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The purpose of the Centre is to provide a framework for investigations and research on problems concerning rural cooperative communities and publication of the results, to coordinate the exchange of information on current research projects and published works, and to encourage the organization of symposia on the problems of cooperative rural communities, as well as the exchange of experts between different countries.

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# The Rise and Decline of the Israeli Moshav Cooperative: A Historical Overview

by

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## Abstract

The moshav (village smallholder cooperative) emerged in the early 1920s. In the next three decades, its cooperative structure and rules underwent some changes, in response to developments in its environment. During Israel's first statehood decade, the moshav became the country's most prevalent form of agricultural settlement. Then, for almost thirty years, structure and rules were "frozen", despite the transformations which swept Israel's social, political and economic landscape. This "freezing", it is claimed, was allowed by insulation: the Zionist Movement and the State of Israel set up barriers, partly separating the moshav from the economy of the country in each of the four markets of classical economics (commodities, labor, capital, and land). Stabilization also occurred through recurrent government bail-outs, often channeled through powerful regional organizations which were linked to the moshavim through unlimited mutual financial guarantees. These bail-outs softened the "budget constraints" of the moshavim. In 1985–86, almost all regional moshav organizations became insolvent, in the wake of stringent anti-inflationary measures enacted by the government. An unprecedented financial crisis befell the moshavim, whose "budget constraints" were hardened as the government no longer provided them with unlimited (albeit unwritten) financial guarantees. The moshav "unfroze". Slow processes – decooperativization, the decline of agriculture, occupational change, suburbanization, loss of municipal autonomy and legal change – were considerably speeded up. We suggest that the acceleration of these processes was due to the hardening of the budget constraints of the moshavim as well as to the lowering of the barriers which had insulated them from other sectors of the country's society and economy.

## Beginnings: The Pre-Statehood Period

Originally, the moshav was a reaction within the Zionist socialist movement to the intense collectivism and egalitarianism of the kibbutz (collective settlement). The moshav emerged as a compromise between those values and the preferences of its founders (Weintraub *et al.*, 1969; Nevo, 1978). Their individualism found expression

in the role they assigned to the nuclear family as the basic unit of production and consumption.

The moshav affiliation with the Zionist socialist movement explains:

1. the selection of its site by national decision-making bodies, such as the Jewish Agency;
2. its location on nationally owned land;
3. the planning of its physical and economic framework by a national organization, the Jewish Agency's Settlement Department, which has been in charge since the early 1920s of establishing new rural settlements and assisting them until they achieved self-reliance;
4. its dependence on land and capital allocated by the Jewish National Fund and the Settlement Department; and
5. its adoption of the principle of self-labor, whereby the farmer and his family were to cultivate the land by themselves, without recourse to salaried labor.

The egalitarian principle was manifested in the equal distribution of land and capital among the smallholder units of the moshav. The collectivist spirit of the period found expression in:

1. the adoption of the principle of mutual assistance;
2. cooperative arrangements for activities such as marketing and the provision of water and agricultural supplies;
3. the authority held by the collective decision-making bodies of the Moshav Association (Members' Assembly and Village Management Committee) over the economic decisions of the family units.

Many would-be settlers found the moshav attractive. It would allow them to be pioneers, while leading a conventional family life. Also, the family units could accumulate some property, and the children would sleep at home rather than in children's houses as was customary in kibbutzim (pl. of kibbutz). Besides, every moshav family earned according to what it produced, and the early moshav members believed this arrangement to be more equitable as well as more efficient than the extreme egalitarianism of the kibbutz. Above all, for those lacking the means to purchase land and unwilling to live in a kibbutz, joining a moshav was the only way to become farmers. Indeed, nuclei of would-be moshav members waited patiently for as long as 5-10 years to receive a piece of land, to be able to set up a moshav of their own (Weintraub *et al.*, 1969).

The moshavim (pl. of moshav) established in the 1920s were economically successful. An official inquiry conducted by the Zionist Movement showed that most of them achieved better results than the kibbutzim (Campbell, 1928). Times were harder for the moshavim established in the 1930s, which lacked means of production

(the Zionist movement, impoverished by the World Economic Crisis, being unable to provide them), and whose members had to work outside their moshav in order to make a living. However, the situation of the moshavim improved during the Second World War, which brought in a large British military contingent, while making it difficult for food imports to reach Palestine. The soldiers required fresh vegetables and the British Army was willing to pay. Moshav incomes increased rapidly, in real terms. Meanwhile, war inflation eroded the debts accumulated in the 1930s, improving the financial standing of the moshav members. For the first time, they attained modest affluence.

Additional moshavim were set up during the Second World War while a few others were established between it and the foundation of Israel and settled by demobilized veterans of the British Armed Forces. The establishment of those newer moshavim, as well as the absorption of immigrants by older moshavim, played an essential role in the diffusion of the moshav as a settlement model. They constituted a crucial experiment, demonstrating to the Zionist leadership that it did not take indoctrinated militants to make successful moshavim: ordinary people could do it. Without this experiment, the leadership would not have dared, a few years later, to make the moshav model into the backbone of mass agricultural settlement (Schwartz, 1995).

Looking at the entire period of the British Mandate in Palestine (1921–47), it appears that adherence to collectivist and egalitarian values underwent fluctuations. Thus, collectivist tendencies were stronger in the 1930s and 1940s than in the 1920s. Also, while the principles of the moshav remained, by and large, the same, their organization did undergo some changes in the last two decades before statehood. Those changes strengthened the Association, fostering collectivism.

The first organizational change was the establishment of a national federation, the “Moshav Movement”. That movement was set up in 1930, slightly after the kibbutz movements, and was meant, like them, to facilitate mutual assistance between settlements as well as representing them vis-à-vis settlement institutions and national authorities. Besides, the moshavim wanted their way of life to be legitimate, just like that of the kibbutzim, and they hoped that a movement would give them a voice (Schwartz, 1995).

The second organizational change occurred in the late 1930s, and pertained to the internal organization of the moshav. It was the consolidation of several cooperative associations (in Hebrew: *agudot*, pl. of *aguda*) previously operating in most moshavim – Mutual Assistance Association, Village Store, and Water Association – into a single Association, which became multi-functional. This concentration of power occurred against the outcry of those claiming that they had not fled the “excessive collectivism” of the kibbutz, just so as to make their moshav into a kind of kibbutz (Schwartz, 1995). They could hardly receive a hearing. After all, the late

1930s were the heyday of kibbutz prestige in Mandatory Palestine, as the Tower & Stockade settlements (mostly kibbutzim) were a symbol of Jewish steadfastness in the face of the Arab rebellion.

Between these organizational changes, in the mid-1930s, the moshav received a legal framework under the guise of the "Ordinance of Cooperative Societies" enacted by the British Authorities. The Cooperative Society, better called Association, is a legal entity and can be taken to mean the moshav (or the kibbutz) as a corporate body. That legal framework has remained the same ever since, with minor modifications.

The third organizational change occurred in 1942 and pertained, like the first, to the external organization of the moshav. It was the establishment of the first regional moshav purchasing cooperative, "Moshavim of the North", as a cooperative of moshavim (*i.e.*, a secondary cooperative). The first kibbutz purchasing cooperative "Kibbutzim of the Jordan Valley", set up four years earlier, had been economically successful. It had provided its members with a regular supply of agricultural inputs (gasoline, animal feed, selected seeds) on credit and at reduced prices. The rationing instituted during the World War by the British Mandatory authorities made regular supply into an essential function. Following that first purchasing cooperative, additional ones were set up, the last one during Israel's war of Independence. They acted as tools of the moshav Associations, avoiding encroachment upon the latter's territory (Schwartz, 1995).

The three organizational changes, all of them instances of "imitation of the kibbutz," helped the moshav adapt to a changing environment where the kibbutz achieved preeminence, while national institutions (the Jewish Agency, and the Jewish Labor Federation, the Histadrut) played an increasingly dominant role:

1. The Moshav Movement helped set up new moshavim, also improving the access of all moshavim to national resources and making it easier for them to assist each other;
2. The strengthening of the Moshav Association helped it to mobilize credit, enabling it to assist its members in their economic activities or to help them in cases of hardship;
3. Finally, the moshav economy could have hardly survived the harsh rationing of the War years without the purchasing cooperatives. In particular, it would have been difficult to keep the cattle and poultry alive without a stable supply of feed.

The local community and the now strengthened cooperative Association were coextensive. In order to be a member of the latter, you had to be a permanent resident, while in order to be a resident, you had to be an Association member. This allowed the latter's administrative controls and economic power (for example, its ability to allocate or deny credit), to be exerted in conjunction with public opinion in controlling the behavior of individual moshav members (Schwartz, 1995).



The conditions of the 1930s and 1940s strengthened communal social controls. The participation of the moshav members in the Zionist struggle created a feeling of brotherhood, increasing their willingness to assume the burden of collective discipline. Often, the moshavim were physically isolated, especially after the Arab Rebellion of 1936, as road security became a problem. Besides their sunrise to sunset work, moshav members spent much of the remaining waking hours attending committee meetings or participating in communal activities. They also met informally, on the sidewalks, in the Village Store or in the Moshav Secretariat. Public opinion was powerful. When it sided with the Association against some member, the latter's standing was far from enviable.

Those were the years when the administrative structure of moshav villages crystallized, strengthening the control of the Association over its members. Formally the Members' Assembly constituted the moshav supreme decision-making body. However, it met infrequently and the Village Management Committee tended to be the locus of real authority. It was elected for a one-year term by the Assembly and usually consisted of five members, one of whom acted as Chairperson. Serving on the Committee was considered a public service and did not entitle members to any remuneration.

Some moshavim employed a paid Treasurer (or Secretary), often not a member of the cooperative, who handled its finances, also representing it vis-à-vis supporting and business organizations such as the Settlement Department and commercial banks. The Treasurer also allocated working capital to the members, taking into consideration their financial status as well as the moshav own situation. To ascertain the former, the Treasurer relied on data provided by the moshav's accounts office. While officially he took orders from the Committee, his autonomy could be considerable. Another salaried professional was the Bookkeeper, who was in charge of assessing each member's financial standing. Hence, while he had no formal authority to allocate resources, he could exert influence (Schwartz *et al.*, 1987).

Veteran moshavim were hard-working, disciplined communities. Administrative, economic and social controls kept the members in line, and severe sanctions were exerted against "deviants" (such as "conspicuous consumers"). Besides, even in the 1940s, when moshav members made good money, they remembered the years of hardship and remained wary of "wasting". Hard work, puritanical standards, and high demand for agricultural produce concurred in fostering prosperity in the moshavim. The demand for produce kept growing in the hungry post War years (1945-48) and the moshavim kept thriving (Schwartz, 1995).

### **The First Statehood Decade**

On the eve of the establishment of the State, in 1948, the 60 or so moshavim constituted about one-third of the country's socialist agricultural settlements, while the kibbutz was still the dominant settlement form (Ben-David, 1964). After Israel's

War of Independence, the country's population numbered around 850,000, about 675,000 of them Jews.

The country's previous sources of food supply had dried up. Given Israel's war with its neighbors, it could hardly import agricultural produce from Syria, Egypt, or even Lebanon (though some commercial activity did go on with the latter). The massive flight of Arab refugees, most of them *falaheen* (farmers), reduced the production of Arab agriculture. Jewish agriculture could not even supply half of the population's food requirements (Prime Minister's Office, 1955), and the new State lacked the hard currency needed to buy food abroad. Furthermore, mass immigration was flowing in: the country doubled its Jewish population in less than four years. Food and employment were urgently needed. Rationing, which had been instituted, could be no more than a stopgap measure. Indeed, at the height of the austerity measures, the country's agriculture still provided less than 50 percent of the food needs of the population, and the black market was quite active (Brum, 1986).

The flight of the Arab refugees had left unoccupied farmland and the country had water reserves which could be used for irrigation, though those reserves were less than its experts believed. Also, veteran Israelis had accumulated expertise in modern agriculture. The veteran moshavim received some additional land to cultivate and their ability to produce increasing quantities of food gave them importance as well as improving their economic situation. In the early 1950s, veteran moshavim small-holdings earned three times the average income of an urban salaried worker (Mundlak, 1964).

More importantly, the idea of resettling new immigrants as farmers, using their labor to produce food, seemed to have merit. Besides, it was believed that the land should be settled rapidly so as to prevent the refugees from coming back, putting the security of the new State in jeopardy.

It was hoped that the moshav model would fit the new immigrants. As mentioned, most moshavim established during and immediately after the Second World War had been successful even though their founders had not been indoctrinated militants and unlike the kibbutz members, they had received no youth movement education. Furthermore, the Moshav Movement, was eager to show that the moshav could serve national goals, just as well as the kibbutz. Finally, some of the Moshav Movement's political activists recognized that the establishment of the new moshavim might be a great historical opportunity: it might allow them a chance to stop playing "second fiddle" to the kibbutzim, finally obtaining the lead role in the settlement enterprise.

The first post-State moshavim were set up in the late 1940s and early 1950s by young immigrant families, most of them Holocaust survivors from Eastern Europe, hence with little schooling. These families coped successfully with the new situation, showing themselves capable of producing food and of earning a decent living (their yearly revenues were similar to those of the average salaried urban family). Formally,

the new moshavim maintained the centralistic model of the moshav Association of pre-independence moshavim. However, the newcomers from Eastern Europe were more individualistic than their elders and the new moshav associations were less eager to control the lives or even the economic activities of the membership. The initial economic and social success of the East European moshavim confirmed on a larger scale that the moshav was a sturdy organizational model, able to serve people of all kinds. Success led to the establishment of additional new moshavim, settled with immigrants from North Africa, Yemen, Iraq, and India.

The new settlers, most of them new immigrants from Islamic countries, had no familiarity with the “principles of cooperation”. Instead of being allowed democratic “self-management”, they were run by officials of the Settlement Department, as “administered communities” (Weingrod, 1962), in an extreme and non-democratic version of the centralistic model.

It is true that autocratic management was defined as temporary. Counselors and extension workers were hired to develop the new immigrants’ capacity for self-management, as well as teaching them how to run a moshav. Many new immigrants, however, showed no sympathy for cooperative rules and structures (Shokeid, 1971), even less than for agriculture as an occupation. At best, they remained “reluctant pioneers” (Weingrod, 1966).

New moshavim were often settled with families who had immigrated from different countries and cultures, and found it difficult to establish a common language. Later on, the Settlement Department learned the hard way that the “melting pot” was not always the best policy and started establishing relatively homogeneous moshavim, with immigrants from two countries at most (Weitz, 1967). Even so, members of a new moshav were often wary of each other, if not at each other’s throats. They were especially wary of the Management Committee, whom they often suspected of appropriating the moshav resources to itself.

Between 1948 and 1955, more than 200 new moshavim were established, making the moshav into Israel’s most prevalent settlement form, while the population of the moshavim (*ca* 93,000) exceeded that of the kibbutzim (*ca* 78,000). In the last three years of Israel’s first decade (1955–58) only 20 moshavim were established, and thereafter the settlement process ground to a halt.

Israel’s poverty during its first years found expression in the housing situation, even worse in the new moshavim than it was in the cities. The settler families lived in tents, tin houses, wooden shacks, or at best in one-room houses with kitchenettes (24 m<sup>2</sup>), often with no electricity and sometimes with no running water. The toilets stood outside. It is only after some improvement in the country’s economic situation (from 1955 on), that larger dwellings were constructed – 48 m<sup>2</sup> two-room houses, with toilets inside.

One of the largest items on Israel’s development budget during the first statehood

decade was establishing a countrywide water network, to promote irrigation agriculture. Given the small size of individual moshav small holdings (less than three hectares), growing irrigated vegetables seemed an appropriate way to make a living. Besides, the market for food was a buyers' market. Finally, the only expenses involved in producing vegetables were water, seeds, and labor, the latter quite inexpensive given Israel's high unemployment in the early 1950s. While the vegetable branch grew fastest in the new moshavim, it also expanded in the veteran moshavim (as well as in the kibbutzim). The vegetable growers were so successful, that in a few years (by 1955) the market was glutted and the prices fell (Schwartz and Gil'adi, 1993). From then on, none but the most efficient farmers could make a living by growing vegetables.

If the new moshavim were to survive, they needed alternative income sources. Also, given their poor economic conditions, and their limited administrative capabilities, it was thought advisable to concentrate municipal services in a common "rural center", around which the moshavim would cluster. Besides promoting effectiveness, this spatial and administrative arrangement was also meant to achieve economies of scale in the delivery of educational, health, and other services.

Two major agricultural alternatives to growing vegetables were tried. One was producing industrial crops such as cotton, oil seeds, and sugar beets, usually combined with some animal farming (cows and poultry), which was to provide the farmer with a small cash income around the year (vegetable crops are only harvested during the "season") as well as with manure to fertilize the soil. Industrial crops were characteristic of the Lahish region (Ben Arie, 1970; Arnon and Margulies, 1984).

In that same region, comprehensive regional planning was practiced and involved close cooperation between officials at local, regional, and national levels, as well as among professionals from various disciplines. Lahish region settlements were clustered around the Nehora Rural Center, and in the nearby Shafir Rural Center.

In fact, the Lahish experiment did not succeed as well as its practitioners had wanted to believe. Serious mistakes were made and most settlements of the region included in the experiment (*i.e.* in the Shafir and Lahish Regional Councils boundaries) were hardly examples of successful development. The dubious success of the Lahish experiment (Arnon and Margulies, 1984) did not prevent the Lahish model from becoming a major export item for the country's development specialists.

The second agricultural alternative to vegetable growing was the broiler chicken branch. It started successfully in the mid-1950s, but in 1959, bad hygienic conditions fostered an epidemic which decimated the chicks in the new moshavim. Being adult, layer chickens resist illness better than the younger broiler chickens. The new moshavim were allowed to exchange broiler chickens for egg production rights (quotas).

In the hill regions (the Jerusalem Corridor and the Galilee), the layer-chicken

branch saved the new moshavim from dire poverty. It multiplied the agricultural incomes of their members by a factor of three, stabilizing their population. However, the new branch did not improve moshav functioning. On the one hand, the price of feed constitutes a large proportion of the price of the eggs (almost 70 percent). On the other hand, as eggs can easily be sold for cash, the farmers often marketed them on the side, eschewing moshav channels, while allowing their debts to the moshav Association to grow rapidly (Schwartz, 1995).

Ten years after the establishment of the State, in 1958, as the Jewish Agency was preparing itself to abolish the status of “administered communities” and turn all immigrant moshavim into self-managing communities, the Association’s Management Committee was legally empowered to serve as village council. Thus, its “dual role” became official (Ottolenghi and Levi, 1990). Section 91 (a) of the Local Councils (Regional Councils) Ordinance 1958 as amended in 1963 provided as follows:

The members of the Local Committee in a cooperative settlement shall be those people who are at that time according to its by-laws the members of the Committee of the cooperative society in that locality.

While the Association shared its new municipal authority with the regional council (Schwartz *et al.*, 1988), the new functions further enhanced its power vis-à-vis the membership. Thus, a delinquent member, refusing to market through the Association or to pay his debts to it, could well meet with a refusal when asking for a building permit to add a room to his house. It appears that rather than changing the moshav administrative structure to fit it to the new moshav demography, the establishment strengthened and made that structure more rigid, by giving it legal status.

There was a price to that strategy. Often, the considerable economic and administrative power vested in the Moshav Association was abused by office-holders for their own and their extended families’ profit. These abuses of power revealed a fundamental weakness of small village cooperative democracy when coupled with a centralistic structure. They showed that when those in control of the Association (usually its Committee or Chairman) adopted a winner-take-all strategy, a majority of 51 percent could deprive a 49 percent minority of its rights, with the added problem that in the moshav, leaving the cooperative involved losing one’s farm as well as one’s house.

It is not that in the veteran moshavim majority rule had never been abused, to inflict injustice on unpopular members. But there usually was some restraint about it. Even where members of veteran moshavim were not keen on socialist or cooperative ideologies, they felt obliged to pay them some lip service. Also, members of a veteran moshav had usually lived together for years and were usually embedded in a social network of veteran moshavim. They were wary of public opinion, that of

their own moshav as well as that of its neighbors. Such was not the case in the new moshavim where members were still strangers to each other and had no ideological commitments, while relations with nearby moshavim were hardly strong enough to foster social control.

Mistrust and suspicion towards Association officers came to mark many new moshavim. Factions formed, usually based on ethnicity, city of origin or family ties, every one of which can serve as a basis for solidarity against “strangers”. The factions struggled for office, which was the key to the control of the scarce resources over which the Association held jurisdiction: credit, water, tractors, and jobs (Shokeid, 1971).

Moshav members had a chance of getting a “piece of the pie”, while their faction was in office, also enjoying some protection against encroachment when it was out of it. Hence, factionalism alleviated personal insecurity. However, while serving individual members as an adaptation mechanism, factions did not necessarily contribute to collective welfare. Factional strife poisoned the social life of many moshavim as well as paralyzing efforts to develop them economically.

The frequency of factional strife, and the difficulties of conflict arbitration made it harder for the Settlement Department to withdraw from the administration of the moshavim. It needed a partner, to take over some of the Department’s functions in the new moshavim, while helping compensate for their cooperative, administrative and political deficiencies. That role was to be filled by the regional purchasing cooperatives.

The regional purchasing cooperatives of the new moshavim were established in the years 1956–59. Like the veteran purchasing cooperatives, they functioned to ensure a regular supply of agricultural inputs on credit. Unlike the veteran cooperatives, the new ones were to take over functions which in the veteran sector were filled by the moshav-Associations, such as establishing feed mills and mobilizing credit for development purposes. While the purchasing cooperatives interfered in moshav internal politics, they also served purposes of political domination (as political “machines”) for Israel’s ruling party, Mapai, as well as purposes of regional development (Schwartz, 1995). Finally, the purchasing cooperatives pressured “their” moshavim into conforming to cooperative standards (*i.e.*, having the members sell their produce through Association channels).

Given the multiplication of the moshavim, the growth of their population, and their increasing production, the Moshav Movement gained increased representation in Israel’s Parliament, the Knesset, as well as in government bureaucracies such as the Ministry of Agriculture (Schwartz, 1995). The activists of the Movement could look forward to political careers as well as using their newly found power to try enforcing “proper cooperative behavior” in the moshavim.

Economic pressures and coercion constitute a poor substitute for ideological

commitment and provide a shaky foundation for agricultural cooperation. Historically, most agricultural cooperatives organized from above have been dismal failures, usually reducing agricultural production (Schmitt, 1993).

In Israel, agricultural cooperatives were also established from above, all-too-often using coercion. Nevertheless, they were not failures. To the contrary, they helped the country attain food self-sufficiency, even leading to the accumulation of agricultural surpluses. The reasons why "reluctant cooperation" worked better in Israel than elsewhere:

1. unlike a situation in which land was taken away from peasants and turned over to a cooperative (as in the Soviet Union and later on in its satellites behind the Iron Curtain), the moshav made the new immigrants into settlers and property owners, providing them with land, livestock, tools, and working capital;
2. unlike what happened in Soviet kolхозes and Eastern Bloc collectives, Israel's moshav members were not forced to stay on the moshav. Those unwilling to do so, could take their chance and move on. Indeed, in Israel's hill regions, to give but one example, more than half of the settlers left the moshavim during the last four years of Israel's first statehood decade, so that the Jewish Agency had to recruit new settlers to replace the leavers (Schwartz, 1995);
3. until the late 1950s, the combined effects of rising demand for food, government subsidies, regulations banning fresh produce imports, and cooperative marketing institutions established earlier to prevent exploitation of the producers by private commercial middlemen, improved the situation of most moshavim, veteran or new;
4. experience taught the moshav producers that if the market paid good prices, their profits would not be confiscated, whereas if they ran into problems, they would receive assistance from the State and the Jewish Agency. Their situation was diametrically opposed to that of Soviet bloc or African farmers (Bates, 1981), who were forced to sell their produce at controlled (low) prices when successful, and were abandoned to their own devices when unsuccessful.

In sum, the State of Israel, bent on ensuring survival and prosperity to its initially poor new farmers, allowed them to enjoy the advantages of a relatively free market for their produce while providing them with water and land at subsidized prices, protection against competing imports, and in addition to all those, a safety network. With such rules of the game ("if you win it's yours, if you lose it belongs to the State"), the likelihood of success as a farmer was not too bad (Schwartz *et al.*, 1987).

However, it should not be assumed that in the late 1950s all of Israel's new moshavim had attained prosperity. A farm in an "advanced new moshav" earned a net annual income roughly equal to that of the average urban worker, about a third of the earnings of a veteran moshav farm. A farm in a poor moshav (such as the hill

moshavim) was barely earning half of the minimum guaranteed wage. The income of the average moshav member (including veteran and new moshavim) amounted to about 70 percent of the salary of the average urban salaried worker (Schwartz, 1995).

Even that modest success was achieved at a cost. Out of its meager budgets, Israel pumped into its new settlements large sums of money (Schwartz and Gil'adi, 1993), larger than would later on be available to the typical Less Developed Country (henceforth LDC), where Israeli experts would operate.

Furthermore, prospects for the future of the new moshavim were not bright. Israel suffered from agricultural surpluses. Also, the supply of water and arable land was running out, while immigration, and thus local demand for food, had begun to stagnate and agricultural productivity had outpaced the demand for agricultural produce. As a matter of fact, some time later, when Moshe Dayan became Minister of Agriculture, he proposed disbanding some of the mountain moshavim established in the 1950s, and halving the numbers of households in the others, so as to ensure enough means of production to the remaining households (Schwartz, 1995). Dayan's proposal was rejected, however.

Nevertheless, looking back at the achievements of Israel's first decade, the officials of the Department and the representatives of the new moshavim were hopeful. They had achieved more than they had thought they would. The feeling of achievement was shared by American and international assistance organizations (such as the Ford Foundation and the FAO), which as early as the mid-1950s already considered Israel's new agricultural settlements as an outstanding success and Israel as a promising source of agricultural and settlement assistance to LDCs (FAO, 1956; United Nations, 1954; Schwartz and Gil'adi, 1993).

### **The Moshav in the Years 1958–1973**

Notwithstanding the modest successes and the doubtful prospects which marked the end of the first decade, the hopes of officials and politicians turned out to be justified. The next fifteen years (1958–1973) witnessed considerable improvement in farm incomes. While the average salary of urban workers was rising rapidly, farm incomes grew even faster, from 70 percent to more than 80 percent of that salary. Thus, Max Gluckman (1971), who supervised a score of dissertations about moshavim, thereby heading the most ambitious effort to study the Israeli moshav, could write as late as 1970 about "growing prosperity", stating that "the experiment had been strikingly successful" (Shokeid, 1971:xv). This section deals with this remarkable achievement.

Several factors contributed to the rise of moshav incomes. One was the injection of large amounts of subsidized capital into the development of new, capital-intensive branches (such as poultry, avocado, and turkey farming). Also, the farmers received extensive debt relief whenever their financial situation threatened their functioning. A third use of subsidized capital was developing farmer-owned agribusinesses, which



cheapened inputs or increased the value-added of agricultural produce, raising its market value as well as extending the marketing period, thus reducing dependency on market price fluctuations.

In the early 1960s, production quotas were introduced on a large scale. They limited the output of given products, thus preventing their price from falling “too low”. As the demand for food is inelastic, the moshavim enjoyed the monopolistic advantages which planning, even loosely enforced, contributes to the welfare of the farmers. Also, the moshavim kept the advantages which they had already enjoyed in the 1950s, such as the ban on the import of fresh produce and the subsidized prices at which land and water were provided (Lees, 1995).

The purchasing cooperatives played a central role in helping the moshav membership increase its income. They advanced money to develop the new branches, provided temporary debt relief, and developed agribusinesses. That role was based on the mutual guarantees system. In every moshav, all members were guarantors of the Association, which in turn guaranteed their debts: hence they also were guarantors of each other. Similarly, every purchasing cooperative guaranteed the debts of its member moshavim, which guaranteed the debts of the purchasing cooperative, thus also guaranteeing each other's debts.

An important element in the prosperity of the moshavim was their location in Israel, a small country whose growth rate was rapid until the early 1970s – 9.7 percent per annum between 1950–73, with an interruption caused by the 1966–68 slowdown, the *Mitun* (Plessner, 1994). The country's growth, boosted the demand for expensive produce such as meat, quality fruits, and vegetables, etc., while its small size, allowed moshav members to hold city jobs or engage in small businesses, thus complementing their farm income.

After the *Mitun*, prosperity returned, boosting the demand for high value-added food. Meanwhile, the Six Day War led to Israeli occupation in the Golan, Sinai, the Gaza strip, the Jordan Valley and the West Bank. In all of these, except for the arid and densely populated portions of the West Bank, Jewish agricultural settlements were set up, between 1968 and 1985, with the assistance of the World Zionist Organization. “According to prevalent security settlement conceptions, civilian settlement was vital to the maintenance of the State's hold on territories to which it wished to assert a permanent claim. Since settlement in these areas was in keeping with the Labor Alignment foreign and defense policy, they became desirable settlement objectives for movements associated with Labor as well as for religious or right wing movements, whose stand on territorial issues demanded the retention of all the territories taken in 1967” (Harris, 1980; Sherman and Schwartz, 1995).

Around 50 or so of the new settlements established in the Occupied Territories were moshavim (as against 20 kibbutzim), most of them associated with Labor, and some of them with religious or right wing affiliations. Thus the Moshav Movement,

to which most new moshavim “belonged”, felt that it had renewed its contribution to fulfilling the goals of the State of Israel, even though agriculture had lost its central place in the country’s economy.

The new post-1967 moshavim provided good standards of living to their membership. “They received the highest degree of protection against financial difficulties and possible bankruptcy . . .” as they were located in sensitive regions “from the point of view of defense considerations and government’s overall stance regarding the Arab-Israeli territorial conflict” (Sherman and Schwartz, 1995). Thus, even when their economic success was doubtful, their welfare was not seriously threatened.

Most of the other moshavim also fared quite well. In addition to the increased demand for high value added agricultural products, they also received cheap credit from the government which facilitated the establishment of capita-intensive branches such as greenhouses and turkey farming. Also in the early 1970s, Moshe Dayan, then Israel’s Minister of Defense, instituted an “open bridge policy” (the reference was to the bridges on the Jordan). As a result of this policy cheap labor provided by Arabs from the Occupied Territories became available, facilitating the expansion of branches such as greenhouse farming (vegetables and flowers for export), which was labor-intensive as well as capital-intensive.

Also, the early 1970s brought prosperity to farmers in the entire western world. Their rising expectations in countries as different as France and the United States, led to over-investment in productive and consumption goods, and Israel participated in the general trend.

The Israeli middle-class prospered too in the early 1970s, and its younger members hungered for green lawns, fruit trees, and one-story houses. Some of them purchased farms on moshavim located close to one of Israel’s three largest cities (Tel Aviv, Haifa or Jerusalem), with no intention to practice any farming. The injection of young upwardly mobile families into the moshavim awakened the ambitions of the original settler families and strengthened the demand for better municipal services (Appelbaum, 1986).

An important change in the early 1970s was an increase in the credit available to the moshavim (Kimche, 1990), and also to their regional agribusinesses (Schwartz *et al.*, 1987), beyond the growth of production (Zussman *et al.*, 1990). Living standards went up, especially through the construction of larger family buildings (Central Bureau of Statistics, 1989), while agricultural investments, also increased.

One source of the credit was the illegal manipulation of bank shares by Israel’s large banks. By keeping share prices at artificially high levels, the banks induced the public to buy large quantities of shares, thus boosting their cash flow and increasing their capital (Beisky, 1986).

The transformation of Israeli economy and society from the 1960s and 1970s

on, affected moshav society, weakening its social controls. Wider roads, increased car ownership, and the advent of television opened the moshav to the influence of outside society and culture. Hence, social interaction within the moshav became less intensive and the mutual dependence of its members decreased. Social controls weakened.

Generational change also reduced the ability of moshav communities to control their members. In the oldest veteran moshavim, the first sons acceded to farm management in the late 1940s. However, it is only in the late 1950s that they started running the moshav Associations. Unlike their parents, they had not chosen to live on a moshav but had been born on it. Their ideological commitment and willingness to accept the authority of the Association were less unconditional than those of their parents. After all, the parents had chosen to establish a moshav, or at least to join one, while the children had not. In the “new” moshavim, the sons started running the farms and the Associations in the 1960s and 1970s. Born in the country, they were often better farmers than their parents (Sadan and Weintraub, 1980). They also were better equipped to find off-farm jobs while Israel’s expanding economy was more capable of providing such jobs.

An additional process related to the improvement of agricultural technologies and to increasing competition was farm differentiation (Shoresh, 1988; Haruvy and Kislev, 1993). Some farmers grew big, while others remained small. Some relied on farming only, while others became part-time farmers, or even abandoned farming altogether, though they went on living on the moshav. Also, branch specialization occurred, causing farmers to differ in their investment and risk levels. Some farmers concentrated on dairy cows, a capital-intensive and stable branch, others on flower greenhouses, also a capital-intensive branch but a much riskier one, while another group specialized in fruit trees, a less capital-intensive branch but easier to combine with off-farm work (Shklanewitz, 1983), and still another group specialized in open field vegetables, a capital-extensive branch. Farm differentiation reduced the willingness of the moshav members to guarantee each other’s debts, weakening solidarity (Zussman, 1988).

The continuing success of Israeli smallholder agriculture during the fifteen years under review (1958–1973) was reflected in Israel’s agricultural assistance to LDCs. Israeli experts gained additional “recipes”, some of them technological, thanks to the improvement of Israeli agricultural research which had already occurred in the 1950s (Black, 1957). Those new recipes included improved vegetable and animal species, new pressure irrigation techniques (drip instead of sprinkler), as well as new types of buildings and equipment for animal husbandry. Still other recipes, such as cooperative processing plants, combined organizational and technological elements (Schwartz and Hare, 1997).

Even during those years of prosperity, not all moshavim prospered. In

many of the poorer moshavim, this was due to ineffective management and internecine fighting, which led the settlement institutions to refrain from investing too much, as they feared that the money would be wasted. Some of those badly managed moshavim experienced recurrent crises. Often they were unable to elect a Management Committee or were plagued by an ineffectual or dishonest one, practicing predatory control in favor of the ruling faction. In a few blatant cases, one or two members of the Association forcibly took over the land, water and production quotas of all other members. The establishment (*i.e.* the Settlement Department of the Jewish Agency, the Moshav Movement and the Registrar of Cooperatives) obstinately refused to dismantle Cooperative Association, which might have achieved social detente between warring groups while preventing some of the exploitation of weaker members. Instead the Establishment reacted to turmoil and predation through the practice of “appointed committees” whose number rose from 3 in 1968 to 61 in 1977. However, that medicine seldom ensured collective prosperity or even proper cooperative and municipal government for more than a year or two (Levi, 1989).

Some additional poor moshavim were located in the periphery of Israel, in regions such as the Galilee and the Western Negev, where agriculture provided limited opportunities. The government and the Jewish Agency tried to remedy those problems by establishing industrial plants in the moshavim, to provide jobs to the members and to their offspring. Unfortunately, the centralistic structure of the moshavim coupled with the political instability which plagued many of the poorer ones, prevented those industrial plants from being economically successful (Schwartz *et al.*, 1987). However, even in those poor moshavim there were external signs of prosperity, such as the big one-story houses and the new tractors and cars purchased thanks to the generous credit extended to the moshavim.

Another problem pertained to the municipal domain. The moshav Management Committee’s double function as manager of the Association and in charge of municipal council created an anomaly. Non-members moshav residents who could not vote for the committee of the Association were thus deprived of basic civil rights, even though they did pay taxes. At the beginning non-members were few. The view that any moshav resident had to be a member and any member had to reside permanently in the moshav was so deep rooted that the moshav bill advocated by the Moshav Movement in the early 1960s proposed to exclude non-member residents from the moshav. The bill, however, did not pass. Meanwhile the number of non-member residents of the moshav grew, as women and second generation youth were sometimes not accepted as members (Ottolenghi and Levi, 1990). In the early 1970s, according to an extensive survey a large proportion of moshav members were already in favor of a separation of the cooperative committee from the municipal body (Applebaum and Margulies, 1979).

## The Yom Kippur War and the Inflation Years

The Yom Kippur War and the oil crisis mark the beginnings of high inflation in Israel. Indeed, inflation grew from 20 percent in 1974 to 60 percent in 1978. During those years, loans were not indexed in Israel. At the same time, Israel's banks accumulated large amounts of credit and had to market it. Credit was easily obtainable and highly subsidized, because of inflationary debt erosion. Moshav members and organizations grew careless.

One of the sources of this credit may have been the oil crisis, which enriched the oil magnates overnight, as oil prices increased by a factor of four. As American and other banks received large deposits, they had to loan some of the money so as to be able to pay interest on those deposits. The Israeli banks were good creditors (enjoying the guarantees of their government which enjoyed the support of the United States). Another source of the credit may have been the intensification of bank share manipulations (see above).

Unproductive investments were often made because cheap funding was available. Furthermore, credit grew faster in real terms than the GNP (which hardly grew after the Yom Kippur War), and credit to moshavim grew faster than to other sectors. Attention turned away from the real economy, focusing on financial manipulations, aimed at obtaining inflationary capital gains or financial leverage. In 1978, the government and the Bank of Israel introduced loan indexation. Henceforth, inflation drove new debts up. As the agricultural settlement sector (moshavim as well as kibbutzim) often based its calculations on average interest rates (lumping together subsidized old debts and prohibitively priced new debts), it may have taken a long time to perceive the implications of debt indexation. Even afterwards, the agricultural sector may have remained unafraid because of its certainty that debts would be recycled. From now on, the debts of the moshav sector increased continuously with the assistance of the purchasing cooperatives.

In the early 1980s, inflation accelerated. In 1981 it was above 130 percent per annum. By June 1985, it almost reached 500 percent. Many businesses lost the ability of making informed calculations. This was the case of most moshavim, whose accounting systems were sometimes behind schedule by as much as 4–5 years.

However, it was still felt that the government provided *de facto* guarantees for the debts of the moshavim. When they encountered credit problems, they received government assistance (subsidized credit), while commercial banks provided the rest of the credit necessary to keep the moshav Associations afloat. This encouraged them to extend unnecessary credit to their members, avoiding the internal struggles which might have occurred had they refused to extend such credit. Members often received more credit than they would ever be able to repay. It is only in mid-1980s, as a result of stringent anti-inflationary measures, that a credit crunch was to change the situation fundamentally, eventually leading to an almost total transformation of

moshav organization and economy.

During the 1973–85 period the debate about voting rights to the Moshav Committee or municipal body increasingly took place in the courts (often Israel's Supreme Court) who were asked to render decisions about the relative merits of Ordinance 91(a) versus “the basic principle... that every resident is entitled to the privilege of electing and being elected to the institutions of local government...”. However, the judiciary, including the High Court judges were often in disagreement and no clear solution emerged as the Knesseth, Israel's legislative body enacted no new law to solve the problem (Ottolenghi and Levi, 1990).

### **Financial Crisis and the Flight from Mutual Guarantees**

In the summer of 1985, escalating inflation in Israel had reached a peak of 500 percent per annum, threatening to wreak irreversible damage on the economy. The new National Unity government saw curbing inflation as its foremost task, and, together with the Central Bank, took vigorous measures including a wage-and-price freeze, steep real interest rates, and drastic credit restrictions. In three months, inflation was down to 60 percent per annum. This remarkable success entailed heavy costs. Indebted businesses saw their debts soar while their functioning was curtailed. Not a few went under. Because the agricultural settlement sector, including moshavim and kibbutzim, was heavily in debt, the government's new policies could not but affect it strongly.

Much of the debt of the moshavim was to their regional purchasing cooperatives, most of which had expanded from providers of cheap agricultural inputs to powerful combinations of agribusiness concerns, political “machines”, and banking operations. Moshavim and purchasing cooperatives were connected to each other by unlimited financial guarantees. By 1985, the purchasing cooperatives were heavily indebted to the banks. However, they were not too worried about it. As mentioned, up to that time, whenever such debts had threatened the functioning of the purchasing cooperatives, they had been bailed out by the government and the Settlement Department of the Jewish Agency, a quasi-governmental agency, in charge since pre-State days of planning and establishing new rural settlements, endowing them with means of production, and assisting them until they became able to function independently (Schwartz, 1995).

In September 1985, one moshav purchasing cooperative, unable to honor its financial obligations, appealed, as usual, to the government for help. For the first time, the latter refused to provide direct assistance, and its indirect financial aid, squeezed out of paragovernmental organizations (Agrexco, the national agricultural export company, and the Flower Marketing Board) by Ministry of Agriculture officials (Government Comptroller, 1988), was too small to make a difference. The purchasing cooperative went into receivership.

Heavy debts, amounting to about 600 million dollars, were by that time burdening

the purchasing cooperatives. More than half of that sum was owed to Israel's two largest commercial banks, both of which had relied on the government to bail the purchasing cooperatives out. The government's refusal to do so caught the banks by surprise. From then on, they were to reject the requests of the purchasing cooperatives as well as those of their moshavim to recycle the loans.

As annual inflation was still above 50 percent, the Bank of Israel and the Treasury kept the credit market tight and real interest rates on new loan contracts – steep (40 percent to 60 percent on the average). The debts of the purchasing cooperatives swelled. The Finance Committee of Israel's Knesset (Parliament) voted to grant them \$150 million of emergency assistance, and the Jewish Agency handed them \$50 million, all to no avail (Schwartz, 1995).

Unlimited financial guarantees linked every purchasing cooperative to its member moshavim, as well as every moshav to its smallholders. Besides, the purchasing cooperatives had financial ties to one another and shared in large commercial operations (such as importing grain to manufacture animal feed). Most purchasing cooperatives had also ties of mutual guarantees with the economic organizations of the Moshav Movement (such as its insurance company, which had succumbed in 1985 to its debts).

When a purchasing cooperative wanted a bank loan, often for redistribution among its moshavim, it would provide as collateral a sheet of paper (labeled “bed sheet”, because of its length), bearing the signatures of its member moshavim, as guarantors. These signatures operated as mutual guarantees between moshavim. If one moshav defaulted on its debt to the purchasing cooperative, the others had to pay it. The same system worked at the level of the individual moshav. Hence the Association's guarantees to its individual members operated as mutual guarantees between farmers.

The mutual guarantees system allowed extensive borrowing and lending by moshav members, moshavim, and purchasing cooperatives. Especially since the banks “knew that if the purchasing cooperative defaulted, the State would pay”. It follows that, unlimited, if unwritten, State guarantees stood behind the willingness of the banks to accept mutual guarantees as collateral.

The behavior of the moshavim and of their purchasing cooperatives has been explained (Schwartz, 1995) in terms of the *soft budget constraints* syndrome, first described by Kornai, a Hungarian economist. Fundamentally, it characterized a firm which is not at risk of bankruptcy even if the costs of its purchases exceed those of its sales (as it oversteps its *budget line*). More precisely, the softening of the budget constraint refers to the weakening of the relationship between income and expenses, when it is expected that the extra expenses will be covered not by the firm (but usually by the state). The stronger the subjective expectation that this will be the case, the *softer* the *budget constraint*.

Soft budget constraints destroy the drive to efficiency and detract the attention of the firm's manager from the plant and the market, focusing it on the government offices from which it expects salvation. A third effect is lack of restraint in the growth aspirations of the firm. Thus no limit need be set on the demand for inputs and especially investments.

Such rules of the game, typical of the economies of the Soviet block, were also found (albeit to a lesser extent) in Western countries, with respect to sectors enjoying preferential status, *i.e.* whose eventual bankruptcy is perceived as intolerable (such as banks, municipal and government bodies, and hospitals). Soft constraints were conspicuous in the economy of Israel, especially with regard to sectors of national importance (agriculture, development regions), systemic importance (the large banks), security importance (the military and aerospace industries) or which had a large weight in the country's economy (such as the Histadrut enterprises until 1985).

In the case of the moshavim, the establishment was afraid that the downfall of their purchasing cooperatives might bring down a sector of national economic and symbolic significance (Zusman *et al.*, 1990). The commercial banks, aware of the establishment's attitude, provided the purchasing cooperatives of the moshavim with abundant credit, even in the absence of solid guarantees and even when agricultural production did not justify such credit. The banks counted on the State and the Jewish Agency to pay the debts of the purchasing cooperatives. However, the extent of the debts of the moshavim, and the circumstances in 1985–86 made it harder for the government to continue this policy, and caused it to harden the constraints of the moshavim and their regional organizations.

Indeed, by September 1986, ten out of twelve regional purchasing cooperatives had become insolvent and their aggregate debt (including that of member moshavim) had risen to a billion and a half dollars. Many moshavim were unable to meet interest payments, let alone repay the principal. Others worried about their indirect debt, incurred through guarantees to defaulters. Given the mutual guarantees system, the debt threatened to bury the entire moshav sector (Schwartz, 1995).

The Israeli government had to show concern for the beleaguered moshavim. They retained, after all, some remnants of pioneer prestige, and their organizations still wielded some power. Also, they continued to produce one billion dollars worth of agricultural goods annually, and the government, now owner of the banks, was worried about their financial standing.

Several commissions were appointed by the government to find out how the moshav purchasing cooperatives had become insolvent, to rescue the "family farm sector", and to devise safeguards against breakdown recurrence, *i.e.* to avoid too much softening of their budget constraints (Gibton, 1986; Ravid, 1986). In 1987 the government, the Jewish Agency and the banks drafted an agreement designed to



enable the moshavim to pay their debts while remaining economically viable. Debt payments were to be rescheduled, to avoid exceeding the payment capacity of every moshav and moshav member. It was also agreed that those unable to pay would receive a partial moratorium, provided that they give up their small holdings and production quotas. However, few moshavim signed the agreements and the debts of the rest mounted (Schwartz, 1995).

Other major debtors of the country's two largest banks were the kibbutzim, including most kibbutz purchasing cooperatives, and other enterprises affiliated with the Histadrut, Israel's then powerful labor union organization. Most of these debtors were on the brink of bankruptcy. Furthermore, the banks were heavily in debt because of a severe crisis in October 1983, after which the government had bought 75 percent of their shares to prevent their bankruptcy. Actually, preventing moshavim, kibbutzim, and Histadrut enterprises from going under was one of the motives of Labor in joining a Likud-headed government in the late 1980s so that the then party leader, Shimon Peres, might head the Treasury, helping Labor-affiliated institutions (moshavim, kibbutzim, and Histadrut enterprises) out of trouble (Schwartz, 1995).

None of that assistance, however, could breathe new life into the collapsed purchasing cooperatives of the moshavim. Indeed, had Labor tried to revive them, even with a revised system of carefully restricted mutual guarantees, the moshav membership would have rejected the attempt. So profound was the trauma, that they refused providing their fellows with financial guarantees, even though some banks offered much cheaper credit to moshavim willing to maintain such guarantees.

## **Changes in the Moshav Organizational Environments**

### *Decline of Other Support Organizations*

In 1987, the purchasing cooperatives were not the only moshav organizations whose existence was, for all practical purposes, terminated by the crisis. Another endangered organization was the Moshav Movement, Israel's largest moshav federation and lobby. The insolvency of the purchasing cooperatives had deprived it of an essential source of operating funds; and since the Movement's own economic organizations had gone under before the purchasing cooperatives, it had to reduce its manpower by more than 90 percent, relying for funds on the Histadrut-linked Agricultural Center, now also in dire straits. Besides, the Movement had lost much of its legitimacy (Sherman and Banin, 1992), and most moshavim would not even consider paying their membership dues to it. Later on, in the 1990s, the Moshav Movement came to rely for its survival on the importation of foreign laborers from Thailand to work in the moshavim, a curious occupation for a movement which used to have socialist leanings.

The Settlement Department of the Jewish Agency no longer existed as an independent body. What was left of its manpower and budget had been consolidated

with the remnants of the Renewal Department of the Jewish Agency to form the new Department of Development and Settlement. The new department had no financial commitment to the individual or collective survival of any individual settlement, and concentrated its efforts on promoting regional development in peripheral rural areas, within the Green Line (Israel's pre-1967 borders).

The Ministry of Agriculture had taken over some functions of the Settlement Department, renaming itself the Ministry of Agriculture and Village Development. However, its capacity was limited as its budgets and personnel had shrunk more during the high inflation years, between 1978 and 1984, than those of any other government ministry (Sharkansky, 1988). In the late 1980s and in the 1990s, the budget of the Ministry of Agriculture went on shrinking, even faster than the share of agriculture in the national income.

### ***Decline in State Support for Agriculture***

As noted above, the moshavim (as well as the kibbutzim) were set up using national capital and received assistance during their first years. Even later on, whenever their existence was threatened, the State and the Jewish Agency stepped in, offering additional assistance. Ongoing aid and recurrent emergency assistance convinced credit providers (banks, input sellers and money lenders) that the settlements enjoyed State insurance against bankruptcy, and that one should not worry about their debt repayment ability.

Nevertheless, in the 1950s and early 1960s credit was rationed, which limited the amount of debts that a settlement could incur. Hence, State guarantees only caused limited damage. For example, the kibbutzim were bailed out of trouble in the early 1960s for about 30 million dollars (even taking into account dollar depreciation, this was far less than the three billion which they were to owe thirty years later).

After the Six Day War in 1967, and in the 1970s, credit became looser as Israel's commercial banks started looking for customers. The unwritten promise that the rural sector would not be let down came in handy. The commercial banks provided it with increasing amounts of credit. Debts piled up. The ratio between debt and productive assets grew by a factor of 4.2 between 1969 and 1986 as compared to a factor of 1.22 for industry (Zusman *et al.*, 1990). The process culminated in the financial crisis of 1985–86, with the subsequent loss of the settlement sector's standing in financial markets.

Credit to the agricultural sector was declining. For example, in 1993 it grew only by 14 percent in nominal terms, while inflation was higher than 15 percent. Furthermore, the decline of agriculture's share in the credit received by the public was a long term trend: in 1988 agriculture received close to 15 percent of the credit extended to the public, whereas in 1994 the share was down to less than 8 percent (Ministry of Agriculture, 1994). Besides, in 1988 already much of the credit to agriculture was involuntary, *i.e.* "extended" because organizations and

settlements failed to repay their debts while the bank had not yet written them off. Moshav members were now treated with suspicion when asking for loans and in a reversal of the pre-crisis situation, they now were required to provide the banks with more securities than other borrowers (interview with a higher official of an Israeli commercial bank, 1994).

### ***Decline of the Settlements in the Public Opinion of the Country***

The agricultural settler, kibbutz or moshav member, was the “culture hero” of the Yishuv (Jewish pre-State society in Palestine), and played an essential role in the establishment of Israel. Settlements defined the borders of the new State and their members were the backbone of its military. In the late 1940s and early 1950s, they had set an impressive record of immigrant absorption. By 1958 they had brought the country from the food scarcity of its beginnings to agricultural surpluses, while the population had tripled (Schwartz and Gil’adi, 1993). Continuing high productivity levels and technological advances strengthened the positive image of Israeli agricultural settlements.

Even later on, into the 1980s, people looked up to agricultural settlements as contributing disproportionately to the country’s security as well as to its economy, whether through industrial achievements, for which the kibbutz was famous, through agricultural exports, in which the moshav role was eminent, or, through the high proportion of their youth among the soldiers of elite units and the young officers of the army. However, once financial crisis hit the settlement sector, the settlers were labeled as living off taxpayers’ money. The assistance that Labor helped provide to the sector turned it into a political liability.

### ***Decline of Agriculture***

The share of agriculture in the economy and the employment of its labor force declined slowly before 1986 and faster thereafter (see Tables 1 and 2). The share of agriculture in the country’s net domestic product (at factor prices) dropped from 12.0 percent in 1952 to 2.3 percent in 1995. Between 1987 and 1995 the share of agriculture in the country’s net domestic product declined by more than 80 percent, *i.e.*, not unlike the 90 percent of the previous 20 years.

Employment in agriculture decreased from 17.6 percent of the labor force in 1955 to 2.9 percent in 1995. In the eight years between 1987 and 1995 the share of agriculture in the labor force declined by almost 60 percent, while in the previous 18 years, 1970–87 it had only declined by 90 percent (Table 2).

The number of those engaged to a significant extent in agriculture fell from 121,100 in 1959–60 to 72,000 in 1985. After the onset of the 1986–87 crisis in cooperative organizations and settlements, the number dropped to 67,600 in 1989 and 57,200 by 1995. Thus, in the eight years between 1987 to 1995 the absolute number of agriculturalists decreased by 26 percent, almost as much as in the previous 25 years (Table 3).

**Table 1.** The Share of Agriculture in the net domestic product

Year	Share in NDP as %
1952	12.0
1966	8.0
1987	4.2
<b>Crisis</b>	
1989	3.4
1991	3.0
1993	2.4
1995	2.3

Source: Central Bureau of Statistics, Statistical Annuals 1988-1996.

**Table 2.** Share of Agriculture in the Labor Force

Year	Share as %
1955	17.6
1966	12.0
1970	8.8
1975-80	6.4
1987	4.6
<b>Crisis</b>	
1989	4.3
1991	3.5
1993	3.7
1995	2.9

Source: Central Bureau of Statistics, Statistical Annuals 1988-1996.

**Table 3.** Individuals engaged in agriculture

Year	No. engaged in agriculture
1959-60	121,100
1960-71	89,000
1979-80	87,700
1985	72,000
1987	72,000
<b>Crisis</b>	
1989	67,600
1991	64,300
1993	62,000
1995	57,200

Source: Central Bureau of Statistics, Statistical Annuals 1988-1996.

In Israel, like in most western countries, it was not agricultural produce quantities that decreased, but rather price per unit of produce (dozen of eggs, kilo of tomatoes, liter of milk, etc.). Actually, a shrinking farmer population produced more, selling it

for less. Hence, agricultural production rose by about 6 percent between 1992 and 1993 but fetched 4 percent less in real terms.

### ***Growth of the Rural Population***

The decline of the share of agriculture in Israel's national economy was not accompanied by rural depopulation. Even in the 1960s, when the share of the countryside in the country's population dropped from 13 percent in 1961 to 9.8 percent in 1972, the rural population grew in absolute numbers from 251,800 in 1961 to 263,800 in 1972. Thereafter the share of the rural population remained stable, while Israel's population was growing. It was only because of the urban character of the Soviet Jewish immigration that the rural population dropped to 9.7 percent in 1991 and 9 percent in 1995.

The steady growth of the rural population, manifested in the stability of its share in the total population, was made possible by the continuous expansion of the non-farm population, in moshavim as well as in kibbutzim, and more broadly by the processes of urbanization and suburbanization dealt with in the next section.

## **The Transformation of the Moshavim**

### ***Decooperativization***

In the moshav, decooperativization was expressed in the flight of members from common marketing and from exclusive dependence on the Moshav Association for credit purposes. The process was speeded up by a chain reaction following the harsh anti-inflationary policies adopted by the Bank of Israel and the Treasury in the summer of 1985. Then the first purchasing cooperative of moshavim fell, dramatizing the abolition of the unlimited state backing to the settlement sector. Now, there was a danger that as a moshav member you may actually have to pay the debts of other members. Under the new circumstances, moshav members became unwilling to guarantee each other's debts.

Indeed, by 1995, few moshavim still maintained mutual guarantees and common marketing. In all the rest, even in veteran moshavim, once characterized by high levels of mutual trust, mutual guarantees had been abolished (Schwartz *et al.*, 1995). In many moshavim, all cooperation between members had ceased and they were functioning as ordinary villages. Most had even lost the ability to deliver municipal services to members, a task increasingly taken over by the regional councils. Their standing as statutory bodies empowered them to levy taxes, and their access to government funds to finance part of their municipal functions conferred on them increasing prominence within the rural sector, given the decline of almost all other support organizations of the rural sector, a decline which we have already described.

Electoral law was changed: regional council chairmen, previously elected by representatives of their member settlements were from now on to be elected directly by the voters. This change, and the atrophy of the capacity of the moshavim to

provide municipal services, somewhat reduced the discriminatory effect of the dual role of the cooperative Management Committees of the moshavim.

### ***Changing Income and Occupational Structure***

The moshavim were affected by the decline of agriculture. Alternative sources of income arose (such as rural tourism and other small business operations), and there was an increase of the proportion of members working outside the moshav, with no income from agriculture.

As early as the 1950s, when agricultural employment was at its peak in Israel, there were moshav members, for whom agriculture was not the only source of income. This even happened in veteran moshavim, those set up before the establishment of the State, where commitment to agriculture was strong while the size and capital intensiveness of the farm were much higher than in moshavim established later on.

In the 1960s, the rate of outside workers among moshav members increased. The rate of moshav members employed exclusively in agriculture dropped from 75 percent in 1962 to less than 60 percent in 1972, and until 1980 it further declined to 52 percent. The fruit tree branch, especially appropriate for part-time farmers, became the largest in the moshav economy, and between 1971 and 1981 the numbers of fruit growers doubled (Shklanewicz, 1983).

After the mid-1980s, and especially after 1987, the proportion of moshav members employed in agriculture declined rapidly. In 1987, 29 percent of the employed persons living in the moshav were farmers; in 1993, 23 percent; and in 1995 only 20 percent. This decline by 42 percent of the proportion of farmers among moshav dwellers was probably an understatement as it failed to take into account the increase in the proportion of part-time farmers among the moshav labor force, an issue on which no reliable data were available.

During that same period, the number of small businesses (including industries) in moshavim increased, especially in the center of the country. Official estimates (of the Ministry of Agriculture) counted 2,000 non-agricultural businesses, most of them new. Apparently, with the decline of agriculture, local moshav elites had lost the desire as well as the ability to prevent the rise and development of such businesses, as they had done before (Schwartz *et al.*, 1987). Research on the diffusion of these small businesses as well as on some of its consequences (Sherman *et al.*, 1993; 1994) came to the attention of the Government Comptroller, who issued in her 1994 Annual Report a severe warning against the unchecked growth of moshav industry, and the negative effects that it could have on the quality of life of moshav residents as well as on the state of the environment.

## **Urbanization**

The growth of the population of the countryside and the maintenance of its share in the total population were made possible by the suburbanization of the moshavim located close to the country's large cities. In the 1970s, they became functional equivalents of suburbia with something extra. On the one hand, they were increasingly attractive to young city dwellers seeking to improve their "quality of life" (Appelbaum, 1986), but unable to afford one-story houses in the new middle-class satellite cities around Tel Aviv, Haifa, or Jerusalem. On the other hand, the moshavim offered life in much smaller communities than satellite cities or suburbs, allowing the dweller to have more influence over his environment, and also some opportunity for part-time farming. The population of the moshavim grew from 125,000 in 1972 to 143,000 in 1980, 152,000 in 1991 and 162,000 in 1995. This growth was not due to an increase in the number of households (a new family could only enter the moshav by purchasing an existing farm, whose previous owners would have to leave). However, the new families were often young, and the women of child-bearing age. In those years, the proportion of part-time farmers and non farmers grew (Shklanewicz, 1983). It appears that in the 1980s, rapid inflation and later on the financial crisis of the agricultural settlement sector further increased the proportion of part-time farmers and non-farmers among the moshav population.

A further change in the offing was a moshav expansion program, decided upon in 1990 by Israel's planning institutions and the Authority of the Lands (Resolution 737), with an eye to assisting the embattled moshav membership, increasing the population of the countryside, and coping with the severe housing shortage caused by mass immigration from Ethiopia and the Soviet Union.

Prior to the decision on the moshav expansion program, only the moshav member and the designated heir of the small holding (continuing son/daughter in the official terminology) could build a house on the member's plot and be entitled to reside in the moshav. The new plan partly lifted this restriction and an additional "non-continuing" sibling could now build a house, thus allowing for a doubling of the population of every moshav whose members embraced the plan, and permitting each family to help another of their children. Some expansion houses can be purchased by outsiders. The new plan further diluted the agricultural population of the moshav. It also allowed more Israelis to realize the national middle-class dream of "quality of life" (a one-story house with lawn and a garden).

Additional consequences which moshav expansion was expected to have were the rejuvenation of the moshav population, as well as the acceleration of its gentrification. The new policy also promised economies of scale in the delivery of municipal services. By August 1991, more than half of the 400 or so moshavim in the country had decided to embark on the expansion process and more than 20 percent had submitted their plans to the local or district commissions, but only a few reached

the implementation stage (Applebaum and Kedar, 1992). One year later, 60 percent had applied to join the process, and 40 percent had submitted plans, most of them in the coastal zone or in the center of the country (Applebaum and Kedar, 1993). In 1995, two-thirds of the moshavim had received initial approval for their expansion programs, but new houses had been built in only a handful. In fact the idea of moshav expansion looked so successful that by the end of 1996, kibbutzim had applied to join the expansion program as well. The process went on in the years 1994–99.

The expansion program heightened the role of the regional councils, some of whom actively participated in its technical organization for their member moshavim. Furthermore, as the expansion was expected to double the proportion of moshav residents who were not moshav members, new regulations made it clear that the dual function of the cooperative management committee would soon be a thing of the past. Thus, in 1990, new regulations were enacted [articles 91 (a) and (b)], according to which a collective settlement which is not a kibbutz can choose one of three alternatives:

- To entrust the cooperative committee with the municipal function (a solution obviously inadequate for an expanded moshav);
- To elect an ordinary municipal council (an option which requires 20 percent of the moshav dwellers, members or not, to sign a petition to the Minister of the Interior);
- To establish a mixed committee including the cooperative management committee and representatives of the non-member population of the moshav in proportion to the number of voters included in it (Applebaum, 1995).

In little more than one decade Israel's moshavim had undergone major transformations: they had lost most of their cooperative features, and agriculture had shrunk in terms of its contribution to farmer income, though it had grown in terms of physical quantities of the crops produced. Small private businesses and industries had grown, urbanization was advancing, much of the countryside was undergoing gentrification and the municipal functions of the moshav were about to fade out.

An interesting question is why changes in the moshav (as in the kibbutz) which had crept along slowly more than 25 years, underwent such acceleration after 1986–87. A related question concerns change slowdown after 1991. One explanation is that barriers separating the settlement sector from its environment have been lowered in the wake of the crisis, weakening the historical linkage between village, agriculture and collective-cooperative arrangements, and between place of residence and place of work. This process increased the similarities of the rules of the game in the settlement sector with those of the rest of the Israeli society.



## **Institutional Barriers Between the Settlement Sector and its Environment**

In the first statehood decades, cooperative and collective agriculture were partly insulated from the rest of Israel's economy and society by mechanisms such as laws and organizational systems. Some results of this insulation, such as the lack of relationship between the social and economic situation of a village and that of the nearby town, have been documented (Vilkansky, 1980).

There were, on the one hand, flourishing villages (kibbutzim and moshavim) near development towns which failed to develop, such as Kiryat Malakhi, Kiryat Shmona and Beit Shean, and, on the other hand, weak villages near well-developed towns, such as Netanya and Kfar Sava. The insulation mechanisms led to a sharp differentiation between town and country, despite the small size of Israel. They also served as shock absorbers against the rapid changes of Israel's economy and society, protecting the settlements from the need to adapt to their changing environment. In sum, insulation mechanisms helped preserve the organization of the kibbutz and the moshav, or at least slowed their transformation. The economic separation between the settlement sector and the rest of the country can be viewed in terms of the four markets of classical economics: commodities, capital, labor and land.

### ***The Separation in the Commodities Markets***

In the commodities markets there were two domains of separation, one pertaining to the settlements as sellers and the other one – as buyers. Kibbutzim and moshavim sold their produce via bodies they owned, such as Tnuva (a national cooperative marketing much of the country's agricultural produce, including most of the milk produce) and the regional plants processing agricultural produce. Also, kibbutzim and moshavim purchased agricultural inputs through other organizations they owned, such as the regional purchasing cooperatives. The economic separation in the commodities markets was never complete. Kibbutzim and moshavim also purchased commodities on the private market when they stood to gain by doing so. They also sold commodities, especially vegetables and fruit, through private merchants when the latter offered higher prices or better payment conditions than Tnuva. The access of the settlement sector to sale and purchasing organizations of its own could provide it with economies of scale, but also caused it to bear the functioning costs and eventually the deficits of those organizations. Under the conditions that emerged after the financial crisis, the settlements and subsectors within the settlement sector lost much of their desire and ability to cooperate and share costs with each other. Hence, they were less willing and less able to maintain commercial organizations of their own, regional or national. Some sectoral organizations still operating in the mid-1980s went under or were taken over by private capitalists.

### ***The Separation in the Capital Market***

In the capital market, the separation between sectors was the historical result of the fact that collective and cooperative settlements were set up and generously assisted by national capital. This lasted until the financial crisis of 1985–86, whereby the settlement sector lost its standing in the financial markets. Later on, from 1987 onwards, there also was a marked reduction in government support of agriculture, direct and indirect (Schwartz, 1995). Furthermore, the units in the commercial banks providing credit to agriculture and to rural settlements considerably shrunk in terms of personnel and turnover, while the practically bankrupt Agricultural Bank only survived because money was owed to it.

### ***The Separation in the Labor Market***

In the labor market, an essential factor in the separation of the settlement sector from the rest of the country was the requirement of the settlement institutions that the kibbutzim and the moshavim live off the means of production allocated to them by those institutions. Moreover, kibbutzim and moshav members were required to operate these means of production by their own labor, avoiding the employment of salaried workers. In the kibbutzim, the norm was that the members work in the kibbutz. The moshavim (especially the veteran ones) demanded that members derive their livelihood exclusively from agriculture and from their own and families work, or at least make efforts in that direction, though the requirement was never enforced. In general, the principle of not employing hired labor was not practiced in the moshavim, and even in the kibbutzim it was often honored in the breach.

The result of the separation between the sectors in the labor market was twofold. On the one hand, settlement members were assured of an advantage on the internal labor market; they enjoyed preferential status in the settlements and the regional plants, like members of the owner's family in family enterprises, in matters such as being hired, advancement, and immunity from firing. On the other hand, settlement members were denied access to the regional labor exchanges of the Ministry of Labor and Welfare, according to an agreement entered by the settlement movements and the Ministry in the early days of statehood (Schwartz *et al.*, 1987).

The separation of the settlement sector from the rest of the country with regard to the labor market could not remain effective. Full employment, which is one of the characteristics of the Israeli labor market, allowed almost anyone to get a job without the help of labor exchanges, and indeed the rate of outside labor among moshav members increased over the years as well as the rate of hired labor in the moshavim. Factors contributing to this new situation were the availability of cheap labor from the territories occupied in the Six Day War and the related expansion of labor-intensive branches such as viticulture and greenhouse farming of vegetables and flowers.

In the early 1980s, while Aaron Uzan, a moshav member, was Minister of Labor, he decreed that the moshav members be allowed free access to the labor exchanges.

However, the decision's implications were mainly symbolic. The offspring of veteran well-to-do moshavim, or moshavim located in the center of the country did not look for jobs through the labor exchanges.

The labor exchanges were mainly relevant for the poor moshavim located in the periphery (in regions such as the Galilee and the Negev) where unemployment was rampant. However, a number of factors hindered the integration of moshav in the general labor market of Israel. These factors included the expectations held by many that the State and the Jewish Agency would go on providing them with a living, their insufficient professional training, and their viewing of themselves as small independent businessmen rather than as salaried workers. Besides, moshav members had free access to the credit extended to their settlement by the regional purchasing cooperative, and passed on to them, so that they could buy on credit not only agricultural inputs but also consumption goods at the local village store. This probably removed some of the incentive for seeking outside jobs.

However, while the collapse of the purchasing cooperatives stopped free access to credit, moshav members did not hurry to the labor exchanges to look for jobs (Schwartz, 1986). Some may have made a living without entering the official labor market; while others lived off their meager capital.

By 1999, the settlement sector still constituted a semi-separate labor market, but a shrinking one. Almost 80 percent of kibbutz members still worked in their respective kibbutzim and almost half of the moshav membership still did some farming. However, outside work was on the increase in both kibbutzim and moshavim, though its growth had been slowed by the stagnation which affected Israel's economy in the years 1997–99. Furthermore, kibbutz and moshav members had lost some of the preferential treatment they used to enjoy in their internal markets. In some kibbutzim, branch coordinators or plant manager could fire members and sometimes displayed openly their preference for salaried workers, as the latter are easier to handle. It also happened that a kibbutz preferred to appoint a non-member to a managerial position, so as to get the best man for the job, while also preventing special consideration towards fellow kibbutz members. Moshav members also constituted a declining proportion of the employees of moshav industries.

Also, from 1989 the prohibition against salaried labor completely ceased to exist, and after the rebellion in the occupied territories (the Intifada) Arab laborers living in the Occupied Territories were increasingly replaced by workers from the Far East, especially Thailand.

### ***The Separation in the Land Market***

The separation in the land market has showed greater stability than the other separations between the settlement and the urban sectors. It was perpetuated by the legal distinction between agricultural and other land, and by written contracts for land leases and sales. The separation was also rooted in the ownership structure of the

land market. For all practical purposes, more than 90 percent of the land in Israel was controlled by the State (one sixth being owned by the Jewish National Fund, a 90-year old organization formerly in charge of purchasing land for the Zionist movement).

The legal features of the separation in the land market were planned to protect agricultural villages, maintaining Jewish control on the national land. However, the protection of agricultural land weakened. This was expressed in the authorization to build expansions in the moshavim, and in the declining power of the Commission for the Preservation of Agricultural Land, which lost much of its earlier ability to veto decisions made by the statutory “planning and building commissions”.

In 1992 the Authority of the Lands of Israel adopted Resolution 533 (replaced by Resolution 611 in 1993) to facilitate the “unfreezing” agricultural land to allow people to build dwellings or industrial buildings on it. The government was responding to the considerable demand for land (for dwellings, industry, and infrastructure) caused by the 10 percent addition to the population of the country as a result of large-scale immigration in the late 1980s, and by the expectation that the population would continue keep increasing at a similar rate. As mentioned, Resolution 737, the basis of the moshav expansion program, was also part of the attempts to respond to the increased demand for land.

An additional factor weakening the separation between sectors in the land market was the transfer of the Authority of the Lands of Israel from the Ministry of Agriculture to the Ministry of Construction (and in 1997 to the Ministry of Infrastructures). The Authority tended to give priority to commercial considerations, so as to maximize its contribution to the public purse (as opposed to earlier policies, which gave priority to settlement and agricultural considerations). Another stated goal of the Authority was lowering the price of housing, which had become increasingly expensive in Israel’s center and in some of its periphery; so much so that Israel was one of the most expensive countries in the world as far as housing prices were concerned (Ronen *et al.*, 1997).

The weakening of the separation between sectors in the land market has facilitated setting up dwellings, industries, and tourism-related installations on land which used to be reserved for agriculture. This made it easier for settlements and settlement members to make the most of their major source of wealth, namely, most of the land reserves of Israel, especially in the central and coastal zone, where land was the most expensive.

In sum, the transition from slow decline, until 1986, in the size of agriculture and the employment it provided, to rapid decline in 1987–96, may indicate that partial barriers that separated the settlement sector from the rest of the country mitigated the influence of the general market until 1986, and then were lowered, especially in the capital and land markets. The slower change in 1992 and 1993 indicates that a new equilibrium may have been reached, at that time.

## Looking to the Future

The decooperativization of the moshav seemed to have spent itself by 1997 simply because not much that was cooperative was left in it. Some of the kibbutzim were also undergoing far-reaching changes in the same direction, such as financially rewarding members in positions of responsibility.

It was not clear whether the quality of the physical environment in the rural sector would be controllable in the future, the more so because in the past the sector, whose development was planned by the Settlement Department of the Jewish Agency, did not develop planning tools of its own, and because after the decooperativization and the decollectivization that have already occurred, such tools would be harder to forge.

Furthermore, Resolution 533 and Resolution 611 which replaced it (see above) were but a beginning. A government commission (the Fogel Commission), headed by the Director General of the Treasury and in which the ministers of Agriculture and Construction participated, came up with new proposals. As a result, Resolution 666 was adopted by the Authority of the Lands of Israel. From then on, decisions about land development were to remain the prerogative of the Authority. Later on, Resolution 727 further limited the privileges of the settlement sector.

However, if land was taken for building purposes from the kibbutzim and the moshavim they were to receive substantial compensation, to the tune of 26–29 percent of the new land value in the center of the country and about 30 percent in the periphery. The latter sums of money would be quite small, but in the center of the country and in the coastal zone this could amount to many million dollars, even after tax. The way was now open for massive housing construction in the coastal zone and in the center of the country on land formerly defined as agricultural.

Some moshavim and kibbutzim, especially around Jerusalem and Tel Aviv had indeed managed to make capital gains of several million dollars by allowing part of their agricultural land to be used for construction for dwelling purposes (especially by entering partnerships with private developers), creating an uproar in the country's public opinion (after all, they do not own the land), and damaging the fragile remnants of public sympathy for the rural settlement sector. Officials of the Treasury, which had opposed handing out too large a gift to the settlement sector were active in attempts to change the situation.

In 1997, the Ministry of Infrastructures appointed the Ronen Commission (headed by a university professor). Its report proposed to reduce compensation to kibbutzim and moshavim in the center of the country (where land was the most expensive) to 20 percent of the new value of the "unfrozen land", as well as to abolish the preferential standing enjoyed by these settlements in the matter of developing "their own land". The Ronen Commission also proposed to abolish Resolution 737 (regarding the moshav and kibbutz expansion programs) in any but the "national priority" regions, *i.e.* peripheral regions (Ronen *et al.*, 1997).

The proposals of the Ronen commission met with opposition both within the Authority of the Lands of Israel and in the settlement sector, which saw the land as a last opportunity to improve its economic standing. Difficult negotiations were carried out between the Ministry and the representatives of the sector and it was difficult to know on what compromises they might eventually agree. As of the end of 1997, land development was almost stopped by the economic crisis affecting Israel that year, and even more so by the uncertainty generated among would-be land developers by the Commission's proposals. Two years later, at the end of 1999, the situation had not changed dramatically. The economic crisis was still going on, and the policy of the Authority of the Lands of Israel still fostered insecurity amongst would-be land developers.

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