

CHAPTER II

RESOURCES, USES, AND INCOME

1. MAIN DEVELOPMENTS

Total resource use again grew rapidly in 1971 – even though full employment had been reached in the preceding year – and the level of economic activity was stepped up considerably. Real GNP expanded by 9 percent, compared with 8 percent in 1970; employment also rose rapidly and there was a decline in the unemployment rate and the number of unemployed job-seekers. The number of employed, including those from the administered areas, was up 4.8 percent, as against 2.7 percent in 1970. The stronger upswing in demand and economic activity was accompanied by an accelerated price rise: the implicit price indexes of domestic resources and the national product went up by 14 and 13.2 percent respectively, as against 8 and 9 percent in 1970.

Inflationary pressures sharpened during 1971, with a marked increase in aggregate demand and a faster monetary expansion. In 1970 the Government had pursued a stringent fiscal policy designed to restrain private demand: new taxes were levied, compulsory loans were imposed, and the effective exchange rates for imports and exports were raised. This policy succeeded in curbing real per capita private consumption and made it possible to release resources for other uses without engendering strong demand pressure. Real public consumption went up that year by a very steep 28 percent, while exports and investment grew more moderately – by 9.5 and 12 percent respectively. In these circumstances aggregate demand was to some extent held in check, though not enough to stave off inflationary pressure altogether.

In 1971 demand mounted rapidly. Total real resources (excluding direct defense imports, which are not connected with internal economic trends and do not affect them in the short run) expanded by 12 percent, as against 8 percent in 1970. The upward movement of domestic resource prices, as already noted, also gathered momentum, the rise amounting to 14 percent compared with 8 percent in 1970.

The principal trends associated with the rapid expansion of demand and economic activity were the impressive growth of exports and other private foreign currency income, the vigorous upswing in public investment, and the strong monetary expansion. The August 1971 devaluation also helped to swell demand.

Exports grew particularly fast in 1971 – by 25 percent in real terms, as contrasted with 9.5 percent in 1970. – and were chiefly responsible for this year's gain in the national product and incomes. Exports contributed more than half of the total GNP increment, not counting their indirect effects via export proceeds. The year reviewed also witnessed a much larger volume of foreign investment and private transfers, some of which flowed directly to the real estate market.

Table II-1
RESOURCES AND USES, 1967-71

	IL million, at current prices					Percent annual increase or decrease (-)							
						Quantity				Price			
	1967	1968	1969	1970	1971	1968	1969	1970	1971	1968	1969	1970	1971
Uses													
Private consumption	8,113	9,246	10,591	11,782	13,892	11.3	10.8	3.4	4.4	2.4	3.4	7.6	13.0
Public consumption	3,599	4,152	4,956	6,793	7,829	8.9	16.1	27.8	-0.3	5.9	2.8	7.3	15.6
Gross investment	2,039	3,213	4,192	5,186	6,953	48.2	23.8	11.7	17.6	6.3	5.4	10.8	14.0
Total domestic uses	13,751	16,611	19,739	23,761	28,674	16.5	14.7	11.3	5.9	3.7	3.6	8.2	14.0
Resources													
Imports ^a	4,761	6,897	8,458	10,251	13,099	29.0	16.1	16.0	10.7	12.3	5.6	4.5	15.4
Exports ^b	2,982	4,312	4,846	5,452	7,767	27.0	7.6	9.3	24.8	13.9	4.4	2.9	14.2
Import surplus	1,779	2,585	3,612	4,799	5,332	32.1	29.4	24.7	-5.3	10.0	8.0	6.5	17.3
Gross national product	11,972	14,026	16,127	18,962	23,342	14.0	12.0	8.0	8.8	2.4	2.7	8.9	13.2
Total resources available for domestic uses	13,751	16,611	19,739	23,761	28,674	16.5	14.7	11.3	5.9	3.7	3.6	8.2	14.0

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

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

SOURCE: Central Bureau of Statistics.

Gross nondwelling investment was up 22 percent in 1971, compared with 4 percent in 1970, mainly owing to a huge increase in ships and aircraft. However, the growth rate was high even if this item is excluded; this was particularly true of public sector investment, which was stepped up appreciably after being cut back in 1970.

After climbing 28 percent in 1970, public consumption levelled off in 1971. This was due primarily to a cutback in defense imports, so that the contractionary effect on the domestic market was more limited. Real public consumption net of direct defense imports continued upward in the year reviewed, but the rate sagged from 12 percent in 1970 to 9 percent.

Changes in the level of public consumption only partly reflect the impact of public sector operations on aggregate demand. In order to estimate their full effect it is also necessary to take account of the sector's net revenue from taxes less transfer payments, its capital-account purchases, and the Government's indirect financing activities flowing from its domination of the capital market. In 1971 the budgetary activities of the public sector did not directly intensify aggregate demand. Its domestic demand surplus declined slightly in real terms, as did net budgetary credit to the public (see Chapter VII, "Government and Non-Government Public Sector").

On the other hand, the Government permitted various companies and institutions to mobilize more capital both at home and abroad in order to finance projects and extend credit. This enabled them to augment demand at a time when the economy was already at full employment.

In spite of a variety of absorptive measures taken by the Bank of Israel during the year, the growth of the money supply accelerated from 14 percent in 1970 to 28.2 percent. This stronger growth stemmed mainly from the sizable external infusion: a IL 1,400 million increase in Bank of Israel credit to the Government and an approximately IL 1,000 million larger accumulation of foreign currency assets.¹ The monetary expansion outstripped economic activity, creating abundant liquidity which sharpened the inflationary tendencies.

In August 1971 the dollar parity of the Israeli pound was reduced by 20 percent. This stemmed the decline in export profitability, but apparently it came too late in the year to increase the 1971 volume of exports, although it did augment exporters' local currency receipts. The devaluation also increased the IL value of private transfers from abroad, so that substantial devaluation gains accrued to holders of foreign currency assets or assets linked to the exchange rate, such as Pazak and Tamam deposits. In contrast to this, the contractionary effect of the higher import prices was deliberately mitigated. First, the Government exempted from the inventory surtax all producers who undertook to sell their existing stock at predevaluation prices. Secondly, administrative price controls succeeded to some extent in keeping down consumer prices. On balance, it can therefore be assumed that the 1971 devaluation probably had a stimulative effect on demand.

Real private income rose much more rapidly in 1971 than in the previous year. Per capita disposable income from all sources was up 8.5 percent, or 6 percent excluding net

1. Including devaluation differentials.

compulsory loan collections. However, real per capita private consumption, which usually moves closely in step with private disposable income per capita, edged up only 1 percent. This was the average increase; as the year wore on the curve began to ascend steeply, whereas it was fairly flat throughout 1970. But this does not explain the marked gap between the growth rates of income and private consumption. What is more, the private sector enjoyed large capital gains in 1971 as a result of the devaluation of the IL and the upward revaluation of the German mark. In the short run such gains tend to boost private consumption, even though they are not included in current income.

The divergence between the growth of real disposable income and private consumption, which implies an increase in private saving, was inordinately large. The resulting increment to gross private saving from all sources came to about IL 1,000 million if compulsory loans are included in income, and approximately IL 650 million if they are not. The disparity may well be due to errors and omissions in the national accounts. Nevertheless, there are several factors which may partly explain the better saving performance in 1971. First of all, private consumption does not adjust immediately to changes in income, but for some time continues to be influenced by consumers' expectations regarding future income. In other words, the consumption of a given year is partly determined by the income level of that year and partly by that of previous years. The mild 1971 increase in consumption can therefore be partly attributed to the mild 1970 increase in disposable income, while the 1971 accelerated growth of income was not fully reflected in the consumption of that year. Second, in the year reviewed product and income growth was concentrated in certain branches which enjoyed sharply higher profits (above the long-run trend). Among these branches are agriculture, tourism, international transport, and diamonds. Very likely the lion's share of the incremental income was used to finance investment rather than current consumption. Third, the much larger volume of home sales undoubtedly also contributed to the 1971 jump in the saving rate. The housing market was this year subject to intense demand pressure, magnified by the inflow of speculative money from abroad and by private sector capital gains on foreign-currency asset holdings. This pressure led to a precipitate rise in both residential construction starts and housing prices. Home sales were also stimulated by the abundant liquidity and credit available during the year, but to some extent they were financed from savings at the expense of private consumption.

The 12 percent increase in total resources exclusive of defense imports was reflected in a faster growth of imports relative to that of the national product: real imports net of direct defense items were up 19 percent and the GNP by 9 percent. The weight of imports in resources rose this year largely because of the enormous increase in ship and aircraft acquisitions and because of the rapid growth of exports.² The weight of the import surplus in domestic resources declined, for the first time in several years.

The much larger aggregate demand in the year reviewed increased pressure on the labor market and accentuated the rise of prices. The unemployment rate continued to drift downward, the number of workers from the administered areas rose, and hourly

2. The import component of export production exceeds that of other final uses.

wages went up, particularly in the second half of the year. The consumer price index climbed faster during 1971 than in the previous year – 13.4 vs. 10 percent. Prices were advancing at a fairly precipitate pace even before the August 1971 devaluation, with most of the upward thrust emanating from the demand side. Under the prevailing conditions of demand pressure, the August devaluation intensified the price rise toward the end of the year, and the upward movement carried over into the early part of 1972 (see Chapter VI, “Prices”).

The national gross saving rate rose appreciably in 1971, after sagging the year before. Net national saving continued to be negative, though less so than in previous years.

2. USE OF RESOURCES

Total resource use (i.e. domestic uses plus exports) was up 10 percent in real terms, compared with 11 percent in 1970. The growth of domestic uses slackened from 11 percent in 1970 to 6 percent. In order to assess the factors stimulating demand, direct defense imports (which have expanded enormously in recent years) should be deducted, as they are not influenced by internal economic developments nor do they influence the economy. Not counting such imports, the growth of total resources came to 12 percent and that of domestic resources to 8.5 percent, compared with 8 and 7 percent respectively in 1970.

Resource use thus outstripped the growth of productive capacity, generating inflationary pressure which became more pronounced in the course of the year. This pressure was reflected in an appreciable advance of prices, a mounting shortage of labor (despite the much larger numbers employed from the administered areas), and in an accelerated rise of wages and salaries.

Exports and investment accounted for most of the incremental resource use in 1971, whereas in 1970 public consumption was the leading component. The year reviewed thus witnessed a marked change in resource allocation. The weight of public consumption in incremental resource use plunged from 51 percent in 1970 to 0.5 percent, while the weight of investment and exports jumped from 35 to 82 percent. As a result, the capital stock growth rate went up and the balance of payments deficit on current account edged down somewhat, after widening appreciably in the last few years. This considerable improvement in resource allocation is largely a reflection of the Government's pre-1971 policy of stimulating exports, making imports dearer, and retarding the growth of private consumption. No further steps were taken in 1971, except for the August devaluation, which had little effect on the year's exports. In the absence of such measures, inflationary pressures built up and new trends emerged – namely an upswing in private consumption and imports. Thus, although there was an improvement in resource allocation for the year as a whole, contrary tendencies appeared during the year. It must also be stressed that some of the positive achievements of 1971 were due to exceptional factors and fluctuations, which were partly random from the standpoint of the economy: a cutback in defense imports and an impressive advance in diamond and citrus exports and in tourism.

In 1971 exports gained 25 percent in real terms, as contrasted with 9.5 percent the

year before, so that they were a central factor in accelerating the country's economic growth. Most export branches shared in the increase: diamonds were up 31 percent (in dollar terms); other industrial exports – 21 percent; citrus – 39 percent; tourism – 71 percent; and transport – 35 percent. This rapid and wide-ranging increase can be credited mainly to stronger foreign demand, but also to the increased profitability of Israeli exports in recent years. The share of exports in incremental uses shot up from 16 percent in 1970 to 49 percent.

Real gross capital formation was up 18 percent, compared with 12 percent in 1970; the corresponding figures for gross nondwelling capital formation are 22 and 4 percent. Much of the increase consisted of ship and aircraft imports, which tripled this year. However, even if these are deducted, nondwelling investment rose faster than in 1970, when the growth rate sagged noticeably. Particularly steep rises were recorded in public infrastructure investment and purchases of construction equipment. On the other hand, the uptrend in industrial and mining investment, which was fairly pronounced in previous years, slackened somewhat.

Real gross dwelling investment rose 16 percent, and this after the rapid growth of the two preceding years. Demand for housing, which included a considerable speculative element, mounted appreciably in the year reviewed and resulted in a steep rise in private building starts and dwelling prices.

Public consumption, which had soared 28 percent in 1970, tapered off in 1971, and its weight in incremental resource use declined drastically. This reflected the contraction of direct defense imports: whereas in 1970 this item had risen by IL 980 million, in the year reviewed it was slashed by IL 420 million (at 1970 prices). Domestic public consumption increased in 1971, though more slowly than in 1970, the respective figures being 9 and 12 percent.

Private consumption grew moderately in 1971 compared with the expansion of economic activity in general: the increase was 4.5 percent (3.5 percent in 1970) as against a GNP gain of 9 percent (8 percent in 1970). In both years, therefore, the private sector consumed a relatively small proportion of its income from economic activity, in contrast to previous years when consumption went up at about the same rate as GNP and income from economic activity. But there was a striking difference between the two years as regards the nature of the divergence between the GNP and private consumption growth rates. In 1970 the divergence was imposed on the private sector by the levying of additional taxes and compulsory loans, which to a large degree held real disposable income in check; in 1971, on the other hand, the net absorption of the public sector through taxes and compulsory loans grew more sluggishly than in the previous year – although it outpaced the growth of incomes – and therefore the private sector was not forced to curb its consumption to the same extent as in 1970.

In spite of this, private consumption grew only moderately. This is apparently attributable to two principal factors. First, as already pointed out, consumption does not as a rule adjust immediately to changes in income, being affected also by expectations regarding future income. In other words, in 1971 private consumption was affected partly by the income changes of that year and partly by those that occurred in 1970. Such a lag in

Table II-2
RESOURCES AND USES AND THEIR GROWTH, BY COMPONENT, 1968-71
(IL million, at 1970 prices)

	Resources and uses				Annual increase			Percentage distribution of resources and uses			Percentage distribution of incremental resources and uses		
	1968	1969	1970	1971	1969	1970	1971	1969	1970	1971	1969	1970	1971
Uses													
Private consumption	10,284	11,395	11,782	12,296	1,111	387	514	43.3	40.3	38.5	35.9	13.5	18.6
Public consumption, excl. direct defense imports	3,634	4,113	4,608	5,010	479	495	402	15.6	15.8	15.7	15.5	17.2	14.6
Direct defense imports	944	1,202	2,185	1,764	258	983	-421	4.6	7.5	5.5	8.3	34.2	-15.2
Gross investment	3,750	4,643	5,186	6,099	893	543	913	17.6	17.7	19.1	28.9	18.9	33.0
Exports ^a	4,638	4,989	5,452	6,806	351	463	1,354	18.9	18.7	21.3	11.4	16.1	49.0
Total uses of resources	23,250	26,342	29,213	31,975	3,092	2,871	2,762	100.0	100.0	100.0	100.0	100.0	100.0
Resources													
Gross national product	15,638	17,504	18,962	20,623	1,866	1,458	1,661	66.4	64.9	64.5	60.4	50.8	60.1
Imports, ^a excl. direct defense imports	6,668	7,636	8,066	9,588	968	430	1,522	29.0	27.6	30.0	31.3	15.0	55.1
Direct defense imports	944	1,202	2,185	1,764	958	983	-421	4.6	7.5	5.5	8.3	34.2	-15.2
Total resources	23,250	26,342	29,213	31,975	3,092	2,871	2,762	100.0	100.0	100.0	100.0	100.0	100.0

^a See notes to Table II - 1.

SOURCE: Central Bureau of Statistics.

consumption occurred in previous years as well, and in this respect 1970 was exceptional because consumption changed in line with disposable income. It may be assumed that the rapid accommodation of 1970 was due to the prevailing feeling that the Government would persist in its policy of restraint for longer than it actually did. Another factor, which may partially explain the better saving performance in the year reviewed, is that much of the income increment was concentrated in only a few branches – mainly agriculture, international transport, and tourism. These branches apparently enjoyed a steep rise in profits, which were allocated more to investment than to consumption. The heavy purchases of homes worked in the same direction. Although these are financed chiefly by shifting out of other assets and by borrowing, they are partly financed out of current income at the expense of consumption.

Table II-3
EFFECT OF RESOURCE USE ON THE PRODUCT,^a 1970-71
(percentages; at 1965/66 prices)

	Destination of product increment by final use		Contribution of final uses to product growth	
	1970	1971	1970	1971
Private consumption ^b	37.7	13.5	3.0	1.4
Public consumption	24.4	13.5	2.0	1.4
Gross fixed investment ^c	13.7	18.7	1.1	2.0
Exports ^d	24.1	54.3	1.9	5.8
Total	100.0	100.0	8.1	10.6

^a Gross domestic product at factor cost.

^b Excluding the imputed net rental value of owner-occupied dwellings.

^c Excluding changes in inventories.

^d Excluding factor receipts from the rest of the world.

SOURCE: Provisional data from the 1965/66 input-output table prepared by the Bank of Israel. These data differ somewhat from those of the Central Bureau of Statistics.

No accurate estimate is available of the extent to which the private sector influences the construction and housing market, a good part of whose activity is determined by the Ministry of Housing and other public authorities. However, there is no doubt that the private sector's restraint in consumption was accompanied by a heavier demand for housing, so that the volume of resources released for other uses was much smaller than the private saving figure might suggest.

3. RESOURCES

The 1971 resource increment came to IL 2,750 million (at 1970 prices), or about IL 100 million less than in 1970 (see Table II-2). The weight of imports in total resources rose

slightly, since the former grew by 11 percent while GNP went up by 9 percent. Imports have far outpaced GNP ever since 1967, mainly because of the enormously larger defense spending abroad. In 1971 the gap between their growth rates narrowed somewhat following a decrease in defense imports. Excluding defense items purchased abroad, imports rose about 19 percent, compared with 6 percent in 1970, mainly because of stepped up exports and a heavy investment in ships and aircraft.

Table II-4
COMPOSITION OF RESOURCES, 1966-71
(percentages)

	1966	1967	1968	1969	1970	1971
At current prices						
Import surplus ^a	12.5	12.9	15.6	18.3	20.2	18.6
Gross national product	87.5	87.1	84.4	81.7	79.8	81.4
Total resources available for domestic use	100.0	100.0	100.0	100.0	100.0	100.0
At 1970 prices						
Import surplus ^a	13.2	14.1	16.0	18.0	20.2	18.1
Gross national product	86.8	85.9	84.0	82.0	79.8	81.9
Total resources available for domestic use	100.0	100.0	100.0	100.0	100.0	100.0

^a At the effective exchange rate.

SOURCE: Central Bureau of Statistics.

As stated, the upward trend in the gross national product accelerated from 8 percent in 1970 to 9 percent. The salient feature in 1971 was the large share of exports in product growth — estimated at 50 percent. The contribution of gross investment also rose, but that of private and public consumption dropped.

4. GROSS NATIONAL PRODUCT AND PRODUCTIVITY

In 1971 gross domestic product (excluding imputed rent on owner-occupied dwellings) expanded by 9 percent, as against 7.8 percent in the preceding year. This mildly higher rate was achieved thanks mainly to the notable growth of employment, including workers from the administered areas.

There was no substantial change in the growth rate of overall productivity in the year surveyed. In 1968-69, with the emergence of the economy from the recession, the slack in factor utilization was taken up, leading to an appreciable rise in productivity. By 1970

all idle reserves of productive factors had been drawn down, and productivity advanced at the same rate as in 1961-65, when full factor employment also prevailed. The levelling off of the productivity increase in 1971 was apparently the outcome of two opposing forces. On the one hand, the absorption of unskilled labor from the administered areas had a dampening effect on productivity. On the other hand, utilization was stepped up in several export branches whose output depends primarily on demand conditions abroad, such as tourism, international transport, and diamonds. In 1971 there was also a substantial increase in agricultural productivity, thanks to favorable weather conditions.

Table II-5
CHANGES IN GROSS DOMESTIC PRODUCT, FACTOR INPUT,
AND PRODUCTIVITY, 1968-71
 (percent annual increase)

	1968	1969	1970	1971
Gross domestic product (excluding residential rents)	15.1	13.4	7.8	9.0
Labor input ^a				
Number of employed	9.6	4.6	2.7	4.8
Man-hours	13.8	5.1	2.3	4.4
Stock of fixed nondwelling capital (beginning of year)	4.7	8.2	9.1	8.0
Product per employed person	5.0	8.4	5.0	4.0
Product per man-hour	1.1	7.9	5.4	4.4
Product per factor unit (productivity)				
Labor measured by number of employed ^b				
A	7.4	6.6	1.7	2.4
B	6.6	7.2	2.8	2.9
Labor measured by man-hours ^b				
A	5.3	6.3	1.9	2.6
B	3.9	6.8	3.1	3.2

^a Including workers from the administered areas.

^b Variant A - labor weighted 1/2; variant B - labor weighted 2/3.

SOURCE: Central Bureau of Statistics.

5. INCOME

Private sector income rose steeply in 1971. Real per capita disposable income from internal sources (before netting out compulsory loans) was up 7 percent, compared with 2 percent in 1970, while disposable income from all sources grew by 8.5 and 3.5 percent respectively.

Three factors lay behind this increase in the growth rate: income from economic activity moved up faster than in 1970, and so did private foreign transfers, while the net amount of funds siphoned off from the public through taxes and compulsory loans went up a little more slowly than in 1970.

Nominal gross private income from economic activity soared 25 percent in 1971, as opposed to 17 percent the year before. The acceleration was due primarily to the rise of prices, including those to the producer, and only to a relatively minor extent to a faster growth of real economic activity (see Table II-7).

Private transfers from abroad, such as German personal restitution payments, were also much larger in 1971, when they shot up 43 percent as contrasted with 29 percent the year before. The growth of total gross private income from all sources accelerated from 18 percent in 1970 to 26 percent.

Net public sector absorption via direct and indirect taxes and compulsory loans was on a much larger scale than in 1970. This can be credited principally to the fiscal measures introduced during 1970, and to a smaller extent to those adopted in 1971. The gain in net indirect tax revenue came to 36 percent, compared with 14 percent in 1970. The sharply higher growth rate chiefly reflects the additional revenue yielded by the import surcharge imposed toward the end of 1970 and whose effect was felt mainly in 1971. Direct tax revenue grew much more slowly than in 1970 – 29 as against 37 percent – since tax rates were revised upward at the beginning of 1970, whereas in 1971 only minor changes were made. On the other hand, transfer payments to the public, principally for social welfare, soared 44 percent in 1971, compared with 12 percent the year before. Direct taxes less net transfer payments grew much more sluggishly in the year reviewed – 12 percent as contrasted with 84 percent in 1970. Compulsory loan

Table II-6
NATIONAL PRODUCT AND INCOME, 1968-71
(IL million, at current prices)

	1968	1969	1970	1971	Percent annual increase or decrease (-)		
					1969	1970	1971
Gross national product at market prices ^a	14,026	16,127	18,962	23,342	15.0	17.6	23.1
Indirect taxes on domestic production	1,433	1,665	1,974	2,398	16.2	18.6	21.5
Subsidies on domestic production	271	285	317	397	5.2	11.2	25.2
Net taxes on domestic production	1,162	1,380	1,657	2,001	18.8	20.1	20.8
Gross national product at factor cost	12,864	14,747	17,305	21,341	14.6	17.4	23.3
Depreciation	1,341	1,505	1,813	2,255	12.2	20.5	24.4
National income	11,523	13,242	15,492	19,086	14.9	17.0	23.2

^a At effective exchange rates.

SOURCE: Central Bureau of Statistics.

receipts were up strongly: net of loan certificates distributed, they came to IL 977 million as against some IL 390 million in 1970.

Table II-7
TOTAL AND DISPOSABLE GROSS PRIVATE INCOME, 1968-71
(IL million, at current prices)

	1968	1969	1970	1971	Percent annual increase		
					1969	1970	1971
A. Gross income							
1. GNP at market prices	14,026	16,127	18,962	23,342	15.0	17.6	23.1
2. Import taxes net of export subsidies	429	725	745	1,259	69.0	2.7	69.0
3. Public sector property and entrepreneurial income	236	286	346	408	21.2	21.0	17.9
4. Gross private income from economic activity (1+2-3)	14,219	16,566	19,361	24,193	16.5	16.9	24.9
5. Private transfers from abroad	1,157	1,207	1,561	2,239	4.3	29.3	43.4
6. Gross private income from all sources (4+5)	15,376	17,773	20,922	26,432	15.6	17.7	26.3
B. Net compulsory payments							
7. Import taxes net of export subsidies	429	725	745	1,259	69.0	2.7	69.0
8. Net indirect taxes on domestic production	1,162	1,380	1,657	2,001	18.8	20.1	20.8
9. Total net indirect taxes (7+8)	1,591	2,105	2,402	3,260	32.3	14.1	35.7
10. Direct taxes ^a	1,807	2,237	3,057	3,956	23.8	36.7	29.4
11. Net transfers from the public sector	1,089	1,474	1,653	2,384	35.4	12.1	44.2
12. Net direct taxes (10-11)	718	763	1,404	1,572	6.3	84.0	12.0
13. Total net taxes (9+12)	2,309	2,868	3,806	4,832	24.2	32.7	26.9
14. Net compulsory loans ^b	24	-90	388	977	-	-	50.0
15. Taxes and compulsory loans (13+14)	2,333	2,778	4,194	5,809	19.1	51.0	38.5
C. Gross disposable income							
16. From domestic sources							
Incl. net compulsory loans	11,910	13,698	15,555	19,361	15.0	13.6	24.5
Excl. net compulsory loans	11,886	13,788	15,167	18,384	16.0	10.0	21.2
17. From all sources							
Incl. net compulsory loans	13,067	14,905	17,116	21,600	14.1	14.8	26.2
Excl. net compulsory loans	13,043	14,995	16,728	20,623	15.0	11.6	23.3

^a Income tax and National Insurance.

^b Collections less loan certificates distributed.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Total absorption through obligatory payments slackened somewhat in 1971 (see Table II-7). Total taxes net of transfer payments were up 27 percent, compared with 33 percent the year before. The addition of net compulsory loan receipts³ results in a rise of 38 percent, as against 51 percent in 1970. Nevertheless, the amount mopped up from the public increased faster in 1971 than gross private income. Thus the growth of real private income was restrained in 1971, but less so than in the previous year.

Table II-8
CHANGES IN INCOME AND INCOME DISTRIBUTION, 1965-71
(percentages)

	1965	1966	1967	1968	1969	1970	1971
Real private income from economic activity (per capita)	8.7	-1.8	0.2	11.8	8.1	5.7	6.0
Real disposable private income from domestic sources ^a (per capita)	8.8	-2.2	3.0	11.6	8.6	1.9	7.1
Real disposable private income from all sources ^a (per capita)	6.2	-3.4	2.9	14.2	7.6	3.3	8.7
Real income per employed person ^b							
Gross	9.2	1.3	8.1	7.2	7.3	5.4	5.0
Net of direct taxes	8.3	-1.1	9.5	6.4	5.5	0.6	3.3
Net of direct taxes and compulsory loans	-	-	-	-	-	-4.6	-0.3
Real compensation of employees per employee ^c							
Gross	9.3	8.1	8.1	-1.8	2.5	8.3	2.1
Net of direct taxes	9.2	4.4	8.7	-3.5	1.9	4.8	-0.7
Net of direct taxes and compulsory loans	-	-	-	-	-	0.9	-2.9
Share of employee compensation in total private income from economic activity ^d							
Gross	70.5	75.0	73.0	67.4	65.8	68.4	67.5
Net of direct taxes	73.8	77.6	74.9	68.6	67.7	71.3	69.5
Net of direct taxes and compulsory loans	-	-	-	-	-	72.3	71.5

^a Before deducting net compulsory loans.

^b Real private income from economic activity (i.e. excluding transfer payments), less the imputed net rental value of owner-occupied dwellings, divided by the number of employed persons. Deflated by the implicit price index of private consumption.

^c Compensation of employees includes wages, salaries, and fringe benefits, but excludes transfer payments.

^d Less imputed residential rents.

3. Collections net of loan certificates distributed.

The official devaluation of August 1971 – as distinguished from the unofficial devaluation of August 1970 – did not help to keep down real private income in 1971, for two reasons: first, the devaluation augmented the private sector's foreign currency receipts (including exports of services and private transfers); second, the rise of import prices was deferred for a time by the arrangement to sell existing stocks at predevaluation prices. The devaluation also brought substantial capital gains to holders of foreign currency deposits and deposits linked to the exchange rate; although such gains are not included in current private income, they have an expansionary effect on demand.

In 1971 real income rose faster per employed person than per employee, so that the weight of compensation of employees in total income from economic activity fell slightly (see Table II-8). In 1970 the opposite happened, with employee compensation growing faster than other incomes. The rise in the share of nonwage income in 1971 presumably stemmed from the increased profitability of a small number of branches – agriculture and those producing chiefly for export – and did not reflect a general trend. It should also be noted that the estimates of the disposable income of employed persons and employees presented in Table II-8 do not include net public sector transfers. This explains the decline in the per employee figure and the stability in that per employed. The addition of transfer payments would bring up the level of both.

Table II-9
NATIONAL SAVING, 1968-71
(IL million, at current prices)

	1968	1969	1970	1971
1. Gross national product	14,026	16,127	18,962	23,342
2. Unilateral transfers from abroad	1,399	1,470	2,025	2,644
3. Subtotal (1 + 2)	15,425	17,597	20,987	25,986
4. Private consumption	9,246	10,591	11,782	13,892
5. Public consumption	4,152	4,956	6,793	7,829
6. Total consumption	13,398	15,547	18,575	21,721
7. Depreciation	1,341	1,505	1,813	2,255
8. Gross national saving out of GNP (1-6)	628	580	387	1,621
9. Gross saving out of GNP and unilateral transfers (3-6)	2,027	2,050	2,412	4,265
10. Net national saving out of NNP (8-7)	-713	-905	-1,426	-634
11. Net saving out of NNP and unilateral transfers (9-7)	686	545	599	2,010
	Percentages			
12. Rate of gross saving out of GNP (8÷1)	4.5	3.6	2.0	6.9
13. Rate of gross saving out of GNP and unilateral transfers (9÷3)	13.1	11.6	11.5	16.4
14. Rate of net saving out of NNP (10÷[1-7])	-5.6	-6.2	-8.3	-3.0
15. Rate of net saving out of NNP and unilateral transfers (11÷[3-7])	4.9	3.4	3.1	8.5

6. NATIONAL SAVING

National saving rose strongly in 1971. The rate of saving out of GNP went up from 2 percent in 1970 to 7 percent, and that out of GNP plus unilateral transfers went up from 11 to 16 percent. This of course reflects the fact that total resources – income from economic activity and unilateral transfers – expanded faster than consumption.

Public sector dissaving remained high in 1971 (see Chapter VII, "Government and Non-Government Public Sector"), but there was a big gain in personal saving. Gross private saving out of income from internal sources (before deduction of compulsory loans) rose from 24 percent in 1970 to 28 percent; excluding compulsory loans, the corresponding figures are 22.5 and 24.5 percent (see Table II-10). Private saving out of income from all sources (including compulsory loans) advanced from 31 to 36 percent.

As already mentioned, it is difficult to fully explain the particularly large increase in the private saving rate in the year surveyed. Three possible reasons have been noted: the lagged adjustment of consumption to changes in the income level, the fact that only a relatively few branches shared in the income growth, and the livelier activity in the housing market in 1971. These factors, however, do not appear to adequately explain the higher saving rate, and it is quite likely that it also reflects errors and omissions in the calculation of the national accounts.

Table II – 10
GROSS PRIVATE SAVING, 1968-71
(IL million, at current prices)

	1968	1969	1970	1971
Gross disposable private income from domestic sources				
Incl. compulsory loans	11,910	13,698	15,555	19,361
Excl. compulsory loans	11,886	13,788	15,167	18,384
Gross disposable private income from all sources				
Incl. compulsory loans	13,067	14,905	17,116	21,600
Excl. compulsory loans	13,043	14,995	16,728	20,623
Private consumption	9,246	10,591	11,782	13,892
Gross private saving from domestic sources				
Incl. compulsory loans	2,664	3,107	3,773	5,469
Excl. compulsory loans	2,640	3,197	3,385	4,492
Gross private saving from all sources				
Incl. compulsory loans	3,821	4,314	5,334	7,708
Excl. compulsory loans	3,797	4,404	4,946	6,731
			Percentages	
Rate of gross saving from domestic sources				
Incl. compulsory loans	22.4	22.7	24.3	28.2
Excl. compulsory loans	22.2	23.2	22.3	24.4
Rate of gross saving from all sources				
Incl. compulsory loans	29.2	28.9	31.2	35.7
Excl. compulsory loans	29.1	29.4	29.6	32.6