

Abstract:

We study the effects of labor market liberalization on attitudes towards free-market capitalism and socialism, exploiting a sharp reform whereby Israeli kibbutzim shifted away from equal sharing into market-based wages. Our identification strategy relies on the sharp and staggered implementation of this reform in different kibbutzim. We measure attitudes towards a market economy, capitalism, and socialism in surveys one of us (M. Palgi) has conducted annually over the past 25 years. The reform led to increased support of free-market policies such as full privatization and differential wages. It decreased support of socialist policies such as the joint ownership of production means and the Marxist principle from the ability to needs. Simultaneously, the reform also increased support for the safety net to support weak members through mutual assurance. These effects appear to be driven by an increase in living standards and work ethics that resulted from the reform. To study behavior associated with the attitudes we study, we document that the reform led to a shift in political preferences, resulting in a decreased support to left-wing political parties and increased support for center parties in national elections. Overall, we conclude that introducing market-based wages led to a shift in attitudes towards a market economy with compassion, revealing a change from their traditional democratic socialist model to a social democratic model