The Rise and Fall of the Kibbutzim[1]

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Abstract: This paper examines why the kibbutzim—collective settlements that played a significant role in the early Zionist movement—arose as an organization instead of other forms. By analyzing the institutional environment that allowed Kibbutzim to persist for over six decades, the paper seeks to explain why this seemingly inefficient form of organization emerged and why it eventually almost completely disappeared. The paper argues that initially, the kibbutzim thrived not only due to widespread utopian idealism but also Zionist settlement policies in a volatile political and legal environment. However, over time, problems inherent to the communal model—such as the lack of specialization, waste in resource use, and incentive misalignments—became more pronounced as the underlying strategic reasons behind the subsidies, and thus the subsidies themselves, diminished. The paper argues that the decline of the kibbutzim was mainly driven by the decline of subsidies that stemmed from changes in Israel's political economy, particularly the shift from a demand for secure frontier settlements towards economic liberalization. Ultimately, the kibbutz movement's collapse highlights the limitations of egalitarian, collectivist organizations in freer economies and underscores the role of the institutional context in shaping organizational success and failure.

Keywords: *Kibbutz, Communes, Organizational Economics*

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I. Introduction

"Kibbutz," or in the plural, "kibbutzim," literally means "gathering" or "grouping" in Hebrew. In modern Israel, however, the "kibbutz" refers to a model of mainly but not exclusively agricultural communes in Israel, designed around collectivist political writings. These communities emerged in Ottoman and British Palestine during and after the Second Aliyah, a wave of Jewish immigration, primarily from Russia and Eastern Europe, between 1904 and 1914. In the kibbutzim, people lived and worked together and shared almost all resources. The first kibbutz, established in 1910, was Degania Alef (Abramitzky 2011, 185–208). It was founded by Yosef Baratz and others on their land next to the Kinneret. The land had been purchased by the Jewish National Fund (JNF), a Zionist organization designated to collect donations from Europe and the United States to acquire land in historical Israel and establish a Jewish national home. The purchased land was then given to Baratz and others to establish a frontier agricultural settlement that became the first Kibbutz. Although the organization and ownership structure and authority of the kibbutzim were very diverse, unlike traditional agricultural settlements, the kibbutzim were unique in rejecting private ownership of land and assets. Instead, generally, all property, including the means of production and living quarters, was collectively owned; they were characterized by little or no private property, shared communal spaces (such as dining halls), equal pay, centrally assigned work duties, and communal child-raising.

To anyone with a basic understanding of incentives, such as the free rider problem, for example, it appears evident that the kibbutzim, as a seemingly clearly "inefficient" form of living and agricultural organization, should not have arisen in the first place, and if it has, it should have collapsed very quickly. Nevertheless, the kibbutzim did arise and persisted for roughly 60

years before its sudden and almost complete disappearance. These facts call for a thorough explanation that, thus far, has been lacking from the economics literature.

Firstly, it is important to understand that the kibbutzim did not arise and prevail even though they were "inefficient," but because they were the most efficient course of action given the specific constraints faced by the individuals involved. As Leeson (2019) points out, under the realistic and true assumption of maximization, which is the foundational tenet of any economic inquiry—that individuals engage in purposeful behavior in order to achieve their most valued ends with the means available to them (Mises 1949, 11)—every observed form of organization is, by definition, efficient. The existence of any organization signifies that it is the best arrangement available under existing constraints; thus, all observed institutions are efficient because they reflect the best individuals can do under their specific circumstances. The kibbutz conundrum, then, is not about why an inefficient institution arose and persisted for such a long time but rather about understanding the specific preferences, incentives, and constraints that made the kibbutzim the most efficient form of living and working organization for a group of people at a particular time and space.

This paper explores the rise and fall of the kibbutzim in Israel. Through a causal-realist lens, it attempts to explain the institutional environment in which a seemingly "inefficient" form of organization was able to persist for around 60 years and what institutional changes led to its sudden and unexpected collapse. It challenges the view that the kibbutzim were innately inefficient, instead arguing that they were the most efficient organization in a specific institutional environment under certain constraints. The paper argues that not just the popularity of utopism but subsidies, security concerns, and the unique legal environment of uncertain property rights in pre-state Israel allowed the kibbutzim to persist for several decades. I argue

that changes in Israel's political economy—especially the loss of subsidies and the shift toward market liberalization—exposed underlying problems in the kibbutz model, leading to their sudden and near-total disappearance.

II. Why did the kibbutzim arise and persist?

While not denying that the early waves of the aliyah, mainly from Eastern Europe, a hotbed of socialism, provided fertile ground for the institution as the kibbutzim, with their strong ideological and cultural basis, fostered a sense of community and shared identity that attracted young individuals who sought to take part in a pioneering new way of Jewish life; however, I argue that there is more behind the rise and persistence of the kibbutzim than simple preferences, namely, the lack of ownership security in an uncertain legal environment that fueled JNF grants.

The legal environment surrounding land ownership in Palestine was uncertain due to the hostility between the Jewish settlers and the Ottoman and British rulers, as well as the majority Arab population. In this uncertain legal and political context that threatened Zionist properties by confiscation, the Jewish National Fund emerged as a key institution for acquiring land for Jewish settlements, including kibbutzim. The JNF purchased land to facilitate Jewish agricultural settlement and protected those settlements through the Haganah, a paramilitary organization that operated for the Yishuv (pre-1948 Jewish settlements) in the Ottoman and British-ruled Palestine to defend the Yishuv's presence in the region, ensuring that the purchased land remained under Jewish ownership. In a volatile region, kibbutzim often served as a defense mechanism against prevailing external threats, such as the 1936–1939 Arab revolt in Palestine. Their intimate nature made infiltration by ill-intentioned outsiders almost impossible, while their self-reliant, compact, close-knit structure and intimate, collective nature enabled them to efficiently organize defense efforts, fostering resilience against attacks. Because of these facts, the kibbutz was already a

relatively safe place to live, and thus, it became a frequent receiver of JNF land and monetary grants, significantly aiding the establishment and growth of kibbutzim, as well as further enhancing their popularity as a desired place to live in.

As Demalach (2018) explains, the rise and persistence of the kibbutzim were closely tied to Zionist settlement policies. Kibbutzim thrived in periods when Zionist efforts focused on settling remote or insecure areas, where settlers faced security threats and had limited opportunities for personal economic gain. During these times—such as the 1920s, 1936–1949, and the early 1970s—the kibbutzim received significant political and economic support, including land grants and funding. This support bolstered otherwise inefficient communal practices and attracted new members.

III. Why did the kibbutzim disappear?

For a long time, most people, including academics, believed that the kibbutz movement was a unique socialist success story; today, most kibbutzes are privatized: from 273, only 60 are left (McLaren 2014). Just like the extant collectivism varied from kibbutz to kibbutz, so did privatization; some decided to simply sell off houses to the people that already lived there and become merely a gated community, while others took a different path. For example, the oldest Kibbutz, Degania Alef, although kept properties under collective ownership, voted to allow taking jobs outside, but the members of the kibbutz had to pay their whole salaries into a communal account and then received free services and an allowance based on need, usually determined by the size of their families, but later, they voted for members to only to pay a progressive income tax, allowing them to keep the rest of the money they make (McCarthy 2017).

According to the prevailing popular view both in Israel and globally, the Kibbutz movement failed because the collapse of the Soviet bloc weakened socialist beliefs, and people became more individualists. Not denying that the changing preferences of Israeli society had a large impact on the kibbutz movement, the change in preferences stemmed not only from some sort of "weakening of the utopian moral" but rather from the fact that as the kibbutzim started to lose subsidies, the inherent problems of the communal model started to become more significant. The cost of being part of a kibbutz started to outweigh the benefits of being part of it, thus leading to people leaving. In response, kibbutzim began to sell off property and adapt to changing preferences by becoming something that can no longer be defined as a kibbutz by any reasonable definition. Thus, in the next few paragraphs, some of the causal reasons that led to the failure of the kibbutzim will be exposed.

A. Why the loss of subsidies?

The Yom Kippur War of 1973 strained Israel's economy due to increased military spending and post-war reconstruction. To finance these expenses, the Israeli government resorted to borrowing heavily, which led to inflationary pressures in the subsequent years. The inflation crisis of the 1980s was driven by excessive government spending. Coupled with external shocks such as the global oil crisis of the 1970s, this contributed to the rapid rise in prices and erosion of purchasing power. The price inflation was so high that Israel had to get rid of its old inflated currency, the "Shekel," in favor of the "New Israeli Shekel" (NIS).

The economic situation following the Yom Kippur War in the late 1970s and continuing into the 1980s had massive implications for Israeli politics. While the Labor Party had been dominant in Israeli politics since its establishment, the perceived mishandling of the war and its aftermath led to a loss of public confidence in the party. This eventually paved the way for the

rise of Menachem Begin and the more right-wing Likud party. Begin's election in 1977 marked a significant shift in Israeli politics, bringing a more liberal leadership to power. Begin's agenda was economic liberalization and reducing the state's role in the economy. Thus, Begin's policies included reducing government subsidies, including those to kibbutzim that generally voted against him and which were seen as socialist institutions that had enjoyed unfairly significant support under previous Labor-led governments. The loss of artificial subsidies to the kibbutzim paved the way for the emergence of internal problems in the institution.

Political economy plays an important role in understanding the diffusion and decline of communal sharing practices within the kibbutz movement and the disappearance of the kibbutzim. As Demalach (2018) explains, subsidies were closely tied to Zionist settlement efforts, especially in areas facing security threats. When Zionist settlement priorities were high, such as in the 1920s, 1936–1949, and the early 1970s, kibbutzim received political and economic support, fostering communal living. Conversely, during periods of relative security (post-1980s), support diminished, leading to economic crises within the kibbutzim followed by a necessary decollectivization. With the loss of subsidies, all inherent problems of collective ownership became more potent.

B. Lack of External Specialization

Kibbutzim rarely hired external labor, as they believed that it was exploitative. By abstaining from outsourcing regarding labor, the kibbutzim isolated themselves from the benefits of the broader labor market. Rather than focusing on their core competencies and leveraging economies of scale, they attempted to do everything they needed internally. This approach led to significant disadvantages: the members of the kibbutznim often engaged in labor, which they lacked a comparative advantage for. This resulted in lower-quality products and higher

production costs, further eroding their competitiveness. Additionally, the lack of outsourcing limited the kibbutzim's ability to adapt to changing market demands that came about as imports became more dominant and domestic agriculture became less important. While other organizations could readily access specialized expertise from external sources, the kibbutzim were constrained by their self-imposed isolation. In essence, the absence of outsourcing and specialization limited the kibbutzim's ability to focus on their core competencies and take advantage of economies of scale in those areas; autarky hindered the kibbutzim's ability to thrive in an increasingly interconnected and specialized world. It constrained their growth potential, hindered innovation, and ultimately contributed to the organization's decline.

C. Lack of Internal Specialization

The absence of external specialization within the kibbutzim was not the only problem. The lack of internal specialization within the kibbutzim was another critical factor contributing to their failure. Unlike a conventional firm, where the division of labor and specialization are common practices, the kibbutzim pursued an egalitarian approach to work allocation. People did different jobs every week. One week, you worked in a field; another, you had to make furniture, and so on, to keep everything equal.

This egalitarian ethic had serious drawbacks in terms of productivity. Without specialized roles within the community, individuals often had to multitask or perform tasks beyond their areas of expertise. This lack of specialization led to massive disadvantages, as individuals may not have been fully trained or experienced in certain tasks, resulting in lower-quality output and slower production times. Furthermore, without clear specialization, the kibbutzim struggled to develop expertise in specific industries or sectors. This made it difficult for them to compete effectively in the marketplace, as they lacked the focused knowledge and skills necessary to

excel in particular areas. Additionally, the absence of internal specialization hindered innovation within the kibbutzim. Without individuals or teams dedicated to specialized problem-solving, the organization has been slow to adapt to changing technological advancements. Overall, the lack of internal specialization within the kibbutzim barred individuals from advancing and becoming professionals in their field of interest and expertise and instead limited their ability to optimize productivity, compete in the marketplace, and innovate effectively. Thus, the lack of internal specialization, rooted in the ethos of equality, also contributed to their eventual decline as they struggled to keep pace with more specialized and productive firm models.

D. Tragedy of the Commons

The tragedy of the commons, a concept famously articulated by the ecologist Garrett Hardin (1968) and further developed by the British economist William Forster Lloyd (1980), refers to a situation in which "individuals with access to a public resource (also called a common) act in their own interest and, in doing so, ultimately deplete the resource" (HBS Online 2019). This principle also played a significant role in the downfall of the kibbutz movement. In the context of the kibbutzim, communal assets such as land and communal facilities used for housing, dining, and schooling were shared among members without clear mechanisms for regulation or sustainability.

Without individual ownership or accountability, there was a tendency for members to overuse these communal resources; as they did not own the capital value of the resource, only the use value, thus they were incentivized to use them as much as possible without care about the degradation of the capital value, as they did not have to bear the full cost of their actions. Whether agricultural land or communal buildings, the lack of clear incentives to conserve resources led to their degradation over time. For example, communal facilities have suffered

neglect and misuse. The tragedy of the commons exacerbated tensions within the kibbutzim as members became increasingly frustrated with the depletion of shared resources and the lack of accountability for their misuse.

Ultimately, the degradation of communal assets, such as dining halls, contributed to a decline in the quality of life within the kibbutzim and undermined the sense of communal solidarity that was central to their ethos. Without sustainable management practices and mechanisms for regulating resource use, the tragedy of the commons also became a significant factor in the decline of the kibbutz movement.

F. Incentive Problem

The incentive problem, or free rider problem, is probably the most well-known criticism of communist societies, and it was also present in the case of the kibbutzim. The problem arises when individuals benefit from a collective effort without contributing to it sufficiently. In the context of the kibbutzim, this manifested mainly in relation to labor efforts.

Since the kibbutzim operated on a socialist basis where labor was shared, there was a risk of some members shirking their responsibilities or not fully contributing to the collective effort. This took the form of individuals slacking off in their work duties or not putting in their fair share of labor hours, knowing that others would pick up the slack. Over time, the free rider problem eroded the sense of cooperation within the kibbutzim, leading to resentment among members who felt they were carrying a disproportionate burden. This imbalance in contribution and benefit ultimately undermined the communal model and contributed to the decline of the organization.

G. Lack of Authority

All firms must aim to have an efficient ownership structure that maximizes production and minimizes costs. As Hansmann (1988) explains, more often than not, the cost-minimizing, most efficient owner is not everybody; that is why worker-owned firms are such a rare form of ownership organization. Hansmann identifies decision-making costs as a major challenge in employee-owned firms, especially when ownership is widely dispersed. In the kibbutzim, collective decision-making was troublesome and slow, and it often led to suboptimal outcomes due to disagreements regarding decision-making. In pursuit of the egalitarian ethos, decision-making processes relied heavily on consensus-building and democratic principles. This approach frequently led to endless debates on even minor issues. Without clear lines of authority or designated leaders empowered to make decisions, even mundane matters (such as daily labor allocation) became sources of contention and delay. Debates over trivial issues consumed valuable time and energy, impeding progress on more important tasks and initiatives. As the kibbutzim grew, collective decision-making became even more complex. Managing day-to-day operations democratically among hundreds of members created coordination problems.

Moreover, the absence of clear leadership hindered the implementation of cohesive long-term strategies. This lack of coordination led to inconsistency in actions and further undermined the already problematic operation of the kibbutzim. Additionally, the lack of authority contributed to a sense of ambiguity regarding individual accountability and responsibility regarding leadership, thus further contributing to their decline.

H. Ownership Incompetence

As Klein et al. (2020, 302–328) explain, who owns greatly matters. Klein et al. outlined a relevant theory known as “ownership competence,” which can be used to further demonstrate the

inherent flaws of the socialistic kibbutz model. Ownership competence is the idea that certain people are better at owning certain goods and assets than others and that there is a spectrum of competence when it comes to ownership. As Klein explains, ownership competence is "the skills with which asset owners exercise matching, governance, and timing competence." In accordance with the classical definition of ownership, by owning property, an individual has the right to use, enjoy the profits of, or sell that good; asset owners must then determine "what to own, how to own, and when to own." By wielding and demonstrating proficiency in assessing these three questions, the owner is able to give rise to increased value and profit because he is utilizing the goods in a more efficient manner compared to an individual who lacks ownership competence. Klein's insight has interesting implications for the kibbutz model: when individuals are prevented from owning either specific lands or specific capital goods, entrepreneurial figures are prevented from arising who could accurately be able to answer the three questions outlined by Klein regarding ownership competence; the kibbutzim are unable to accurately determine what, how, or when to own. This implies that, since the kibbutz as a democratic is unable to engage in the necessary calculation required to promote ownership competence, the result is ownership incompetence. Goods and assets are not used to pursue their highest ends. In this case, the goods, primarily farming land and other producer goods relating to agriculture, were thus subject to waste.

IV. Conclusion

This paper focuses on the specific institutional environment in which the kibbutzim existed; this fact limits the applicability of the findings to other communes and collective organizations in different institutional contexts. Future research could expand upon this analysis by incorporating comparative studies of other collectivist organizations in various countries to

identify common institutional factors that lead to their emergence, persistence, and ultimate disappearance. In conclusion, the rise and fall of the kibbutzim can be understood not only as an ideological change, a leftward shift in the demand for collective settlements, but the reasons for that shift can be explained as well, namely a complex interplay of institutional changes that led to making the inherent problems with the organizational form more dominant. Initially, the kibbutzim flourished due to the ideological appeal of collectivism and Zionist settlement policies that prioritized secure communal living in an uncertain legal and political environment. Kibbutzim provided both security and a sense of purpose, supported by subsidies and grants from bureaucratic institutions like the Jewish National Fund and the later State of Israel. As Israel shifted towards economic liberalization and reduced government support in the 1980s, the kibbutzim struggled with problems inherent to their model of organization, such as the lack of internal as well as external specialization, the tragedy of the commons, incentive problems, lack of authority, and ownership incompetence. Ultimately, the kibbutz was no longer an efficient form of organization in a changed institutional environment. As subsidies dried up, the costs of communal living began to outweigh its benefits, leading to privatization and the disappearance of most kibbutzim. While the movement was a uniquely long-lived experiment in collective living, it ultimately serves as a cautionary tale for future attempts to establish egalitarian and collectivist forms of organizations unless one is in an environment that specifically caters to them for political reasons.

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