

Antecedents and Consequences of the Adoption  
of Market-Based Compensation by Israeli Kibbutzim

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Abstract

For more than two decades, the Israeli kibbutzim have faced two chronic crises, one financial, and the other demographic. Kibbutzim responded initially with a series of mostly modest economic reforms, but later began to consider more radical changes. Between 1995 and 2007, two-thirds of Israel's 249 nonreligious kibbutzim transformed themselves into kibbutzim of a new type. Whereas traditional kibbutzim distributed incomes on the basis of "from each, according to ability, to each, according to need," "new" kibbutzim pay differential market-based salaries to their members. This paper explores the relationship between this transformation and the two crises that are widely seen as having inspired it. We begin with models of the transformation of traditional kibbutzim into kibbutzim with "new" or "mixed" forms of compensation. As expected, kibbutzim that were experiencing financial or demographic problems were significantly more likely than others to introduce changes in compensation. A later part of the analysis estimates the effects of transformations in compensation on subsequent financial and demographic performance. We find that once the tendency of outliers to regress toward the mean has been taken into account, the transformation of financially and/or demographically struggling kibbutzim into new kibbutz does nothing to reverse losses of either members or cash.