direct payment for their services, or selling them at a price covering only part of the cost. The institutions operate in the health, education, social welfare, and religious fields, as well as in the social and political fields. Approximately 73 percent of the sector's income and expenses are accounted for by 22 large institutions. The sector is nevertheless very heterogeneous from the aspect of type of expenditure and source of income alike. It consists of some 6,500 institutions, many of which are small, such as synagogues, and which differ considerably from one another in size and the nature of their activities.

Outlay by the sector totalled IL 976 million in 1967, compared with IL 978 million the year before. In real terms, the level held steady, following an expansion of 5 percent in 1966. The stability in 1967 was the combined result of a real increase of about 3 percent in purchases on current account² and a decline of approximately 20 percent in real investment (see Table VIII-1).³

Consumption of nonprofit institution services has accounted for over 9 percent of total domestic private consumption in every year since 1958. The weight of the institutions within total domestic capital formation stood at only some 2.8 percent in 1962, but since then has been advancing steadily—both because other investments have fallen off and because the institutions' investments have expanded—and reached over 6 percent in 1966 and nearly 7 percent in 1967. This suggests that capital outlay by this sector is little affected by the level of economic activity.

Analysis of developments over the last three years reveals the following picture:

¹ Political parties, workers' committees, and some sports organizations are not included in this survey owing to lack of data. The data for 1966 have been revised, while those for 1967 are provisional. Details on the concentration of nonprofit institutions are given in sections 3 and 6 of this chapter. For further explanation of the types of institutions, see Bank of Israel Annual Report for 1965, Chapter VII, and O. Hatzroni, "Development of Nonprofit Institutions, 1957-64", Bank of Israel Bulletin No. 25, pp. 44 ff.

² Excluding transfers to households.

³ The data include the estimated expenditure of nonprofit institutions in East Jerusalem. This estimate, which totals approximately IL 5 million, is doubtless biased downward.

Table VIII-1
EXPENDITURE OF NONPROFIT INSTITUTIONS, 1962-67

Year	Purchases on current account ^a (IL million)	Percent change in current – account purchases from previous year		Purchases on capital account (IL million)	Percent change in capital – account purchases from previous year		Total expenditure (IL million)	Percent change in total purchases from previous year	
		At current prices	At constant prices ^b		At current prices	At constant prices		At current prices	At constant prices ^b
1962	429	—	—	59	—	—	488	13	2
1963	485	8	2	77	30	23	562	15	5
1964	559	15	7	112	45	40	671	19	13
1965	694	24	11	130	16	11	824	23	11
1966	794	14	1	160	23	22	954	16	5
1967 ^c	826	4	3	127	-20	-21	953	0	0

^a Including *inter alia* interest payments (net of interest receipts); excluding transfers to households.

^b This column should be regarded with some reservation since the index of the sector's consumption prices is only an estimate.

^c Provisional data. For a further breakdown, see the appendix to this chapter (in Hebrew only).

In 1965 the sector's purchases on current account increased by 24 percent, and those on capital account by 16 percent. Most of the growth in the former item was due to the granting of wage hikes and the payment of retroactive wage adjustments. Receipts were up only 15 percent, so that the institutions had to borrow heavily from other sectors; the outstanding balance of such credit in fact rose steeply in 1965.

In 1966 purchases on current account went up by 14 percent and capital expenditures by 23 percent, while receipts increased by only 13 percent. The volume of credit was again expanded, despite its already relatively high level.

Since the nonprofit institutions generally do not resort to large-scale borrowing, the comparatively sluggish growth of income in the years 1965-67 tended to arrest the rise in the sector's expenditure. Consequently, in 1967 purchases on current account were only slightly larger, while capital-account purchases even contracted. Repayment of debts—some of them short-term—also burdened the institutions, making it difficult for them to expand their current activities.

The decline in capital expenditures is attributable to additional factors. As regards health institutions, it is explained primarily by the slower growth of the population, especially in new settlements. In education, it can apparently be ascribed to a shortage of funds, due partly to a decrease in foreign transfers for this purpose.

Nevertheless, it should be noted that the volume of purchases on capital account in 1967 was similar to that of 1965. This suggests that the sharp drop during the year reviewed was more the result of the high level reached in 1966, when the figure jumped 23 percent (in contrast to a decline of nearly 17 percent in the economy as a whole).

The small real increase in current purchases in 1966 and 1967 (1 and 3 percent respectively) reflects the more sluggish growth of the institutions, following their rapid development in 1964-65. The sector's wage bill was up some 6 percent in 1967, the result of a growth of 2-3 percent in the number of paid employees (in some small institutions many persons work on a voluntary basis, but relevant data are not available) and wage drift. In 1966 the sector's payroll outlay went up 9 percent, following a rise of 37 percent in 1965, when large retroactive wage adjustments were paid out. The moderate nominal increase in current purchases was due chiefly to the stability of the wage level in the economy as a whole, which affected the nonprofit institutions as well.

Developments in current-account purchases do not display a uniform pattern. There was a striking increase of 11 percent in outlay by educational institutions, particularly those providing higher education. This is largely explained by the willingness of the public sector to considerably step up its transfers to educational institutions, motivated in the main by the fact that the scope of higher education in Israel falls far short of what is considered desirable, and that the level of expenditure in this sphere is still lower than in the most highly developed countries.

On the other hand, current outlays by health institutions remained stable, owing apparently to the high level of expenditure and services in this field as compared with other countries.¹

Total receipts of the nonprofit institutions rose 6 percent in 1967, compared with 13 and 15 percent in 1966 and 1965 respectively. Approximately 39 percent of the aggregate receipts in 1967 derived from transfers from households and membership dues. The weight of service fees came to about 23 percent, while public sector transfers accounted for approximately 24 percent and foreign transfers for 14 percent of the total. Since 1957 public sector transfers have gone up steadily. In 1967 they were 18 percent higher than in 1966, which in turn saw an increase of 16 percent. There was a particularly big rise in transfers to educational institutions, following the expansion of their activities. The weight of this source within the sector's total receipts has advanced uninterruptedly—from 16 percent in 1961 to 21 percent in 1966 and 24 percent in 1967. This doubtless reflects the growing dependence, at least as regards financing, of some of the institutions on the public sector in general and the Government in particular—a development due to the inability of ordinary domestic sources of funds (transfers from households and sales of services) to keep pace with mounting expenditure. Moreover, the institutions have apparently failed to expand their overseas transfers to an extent sufficient to cover their larger outlays. In view of their growing deficits, they have intensified their pressure on the public sector to step up its participation. This has resulted in the public sector providing a much larger sum in recent years, suggesting the considerable importance which the Government attaches to the services supplied by the institutions it subsidizes—educational institutions (in particular those providing higher education) and health institutions. The growing reliance on the public sector for financing may affect the direction of the institutions' development and the nature of the investments of those institutions enjoying Government assistance.²

The relative shares of household transfers and foreign receipts, which have been declining steadily, continued downward in 1967. The slower rise in income from membership dues, which accounts for a large percentage of household transfers, is apparently explained by the widespread unemployment and recession prevailing in 1967.

The sector's demand surplus totalled IL 159 million in 1967, as against IL 221 million in 1966—a drop of 28 percent. The ratio between the demand surplus

¹ According to Ministry of Health data, Israel has the highest per capita health expenditure in the world. The standard of health services is also among the highest in the world.

² For example, the Government's participation in investment in the natural sciences is relatively greater than that in the humanities and social sciences (see the Explanatory Notes to the Budget Proposal for Fiscal 1966/67 and for 1967/68). Moreover, the proposed law for the establishment of a higher education authority is likely to give the Government a greater say in the universities' budgets.

and gross purchases has displayed a generally declining trend since 1957, with the exception of fairly sharp rises in 1965 and 1966. In 1967 the decline was very precipitate—from 23 to 17 percent. This clearly indicates a diminished dependence on the part of nonprofit institutions on overseas transfers and local borrowing. This demand surplus is partly structural, since some of the institutions finance their expenditure by donations from abroad.

The dissaving of the nonprofit institutions (which also stems from the financing of current operations by current transfers from abroad) declined by approximately 38 percent in 1967, following a decrease of some 22 percent the year before, and totalled IL 45 million.

2. ROLE OF THE NONPROFIT INSTITUTIONS AND THE PUBLIC SECTOR IN THE PROVISION OF SERVICES

The nonprofit institutions and the public sector perform similar functions in the fields of health, education, and social welfare. Besides these two sectors, the business sector also operates in the education and health fields.¹ As a rule, these sectors complement one another in the provision of social services, each specializing in a specific type of service. Thus, in the field of health the nonprofit institutions deal mainly with health insurance and clinical treatment, and to a lesser degree with hospitalization for the insured. In education, the nonprofit institutions are most active in higher education and research, vocational training, primary religious schools and yeshivot,² and—as with the public sector—also in secondary and agricultural schools. In social welfare, most of the activity is connected with various women's organizations and with the social welfare bodies of the Histadrut (General Federation of Labor). This field also includes many children's institutions, orphanages, and old-age homes.

The share of the nonprofit institutions in the provision of these services has declined over the years. The downtrend is particularly noticeable in the social welfare field, where the relative importance of the institutions has been diminishing gradually. The year 1966 was exceptional in that the weight of the institutions fell in all three fields. This can be attributed to the slower development of the institutions that year and to the much larger volume of services provided by the public sector. The latter, however, reduced its expenditure on health and education in 1967, thus preventing a further drop in the institutions' weight in these fields (in fact it was actually somewhat larger than in 1966). This cut in public sector expenditure is mainly explained by the completion of the payment of wage adjustments on account of previous years and the reduction of

¹ Reliable data are not available for the business sector, and consequently the discussion here does not cover all aspects of health and educational services. The business sector provides such services as health and hospitalization insurance, private physicians and hospitals, secondary, vocational, and commercial schools, etc.

² Talmudic academies.

Table VIII-2

EXPENDITURE^a OF NONPROFIT INSTITUTIONS AND PUBLIC SECTOR,
BY FIELD OF ACTIVITY, 1962-67

	1962	1963	1964	1965	1966	1967
IL million						
Health						
Public sector	85	94	120	146	205	195
Nonprofit institutions	206	232	269	348	408	395
Education, culture, religion						
Public sector	263	311	398	572	753	718
Nonprofit institutions	179	216	288	341	382	391
Social welfare						
Public sector ^b	203	244	297	351	457	577
Nonprofit institutions	74	80	92	99	109	115
Share of nonprofit institutions in total services provided by public institutions (%)						
Health	71	71	69	70	66	67
Education, culture, religion	41	41	42	37	34	35
Social welfare	27	25	24	22	19	17

^a Expenditure of nonprofit institutions consists of purchases on current and capital account and transfers to households, but not intrasector transfers. Public sector expenditure consists of purchases on current and capital account, welfare payments, and development budget loans, less transfers to nonprofit institutions and intrasector transfers.

^b Including expenditure of the National Insurance Institute.

investments. Only in social welfare did the public sector again appreciably step up its activities in 1967; this applies particularly to benefit payments by the National Insurance Institute and unemployment grants. As a result, the weight of nonprofit institutions in the provision of social welfare services continued downward.

In the health field, the role of the nonprofit institutions is greater than that of the public sector, but their share has declined over the years. The large weight of the institutions in health services is due to the extensive activity of the Sick Funds, which account for the overwhelming share of all services in this field. These function as nonprofit institutions, and some of them are connected with labor organizations. In 1967 the nonprofit institutions and the public sector expended a smaller sum on health services than in the previous year. This was partly due to the trimming of their development budgets, while in the public sector it can be partly attributed to the completion in 1966 of the payment of retroactive wage increments.

In educational, cultural, and religious services, the weight of nonprofit institutions went up slightly in 1967, after having fallen sharply in 1966 and 1965. This was due mainly to the slight reduction of public sector activities in these fields, following a rise in 1966. While nonprofit institution expenditure was higher

in 1967 than in the previous year, the increase was much smaller than in any of the years 1963–66. In social welfare, the downtrend in the institutions' share, which began in 1961, carried over through the year reviewed. This decline is chiefly due to the rapid expansion of the public sector's expenditure on National Insurance, in particular a big increase in payments under the "insurance for employees' children" scheme, and a smaller percentage rise in benefit payments by the National Insurance Institute.

3. CHANGES IN THE COMPOSITION OF EXPENDITURE, BY FUNCTION

The composition of the nonprofit institutions' expenditure in 1967 shows a continuation of the long-run trends, some of which have been in evidence since 1958: a rise in the proportion spent on education, a decline in that on social welfare (from 1962 onward), and relative stability in outlay on health and on social and professional organizations (see Tables VIII–3 and VIII–12). Health institutions rank first as far as the volume of expenditure is concerned. In 1967 their total outlay declined by 3 percent, mainly because of smaller purchases on capital account (see Table VIII–10). The bulk of the expenditure in this field is accounted for by one institution—the General Sick Fund. This is the biggest nonprofit institution from the viewpoint of scope of operations, its expenditure amounting to approximately 30 percent of aggregate outlay of the sector and to about 73 percent of the total outlay on health services.

The weight of educational institutions has been rising, and in 1967 they accounted 36 percent of total expenditure. Capital purchases fell by 24 percent during the year, but current expenditure was up approximately 11 percent, reflecting

Table VIII–3

EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1962–67^a

(percentages)

	1962	1963	1964	1965	1966	1967
Health	41	40	38	41	41	40
Education, research, and culture	32	33	36	34	35	36
Social welfare	14	14	13	12	11	11
Others ^b	13	13	13	13	13	13
Total	100	100	100	100	100	100

^a Purchases on current and capital account and transfers to households and to other nonprofit institutions, less transfers to the public sector and interest received.

^b Including trade unions and workers' councils, religious institutions, and sports and social organizations.

the much larger scope of current operations in institutions of higher learning in particular.

The weight of expenditure by trade unions and social organizations and on religious services has remained more or less constant over the past six years. The inclusion of political parties¹ in this category would result in sharp cyclical fluctuations—a big increase in an election year and a sharp drop the following year, the level holding steady until the next election year.

From the aspect of expenditure, the social welfare institutions are the smallest group in this sector. Their share of the total has been declining, though in absolute terms their outlay increased by 5–6 percent per annum in the last two years. Their weight within total investment rose in 1967, owing to a slight rise in this field and a smaller investment in others.

4. “BALANCE OF PAYMENTS” OF NONPROFIT INSTITUTIONS

(a) *Receipts*

The sector's receipts (excluding intrasector transfers) added up to IL 953 million in 1967, compared with IL 903 million in 1966—an increase of 6 percent as against 15 percent in 1965 and 1966 (see Table VIII-7). In contrast to the general practice abroad, Israeli nonprofit institutions do not finance their activities out of security-portfolio earnings. During the years 1962–67 the sector's receipts underwent several important structural changes (see Table VIII-4). In line with a long-run trend which began in 1962, the weight of

Table VIII-4

RECEIPTS OF NONPROFIT INSTITUTIONS, BY SOURCE, 1962–67

(percentages)

	1962	1963	1964	1965	1966	1967
Transfers from households and business enterprises ^a	42	41	40	39	40	39
Transfers from the rest of the world	23	22	22	20	16	14
Net transfers from the public sector	17	19	19	21	21	24
Sale of services ^b	18	18	19	20	23	23
Total	100	100	100	100	100	100

^a Including membership dues and fees, part of which may be regarded as purchases by households or as sales of services by nonprofit institutions; since it was impossible to separate these from transfers, all membership dues have been treated as transfers.

^b Excluding interest receipts, which have been deducted from interest payments.

¹ Political parties have not been included owing to the absence of reliable data on their financial activities.

transfers from abroad within total receipts fell, while that of transfers from the public sector moved up,¹ as did the weight of service sales, these too in line with the long-run trend. Whereas in 1957 public sector transfers constituted some 14 percent of total receipts, by 1967 their share came to 24 percent.

Table VIII-5

CHANGES IN NONPROFIT INSTITUTION INCOME, BY SOURCE AND FIELD
OF ACTIVITY, 1967 AS AGAINST 1966

(percentages)

	Total income ^a	Sales	Transfers			
			From house- holds	From public sector	From rest of the world	Intra- sector
Health	7	20	1	8	35	-14
Education, research, culture	5	4	7	23	-24	4
Social welfare	5	2	7	25	0	13
Others ^b	5	-7	7	7	3	5
Total	6	8	3	18	-7	3

^a The figures in this column include intrasector transfers. Excluding these transfers, the annual change in the sector's total expenditure came to 5 percent in 1967 and 15 percent in 1966.

^b See note ^b to Table VIII-3.

1. *Transfers from households and business firms*

Transfers from households and businesses (including membership dues) totalled IL 368 million in 1967, a rise of 3 percent compared with 15 percent in 1966 (see Table VIII-6). The slackening of the growth rate is apparently explained by the economic recession in the first half of 1967 and the accompanying unemployment. Income from membership dues amounted to IL 307 million in 1967, constituting about 32 percent of the sector's total income. In Israel, donations from university alumni account for only a fraction of the sector's receipts, but in other countries their weight is considerable. Almost two-thirds of the household transfers went to health institutions and nearly 30 percent to trade unions and social organizations. In these two fields of activity such transfers are the leading source of income—in the former because of the membership dues system (which is similar in nature to health insurance and thus also to sales), and in the latter because the organizations do not base their activities on outside assistance.

¹ The rising trend in public sector transfers to nonprofit institutions in general and educational institutions in particular is not characteristic of Israel alone, but is found in other Western countries as well.

Table VIII-6

**TRANSFERS FROM HOUSEHOLDS AND BUSINESSES
TO NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1966-67**

	1966		1967		Household transfers as a percent of total receipts in field of activity ^a	
	IL m.	%	IL m.	%	1966	1967
Health	235.3	66	236.3	64	63	60
Education, research, culture	12.0	3	12.9	4	4	4
Social welfare	17.1	5	18.2	5	16	16
Others ^b	94.1	26	100.9	27	74	76
Total	358.5	100	368.3	100	40	39

^a Including intrasector transfers, which are not included in total receipts of the sector.

^b See note ^b to Table VIII-3.

2. *Transfers from the rest of the world*

Transfers from abroad were down 7 percent in both 1966 and 1967 (see Table VIII-7), reaching IL 136 million in 1967 (\$ 43-45 million), as compared with IL 146 million in 1966 (approximately \$ 49 million) and IL 156 million in 1965 (\$ 52 million).¹

Nearly all of the transfers were apparently made before the devaluation, so that the new rate of exchange did not affect their value in Israeli pounds.

Overseas transfers finance both current operations and investments. Most of those intended for covering current outlays go to specific institutions in the educational, health, and social welfare fields, including those belonging to the Christian community. Approximately IL 58 million, or 43 percent, of the sector's total transfers from abroad went to educational institutions, chiefly institutes of higher learning and research. Most of these transfers were for financing investments. In some cases the funds are earmarked for a specific project and presumably would not have been forthcoming unless it was carried out. The dependence of the institutions of higher education on foreign sources for their development budgets probably restricts their freedom in allocating funds, for it is more difficult to obtain contributions for covering maintenance costs than for financing expansion, even though current requirements increase with every new investment.

¹ Data on foreign transfers in this chapter include the estimated sums received by missionary institutions (mainly schools and hospitals), but do not include transfers to political parties. Hence they differ from the data cited in Chapter III, "The Balance of Payments".

Table VIII-7
"BALANCE OF PAYMENTS" OF NONPROFIT INSTITUTIONS, 1965-67
 (IL million, at current prices)

Receipts	1965	1966 ^a	1967 ^b	Change from 1966 to 1967	Payments	1965	1966 ^a	1967 ^b	Change from 1966 to 1967
Transfers and transactions in services and goods									
Net transfers from public sector	165.0	191.5	226.4	34.9	Purchases on current account	694.2	794.1	825.8	31.7
Net transfers from the rest of the world	156.2	145.9	136.3	-9.6	Purchases on capital account	130.1	159.7	127.4	-32.3
Transfers from households and business firms					Transfers to households	24.6	23.6	22.6	-1.0
Membership dues and fees	257.4	299.3	306.7	7.4					
Other transfers	53.9	59.2	61.6	2.4					
Sales of services and goods	155.7	206.5	222.2	15.7					
Total	788.2	902.4	953.2	50.8	Total	848.9	977.4	975.8	-1.6
Financial transactions and intrasector transfers									
Net credit from other domestic sectors	60.7	75.0	22.6	-52.4	Transfers to other nonprofit institutions	29.7	20.6	21.2	0.6
Transfers from other nonprofit institutions	29.7	20.6	21.2	0.6					
Total receipts	878.6	998.0	997.0	-1.0	Total payments	878.6	998.0	997.0	-1.0

^a Revised figures.

^b Provisional figures.

^c Credit data are obtained residually and hence are not very reliable.

3. *Public sector transfers*

Net transfers from the public sector expanded by IL 35 million in 1967 to reach IL 227 million—an increase of 18 percent compared with 16 percent the year before. The volume of transfers was triple that in 1961. Most of the growth was in transfers to educational institutions (especially institutes of higher learning and research). They received 69 percent of all public sector transfers to nonprofit institutions, as compared with 66 percent in 1966 and 60 percent in 1965. This source accounted for nearly 47 percent of the educational institutions' total receipts in 1967, as against approximately 40 percent in 1966 and 35 and 30 percent in 1965 and 1961 respectively (see Table VIII-8). This upward trend indicates the growing reliance of educational institutions on the public sector for their financing. Besides grants and subsidies, the Government provides some of the nonprofit institutions with long-term loans for development purposes.

Table VIII-8
NET PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1966-67

	1966		1967		Public sector transfers as a percent of total receipts in field of activity ^a		
	IL m.	%	IL m.	%	1961	1966	1967
Health	46.9	24	50.8	22	12	13	13
Education, research, culture	126.8	66	155.5	69	30	40	47
Social welfare	8.9	5	11.1	5	15	8	10
Others ^b	8.9	5	9.0	4	1	7	7
Total	191.5	100	226.4	100	16	21	24

^a Including intrasector transfers, which are not included in total receipts of the sector.

^b See note ^b to Table VIII-3.

4. *Sale of services and goods*

One of the characteristic features of the sector is that a large percentage of its services are supplied at a price far below the actual cost and sometimes even gratuitously.

The weight of sales within total receipts has been rising: in 1961-64 it ranged around 18-19 percent, in 1965 it edged up to 20 percent, and in 1966 and 1967 it reached 23 percent. This trend apparently reflects the desire of some of the institutions to expand their regular sources of income. Compared with other types of receipts, the sales item is much more under the direct control of the institutions.

In 1967 proceeds from the sale of services and goods reached IL 222 million—up IL 16 million, or 8 percent, from the 1966 figure, as compared with a rise of 33 percent in 1966. The steep advance in 1966 resulted from the revision of tuition fees and charges for health services. Approximately 44 percent of total sales were by educational institutions, this representing about 29 percent of their aggregate income. Most of these receipts derive from school fees and from the participation of various bodies in the financing of research and scientific projects.

Receipts from the sale of health services rose by 20 percent to stand at nearly IL 75 million, or 19 percent of the aggregate income of institutions in this field. The reference is to the direct sale of services, including health insurance and hospitalization fees received from the National Insurance Institute.

It should be noted that no sharp line can be drawn between the various types of receipts. Membership dues, for instance, may be regarded as the sale of medical insurance; in this case the division between sales and transfers from households would be completely different. If membership dues paid to the Sick Funds are added to sales, this would bring up the weight of sales to about 46 percent of the sector's total receipts, and to approximately 75 percent of health institution receipts.

(b) *Payments*

Expenditure of nonprofit institutions on both current account (including transfers to households) and capital account remained virtually unchanged in 1967—IL 976 million as against IL 978 million in 1966—in contrast to a 15 percent increase in 1966 (see Table VIII-7).

Table VIII-9
COMPOSITION OF NONPROFIT INSTITUTION EXPENDITURE, 1962-67^a
(percentages)

	1962	1963	1964	1965	1966	1967
Purchases on current account	85	84	81	82	81	85
Purchases on capital account	12	13	16	15	16	13
Transfers to households and business firms	3	3	3	3	3	2
Total	100	100	100	100	100	100

^a Excluding transfers to the public sector. In the current-account outlays, interest paid is shown net of interest received. Intrasector transfers are not included in total expenditure.

In 1967 the weight of purchases on current account increased and that on capital account declined (see Table VIII-9). This was due to an absolute decrease of some 20 percent in capital expenditure, while purchases on current account expanded by approximately 4 percent. Most of the increase in current-

account purchases resulted from a 6 percent larger wage bill, which in turn can be attributed to a small increase in gainful employment in the sector and to wage drift. Data for the period 1961–67 show that in 1964–66 there was an exceptionally heavy expenditure on capital account, while the breakdown in 1967 was closer to that for 1961–63. This pattern was due primarily to the large investments in higher education and research institutions during the years 1964–66.

Table VIII-10

CHANGES IN NONPROFIT INSTITUTION EXPENDITURE, BY COMPONENT
AND FIELD OF ACTIVITY, 1967 COMPARED WITH 1966

(percentages)

	Total expend- iture ^a	Purchases on current account			Pur- chases on capital account	Transfers to house- holds	Intra- sector transfers
		Wages	Other pur- chases	Total			
Health	-3	3	-3	1	-25	-15	0
Education, research, culture	2	11	12	11	-24	-26	4
Social welfare	5	7	5	6	4	19	-16
Others ^b	-2	0	-8	-3	-6	6	63 ^c
Total	0	6	2	4	-20	-4	3

^a The figures in this column include intrasector transfers. But even exclusive of such transfers, the expenditure of the sector as a whole was unchanged in 1967.

^b See note ^b to Table VIII-3.

^c This percentage change lacks significance.

1. *Purchases on current account*

Purchases on current account totalled IL 826 million in 1967—a rise of 4 percent, compared with 14 percent in 1966 (see Table VIII-10).

Most of the nominal increase in such purchases occurred in the sector's payroll expenditure, which rose by 6 percent in 1967 as against 9 percent in 1966. Wages and fringe benefits added up to IL 540 million, as contrasted with IL 512 million in 1966. The weight of wages within the sector's total outlay has risen noticeably—to 55 percent in 1967, compared with 52 percent in 1966 and 50–53 percent during the years 1957–64 (see Table VIII-11).

Most of the payroll growth in 1967 occurred in educational institutions. This was due to the expansion of activities in this field, especially higher learning. Total wage outlay by educational institutions rose 11 percent in 1967, after having soared by 17 percent in 1966 and 44 percent in 1965. The weight of

Table VIII-11

**WAGES AND FRINGE BENEFITS PAID BY NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1966-67**

	1966		1967		Wage bill as a percent of total current outlay in field of activity ^a		
	IL m.	%	IL m.	%	1961	1966	1967
Health	211.6	41	217.0	40	63	60	61
Education, research, culture	183.5	36	203.0	38	56	68	68
Social welfare	47.2	9	50.5	9	52	50	51
Others ^b	69.5	14	69.8	13	66	59	60
Total	511.8	100	540.3	100	60	63	64

^a Including intrasector transfers, which are not included in total expenditure of the sector.

^b See note ^b to Table VIII-3.

these institutions in the sector's total wage bill went up from 25 percent in 1960 to 36 percent in 1966 and 38 percent in 1967. This rapid upward trend is the outcome of a big increase in both personnel and employee compensation. Wages and fringe benefits accounted for 68 percent of the educational institutions' current outlay¹ in 1966 and 1967, compared with approximately 56 percent in 1961.

Other purchases on current account (including some IL 18 million spent on food and IL 26 million on medicines) reached IL 285 million in 1967—a rise of 2 percent, compared with 27 percent in 1966.

2. *Purchases on capital account*

Purchases on capital account totalled IL 127 million, as against IL 160 million in 1966—a decrease of 20 percent, in contrast to a nominal increase of 23 percent in 1966. This development was due chiefly to a sharp drop in investment in educational and health institutions, which followed the expansion of capital outlay in all fields in 1965 and 1964 (see Table VIII-12). The smaller investment in health services can be partly ascribed to the slower growth of the population, which was responsible for the abandonment of several projects.

Examination of the investment budgets of the various institutions discloses a connection between such outlays and receipts from abroad. Implementation of the development projects of some of the big investing institutions in this sector is conditional on the mobilization of the required sums abroad. At the same time, there is apparently a tendency to allocate a larger percentage of foreign transfers to financing current operations, probably at the expense of investments.

¹ Employee compensation, other purchases on current account, and transfers to other nonprofit institutions and to households.

Table VIII-12

CAPITAL EXPENDITURE OF NONPROFIT INSTITUTIONS, BY FIELD OF ACTIVITY, 1964-67

	1964		1965		1966		1967	
	IL m.	%	IL m.	%	IL m.	%	IL m.	%
Health	23.9	21	34.9	27	53.2	33	39.7	31
Education, research, culture	64.0	57	74.1	57	79.1	50	60.4	47
Social welfare	13.7	12	10.8	8	14.2	9	14.9	12
Others ^a	10.6	10	10.3	8	13.2	8	12.4	10
Total	112.2	100	130.1	100	159.7	100	127.4	100

^a See note^b to Table VIII-3.

The high cost of maintaining new buildings possibly discourages new investment in general and in educational and health institutions in particular. Capital purchases in this sector are subject to relatively sharp fluctuations, owing to the concentration of investments and their dependence on external sources of funds.

3. *Transfers to households*

Transfers to households and businesses totalled approximately IL 23 million in 1967; this is close to the figure for the two preceding years, and signifies a decline in the weight of such transfers within total expenditure of the sector. In 1967 their share came to only about 2 percent; they consisted partly of transfers by educational institutions (scholarships and grants for research and advanced study) and partly of transfers by social welfare institutions (welfare payments).

5. DEMAND SURPLUS AND FINANCING OF PURCHASES ON CAPITAL ACCOUNT

(a) *Demand surplus*

The demand surplus of the sector is defined as the excess of net purchases on current and capital account over net transfers from other domestic sectors. This surplus grew steadily from 1957 to 1966 (see Table VIII-13), but in 1967 it decreased for the first time, amounting to IL 159 million as against IL 221 million the year before—a decline of 28 percent.

The long-run trend shows that the demand surplus has grown by more than 10 percent per annum. In 1965 (an exceptional year as regards the increase in the sector's wage outlay) it shot up by about 40 percent, in 1966 the growth rate slowed down, and in 1967 came the decrease mentioned above. The

Table VIII-13
DEMAND SURPLUS OF NONPROFIT INSTITUTIONS AND
FINANCING THEREOF, 1962-67

(IL million)

	1962	1963	1964	1965	1966	1967
Demand surplus						
Purchases, less sales	397.5	458.4	542.5	668.6	747.3	731.0
Less: Net transfers from other domestic sectors	278.3	324.2	384.0	451.7	526.4	572.1
Total	119.2	134.2	158.5	216.9	220.9	158.9
Financing of demand surplus						
Transfers from the rest of the world	114.4	127.7	151.3	156.2	145.9	136.3
Net credit from other domestic sectors	4.8	6.5	7.2	60.7	75.0	22.6
Total	119.2	134.2	158.5	216.9	220.9	158.9
Demand surplus as a percent of gross purchases :	24.4	23.9	23.6	26.3	23.2	16.7
Demand surplus as a percent of net purchases	30.7	29.3	29.2	32.4	29.6	21.7

contraction of the demand surplus was the result of a cutback in capital spending and an increase in net transfers from other domestic sectors.

It should be stressed that the demand surplus is in part structural, i.e. some of the institutions (e.g. Malben, Ort, Hadassah, and Wizo) finance most of their current operations by transfers from abroad. These organizations, whose headquarters are located overseas, constitute a link between Israel and the Diaspora, and enable Jews abroad to actively participate in the spheres of education, health, and social welfare in Israel. The operations of these institutions are largely financed by transfers—which they regard as ordinary receipts—and this results in the creation of a demand surplus, as defined above.

There is often a connection between the volume of investment and the size of foreign receipts. The financing and implementation of certain investments depends on the receipt of funds from abroad, this constituting part of the structural demand surplus. As regards the effects of the demand surplus, it makes little difference whether it is the outcome of fixed institutional arrangements or of a temporary phenomenon which may not recur.

In 1967 most of the demand surplus was financed by transfers from abroad—nearly 86 percent, as against 66 percent in 1966 and 72 percent in 1965. Ap-

proximately 14 percent of the 1967 demand surplus was covered by additional domestic credit.

One yardstick of the sector's dependence on its demand surplus is the ratio between it and total purchases. This ratio fell steadily from 1957 to 1964, rose in 1965 as a result of the big wage hikes granted that year, declined in 1966 to the level of 1963 and 1964, and fell precipitately in 1967, continuing the general long-run trend. This trend means that the nonprofit institutions are relying more on transfers from other domestic sectors and less on foreign transfers and domestic borrowing. The decline in the ratio cited indicates that the percentage increase in domestic receipts from the sale of services and net transfers from other sectors has been growing more rapidly than total expenditure.

(b) *Saving and financing of capital expenditure*

Nonprofit institution saving is defined as the excess of transfers on current account from other domestic sectors¹ over net purchases on current account. This saving, which has always been of a negative magnitude, actually represents the sector's share in national saving. The amount of dissaving in 1966 and 1967 was far below the record level of 1965; during the year reviewed it was similar to that in 1964, totalling IL 45 million, as against IL 73 million in 1966 and IL 92 million in 1965 (see Table VIII-14). In percentage terms, the decrease in

Table VIII-14

SHARE OF NONPROFIT INSTITUTIONS IN NATIONAL SAVING AND
THE FINANCING OF CAPITAL OUTLAY, 1964-67

(IL million)

	1964	1965	1966	1967
1. Net transfers from other domestic sectors on current account ^a	382.7	446.0	515.0	558.7
2. Purchases on current account, less sales	430.3	538.5	587.6	603.6
3. Share in national saving (1-2)	-47.6	-92.5	-72.6	-44.9
4. Transfers from the rest of the world	151.3	156.2	145.9	136.3
5. Subtotal (3+4)	103.7	63.7	73.3	91.4
6. Net credit from other domestic sectors	7.2	60.7	75.0	22.6
7. Transfers from the public sector on capital account	1.3	5.7	11.4	13.4
8. Balance available for financing investments (5+6+7)	112.2	130.1	159.7	127.4

^a All transfers from households have been treated as transfers on current account, since no breakdown into the current- and capital-account components is available.

¹ Household transfers for investment purposes have not been classified separately owing to lack of data. All transfers from households have been treated as transfers on current account.

1967 was 38 percent, compared with 22 percent the year before. The substantially larger dissaving in 1965 is primarily explained by the much bigger wage bill that year, which was not accompanied by a corresponding growth in transfers from other domestic sectors. In 1966 and 1967 such transfers expanded more rapidly than current purchases, so that the sector's dissaving contracted.

Transfers from abroad, as already mentioned, are intended partly for covering the sector's current operations and partly for financing its investments; hence part of the dissaving, as here defined, is attributable to the negative saving of institutions financing their current operations by foreign transfers. The decrease in the sector's dissaving was due to some extent to the larger volume of transfers from the public sector, a development contributing to the increased dissaving of the latter sector.

The weight of public sector transfers in the institutions' capital account is quite small: in 1967 they totalled only some IL 13 million, or 10 percent of the institutions' total investment.

6. CONCENTRATION OF NONPROFIT INSTITUTIONS

Table VIII-15 shows the degree of concentration of the sector's expenditure on current and capital account. The three biggest institutions, in order of size, are the General Sick Fund, the Hebrew University, and the Histadrut (General Federation of Labor), which together employ nearly 20,000 persons. The second largest group includes the Technion, Tel Aviv University, Hadassah, Wizo, Weizmann Institute, and the Maccabi Sick Fund.

In 1967 the 22 leading institutions accounted for some 73 percent of the sector's aggregate outlay on current account and for 86 percent of outlay on capital account; the remainder was divided over some 6,500 institutions, most of which are very small as regards the scale of their financial operations but which provide a wide range of social services. The overwhelming proportion of the institutions are synagogues, which number more than 5,000. There are approximately 200 yeshivot, scores of secondary, agricultural, and vocational schools, as well as children's institutions, clubs, immigrant societies, women's organizations, and various types of cultural and social welfare organizations.

The degree of concentration is greater in capital expenditure than that on current account. The nine biggest institutions accounted for 58 percent of the sector's total current-account spending in 1967, but for 73 percent of aggregate capital outlay. The 22 top-ranking institutions were responsible for 73 percent of the sector's total outlay on current account and 86 percent on capital account. This differential pattern characterized previous years as well. From this it may be concluded that the large institutions are more inclined to operate with their own buildings and equipment than smaller institutions, while the latter prefer a rental arrangement. Another possible conclusion is that the degree of concentration in the nonprofit institution sector is increasing from year to year.

Table VIII-15

DEGREE OF CONCENTRATION OF NONPROFIT INSTITUTION EXPENDITURE, 1967^a

Range of expenditure	Total expenditure (IL million)		Share of total capital expenditure of sector		Share of total current-account expenditure of sector		Number of institutions
	Current account	Capital account	Percentage	Cumulative percentage	Percentage	Cumulative percentage	
IL 50 million and over	50.4	362.1	40	40	41	41	3
IL 20-49 million	41.7	147.0	33	73	17	58	6
IL 10-19 million	14.3	102.0	11	84	12	70	8
IL 5-9 million	2.9	26.3	2	86	3	73	5
Up to IL 5 million	18.1	232.2	14	100	27	100	about 6,500

^a Including intrasector transfers.