

## The divided economy of Mandatory Palestine

Adopting a systematic, yet non-technical, approach, Jacob Metzer's book is the first to analyze the divided economy of Mandatory Palestine from the viewpoints of modern economic history and development economics. While the existing literature has typically focused on the Jewish economy, this book explores the economic activity of both Arabs and Jews in the complex political arena of the period. Drawing on recently constructed national income accounts for Arabs, Jews, and the country as a whole, the book offers new quantitative evidence and interpretations concerning key topics such as Palestine's land, capital, and labor markets, the demographic and socio-economic traits of Arabs and Jews, their economic performance and bilateral relations, and the political economy of the country's public sectors. These topics are examined comparatively within the context of the "dual economy" postulate, while distinguishing developmental disparities of a general "dualistic" nature from specific ethno-national political factors. A concluding chapter reviews the complex and uneasy record of Arab-Jewish economic co-existence over the last three-quarters of a century in the area of Mandatory Palestine, composed of present-day Israel, the West Bank, and the Gaza Strip. The book promises to make a significant contribution to the economic history of the modern Middle East and to the understanding of the Arab-Israeli conflict. The concentration of new data will provide a valuable resource for future research.

JACOB METZER is Alexander Brody Professor of Economic History in the Department of Economics at the Hebrew University of Jerusalem. Through most of his career he has worked on the economic history and development of Mandatory Palestine and Israel. Besides publishing widely in scholarly journals he has written (in Hebrew) two books in the field: *National Capital for a National Home* (1979) and *The Jewish and the Arab Economy in Mandatory Palestine: Product, Employment and Growth* (with Oded Kaplan, 1990).

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To the memory of Yoram Ben-Porath,  
colleague and friend

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## Preface

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After World War I Palestine rapidly turned from being a loosely defined geographical area within the defunct Ottoman empire into a well-delineated territorial and administrative entity, unified by the British Mandate and its modern government. Several major developments took place under the British rule: on the one hand, Jewish immigration grew substantially, Zionist land acquisition expanded, and a thriving Jewish national community, run by self-established and officially recognized autonomous institutions, was taking form. On the other hand, partly in response to the Zionist “nation-building” aspirations and settlement, the period saw the crystallization of the Palestinian-Arab national movement and the intensification of the ethno-national conflict (which is still very much with us) between Arabs and Jews over territory, political domination, and self-determination. It follows that although the Mandate period lasted less than thirty years, it constitutes a highly significant and formative era in the history of modern Palestine.

Scholars have long been attracted to this fascinating and important chapter in the history of the country and its peoples. A large number of studies on Mandatory Palestine have appeared, addressing, among other topics, the economic scene which was a major component of the story. But since most of the scholarly work in the field was done by political historians, political scientists, and sociologists, economic issues were generally treated as part of the political and socio-political context. In this literature attention was therefore given mainly to the economic policies of the government, to their effects on Arabs and Jews, and to the political motivations and implications of the economic relations (or lack thereof) between the two peoples, specifically, their interactions in the land and labor markets.

In the past three decades, however, partly drawing on important economic treatises by contemporaries (such as Bonne, 1938; Himadeh, 1938; Grunenbaum, 1941; Abramowitz and Guelfat, 1944; Nathan, Gass, and Creamer, 1946; Horowitz, 1948), a thin but steady stream of findings on various economic features of Mandatory Palestine has been

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produced by modern economists and by quantitatively oriented economic historians. One of the early products of this research was the pioneering work by Szereszewski (1968), who constructed estimates of annual series of production, investment, capital stock, and employment for the Jewish sector in 1922–47. These estimates laid the quantitative foundations for later studies on a number of structural and operational attributes of Jewish economic life and growth performance (see for example, Giladi, 1973; Gross and Metzer, 1978; Halevi, 1983; Beenstock, Metzer, and Ziv, 1995).

Another fruitful line of research concentrated on quantitatively documenting and systematically examining the allocational and distributional characteristics of government economic policies (Metzer, 1982; Gross, 1984b). A third line consisted of monographic studies addressing specific topics such as the economy of World War II (Gross and Metzer, 1993) and the land tenure regime in the rural Arab community (Firestone, 1981, 1990).

In general, though, the lack of an appropriate database recording Arab economic activity (except for the estimates made by Gaathon [1941, 1978] for 1936 and by Loftus [1946, 1948] for 1944 and 1945) has severely limited the options for a thorough examination of the economic structure and development of the Arab community, leaving a major component of Mandatory Palestine's economy relatively unexplored. In part, this constraint was removed by our construction of annual output and value-added estimates, by industry, for the Arab sector within a complete system of national-income accounts for Mandatory Palestine (Metzer and Kaplan, 1990). These accounts are presented in the detailed data appendix (part A) to this volume.

Relying on these newly constructed national income accounts, which are essential building blocks for the analysis that follows, and drawing on other source material and previous studies (my own and those of others), this book offers a first thematically designed account of the ethno-nationally divided economy of Mandatory Palestine by a "professional" economic historian, equipped with the "tool-kits" and methodologies of modern historical and development economics. It presents, in a comparative international framework (when possible), rich demographic and socio-economic material and new quantitative documentation and interpretations of Arab, Jewish, and government economic activity, while examining the major components of Palestine's economic structure and change within the complex political context of the Mandate era.

Chapter 1 sets the stage for the entire book. The opening section introduces the subject matter and discusses the conceptual and empirical justification for considering Mandatory Palestine an economy divided



between Arabs and Jews, and for adopting the “dual economy” postulate as an organizing theme for its analysis. The second section of this chapter presents a comparative bird’s-eye view of the two ethno-national sectors’ economic structure, their record of economic activity and growth, and bilateral economic relations; it also serves to identify the issues to be dealt with in more detail in the rest of the book.

Chapters 2 and 3 are devoted to the human factor in the country’s economic life. Chapter 2 examines, in a broad comparative context, the demographic and socio-economic traits of Palestine’s Arabs and Jews as affected by, and effecting their, disparate states of development and ethno-national split. In chapter 3, the quantitative dimensions and the demographic and socio-economic characteristics of Palestine’s Jewish immigrants are treated in greater depth.

The production side of Palestine’s economy is taken up in the next two chapters. Chapter 4 provides some orders of magnitude concerning the primary factors of production: land, capital, and labor. We examine, from an economist’s viewpoint, the political, demographic, and economic mechanisms underlying the structural characteristics and operation of the markets for these factors (which, more than anything else, typify Palestine’s ethno-national economic dualism), and offer interpretive assessments of their distributional, allocative, and growth implications.

Chapter 5 concentrates on the dynamics of production and trade, distinguishing between the inter-war years and the extreme changes brought about by World War II. The first section reviews the sources and patterns of Arab and Jewish output and productivity growth in the aggregate, across and within industries. Emphasis here is on the developmentally distinct compositions of production and employment by industry in the two ethno-national sectors and on the attributes of structure and change in their respective agricultural and manufacturing industries. The second section documents and discusses Palestine’s external trade. First, the patterns and composition of the country’s merchandise trade are examined *vis-à-vis* those of inter-war world trade; next, the volume and structure of Arab and Jewish foreign and bilateral trade are dealt with, along with an assessment of their weights in the two sectors’ respective economic activity.

Chapter 6 is devoted to the public sectors. The first section begins by discussing the general economic policies of the government in a broad (colonial and Palestine-specific) context. It then moves on to a comparative examination of the distributional effects of the government’s fiscal system on Arabs and Jews, and to the attitudes of contemporaries toward its underpinnings and consequences. The second section surveys the outlays of the Jewish non-governmental public sectors, and the third

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section deals with some questions concerning the public-private mix in the Jewish economy, which distinguished it from the Arab counterpart.

Chapter 7 winds up the main body of the volume with a postscript that puts the economic story of Mandatory Palestine in historical perspectives. It addresses a number of issues stemming from the literature's long-debated comparisons between the economy of Mandatory Palestine and those of typical (African) settlement colonies, and comparatively reviews the main attributes of the complex and uneasy record of Arab-Jewish economic coexistence, over the past three-quarters of a century, in the area of Mandatory Palestine, composed of present-day Israel, the West Bank, and the Gaza Strip.

As it is a scholarly piece of economic history, most readers should see the main value of the book in the findings it reports and in the interpretations it offers concerning economic life in Mandatory Palestine and, in addition, in the reference and source material that its data appendixes provide. However, although largely resting on economic reasoning and analysis, the book is written and presented in a non-technical fashion, aimed at communicating with a wide audience of scholars, students, and interested laypersons, not narrowly confined to economic history "specialists." Besides the "inner circle" of readers interested in the economic, social, and political history of Palestine, and in the evolution of the Israeli-Palestinian relations, this book may find a more general readership as well. It should include, among others, those who are interested in the history of the modern Middle East; students of the economics of development, growth, and migration at large; and readers concerned with general problems of economic coexistence and ethno-national divides.

## Acknowledgments

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My research journey into various facets of the economy and the political economy of Mandatory Palestine has been a long one, spanning more than two decades. During this time I have benefited from more support, assistance, and constructive criticism than can be properly acknowledged here. But I would like, at least, to thank those institutions and individuals whose contributions were highly significant to my work.

Most of my research in the field was carried out under the auspices of the Maurice Falk Institute for Economic Research in Israel, whose directors and staff provided me with essential financial, academic, and technical support. Additional financial support was rendered over the years by grants received from the Israel Science Foundation administered by the Israel Academy of Sciences and Humanities, the Israel Foundation Trustees, and the Charles H. Revson Foundation of New York via the Jerusalem Institute for Israel Studies.

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This book, which builds (among other sources) on many of my accumulated research findings and quantitative evidence, was transformed

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from a general idea into a concrete project during my stay as visiting fellow at St. Antony's College, Oxford in 1992/93. Roger Owen of Harvard University (then director of the Middle East Centre at St. Antony's College, Oxford University) was very supportive; he generated the needed stimulus to get things started, and at a later stage provided insightful comments on an early draft of the first chapter. Useful comments on various chapter drafts were offered also by Peter Temin of MIT and Gur Ofer of the Hebrew University. Nachum Gross was, as always, extremely helpful. He read the entire manuscript with great care and made very important suggestions. I benefited immensely from all the comments and suggestions that were generously offered to me, including those I could not accept.

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The writing of the book was completed back home in Jerusalem. The Hebrew University provided generous support at the final stages of preparing the manuscript, and the directors of the Falk Institute were again very helpful, particularly in allowing me to benefit from Maggie Eisenstaedt's dedication and skills. She performed her usual indispensable task of turning a raw draft into a proper manuscript (text, tables, and figures). Marigold Acland, Middle East Studies editor at Cambridge University Press, was instrumental in efficiently leading the book from its inception through its acceptance for publication by CUP to the final stages of production and Mary Starkey was an efficient and cooperative copy-editor. I thank them all.

This book is dedicated to the memory of Yoram Ben-Porath, professor of economics at the Hebrew University, director of the Falk Institute for Economic Research, and later rector and president of the Hebrew University. Yoram was an economist of broad vision who, in the grand tradition of Simon Kuznets and T. W. Schultz, attempted throughout his professional career to advance our understanding of the interplay between economic development and growth and manifestations of human behavior in such areas as childbearing, acquisition of education, immigration, and labor supply. Making Israel the focus of the empirical facet of his work, he was also a pioneer in the study of the economic life of Israeli Arabs, unveiling the economic aspects and implications of the complex politics involved. His exemplary studies, his

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friendship, and his continuously expressed interest in my work inspired me greatly.

On October 18, 1992, Yoram Ben-Porath, his wife Yael, and their son Yahli were killed in a car accident. The loss caused by this tragedy remains with us.

## A note on numbers

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Due to the rounding of numbers, some totals (or other calculated numbers) in the tables may differ slightly from the summation of (or derivations involving) their quoted components.