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Dependence on the State and the Crisis of the Kibbutz: The System of Concentrated Credit in the 1960s and 1970s

by

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Abstract

A historical analysis of the financial assistance given by the State of Israel to the kibbutzim during the 1960s and 1970s exposes an intriguing contrast, between the capacity of this assistance to help the kibbutzim endure economic difficulties on the one hand, and the deep dependence which it created, on the other. Based on historical-archival sources, the analysis of Concentrated Credit System suggests a re-evaluation of the historical roots of the current crisis besetting the kibbutz economy. Exemplifying an “artificial respiration” to a cooperative system which was traditionally endowed with a high national-political preference, this form of financial support demonstrates the complex dependence relationship between the State and the cooperative organization.

Introduction

During the past decade the kibbutz movement has experienced an enduring economic and social crisis. The latter's financial aspect was exemplified in the introduction, since the 1980s, of a financial arrangement with the Kibbutz Movement entailing a significant liquidation of a large part of debts by the State of Israel and the banks involved, and the re-deployment of the rest. The downturn and the arrangement raised some thorny questions regarding the structural problems of the kibbutz economy and the historical processes which brought it to the brink of crisis (Ben-Rafael and Avrahami, 1994:30-33). The ensuing debate, which took place both within the kibbutz movement and among scholars, focused on two main issues. The first concerned the economic and organizational structure of the kibbutzim, while the second related to the nature of the historical relations between the kibbutzim and the kibbutz movement on the one hand, and State institutions on the other.

A historical perspective of these problems, specifically relating them to earlier crisis situations can be enlightening. Salient among these prior situations was the Concentrated Credit System (hereafter CCS) which operated during the 1960s and 1970s. The system was a sort of a model of financial arrangement for the kibbutzim, and as it will be argued it reflected an earlier form of wrestling by the kibbutzim

and State institutions with the two problems mentioned above (Sussman, Kislev and Lerman, 1989). While we are aware that as in any historical analysis also in this case the specific context limits a simple deduction to other cases which evolved in different contexts, we found that the description and analysis of its evolution can illuminate a significant historical continuity. The case was already well described in the literature (Plessner and Efrat, 1971; Sussman *et al.*, 1990; Rosolio, 1997); however the present analysis attempts to reexamine it in order to learn more on the efficiency of similar financial arrangements. In contrast to earlier descriptions of the case our focus is on the mutual dependence between the State and the individual kibbutz, and on the viability of this dependence system as means of financial assistance.

The following discussion presents an economic, political-ideological, and social perspective of the structuring of the system, its mode of operation and path of development. It aims to show that as a model of financial support, the system harbored an attempt to bring about a structural change in the kibbutzim economic behavior, and evidently showed symptoms of success in the earlier phases of its operation. In practice, however, the system continued preceding forms of assistance, and perpetuated the dependence relations between the kibbutzim and the State. Though these relations enabled the establishment of the kibbutz settlements and their development, they also significantly degenerated the economic capacity of some kibbutzim to independently wrestle with their survival problems. It was this Gordian Knot, which linked the kibbutz movement with pre-State Zionist – and Israeli State institutions, that in the last resort blocked a serious structural change in the economic behavior of the kibbutzim. In practice the change anticipated by the creators of the CCS failed to materialize, and the managerial rearrangements that could have prevented further financial entanglement of the kibbutzim were not fully implemented.

Furthermore, earlier treatments of the issue largely ignored the fact that the short-term success of the system was nothing but an additional “artificial respiration” which deepened the illusion of kibbutz members, no less than that of Israel’s political elite, that the kibbutz economy was finally able to contest its infant diseases and reach an economic high-road. A historical analysis of this case thus occasions a reevaluation of the economic path undertaken by the kibbutz movement during that period and of the present kibbutz financial arrangement.

Moreover, it emphasizes the complexity of dependence evolving in corporatist systems, in which representatives of capital, of workers and of governmental institutions join together in drawing guidelines for national policy. This complexity is particularly revealed in forms of external financing of firms and in cooperative organizations, and may thus indicate their needed limitation (Schwartz, 1995:23-27).

Structural Problems or Infant Diseases

Throughout its existence the major part of the kibbutz movement leaned on external economic support provided by the Jewish and Israeli national institutions. During the British Mandate and in the early years of Israeli Statehood regular financial assistance was arranged, purporting to provide the kibbutzim with the initial and basic capital needed for their establishment (Avrahami, 1998:87-89). After all the kibbutzim were set up by young and relatively poor Zionist settlers, and placed in locations which were geographically and strategically dictated by decidedly national (namely political or security) needs and less by economic ones. In later years a variety of support arrangements were introduced which aimed to extricate the kibbutzim from financial crises, themselves originating in unfavorable opening conditions and structural problems which beset the kibbutz society.

These arrangements were diverse in form and volume: partly particularistic arrangements with individual kibbutzim which got involved in economic difficulties at one point of time or another, and partly more comprehensive financial settlements applied during periods of deep crisis. The first comprehensive arrangement of conversion and consolidation of the kibbutzim debts was structured immediately after the end of World War II. In order to alleviate a deep debt pressure the kibbutzim were given a ten-year loan of 900,000 Israeli Lira (IL) from the Jewish Agency (the body established in 1929 that brought together Zionist and non-Zionist Jews in the project of developing the Jewish national home in Palestine) and from various banks (Gutman, 1967). A variety of other arrangements aiming to financially assist the kibbutzim were further regulated after the establishment of Israel in 1948, and on the initial organization of Israel's governmental institutions. In the early 1960s the conversion and consolidation arrangement was re-activated involving some forty veteran kibbutzim; and though financing still functioned through the channels of the Jewish Agency, its large bulk already originated with the State Treasury. It followed therefore that during those years the kibbutz economy was nothing but independent. Though there were kibbutzim which experienced long periods of independent self-subsistence, in general the survival of the entire kibbutz movement had had largely to rely on that support. This reliance became particularly essential because of the kibbutzim mutual and unlimited collective guarantee system which prevented the economic collapse of individual kibbutzim.

There were many who explained these economic difficulties in terms of the kibbutzim unfavorable starting conditions, arguing that a gradual improvement in the kibbutzim economic performance could be discerned. This was the case for example with Chaim Barkai, who in his comprehensive book on the kibbutz economy (Barkai, 1980:121-122) chose to analyze the kibbutz as, relative to the surrounding Israeli society, a capital-intensive economic organization. This he argued was reflected in both the tempo of capital accumulation, and in the kibbutzim saving rates. Both

could be partly explained by the frugality of the kibbutz members which stemmed from their deep-rooted "pioneering spirit", even though the weight of the latter gradually waned over the years. Barkai endowed enormous importance to the kibbutzim pastoral environment, stressing the fact that their saving rate was not lower than that current in Israel's urban sector; and that in passing decision-making over consumption and saving from the individual family to the kibbutz community the kibbutzim saving predispositions remained intact. It was the kibbutz institutional system that assured that the large bulk of income would be saved. Furthermore, Barkai also drew a picture of a steady increase in the value of assets and net equity capital (after deducting liabilities), and that the growth of capital stock matched the high saving rate. This argument should be clarified though, as in fact saving rate could not on its own explain all the increase of capital. No less important in this case were capital gains: most of the debt was defined in nominal values (unindexed), while capital value (namely the renewal cost of fixed assets) persistently increased thus creating capital gains. Likewise, the low interest rates of the credit supplied by the Jewish Agency and the government were on a level which did not reflect the rate of the rise in prices.

In contrast to Barkai, who somewhat underrated the impact of the period's economic problems, Kanovsky (1966) found in the changes of the late 1950s evidence of some basic structural problems of the kibbutz economy. Kanovsky distinguished between "external" structural problems, which were not related to the kibbutz economic structure, and "internal" problems inherent to it. First among the external problems was the fact that the location of a large number of kibbutzim in Israel's agricultural frontier entailed high production costs. The second problem was that relative to the more private-capital oriented moshavim the kibbutzim received less support from the Jewish Agency. Thirdly, the fact that a large number of the kibbutzim began their actual settlement for security reasons, and in places where the soil was relatively less fertile and could not yield extensive crops. The fourth point made by Kanovsky was that the agricultural branches on which the kibbutzim focused were exactly those in which governmental subsidies were relatively low, but that the prices in these branches lagged behind the price index. Finally, Kanovsky argued, the fact that the veteran kibbutzim needed to mobilize their own members to support the younger kibbutzim (those who could not attract enough youngsters from the urban sector) burdened the former's production system. Thus, a large part of these structural difficulties stemmed from the self-assigned undertaking of the kibbutz movement which sent kibbutzim to settle in economically problematic locations, and placed an overriding emphasis on mutual aid among the kibbutzim (Kanovsky, 1966). Kanovsky argued that the internal problems far outweighed external ones. Among the former he focused first and foremost on the kibbutz system of mixed agriculture. The system seemingly aimed to spread the risk and the flow of income,

but the fact that it also originated in the need to diversify the occupational options of the members of the kibbutz, caused a decrease in profitability. The second internal problem was the kibbutz traditional opposition to wage labor, which caused extended capital use and investment, and brought about an increase of the financing costs of the kibbutz economy. In this matter too, Kanovsky pinpointed an ideologically-rooted issue: the inherent aspiration to constitute a just society which refrained from exploitation. Moreover, Kanovsky paid major attention to the consumption method and work patterns of the kibbutzim. His analysis showed that a large bulk of the deficits accumulated in the kibbutzim during the period under discussion had to be related to the kibbutz consumption, and not necessarily production, patterns. Up to the 1950s the kibbutzim level of consumption was lower relative to that of urban workers or of moshav members, but the later rise in living standards in the kibbutzim decidedly led to decrease of profitability (mainly because the said rise increased the pre-calculated labor-costs). The rise in living standards reacted to internal pressures in the kibbutzim. These stemmed from their need to level themselves with the standards of living in other kibbutzim, and with those of the urban middle strata which improved during this period following the inflow of German compensations to Holocaust survivors. Instead of the high standards of living depending on the kibbutz general profitability they became an independent variable which determined the high cost of labor and caused low profitability. Still, it should be noted, that also rich kibbutzim who could increase their living standards but refrained from doing so, kept a more or less fixed consumption level, and adapted themselves to the level which was acceptable at the time in the kibbutzim in general (Kanovsky, 1966; Helman, 1977).

Kanovsky's analysis of the problem of work patterns was based on their comparison with those current in the moshavim. He argued that a kibbutz member worked on average less than a moshav member: some 270 days per annum for a kibbutz member compared with 300 working days and above per annum for a moshav member. The number of days invested in services (mainly education and family services) was higher in the kibbutz: 256 per family in the kibbutz compared with 218 days in the moshav. This mixture of external and internal problems, at the heart of which were the kibbutz consumption structure and work patterns, brought the kibbutz economy to its gloomy performance, and placed grave doubts, already in the early 1960s, on the capacity of the kibbutz to economically survive.

At the heart of the Barkai-Kanovsky debate stood therefore the question of capability of the kibbutz economy to survive independently, a question which still persists nowadays. However, while Barkai's approach became the accepted norm at the time, the structure of the kibbutz economy and the extent of its dependence on external support began to be questioned already at the period when the CCS was activated. Our argument is that the depth of this dependence and its negative impact were largely ignored.

The argument must be understood in a historical context. At the end of the first decade of Israel's existence it became gradually recognized that the kibbutz economy had to be structured on more healthier foundations. The tendency of many kibbutzim to get from time to time financially entangled gave prominence to the need, felt both in the kibbutz movement and among Israel's politicians, to search for other solutions. During the first decade many kibbutzim showed signs of initial prosperity as the rise in prices of agricultural produce following the War of Independence (1948-49) favored their economic conditions. However, towards the end of the 1950s the prices of agricultural products started to fall, and the number of kibbutzim showing symptoms of economic downturn increased. Gradually it became common knowledge that the conversion and consolidation arrangements, purporting as they were to support 40 kibbutzim, could not prevent the coming crises, particularly as the first ominous crisis engulfed, to that extent or another, most of the kibbutzim in Israel.

Against this background a number of attempts were made to mold a new managerial model in young kibbutzim which were still under the supportive umbrella of the Jewish Agency, namely "The Guided Kibbutzim". The initial purpose of the plan was to help inculcate these kibbutzim with work patterns based on annual and periodic plans, on current follow-up and control schemes and on an efficient and well-ordered book-keeping which would supply systematic and consistent information. The attempted plan meant to regularize the chaotic conditions which beset the economic administration of these new kibbutzim. Accordingly a model of linking a kibbutz economy to one bank was imported from the United States. In this model all the financing and the financial activity of the kibbutz were supposed to be administered by that individual bank. The system created a motive for the bank to supply the financing of that kibbutz. At the same time it improved the control capacity of the Jewish Agency over the kibbutz expenses. At the time the system of the guided kibbutzim, which began to operate according to this model, was considered as promising the young kibbutzim a viable future (Shalem, 1998:46-50).

This system of support and control was directed though only to young kibbutzim which were not habituated in economic planning and in the control practices of the existing economic system. Concurrently however, the more veteran kibbutzim, that already weaned from this supportive umbrella, continued during the late 1950s and early 1960s to function independently. Notwithstanding some routine developmental budgeting which they received from government organs, particularly the Ministry of Agriculture, they in fact operated without regularized institutional assistance. True, at the background was always the political system which made certain that economic conditions remained favorable – beginning with interest rates and ending with prices of water and agricultural produce. However this backing never expressed itself, as it did with the Guided kibbutzim, in an ordered and direct financial support. In the

early 1950s it seemed that the veteran kibbutzim were beginning to be consolidated, particularly due to the price rise of agricultural products. Nevertheless, the later downturn in market conditions, and the aggravation of the structural problems of the kibbutz economy, made certain that conditions in these kibbutzim were deteriorating as well. It was therefore in the latter that the above-mentioned conversion and consolidation arrangements were now to be implemented.

The failure of the arrangements and the financing difficulties of most of the veteran kibbutzim on the one hand, and the molding of the Jewish Agency Guided kibbutzim model on the other, led to the application, from the mid-1960s to the end of the 1970s, of the concentrated credit arrangement. The latter meant to be the main managerial and financing method of the kibbutz movement. It sought at one and the same time to counter the financial crisis of the kibbutzim, and to free them from dependence on State institutions and on the latter's financial arrangements. As it was destined to serve as a cure to the infant diseases of the kibbutz system, so well defined by Barkai and Kanovsky, its *modus operandi* requires some analysis.

The Establishment of the CCS

Beginning at the end of the 1950s the Ministry of Agriculture endowed the financing of agricultural settlements with the highest priority. The first systematic approach to the problem was that of the David Horowitz Committee which began its inquest in early 1957. The Committee initially focused on the problems of the relatively low incomes of the agricultural sector and of the financial difficulties stemming from the financing conditions which were incompatible with the operationalization of investments. The Committee recommended to correct the financing conditions of the Jewish Agency and of the State, and to adapt the period of the loans payment from the development budget to the amortization period of the asset. These recommendations were implemented only in part, and as they were insufficient to fundamentally alter the economic conditions of the settlers, the problem remained unresolved and persistently relevant (Report, 1960; Gevati, 1981).

In order to improve financial support arrangements it was suggested during the discussions in the Ministry of Agriculture to link the kibbutz economic system to banks, that is the entire economic activity of each kibbutz, to a particular bank. No explicit testimony was found in the archives as to the origins of this idea. It can be assumed though that the latter evolved during the Guided kibbutzim experience and later reached the Ministry of Agriculture. A kibbutz member (Avraham Brum) was appointed to head the credit department at the Ministry and the various committees which periodically examined the operation of the financing system. He was also placed among the Directors of the two banks which financed the guided agricultural settlements (The Agricultural Bank and Bank Ya'ad), and thus became the main figure in the molding of the CCS and its daily operation. A further step was made in late 1963 when another committee, set up by the Ministry (and again headed by

Brum), recommended to establish a financing method to be applied in the entire agricultural settlement, in which each kibbutz was attached to one bank and through the latter managed all its financial activity. The various kibbutz movements which were part to the Committee's debates, and the banks which were earlier involved in the Guided kibbutzim arrangement and that some of the Directors of which were kibbutzim and moshavim representatives, accepted these conclusions and allowed the CCS initial implementation (Brum, 1986:74-77; Shalem, 1998:46-50).

Despite some contestation against implementation of the CCS by both kibbutz treasurers and functionaries at the Ministries of Agriculture and Treasury, the system got on the way, firstly in an experimental phase of nine kibbutzim and based on some modest assistance of the Ministry of Agriculture. Only when the experiment proved to be fruitful, the Treasury was convinced of the system's efficiency and began its systematic budgeting. It was only this involvement of a prime State economic Ministry that allowed the gradual inclusion of a large number of kibbutzim in the CCS.

The establishment of the CCS within the framework of the Ministry of Agriculture was based on the model which was first oriented by the Jewish Agency towards the young kibbutzim, and adopted as the main financing method for all kibbutzim and moshavim in the country. Success at this stage was achieved because of a specific political situation, that is, the capacity of major forces in Israel's political and economic circles to overcome opposition both in the government and within the kibbutz movement. The mapping of the CCS supporting and opposing forces exemplifies the extent to which beyond the sincere intention to provide the kibbutzim with solutions to their economic tribulations operated a process in which most of Israel's agricultural sector was structured as a corporatist system (Rosolio, 1994:69-70). In this process the Ministry of Agriculture, the various kibbutz movements and the banks deepened their cooperation in order to materialize a policy which favored them in relation to other systems, and invigorated their capacity of control and supervision over the created corporatist structure. Opposition came from a variety of forces: either individual kibbutzim, who aspired to preserve their independence in face of this control formation, or functionaries at the Ministries of Agriculture and Treasury who feared that the new system might harm their political and bureaucratic power positions (Schwartz, 1995:23-26, 51-52).

The adoption of the CCS was far from easy and was only gradually implemented. It involved lengthy debating and explaining among all the relevant factors: the two Ministries, the leaderships of the Kibbutz Movements and the banks. This mode of operation fits well into a commonly accepted political approach (Yishai, 1986) which postulates that the political corporatist model which developed in Israel lacked, even did not need to develop, enforcing powers, thus restraining too strong ties between the State and the kibbutzim. In this "non-totalitarian" form of political corporatism

the Israeli State both takes great care neither to hand over authority to public or private bodies, nor to incorporate them as governmental organs (Rosolio, 1994:69-70). These characteristics determined that any wide-scale process of change, which is part of the corporatist built-up, must always entail convincing, wide-spread publicity and propaganda and persistent softening of potential opposition. The fact that the process succeeded to no less extent than the personal initiative of Avraham Brum can teach us quite significantly on the personal aspect of corporatist making. It was the nature of this corporatist system which allowed the "rise to power" of such an idealist-bureaucrat, his major influence over the CCS implementation, even his indispensability (Brum, 1986:74-77).

The Institutionalization of the CCS

The Concentrated Credit plan focused on relatively established kibbutzim, those that have already left the supportive framework of the Jewish Agency. Originally it was decided that any kibbutz leaving that framework could, if it so chose, join the CCS. The banks were allowed to evaluate the economic state of these kibbutzim prior to their joining in, and when necessary to increase their budgeting. Joining the CCS required however fulfilling certain preconditions: operative profit, self obligation to organized marketing, and significantly a proper recommendation by the relevant kibbutz movement. A candidate kibbutz had further to consent to bureaucratic accountability, such as periodic balances and the drawing of economic prospects, which formalized the dependence relations (Plessner and Efrat, 1971; Interviews Eisner, 1996 and Freeman, 1997).

The annual program served in fact as the basis for current operations. It was structured by the individual kibbutz together with the regional planner of the Ministry of Agriculture and representatives of the kibbutz movements. Later the program was submitted to a judging committee which consisted of representatives of the kibbutz, the movement to which it belonged, the Ministry and the relevant bank. The committee would then approve the program and its mode of implementation. Thus the programs were concluded as a "close circle" of uses and sources, any diversion from which was forbidden. The uses took into consideration the needs of the kibbutz economy in their entirety: investments oriented for production development, investments regarding consumption, equipment renewal and payments on account of non-renewed loans. In order to find the needed resources the kibbutz was required to allocate all its means, and also to receive from proper financial institutions the desired financing for its pre-designed investments. The balancing of the remainder was made by the bank. In that way it was assured, seemingly at least, that the kibbutz was not leading itself towards a further financial entanglement.

In joining the CCS the kibbutz had to sign a contract with the bank in which it mortgaged all its assets to the bank, including land rights, the reception of guarantees from the movement and an obligation not to associate with another bank. The

conditions of the contract were pretty tough and seemed as subjugating the kibbutz economy to the bank. However it was these conditions that assured the bank that money would be properly invested, and that the kibbutz would fulfill its obligations. Finally the kibbutz obliged itself to present balance-sheets to a Control Council within three months after the end of the financial year, and to supply periodic follow-up reports. The latter served as the basis for negotiations with the kibbutz and preconditioned further transfer of financial resources. The money which was given to the kibbutzim through the CCS was destined first to decrease the financing gap, namely to convert heavy short-term debts with long-term loans. Secondly, to provide credit for financing new investments in the kibbutzim (interview *Gal*, 1997). Salient among the conditions of the loans was the fact that they were given for very long periods (around 20 years), divided 50 percent by the State and 50 percent by the banks, and matched by guarantees on part of the loans given by the State and the funds of the kibbutz movements. Furthermore, the banks' mediation gap was 2 percent on investment loans, and 1.5 percent on loans for decreasing financial gaps (Shalem, 1998:66).

These frameworks and financing conditions dictated the banks to mobilize, within a relatively short period, many millions which reached the agricultural sector and which only the CCS made possible. Thus, the loans conditions gave the banks a vested interest in the workings of the CCS: it enabled the enlarging of their operations and the widening of the credit volumes with which they supplied their clients. At the same time it kept high profitability due to the structured mediation gaps and the absence of a significant increase of risk, and due to the guarantees (which were part of the scheme) given by the government and the kibbutz movements.

This system was distinguished from preceding assistance arrangements. First and foremost it was comprehensive: it was oriented towards all the kibbutzim, and not only the young ones that had not yet developed independent managerial patterns, or those that had gotten financially entangled. Second, it was activated through State institutions and not through the Jewish Agency, the status of which declined following the 1948 Jewish attainment of State sovereignty in Palestine. The latter gave the CCS enormous power and assured, compared with the Guided kibbutzim arrangement, a more fruitful cooperation with the banks which now felt that their financing was better guaranteed. Moreover, the CCS strengthened the State which was still undergoing the process of wresting authority from pre-State national institutions. The third characteristic was the banks' deep involvement in the design and operation of the CCS. Such involvement appeared during the Guided kibbutzim arrangement but the banks had not been at the time part to its current operation and control practices. Under the CCS the banks became fully involved in operation, control and further financial planning. Fourth, the CCS entailed deep involvement, similar to that of the banks, of the kibbutz movements in design and control. The

system in fact assisted the movements to supervise the economic performance of the kibbutzim, and thus served as a lever to strengthen their power *vis-à-vis* the individual kibbutzim. The CCS characteristics best served the control needs of the Ministry of Agriculture, the kibbutz movements and the banks: in its administrative procedures, managerial bureaucracy, its invigorating centralization, periodic accountability and information-gathering means. Unsurprisingly the system was metaphorized “The Brum System”, denoting its personalized aspect and its centralized nature. These characteristics largely overlapped with the interests of the various factors which cooperated in the constitution of the CCS, as they defined and invigorated their control over the kibbutzim.

From Planning to Practice

In 1965, following the one-year successful experimentation of the CCS with the first nine kibbutzim, and the further mobilization of financial resources, the Ministry of Agriculture began its gradual enlargement to other kibbutzim and to moshavim as well. However, as success was defined in such a short-term period while the program itself was expected to bear fruit only in the long run, the enlargement should be understood as resulting to a large extent from a political move. The latter was undertaken by the kibbutz movements, the Ministry and the interested banks, all becoming conscious of the benefits that could be accrued from implementing the system. Every year 10 to 20 kibbutzim joined in, and following the 1967 Six Days War the number increased dramatically when 49 kibbutzim were added. At the end of the process most of the kibbutzim, which grew out of the support system of the Jewish Agency, were included in the CCS framework; except recently-established and weak kibbutzim which still needed the Jewish Agency’s support, or particularly strong kibbutzim which preferred maintaining their economic dependence.

The operationalization of the CCS was therefore oriented first and foremost to stabilize the hard core of the kibbutz movement – those veteran kibbutzim which experienced financial difficulties in the early 1960s. Only after these received assistance and economically stabilized themselves it was made possible to extend financial support also to the weak and young ones. The latter’s tribulations were dealt with the relevant kibbutz movements to which they belonged, and these turned to the CCS for help. Despite the official position it seemed that decision-making, regarding the entry of kibbutzim to the CCS and regarding the volume of credit made available, was influenced also by the political calculations of the kibbutz movements. This political aspect, closely related to the status of the kibbutz movements in Israel’s politics and in Labor’s national ideology, overshadowed the entire process of the CCS initiation and development.

Following the institutionalization and consolidation of the system it turned into one of the main flag-ships of the Ministry of Agriculture, and was accordingly marketed as the best and most advanced method of financing the agricultural sector.

At the end of the 1960s the government allocated almost 12 million IL annually, that is, some 25 percent of the development budget of the Ministry. This well illustrated the importance given in governmental circles to the CCS. Furthermore, concentrated credit became a significant part of the investment sources of an individual kibbutz: 20 percent in the mid-1960s and 10 percent in the early 1970s (Concentrated, 1972).

The fact that the CCS began to operate parallel to the intensive industrialization of the kibbutz economy was significant in this regard. The process, which began at the end of the 1950s, accelerated during the period under discussion, and affected in particular the more established kibbutzim. In comparison with agriculture, the industrial branches were more independent in the purchase of raw materials, in marketing their produce and in planning, and their growth brought about unprecedented economic competition among the kibbutzim which, in turn, increased the employment of wage labor. The control and supervision of the government and the kibbutz Movements over the operation of the kibbutz industry were thus weaker. Consequently, in contrast to what was originally planned, financing kibbutz industry did not pass through CCS channels, neither through the bank that concentrated each kibbutz activity. Similar diversions happened with kibbutz accommodation schemes, pressed by a severe shortage in accommodation solutions for young kibbutz members and which required at the time essential governmental backing. The reality of numerous and parallel financing sources contradicted the basic CCS concept of linking all the kibbutz financing to one particular bank, and thus diverted significantly from the American model on which the concept was based (Shashua and Goldshmit, 1971a; Shashua and Goldshmit, 1971b; Don, 1983:371-372; Near, 1997:239-242; Shalem, 1998:23-25, 108).

In practice the CCS attempted to reach two pronounced goals. The first was the support and stabilization of the financially-entangled kibbutzim, particularly the veteran ones. Secondly, to create the proper conditions, through planning and control practices, which would prevent further financial deterioration. In both goals economic thinking was closely integrated with the interests of the bodies involved to strengthen their control over the kibbutzim. The establishment of the CCS could therefore be viewed as persisting with an ideological approach that was instilled in the Zionist project already from the 1920s: a wide-scope policy which maintained that any economic unit should be further and unconditionally developed whatever the circumstances. This approach (metaphorized in Zionist jargon as "heroic") was traditionally in contestation with an opposing and a more economically-rational policy. The latter argued that all steps towards further economic development should be undertaken in a more careful manner, and based on building an infrastructure independent from external financial support (Greenberg, 1987: ch. 11).

The implementation of the CCS was oriented to replace the first approach with the second more calculative one, namely to provide financial support while caring for the

future economic independence of the kibbutzim. The regimentative characteristics of the system exemplified this intention, and in the short run its financial and economic fruits were evident. Not only did the financial conditions of the kibbutzim improve but the scope of their economic activity widened, their profitability increased and the standards of living were raised (Shashua, 1970; Plessner and Efrat, 1971; Shalem, 1998:79-81). Furthermore, the CCS directly influenced the extent of investments in the kibbutzim as it encouraged their planning and the supervision over their operationalization. This related in particular to the type of investments (agricultural, industrial and consumption), to the type of financing, and to the fact that some of the industrial investments which were encouraged did not originate with, nor supervised by, the CCS (Shashua, Goldshmit and Trebelsi, 1977).

Thus the first decade of the CCS operation considerably favored the kibbutz economy. The CCS was largely responsible for this success, specifically with regard to that part which was relevant to converting the deep debts and to easing the burden of the interest rates; and that which improved the kibbutzim financial conditions and provided them with a relative free space of operation. Moreover, economic growth, which was partly caused by the materialization of industrial and agricultural investments, and partly by improvements in economic planning, brought about an improvement of living standards. Against this background it can be gauged why there were many who believed at the time that a large part of the economic advancement of the kibbutzim was due to the CCS. Undoubtedly its efficient implementation, and the confidence expressed by the kibbutzim and other sectors in its viability, were no less crucial. Still, did the system, with the accompanying improvement in planning and control methods, provide significant and long-term solutions for the kibbutz economy, or was it only a temporary cure?

Signs of Waning in the Late 1970s

Until 1974 the CCS was perceived, at least economically, a success story. However in many ways it also deepened the dependence of the kibbutzim on the State and the banks, and increased the latter's control over them. These processes should be contextualized first and foremost in a personal change, as during this period most of the founders of the system left the Ministry of Agriculture and the CCS administration. Secondly, following the Yom Kippur War in 1973 and the energy crisis, Israel was undergoing a period of stagflation in which inflation conjoined with economic recession. In order to overcome it the Israeli government adopted a policy of budget restraints which naturally led to budgetary cuts. The latter influenced the CCS both in the quality of its operation and in its "political" position.

Practically the CCS grew too rapidly and its operation became too complicated. As its structure did not fit a large number of kibbutzim, it could not efficiently handle its control and planning functions. Its sophistication allowed many functionaries, who were at the end of their professional careers, to find in it a rescue-board (Shalem,

1998:91-104). High inflation conditions, developing in Israel in the late 1970s, impacted the CCS operation. It seemed that many kibbutzim came to perceive the CCS bureaucracy as an easy means to mobilize financial resources, and the tight control that characterized the system dwindled. Many kibbutzim ceased from fulfilling the administrative discipline which the system required (Meeting, 1976). The deterioration was clearly demonstrated by the “balance-gap”, namely that part of the assets of the kibbutzim which was financed by short-term loans, increasing between 1974 and 1977 by tenfold (Interim Report, 1978; Shalem, 1998:106). Furthermore the increase pattern in consumption investments demonstrated the system’s growing incapacity to control the kibbutz economy. The sense of political power of the kibbutz movements, and the concurrent rise of other credit sources (such as the regional retail organizations), further weakened that control (Interview *Etzion*, 1997).

The destabilization of relations of the kibbutzim with Israel’s political system was no less crucial. The CCS served both kibbutzim and moshavim, but emphasis was traditionally laid on the former. With the growing criticism in Israeli politics of the political and economic privileges of the kibbutzim, the status of the CCS weakened. When the country turned to budgetary restraint the system was the first to be questioned, and the efficiency of the system was recurrently re-examined. Consequently, the distance of the Israeli model of concentrated credit from the original influential American model widened. In order to assure further economic growth the emphasis in the Israeli model on supplying financial assistance to a kibbutz temporarily in crisis was now replaced with an emphasis on providing a continuous financing. The shift partly stemmed from ideological pressures (the importance of agricultural settlement in the Zionist project), and partly political ones (maintaining the power of the kibbutz movements and the Ministry of Agriculture). However the banks too were part to the shift as they well profited from the workings of the system.

The examination of the CCS budgeting demonstrates that despite the weakening of the system’s political status, and despite growing doubts as to its viability, the government kept it financially alive. However, the continued flow of resources could not restore the status the CCS enjoyed in the late 1960s and early 1970s. It seemed that the system became routinized and ceased from serving a prominent factor in the economic management of most of the kibbutzim. Many kibbutzim began bypassing the planning system of the CCS, partly assisted by the financing supplied by the retail organizations. In practice the CCS department in the Ministry of Agriculture turned marginal, and its position as a major financing source of Israeli agriculture collapsed. While the flow of finances did not cease, and while the system’s functionaries were still active, its power, particularly following the post-1977 elections decline of the Labor Movement, evaporated (Rosolio, 1994; Ben-Rafael, 1997:38-41). Political

friction and the loss of mutual confidence between the administrators of the Ministry and the kibbutz movements outweighed the ongoing budgeting and financing. The rise in inflation rates during the 1980s, to which the CCS could not adapt, finally destroyed the system (Near, 1997:344-347).

This weakness was particularly felt against the background of changes occurring during the 1970s in the position of the factors involved with the CCS. During these years of further kibbutz industrialization the status of agriculture in Israel declined, and consequently that of the Ministry of Agriculture. In contrast, the power position of banks in the Israeli economy gradually strengthened. The process was partly related to the large-scale credit which the banks could mobilize during this period abroad, when a loan to an Israeli bank was considered as relatively safe because of the governmental backing which the Israeli banks enjoyed. Concurrently the banking system became more centralized, and large-scale banking concerns "swallowed" credit cooperative societies and most of the small independent banks (Het, 1993). The big banks became therefore an essential power-basis and their dependence on the government weakened.

The kibbutz movements still enjoyed their power positions during these years, and could even widen their activities. However, some new powerful factors loomed in the background – the retail organizations and the regional plants which were not accountable to the kibbutz movements. These organizations began to concentrate in their hands a major part of the kibbutzim economic activity, handled large-scale purchasing projects, and enjoyed a generous credit which they could pass to the kibbutzim (Schwartz, 1995:65-74). This turned them into significant financial sources which challenged the economic power of the CCS-supported kibbutz movements. This alteration in the position and relative power of each of the factors involved in the CCS could by itself shatter the bases on which the system was founded. Notwithstanding other causes mentioned above, it aggravated the difficulties in the functioning of the CCS until it finally degenerated in the early 1980s.

Conclusions

The CCS succeeded in the short-run, weakened in the long-run, and the kibbutzim saw the return of many of the financial troubles which characterized them before the onset of the arrangements. The short-run success could be explained by the flow of a large amount of capital which supplied many kibbutzim with essential breath-length, though in this the CCS did not differ from earlier financial arrangements. Instrumental too were the organizational change and the belief in the promising future of the system which the CCS ideologues inculcated among the kibbutzim involved. Significant too was the preparedness of the kibbutzim, and the persons who operated the system (the functionaries at the Ministry of Agriculture who were in fact emissaries of the kibbutz movements and the financial functionaries in the kibbutzim

themselves), to operate within a framework controlled by the movements, the banks and the top echelons of the Ministry. This preparedness, based as it was on strong loyalty to the kibbutz movement and to Zionism, typified the sociological generation of the founders of the kibbutzim and the State (Shalem, 1998; De Vries, 1997). Related to these factors was the intensive development of the kibbutzim during this period, the drastic changes in Israeli agriculture and the kibbutz massive involvement with industrial production. In the last resort, despite the financial difficulties of the early 1960s there were in the kibbutzim at the time sufficient creative powers which could push forward the carriage and enable the endurance of economic downturns. Still, we should bear in mind that the system was structured and operationalized under the umbrella of an unrelented Zionist political backing (also of non-Labor political parties) given to the kibbutz movements at the time, and which purported to foster the development of agriculture. This support allowed the attainment of financial resources needed for the initial activation of the system and its persistence. The fact that the top administrators of the Ministry of Agriculture consisted at the time of many kibbutz representatives, no doubt assisted the CCS development and advancement.

However, following expansion and consolidation the CCS deteriorated, its operation became technical, it lost its original enthusiasm and practically its essence. Consequently its influence over the kibbutzim dwindled. External modifications, such as increasing inflation rates and the waning of political support which was so crucial at the beginning, decreased its efficiency. Above all, the psychology of dependence persisted. The establishment of the CCS was part of the project to build Israeli agriculture as a sectoral corporatist system, in which strong collaboration developed between State institutions, the banks and the kibbutz movements. The system turned these organizations into members of a unitary decision-making and implementation group. This enabled the invigoration of their economic power no less than their control over individual kibbutzim. But in that it also contributed to the lessening of the kibbutzim responsibility to their own internal affairs, and to their problematic and lingering reliance on external support. The confidence that there would always be found a source of support, no matter of the consequences, emphasized the aspect of dependence which this corporatist system entailed (Shapiro, 1984), and which was largely ignored by the relevant literature. In the deep sense of economic thinking, and in the light of the concept to help the kibbutzim to stand on their own feet, the efforts to change the patterns of financial management, and to move to rational financial administration based on a balance between resources and uses, were not fruitful. The historical patterns of massive support by external financial sources largely remained intact. As long as the kibbutzim continued in their reliance on external assistance, the central organs always wanted to supply it, and assured via this supply their political and organizational power positions.

In a historical perspective it seems therefore that the short-run success was nothing but an “artificial respiration” which could not have provided solutions to the kibbutz structural ailments. The CCS did assist the kibbutzim to temporarily recover, and likewise served as a basis to economic growth and to the relative boom they enjoyed in the late 1960s and early 1970s; but it did not prevent problems recurring again. Furthermore, recovery vented the illusion that the kibbutz economy finally overcame its infant diseases, and gave rise to the euphoria which accompanied the kibbutz economy in later periods, while its foundations still remained largely unstable. The sense of exaggerated self-confidence was responsible to many of the mistakes that came to characterize the economic performance of the kibbutzim in general, and of individual kibbutzim in particular; mistakes which led to a severe crisis of the entire kibbutz society. Possibly the expectations that such a system could heal all diseases were far-fetched. However, it seemed that changing the well-established course by a single organizational stroke, successful as much as it was, was impossible. The habits and the action-patterns of all the factors involved in the CCS were so deeply ingrained that one such stroke could not have brought about a significant alteration. The Gordian Knot between the kibbutzim and State institutions enabled their growth, but also brought them to the brink of crisis when the links, exemplified in the workings of the CCS, started to dwindle and collapse.

This distinction between short-term results and the long-run impact of the system, which was largely ignored by earlier analysis of the CCS (Plessner and Efrat, 1971; Rosolio, 1997:133-135) may illuminate the nature of State-originated financial support schemes to democratic-oriented cooperative organizations. Such support can be crucial in moments of crisis, but it could well deepen organizational dependence, and lead to economic decay (Russell, 1995:188-189). Support arrangements for such organizations should be thus limited in time and financial range, while focusing them on new investments and on ensuring the implementation of organizational changes that would improve the performance of the organization in its surrounding economic and political context. Such a cautious approach may ensure, in the spirit of the recent resolutions of the International Cooperative Alliance (ICA Statement, 1995) that a cooperative organization maintain its autonomy and independence when entering into agreements with other organizations (including governments) or raising capital from external supportive sources. In the absence of such norms, long-term reliance on an external supportive source may alter the power structure of the organization, significantly weaken the influence of its members and their control of the cooperative’s capital and even blur the distinction of cooperation as a viable economic system.

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