

AGRICULTURAL COOPERATIVES IN ISRAEL: PAST AND PRESENT¹

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Close to eighty percent of the agricultural output of Israel is produced on cooperative farms. In this chapter, I review the principal features of the past and more recent, still evolving, history of the two main forms – though not the only forms – of farm cooperatives: the *moshav*, a cooperative village, typically of 80-100 families, and the *kibbutz*, a commune with 100-800 members. An in-between type is the *collective moshav*, where the land is farmed collectively but households are owned privately. Associated with these units are second-order cooperatives – organizations whose members are themselves cooperatives, not individuals – *regional cooperative associations* serving moshavim and kibbutzim (the plural forms), and several nationwide bodies. Evidently due to its idiosyncrasies, the kibbutz has been the subject of intensive scrutiny and research; a recent count found more than five thousands publications. Much less has been written about the moshav although, as I trust the reader will realize, it also offers interesting economic, social, and institutional lessons.

1 HISTORIC MILESTONES

The second half of the 19th century saw pogroms in Jewish communities in Eastern Europe, driving many to migrate westward; a small trickle went to Palestine, then part of the Turkish Ottoman Empire. They formed the first wave of the Zionist movement – to repopulate the land of the Bible with the people of the

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Bible. Most of the newcomers did not join the small, existing Jewish communities in Palestine; they established separate towns and villages. Some brought capital from abroad but most were assisted in their efforts – land purchasing and investments in agriculture – by money from the Jewish Diaspora, both private philanthropy and national funds. This mode of operation continued even after the establishment of the State of Israel, with new settlements set up by the Jewish Agency (the major Zionist organization that operated in Palestine and still operates in Israel) and delivered to the auspices of the government only after "maturation".

The Ottoman Empire collapsed in World War I, English and Australian forces took over Palestine, and by a decision of the League of Nations the land became a British mandate.

The Zionist project met with resistance, Jews and Arabs clashed violently and recurrently, and when the British government limited immigration Jewish underground groups turned to illegal shipping of refugees and to terrorism. The country was not easy to rule and after World War II "the Palestine question" was handed over to the United Nation. In 1947, the UN General Assembly resolved on a partition of the land into two states, Arab and Jewish. The Arabs did not accept the verdict.

The State of Israel was established in May 1948 and it was immediately invaded by armies from several Arab countries. The war ended in a ceasefire with Israel stretching over an area considerably larger than envisaged in the UN resolution. Another consequence of the war was that 600,000 Palestinian Arabs left their homes and their fields and moved as refugees to areas outside Israel. The young country opened its gates to Jewish immigrants and 700,000 came within the first four years, doubling the number of Jews in Israel. Others followed thereafter.

After a period of shortages and difficulties, Israel's economy enjoyed growth and development for close to two decades, but by the early 1970s prices started rising and inflation escalated. It was halted in 1985 with drastic policy measures that hurt a great number of economic entities. Most agricultural cooperatives experienced a traumatic financial crisis. For many of them, the period since the crisis has been a period of reconstruction.

2 BEGINNING AND LONG RUN TRENDS

The history of the kibbutz started with the economic failure of a farm administered by a public organization on the shores of the Sea of Galilee. Part of the land of the failed farm was given over, at their request, to the farm's workers. They were replaced a year later, in 1910, by a group of twelve youngsters who established on that spot the first kibbutz (Degania).

Although the twelve saw themselves as socialists and called their group a commune, the kibbutz was born spontaneously: the opportunity arose and they grasped it. Theory and ideology evolved later; but the idea of communes of pioneers settling the Land of Palestine caught the imagination of many throughout the Jewish diaspora, particularly in Eastern Europe, and by the end of World War I there were already several hundred youngsters preparing for farm life in Palestine. In due course, they came over, joined existing kibbutzim, or established communes of their own.

Reflecting political affiliations, kibbutzim were divided into federations ("movements" in Hebrew). The three major federations spanned the spectrum from Labor (center) to the left, a smaller federation was orthodox religious, and one single kibbutz was associated with the Communist Party. For decades the federations were headed by charismatic leaders articulating ideology and political guidance.

The first moshav (Nahalal) was established in 1921 and it was preconceived, modeled after the American family farm supplemented with cooperative ideas. The farms in the moshav were to be worked by family members, with mutual assistance if needed. Marketing and purchase of farm inputs was to be done cooperatively. The second-order marketing cooperative, Tnuva, was founded in 1926. It served all agricultural cooperatives, started by marketing general farm products but later specialized in dairy, poultry and beef. Today it is by far the largest dairy in the country.

Gradually, the kibbutzim and the moshavim grew in numbers and spread over the country. In 1947, just before the establishment of the State of Israel, there were 127 kibbutzim and 87 moshavim (Table 1). Today their numbers have reached 266 and 443 respectively, including 35 collective moshavim, with a population of 145,000 in the kibbutzim (nearly half of them adult members) and 290,000 in the moshavim.

Table 1: Cooperative communities in agriculture

	1947	2011
Kibbutzim	127	266
Moshavim	87	443

Most of the growth came after 1948 when many more moshavim than kibbutzim were set up. This was a period of "absorption" of large numbers of immigrants, the country had land, water projects were being developed, but the kibbutzim had lost in the holocaust their main source of pioneers – young people from

the Jewish diaspora in Europe. The immigrants that did come were not ready for or willing to pursue kibbutz life. Family farming was deemed more appropriate.

Agriculture in the kibbutzim is diversified – field crops, horticulture, and livestock. Most family units in the moshavim also started as diversified farms; but with time, many specialized in single lines: dairy, orchards, or flowers. Both kibbutzim and moshavim started off very poor and were assisted by national funds, but the kibbutzim had gained better access to the capital markets and accordingly they tended to rely on mechanical activities and left labor-intensive lines such as vegetables and flowers, particularly in greenhouses, to moshavim and private farming.

Agriculture in Israel, as in many other countries, experienced significant technological improvement and increased capital intensification. As the State economy grew, the opportunity cost of farm operators in agriculture increased; the cost of hired labor was reduced, especially when, after 1992, laborers from Thailand came to work on Israeli farms. Consequently total labor input in agriculture was reduced over time but the share of hired labor increased markedly. Many members in moshavim ceased farming, or their children did not continue in agriculture, while the remaining operators increased the scale of their farms. In kibbutzim the changes were manifested in a reduction of the number of members working in agriculture and expansion of manufacturing and services.

Kibbutzim and moshavim were also organized in second-order cooperatives, mostly regional associations that, among other activities, took care of water provision, transportation, or cultivation of remote fields. The "purchasing organizations" occupied a special place. The function of these associations was to act for moshavim or kibbutzim in the markets, particularly buying farm inputs on wholesale terms for distribution to their members. As agriculture developed the purchasing organizations established regional enterprises providing auxiliary services such as feed mills, slaughter houses, fruit packaging facilities, and cold storage. Being intermediaries in products and commodities, the purchasing organizations were naturally drawn into credit intermediation; later, the growth of this activity placed them at the heart of the financial crisis of the 1980s.

Other second-order cooperatives operated on the national scale; among them, Tnuva, the independent marketing enterprise, several credit funds, and purchasing cooperatives that extended across regional boundaries. These cross-regional associations were usually run by a kibbutz or moshav federation to serve the needs of its members.

3 KIBBUTZ, PRE-CRISIS: SOCIETY

The kibbutz was a commune.² In principle, members had no private property; they received their perquisites in kind. The dwellings were modest – a small single room per couple, food was served in a collective dining room, clothes were washed in the kibbutz laundry and, in ideologically strict kibbutzim, members did not have private clothes: they wore whatever they received each week from the general pool.

Again, in principle, members were assigned to work wherever the need arose, some in the kibbutz and others outside – if remunerative employment could be found. With time, as the kibbutz economy developed and diversified, members began to specialize in lines of production or services. Kibbutzim were generally ready to send their members to be trained, formally and informally, and to advance their technical qualifications. The structure of the kibbutz was here of great help, a member leaving temporarily could in most cases be replaced on his job. A family farm operator, in the moshav or elsewhere, could not so easily go away for a significant length of time.

Education occupied a special place in the life of the kibbutz. Children lived in communal homes and spent but two or three hours a day with their parents (only in a handful of kibbutzim did children stay with their parents overnight). Investment in schooling was intensive and the kibbutzim built teaching programs aimed at preparing their youngsters for life in the community. This regime was the subject of numerous academic studies and popular descriptions. Most often it was judged favorably; a book by an eminent Chicago psychologist was titled *The Children of the Dream* and an author who grew up on a kibbutz named her memoir *We Were the Future*.

Although a twelve year curriculum was the common standard, for many years schools in kibbutzim did not prepare for academic studies and higher education was allowed to a limited number of members and restricted to subject areas the kibbutz deemed necessary for its development. This attitude changed as the economic standing improved in most kibbutzim in the 1960s and the 1970s, and college or university training of their own choice became the right of all kibbutz youngsters. Other standards were also relaxed: dwellings expanded and members received budgetary allowances to spend at their choice on clothes, furniture, and other needs.

Economic conditions improved in most kibbutzim but, due to natural and social circumstances – or sheer luck – some kibbutzim did significantly better than

² The discussion of early periods is conducted in past tense; tenses will shift when more recent events are reached.

others. These differences did not much affect standards of living; guided by instructions coming down annually from the federations, the kibbutzim maintained similar consumption and welfare outlays. As a result, kibbutzim in better shape accumulated equity and those that stayed behind gathered debts. There were no direct monetary transfers between kibbutzim.

A landmark change was the shift to family lodging: children moved to live with their parents. The change was gradual, in one kibbutz after the other, mostly in the late 1970s and early 1980s. It was a renunciation of a fundamental principle in the established educational doctrine and was adopted only after long and sometimes heated deliberations. In more than a few kibbutzim, these were the young mothers, women who themselves had grown up on the kibbutz, who did not want their children to relive their own experience of heavy peer pressure, strict discipline, distant parents, and, particularly, lack of privacy and the insecurity of being left alone at night.

The shift to family lodging marked and was one expression of a profound though informal structural change: the rise of the traditional family as a fundamental social unit in the kibbutz. The first-comers saw their groups as comprising collective families of brothers and sisters; but when the second generation, and then the third, appeared on the scene, families naturally clustered into "clans" that often acted in unison on internal kibbutz issues. These changes highlighted the gender question. It was said that the educational regime originated with the first mother handing over her newborn child to another woman to care for while she returned to milk the cows. This precedence notwithstanding and despite recurring expressions of the desire of women in kibbutzim to share with men responsibilities and tasks, most were assigned as a matter of course to education and service functions. The rise of the family and the return of the children only intensified differentiation.

The implementation of the shift to family dwelling required heavy investment, but the common feeling was that money was not a problem as unrestricted credit was easily available. In fact, however, for many kibbutzim this project was one of the last major capital outlays before the outbreak of the severe financial crisis of mid-1980s.

4 KIBBUTZ, PRE-CRISIS: MISSION AND ASSESSMENTS

Viewed from the present perspective, the kibbutz mission, summarized in slogan style below, seems obvious and natural. Historically it emerged from the experience of the founders and not least from soul searching and deliberations, often long into the night, of young people struggling with the weight of tradition, sudden freedom, separation from families, backbreaking work, and intoxicating philosophies:

- Nation building;
- Revival of Jewish agriculture;
- Back to manual labor;
- Creation of a just society;
- Promotion of socialism.

This was a difficult undertaking. By some estimates 80 percent of those joining kibbutzim left after a short or longer stay.

4.1 Nation building

When Palestine was under the British mandate, kibbutzim were settled wherever land could be purchased and in this way they often defined the borders of the state to be. Indeed, the partition map of the 1947 UN Resolution included most of the kibbutzim within the area of the future Jewish state, and some that had been left out by the resolution were later incorporated within the borders of the State after the 1948 war.

The kibbutzim were also instrumental in the development of a military capability, should an armed conflict erupt. Groups of young people stayed on kibbutzim combining work and (clandestine) training; they were ready to go the moment the war broke out.

The creation of the State inaugurated a new era although at the time many in the kibbutzim did not recognize (or refused to recognize) how profound a change this was. As indicated above, quite a few kibbutzim were established right after 1948 – many on the borders where their presence was vital. Still, their mission as nation builders lost its urgency and pressure. The roots of the long-run process of erosion of the kibbutzim's position at the forefront of the Israeli society were planted when it was realized that the new immigrants would not join them in masses.

4.2 Socialism

Being communes, the kibbutzim accomplished the mission of socialism to its fullest; but only internally. Outside it was mainly slogans and rhetoric; the call "To Zionism, to Socialism, to the Brotherhood of Nations" was printed daily on the front page of the newspaper of a kibbutz party. But, except for the very early days, members of kibbutzim did not belong to the proletariat; they may have marched on May Day, but they did not share the experience of the country's working class. The gap was manifested with the issue of hired labor.

In the early days of the State, when food was in short supply and employment was hard to find, the kibbutzim were asked to expand production, particularly of vegetables, with the help of hired hands. Most refused; by ideology they could not exploit the labor of others. One group of kibbutzim went part of the way:

officially farm production was done by an outside company created specifically for this function. But the façade did not fool anybody; the work was on kibbutz land and under the supervision of its members who returned at the end of the day to what could be seen from the outside as an oasis of greenery and social care. The practice of hired labor was later tolerated and spread to all kibbutzim, but the rift between the kibbutzim and the new immigrants – who constituted most of the working class of the country – did not abate and the gap, opened generations ago, is still wide.

Whatever the practice, ideological spirits were often high and controversies heated, sometimes reaching crisis proportions. In one case, seventy members from several kibbutzim left in 1927 for the Soviet Union, the land of true socialism, and set up a kibbutz on the Crimean Peninsula. Only three or four survived the Soviet regime, World War II, and the murderous German occupation.

A deeper crisis that affected the largest kibbutz federation had been developing gradually for almost two decades; the line of demarcation was between left and central-leaning members. The differences reached a crisis proportion in the early 1950s, and once again the attitude to the Soviet Union was the immediate cause. The Eastern Block supported Israel in the UN and in its early steps; as the Cold War intensified, members in kibbutzim were split between Soviet sympathizers and the majority who agreed with the Labor Party that Israel should belong to the Western Camp. The breakup occurred mainly on the issue of education, as parents of one side refused to let their children sit in classes taught by teachers holding a different opinion. In several cases kibbutzim split up physically, in others members moved to another kibbutz close to their political affiliation. People who for decades worked and suffered and celebrated together could not continue to live on the same piece of land. It took however only a short time for the Soviet block to change its policy and for sympathy and admiration to turn into disappointment and criticism; other differences also mellowed. With a little patience the crisis could have been avoided.

4.3 Politics

Members of kibbutzim were active politically. Again, the collective structure conveniently supported fulltime activists. They were also admired by the society of the young country for their pioneering endeavors. In the 1950s, when they were less than 4 percent of the population, kibbutz members formed a fifth of the representatives in the early Knessets (parliaments) and occupied up to six seats in the cabinet. The power base thus created helped to support policies favoring kibbutzim (and often also moshavim) in agriculture and in other economic spheres, finance in particular. However, as time passed, the glamor and the power faded. Only a single kibbutz member was voted to the Knesset in the

most recent elections of January 2013 and even he does not belong to a party that favors kibbutzim or cooperation.

4.4 Fundamental dilemma

The effort to adhere to the principle of self-labor in agriculture, manufacturing, and services – that is, all tasks are performed by members and hired workers are not employed – raises a fundamental dilemma, even if the issue of new immigrants is disregarded. In a competitive market, the return to labor in the kibbutz will be the same as the wages of unskilled, and relatively poor, workers in the economy. But by their background and aspirations, the members of the kibbutzim compared themselves with the urban middle class. So long as the country was poor and the economy egalitarian, adherence to the principle did not pose much of a problem; but development brought differentiation, and the kibbutzim were threatened with the possibility of being left behind their non-farm reference group. The moshavim faced the same threat. The urgency of the dilemma – whether to stick to the principle and risk losing members, or to compromise ideologically – was mitigated in several ways: production quotas were imposed by the government in the late 1950s, raising prices and increasing returns to farmers; state budget subsidies were later added, in particular for live-stock products; and, as we shall see below, credit was also made easy, which supported capital intensification and consumption-oriented outlays. As we shall also see below, ideology was not always strictly adhered to and, when quotas were partially relaxed, subsidies eliminated, and credit restricted – ideology had to give way to economic reality

5 CLASSIC MOSHAV

The founders of the early moshavim asserted repeatedly that they were true socialists and would have surely agreed with the stated missions of the kibbutzim. But a seemingly minor qualification in the list of moshav principles – "with family units" – created significant differences between the two forms of organization.

Both the kibbutz and the moshav functioned within the legal framework of the Cooperative Societies Ordinance, but the kibbutz, where members could easily join and leave, operated mainly as a normative society following conventions of behavior and social habits – whether they were written or only generally accepted. The moshav, with families more heavily attached to their farms and properties, had to be founded on a stronger formal basis; it was a contractual society, and explicitly so. The original fundamental principles of the moshav were,

- Farming as the main source of income;
- Family units;
- Self-labor;

- Mutual aid;
- Mandatory cooperation in services;
- National land.

To implement the principles, each moshav adopted by-laws and appropriate institutions with authority to manage the cooperative association and its affairs. The mode of activity of the moshav, internal and external, reflected its nature and was aimed at augmenting its particular structure.

Unlike the conventional way in which a cooperative is formed by farmers voluntarily pooling together some of their tasks – in the moshav, the cooperative preceded the individual units. The association received land from the Jewish Agency and it, in turn, allocated the land to its members. Similarly, the moshav received bulk quantities of water, distributed it to its members for irrigation or household use, and paid the provider. When food supply was judged to have reached surplus levels and production quotas were imposed, they were assigned to the moshav for allocation to its members. The association acted as the village municipality, building schools, paving roads, and providing other public services. It also employed auxiliary workers, teachers, accountants, nurses, and other "professionals" who often lived in the moshav but were not active farmers. The costs of these activities were covered by the members, who paid taxes that the moshav imposed on products marketed or inputs purchased through the association.

Relying on cooperative spirit and practice, the moshavim created lively communities and advanced economically despite natural and political obstacles. However, they also encountered internal difficulties. The constraints imposed by the structure and rules of the moshav were occasionally biting. A farm could not be subdivided; only one son or daughter could continue on the parents' farm, others had to leave the moshav and, unless the farm was sold, the parents lacked resources to help non-succeeding children. Farm products had to be marketed only through the cooperative association even if private dealers offered higher prices. Farmers were prohibited from using hired labor even if their harvest rotted in the fields. Members in need of help often felt that they were at the mercy of the association functionaries. Operators who consistently lagged behind were shown the way out. Such hardships, when encountered by individual families, could be no less onerous than the collective but more diffused social controls of the kibbutzim.

Despite the obvious economic and social advantages of cooperation, members sometimes could not resist the desire or need to act separately: seek outside employment, market privately, allow a neighbor to cultivate their land. Some associations treated violators harshly; others cared less or were too weak to impose discipline. Carried by the logic that minor breaches open the door to

complete abandonment of norms, the moshav federation (there was one general federation and several minor ones) tried since its early days to strengthen adherence to the rules and even attempted to write the ideology of the moshav into state law. The proposed law would augment the power of the federation over individual moshavim and the power of the moshav over its members. The bill was vehemently opposed by many of the young, second-generation members of moshavim, who agreed with the norms but objected to state enforcement. The, Labor-centered government supported the bill but failed in its attempt to get it passed by the Knesset. By that time (1969) the strict normative framework of the moshav was already coming unstitched – in particular, hired workers started appearing in large numbers – and no law could arrest the rising economic forces.

6 IMMIGRANTS' MOSHAVIM

In its early years, Israel experienced unemployment, food shortage, and lack of financial resources. Immigrants, arriving in large waves, were housed in temporary camps, only a few worked, and they were fed and cared for by public agencies; to alleviate the situation, more than fifty thousand of them were directed to agriculture to set up new moshavim. It seemed so simple: each family received a plot of land, a little house, basic equipment and livestock – with proper advice and instruction they could soon start farming and rely on the institutions of the moshav for support and services. The reality was different. The newcomers had no experience in agriculture or in cooperation, many left and went back to the camps or sought better opportunities in town; those who stayed had to struggle with primitive living conditions and lack of basic necessities. The government (actually the Jewish Agency) helped, but its means were limited. The established veteran moshavim were ambivalent about the new ones. They were proud that the moshav, and not the rival and more popular kibbutz, was winning the day, and scores of their members went to live temporarily with the new immigrants and assist them in their first steps in the unfamiliar environment. But distance was also kept, the newcomers were made to form Immigrants' Moshavim, they were not invited to join the old, established villages.

Following several years of teething pains, the new moshavim grew into farming communities and contributed to the expansion of Israel's agricultural production, which quickly reached surplus proportions. Leadership naturally grew in the new moshavim, but although cooperative associations were formally instituted, in most places the ideology of the moshav was not strictly adhered to. Realizing that the veteran regional associations would not accept them for fear of jeopardizing financial stability, the immigrants' moshavim set up, with the help of the government, second-order regional cooperatives of their own. This had been done by the late 1950s and early 1960s. Up to that point, the moshav as a whole

was responsible for its members: water provision could be cut off when some of the farmers failed to pay. To avoid this eventuality, the new regionals, unlike the established ones, dealt directly with individual farmers.

Working at the regional level opened the road to the political arena. With large numbers of potential voters behind them, new immigrants became part of the leadership of the federation of the moshavim and the first active moshav farmer to become, in 1974, a member of the cabinet as the Minister of Agriculture was from an immigrants' moshav (Aharon Uzan).

Starting in the late 1960s, agriculture – particularly that in the moshavim – enjoyed a flourishing period that lasted for approximately 15 years: subsidies were expanding, the country's real rate of exchange more than doubled, local prices of export products were rising, and credit was easily available. Veterans and new farmers responded by expanding into the production of export crops. Cotton, mechanically picked, was grown mostly in kibbutzim, and horticulture – fruits, vegetables and flowers – was the domain of the moshavim. At that time, exports were managed by three specialized agencies and this concentration increased the role of the cooperative associations at both the region and the village level. At the same time, the cultivation of labor-intensive crops had to rely on large numbers of hired hands, compromising the principle of self-labor.

7 COOPERATIVE FINANCE

Cooperation in agriculture was originally built on necessity and ideology; however, with time and economic development, financial issues came to the fore. As indicated above, the cooperative in the moshav and the second-order associations of moshavim and kibbutzim provided purchasing, marketing, and other services. They were also involved in finance. The financial activity was encouraged, or even necessitated, by the ownership structure in cooperative agriculture. Land in moshavim and in kibbutzim was, and still is, owned by the state; there is no private landownership. Therefore farms cannot use land as collateral to obtain credit. The lacuna was replaced by so-called mutual guaranties: members in a moshav guaranteed the debt incurred by their associations, and moshavim and kibbutzim signed mutual, i.e., reciprocal, documents of guaranty. The cooperatives functioned as the hubs of the system of mutual guaranties. In some instances, credit was extended to individual farmers or kibbutzim, in which case the village association or the regional cooperative were the instruments facilitating the comprehensive guaranties. In other cases, the village and the second-order cooperatives themselves raised credit and distributed it to their members, again under mutual guaranty. Consequently, cooperation in finance was strongly intertwined with the other aspects of farm activities; particularly, to back the guaranties, marketing had to be done solely through the cooperative

channels – the association in the moshav and Tnuva for both the moshavim and the kibbutzim. The banks were freed from the need to examine every individual creditor separately.

The guaranties were signed routinely on the insistence of the banks but the routines were empty. I do not know of a single case where a guarantor – kibbutz, moshav, or individual member – had to cover the debt of others. Cooperative credit relied, implicitly and by experience, on government backing.

The settlers in the moshavim and the kibbutzim came to Israel penniless; they had to rely on public assistance for tools and first inputs. Indeed, agricultural development was from its inception a national project creating fosterage relations between the farm sector – cooperatives in particular – and the government and other supporting national agencies. Beside agricultural research, extension, and planning, the principal channel of public economic assistance was in the form of credit for investment projects and other economic activities (the government also assisted manufacturing, especially if intended for export). The expressed responsibility for the sector created conditions of soft budget constraints: knowing that the government would come to their rescue should they run into difficulties, cooperatives went easily into debt (and readily signed guaranties). Generally the rescue came as "conversion." When cooperatives encountered difficulties in recycling their short-term debt, it was converted to long-term credit that the debtors were supposed to be able to service conveniently. The relief however was short-lived. In one case, observed in the 1950s, debt conversion was implemented in 72 kibbutzim; three years later all but two had incurred larger short-term liabilities than they had previously and were again expecting government rescue.

The government recognized the predicament and offered, in the early 1960s, a solution in the form of "concentrated credit": kibbutzim and moshavim that would channel their financial activities through a single bank and agree to supervision by the Ministry of Agriculture were assured stable credit lines to satisfy their (approved) needs. The program operated satisfactorily for several years, but then economic circumstances changed: the supply of commercial credit expanded (after 1974 Israel, like many other countries, experienced an inflow of recycled oil money); trusting the government to assist cooperatives in distress, banks were happily extending short-term loans to purchasing cooperatives and national funds who, in turn, redirected the resources to their members – kibbutzim, moshavim, and regional enterprises. Concentrated credit crumbled and its demise heralded the slide of the sector into the financial crisis.

8 THE ROAD TO THE CLIFF

The financial crisis took time to brew. Although most of the years were a good time for agriculture, the period following the 1973 war and up to 1985 was Israel's Lost Decade: growth stagnated; government deficits grew; debt, internal and external, accumulated; and prices rose. Inflation accelerated from 20 % per annum at the beginning of the period to 450 % at its end. It was halted abruptly in mid-1985.

Inflation was not a smooth process, it moved irregularly; likewise, policies to halt inflation or to accommodate the country to the rising prices fluctuated over a wide range of measures, introducing uncertainty and abrupt changes of economic conditions. In addition, bookkeeping and financial reporting became meaningless; farmers and cooperatives did not really know what their economic situation was. Inflation-adjusted accounting was introduced in 1982, but this was too late in the game. Another associated effect was that money became cheap; available data indicate that in 1979 the real rate of interest on commercial credit was -11 % (negative) and much lower on government approved short- and long-term debt. This was a honey trap. At the beginning of the period the value of debt eroded and the cooperatives accumulated assets. Consequently, the demand for credit expanded and farmers were pressing for additional finance, which they claimed was too slow to come.

The bureaucracy agreed with the farmers. An example was a committee of public officials that submitted in 1979 a detailed report on credit in agriculture. The core of the document was the calculation of the "financing gap", the difference – it was significant – between yearly investment in the sector and long-term credit. The government was called to fulfill its duty and close the gap. Whether it was sheer ignorance or favoritism, the members of the committee did not realize that agriculture was willingly expanding its capital outlays, relying on available and convenient short-term credit – trusting that the accumulating debt was the problem of the government: it would never let moshavim and kibbutzim down.

Easily available credit at negative real rates encouraged overinvestment in large risky projects. This tendency was extended and exaggerated when economic conditions could not be gauged due to inflation and shortage of funds was closed by recycling short-term debt. Officials in cooperatives were judged mainly by the projects they set up and government offices approved and supported regional enterprises with little if any regard for other available institutions. The tendency was strengthened by the desire of the moshavim to imitate the manufacturing industries in the kibbutzim. In the mid-1980s, the State Comptroller examined more than 300 regional enterprises and found that most of them did

not fully utilize their existing capacity; they did not even cover operating costs. In one case, an enterprise was built and completed – and then left idle, never to produce anything.

When credit was flowing freely, everything looked rosy: machines were new, orchards were young, houses in good state of repair, public areas green. Many operators in moshavim constructed new greenhouses; the kibbutzim increased their investments in manufacturing enterprises. Optimism ruled; even the banks were not exempted. A political upheaval sent a shock wave: the Labor-centered government was ousted in 1977 by a right-wing coalition of parties whose rhetoric was explicitly anti-kibbutz. The change sounded an alarm in the kibbutzim and the two largest federations raised significant amounts of money "to hold for rainy days", a large share of it abroad (an early action of the new government was to free the foreign currency market). The availability of these funds supported for a while the feeling of easy credit but the atmosphere changed after a short time when large sums of money were lost in the stock exchange and the gray market, foreshadowing the financial crisis to come. The gravity of the situation was realized, at least by some, but too late for amendments. When the crisis erupted, the per capita debt of the kibbutzim was several times larger than that of the moshavim. (The religious kibbutzim were an exception; they had not expanded heavily into manufacturing, had not sought new credit sources, and had invested their surplus money in solid instruments. They rode out the financial turbulence, when it came, relatively easily.)

Available credit was channeled partly to consumption; it was estimated in the 1970s that the standard of living in the kibbutzim was on a par with their urban reference groups, thus augmenting social stability and attractiveness. However, easy credit also intensified the inherent inefficiencies in the kibbutzim. Although most members worked diligently, shirking could not be completely avoided and indifference to common costs and returns was also noted (it was reported that electricity bills in the residential area of a kibbutz fell by 40 % once members began to be charged individually). However, much more damaging than personal slackness were inflated services, schools with small numbers of children, expensive public buildings, and lax scrutiny of investments. Personal choice was also limited: "to each according to his needs" meant that others decided, even if democratically. Reforms adopted in the wake of the financial crisis were aimed at least partly to mend these shortcomings.

9 THE FINANCIAL CRISIS AND ITS RESOLUTION

In 1985, when inflation reached devastating rates, a left-right coalition government, trusting it had the support of significant parts of the public, adopted a drastic stabilization program: prices, wages, and nominal exchange rates were

fixed and credit was constrained. Immediately the inflation dropped from more than 400 percent to 20 percent annually and was further suppressed later; one consequence was that real annual rates of interest jumped to 30-40 percent and even higher. It was realized that the debt of agriculture was so large that it threatened the stability of the national banks; they refused to recycle short term debts and allowed the resulting overdrafts to swell with the exorbitant rates of interest. Regional and national cooperatives collapsed and all their obligations were to be attributed to their members – the kibbutzim, the village associations, and the farmers in the moshavim. Agriculture suffered doubly as the real exchange rate fell by a third, subsidies were cut, and the sector's terms of trade worsened. Many, in particular in the moshavim, could not continue farming.

The government, the banks, and the cooperatives tried to solve the crisis. Repeatedly they signed agreements to settle the debts and repeatedly they had to realize that the debts were not settled. Finally, a law was passed in 1992 specifying the way repayment ability would be assessed for each and every moshav member. An administration was set up to implement the law; soon a parallel administration started working on the debts of the kibbutzim. The work lasted twenty years and is only now (2013) coming to completion. The moshavim were assigned to repay 10 percent and the kibbutzim 30 percent of their calculated debts (no detailed information is available), the remaining sums were erased; covered by the banks, the government and some private creditors. All mutual guaranties were canceled and all purchasing organizations of the moshavim were closed down. Three quarters of Tnuva, the marketing giant, were sold several years ago to private interests and some kibbutzim and moahsvim used the money received for debt payments. In one aspect – perhaps the only aspect to count – the settlements were a complete success: no one, not a kibbutz, a moshav or an individual farmer had to leave the land in lieu of debt repayment. But far reaching changes have occurred and are occurring.

10 RESTRUCTURING

The financial crisis threatened the livelihoods of a large number of kibbutzim and caused many members, particularly young ones, to leave. Kibbutzim in stress reacted by encouraging their members to find employment off the kibbutz, hiring outsiders as managers, charging members for services, and, most revolutionary, paying members market-rate salaries. These and other "privatization" measures raised the question of whether communities adopting such practices could still be regarded as kibbutzim. A public-government committee was appointed and, after a lengthy study, a new definition was adopted by law in 2005. The old definition was a single terse sentence indicating collective ownership and leaving the details to the by-laws of the individual kibbutz. The new definition is spread over several pages of regulations. Three types are

recognized. *Collective Kibbutz* is the old conventional entity. *Renewed Kibbutz* is a kibbutz where any of the following holds: members receive salaries; the housing is privately owned; the collective means of production are privatized by distributing shares to members – provided that voting rights remain vested in the community at large. The third type is new, *Urban Kibbutz*; more than a few such small communes have sprung in recent years.

The bulk of the regulations deals with the renewed kibbutz and specifies in great detail the minimum requirements of assistance to the elderly or the needy and the way assets may be privatized. With these changes the kibbutz was transformed from a normative society to a legal-based entity; members and outsiders, among them tax authorities, know the rules of the game. Disputes have already been brought before courts.

The renewed kibbutz differs from an ordinary rural community in two ways. First, it maintains an internal "safety net" of mutual responsibility for basic necessities and vital services to all members, financed by returns from the collective enterprises and levies imposed on the wage earners; and second, it may democratically change its status. The kibbutz was never perfectly egalitarian – elites emerged and may have enjoyed preferred amenities (free use of cars was a notorious eyesore), but much greater differences can now be found in the renewed communities and complaints of deprivation have been heard (opinion surveys are conducted regularly but quantitative economic data are not available). Particularly controversial is the situation of the pensioners; many claim that the monetary allotment assigned to them by the new regulations is too small, especially compared to the salaries younger members receive in the kibbutz or outside. This controversy may yet tear some kibbutzim apart. Still, surveys indicate that the majority of the members are satisfied with the reforms and agreed that they improved performance and welfare.

Less than a third of the kibbutzim have not changed to renewed and stayed collective, although most have gone part of the way, for example, employing hired labor in manufacturing or paying members for weekend work. In general the collective kibbutzim are well-to-do. The majority of their members naturally accept the traditional ideology, but they also enjoy certain advantages; among them, secured, comfortable standard of living; work in a familiar environment; intensive social interaction; they are not evaluated and do not have to evaluate their neighbors and friends in pecuniary terms. Kibbutzim that could afford it stayed collective despite the inherent inefficiencies. The commune that originated as a means to overcome poverty, shortage, and hardships has become a luxury good.

In the kibbutz, particularly in the renewed kibbutz, the crisis and the changes it caused affected drastically the way of life of the individual members, but the

economic activities of the community – in agriculture, manufacturing, and commercial services – remained collective. In the moshav the most affected level was the cooperative. All regional purchasing organizations of moshavim disappeared and the associated economic enterprises, feed mills, slaughter houses, cold storage, and the like were sold or closed down. Officially, the village associations remained intact but they lost many of their functions and much of their power; in particular, they no longer provide inputs, marketing services, and – most importantly – financial intermediation. Also, they no longer extend aid to households in difficulties. Farm operators in the moshavim are now served directly by private agencies and in quite a few places by small local cooperatives or partnerships that stepped in to fill the void. As indicated, self-employed agricultural labor has decreased over time. Most moshavim are now rural communities with a relatively small number of farmers who have increased the scale of their operations by expanding livestock enterprises or renting land from their neighbors (purchasing is impossible); field and barn work is usually done with the help of hired hands.

11 MANUFACTURING

Manufacturing in the kibbutzim started with small workshops, a natural expansion in several places was into food canning as an extension of agricultural production; later it branched into other lines and spread effectively to all the kibbutzim (some established commercial services such as hotels or shopping centers). Manufacturing was deemed to have several beneficial effects: it could use labor freed from agriculture, particularly the elderly, it opened opportunities for professional development of young members, and it added to the portfolio of economic activities of the community. These expectations were, at least partly, realized but problems were also encountered. Manufacturing on a significant scale was established when credit was available; infusion of capital increased demand for labor and hired workers were called in – some to perform manual and repetitive work and others as experts. For many kibbutzim this was the first breach of the principle of self-labor. Other problems were social; with manufacturing came a regime of professional delineation and hierarchy, alien to the nature of the kibbutz community.

Manufacturing also poses risks: a kibbutz will generally operate only one or two industrial lines and it would be difficult to find in its small community people who can run and manage a complex production process in a competitive environment. Indeed, in the nature of risk, the manufacturing establishment of some kibbutzim succeeded, grew, and even achieved global reach, while many others failed and had to close down. Today, a third of the kibbutzim do not have any manufacturing activities, but for the sector as a whole, the value of output in manufacturing is much higher than the value of the product of agriculture.

12 REGIONALS

Regional, second-order cooperatives were first established by kibbutzim in the 1940s and early 1950s as purchasing organizations intended to reduce transaction costs and augment market power in the provision of production inputs; they were followed by similar organizations set up by veteran moshavim and later also by new immigrants' moshavim. As indicated, the regionals were drawn into financial intermediation; this was true for both sectors, but the differences between them turned out to be crucial.

In the moshavim, most of the credit came through the regionals; it was transferred to village associations and thence to individual members. When the financial crisis hit, everyone was responsible and everyone claimed to rely on the all-embracing web of mutual guaranties. There was no way but to acknowledge, as the law finally did, that these debts could not be collected and the regionals had to be liquidated with all their enterprises.

The situation in the kibbutzim was different. Although the regionals in the kibbutz sector also engaged in financial intermediation, this was on a relatively small scale; individual kibbutzim had direct access to banks and to other major sources represented by federation-level funds. These funds were closed down after the crisis but the sector's regionals survived, admittedly due to debt settlements and sufficient write-offs. A fortunate period followed. In the 1990s Israel absorbed large numbers of immigrants from the former Soviet Union and the economy expanded. Pertinent to our story, meat consumption (beef and particularly poultry) doubled and the volume of operations of the regionals, the providers of feed and owners of slaughter and processing facilities, grew to unprecedented magnitudes. Growth in monetary terms was further augmented when world grain and oil seed prices rose markedly. The regionals accumulated surpluses which they used to assist distressed kibbutzim and to expand their own operations. Today the regionals are still organized as cooperatives, but in fact they are holding companies in partnerships with kibbutzim and private interests. One regional holds for its member-kibbutzim a 20 % share in Tnuva.

13 RESOURCE REALLOCATION AND IDEOLOGY

Net income in agriculture grew significantly since the 1990s and it rose particularly in the first decade of the 2000s. Considering that the sector's terms of trade were consistently deteriorating, improved income was especially remarkable; it was a realization of augmented efficiency. Since the crisis, its resolution, and reconstruction, agriculture has experienced a period of resource reallocation. Kibbutzim separated their economic activities from the affairs of the communities and hired experts to manage each segment. In renewed kibbutzim members or

outsiders are assigned to work only where their contribution exceeds the salary they receive, others work off the kibbutz; many kibbutzim went into partnerships with other kibbutzim in field crops and dairy livestock (partly to comply with stringent environmental regulations); the country's broiler production has been concentrated in the kibbutzim where economies of scale are realized; several regionals manage the cultivation of orchards and marketing of fruits jointly with individual kibbutzim; and one regional created a poultry integration styled on the American model.

Parallel changes occurred in the moshavim. Farm sizes are now larger than they used to be and in more than a few places two or three operators share land or livestock enterprises. Hired workers are employed wherever they may contribute. Services and inputs are purchased on the market and farmers are no longer tied to inefficient village or sector providers. Although prosperity is not shared by all, general farm income has risen.

Manufacturing also witnessed significant structural changes. Several kibbutzim created partnerships and others sold parts of their activities to private interests. Such moves have brought in business expertise and capital that can be used to cover debt or to fund retirement plans. Another benefit is diversification – not to hang the future of the kibbutz too heavily on a single source of income, even if at present it is laying golden eggs.

The economic landscape in the kibbutzim and the moshavim has changed markedly in the last two or three decades. Shopping and service centers are seen in the countryside, many residents – members and others – commute regularly to work away from their homes, but small, local enterprises are also flourishing. Most conspicuous is rural tourism, inns in the kibbutzim and B&B in the moshavim; but a variety of other establishments can also be found in both sectors, hairdressing, tour-guiding, boutique bakeries, computing, and what not.

These changes run counter to the wording and spirit of the original ideology of cooperation – whether in the communal kibbutz or of the family variety in the classic moshav. Naturally, ideology was set aside when the traumatic crisis hit and economic rescue became paramount, but the dilution of the ideological basis started earlier. The members of moshavim and kibbutzim were not hermits sanctifying scarcity and seclusion. They were part and parcel of the Israeli society and when the country's living standards improved, while terms of trade of agriculture deteriorated, the "fundamental dilemma" raised its head and the cooperatives could not stay behind; they had to give up, gradually and even painfully, their basic principles. They accepted hired labor – first new immigrants, then in manufacturing and in greenhouses – and they agreed to family dwellings and private partnerships. For youngsters born in kibbutzim and moshavim the

shedding of ideology was a lot easier than for their parents. The financial crisis and its aftermath sealed the departure from orthodox ideology.

The reforms and restructuring do not assure the future of the kibbutzim. In particular, where the collective enterprises do not generate enough income to support the elderly and other common services, the kibbutz may find it necessary to impose relatively high community taxes on its wage-earning members; but this could be a vicious circle – the best and the brightest may leave. The mere existence of the locality will be further endangered where, due to legal difficulties, the kibbutz is prevented from accepting outsiders as residents.

15 RURAL COMMUNITIES AND THEIR LAND

Kibbutzim and moshavim are small communities; their populations have aged not only with time, but also with the tendency of younger people to leave. One solution was "expansion", the development of residential areas for young families of non-members, including the younger generation who chose to live in their birthplace without becoming full-fledged members of the kibbutz or the moshav. Formally, the locality was then transformed into a municipality where some of the residents hold membership in a separate association. In addition, kibbutzim and moshavim rented out land to commercial enterprises. These real estate activities created income; again, it was used where needed to assist in debt repayment. They also sparked opposition: the land was given for farming; additional income belonged to the public at large and not to a small, select minority. The opposition was led by a group of youngsters representing immigrants of the early days of the State of Israel – mostly of "eastern" origin: from the Middle East and North Africa. When the case was brought before the Supreme Court, it ruled in 2002 in favor of the opposition. The popular utterance was against the kibbutzim, but the moshavim were also severely affected. Expansion and development programs were set back and land issues, including the privatization of housing in the kibbutzim, are now in flux. In the meantime, land prices in urban areas of Israel have risen sharply and ownership of a house or an apartment is now unaffordable to many budding families. But this issue and its possible connection to farm land policy is beyond the scope of this chapter.

16 EPILOG

It is impossible to imagine today the difficulties the first-comers had to face; the shortages, sometimes starvation, diseases, hard work, and uncertain future. The new immigrants in the early days of the State did not have it easier. They were hauled by trucks without their consent to isolated places in the desert or on the hills and had to start from nothing. The achievements of these people are laudable; today the country's agricultural output is twenty times its 1950

level and the lion's share of the credit is due to cooperative farms; kibbutzim further branched into manufacturing. But cooperation, close to the way it was originally envisaged, is practiced only in a relatively small number of collective kibbutzim. In other places, cooperation is followed only where it can be justified by cold economic calculation.

The founders of the kibbutzim and the moshavim hoped to spread socialism and equality to all corners of the land, but history may judge that farm cooperation in Israel functioned as an instrument to achieve other, associated goals more than as an end to itself. However, as an instrument it was highly successful; Jews returned to the land and the country is covered by agricultural communities, most of them cooperative (some in areas occupied in 1967, but they are a different story). Ideology may have been abandoned, but the ideological candle has not been snuffed out completely – new kibbutzim are still being set up, some with ecological inclinations and many others in urban centers. Young people keep trying and will probably continue trying the experience of togetherness and public service.

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