

Prepared as a chapter for the forthcoming book Agricultural Transition in Post-Soviet Europe and Central Asia after 20 Years (Ayal Kimhi and Zvi Lerman, eds.).

Yoav Kislev*

6.10.2013

Agricultural Cooperatives in Israel, Past and Present**

This paper is a short survey of the history of the kibbutzim and the moshavim, originally set-up in the first quarter of the last century by youngsters imbued with the ideology of nation rebuilding and cooperation, and later developed to become flourishing agricultural communities. Two key events marked major turning points in this history. One was the establishment of the State of Israel; the kibbutzim lost in its wake their leading, pioneering role in the society of the country and the moshavim grew in numbers and expanded with people whose world outlook was different from those of the founding generation. The second key event was the halting of inflation in 1985; it triggered a severe financial crisis. Following the resolution of the crisis, most kibbutzim have undergone far-reaching privatization measures and the moshavim saw the abolishing of much of their cooperative structure. The paper points to the possibility that the revolutions the kibbutzim and the moshavim experienced may have contained elements of continuity and perhaps even of necessity.

Close to eighty percent of the agricultural output of Israel is produced on cooperative farms. In this paper I survey the principle 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 managed privately. Associated with these units are second order cooperatives—organizations whose members are themselves cooperatives, not individual people—*regional 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.

* Agricultural Economics, Hebrew University, Rehovot, Israel: yoav.kislev@mail.huji.ac.il.

** Written following presentations before a group from Cornell University and participants in a conference in honor of Professor Zvi Lerman. I am in debt for information and advice received from many knowledgeable people. Particular thanks go to Shlomit Arbel and Gadi Rosenthal who shared with me written documents and spent hours discussing issues raised in the survey. Dvoira Auerbach edited the manuscript. The responsibility for errors, shortcomings, and opinions is mine.

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 Ottoman Turkish Empire. They formed the first wave of the Zionist movement—to repopulate the land of the Bible with the people of the 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; 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, operated in Palestine and is still operating 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 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 on an area considerably larger than envisioned in the UN resolution. Another consequence of the war was that 600,000 Arabs left their homes and the fields they worked 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.

Following a period of shortage 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 hurting 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.

Beginning and long run trends

The history of the kibbutz started with the economic failure of a farm administrated by a public organization next to 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 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 religious orthodox, and one single kibbutz was associated with the Communist Party. The federations, particularly the two left-leaning ones, were headed for decades 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 were spread over the country. In 1947, just before the establishment of the State, there were 127 kibbutzim and 87 moshavim (Table). Today their numbers have reached 266 and 443 respectively, including 35 collective moshavim, with 145,000 inhabitants in the kibbutzim (close to a half adult members) and 290,000 in the moshavim.

Cooperative communities in agriculture

	1947	2011
Kibbutzim	127	266
Moshavim	87	443

Most expansion followed 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 developed, but many of the immigrants were not ready or willing for 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, some have 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 places, experienced significant technological improvement and increased capital intensification. As the State economy grew, so has the opportunity cost of farm operators in agriculture increased; the cost of hired labor was reduced, especially when, since 1992, laborers from Thailand came to work on farms. Consequently total labor input in agriculture was reduced through 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 enterprises. In kibbutzim the changes were realized in a reduction of the number of members working in agriculture and expansion of industry and services.

Kibbutzim and moshavim were also organized in second order cooperatives, mostly regional associations; among them, water provision, transportation, or cultivation of distant lands. 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 they 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 intermediation in credit; later, the growth of this kind of 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 operated beyond the regional boundaries; usually run by a kibbutz or moshav federation to serve the needs of its members.

Kibbutz, pre-crisis, society

The kibbutz was a commune.¹ 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 strictly adhering kibbutzim, members did not have private clothes and wore whatever they received weekly 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 specialized in lines of production or services. Kibbutzim were generally ready to send their members to be trained, formally and informally, and to advance technically. The structure of the kibbutz was here of great help, a member leaving for a while could in most cases be replaced on his job. A family farm

¹ The discussion of early periods is conducted in past tense; tenses will shift when more recent events are reached.

operator, in the moshav or elsewhere, could not so easily go away for a significant stretch 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 at night). 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 did not prepare for academic studies and higher education was constrained to a limited number of members and restricted to areas the kibbutz deemed necessary for its development. This attitude changed as the economic standing improved in most kibbutzim in the 1960s and 70s, and college or university training of their own choice became the right of all sons and daughters. 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 others. These differences did not much affect standards of living; guided by instruction 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 80s. It was a renunciation of a fundamental principle in the established educational doctrine and passed only after long and sometimes heated deliberations. In more than a few kibbutzim, these were the young mothers, women who themselves grew up on kibbutzim, who did not want their children to relive their own experiences of heavy peer pressure, strict discipline, distant parents, and, particularly, lack of privacy and 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 of 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 uniformly 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.

Kibbutz, pre-crisis, mission and assessments

Viewed from the present perspective, the mission, summarized in slogan style below, seems obvious and natural. Historically it emerged from the experience of the founding fathers and mothers 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.

Nation building. When Palestine was under the British mandate, kibbutzim were settled wherever land could be purchased and they thus defined in many places the borders of the state to be. The partition map of the UN Resolution of 1947 included most of the kibbutzim within the area of the future Jewish state, and some that were 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 preparation of a military power, 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 it 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 the erosion of the position of the kibbutzim at the forefront of the society of Israel were planted when the new immigrants were found to fit different alternatives.

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 labor 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 have formed most of the labor class of the country—did not ameliorate 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, WW II, and the German murderous occupation.

A deeper crisis that affected the largest federation developed 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 and, 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, parents on one side refused to let their children sit in classes taught by teachers of a different opinion. In several cases kibbutzim were divided, in others members moved to a kibbutz close to their political affiliation. People who for decades worked and suffered and celebrated together could not continue on the same piece of land. It took however only a short period of 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 little patience the crisis could have been avoided.

Politics. Members of kibbutzim were active politically. Again, the collective structure conveniently supported fulltime activists. They were also admired by the public of the young country for their pioneering endeavors. In the 1950s, when they were less than 4 percent of the population of the country, kibbutz members formed a fifth of the representatives in the early Knessets (parliament) and occupied up to six seats in the government’s 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 glamour and the power have faded. Only a single person from a kibbutz was voted to the Knesset in the most recent elections of January 2013 and even he does not belong to a party favoring kibbutzim or cooperation.

The 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 "with family units" introduced 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, handed it over 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 reached surplus levels and production quotas were imposed, they were allotted to the moshav to allocate to its members. The association acted as the municipality of the village, building schools, paving roads and maintaining the public household. 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, collected in taxes imposed on products marketed or input 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 they sold the farm, parents lacked resources to help non-succeeding children. Farm products had to be marketed only through the cooperative association although private dealers may have offered higher prices. Farmers were prohibited from seeking the help of hired labor even if their yields rotted in the fields. Members in need of help often felt that they were at the mercy of the functionaries of the association. Operators who lagged behind consistently 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, let a neighbor 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 a few minor ones) tried since its early days to strengthen adherence to the rules and even attempted to write the ideology of the moshav into the law of the land. The suggested 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 government, Labor centered, supported the bill but failed in its attempt to move it through the Knesset. By that time (1969) the strict normative framework of the moshav was already coming unstitched—particularly, hired laborers started appearing in large numbers—and no law could arrest the rising economic forces.

Immigrants' moshavim

In its early years Israel experienced unemployment, food shortage, and lack of financial resources. Immigrants, coming 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 were directed to agriculture to set-up new moshavim. It seemed to be simple: each family received a plot of land, a little house, basic equipment and livestock—with proper advice and instruction it 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 called to join the old, established villages.

Following several years of teething pains, the new moshavim grew into farming communities and took part in the expansion of agricultural production in the country, soon to reach 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 financial stability, the immigrants' moshavim set up, with the help of the government, regional, second order cooperatives of their own. This was done by the late 1950s and early 60s. Up to this 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 (Aharon Uzan) to become, in 1974, a member of the cabinet as the Minister of Agriculture was from an immigrants' moshav.

Starting in the late 1960s, agriculture, particularly in the moshavim, enjoyed a flourishing period that lasted for approximately 15 years: 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. Exports were then undertaken by three specialized agencies and this concentration increased the role of the cooperative associations at both the region and 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.

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 in moshavim and kibbutzim provided purchasing, marketing, and other services. They were also involved in finance. The financial activity was augmented, or even necessitated, by the ownership structure in cooperative agriculture. Land in moshavim and in kibbutzim was, and is, national; there is no private ownership. Therefore farms cannot be used as collateral against credit. The lacuna

was replaced by mutual guaranties: members in a moshav guaranteed debt incurred by their associations, and moshavim and kibbutzim signed mutual documents of guaranty. The cooperatives functioned as the hubs of the system of mutual guaranties: partly credit was supplied to individual farmers or kibbutzim and then the village association or the regional cooperative were the instruments facilitating the comprehensive guaranties. In other cases the village and 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 the moshavim and 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 debt of others. Cooperative credit relied, implicitly and by experience, on government assistance.

The settlers in the moshavim and the kibbutzim came 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 aimed at 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 was however 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, may have experienced 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.

The road to the cliff

The financial crisis took time to brew. Although most of it was a good time for agriculture, the period following 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 it 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. Inflationary-adjusted accounting was introduced in 1982, but this was 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 to be 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, 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 "financial 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 extending its capital outlays, relying on available and convenient short term credit—trusting that the accumulating debts were the problem of the government: it would never let down moshavim and kibbutzim.

Financed by easily available credit at negative real rates, projects could be expected to be overstretched. This tendency was extended and exaggerated when economic conditions could not be gauged and lack of funds was closed by recycled 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 facilities. The tendency was strengthened by the desire of the moshavim to imitate the seemingly successful manufacturing in the kibbutzim. In the mid-1980s, the State Comptroller examined more than 300 regional enterprises and found that most did not make full use of their capacity; they did not even cover operating costs. In one case, an enterprise was built and completed—and then left idle, never to function.

When credit was flowing, everything looked rosy: machines were new, orchards were young, houses repaired, public areas green. Many operators in moshavim constructed 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 replaced in 1977 by a right-winged coalition of parties whose rhetoric was expressively 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 great share of it abroad (an early action of the new government was to free the foreign currency market). The availability of these funds augmented for a while the feeling of easy credit but the atmosphere was modified 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 orthodox kibbutzim were an exception; they did not expand heavily into manufacturing, did not seek new credit sources, and invested whatever surplus money they had in solid outlets. 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 standard of living in the kibbutzim was on par with their urban reference groups, thus augmenting social stability and attractiveness. However, easy credit also intensified 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 were 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 wake of the financial crisis were aimed at least partly at mending these shortcomings.

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 annual rate of inflation dropped from more than 400 to 20% and was further suppressed later; one consequence was that real annual rates of interest jumped to 30 and 40 percent and even more. 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 let the overdrafts thus created swell with the outsized 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 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 (detailed information is not 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.

Restructuring

The financial crisis threatened the livelihood of a large number of kibbutzim and caused many members, particularly young ones, to leave. Kibbutzim in stress reacted by encouraging 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. The Collective Kibbutz is the old conventional entity; The Renewed Kibbutz is a kibbutz where either of the following holds: salaries to members; private dwellings; private ownership, shares of the collective means of production—provided that voting rights remain vested in the community at large. The third type is new, an Urban Kibbutz; several 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 presented to courts.

The renewed kibbutz differs from an ordinary rural community in two ways. a. It maintains an internal "safety net" of mutual responsibility for basic necessities and vital services to all the members, financed by returns from the collective enterprises and levies imposed on the wage earners; and b. It may democratically change its status. The kibbutz was never exactly egalitarian—elites emerged and may have enjoyed preferred amenities (free use of cars was particularly eye soaring) much larger 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. Still, surveys indicate that the majority of the members are satisfied with the reforms and agreed that they improved performance and welfare.

Only a third, and even less, of the kibbutzim did not change to renewed, although most went part of the way; for example, employing hired labor in industry or paying members for weekend work. In general the collective kibbutzim are well-to-do. Naturally, the majority of their members accept the traditional ideology, but they also enjoy several advantages; among them, secured, comfortable standard of living; work in familiar environments; intensive social interaction; and they are not evaluated and do not have to evaluate 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, in particular in the renewed, 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 the sector 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; particularly, they do not provide inputs, marketing services, and—most importantly—financial intermediation. They are not anymore the providers of aid to households in difficulties. Farm operators in the moshavim are served now directly by private agencies and in quite a few places—by local small cooperatives or partnerships that stepped into the void. As indicated, agricultural labor of self-employed has decreased over time. Most moshavim are now rural communities with a relatively small number of farmers who 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.

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 branching into

other lines and 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 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; with capital, members' labor was in short supply 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 the people to 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 a manufacturing enterprise, but for the sector as a whole, the value of output in manufacturing is much higher than the value of the product of agriculture.

Regionals

Regional, second order cooperatives of kibbutzim, were first established in the 1940s and early 50s as purchasing organizations 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. As indicated, the regionals were drawn into financial intermediation; this was true for all sectors, but differences that did exist turned out to be fateful. In the moshavim most of the credit came through the regionals and transferred to village associations and then to individual members. When the financial crisis hit, everyone was responsible and everyone could rely on the all-embracing web of mutual guaranties. There was no way but to realize, as the law finally did, that these debts could not be collected and the regionals had to be closed down together with all their enterprises.

The situation in the kibbutzim was different. Although the regionals of the sector did engage in financial intermediation, it was on a relatively small scale; individual kibbutzim had direct access to banks and the other major sources were federation-level funds. These funds were closed down after the crisis but the sector's regionals survived; it must be admitted—due to debt settlements and erasing of sufficient sums. 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 the 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 expand economically. Today they are holding companies, though still cooperatives, in partnerships with kibbutzim and private interests. One regional holds for its members a 20% share in Tnuva.

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 worsening consistently, 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 other. 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 dairies (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 was 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 build retirement funds. 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 country-side, many residents—members and others—commute regularly to work away from their homes, but small, local enterprises are also flourishing in a lot of places. 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, bakeries, computing, and what not.

These modifications and 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 the moshavim and the kibbutzim were not hermits sanctifying scarcity and seclusion. They were part and parcel of the society of Israel and when the country's living standards improved, 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 greenhouses—and they agreed to family dwelling 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 did 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 will be prevented from accepting outsiders as residents.

Rural communities and their land

Kibbutzim and moshavim are small communities and with time and with youngsters leaving their populations have aged. One solution was "expansion," the development of residential areas for young families of non-members. Formally, the locality was then made into a municipality where some of the residents hold membership in a separate association, kibbutz or moshav. 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 repayments. They also sparked opposition: the land was given to be farmed; additional income belonged to the public at large and not to a small, select minority. The opposition was led by a group representing sons and daughters of immigrants of the early days of state—mostly of "eastern" origin: the Middle East and North Africa—and, when brought before it, the Supreme Court ruled in 2002 in their favor. 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 dwellings in the kibbutzim, are now in flux. In the meantime, land prices in the 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 paper.

Epilog

It is impossible to imagine these days the difficulties the first comers had to face; the shortages, sometimes starvation, diseases, hard work, and uncertain future. The new immigrants of 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 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 envisioned, is practiced only on a relatively small number of communal 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, although only a few, are still being set up; some with ecological inclinations and others in urban centers. Young people keep trying and will probably continue trying the experience of togetherness and public service.

Selected References

Listed here are several of the sources I consulted when writing the survey. A complete list of references in Hebrew and English is available on request.

Abramitzky, Ran, 2011, "Lessons from the kibbutz on the equality-incentive trade-off," Journal of Economic Perspectives, 25(1): 185-207.

Applebaum, Levia, and Michael Sofer, 2012, "The moshav in Israel: Agricultural communities in a process of change—a current view," Horizons in Geography, 79-80: 194-209.

Barkai, Haim, 1977, Growth Patterns of the Kibbutz Economy, North-Holland.

Ben Rafael, Eliezer, 2011, "The kibbutz: survival at risk," Israel Studies, 16:81-108.

Bettelheim, Bruno, 1969, The Children of the Dream, Macmillan.

Kimhi, Ayal, 2009, "Heterogeneity, specialization and social cohesion in Israeli moshav cooperatives," Journal of Rural Cooperation, 37(1): 124-136.

Lieblich, Amia, 1982, Kibbutz Makom, Report from an Israeli kibbutz, Andre Deutsch.

Near, Henry, 1992, 1997, The Kibbutz Movement: A History, Littman Library of Jewish Civilization.

Rosenthal, Gadi, forthcoming, "Agricultural cooperatives in Israel," Journal of Rural Cooperation.

Russell, Raymond, Robert Hanneman, and Shlomo Getz, 2013, The Renewal of the Kibbutz, from Reform to Transformation, Rutgers.

Weintraub, D., M. Lissak, and Y. Atzmon, 1969, Moshava, Kibbutz, and Moshav, Cornell.

Zusman, Pinhas, 1988, Individual Behavior and Social Choice in a Cooperative Settlement, Magnes.

C:\Shlomit\CoopYK-30-9-13; October 6, 2013