

Chapter – 4

Palestinian's Economic Development Under British Mandate (1918-1948)

4.1. Introduction

The Israel-Palestinian conflict involves political, economic, geographic, cultural, ethnic, religious, social, moral, humanitarian, psychological and demographic factors. There is an intimate relation between economic development and demography i.e., population settled in the West Bank and Gaza. Like political development, Palestinian economy has also suffered from stability and continuity. The reason for this was constant political change where Palestinian people were forced to adjust to sudden demographic changes. The cause for this was major shifts in major trading partners. Throughout the history, industrial development was not given proper attention in West Bank and Gaza. The economy was more or less depended on imports and capital transfers had

always played a major role in financing trade deficits. But, the worst part was that because of lack of political independence, Palestinians were deprived of control over fiscal and monetary policy and as a consequence it was not able to shape the course of economic future. It would be proper to throw some light on Palestinian economic development through various phases. In understanding the economic problem, it could be divided into various chapters: (I) Palestinian economic development 1918-1948; (II) 1948-1986; and (III) 1987 onward.

4.2. Palestinian economic development 1918-1948:

The economic history of Palestine under the British Mandate poses a several of problems. First was the absence of data about economic life. Second problem was that of very little availability of the matter on the subject. The most important process of economic transformation which took place during World War II and just after was quite neglected. The final problem was what type of economy was in Palestine.

Roger Owen¹³⁸ has made an interesting study of Palestinian economy before 1939. To him, the most important is population. It is based on the censuses of 1922 and 1931 together with later government estimates foreign trade from 1922 onwards and the production of the principal agricultural crops from 1927. It has been made quite clear from various table given below: The only official attempt to calculate national

¹³⁸ R. Owen, *Economic Development in Mandatory Palestine 1918-48*, in ed., Abed, the *Palestinian Economy*, Routledge Library Editions; London & New York, 1988, p.15.

income was made in 1944, although some unofficial efforts were made in late 1930s. Roger Owen use has these data to look at the growth of population and at the different economic and social characteristics of the Arab and Jewish communities, and then at trade, agriculture and industry, before making a few general comments about the overall performance of the economy during the whole period.¹³⁹

4.2.1. Growth in Arab and Jewish population:

The population of Palestine increase between 1922 and 1939, from 750,000 and 1,500,000. The reason for the growth was Jewish migration: 35,000 immigrants between 1919 and 1923, 82,000 (1924-31) and 217,000 (1932-38). The arrival of them had important effect on the economy. In examining the economy of Palestine one has to look at the degree of urbanization of the two communities and the different patterns of employment. Still then, though the Arab population had background rural in the mid-1930s and only a quarter of it living in towns, the Jewish population was moved in different direction. It was urban based and just had a quarter on the land. It was estimated that some 21 percent of Jewish wage earners worked in agriculture and 20 percent in manufacturing with almost 50 percent in services in 1936. On the other hand, the comparative

¹³⁹ Ibid.

Arab figures were 62 percent agriculture, 8 percent manufacturing and 14 percent services.¹⁴⁰

Table 4.1: The population of Palestine in selected years: 1922-1947

	Arabs*	Jews	Total
1922 (Census)	668,258	83,790	752,048
1931(Census)	858,708	174,606	1,033,314
1939 (Estimate)	1,056,241	445,457	1,501,698
1944 (Estimate)	1,185,922	553,702	1,739,624
1946 (Estimate)	1,200,000	600,000	1,800,000

Sources: Palestine Government, *A Survey of Palestine* (3 vols., Jerusalem, 1946), vol. 1, p. 41 and Cunningham Papers (St. Antony's College Oxford, Middle East Centre), Box 1, File 2, tg 1775 of 23 September 1946.

The close scrutiny of the economic relationship of the Jewish community with the rest of the population of Palestine was quite difficult because all the data are collected from Jewish sources. As a result, the Jews were in profitable possible because more of the goods they required were from abroad or from their own growing industry than from the local economy. According to Szereszewski's estimate in 1936 Jewish purchase of goods and services from abroad (€P 9.5 million) were nearly three times those from the Arab sectors while Jewish exports (€P 3 million) were also about three times the value of sales to non-Jewish sectors.¹⁴¹

Another important consideration was Jewish purchases of Land. It had a severe impact on the Arab community which has very much lower

¹⁴⁰ R. Szereszewski, *Essays on the structure of the Jewish Economy in Palestine and Israel*, Jerusalem, 1968, p. 16.

¹⁴¹ R. Szereszewski, *op.cit*, p. 9.

level of capital resources. Perhaps the outcome was to create certain new opportunities while destroying old structures. As discussed above as the most notable derived for significant example was Jewish land purchases. Arab were agriculturalists access to an increasing area of land at a time when the Jewish population was increasing at a rapid rate. A full picture of Arab/Jewish economic relations are also related to the effects of government policies on communities with different structures. The question was the involvement. Whether these had the direct bearing on tariffs, taxes and public sector wage rates or such negative ones as governmental failure to enforce its own legislation. For example, it forbids certain types of Jewish land purchase in the 1930s.¹⁴²

4.2.2. Agriculture and Industry:

In the beginning of the mandatory period Palestine was mere an agricultural country. The most covered part of the cultivated area was meant to grow winter cereals-mainly wheat that barely. The rest included cereals (notably dura), fruits and vegetables. Irrigated agriculture was mostly limited to the coastal plain where it produced citrus fruits and some vegetables.

The size of the cereal crop was depended on winter rains and as one find in southern Syria. There was also an urge for good and bad harvest to run in three or four yearly cycles. Because of the marked fluctuation

¹⁴² T. Asad, *Class Transformation Under the Mandate*, MERIP Reports, 53, p.5.

from good times to bad it was perhaps difficult to point out any trend for overall output. Table 4.2 suggests that there was no obvious increase in the wheat crop between the wars and barley output nearly doubled.

Table 4.2: Production of Principle Crops: 1922-1945 (annual average in metrication)

	1920-4	1925-9	1930-4	1935-9	1940-2	1945*
Wheat	84,670	90,543	69,073	88,291	110,280	58,355
Barley	38,852	49,514	45,642	70,491	95,301	74,906
Olives	n.a.	12,895	11,101	36,380	40,649	79,469
Vegetables	n.a.	16,122	22,015	99,405	194,098	244,834

Sources: M. Brown, 'Agriculture' in Sa'id B. Himadeh, (ed.), *The Economic Organization of Palestine* (Beirut, 1938), pp. 128-9.

Cereal was the major crop of the great crisis in the early 1930s. The world depression saw the sharp decline of price. It resulted in series of bad harvests due to poor rains, from 1931/2 to 1933/4. According to one set of figures, the price of wheat dropped from €P 10.81 a ton in 1929 to €P 6.97 in 1931, while the price of barley went down from €P 7.66 to €P 3.03 during the same period.¹⁴³ The matter became worse 1928 because the introduction of a new system of land tax based. Thus, these compulsions forced the government forced to remit taxes on a large scale and make provision for so that they can purchase of seeds and other vital inputs.

The crisis enabled government to find out the main cause of the underlying problems which has affected farmers especially in the hills. A series of commissions were constituted to read out to such basic issues as

¹⁴³ Stein, *Land Question, Survey of Palestine*, I, p.143.

population pressure, the fragmentation of plots, the effects of Jewish land purchase and growing indebtedness. For example, the Johnson-Crosbie survey of 104 villages (containing just over one-quarter of the agricultural population) in 1930 revealed that the average level of indebtedness was €P27 per family, compared with an average income of only €P25-30 in 1929 – even before the collapse of cereal prices.¹⁴⁴ Provision were made to increase interest which was usually charged at some 30 percent. The authorities claimed that this gave little relief to poor farmers. However, efforts were made to protect peasants new Rural Poverty Tax. It was introduced in 1935 in order to lower the tax rates.

So far Palestinian agriculture was concerned the two major crops were fruits and vegetable production. It involved both Arab and Jewish efforts. It was noshing to see the amount of land marked for citrus trees of all kinds (oranges, lemons and grapefruit) raised from 30,000 dunums in 1992 to almost 300,000 dunums in 1939. Jews and Arabs had equal share in ownership. The main period of expansion came in the 1930s. The exports rose from 2.4 million cases in 1930/1 to a peak of 13 million cases in 1938/9. This was a positive sign for Palestine because it boosted Palestine economy in the international market. On the other hand, Arab-owned groves appeared to be less than those of the Jews and they had little from institutional support for either credit or marketing. But this was compensated by cheaper labor costs to some extent. Vegetable

¹⁴⁴ Quoted in Survey of Palestine, 1, p. 368.

production, made a steady increase in output during the 1930s and the major attention was given to tomatoes followed by onions, cucumbers and potatoes.

During the inter-war years, the manufacturing industry also saw considerable growth. The number of enterprises appear to have grown in size from around 1,240 in 1913 to 3,505 in 1927 (with 17,955 workers) and about 6,000 (with 40,000 workers) in 1936 (See Table 4.3). The vast majority were mostly handicrafts workshops and their numbers were less. Though industrialization has taken place in the mid- 1930s the number of factories with over 100 workers in 1937 was no more than 16.¹⁴⁵

Table 4.3: Indicators of the growth of Palestinian industry 1913-1947

(a) Estimates of total employment in industry			
	Arabs	Jews	Total
1921-2		4,750	
1927 (Census)			17,955
1930			15,000
1933		19,595	
1936		30,040	
1939	3,728		48,000
1942			64,000
1944			60,000
1944/5	13,000	65,000	
1947		46,000	
(b) Estimates of number of manufacturing enterprises			
	Arabs	Jews	Total
Before 1914	925	300	1,236

¹⁴⁵ R. A. Nathan, D. Gass and D. Creamer; Palestine: Problem and Promise, Washington, 1946, p. 223.

1927 (Census)		3,505
1933	3,388	
1935	4,615	
1936	5,606	6,000
1939	350	
1943	6,116	

(c) Estimates of value of industrial output (€P million)

	Jews	Total
1921/2	0.5	
1927	2.3	3.89
1929	2.5	
1933	5.4	6.0
1935		7.0-10.0
1936	8.6	9.1
1943		36.0

Sources: S.B. Himadeh, 'Industry' in Himadeh (ed), *Economic Organisation*; E. Broido, 'Jewish Palestine : The Social Fabric in J.B. Hobman, (ed), *Palestine's Economic Future* (London, 1946); R.A. Nathan, D. Gasses and D. Creamer, *Palestine: Problem and Promise* (Washington, D.C, 1946); R. Szereszewski, *Essay on the Structure of the Jewish Economy in Palestine and Israel* (Jerusalem, 1968); U.K. Department of Overseas Trade, *Palestine: A Review of Commercial Conditions* (February 1945) and *The Palestine Economist Annual 1948*.

It was surprise to see that major impetus to industrialization came from Jewish immigration. Besides this, Palestinian was able to attract a number of Jewish entrepreneurs. In the mid-1920s and early 1930s. Many of them brought considerable quantities of money and machinery with them as well as their own talents and skills.¹⁴⁶ Intact, The Jewish community was able to provide a viable market for local manufactures, especially in the building sector. There was a major boom between 1925 and 1935 (with a total investment of €P 36.5 million) and stimulated a

¹⁴⁶ S.B. Himadeh, *Industry in Himadeh* (ed), *Economic Organization*, pp. 228-9.

rising demand for cement and metal and wood products such as pipes, doors, window frames, baths and other fittings.¹⁴⁷

Not much was established about the development of Arab manufacturing industry during this same period. Himadeh's numbers showed that there was more activity in the first decade of the Mandate than the second, with 1,373 new enterprises being established between 1918 and 1927 (with a capital of €P13,000) and only 529 between 1931 and 1937.

It is important to note the way in which Palestinian industry, both Arab and Jewish, developed. They followed the well-known lines of imports substitution. But, there were certain differences in the approach. The Arab industrialists followed the routine path from processed foodstuffs and simple textiles to cigarettes, matches and leather products. On the other hand, Jewish entrepreneurs' textiles was not important. They diverted to chemicals, electrical foods and metalwork. This was something new technically more advanced than elsewhere in the Middle East.

¹⁴⁷ Ibid, p. 263.

4.2.3. Foreign Trade:

Table 4.4: The Foreign trade of Palestine: 1922-1947 (annual averages)

	Imports €P million	Exports €P million	Citrus Exports €P million
1922-4	5.36	1.34	
1925-9	6.85	1.52	0.65
1930-4	9.39	2.33	2.13
1935-9	14.75	4.76	3.31
1940-4	22.14	8.87	0.25
1945-7	58.80	14.07	n.a.

Sources: Survey of Palestine, 1, p.462 and Cunningham Papers, Box 1, File 4, tg 43 of 6 March 1947 and 160 of 15 April 1947; Box 2, File 2, tg 147 of 20 March 1948.

The foreign trade of Palestine grew much faster in the inter-war period and even grew more than average for world trade in general, particularly during the great depression of the early 1930s (Table 2.4).

Besides this, its main features were as follows:

1. The estimate of the Palestinian exports grew at a faster rate than that of imports. The country had a growing trade deficit until the mid-1930s. Even in the late nineteenth century the importance was given to import more because it could not achieve self-sufficiency in cereals. It only provided few agricultural or manufactured goods for export other than citrus fruits and soap. After 1918 the situation worsened further because with the rise of population it outpaced the agricultural output. The result was that the growth of local industry and it had to rely heavily on imported raw materials.
2. The effect of Jewish immigration was also related to the structure of imports. As the figures 2.5 show half of the manufacturing goods

were purchased from abroad in the 1930s. It included goods like ‘food, drink and tobacco’ The latter were dominated by wheat and flour for bread making and barely for animal feed. As for export, in spite of the steady growth in manufacturing industry, almost all its output was consumed locally, with only a small quantity for export – just under 5 percent in 1935.¹⁴⁸ As a result Palestine economy was depended more and more on citrus exports (oranges and some grapefruit). The contribution increased from 43 percent of total value in 1927 to over 70 percent in the later 1930s.

Table 4.5: Composition of Palestine’s imports by value in selected years: 1931-1944 (percentage)

	1931	1935	1939	1944
Food, drink and tobacco	24	20	26	40
Raw Materials and articles mainly unmanufactured	7	7	10	38
Articles wholly or mainly manufactured	55	60	64	22
Miscellaneous including live animals	12	12	-	-

Sources: Survey of Palestine, 1, p. 467 and Palestine Government, Statistical Abstract of Palestine 1943 (Jerusalem, 1943), p. 64.

In spite of hostile environmental during the inter-war period there was a major change in the flow of trade. It could be seen how a large reduction in the proportion of exports was sent to the other countries of the Middle East. It declined from 60 percent of total value in 1924 to 46 percent in 1928 and only 10 percent in 1939.

¹⁴⁸B. Veicmans, Internal Trade in Himadeh (ed) Economic Organization, p. 348.

3. Last, but not the least, an unusual feature of Palestine's foreign trade was its enormous size of the local National Product. According to Himadeh's report the total value of imports and exports in 1935 was equal to 1.35 times that of both industry and agriculture combined.¹⁴⁹ One impact could be seen that trade must have played an exceptional role in Palestinian economic life. A second implication was the government policy which had exercised an important influence over the pattern of imports and exports.

4.2.4. Economic Performance During 1918-1939:

It is perhaps true that the Palestine economy was marked by high rate of growth during the inter-war period, either in terms of foreign trade, government revenue or industrial output. Thus, trade increased nearly three times between 1922 and 1929 and total revenue was six times during the same period. This was mainly due to the typical chrematistics of Jewish immigration and large Jewish capital transfers. According to Gross and Metzger, Jewish income per capital increased from around €P 20 in 1923/4 to perhaps €P50 in 1935.¹⁵⁰ For the first time it was calculated that the Arab income per capita was €P 17 in 1936.

A second characteristics of Palestinian's economic performance showed upward trend, particularly when the world economy was

¹⁴⁹ S.B. Himadeh, *op.cit*, pp. 296-8.

¹⁵⁰ N.T. Goss & J. Metzger, *Public Finance in the Jewish Economy in Interwar Palestine*, Jerusalem, 1977.

passing through crisis in the mid-1920s and early 1930s. But at the same time in late 1920s and late 1930s Palestine witnessed relatively high unemployment and a contraction of business activity and rapid investment which had marked the previous boom.

The third characteristics indicates not so much improvements in the standard of living as to compared to in the quality of life enjoyed by different communities in Palestine. Many commentators have rightfully said that mandatory government followed a peculiar colonial pattern of finance, with nearly 60 percent of its expenditures going to administration, defence and security in the 1920s and 1930s and only about 12 percent each to public works and welfare.¹⁵¹ The education department suffered much because the government had built only five Arab elementary schools between 1918 and 1945. This was a major source of discontentment between the Jewish and Arab communities because the Jews had a major share of the Zionist budget (about 40 percent for most of the period) to furnish them with the educational, medical and other welfare facilities which the government was not able to provide.

4.2.5. Economy Condition During Second World War

The Second World War begin in 1939. The Palestinian economy was safe from recession and stimulated to play a major role in the British Middle Eastern military effort. Palestine was developed as a large British

¹⁵¹ Ibid, p. 80.

base and its people were also mobilised to reduce dependence on outside sources of supply and to enhance Palestine's industrial base so that it could facilitate British military needs and also provide a whole array of consumer and other goods for a regional market. This was a major encouragement for both the Arab and Jewish sectors of the economy. There was a considerable enhancement in income and a speedy acceleration in the process of social changes.

4.2.5.1. Foreign Trade:

During The war period, one witnessed a major increase in nominal value of Palestine's foreign trade. It was somewhat £P 20 million in 1939 to around £P 50 million in 1944. Even then, Palestine had to face there was a growing balance of payments deficit. But this time it was financed by a combination of well over £P 100 million of British military purchase and a further transfer of £P 38 million of the Jewish funds.¹⁵²

The war further boosted a major shift in the composition of exports and in the general direction of trade. It was seen in general that in terms of their, the percentages of total exports in Middle East increased from 10 percent in 1939 to a high 75 percent in 1942. There was also increased in import. It rose from 18 percent in 1939 to 60 percent in 1943.¹⁵³ On the export side, the sale of manufactured goods rose from a mere £P 750,000 at the start of the war to over £P 7 million by the end.

¹⁵² Palestine Government: A Survey of Palestine, 3 Vols, Jerusalem, 1946, pp. 464-5.

¹⁵³ Ibid, p. 481.

4.2.5.2. Agricultural and Industry:

During 1939-45, the British authorities in the Middle East as well as mandatory government in Jerusalem made considerable effort to increase Palestine's productive resources. Institutions such as the Middle East Supply Centre in Cairo and the War Supplies Board (1941) and the Directorate of War Production (1942) was created within Palestine itself. So far agriculture was concerned, it was seen that there was little hope to increase the size of the cereal harvest. The reason was of shortage of labour, and the major progress was made came in the field of vegetable production olives and poultry and dairy products. It which nearly doubled between 1939 and 1945, olives and poultry and dairy products. But problem arose with the citrus industry because of financial strain and export was almost ceased. The only market was local market and the military. Some of it in the form of juice. But Arab growers found it easier to keep were able to export because of their lower costs. But this needed some government financial assistance to survive.

In the industrial sector, the major expansion took place with an enormous increase in capacity and output required to meet demand in three large markets: The British military, Palestine itself and the rest of the Middle East, including Turkey. Unfortunately, the government was unable to retain precise figures to prove this process, but according to one estimate, output in Jewish-owned factories increased by 200 percent

between 1939 and 1942 and that in Arab-owned enterprises by 77 percent.¹⁵⁴

4.2.5.3. Income and Welfare:

Government figures indicate that there was an enough growth in incomes during the war years. Thus, according to the official figure the cost of living index rose by 154 percent between 1939 and 1945, average industrial earnings were estimated to have grown by 200 percent for Arabs and 258 percent for Jews during the same period. Unskilled construction workers increased by 405 percent and 329 percent respectively.¹⁵⁵ Conditions in the rural areas was somewhat better. Prices of locally grown agricultural products were said to have increased seven fold during the war and agricultural wages by the same amount by mid-1943.¹⁵⁶ In these circumstances it was not surprising to find that the official government figures indicated that total agricultural income quadrupled between 1939 and 1944/5 (in money terms). It provided the Arab peasant with 'a large measures of prosperity' and leading to a dramatic decline in the need to borrow essential items from money lenders in many districts.¹⁵⁷

¹⁵⁴ Nathan, Gass and Creamer, *op.cit*, p. 162.

¹⁵⁵ Survey of Palestine, *op.cit*, p. 1309.

¹⁵⁶ D. Horowitz, *The Arab Economy in Palestine*, in J.B. Hobman (ed), *Palatine's Economic Future*, London, 1946, p. 55.

¹⁵⁷ Survey of Palestine, *op.cit*, p. 365-7.

4.2.5.4. The two communities

As the war progressed further there was considerable changes in the structure of the Arab and Jewish communities. As far as the Arab world was concerned, perhaps the most important developments in the period were the huge mobilization of labor. It took many hundreds of thousands away from their villages on either a daily or a more permanent basis and the stimulus was given to Arab industry. According to Taqqu's estimate, about one-third of the male Arab work force was employed in wage labor by 1945, most of them by the government and military but with some 13,000 in some aspect of manufacturing.¹⁵⁸ Report of the Survey of Palestine suggested that Arab factories provided about half of Palestine's cigarettes and flour during the war and 20 percent of its woven cloth, with considerable capacity in boot and shoe making as well. The Arabs also had a small toehold in the metalwork industry making iron doors and windows.¹⁵⁹ It follows that the Arab firms competed with the Jewish ones when it came to producing the same types of goods. Government estimated that 12 industries were making similar commodities in 1942 where greater Jewish productivity was unusually more than offset by lower Arab labor costs.¹⁶⁰

¹⁵⁸ R. Taqqu, *Peasants into Workmen* in J.S. Migdal (ed) *Palestine Society and Politics*, Princeton, 1980, p. 267.

¹⁵⁹ *Survey of Palestine*, op.cit, p. 516.

¹⁶⁰ *Ibid*, pp 1277-8.

To conclude one can comment with a political tone. Contemporary sources indicated that, the Jewish community used the last years of the Mandate to maintain its wartime economic momentum. It was further helped by its access to foreign currency for the purchase of capital equipment and its greater control of its labour force. During the same years it was seen that found the Arabs passed through a period in a process of rapid socio-economic change. The performance was caught between two leadership: (i) the traditional notables of the hills and the new groups with new claims to modern expertise in the growth areas down on the coast. A notable event was witnessed that once people were permitted to hold public meeting once again after the war. There was an increase in number of Arab organizations. They began to hold meeting in Haifa, Jaffa and the other centers where entrepreneurs, contractors, technicians and skilled workers were now concentrated. By the same stroke this new situation provided further massive losses which the Palestinian Arabs suffered in 1948. On the other hand, for it was these same areas, with their valuable plant and other assets became an essential asset of the new Jewish state.