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Institutional Combination for Cooperative Financing: Trustful Cultures and Transformational Mid-Levelers Overcame Old-Guard Conservatism

Proper financing is often critical for cooperative development, but banks usually avoid providing it. A federation/consorzi of cooperatives that creates a guarantee fund may help to obtain financing in normal periods, but not in turbulent times which require radical, costly changes. Israeli kibbutzim faced this problem in the 1950s-1960s when they sought industrialization and agricultural change to export crops. Conservative old-guard leaders did not use their ample power to obtain financing for the turnaround. A mid-level official, who had been a transformational leader, created solutions without compromising cooperative principles. Ideas for practices enhancing high-trust cultures, which encourage the emergence of such leaders, are offered.

Keywords: Co-Operatives' Financing; Public Funding; Mid-Level Innovators; Federation Oligarchy; High-Trust Cultures.

INTRODUCTION

Cooperatives are usually established by people with limited means and possessions; hence, their ability to give guaranties for loans from banks is limited, and banks are usually reluctant to finance their investments, afraid that loan money cannot be recovered in case of economic failures. One solution successfully used by Mondragon cooperatives was the establishment of their own bank which financed rapid growth from a few small cooperatives into a large federation of some hundred cooperatives with some 20,000 members in the late 1980s (Whyte and Whyte, 1988). This bank has recently enabled much greater growth: The federation has become a global semi-capitalistic corporation, MCC, that expanded to low-wage countries, growing to 103,731 employees in some 260 firms of which only less than half are cooperatives, and salaries of CEOs grew to eight to nine times that of members (Basterretxea and Albizu, 2009, 2010; 'Cleveland Goes…', 2008-9). Already in 2006 the number of non-members equaled that of members among the then 84,000 employees; in the Basque region, 80% of employees were co-op members, but in Spain and in other countries the opposite was true (Winther, 2008). MCC publications ignore these facts that clearly compromise cooperative principles. One can conclude that although owning a bank by a cooperative federation assures financing, its dynamics lead to non-cooperative practices. Thus, another solution may be preferable.

According to Stryjan (1989), cooperatives are 'Impossible Organizations': besides those which fail much as other firms do, those which succeed and grow introduce capitalistic practices that curb egalitarianism, democracy and creativity required to maintain cooperative principles, often causing stagnation and either failure or crises leading to transformation into capitalist firms. Stryjan found that Israeli kibbutzim (pl. of kibbutz) were exempted by remaining relatively small, egalitarian, democratic and creative, eagerly sharing knowledge of successful innovations which were adopted by other kibbutzim, while their federative organizations (hereafter: FOs) performed functions that required economies of scale. Brumman's (2000) study of successful communal societies supported this: Only federatively organized societies continued to succeed beyond the life span of founders, because federalization gave local communes autonomy, mitigating suppression of creativity by a society's conservative old-guard leaders.

These findings also help explain the success of Mondragon cooperatives by their federative structure, but the recent compromising of cooperative principles serve as a warning against over-optimism, especially when considering the recent crisis of the kibbutzim despite such a structure. When Stryjan was published, reality had radically changed and the kibbutz success he explained had vanished: Most FOs and kibbutzim were in financial ruins, deep in a huge debt crisis which has required two national rescue packages costing the government billions (in US$ terms. Ben-Rafael, 1997; Leviatan et al., 1998). Many FOs had gone bankrupt; most of the rest were radically downsized, while a wave of capitalist practices engulfed kibbutzim and FOs which is still continuing (Kressel, 1996; Rosner and Getz, 1996; Ben-Rafael and Topel, 2009). During this crisis, cooperative principles were mostly abandoned, but in the earlier kibbutz debt crisis of the 1950s-1960s these principles were even strengthened. This raises the question to be studied: What was the institutional combination that produced the very different outcome, and how it was done? What are the lessons for the financing of cooperatives in turbulent times such as these?

Kibbutz Debt Crisis of the 1950s-1960s

Kibbutzim did not own a bank; they were organized from 1927-9 in three federations called The Movements which provided for their interests in national organs such as the Jewish Agency, the Histadrut General Federation of Labor and the Government. The Movements established their Funds in 1933-5, collecting small fees from kibbutzim and giving both kibbutzim and FOs loans and guaranties for loans taken from banks. One reason for not seeking a more comprehensive financial solution was that main financing came from Zionist organs, and Kibbutz Fund loans and guaranties answered special needs not financed by these organs, mainly industry, services and FOs (Sack, 1999). This financing was sufficient in eras of moderate growth and prosperous economy, but not when large sums of money were required to finance growth and restructuring in turbulent periods. Kibbutzim prospered up to the War of Independence in 1948, during which many of them suffered heavily. Then a huge wave of immigrants arrived in Israel, requiring ample means for their absorption and the establishment of many new kibbutzim in areas inhospitable for agriculture such as the Negev desert and the mountainous Galilee. At that time kibbutzim also suffered a series of political crises and mass attrition. However, in the late 1950s their efficient innovative agriculture whose innovations diffused to moshavim (semi-cooperative settlements), created surpluses of products in local markets and falling prices, leading to losses. Kibbutzim then turned to export crops such as cotton and avocado, industrialized and industrialized agriculture by establishing regional processing plants that enhanced efficiency by economies of scale (Brum, 1986; Niv and Bar-On, 1992; Shapira, 1987, 2008).

Kibbutz innovators were relatively young economic managers and treasurers, and mostly quite new in their offices because of the *rotatzia* (rotation) norm that stipulated short terms in offices, presumably to prevent oligarchy though in reality it enhanced oligarchy: Movement leaders continued for life, other FO heads continued a bit less, and lesser officers circulated between kibbutz and FO offices, never returning to the ranks (Shapira, 2001, 2005, 2008). Innovators faced major obstacles when seeking financing for the above changes:

1. Resistance by local conservative informal leaders who dominated decision-making because of their status as the first kibbutz managers and then advancing to prestigious executive FO offices or other outside high offices on Movements' behalf (Shapira, 1990, 2008: Chaps. 12-15).
2. Conservative oligarchic Movement leaders already in their dysfunction phases (Hambrick and Fukutomi, 1991), who were patrons of the informal local leaders and who ignored the need for major restructuring and its financing problem (Shapira, 2008: Chaps. 10-11).
3. Conservative banks, skeptical of kibbutz innovations, and unwilling Movement Funds both because of old-guard conservatism and limited means (Sack, 1999; Shalem, 2000).

A few veteran kibbutzim, mainly those affiliated to the dominant Mapai party, did not need restructuring as they had already industrialized in a capitalistic manner, with many hired workers and in some cases also sharing ownership with capitalists (Elmaliach, 2009: 56-60). In many other kibbutzim informal conservative leaders obstructed managers' innovation to maintain dominance by barring successes that could have empowered managers (Shapira, 2001). Remaining dependent on unprofitable agriculture, the standard of living was low, especially in kibbutzim which settled in inhospitable areas, and they suffered brain-drain and attrition of members who followed their desperate innovators, ruining efficiency, causing losses and non-payable debts (Shapira, 2008: Chaps. 14-15). A third category were innovative kibbutzim in which local old-guard leaders who were conservative FO officials, had been transformational leaders in the past (Burns, 1978; Depree, 1990; Graham, 1991), and had shaped democratic and high-trust kibbutz cultures that enhanced innovation. Though objecting to managers innovations, they were high-moral and supported democracy, abided by kibbutz decisions that adopted innovations, did not bar their implementation as did informal leaders in the previous category (Shapira, 2008: Chaps. 14-16).

However, innovators could barely find proper financing. Movement Funds rarely financed investment in innovations, and the banks either refused to finance them or used the desperate need of kibbutzim for credit and gave it against promissory notes (IOUs) at a very high interest rate (Shalem, 2000: 88). Already in 1952 kibbutzim paid 11.2% of their revenues as interest on loans and this continued through the 1950s. Some kibbutz treasurers financed investments by short-term loans, but as the fruits of investments came much later, this often caused a snow-ball of mounting debts (ibid). Another creative solution was 'check rolling' which was invented by Yehuda Dishon of Kibbutz Kfar Szold (Brum, 1988: 78), as one ex-treasurer described (Gelb, 2001: 98-9):

> 'But kibbutz treasurers helped one another and together devised a scheme for manufacturing money. We essentially began to kite checks by opening bank accounts in different cities.

> Checks took a day or two to clear (on weekends it took three), and the difference gave us tiny breathing spells. Banks eventually caught on to the scheme, refusing to honor checks we wrote to ourselves, so we started writing checks to one another… Between faked checks, we always inserted genuine ones from bank loans; the Movement; a business; or Tnuva [an FO]…. Occasionally friends extended genuine loans for a week, month, or two months. With real checks I could kite the faked money up to the equivalent of $50,000'.

However, even this faked money solved treasurers' adversity for a while only as debts mounted because of unprofitable agriculture and expensive loans. A genuine solution was required for most kibbutzim, a solution which the more conservatives might have followed the more innovative ones had they had the means to do so, and had they seen innovators freed from unbearable debts.

'The Brum Club': Cooperation of All Funding Institutions

The prime solution for the financial adversity that enabled the renewed prosperity of the kibbutzim for some two decades was the creation of co-operation between Movement Funds, the banks, the Jewish Agency and the Government by mid-level transformative officials. The new scheme created cooperation by all funding institutions and kibbutz managers in answering credit needs according to an agreed upon yearly development plan. Then the Jewish Agency and/or the government gave their share of the required money to one bank to which the kibbutz was 'attached', the bank added equivalent sum of its own money and the kibbutz treasurer got all the money needed for development from this bank as long-term loans at reasonable interest rates, no longer seeking expensive piecemeal credit from many institutions and private loans, and no more 'check rolling'. The leader of this scheme was Avraham Brum, head of the Ministry of Agriculture's Credit Department, hence, it was called 'The Brum Club' (a 'Club' because a kibbutz was free to join it or not). The 'Club' was a major success that enlarged fast: from nine kibbutzim in 1964, to 57 in 1967, and up to 185 kibbutzim (some 75%) in 1972, as well as 127 moshavim (Some 30%. Shalem, 2000: 113-4). The results of the 'Club' solution were a diminishing burden of loan interest, from 9% in 1963 to 3% in 1978, and kibbutzim owned capital grew in this period from 8.6% of total fixed assets, to 46% (Brum, 1986: 78).

Interestingly, the idea was imported from the US: the Farmers Loans Administration used it since the New Deal era and so did a bank in California. Both sought the rescue of failing farms by giving credit at reasonable rates and nominating experts to guide and monitor its effective use. The manager of the Settlement Department of the Jewish Agency and the manager of the parallel department of the large Bank Leumi learned about the solution when visiting the US. In 1958 they established the 'Guided Kibbutzim' scheme aimed at rescuing eleven debt-ridden young kibbutzim with a Jewish Agency budget of 700,000 Israeli Lira (equivalent to some $7 Million today; Shalem, 2000: 80-1). Subject to 'attaching' a kibbutz to Leumi, the bank added the same amount, thus each kibbutz was given $1-2 million long-term low interest loan, while the Agency guided and monitored the use of the money. Later other banks joined the scheme as they saw that if not, they would lose clients to Leumi and because the Agency involvement assured the money invested. Seven more kibbutzim joined the scheme in 1960, and 30 more in 1963. Some Movement officials objected to the scheme, arguing it would cause inefficiency (Brum, 1988: 95), but most economists and financiers pressed to enlarge it, encouraged by the fact that guides and monitors were kibbutz veteran officers who used their experience to prevent inefficiency (Shalem, 2000: 81-7).

From this scheme emerged in 1963 the 'Brum Club' when the Ministry of Agriculture credit department headed by Brum was enlarged and renamed Centralized Credit Department to signal the change to a similar system of centralizing the financing of a kibbutz or moshav in one bank which cared for credit according to an agreed upon development plan. The Jewish Agency's 'Guided Kibbutzim' plan continued to care for younger kibbutzim up to a point, and then they too joined the ‘Club’. In the late 1960s a quarter of the government budget for agricultural development was allotted to the ‘Club’, as it was seen as very successful (ibid: 122). However, why was it decisive even though its credit amounted at most to only some 20% of the money a kibbutz invested, and by 1970 it was only 13% of the money kibbutzim invested (ibid: 122-4)?

It was decisive because most of the debts were outcomes of bad financing for good investments in innovation and restructuring. Hence, with this aid a kibbutz soon returned to profitability and was able to finance many investments from its own profits. Moreover, the scheme enhanced innovation since conservative local leaders could not halt managers’ innovations by alluding to a lack of money. With the success of kibbutz economies in the late 1960s, although the ‘Club’ gave more credit to many more kibbutzim, by 1970, the kibbutzim financed 48% of investments from their own profits as against 13% financed by the ‘Club’ (ibid: 122-3). However, the scheme was still of major importance both for its own support, and by encouraging other institutions to follow it. For instance, experts of the World Bank were enthusiastic about it, and in 1973 the bank enlarged its loans to Israeli agriculture by $35 million (Brum, 1986: 77).

The Establishment of the ‘Club’ and Brum’s Pivotal Role in It

The back cover of Brum’s (1986) book about kibbutz agriculture depicted his role thus:

> ‘It was Avraham Brum who formulated the policy which freed agricultural settlements from the intolerable burden of loan interest...’

Who was Brum and what was his pivotal role in the success of the scheme?

Brum was born in Poland in 1910 and in 1934 joined a large collective of young Jewish pioneers aiming at immigrating to Palestine to establish kibbutzim. He soon became its main leader up to 1939 when he immigrated and joined Kibbutz Shefayim (Brum, 1988: 34). He worked in various agricultural branches, was chosen kibbutz secretary in 1944, treasurer in 1947, and became an official of the Kibbutz Meuchad economic department in 1952 (ibid: 57-9). In 1955 he joined the Ministry of Agriculture as a deputy to General Manager Haim Gvati of Kibbutz Yifat who was in charge of finding ways to finance agricultural production. At first, after conducting a study, he found that a yearly production of 100 liras required a short-range credit of 25 liras. Then he with others worked to obtain it and established Production and Marketing Councils for each agricultural domain that according to each producer's production allotted the 25% credit. He explained: 'I managed to overcome the situation I found when I came to office of many settlement treasurers filling Ministry corridors and begging, demanding some thousand of liras [for financial rescue]' (ibid: 90). Eventually he became the liaison between the Ministry, the Ministries of Finance, of Industry and of Housing which also allotted some credit to kibbutzim, and all other financing institutions: the Jewish Agency, Production Councils, banks, and Movement Funds. He participated in the many committees that were nominated from 1957 to deal with the mounting debts of the kibbutzim, but saw that their sound recommendations which could have solved the problem were never fully implemented or even completely ignored (ibid: 93-6). One reason was that one or another of the above institutions objected to these recommendations. He used 'endless lobbying' among these institutions as well as the Knesset (parliament) to ensure their co-operation, and working hard, he achieved some successes. One was conversion of short-range into a long-range credit using money from the government and a Jewish Agency subsidiary that helped 34 older kibbutzim (Shalem, 2000: 86-90). Another success which also required much work, was conveying money from the Histadrut's Bank Hapoalim to the governmental Bank of Agriculture by which it financed kibbutzim and moshavim, all of them also affiliated to the Histadrut (ibid: 92).

However, the financial situation of many kibbutzim remained severe. A major reason was the indifference of Movement leaders who never involved themselves in the financing problem, and never used the ample political power at their disposal to help solving it: kibbutz members accounted for one third of the government and one sixed of the parliament. This indifference was a major explanation for the fact that most of the committees' recommendations were ignored, since those interested in them were powerless kibbutz treasurers and economic managers, while the powerful leaders and their deputies who were Cabinet Ministers and MPs remained indifferent to the problem. Only one prime leader tried helping as it fell into his jurisdiction: Two years after Kadish Luz of the Ichud federation was nominated Agriculture Minister, in 1957, he nominated the Horowitz Committee to deal with the problem, but before it concluded two and a half years of discussions (a slowness that also signal indifference to the plight of kibbutzim), Ex-General Moshe Dayan replaced Luz and shelved committee recommendations although its head, David Horowitz, was the highest financial authority as the Governor of the Bank of Israel. Other signs of indifference were the year it took to organize a convention of treasurers to discuss their plight (Sack, 1999: 122-4), the fact that up to 1962 none of the Movement secretariats dealt with the problem, then only one, Hakibbutz Hameuchad, discussed it, but none debated the 'Club' solution (Shalem, 2000: 92, 98-9). Moreover, had prime leaders been involved, they could have pointed out that solving kibbutz financial problems according to Horowitz committee recommendations would have enhanced restructuring according to government policy that favored exports and industrialization (Elmaliach, 2009).

However, prime leaders' indifference encouraged Brum to seek a solution with others' help. Working in his favor was his remaining head of the credit department unlike all other department heads who Dayan replaced by his own loyalists (Brum, 1988: 92). However, Ari'el Ami'ad was nominated General Manager of the Ministry. His father had pioneered the first agricultural experimental station in Palestine in 1906, his brother lectured agricultural economics at the Hebrew University and all of his extended family had been moshav and kibbutz members. Hence, he knew their financial problems firsthand and encouraged Brum's efforts. When Dayan ignored the problem and Brum saw that the endless lobbying barely helped most kibbutzim, he pushed enlargement of the Jewish Agency's 'Guided Kibbutzim' scheme up to 48 kibbutzim, and as this scheme proved successful for years, Ami'ad decided to establish a similar scheme within the Ministry for older kibbutzim and moshavim without asking Dayan's permission. Together with Kibbutz Alliance Head Haim Gvati, they met Finance Minister Pinhas Sapir, and after 'major and sharp argumentation' they convinced him that this scheme would solve the problem (ibid: 95). Ami'ad nominated a committee headed by Brum that stipulated all the details of the 'Club' practices and norms, and nine kibbutzim were admitted to it in 1964 as a trial period. As it proved successful, the Ministry of Finance enlarged its financing and the 'Club' grew rapidly (Shalem, 2000: 93, 113).

Institutional Sources for the Scheme's Success

In political economic terms the 'Club' was a neo-corporatist solution, one that supposedly leads to inefficiency because of what economist Kornai (1986) called 'soft budget constraints': As most budgets are gained by political means that makes budget constraints softer, it discourages maximizing economic efficiency. This however was largely irrelevant to the 'Club', both because it was independent of political centers, i.e., no any politician was involved in its decision-making, and because of soaring profits soon determined kibbutz budgets much more than loans from the 'Club', 48% as against 13%; hence, the solution motivated efficiency, as also proved soaring profits.

Of course, there were politics in the negotiations between kibbutz managers, representatives of the bank and the Movement Fund, and the 'Club' officials, but in order to get approval for its plan for the following year, a kibbutz had to prove efficient use of previous loans which was measured against efficiency of similar/adjacent kibbutzim, a measure independent of politics. Shalem also studied the possibility of low-morality among the ‘Club’ officials. Could they be bribed or influenced by other illegitimate means? He found this unlikely because officials were mostly high-moral veterans of kibbutz and/or FO management (mostly aged 50-65) who joined the Central Credit Department by recommendations of Movement economists, and in all the interviews both with them and various people connected to the Department, no sign of such influence was ever found. Highly motivated by national and socialist ideals, they were devoted to professionalism and integrity, sought no career advance that plagued many young FO officers (Shapira, 2008: Ch. 6), but focused on helping their clients solve financial problems (Shalem, 2000: 164-5). Since they measured each kibbutz’s performance against many others, they easily exposed slipping efficiency, and it was in their own interest to stop it, since the following year a less efficient kibbutz would need more money than if it had remained efficient. Moreover, almost all officials had personally experienced the hardships of financing kibbutz needs in previous era; hence, they were motivated to assure the ‘Club’s’ success in order to prevent returning to such an era.

Of major importance was Brum’s high-moral, transformational leadership as a department head. He had perfected such leadership ever since 1934 when, at the age of 24, he became the leader of 250 impoverished young pioneers in Poland. In 1939, he immigrated with a few of them and joined Kibbutz Shefayim. Already in Poland he was innovative and found creative ways to cope with hardships, and he did the same as kibbutz secretary and then as treasurer (Brum, 1988: 38, 40, 57, 58). Many alluded to his bright and sharp brain, while others found him also ‘bold but responsible in seeking new solutions’ (Raz, 1988: 61), ‘a man of principles and deeds who did not seek publicity but doing serious things, [while being] advised and humane’ (Yaakobi, 1988: 183), and ‘devoted and industrious’ (Efrat, 1988: 183), to cite a few of the many superlatives in his commemoration book. These characteristics helped him choose the right fourteen enthusiastic experts for the department. Successful leaders tend to develop hubris, narcissism and self-serving behaviors, but none of these appeared in Brum with the success of the ‘Club’; from many other testimonies that cannot be cited for space reasons it is clear that he remained a humble servant of the kibbutz cause until his death in 1986. He modeled high-moral leadership that his department experts followed when making decisive decisions concerning financing kibbutz development. In accord with organizational trust literature (e.g., Dore, 1973; Graham, 1991; Hosmer, 1995), this high-morality assured a kibbutz treasurer of the trustworthiness of the officials on whom his financing was dependent.

Discussion

The case of the ‘Brum Club’ may seem unique in the combination of elements that brought about successful financing of hundreds of cooperatives. However, many of its sociological institutions were not unique; hence, one can learn about plausible solutions for other cooperatives from it:

1. A federative structure is not unique; neither are successful leaders who become conservative oligarchs who ignore problems in order to bar innovation that could elevate new contenders to power, nor are mid-levelers who suffer most from unsolved problems and who try to devise new solutions but are discouraged by oligarchs.
2. A corporatist solution is not unique either, but usually it is used in low-trust cultures with self-serving officials who cause inefficiency by abusing knowledge and information, while high-trust cultures are also not unique, though most organizational literature ignores them (e.g., Dore, 1973; Hosmer, 1995; Shapira, 2001, 2008).
3. High-trust cultures are engendered by high-moral transformative leadership that has recently been clearly differentiated from charismatic leadership which may be low-moral, engendering low-trust cultures (Barbuto, 1997; Beyer, 1999; Graham, 1991).

High-moral transformational leadership is relatively common in a group of people who establish a cooperative: One or a few of them prove better able to lead, and if they are talented and high-moral innovators they solve major problems and engender success and growth. However, with success, growth and decline of participative democracy, when instead of a dozen or two members there are 100-200 people or more, and when the leader enters dysfunction phase (Hambrick and Fukutomi, 1991), leadership becomes conservative and self-serving. However, if prior to such a phase a leader advances to an FOs/consorzi and faces new challenges with which s/he again copes 'bold[ly] but responsibl[y]', by 'serious, advised [and] humane [doing]', this can keep her/him high-moral and innovative. Brum and others like him that I have studied in kibbutzim and FOs were the true backbone of the continued success of the kibbutzim for 75 years. Their careers, like that of Brum, included a series of periods in each of which they continued long enough in an office to cause a major innovation, and they continued doing so in their next offices. Many of them sooner or later were suppressed by old-guard conservatives, either within their kibbutz or in an FO, and exited. Thus, the prime solution to prevent brain-drain of transformational leaders is a proper succession system of top leaders that replaces them as soon as they enter a dysfunction phase. I have proposed such a system (Shapira, 2008: Ch. 18): A leader must stand for re-election after four years and if re-elected he can stand again after eight years, but then s/he must pass a higher trust test such as a 2/3 majority, and a fourth term is possible only if s/he achieve higher trust, such as 88% majority. This solution requires additional stipulations in the case of an FO/consorzi leader; for instance, a defined constituency that is eligible to vote, may be a parliament of cooperative delegates. Constitutional questions arise from such a stipulation; hence, a large FO/consorzi requires a detailed constitution.

However, the Brum case points to another important direction of thought about overcoming oligarchic tendencies in large cooperatives: nurturing transformational leaders in all managerial echelons in order to assure that, in cases of overly conservative top leaders, there will be enough innovative mid-levelers who find ways to solve major problems innovatively even without top leaders consent. A federative structure is clearly a prime requirement for that, as Stryjan (1989) already pointed out, but another requirement is participative democracy in local cooperatives, as in Kibbutz Shefayim in its early days. However, kibbutz studies show that when a kibbutz grew up to 200-300 members, such democracy dwindled, unless high-moral local leaders made special efforts to encourage participation, and kept democratic rules, allowed implementation of young managers' innovations even if they themselves opposed them (Shapira, 2008: Ch. 16). This way a high-trust culture is created which encourages innovative management, and this was the fertile soil from which Brum-like leaders emerged whenever they were given the right opportunities.

Conclusions

The combination that engendered proper financing of kibbutzim, solving the debt crisis of the 1950s-1960s, included many types of financing institutions organized into two schemes over one of which a kibbutz member transformational leader presided. Helped by General Manager of the Ministry of Agriculture and other mid-level officials, he created a guiding and monitoring unit aimed at a concerted effort by all involved institutions to pull the kibbutzim out of debt in order to encourage their development without any interference in their principles, unlike the rescue packages of the recent debt crisis that have encouraged abandonment of cooperative principles. The scheme was a major success from every point of view: It indeed 'freed agricultural settlements from the intolerable burden of loan interest', lowering it in 1978 to one-third of the 1963 burden; it enhanced industrialization, industrial processing of agricultural products and restructuring of agriculture in accord with government aims while making kibbutzim much more profitable, hence, much less dependent on outside financing. No one has studied the cost in terms of taxpayer money of the 'Brum Club' as against the rescue packages of the recent crisis, but it is clear that its net cost was much smaller if there was any cost at all. Initially, taxpayers' money constituted only half the sum while commercial banks supplied the other half. Then within a few years enlarged profitable production repaid much of taxpayer money in taxes to the government, in addition to repaid all loans and interest. This did not happen for many years in a large number of kibbutzim in the recent crisis in which capitalistic solutions were used. In addition, in contrast with 'Brum Club', in the recent crisis, large amounts of loan money have been declared lost debt.

The case proves the decisiveness of high-moral transformational leadership and the creative solutions it engenders. Such leadership nurtures high-trust cultures in which corporatist solutions can work for the common good, contrary to the belief that they lead to inefficiency. Such solutions can assure proper financing for cooperatives because if properly managed they can guarantee lenders' money, and thus, pull in reluctant banks. With a proper monitoring and guidance administration under the auspices of a large entity such as a governmental agency or another major public agency, banks and other private institutions would take part in financing cooperatives for sheer business considerations. It may bring them less return on investment, but will entail zero hazards and will assure more clients. A radical solution is a self-owned cooperative FO/consorzi bank which has the drawback of centralizing financing power in one institution that is susceptible to oligarchic conservatism like many banks; thus, it endangers cooperative principles, as seems to be the case with Mondragon cooperatives becoming semi-capitalistic MCC.

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