

Dhananjayao Gadgil Library



GIPE-PUNE-020054

ECONOMIC SURVEY OF PALESTINE

WITH SPECIAL REFERENCE TO THE YEARS 1936 AND 1937

DAVID HOROWITZ

AND

RITA HINDEN

ECONOMIC RESEARCH INSTITUTE

OF

THE JEWISH AGENCY FOR PALESTINE

TEL-AVIV — 1938

Printed in Palestine

X . 465. N3t4
G8

Copyright by the Economic Research Institute of the Jewish Agency for Palestine

2005A

Co-operative Press "Hapoel-Hazair", Tel-Aviv

TABLE OF CONTENTS.

| | Page |
|---|------|
| I. THE CHANGING ECONOMIC SCENE : | |
| The Prosperity Period | 7 |
| The Reversal of Prosperity | 24 |
| Structural Changes | 28 |
| II. POPULATION TRENDS : | |
| A Survey of Palestine's Population Growth | 19 |
| The Immigration Cycle | 29 |
| Population Growth in 1936 and 1937 | 32 |
| Palestine's Place among the Immigration Countries of the World | 35 |
| Occupational Distribution | 36 |
| Distribution of the Population in Towns and Villages | 38 |
| Population Density | 38 |
| III. COLONISATION AND INDIGENOUS AGRICULTURE : | |
| Cereal Growing | 40 |
| Mixed Farming | 45 |
| The Outstanding Features of Palestine Agriculture | 54 |
| The Problems of Agriculture in Palestine | 61 |
| New Colonisation | 65 |
| IV. THE VICISSITUDES OF CITRICULTURE : | |
| The Citrus Seasons 1935-1937 | 66 |
| The Position of the World Citrus Industry | 67 |
| The Special Difficulties of the Citrus Industry in Palestine | 69 |
| A Survey of Palestine's Citrus Markets | 73 |
| Efforts for the Improvement of the Industry | 75 |
| Demands of the Palestine Citrus Industry | 76 |
| The Importance of Citriculture in Palestine's Economic Life | 78 |
| Conclusion | 79 |
| V. THE POSITION OF INDUSTRY : | |
| The Background of Rapid Industrialisation | 80 |
| Special Conditions favouring Industrialisation in Palestine | 82 |
| A Survey of 1936 and 1937 | 84 |
| Individual Industries in 1936 and 1937 | 91 |
| Industrial Wages in 1936 and 1937 | 99 |
| Special Problems of Industry in Palestine | 100 |
| VI. BUILDING AND HOUSING : | |
| The Role of Building in Present-Day Economics | 104 |
| The Importance of Building in Palestine's Development | 105 |
| The Dangers of the Present Situation and Prospects for the Future | 109 |
| Rents, Overcrowding and the Mortgage Market | 110 |
| Building in 1936 and 1937 | 114 |

| | |
|---|-----|
| VII. FOREIGN TRADE : | |
| The Special Characteristics of Palestine's Foreign Trade ... | 118 |
| The Explanation of these Special Characteristics | 121 |
| The Effect of the World Trade Situation and Palestine's Trading Handicaps | 123 |
| Palestine's Foreign Trade in 1936 and 1937 | 125 |
| Import and Export Markets | 129 |
| Trading Problems in 1936 and 1937 | 131 |
| VIII. THE GROWTH IN COMMUNICATIONS : | |
| The High Level of External Transport | 134 |
| The Low Level of Internal Export | 136 |
| The Growth in Communications 1932—1937 | 139 |
| IX. SOME PROBLEMS OF PUBLIC FINANCE : | |
| Government Policy | 149 |
| Finance in 1936 and 1937 | 151 |
| The Expansion of Revenue since 1929 | 154 |
| Palestine's Taxation System | 154 |
| The Growth in Expenditure since 1929 | 159 |
| An Analysis of Palestine's Budgetary Expenditure | 160 |
| X. CAPITAL IMPORT, CREDIT, AND THE BANKING STRUCTURE : | |
| The Inflationary Effect of Capital Import | 163 |
| Deflation in 1936 and 1937 | 166 |
| Special Features of Palestine's Banking Structure | 171 |
| Palestine's Security Market | 179 |
| Conclusions | 182 |
| XI. THE WORKER AND HIS STANDARD OF LIVING : | |
| The Formation of a Proletariat | 184 |
| The Composition of the Jewish Working Class | 188 |
| Working Class Organisation | 191 |
| The Standard of Living | 193 |
| The Labour Position in 1936 and 1937 | 201 |
| XII. THE ARAB ECONOMY : | |
| The Transformation of the Arab Village | 203 |
| The Growth of the Arab Town | 208 |
| The Years 1936 and 1937 | 210 |

N O T E.

One Palestine Pound (L.P.) is equivalent to one Pound Sterling.

The Palestine Pound is subdivided into one thousand Mils.

CHAPTER I
THE CHANGING ECONOMIC SCENE.

Palestine is a small country, and the vicissitudes of its development appear, at first glance, of little significance to the general body of economic thought and analysis. And yet, many of the most important trends and problems of modern economic life are vividly reflected within this economic microcosm. The very smallness of the entity with which we are dealing lightens the task of tracing out the sequence of events, and discerning the inter-action of forces. The problem of cyclical fluctuations ; of the impact of modern industrialisation on a primitive agrarian people ; of the transition from a self-contained to an exchange economy ; of the effects of differing standards of life on competitive power ; the problem of industrialisation itself ; all these are reproduced and accentuated as if in an experimental laboratory. In this miniature form, changes and trends become more transparent, and generalisations may be arrived at, with a possible significance for the wider field of theoretical economics.

In surveying the economic situation in Palestine, the political background, both at home and abroad, must always be kept in mind. Political events exert a much more decisive influence on Palestine's economic life than is usual in other countries, owing to the special role which immigration and capital import play in Palestine's development. There are two sets of forces which compose this political background — the forces which repel Jewish population and capital away from their countries of origin, and cause them to turn to Palestine for refuge ; and the forces which determine Palestine's attraction as a refuge for Jewish population and capital. These forces of repulsion and attraction are often sufficiently powerful to overshadow the effect of internal economic conditions. In the Palestine of the last five or six years, the situation has been dominated by one or the other of these political forces.

I. THE PROSPERITY PERIOD 1932—1935.

During the four-year period 1932—1935, Palestine underwent an unprecedented economic expansion. Throughout this period the world was struggling painfully to emerge from the severest economic depression

known in modern history, and it was not until 1935 that the downward phase took a distinct upward turn. But in Palestine, this was a period of progress and prosperity. The curve of economic activity was rising steeply, and the pace of development was extraordinarily rapid. The revenue of the Palestine Government grew by 91%, industrial production by 61%, imports by 130%, exports by 77% and consumption of electrical power by 335%. This isolated development in one small country must be explained by some peculiar set of circumstances, sufficiently powerful to mark Palestine off from the world, with which it has extremely close economic ties.

What were the causes of Palestine's prosperity? The influx of capital is an insufficient explanation. A large volume of refugee capital flowed, also, to Switzerland, Holland, France, and the U. S. A. without bringing any sustained prosperity in its train. A more comprehensive explanation must be sought for the events in Palestine. The crucial question is whether the source of Palestine's development lies in external or internal conditions. Undoubtedly each set of conditions reacts on the other, and their relative weights are constantly shifting. But whether the influx of capital and man-power from abroad, or the internal force of cyclical fluctuations provides the main motive power of Palestine's economic development, remains a highly controversial point. An analysis of the various factors at work during the prosperity period and of the reversal of their influence in 1936 and 1937 may throw some light on this problem.

A combination of four extremely favourable circumstances gave the first fillip to Palestine's economic expansion in 1932.

a) *The Import of Capital.*

In the first place, a stream of Jewish capital began to flow towards Palestine. It was propelled mainly by political reasons — the general feeling of insecurity and the rise of anti-semitism abroad — and partly by the unsatisfactory economic conditions in Europe at that time. In the economic life of other countries, Jewish capital generally occupied the most unstable and precarious position on the fringes of the national economy. Its field was further narrowed by the development of co-operative trading, chain-stores, and monopolies. Added to this came the world economic depression, and the slackening of all incentive to invest. Ready money was "saved", rather than invested, and this "oversaving" led to an over-accumulation of capital and an extraordinarily low rate of interest. These factors taken together acted as a strong repulsive force to Jewish capital. On the other hand, conditions in Palestine were highly attractive for capital investment. Interest rates were high, the market was expanding, and an atmosphere

of confidence and optimism prevailed. It is not surprising that Palestine was one of the first countries to which the Jewish migrant capital from Europe should turn.

b) The Advantage of Currency Depreciation.

Secondly, in 1932, Palestine was enjoying the temporary advantage which always follows on the depreciation of currency. The Palestine pound is linked to sterling and depreciated together with sterling at the end of 1931. The depreciation coincided with and reinforced the strong influx of refugee capital ousted from Eastern Europe, and of American capital attracted to Palestine by the then high profitability of citrus planting. During the time-lag before prices adapted themselves to the decline in the currency, land and immovables were undervalued and the purchase of property could be made at a good profit. But as the savings of the local population had declined in value correspondingly with the fall in currency, local investors could derive no benefit. Only an outsider, such as the immigrant into Palestine, who had not himself suffered from the inflation, could take advantage of the margin between gold prices and the temporarily undervalued prices in the depreciated currency. Thus, the advantages accruing at that time to the country were due to the combination of two factors; the influx of capital, and the fact that capital though attracted to Palestine for other reasons, happened to be flowing from mainly gold standard countries to a country which had just undergone a currency depreciation.

c) Cheap Imports.

Thirdly, the slump in world prices during the depression period was an advantage to Palestine with its large adverse trade balance — the extensive import requirements were now purchasable at a lower price. In times of price decline, the buyer is always in a more advantageous position than the seller, and in the matter of foreign trade, Palestine is pre-eminently a buyer. What was particularly important was that the reduced price of building materials, and agricultural and industrial equipment cheapened investment — a fact of especial value in a period of capital influx.

d) The Boom in Citrus Consumption.

Lastly, at that time a shift in consumption was taking place, which happened to work in Palestine's favour. Owing to the new theories on vitamins and to a general change in taste and custom, the relative consumption of fruit, vegetables and dairy produce had been increasing at the expense of cereal consumption. In spite of the general decline

in the volume of world trade, the trade in fruit continued to grow and one of the most popular fruits was the orange. The important Palestine citrus industry, which accounts for about four-fifths of the country's export trade, was faced with an excellent demand for its products — and citrus exports increased rapidly, ushering in a period of exceptional prosperity for the Palestine people at large.

These were the original factors which stimulated the upward trend in Palestine's economic life. But none of these could have *maintained* prosperity at a high level. The decisive factor in the creation and continuation of boom conditions for four years, was the continuously increasing purchasing power, which accompanied the influx of immigrants and capital into Palestine. Poverty in the midst of plenty is attributed, by many experts, to the lag of effective demand behind production. Thus a disproportion develops between purchasing-power and output and between the production of capital goods and consumers' goods. In Palestine this disproportionality did not develop. Purchasing power had no opportunity to flag as it was being continually reinforced from abroad. The constant stream of immigrants brought with them a supply of ready cash and capital and provided that much-hunted "external consumer" independent of the normal closed circle of the economy. The import of capital thus not only financed investment, but to an even greater extent, it financed consumption. In Palestine, production actually lagged behind purchasing power. This explains the prosperity in Palestine during a period of otherwise ubiquitous depression. The effective demand in Palestine was not only a function of internal forces — determined by distribution of income, propensity to consume, and investment — but to an even greater extent a function of *external forces* which counteracted the effects of technological unemployment and the discrepancy between stationary markets and expanding production.⁸ The inference from Palestine's experience seems to be that the injection of new purchasing power into the economy, rather than contractionist methods of reducing costs and economising expenditure, has a mitigatory effect on economic depression. Of course, the exceptional circumstances of this country cannot be recreated elsewhere to test the validity of this inference, but the conclusion that the maintenance of purchasing power exercises a decisive influence on trade fluctuations is valuable, notwithstanding.

In Palestine, not only was purchasing power being continually reinforced from abroad, but investment⁹ and production concentrated on two very special lines, (building and citriculture), whose products did not come on the home market for industrial or agricultural commodities. During the four years 1932—1935 the ratio between in-

vestment in building and citriculture, and investment in industry and agriculture was 4:1 (see Table in footnote).¹⁾ The citrus industry, was, obviously, concerned mainly with exports, and as long as the foreign market for its products existed, its expansion had scant effect on the home market. Investment in the building industry has also certain distinctive characteristics. The distinction is between investment in a durable consumers' good, and investment in an apparatus of production. The apparatus of production requires the constant application of labour to keep it in motion and it pours on the market a constant stream of new products. The house, once built, makes no further demand on labour, and the service it produces is a fixed entity, which does not increase. The original investment in building is paid away, to a great extent, in the form of wages, which are soon spread over the whole economy. But the investment in a factory involves heavy expenditure on imported capital equipment, as such equipment cannot yet be produced in the country, and the share of wages is proportionately small. The high proportion of investment in houses to shelter the immigrants prevented the market from being flooded with goods for which there was no demand, and a large part of the investment percolated freely through the economy in the form of wages to building workers.

Thus, during Palestine's four years of sustained prosperity the importance of an effective demand was amply illustrated. The inflationary effect of the continuous injection of new purchasing power from abroad, combined with the high proportion of investment in special industries, such as citrus and housing, was in essence similar to the effect achieved by the organisation of public and relief works in other countries, or by a redistribution of national income such as was aimed at by the "New Deal" in the U. S. But in Palestine, unlike in America, the buoyancy of demand was not achieved by planning; it was

1) The following is an estimate for the break-up of Jewish investment from 1932 to 1935:—

| | 1932 | | 1933 | | 1934 | | 1935 | | Total 4 years | |
|-------------------------|-----------|-----|-----------|-----|-----------|-----|------------|-----|---------------|-----|
| | LP. | % | LP. | % | LP. | % | LP. | % | LP. | % |
| Land | 149,000 | 5 | 855,000 | 15 | 1,648,000 | 18 | 1,700,000 | 17 | 4,352,000 | 15 |
| Citriculture | 1,090,000 | 38 | 1,391,000 | 25 | 1,509,000 | 16 | 943,000 | 9 | 4,933,000 | 17 |
| Mixed farming | — | — | — | — | — | — | — | — | 1,000,000 | 3 |
| Building | 1,094,000 | 39 | 2,884,000 | 51 | 4,554,000 | 50 | 5,730,000 | 56 | 14,262,000 | 50 |
| Industry & Transport | 500,000 | 18 | 500,000 | 9 | 1,500,000 | 16 | 1,800,000 | 18 | 4,300,000 | 15 |
| Total Jewish investment | 2,833,000 | 100 | 5,690,000 | 100 | 9,211,000 | 100 | 10,173,000 | 100 | 28,847,000 | 100 |

achieved spontaneously, through the transfer, for partly non-economic reasons, of a whole economy from one place to another. The basic economic event in Palestine is the transplantation of an immigrant population, equipped with all the requisites of a complete economic life — capital, skill, labour, and the automatic provision of an internal market.

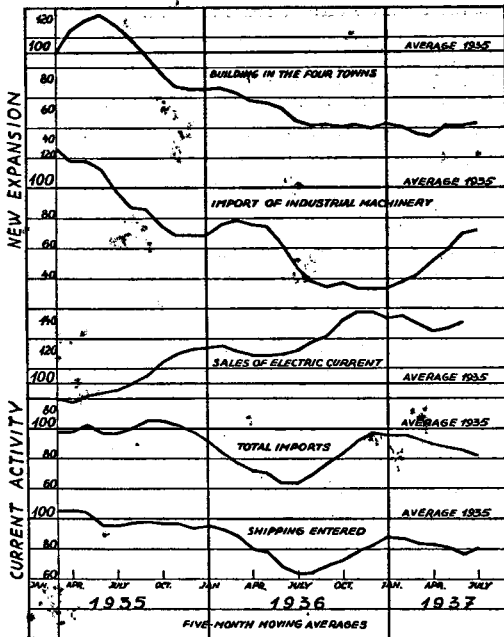
II. THE REVERSAL OF PROSPERITY — 1936 AND 1937.

By 1936, most of the stimulating factors had weakened. The effect of the sterling depreciation soon petered out. It was an important influence only in the initial stage of the prosperity period, as the price adjustment to the new currency situation followed shortly on its heels. In 1936, the depreciation of other currencies — French, Czech, Italian, Syrian etc. — affected Palestine in exactly the opposite direction. In the same way, the effect of the other factors wore off. In 1936 and 1937 the slump in world prices had given way to a new price rise. This meant an increase in the cost of imports and reversal in the favourable terms of trade which Palestine had been enjoying. The advantageous marketing facilities for citrus fruit had, also, disappeared. The rapid expansion of citrus plantations in all parts of the world, and particularly in Palestine itself, glutted the market for citrus fruits, and pressed down prices to a level bordering on the uneconomic.

The two most important driving factors in Palestine's economic development — the influx of capital and immigration — likewise dwindled in 1936 and 1937. Although the forces repelling Jewish capital and labour away from Europe were as potent as before, their influence was weakened by the restrictions on capital export in many European countries, and by the political disturbances in Palestine, with the consequent tightening of immigration facilities. Also, the attraction which "prosperity" had offered to immigrants, particularly capitalist immigrants, had been eliminated by the all-round slackening in economic activity. As a result, both capital import and immigration were reduced to almost exactly half their 1935 volume; and a corresponding reduction by about one-half took place in certain lines of activity — particularly those connected with new expansion. Activity meeting the current needs of the community naturally decreased less.

It must be emphasized that the depression of these years has meant in the main a slowing down in the pace of *further expansion*. New expansion declined by about 50%, — current activity did not recede by anything like that extent. This is borne out in the following diagram:—

The Divergent Trends of New Expansion and Current Activity.



It is seen from this diagram, that, although a further rapid rise was arrested, the total sales of electric power, imports and shipping have maintained their level being connected mainly with recurrent economic activity, whereas the import of industrial machinery and building activity show a sudden, almost precipitate, decline, being connected mainly with expansion and growth. Throughout the last years there has been a strongly marked discrepancy between these two sets of economic indications.

The sharp contraction of one part of the economy has, of course had its repercussions on the other. But even those indications which show most clearly the results of the falling-off in new expansion, such as Government revenue, bank deposits, and currency in circulation have not receded so far as have the expansionist items. Our diagram concentrates on three indications which are exceptional in being little

affected by these repercussions. But it must be understood that the two sections are not watertight compartments, and that capital import and immigration are still the decisive factors in determining economic conditions.

As we have pointed out, the current activity of the country has not suffered in any catastrophic fashion. There have been no violent dislocations and no indication of collapse — even though the economy has had to weather, at the same time, two particularly bad citrus seasons, and many months of political strike and terrorism. This does not mean that the depression has not been severe or that serious suffering has been avoided. But the difficulties of this period have been, in the main, the difficulties of *readjustment*, — the adaptation of an economy grown used to rapid expansion of population and markets, to a slower pace of development.

It is not pretended, that this readjustment has been unaccompanied by hardship, and was entirely successful. The building movement, which creates so considerable a proportion of the country's purchasing power, has been the biggest sufferer. Building workers have always been among the better-paid sections of Palestine labour, and the fall in their wages and employment has meant a serious decline in the general standard of living. Consumption per head of the population has been palpably reduced and unemployment has swelled. In addition the lack of any effective social services has deepened the personal distress of the unemployed.

On the other hand, certain special features have helped in the struggle. For six months of 1936, Palestine was living under what can only be termed a "war"-economy. The outbreak of the disturbances and the general Arab strike led to an increase in the security forces, absorbing a large number of people, who would otherwise have been without employment. For security reasons, also, public works were greatly extended. The supply of unemployed labour and the decline in wages were a further inducement to undertake public works, and a number of new financial instruments were created for this especial purpose. The extra employment provided by these means helped to tide the country over a difficult period. Finally, Jewish mixed farming benefited directly from the withdrawal of Arab supplies from the Jewish markets.

The main feature of the readjustment of 1936 and 1937 has been the shift in occupational distribution from the higher to the lower-paid trades. The proportion of building workers has decreased, and the migratory trend from the country to the town has been reversed. Agriculture absorbed a larger number of workers — particularly Jewish workers — than formerly. Of course, owing to the segregation of Arabs

and Jews, the effects of the year differed according to community. We are here dealing mainly with the Jewish sector, which has already developed as a modern capitalist economy. The Arab economic sector is still in the transition stage towards modern capitalism, and the trends peculiar to its circumstances will be discussed in a separate chapter.

A second important feature of these years has been the change in the volume and composition of investment. Jewish investment (for which, alone, figures are available, and which is, undoubtedly, the major portion of investment in Palestine) dropped from about £P. 10 millions in 1935 to £P. 6.5 millions in 1936 and £P. 5.3 millions in 1937. Investment in citrus practically ceased, while investment in mixed farming gained ground. Very little new land was bought, and capital invested in building declined rapidly¹⁾. A new trend towards indirect investment through the purchase of local securities, developed and a fairly brisk activity in the sale of Palestine shares and debentures was experienced for the first time.

A third new development is the increased public intervention in economic affairs. Relatively large sums of public and semi-public capital were raised and were applied with the view to regulating trade fluctuations. A deliberately expansionist credit policy has been adopted by banks and public companies. This deliberate pumping of money into public works by the Jewish institutions, and the extra expenditure of the Government on security and public works necessitated by security, have buoyed up the labour market, and helped to counter, in some degree, the contraction in purchasing power which followed on the shift from higher-paid to lower-paid occupations.

The five outstanding features of 1936 and 1937 may, therefore, be summarised as follows :—

- 1) The falling-off in the import of capital and the reduction in immigration with the consequent deflationary tendency.
- 2) The shift in occupational distribution from the higher-paid to

1) *Jewish Investment 1936—1937.*

| | 1936 | | 1937 | |
|--|------------------|------------|------------------|------------|
| | LP. | % | LP. | % |
| Land | 300,000 | 5 | 400,000 | 8 |
| Citriculture and Mixed Farming | 1,300,000 | 20 | 1,130,000 | 21 |
| Building | 3,700,000 | 57 | 2,800,000 | 53 |
| Industry and Transport | 1,300,000 | 18 | 1,000,000 | 19 |
| Total | 6,500,000 | 100 | 5,330,000 | 100 |

the lower-paid occupations with the concomitant decrease in purchasing power.

- 3) The readjustment of the whole economy to a slower pace of development.
- 4) The running of the economy on a partial "war" basis.
- 5) The increased interventionism of public and semi-public capital, filling the breaches created by the slackening of private initiative.

III. STRUCTURAL CHANGES.

In addition to these changes which were directly bound up with the events of the past years, Palestine has been undergoing certain fundamental structural modifications. It is, gradually, becoming more of a sellers' and producers' country, and the interests of the investor, importer and consumer are no longer the sole consideration. Why this is occurring is fairly obvious. The capital imported in the past was used to extend the productive apparatus of the country. These investments are now bearing fruit, with the result that local production has expanded, and exports have begun steadily to increase. At the same time the import of capital, which financed the large import purchases of past years, is on the decline.

This maturing of past investments has, perhaps not unexpectedly, been accompanied by a growing diversification in Palestine's export trade. Citrus accounted in the past for more than four-fifths of Palestinian exports, but the export of goods other than citrus has now begun to expand appreciably — multiplying by $2\frac{1}{2}$ times between 1934 and 1937. And not only have these exports grown in value, but their *percentage* of total exports is growing at the expense of citrus.

Profound structural changes of this sort — which had always been predicted by those who understood that Palestine's large imports and large adverse trade balance represented a form of capital investment which would one day mature — are altering the very essence of Palestine's economic life. Cheapness of imports are now ceasing to be an unmixed blessing. For the marketing of home produce, a higher and more stable level of prices is becoming desirable. In so far as Palestine remains a country of capital import and investment, the low prices due to a world depression will always be an advantage — but the more Palestine is able to produce at home and to sell abroad, the more will this particular characteristic of Palestine's economy be modified.

CHAPTER II. POPULATION TRENDS.

I. A SURVEY OF PALESTINE'S POPULATION GROWTH.

Nowhere in the contemporary world is population increasing with such rapidity as in Palestine. In almost all countries, the rate of increase is slowing down, and the beginning of an era of population decline is widely heralded. Even in underpopulated colonisation countries, the annual rate of growth is steadily sinking → immigration has fallen off, and a downward trend in the natural increase (excess of births over deaths) is clearly evident. The world has, in fact, entered a new phase of population history — a phase of almost universal limitations on the size of the family, and hence in the rate at which population increases. Against this background of a less and less rapid growth among the population of all lands, Palestine's average annual increase for the period 1922—1936 has reached the extraordinary level of 5.1%¹).

What are the reasons for Palestine's exceptional population movement? The answer to this may be summarised in a sentence. In some important respects Palestine's population history has not yet advanced beyond the nineteenth century. The population trends of both sections of its inhabitants — Jew and Arab — bear close resemblances to certain nineteenth century phenomena. The Jewish population movement is very closely akin to that of the European immigrants to the U. S., Canada, Australia and New Zealand in the second half of the 19th century. The Jewish immigrants are the bearers of a Western civilisation closely resembling the civilisation which was carried to these other immigration lands, and are establishing in Palestine a similar type of economic life. The Arab population movement (and the population movement of certain other unprogressive nations today) can also find a ready comparison in the nineteenth century among the peasant

¹) All population figures for Palestine have been taken from the Vital Statistics and General Monthly Bulletins of Current Statistics, published by the Government Office of Statistics. The tables in "Alijah", published by the Immigration Dept. of the Jewish Agency, 1935, have also proved useful.

"Population" in Palestine means "settled population".

peoples of Europe, before the idea of voluntary restriction in the size of the family took possession of the modern European mind. The Arab birth-rate in Palestine is still on the high level that prevailed some sixty years ago and more in countries such as Russia and Yugoslavia.

But even while stressing the importance of the historical context, it must be understood that a unique combination of circumstances exists in Palestine, such as is without parallel in modern history — the impact of a highly progressive mass immigration on a relatively large unprogressive native population, to whom its relation is not that of ruler and ruled, but of co-workers. For this reason, Palestine can never compare exactly with other immigration countries. In other countries the immigrants came to virtually uninhabited lands, and they themselves constituted the whole effective population; in Palestine, the immigrants have always been only a fraction of the total population, and so their problems — economic as well as political — were of a different order. Similarly, when comparing Palestinian Arabs with other peoples at the same grade of civilisation, it must be remembered that they are in the unique position of living, side by side as equals, with a modern and advanced nation, by whom they must necessarily be profoundly influenced.

a) *The average annual rate of increase.*

We have already mentioned that during the period 1922—1936¹⁾ Palestine's average annual increase reached the level of 5.1%. How unusual this figure is in the world today, can only be appreciated by a comparison with other countries. Between 1850 and 1900, a period of large and universal population increase, the average annual growth in Europe was only 0.82%. Between 1900 and 1930, the increase had fallen to 0.78%²⁾. "The highest rate ever observed in any region of that Continent (Europe) was in Eastern Europe between 1900 and 1910, when the average annual rate approached 1.5 per cent."³⁾. A comparison with other countries of European immigration is as follows:—⁴⁾.

1) The 1922 Census in Palestine, which has been taken as the basic year for our calculations of population growth in this country, has had its accuracy more than once called in question. It may be that the very high rates of growth recorded in Palestine owe something to a census underestimate in that year, but the margin of error is unlikely to have been so great as to invalidate the general argument.

2) "World Population" — A. M. Carr-Saunders, Oxford 1936, p. 22.

3) *ibid.*, p. 26.

4) *ibid.* The figures for other immigration countries have, in every case, been based on data provided in this work.

Average Annual Rates of Population Increase.

| | 1850—1900 % | 1900—1930 % | 1922—1936 % |
|--------------------|----------------|----------------|----------------|
| U. S. | 2.4 | 1.61 | — |
| Canada | 1.62 | 2.15 | — |
| Australia | 4.47 | 1.84 | — |
| New Zealand | 6.8 | 2.24 | — |
| Palestine | — | — | 5.1 |

The two facts which emerge from these data are : firstly, that Palestine's population increase is greatly in excess of anything experienced, even in other immigration countries, today ; and, secondly, that extraordinary as the growth is according to present standards, it has nevertheless been exceeded in the past in New Zealand, and almost equalled in Australia. *From the historical point of view, the growth in Palestine is by no means abnormal.*

What is unusual in Palestine emerges only if the Jews and the Arabs are taken separately. The Jewish population increased from 83,790 in 1922 to 384,083 in 1936, an annual average increase of 11.5% ! Within the four years 1932—1936, the Jewish population doubled itself. This is out of all proportion a higher rate of increase than that registered by any other group of immigrants of European origin. The Arab population, again, has increased from 565,258 in 1922 to 916,068 in 1936, an average annual increase of 3.5%. This is a very much slower expansion than among the Jews, but compared with other non-European peoples in the twentieth century, the Arab increase is, also, particularly high :—

Average Annual Rates of Increase among Non-European Peoples.

| Country | Period | Annual average increase % |
|----------------------------------|-----------|------------------------------|
| Palestine (Arabs) ... | 1922—1936 | 3.5 |
| India ¹⁾ | 1901—1931 | 0.6 |
| Japan ²⁾ | 1898—1930 | 1.2 |
| Java ³⁾ | 1900—1930 | 1.3 |
| Ceylon ³⁾ | 1900—1930 | 1.4 |
| Egypt ³⁾ | 1907—1934 | 1.1 |
| Algeria ³⁾ | 1901—1931 | 1.1 |
| Formosa ³⁾ | 1908—1930 | 1.9 |
| Philippines ³⁾ | 1903—1934 | 1.7 |

¹⁾ "World Population" p. 269

²⁾ *ibid.* p. 261.

³⁾ *ibid.* p. 280.

It appears, therefore, that *within each* of Palestine's communities, certain unusual forces are at work. The nature of these forces will emerge distinctly from the division of the population growth into immigration and natural increase.

b) The share of immigration and natural increase in Palestine's population growth.

The increase in Palestine's total population is due, in almost exactly equal parts, to two different factors — immigration and natural increase. From the Census of 1922 until December 31st 1936, the division between natural increase and immigration was as follows:— (in round numbers).

The Division of Palestine's Population Growth between Immigration and Natural Increase. (1922—1936)

| | J e w s | Non-Jews | All communities |
|-------------------------------|---------|----------|-----------------|
| Total increase | 300,000 | 351,000 | 651,000 |
| Natural increase | 57,000 | 272,000 | 329,000 |
| % of total increase | 19 | 77 | 50.5 |
| Net immigration ¹⁾ | 243,000 | 79,000 | 322,000 |
| % of total increase | 81 | 23 | 49.5 |

Comparing with other young countries, we find that a similar approximate equality between immigration and natural increase has been reached in the past in both Canada and New Zealand, and something approaching the same situation in Australia and U.S. It would, in fact, appear to be not uncommon, during periods of high immigration into relatively underpopulated countries, for the population increase to be divided equally between immigration and natural increase:—

Percentage of Population Growth due to Immigration²⁾

| | U. S. | Canada | New Zealand | Australia | Palestine |
|-----------|-------|--------|-------------|-----------|-----------|
| 1870—1880 | 28.5 | | 53.9 | 35.4 | |
| 1880—1890 | 42.9 | | 3.6 | 42.8 | |
| 1890—1900 | 31.5 | | 19.4 | Nil | |
| 1900—1910 | 41.8 | 53.4 | 35.2 | 17.3 | |
| 1910—1920 | 17.0 | 27.3 | 21.1 | 16.2 | |
| 1920—1930 | 21.6 | 16.6 | 27.6 | 28.7 | |
| 1922—1936 | | | | | 49.5 |

¹⁾ These figures were obtained by subtracting natural increase from total increase. If immigration figures are calculated separately, certain discrepancies are found to exist, but they are insufficient to invalidate the argument.

²⁾ "World Population", op. cit. Calculated on the basis of data provided in Figures 32 & 33 (pp. 162 & 163).

But if, again, we consider the communities separately, a departure from the normal is immediately detected. An increase in population due — up to 81% — to immigration (as shown by the Jews) has not been matched before in any of the records at our disposal, except of course, when the first boatloads of immigrants set foot in a deserted countryside. How has such a rapid absorption of immigrants been possible? The answer to this query lies in just that curious combination of circumstances in Palestine to which we referred at the outset. The Jewish immigrants did not, like other immigrants from Europe, immigrate into a virtual vacuum. They came to a country already populated and already producing a by no means negligible supply of foodstuffs. Whereas immigrants to Australia and New Zealand had to create every item of their supply of necessities, themselves, and could therefore support only relatively few new immigrants at a time, in Palestine the long-established Arab population was ready to supply the first necessities of life to the newcomers — who, incidentally, provided them with an excellent market. From this important ~~viewpoint~~ ^{viewpoint} of supply, the Jewish immigrants were far better placed than their predecessors in other countries. For that reason, immigration into Palestine, should always be related to the *total* population, and not to the Jewish population alone. To relate it to the Jewish community alone is as fallacious as to relate Irish immigrants into America to the American Irish population only. It involves an artificial division of the population into sectors, whereas the immigration is made possible not through that one sector alone, but through the background and framework provided by the population in its entirety.

The increase of the Arab population, on the other hand, derives mainly from natural increase. The unusual level of this natural increase is not illustrated by the above figures. This will emerge more clearly in the direct comparison of birth and death rates given in the following section.

c) Natural increase.

Palestine's natural increase is the highest in the world. In 1936, the rate was 28.8 per 1000 (36,553 in a population of 1,241,561) which is some four times as high as the rate common in Europe. But here it is most important to divide Palestine's population into Jews and non-Jews, as in each sector of the community an entirely different state of affairs is prevailing.

The natural increase of 20—22 per 1000 among the Jews in Palestine, (the resultant of a fairly high birth-rate and very low death-rate) is higher than anything existing in the younger colonisation countries, today. But if we go back to the seventies and eighties of last century, we find that this level of natural increase was actually exceeded in New Zealand and in Australia :—

Natural Increase per 1000 of the Population¹⁾.

| | U. S. | Canada | Australia | New Zealand | S. Africa | Argentine | Palestine (Jews only) |
|-----------|-------|--------|-----------|-------------|-----------|-----------|-----------------------|
| 1871—1881 | 16.2 | | 23.0 | 39.2 | | | |
| 1881—1891 | 13.4 | | 23.0 | 26.9 | | | |
| 1891—1901 | 10.7 | | 18.2 | 18.7 | | | |
| 1901—1911 | 10.0 | | 16.2 | 19.5 | | | |
| 1921—1925 | 10.7 | 15.9 | 14.4 | 13.6 | 17.4 | 18.2 | 21.2 ²⁾ |
| 1933 | 5.7 | 16.0 | 7.9 | 8.6 | 14.0 | 14.3 | 19.9 |
| 1934 | 6.1 | 11.3 | 7.1 | 8.0 | 13.8 | 13.5 | 20.7 |
| 1935 | 6.0 | 11.0 | 7.0 | 8.0 | 13.7 | 12.6 | 22.2 |
| 1936 | | 10.6 | 7.7 | 7.9 | 14.8 | | 20.8 |

The fact that Jewish Palestine has never reached the high level of natural increase attained in these other countries in the past may be attributed, at least in part, to the spread of contraceptive practices and the universal change in the attitude towards the large family since that time. Bearing this essential difference in custom in mind, we may conclude that the natural increase among the Jewish population in Palestine is of the same order as that which prevailed among other European immigrant communities some 40—50 years ago, when the immigration movement was at its height.

Why should these high rates of natural increase be a feature of immigration countries? It is, as a rule, explained by the large proportion of the population in the child-bearing age, which is usual in immigration countries. It is true that the age distribution of the Jewish population in Palestine is particularly favourable, as the following table shows :—

Percentage of the Population in the Age-Group 15—45³⁾

| | | |
|------------------------------------|------|--------------------|
| Jewish population of Palestine ... | 1936 | 56.7 ⁴⁾ |
| Egypt | 1927 | 45.2 |
| Canada | 1931 | 46.0 |
| Denmark | 1935 | 47.8 |
| Italy | 1931 | 45.7 |
| England | 1931 | 47.0 |

¹⁾ "World Population" pp. 163, 177. 1935 and 1936 figures taken from Statistical Yearbook of the League of Nations 1936/7, Table 8.

²⁾ 1922—1925.

³⁾ Statistical Yearbook of the League of Nations, 1936/37, Table 3.

⁴⁾ Demographic Survey of the Jewish Population of Palestine, end 1936, Statistical Dept. of Jewish Agency, p. 5.

Nevertheless, two inquiries into specific fertility rates have revealed the fact that, even taking age-distribution into account, the Jewish rate of reproduction in Palestine has been unusually high¹). The gross reproduction rate for 1931 (that is, the number of female children born to 1000 Jewish women during their life-time) was found to be 1,626 — i. e. 1000 Jewish mothers produced 1,626 daughters. A similar study was undertaken for 1936, when the gross reproduction rate, though still high, was found to have fallen to 1,350. This second figure should be accepted with especial reserve, as it is calculated on *estimates* only of the age-distribution of the population. The high level of reproduction in Palestine is illustrated in the following table of comparative net reproduction rates. (Net reproduction differs from gross reproduction in that it takes into account the death-rate, that is, that not all girls born live right through the reproductive age. The figure of 1,365 for Palestine indicates that the *survivors* of 1000 female children born in the last generation, are producing a new generation of 1,365 children) :—

Net Reproduction Rates ²).

| | | | |
|-------------------------|--------|---------|-------|
| Ukraine | ... .. | 1926—7 | 1,676 |
| Bulgaria | ... .. | 1926—7 | 1,446 |
| <i>Palestine</i> (Jews) | ... .. | 1931 | 1,365 |
| Canada | ... .. | 1931 | 1,319 |
| Italy | ... .. | 1931 | 1,209 |
| Denmark | ... .. | 1926—30 | 1,012 |
| Hungary | ... .. | 1930—1 | 1,011 |
| Australia | ... .. | 1932—33 | 976 |
| France | ... .. | 1925—27 | 929 |
| Germany | ... .. | 1931 | 748 |
| England | ... .. | 1933 | 735 |
| Austria | ... .. | 1931—2 | 714 |

In 1936 Palestine's net reproduction rate was found to have fallen to 1,178. It should be mentioned that the rate has also been falling in most other countries during the last five years. These figures indicate that the fertility of the Jews in Palestine — apart from age-distribu-

¹) "The Measurement of Population Growth" — E. and R. Hinden, "Meshek Shitufi", January 1937; and Demographic Survey of Jewish Population of Palestine, op. cit., p. 7. The results of these studies into reproduction rates in Palestine must be viewed with the utmost caution, as no figures for the ages of child-bearing mothers are available, and the assumption had to be made that the ages of child-birth among Jewish mothers in Palestine corresponded to the ages of child-birth in the countries from which they emigrated.

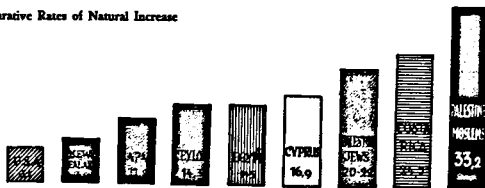
²) Kuczynski — "The Measurement of Population Growth" London, 1935 p. 214.

tion — is still higher than among other progressive nations today. The only acceptable explanation of this high specific fertility has been put forward by Prof. Carr-Saunders :—¹⁾

The Palestinian Jews "are co-operating in an endeavour which gives them hope and confidence ; moreover, their aim is to re-people their former home. Those who are concerned about the fall of the birthrate... may perhaps discern a lesson in this fact and conclude that, if the production rate is to become a replacement rate, people must be brought deliberately to found families as a contribution to a society in whose future they have confidence and in whose ideals they find inspiration".

The situation among the Moslems of Palestine is still more surprising. Their rate of natural increase (33.2 in 1936) is by far the highest in the world. The corresponding 1934 figures²⁾ for Egypt was only 14.5, for Cyprus 16.9, for Ceylon 14.3, and for Japan 11.8. The nearest approach to the Palestine figure was in Costa Rica (24.5). This very high rate of natural increase among the Moslems is due to the combination of two facts, — a high birth-rate (52.9 per 1000 in 1936) and a low death-rate (19.9 per 1000). The high birth-rate must be explained by the fact that the Arabs of Palestine are still, in the main, a primitive people, who have not yet been educated in contraceptive practices. In Egypt, too, the birth-rate fluctuates around 41—44 per 1000, and approximately the same rate is reached in a few other relatively backward countries (Costa Rica, Mexico, Guatemala, Straits Settlements). Very high birth rates were also reached in Europe in the last century, over 50 being recorded in Russia and 47 in Yugoslavia in the 1880's. But such high birth-rates have been almost invariably accompanied by high death-rates, thus keeping the natural increase low. The Palestine Moslems are the exception to this rule. Their death-rate is considerably lower than in any of these countries.

Comparative Rates of Natural Increase



It is at this point that the effect of Palestine's unusual circumstances again makes itself felt. The impingement of the higher standard

¹⁾ Op. cit. p. 310.

²⁾ League of Nations, Statistical Yearbook, 1935/36, p. 46.

of civilisation brought by the Jews, on the Arab way of life, has resulted in an immense improvement in the Arabs' health and hygiene. This improvement has been reflected in a rapid decrease in mortality — particularly infant mortality — and has reduced the Arab death-rate to a relatively low level. Just as the presence of the Arabs in the country enabled the Jewish population to grow, *through immigration*, at a more rapid pace than recorded in any other European immigration population — so the presence of the Jews in the country has so profoundly modified social conditions, that the Arab population has been enabled to grow, *through natural increase*, more rapidly than any other people — modern or backward — in the world today.

It appears, therefore, that the Moslem population of Palestine is passing through a transition period — the period which lies between a high birth-rate and a high death-rate (the characteristics of backward peoples) and a low birth-rate and low death-rate (the characteristics of advanced peoples). In Palestine the death-rate has fallen rapidly, but the birth-rate has remained high, and for the time being the Arabs are enjoying the best of both worlds — at least as far as population growth is concerned. If taboos of religion and custom prove strong enough, this state of affairs may continue into the future — though it has had no parallel before in modern population history. But the first steps towards the introduction of contraceptive practices among Moslems have already been taken in Egypt, and it would be most surprising if the Palestine Moslems remained immune for long from such influences.

d) Immigration.

We have emphasized before, that immigration must be related to *total* existing population, and not only to one section of the local inhabitants. If the whole period 1922—1936 is considered, the proportion of immigration to population in Palestine, though very high, is not unprecedented, an even higher level having been reached in New Zealand from 1871—1881. This is seen from the table on the following page.

But economically, the weight of the immigrants has been far greater than an average of 2.55% of the existing population. The immigrants into Palestine come of an energetic progressive stock. Many of them are trained workers, and some are capitalists able themselves to create employment. The country they enter is peopled by a backward nation, living, mainly, on the lowest level of subsistence — many of them illiterate and unskilled, and few possessing capital means of any sort. For these reasons each immigrant is vested with a greater economic value than he would have in a country such as Australia or Canada. In fact, in other countries, the situation has

Proportion of Immigration to Existing Population¹⁾

| | Total population (at beginning of period) | Annual net immigration as percentage of population |
|----------------|---|--|
| 1. Palestine | | |
| 1922—1936 | 649,000 | 2.55 ²⁾ |
| 2. New Zealand | | |
| 1871—81 | 260,000 | 4.58 |
| 1901—11 | 770,000 | 1.06 |
| 3. Canada | | |
| 1901—11 | 5,370,000 | 1.82 |
| 1911—21 | 7,210,000 | 0.60 |
| 4. Australia | | |
| 1871—81 | 1,700,000 | 1.26 |
| 1881—91 | 2,310,000 | 1.72 |
| 1921—31 | 5,510,000 | 0.55 |
| 5. U. S. A. | | |
| 1850—60 | 23,200,000 ³⁾ | 1.10 |
| 1870—80 | 38,600,000 | 0.67 |
| 1880—90 | 50,200,000 | 0.99 |
| 1900—10 | 76,000,000 | 0.82 |

often been reversed — the immigrants have been poverty-stricken and unskilled and only through immigration were they raised to the higher level of the new country; in Palestine, the immigrants bring with them capital and skill, and themselves raise the level of the new country to the standards they have known abroad.

1) "World Population", pp. 162 and 163.

2) It has been found extraordinarily difficult to calculate the percentage of immigration to population in Palestine. The official net immigration figures are obviously an underestimate, as they include neither illegal Jewish immigrants, nor the steady influx of Arabs from the surrounding countries. The official net immigration for 1922—1936 is about 250,000, whereas the figure we arrived at in the table above (p. 22) was 322,000—a difference of nearly 30%. To overcome these difficulties we have adopted the method of dividing the average annual increase of the population, which was found to be 5.1%, by 2, as we found (Table p. 22) that approximately half the increase was due to immigration and half to natural increase. In this way we arrived at the figure of 2.55% as the average annual percentage of immigration to population. If the alternative method of calculating the percentage of net immigration to population for each separate year is adopted, and the results averaged, a figure of 1.8% is obtained. But as the net immigration figures are known to be underestimated by 30%, the corrected result would not differ widely from the figure of 2.55%, which we have adopted.

3) Encyclopedia Britannica — "United States".

The proportion of immigration to population in Palestine has, undoubtedly, been reaching exceptionally high levels during the last few years, a record of 5.52% being attained in 1935. But, as the table above showed, even this high level of immigration is not unknown in the history of modern colonisation. In New Zealand annual immigration actually maintained an *average* height of 4.58% of the local population over a whole period of 10 years, a feat not yet achieved in Palestine!

Percentage of Immigration to Population in Palestine 1933—1936.

| | Population (30th June) | Net Immigration (Excess of arrivals over departures) | % of Immigration to Population |
|------|---------------------------|--|-----------------------------------|
| 1933 | 1,038,000 | 42,000 | 4.05 |
| 1934 | 1,105,000 | 48,000 | 4.35 |
| 1935 | 1,195,000 | 66,000 | 5.52 |
| 1936 | 1,270,000 | 22,000 | 1.73 |

Out of this general survey of Palestine's population growth the following facts emerge:—

- 1) taking the population as a whole, each feature of its growth can be matched in other countries of European immigration.
- 2) taking Jews and Arabs separately, certain unique features appear, due to the extraordinary combination of circumstances existing in Palestine today. The Jewish population by itself, has been able to grow through immigration with extraordinary rapidity, as the immigrants could draw on the food supplies provided by the Arab community. The Arab community, by itself, has reached a record rate of natural increase. Its death-rate has fallen through the introduction of new hygienic methods since the commencement of Jewish colonisation, without the corresponding decrease in the birth-rate, usual in progressive countries.

II. THE IMMIGRATION CYCLE.

The nature of Palestine's immigration movement has aroused a certain amount of discussion, particularly within the last year or so. Previous to that, it was generally accepted that immigration into Palestine was determined by accidental political or economic factors (such as the depreciation of the zloty in Poland, the advent of Hitler in Germany, the outbreak of rioting in Palestine) and that if only such disturbing forces could be eliminated, there would be a steady flow of new arrivals into the country. This regular influx of immigrants would bring with it a regular supply of capital, and under the beneficent influence of the perpetual accretions of new wealth and

man-power, the country would progress steadily and consistently, in a smooth upward trend of development. In short, immigration was considered to bring with it its own prosperity, and if only the immigration movement were not impeded by accidental factors, the continuous prosperity of Palestine would be assured.

There is, no doubt, a fair measure of truth in this argument. We have shown that the proportion of immigration to population in Palestine has been high (though not unprecedented) and has had an economic weight in excess of its absolute numbers. Its influence on the economic development of the country must, therefore, have been very pronounced. In the earlier days of Jewish colonisation, before the country had developed anything of an independent economy of its own, it may well have been the prime determining force in Palestine's economic life — and its stoppage may have proved tantamount to cutting off the very life-blood of the young country. Even today, when a sturdy economic organism has been created within Palestine itself, an organism which almost certainly obeys in some degree the ubiquitous capitalist laws of boom and depression, the swelling or slackening of immigration may have sufficiently powerful effects to distort the normal cyclical movement — to obscure or to accentuate the usual ups and downs, which would otherwise in all likelihood have made themselves distinctly felt.

But while conceding the validity of the argument that immigration exerts a powerful, perhaps a dominant, influence on Palestine's economic life, another aspect of Palestine's immigration movement is deserving of discussion, even though the discussion must still be extremely tentative.

It is a curious fact that, so far, immigration into Palestine has proceeded with a regular wave-like motion. (See diagram p. 107).

There are no sudden ups or downs such as would have been expected if the volume of migrants had depended on purely accidental factors. The curve of net immigration (excess of arrivals over departures) proceeds unswervingly from trough to peak, and from peak to trough, as if obeying some cyclical law of its own. The troubles of 1929, and the consequent suspension of labour immigration, slowed down, but did not succeed in changing, the upward trend; and in 1936, *before* the outbreak of rioting, the immigration curve had already commenced to turn downwards. The peaks and troughs of the immigration movement correspond exactly, it must be stressed, with the fluctuations in general prosperity in Palestine.

These phenomena might conceivably point to the existence of a trade-cycle within Palestine, which is able, of its own accord, to attract or repel immigration, according as local conditions are good

or bad. In other words, it appears possible that local conditions are not merely a *function* of immigration, but immigration and local conditions are dependent variables, each determining and reacting on the other.

Palestine's economy is, however, still too young, and the period of less than two decades for which data exists, is too short, to draw any hard and fast conclusions from these indications. But what lends support to this tentatively proffered viewpoint, are some interesting data regarding the immigration movement into America during the 19th century. A certain Dr. Jerome made a detailed study of immigration into the U. S. at a time when there was no serious impediment to free migration from Europe to the New World¹).

"The results (of Dr. Jerome's study) are startling. Jerome found strong cyclical and seasonal movements in immigration and emigration, and noticed that 'when immigration is not restricted the character of the cyclical variations, at least, is closely similar to the cyclical variations in employment opportunity in the United States. A fairly close similarity is also found in the seasonal movements'... This cannot be a coincidence because, 'when the migratory currents are separated into their several elements, it is found that it is just these elements, which one would expect to be swayed in the choice of their particular time of arrival and departure by variations in the prospect of employment, which do show, in fact, the closest correlation with employment conditions'.

"When, therefore, there was freedom to come and go, the volume of movement corresponded with changes in opportunities for employment in a fashion that was almost uncanny. During the earlier part of the period surveyed by Dr. Jerome, industry was by no means prosperous or the opposite in all countries at the same time; thus emigrants sometimes left when conditions at home were good and sometimes when they were bad. During the latter part of the period all countries came to be prosperous or the opposite more or less at the same time, and emigration was at its highest when home conditions were relatively good. But men always want still better conditions, as is witnessed by the fact that strikes occur more often in times of prosperity than in those of depression. Therefore men left home, not because things were bad, but because they thought that things would be still better in the United States".

There is a close similarity between this, and the Palestine immigration situation. We see that here, too, immigration has moved in a cycle, corresponding to the cycle of plenty or dearth in employment opportunities within Palestine itself. But whereas Dr. Jerome is able to conclude that the employment condition in America actually *determined* the volume of immigration, which otherwise suffered from

1) "World Population", pp. 206 and 207.

no impediment — in Palestine such a conclusion cannot hastily be arrived at. In the first place, in Palestine there have been impediments to immigration. Secondly, the pressure today on the Jewish masses in Europe to emigrate is greater than was ever put on the immigrants to America last century. And further, the size of the Palestine economy is still so small that it is doubtful if it functions with the same independence as did the American economy even at that period. But with all reservations, an important lesson is to be learnt from the American experience. *Even when immigration is free and unimpeded, it is limited by, and does not tend to exceed, the employment opportunities offered by the country.* Prof. Carr-Saunders, in commenting on Dr. Jerome's study, says:—¹⁾

"It is usually assumed that the danger against which it is necessary to guard is that too many immigrants may come in if there is no regulation. It is possible to obtain some idea as to whether there is any substance in this fear by analysing what happened when entry into the United States was unregulated. However we explain them, the facts (recorded by Dr. Jerome) are a remarkable tribute to the system under which men were free to come and go. For it does not seem to be the case that immigrants came in greater numbers than could be absorbed."

III. POPULATION GROWTH IN 1936 AND 1937.

In 1936 and 1937 there has been an abrupt slowing down in the high rate of growth which had characterised the few years preceding. The population increase, as compared with 1935, is summarised in the following table:—

Palestine's Population Growth 1935—37.

| | 31.12.1935 | 31.12.1936 | 31.12.1937 | Increase in 1936 | Increase in 1937 | Increase per cent over previous year | | |
|---------------------|------------|------------|------------|---------------------|---------------------|---|------|------|
| | | | | | | 1935 | 1936 | 1937 |
| Total ²⁾ | 1,241,561 | 1,300,151 | 1,335,253 | 58,590 | 35,102 | 8.53 | 4.72 | 2.69 |
| Jews | 355,152 | 384,083 | 395,845 | 28,931 | 11,762 | 25.55 | 8.15 | 3.06 |
| Non-Jews | 886,409 | 916,068 | 939,408 | 29,659 | 23,340 | 2.95 | 3.35 | 2.55 |

It is seen that there has been a most severe decline in the Jewish population growth, which has adversely affected the growth of the population as a whole. The increase among the non-Jews also fell

¹⁾ op. cit., pp. 205, 207.

²⁾ Totals refer to the de facto population, including travellers, but excluding members of H. M. Forces and nomads (66,553 at the census of 1931).

off in 1937, but to a much smaller degree. Since 1935, the percentage of Jews to the whole population has altered little :—

| | Total | Jews | % of Jews to Total |
|------------|-----------|---------|--------------------|
| 31.12.1935 | 1,241,561 | 355,152 | 28.6 |
| 31.12.1936 | 1,300,151 | 384,083 | 29.6 |
| 31.12.1937 | 1,335,253 | 395,845 | 29.6 |

A certain discrepancy exists between these estimates and the estimates of the Jewish Agency. The latter include a number of Jews who refrained from participating in the 1931 Census, or who did participate but did not register themselves as Jews. It also includes immigrants who had entered the country illegally and whose presence has not yet been officially recognized. According to these comprehensive figures the Jewish population has increased as follows :—

| | | |
|---------------|--------|---------|
| December 1935 | ... .. | 375,000 |
| December 1936 | ... .. | 403,850 |
| December 1937 | ... .. | 415,760 |

On this basis the percentage of Jews to the total settled population is 31.1%. A difference of some 20,000 exists between the official and the Jewish Agency estimate of the Jewish population.

The sharp decline in the population growth in 1936 and 1937 is due, to a great extent, to the falling off in Jewish immigration. The development of immigration over the last five years has fluctuated as follows :—

| | Registered Jewish immigrants ¹⁾ | Total net Immigration ²⁾ |
|------|--|-------------------------------------|
| 1932 | 9,553 | 15,908 |
| 1933 | 30,327 | 41,870 |
| 1934 | 42,359 | 47,808 |
| 1935 | 61,854 | 65,867 |
| 1936 | 29,727 | 22,052 |
| 1937 | 10,536 | 5,237 |

The rate of natural increase, as might have been expected, has remained much more stable. Among the Jews there has been scarcely any variation in natural increase since 1922 ; though both the birth- and the death-rates have been decreasing, the excess of births over deaths has remained fairly constant. But among the Moslems, the pros-

¹⁾ Statistics of emigration were not collected by religious classification in all these years, therefore no totals of net Jewish immigration are available.

²⁾ Excess of arrivals over departures.

perity period was reflected in rising birth-rates and falling death-rates, with a consequent rise in the rate of natural increase. In other words, among the Jews, the "civilized" process of falling birth and falling death-rates has already set in. It is a matter of time, only, before the natural increase commences to decline also. The Moslems, however, are still enjoying that unusual transition period to which we have already referred — a period of rising or stationary birth-rates combined with falling death-rates. In 1936, these trends were even further accentuated, but in 1937, when depression began to be severely felt, the Moslem birth-rate fell, and the death-rate rose perceptibly.

The reason for the falling-off in Jewish immigration in 1936 and 1937 and hence for the slowing-down in the population growth must, of course, be attributed to the unsettled conditions beginning with the run on the banks in September 1935, and to actual administrative restrictions. Immigration, particularly capitalist immigration, is a sensitive barometer of political and economic variations, as the following monthly immigration returns indicate :—

Monthly Immigration.

| | Total Immigration | | | Capitalist Immigration | | |
|-----------|-------------------|--------|--------|------------------------|-------|-------|
| | 1935 | 1936 | 1937 | 1935 | 1936 | 1937 |
| January | 4,352 | 2,654 | 1,012 | 397 | 391 | 115 |
| February | 5,654 | 2,756 | 1,206 | 511 | 392 | 108 |
| March | 7,196 | 4,195 | 1,425 | 689 | 469 | 136 |
| April | 4,736 | 3,524 | 1,464 | 453 | 470 | 128 |
| May | 4,602 | 2,539 | 1,103 | 581 | 243 | 110 |
| June | 4,830 | 1,786 | 752 | 506 | 159 | 100 |
| July | 5,415 | 2,318 | 960 | 657 | 138 | 240 |
| August | 5,124 | 3,218 | 1,216 | 439 | 160 | 88 |
| September | 7,304 | 4,966 | 1,039 | 712 | 197 | 80 |
| October | 5,517 | 1,532 | 1,010 | 399 | 146 | 57 |
| November | 4,640 | 1,224 | 672 | 691 | 142 | 52 |
| December | 4,777 | 959 | 616 | 363 | 107 | 86 |
| | 64,147 | 31,671 | 12,475 | 6,398 | 3,014 | 1,300 |

The rise in the immigration figures in August and September 1936, interrupting the general downward trend, was due to the rumours of an approaching suspension of immigration, and the natural desire of all intending immigrants to enter the country before the gates should be closed.

The division of immigration into categories over the last four years, is given below :—

Division of Jewish Immigration into Categories.

| | 1934 | | 1935 | | 1936 | | 1937 | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | No. | % | No. | % | No. | % | No. | % |
| Capitalists with LP. 1000 & upwards | 5,193 | 11.76 | 6,398 | 9.97 | 3,014 | 9.52 | 1,800 | 10.42 |
| Skilled artisans with not less than LP. 250.- | 437 | 0.99 | 303 | 0.47 | 173 | 0.55 | 12 | 0.09 |
| Persons coming to employment | 11,276 | 25.54 | 14,972 | 23.35 | 7,202 | 22.74 | 2,039 | 16.34 |
| Active immigrants | 16,906 | 38.29 | 21,673 | 33.79 | 10,389 | 32.81 | 3,851 | 26.85 |
| Dependants and other categories | 27,237 | 61.71 | 42,474 | 66.21 | 21,282 | 67.19 | 9,124 | 73.15 |
| T o t a l | 44,143 | 100.00 | 64,147 | 100.00 | 31,671 | 100.00 | 12,475 | 100.00 |

The chief observation to be made on these figures is that the proportion of the dependant element among the immigrants is high and increasing annually.

IV. PALESTINE'S PLACE AMONG THE IMMIGRATION COUNTRIES OF THE WORLD.

The following table, gives some idea of the absolute volume of immigration into Palestine as compared with other countries of immigration during the last decade. During the last few years, Palestine has been the chief immigration country in the world.

Net Immigration of Aliens (000's omitted) ¹⁾
(blanks mean no net immigration)

| | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 |
|--------------------|-------|-------|-------|------|------|------|------|------|------|------|
| Argentine | 94.5 | 74.8 | 81.7 | 65.7 | 4.0 | — | — | 1.5 | 16.5 | 18.2 |
| Australia | 48.0 | 28.7 | 11.6 | — | — | — | — | — | 1.0 | 1.7 |
| Brazil | 58.9 | 34.8 | 55.0 | 12.4 | — | 9.2 | 29.2 | 26.6 | 8.3 | — |
| U. S. A. | 108.1 | 101.1 | 132.2 | 88.5 | — | — | — | — | — | 4.9 |
| New Zealand | 8.6 | 3.4 | 2.9 | 3.5 | — | — | — | — | — | — |
| Union of S. Africa | 3.8 | 4.4 | 6.6 | 4.4 | 2.5 | 1.0 | 1.7 | 4.8 | 0.1 | 8.6 |
| Palestine | — | — | 1.3 | 3.0 | 4.5 | 15.9 | 41.9 | 47.8 | 65.9 | 22.1 |

¹⁾ Yearbook of Labour Statistics 1937, p. 209.

V. OCCUPATIONAL DISTRIBUTION.

A study of occupational distribution in Palestine points immediately to the fundamental differences between the structure of the Jewish and Arab communities.

Occupational Distribution of Palestine Population
(Earners and Dependants)

| | Non-Jews 1931 (Census figures) | | Jews 1931 (Census figures) | | Jews end 1936 ¹⁾ (Jewish Agency est.) | |
|--------------------------------|-----------------------------------|--------------|-------------------------------|--------------|---|--------------|
| | No. | % | No. | % | No. | % |
| Agriculture | 492,920 | 64.9 | 27,017 | 18.0 | 56,000 | 15 |
| Building, industry & mining | 91,170 | 12.0 | 50,441 | 33.5 | 119,000 | 33 |
| Transport | 40,991 | 5.4 | 9,629 | 6.4 | 21,000 | 6 |
| Trade | 67,932 | 8.9 | 28,665 | 19.1 | 75,000 | 21 |
| Administration | 21,008 | 2.8 | 3,410 | 2.2 | 12,000 | 3 |
| Liberal professions | 17,991 | 2.4 | 17,490 | 11.6 | 48,000 | 13 |
| Domestic services | 11,984 | 1.6 | 5,264 | 3.5 | 10,000 | 3 |
| Persons living on income | 15,252 | 2.0 | 8,545 | 5.7 | 22,500 | 6 |
| Total | 759,248 | 100.0 | 150,461 | 100.0 | 363,000 | 100.0 |
| Insufficiently described | 25,959 | | 19,889 | | 22,000 | |
| Unproductive | 9,451 | | 4,260 | | 8,000 | |
| Total | 794,658 | | 174,610 | | 404,000 | |

The discrepancy between the occupational distribution of the Jews and Arabs is due to the fact that, basically, the country is one economic unit. The high proportion of agriculturists among the Arabs prevents an equally high proportion of agriculturists among the Jews. On the other hand, the Jewish sector is fairly highly industrialised and provides a large proportion of the trading community. Thus the two economies are complementary. There is a close resemblance in occupational distribution between Palestine and Italy, except that in Italy industry is more developed:—

¹⁾ Demographic Survey, op. cit.

Comparison, in percentages of total earners, between the occupational distribution in Palestine and Italy.

| | Agriculture | Construction, industry & mining | Commerce | Transport |
|---|-------------|---------------------------------------|----------|-----------|
| Palestine (Jewish & Arab earners) 1931 | 47.9 | 16.6 | 9.4 | 5.8 |
| Italy ¹⁾ | 47.3 | 29.5 | 8.3 | 4.6 |

There is a second factor accounting for the difference in occupation between Jews and Arabs. The Jewish economy is based on modern, capitalistic methods of production and a high standard of life. Such an economy requires a large administrative and distributive machinery. It is obvious that modernisation and a high standard of life increase the proportion of services in the total output of goods and services. Where productivity per unit is high, the producers of primary products will be fewer, and workers released to provide the multifarious services (amusements, professional services etc.) which are the symptoms of economic progress. The opposite applies to the Arabs. Their technical methods are still undeveloped, and their primitive self-sufficiency has not yet been fully superseded by a modern exchange economy. Less administrative and distributive machinery is, therefore, required, and a lower proportion of the population employed in producing "services", in contradistinction to the production of "goods".

This process of modernisation among the Jews is seen not only from the comparison between Jews and non-Jews, but from the development within the Jewish community itself between 1931 and 1936. As the above table shows, the proportion of population engaged in trade, administration and the liberal professions has increased somewhat, while the proportion of population producing primary agricultural and industrial products has diminished correspondingly. These changes are small, but symptomatic.

It is probable that since the middle of 1936 a certain reversal of the trend towards the services and professions took place. An additional section of Jewish labour gravitated towards the Jewish plantation colonies, which had been deserted by Arab workers during the general strike. The future of Jewish occupational distribution depends, in large part, on whether the present tendency towards segregation of the two communities, (either within one State or two), is weakened or intensified.

¹⁾ Statistical Yearbook of L. o. N., 1934/35, Table 4.

VI. DISTRIBUTION OF THE POPULATION IN TOWN AND VILLAGES.

The same differences between the Jewish and Arab communities, which emerged from an analysis of their occupational distributions, are reflected in the distribution of the population between town and country. 65% of the Arab population are congregated in the villages, as against 24% of the Jews. Between 1931 and 1936 there has not, however, been a change in this proportion among the Jews. Although Tel-Aviv and Haifa have absorbed an increasing proportion of the Jewish community, they have done so at the expense of other towns, and not at the expense of the villages.

Distribution of Population between Towns and Villages.¹⁾

| | Non-Jewish 1931 population (Census) | | Jewish 1931 population (Census) | | Jewish popula- tion end 1936 (Jewish Agency est.) | |
|---------------------|---|--------------|---------------------------------------|--------------|---|--------------|
| | Souls | % | Souls | % | Souls | % |
| Tel-Aviv & suburbs. | 7,000 | 0.9 | 46,300 | 26.5 | 148,000 | 36.7 |
| Jerusalem | 39,300 | 5.0 | 53,800 | 30.8 | 75,000 | 18.6 |
| Haifa and Haifa Bay | 34,500 | 4.3 | 16,000 | 9.2 | 55,000 | 13.6 |
| Jaffa | 47,600 | 5.9 | 7,700 | 4.4 | 18,000 | 4.4 |
| Tiberias | 3,600 | 0.4 | 5,400 | 3.1 | 7,000 | 1.7 |
| Safed | 6,900 | 0.9 | 2,500 | 1.4 | 2,000 | 0.5 |
| Other towns | 136,600 | 17.2 | 700 | 0.4 | 1,000 | 0.2 |
| Villages | 519,100 | 65.4 | 42,200 | 24.2 | 98,000 | 24.3 |
| Total | 794,600 | 100.0 | 174,600 | 100.0 | 404,000 | 100.0 |

VII. POPULATION DENSITY.

Compared with vast countries, such as the Argentine, Canada, Australia, the United States, or New Zealand, Palestine is a very densely populated country. On the other hand, compared with the majority of the countries of Europe, Palestine is still relatively sparsely populated. The nearest approach to Palestine in density are the semi-agricultural and relatively unprogressive European countries, such as Greece, Rumania, Bulgaria. The developed agricultural lands of Europe, such as Italy and Poland, have a considerably higher population density:—

¹⁾ Demographic Survey, op. cit. p. 14.

Persons per sq. km.¹⁾

| | |
|--|--------------------------|
| 1. Extensive "new" countries : | |
| Australia | 0.9 |
| Canada | 1.1 |
| Argentina | 4.4 |
| New Zealand | 5.8 |
| U. S. | 16.3 |
| 2. Backward agricultural countries in Europe : | |
| Lithuania | 44.7 |
| Spain | 49.4 |
| <i>Palestine</i> | 50.0 (31.12.1936) |
| Greece | 51.9 |
| Bulgaria | 60.0 |
| Rumania | 65.0 |
| 3. Semi-agricultural countries in Europe : | |
| France | 76.0 |
| (Lebanon) | 78.7) |
| Austria | 81.0 |
| Denmark | 85.7 |
| Poland | 87.0 |
| Hungary | 96.2 |

The number of souls per sq. km. is of itself of small significance, unless brought into relation with the economic background of the country in question. If Palestine aspires to the type of economy of the more progressive semi-agricultural or industrial countries of Europe, its population density is still on the low side.

¹⁾ Statistical Yearbook of League of Nations, 1935/36, Table 2. Population as at end 1934.

CHAPTER III.

COLONISATION AND INDIGENOUS AGRICULTURE.

Agriculture in Palestine is divided into three separate sections, each characterised by certain distinctive features :—

- 1) Citriculture¹⁾ based on modern technical methods and high capital investment ; employing hired labour, and producing chiefly for export. The industry is divided almost equally between Jews and Arabs.
- 2) Indigenous agriculture, characterised by primitive farming methods, semi-feudal forms of land ownership and a low standard of life. This form of agriculture, which is almost entirely in Arab hands, is in a high degree self-sufficient. Cereal-growing predominates, but milk, eggs, fruit and vegetables are also produced.
- 3) Modern mixed farming, based on intensive cultivation and irrigation, and directed towards the supply of the urban population. Production is concentrated on dairy-farming, poultry-raising, and fruit and vegetable-growing — with some admixture of mechanised cereal-growing. This type of farming is almost entirely Jewish and maintains the farmer on a relatively high standard of living. It is founded on a colonisation system, i. e. most of the land is publicly owned, and the farms have been financed mainly by public and semi-public funds — with the view of creating an agricultural basis for the Jewish settlement in Palestine.

I. CEREAL GROWING.

Grain is grown in Palestine by both Jew and Arab, but under vastly differing conditions. It is the main branch of indigenous agriculture and the typical occupation of the peasant (or fellah). Among the Jews, however, it occupies a place of minor importance. About 52%²⁾ of the income of Arab farms derives from cereal-growing, as

¹⁾ Citriculture is dealt with separately in the next chapter.

²⁾ Calculated on the basis of material provided in the Report on Economic Conditions of Agriculturists in Palestine, Government of Palestine, 1930.

compared with only 11%¹⁾ in the Jewish farms, and 30% in Palestine agriculture as a whole. The Jewish and Arab farms also differ greatly in the cereal yield per dunam. As a result of scientific methods of cultivation (crop rotation, extensive use of fertilisers), the Jews have succeeded in obtaining about 110 kg. of wheat and 154 kg. of barley per dunam as against the Arab yield of 70kg. of wheat and 59 kg. of barley²⁾. A further important distinction between Jewish and Arab cereal growing is the particularly high degree of mechanisation in the one, and the almost complete absence of mechanisation in the other. This contrast in production methods in one small country is the natural consequence of the different conditions prevailing in the two economies. The self-sufficient primitive Arab farm suffers from a lack of capital resources, but enjoys an abundance of cheap labour. It was natural, therefore, that it should dispense with modern labour-saving devices and concentrate on human labour. The Jewish farms, on the other hand, had ample capital resources, but the standard of living and wages were higher. They therefore tended to reduce to a minimum the amount of manual labour used, and to increase the share of machinery. The bearing of these varying conditions of capital and labour supply, may be seen in the quantity of labour used and other costs, expended in the production of 100 kg. of wheat by Jews and by Arabs.

Required for the Production of 100 kg. of Wheat.

| | No. of human working days | No. of animal working days | Other expenses (mils) |
|----------------------------|------------------------------|-------------------------------|--------------------------|
| Jews ³⁾ | 0.52 | 0.21 | 593 |
| Arabs ⁴⁾ | 5.59 | 5.73 | 120 |

Among the Jews the number of working days is negligible, but "other expenses" are high, whereas among the Arabs, other expenses are very low, and the use of human and animal labour is extensive. For the Jews, the only means of self-defence in competition with the cheap and primitive cultivator at home and with the vast, fertile, well-equipped farms abroad, was through as intensive a mechanisation as

1) "Yalkut" No. 3. Publication of the Audit Union of the Workers' Agricultural Co-operatives in Palestine.

2) Report on Economic Conditions of Agriculturists, op. cit. pp. 8, 30.

3) "Yalkut", op cit. No. 1.

4) "The Fellah's Farm" — I. Elazari-Volcani, Jewish Agency Experiment Station, 1930, pp. 86-8.

could be supported. To how high a degree of mechanisation ¹⁾ Jewish cereal-farming has been impelled by this dual competition, may be seen from the following comparison of the number of hectares per tractor in Palestine and other countries :—

No. of Hectares of Cultivated Land per Tractor ²⁾

| | | |
|---|------|-------|
| Palestine (Jewish collective farms) ... | 1936 | 140 |
| U. S. A. | 1930 | 145 |
| Great Britain | 1931 | 170 |
| Canada | 1931 | 225 |
| Australia | 1932 | 480 |
| U. S. S. R. | 1934 | 660 |
| Hungary | 1933 | 1,475 |
| Bulgaria | 1933 | 2,300 |
| Latvia | 1930 | 6,280 |

This same fact is further illustrated by the imports of agricultural machinery — LP. 274,000 worth of agricultural machinery having been brought into the country in the last five years.

In all countries the introduction of the tractor and combine has wrought radical changes in the whole system of farming.

“When wheat was harvested with a sickle and threshed with a flail, from 35 to 50 hours of labour were required for harvesting and threshing an acre with a yield of 15 bushels ; the introduction of the cradle saved about 10 hours per acre. At present farmers in the great plains use from 4 to 5 hours in harvesting an acre of wheat with a binder and threshing from the shock with stationary thresher. From 3—4 hours is required when the crop is harvested with a header and threshed with a stationary thresher ; and an average of three-quarters of an hour is needed when the combined harvester-thresher is used” ³⁾).

In Palestine, both the systems here described are represented : one requiring 3—4 hours and the other 30—50 hours for the same achievement. These two contrasting systems co-exist in Palestine and

¹⁾ The figure given below is somewhat misleading, as it refers only to the collective settlements which are the most highly mechanised section of Jewish farming, the economic structure of these settlements being especially suitable for mechanisation. The degree of mechanisation in Jewish farming, as a whole, is very much lower.

²⁾ “Yalkut” op. cit. No. 3, p. 24.

³⁾ United States Daily, 12th June 1930. Founded on figures published in the Agriculture Year-Book, 1930, p. 443.

do not compete, for two main reasons. Firstly, modern Jewish farming comprises only a small section of Palestine's total cereal output, so that its influence on the market is negligible. Secondly, both Jewish and Arab agriculture supply only a part of the demand.

Jewish farming has succeeded in competing with mechanised farms elsewhere by adopting their own methods. The result has been a reduction in the relative weight of cereal-growing within Jewish farming and in its capacity for the absorption of an additional agricultural population, but its profitability has been increased. It is not so easy to understand how primitive Arab farming is able to compete with the cheap mass production from abroad. The following quotation¹⁾ brings the problem into clear relief:—

“Finally, a few words on the significance of the technical revolution in agriculture for countries such as China and British India, which are weak in industrial development, and suffer from rural over-population. They have only one weapon in their fight on the world market — cheap labour. But this weapon is, in the end, turned against these lands themselves, for an agriculture in which the process of mechanisation is hindered, cannot perfect its productive capacity and must fail. A brief, but impressive illustration of this is provided by the coming phase of rice-culture. Centuries of technical progress have left this culture — absorbing a mass of human labour — unchanged. The inevitable result was the localisation of rice-growing in countries of cheap labour. The United States have now applied to rice-growing the technique of the wheat-farm, and cultivate rice with the plough, the harvester and the combine. In Louisiana and California, rice grown by workers earning 5 to 10 times as much as in Asia, can already compete with Asiatic rice on the world market”.

In the same way, the fellah could not withstand world competition armed only with the weapon of a low standard of living and cheap labour. But his resistance has been strengthened by Government measures, in particular by the protective tariffs on wheat and flour²⁾, which have enabled him to obtain an economic price for his product, in spite of the less favourable conditions under which he works.

The size of the Palestine cereal crop is dependent only on weather conditions. The improved methods of farming, with their increased yields based on rotation of crops and more intensive use of fertilisers, have affected too small an area to influence the total output. Fluctua-

¹⁾ Weltwirtschaftliches Archiv. April 1930. Prof. Dr. G. A. Studensky. Entwicklungslinien der landwirtschaftlichen Produktion, p. 489.

²⁾ Cereal imports into Palestine are determined on a quota basis, and the level of customs duties is regulated by a sliding scale, designed to maintain prices at a certain minimum level.

tions between good and bad years are large — the difference between the minimum and maximum wheat crops during the last few years was as much as 83,000 tons. These fluctuations are an extremely important factor in the general economic welfare of the country. The fellahin, who represent about half of Palestine's population, are mainly dependent on the cereal crops for their livelihood; and the problem of the urban grain supply is also intimately bound up with the size of the crop. In years of good harvest, Palestine's dependence on imported grain and flour is markedly relieved, as the following tables show:—

Import of Wheat and Wheat-Flour into Palestine.

| | W h e a t | | Wheat Flour | |
|------|-----------|---------|-------------|---------|
| | Tons | LP. | Tons | LP. |
| 1933 | 60,047 | 448,236 | 26,919 | 264,679 |
| 1934 | 45,547 | 321,802 | 24,695 | 232,220 |
| 1935 | 17,892 | 117,428 | 33,787 | 348,950 |
| 1936 | 21,536 | 205,454 | 30,630 | 352,727 |
| 1937 | 37,164 | 364,844 | 27,317 | 416,377 |

The Division of Palestine's Supply of Wheat and Flour between Import and Local Production (tons)

| | Local production of Wheat | | Import of Wheat and Wheat Flour ¹⁾ | |
|------|---------------------------|-------------|---|-------------|
| | Tons | % of supply | Tons | % of supply |
| 1933 | 44,000 | 31.4 | 96,000 | 68.6 |
| 1934 | 83,000 | 50.9 | 80,000 | 49.1 |
| 1935 | 104,000 | 61.9 | 64,000 | 38.1 |
| 1936 | 76,000 | 54.3 | 64,000 | 45.7 |
| 1937 | 127,000 | 63.5 | 73,000 | 36.5 |

It must be pointed out that a certain degree of dependence on imported cereals is inevitable, owing to the particular tastes of the European Jewish population, which is accustomed to bread produced from soft wheat, whereas the local wheat is of the "hard" variety. Thus, even an increase in production would not reduce imports below a certain minimum.

The chief feature distinguishing cereal-growing from other forms of agriculture in Palestine, is its failure to keep pace with the expansion in output, which has been so characteristic of all branches of the economy in recent years. Crop fluctuations have been due to climatic

¹⁾ 1 kg. flour = 1.348 kg. of wheat.

variations only, and no long-term structural change has taken place. This difference in trend between cereal-growing, and intensive farming is brought out in the diagram on page 55.

II. MIXED FARMING.

Mixed farming in Palestine (of which Jewish agriculture is the main representative) owes its development to colonisation activities. Its rapid growth was made possible by two factors — the large capital sums invested in irrigation and farm intensification; and the expansion of the local urban markets for foodstuffs. The growth of "labour settlements"¹⁾ dependent on mixed farming has been as follows:—

The Growth of Labour Settlements Dependent on Mixed Farming

| Year | No. of settlements |
|-------------|--------------------|
| 1918 | 12 |
| 1921 | 19 |
| 1925 | 35 |
| 1931 | 37 |
| 1937 | 98 |

Development along lines of public or semi-public colonisation was imperative in a country such as Palestine, where private capital would not be attracted to a form of farming in which initial losses were inevitable, and a reasonable profit — even after the passage of some years — was no more than doubtful. Nevertheless, these special "labour" settlements were not the only Jewish mixed-farm units to be established. In 1937, approximately 10,000 families, or 34,000 souls were dependent for their existence on mixed farming, and Jewish mixed farming covered an area of 380,000 dunams. This population and land-area was divided between labour and other settlements as follows:—

Population and Land-Area of Jewish Mixed Farm Settlements 1937.

| | Population | | Cultivated Land Area (dunams) | | |
|----------------------------------|--------------|---------------|-------------------------------|--------------------|------------------|
| | Families | Souls | Total | Unirrigated fodder | Irrigated fodder |
| Labour settlements | 7,000 | 22,000 | 280,000 | 40,000 | 7,500 |
| Pica settlements ²⁾ | 430 | 1,600 | 50,000 | 6,000 | 750 |
| Other small-holders' settlements | 2,500 | 10,000 | 50,000 | 5,000 | 1,000 |
| Total | 9,930 | 33,600 | 380,000 | 51,000 | 9,250 |

¹⁾ Settlements which were established on public-owned land, and dispensing

The total area of land in these settlements has expanded considerably since the commencement of Jewish settlement, but the size of the *farming-unit* has decreased. This is seen from the fact that whereas the number of workers engaged in mixed farming has increased by 410% (1925—1936), the number of cattle by 215%, and the number of poultry by 600% (since 1927), the area of land has expanded by only 160%. This decrease in the size of the farming-unit reflects the intensification of mixed farming, and the transition from those branches of agriculture requiring large areas of land — such as cereal-growing — to dairy-, poultry- and vegetable-farming.

The development of intensive farming in Palestine has a two-fold significance. It has, first, increased the natural wealth of the country by raising the productivity of the land. And, secondly, it has rendered Palestinian agriculture less self-sufficient and more sensitive to the fluctuations of the market. The farmer is now easily vulnerable both through variations in the price he obtains for his products, and through changes in the price he pays for fodder and other supplies from outside his farm.

Our discussion of mixed farming is chiefly concerned with modern Jewish agriculture, but it should be remembered that there has been a simultaneous growth of mixed farming among the Arabs, and that a considerable portion of the country's output derives from Arab farms.

a) *Dairy Farming.*

No comprehensive statistics of dairy-farming are in existence in Palestine. The only accurate production figures available relate to Jewish farms, and do not date back longer than one year. The growth in the numbers of livestock might have been taken as an indication of the expansion of dairy-farming, but their value is vitiated by the fact that new acquisitions are mainly of pedigree stock with a milk yield about 4 times as great as that of the indigenous stock. The number of milch-cows imported during the last 4 years was :—

| | | | | | |
|------|-----|-----|-----|-----|-------|
| 1934 | ... | ... | ... | ... | 133 |
| 1935 | ... | ... | ... | ... | 866 |
| 1936 | ... | ... | ... | ... | 1,305 |
| 1937 | ... | ... | ... | ... | 357 |

entirely with hired labour. Our figures refer to these settlements only, as, on this point, no other statistics are available. The labour section is, however, predominant.

2) Small-holders' settlements on the land of the Palestine Jewish Colonisation Association.

This access of new stock indicates the expansion of modern farming only, and the high yield of these pedigree cows means that output has increased in greater proportion than the actual number of the new stock. The following table showing the increase in the total number of cows in the country according to the Government Livestock Census — which do not differentiate between primitive and pedigree stock — is even less indicative of the full growth in production during the last few years:—

Number of Cattle in Palestine¹⁾

| | | No. | Index |
|------|--------|---------|-------|
| 1930 | ... .. | 146,397 | 100 |
| 1932 | ... .. | 159,599 | 109 |
| 1934 | ... .. | 130,804 | 89 |
| 1937 | ... .. | 174,000 | 119 |

Taking these two sets of figures together, it may be safely assumed that the growth in indigenous herds and in the output of Arab dairy-farms has been moderate, while the increase in milk production in modern Jewish mixed farming has been very pronounced. The sales of the "Tnuvah" Marketing Organisation, which markets the bulk of Jewish dairy produce, are perhaps the best indication of the pronounced expansion in this section of Jewish farming:—

Sales of Dairy-Produced through "Tnuvah"²⁾

| | Milk and Milk Produce | | Butter | | |
|------|-----------------------|-------|--------|-------|-----|
| | (000 litres) | Index | (tons) | Index | |
| 1930 | | 1,540 | 100 | 64 | 100 |
| 1934 | | 4,514 | 293 | 103 | 161 |
| 1935 | | 6,708 | 435 | 147 | 230 |
| 1936 | | 8,038 | 522 | 314 | 491 |
| 1937 | | 8,064 | 524 | 248 | 387 |

We see that "Tnuvah" sales have multiplied some 4 or 5 times from 1930 to 1937, whereas the number of cattle in the country has increased by no more than 20%. This illustrates the shift that has taken place during this period, from primitive to modern forms of dairying. The

1) Government Blue Book 1935, and Agricultural Supplement to Palestine Gazette, 20.1.1938, p. 8.

2) "Tnuvah" Annual reports.

increasing yields per cow which have been obtained,—firstly, through the introduction of pedigree cows, and secondly, through cross-breeding of these pedigree cows and improved methods of farming—may be seen from the following table :—

Yield of Milk per Cow (Litres)

| | | |
|---|------|-----------|
| Annual yield of local cow | | 600— 700 |
| Annual yield of pedigree cows in Jewish mixed farms (minima and maxima) | 1927 | 1800—2500 |
| | 1929 | 2000—3000 |
| | 1935 | 3000—4900 |
| | 1936 | 3200—5400 |

The collection of production figures for the modern section of dairy-farming (which is confined to Jewish settlements) was inaugurated in 1937, and the following results have been obtained for that year :—

Production of Milk in Jewish Settlements (Litres)

| | |
|--------------------------------------|------------|
| Labour settlements | 19,063,000 |
| Small-holders' settlements | 8,472,000 |
| Towns and suburbs | 5,855,000 |
| | <hr/> |
| Total | 33,390,000 |

As estimate for Arab milk output, presumably including sheep's milk and goat's milk, is 60 million litres per year.

The expansion of modern dairy-farming is not, of itself, proof of its soundness or profitability. In fact, modern dairy-farming is encountering many and serious difficulties in this country. Liquid milk can be produced profitably only up to a certain quantity. Fresh milk cannot be imported, so that the urban market is practically monopolised by the local farmer. But once production outruns the day-to-day demand for liquid milk, the surplus milk must be converted into butter and other forms of milk produce, and here the competition of imported goods has made itself felt. The imported products have the advantage of deriving from countries where the conditions of production are more advantageous than in Palestine — where labour is cheaper, natural pastures exist, and water is plentiful. Also, many countries grant premiums to agricultural exports, allowing their sale at exceptionally low prices in foreign markets. For these reasons, local dairy products are unable to compete with imports, and the sales of liquid milk do not constitute a sufficiently high proportion of total milk production to

offset the losses incurred by other forms of dairy-produce. The low consumption of milk in Palestine is indicated by the following comparison :—

Consumption of Liquid Milk per Head of Population¹⁾ (Litres)

| | | | | | |
|--|-----|-----|-----|-----|-----|
| Switzerland | ... | ... | ... | ... | 263 |
| Denmark | ... | ... | ... | ... | 164 |
| Czechoslovakia | ... | ... | ... | ... | 155 |
| U. S. A. | ... | ... | ... | ... | 146 |
| New Zealand | ... | ... | ... | ... | 128 |
| Germany | ... | ... | ... | ... | 107 |
| France | ... | ... | ... | ... | 105 |
| Australia | ... | ... | ... | ... | 100 |
| England | ... | ... | ... | ... | 95 |
| Belgium | ... | ... | ... | ... | 79 |
| <i>Palestine</i> ²⁾ (Jewish population) | ... | ... | ... | ... | 49 |
| Italy | ... | ... | ... | ... | 34 |

Under these circumstances a large proportion of the milk output must be manufactured into butter ; but even the highest price charged for butter — and local butter prices are particularly high — is below the level of minimum profitability. A large part of the consumption of dairy-produce is covered by imports. The following table shows the break-up of the consumption of milk and dairy-produce in Palestine between imports, Arab and Jewish supplies :—

| | | | |
|--|-----|-----|---|
| Total milk and milk produce consumption — 157 million litres | | | |
| of which imports | ... | ... | 64 million litres ³⁾ , 40.8% |
| Jewish production | ... | 33 | " " 21.0% |
| Arab production | ... | 60 | " " 38.2% |

The lag of production behind consumption, to which the increasing import figures bear testimony, is to be explained by the reduced profitability as output expands. Once the demand for liquid milk is covered, there is no incentive to increase output, as the surplus milk would have to be diverted to butter-making and other branches of production which have been proved unprofitable. Attempts are now

1) Figures taken from the Final Report of the Nutrition Committee of the League of Nations 1937, and refer to 1930-34.

2) Estimate referring to 1937.

3) 5000 tons of dairy produce imports have been converted into liquid milk equivalents.

being made to reduce prices through economies in the cost of production and improved marketing methods, with the hope of being able, in this way, to increase the sale of local dairy produce.

b) Poultry-farming.

The development of poultry-raising has differed in certain respects from the development of dairy-farming in Palestine. In dairying, Jewish and Arab markets are almost entirely segregated, whereas the market for eggs and poultry is mixed and differences in prices are based on differences in weight, grading etc. The profitability of modern poultry-raising is due to the higher egg-laying capacity of the hens and the extensive use of machinery, such as incubators and brooders. The Leghorn hen, which is common on the Jewish farms, lays an average of 150 eggs per year, as compared with 40 eggs laid by the local hens.

Further, while the prices of milk and local milk-produce are particularly high in Palestine with a correspondingly low consumption, the prices of eggs and poultry compare very favourably with other countries, and egg consumption has been able to rise accordingly. A comparison of egg prices and egg consumption in Palestine and other countries gives the following picture:—

Egg Prices and Consumption in Palestine and other Countries¹⁾.

| | | Price per unit (Swiss francs) | | | Consumption (per head) |
|---------------------------|-----|----------------------------------|------------------------|-----|---------------------------|
| Germany | ... | 0.21 | Palestine (Jews only) | ... | 300 ²⁾ |
| France | ... | 0.17 | Canada | ... | 285 |
| England | ... | 0.16 | U. S. A. | ... | 252 |
| U. S. A. | ... | 0.15 | New Zealand | ... | 240 |
| Belgium | ... | 0.13 | Belgium | ... | 236 |
| Palestine | | | England | ... | 172 |
| ("Tnuvah" grade A) | | 0.13 | Switzerland | ... | 157 |
| Canada | ... | 0.12 | France | ... | 149 |
| Switzerland | ... | 0.12 | Germany | ... | 129 |
| Czechoslovakia | ... | 0.11 | Italy | ... | 119 |
| Denmark | ... | 0.11 | Czechoslovakia | ... | 115 |
| New Zealand | ... | 0.09 | Denmark | ... | 111 |
| Poland | ... | 0.08 | Poland | ... | 110 |
| Palestine (imported eggs) | | 0.06 | Palestine (Arabs only) | ... | 100 ²⁾ |

¹⁾ Based on material provided in Nutrition Report of League of Nations, 1937. Prices refer to October 1936.

²⁾ Agricultural Supplement No. 26, p. 33.

The supply of eggs to the Palestine market in 1937 was derived from the following sources:—

| | |
|--------------------------|--------------------|
| Total egg consumption... | 201 millions |
| of which imports | 93 millions, 46.2% |
| primitive farm produce | 60 " 30.0% |
| modern Jewish produce | 39.5 " 19.6% |
| modern Arab produce | 8.5 " 4.2% |

Imports thus accounted for almost half of the supply.

Poultry consumption is also fairly high in Palestine — for the country as a whole it is estimated at 2.8 kg. per head, as compared with 2.5 kg. in the U. K., the Jewish population being particularly large consumers.

To a greater extent than eggs, the poultry market is supplied by home produce. In 1937¹⁾ the supply of table-fowls was made up as follows:—

| | |
|------------------------------|------------------------|
| Total consumption of poultry | 3,504,000 fowls |
| of which imports | 1,254,000 fowls, 35.8% |
| Arab production | 1,350,000 " 38.5% |
| Jewish production | 900,000 " 25.7% |

i. e. about one-third of the demand is supplied by imports.

A further indication of the rapid expansion of poultry-raising is given by the Government annual enumerations. The summarised figures for poultry are as follows:—¹⁾.

Numbers of Poultry.

| Year | In the possession of Arab poultry farmers | | In the possession of Jewish poultry farmers | | Total | |
|------|---|-------|---|-------|-----------|-------|
| | No. | Index | No. | Index | No. | Index |
| 1930 | 856,513 | 100 | 196,050 | 100 | 1,052,563 | 100 |
| 1932 | 907,077 | 106 | 128,551 | 66 | 1,035,628 | 98 |
| 1934 | 1,187,770 | 138 | 199,253 | 102 | 1,387,023 | 132 |
| 1937 | 1,943,101 | 227 | 530,511 | 271 | 2,473,612 | 235 |

It is seen that Jewish poultry farming has increased more rapidly than Arab, although this has not prevented the Arabs from making

¹⁾ Agricultural Supplement, *ibid.*

considerable progress at the same time. That the development of Jewish output has been very much greater than the number of fowls indicates, is shown by the following figures of "Tnuvah" egg sales :—

"Tnuvah" Sales of Eggs

| Year | Units | Index |
|------|------------|-------|
| 1930 | 1,606,000 | 100 |
| 1934 | 4,119,000 | 256 |
| 1935 | 5,992,000 | 374 |
| 1936 | 11,260,000 | 701 |
| 1937 | 15,547,000 | 968 |

The high increase in output is due to the improved methods of farming which have been adopted in recent years.

In general, the outlook for poultry-farming in Palestine is encouraging. Local climatic and marketing conditions are favourable, and home produce should gradually replace the large imports. It may even prove possible

"...with proper housing and timing of hatching, combined with artificial lighting, to produce more eggs in the autumn and winter months for export to the United Kingdom and other European markets — for it is during these months that the demand is greater...

It is not an exaggeration to say that the poultry branch, which a few years ago was regarded as the stepson of the general farmer, is now becoming his stepping-stone. This industry has left its infancy, has become an important integral branch of farming, and has good prospects for yet further expansion and development" ¹⁾.

The profitability of modern poultry-farming in Palestine is, however, being affected by the very low prices of Syrian eggs. In 1936, as much as 57.5% of Palestine's total egg import derived from Syria, and was imported free of duty, under the terms of the Palestine-Syrian trade agreement. The difference in price between these imported eggs, and the local egg, is shown in the table of egg prices given above. The increased seasonal duties on eggs, which were imposed within the last two years, are unable to blunt the extremely keen competition of Syrian products, which are exempt from duty.

c) Vegetable growing.

Vegetable growing is another branch of mixed-farming which has made noteworthy progress in recent years. It has been encouraged by two

¹⁾ Agricultural Supplement, op. cit.

factors — the expansion of irrigation facilities, and the increased demand by the town population for fresh vegetables. The progress in irrigation has been achieved by new methods of well-boring and the greater utilisation of sub-soil water. A high proportion of the borings have proved successful, and a plentiful supply of water provided in many districts which formerly had concentrated on extensive dry-farming. The extended demand for vegetables is due to the increase in population, combined with the raising of the average standard of living in the country.

In analysing Palestine's vegetable supply, a clear distinction must be made between fresh vegetables, and potatoes, onions and garlic. Fresh vegetables are supplied up to 90% from home-produce, though the quantities of imports have been increasing in the last few years. Other vegetables, on the other hand, are mainly imported. Onions and garlic are grown in Palestine insufficiently, but potato-growing is expanding satisfactorily and the home crop is proving itself capable of supplying a rising share of the demand, but, so far, only within a limited season. The different situation, as regards the potato supply and the supply of fresh vegetables, is seen from the following two tables:

The Share of Imports and Local Produce in Palestine's Fresh Vegetable Supply.

| Year | Import (tons) | Local Produce ¹⁾ (tons) | Share of import in total supply % | Share of local produce in total supply % |
|------|------------------|---------------------------------------|--|---|
| 1932 | 923 | 23,442 | 4 | 96 |
| 1933 | 1,902 | 20,331 | 9 | 91 |
| 1934 | 2,780 | 34,631 | 8 | 92 |
| 1935 | 4,727 | 53,549 | 8 | 92 |
| 1936 | 7,302 | 65,321 | 10 | 90 |

1) Statistical Abstract of Government of Palestine 1936, p. 32*

These totals are composed of the following individual figures:—

| | 1931 | 1932 | 1933 | 1934 | 1935 | 1936 |
|--------------------|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cucumbers (tons) | 2,710 | 2,868 | 3,528 | 7,049 | 8,022 | 6,801 |
| Potatoes " | 1,317 | 929 | 974 | 1,834 | 2,850 | 5,000 |
| Tomatoes " | 7,097 | 7,978 | 7,472 | 11,201 | 17,286 | 19,027 |
| Egg-plants " | — | — | — | — | — | 6,745 |
| Cabbages " | No separate figures available | | | | — | 4,332 |
| Cauliflowers " | — | — | — | — | — | 4,454 |
| Other vegetables " | 3,944 | 12,596 | 9,332 | 16,381 | 28,241 | 23,962 |
| Total | 15,068 | 24,371 | 21,305 | 36,465 | 56,399 | 70,321 |

The Share of Imports and Local Produce in Palestine's Potato Supply.

| Year | Import (tons) | Local Produce (tons) | Share of im- port in total supply % | Share of local produce in total supply % |
|------|------------------|-------------------------|--|---|
| 1932 | 7,780 | 929 | 83 | 17 |
| 1933 | 9,753 | 974 | 91 | 9 |
| 1934 | 12,349 | 1,834 | 87 | 13 |
| 1935 | 15,774 | 2,850 | 85 | 15 |
| 1936 | 17,604 | 5,000 | 78 | 22 |

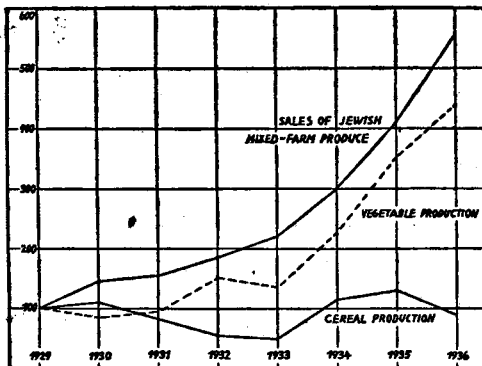
Vegetable production in Palestine is faced with two main problems. Although good prices are obtained for early and late vegetables, during the season the markets are glutted, and prices fall below costs. The second problem, is the increasing competition of Syrian products, which is disorganising the Palestine market, and reducing the profitability of local vegetable-growing. The first of these problems must be tackled by internal organisation and better marketing arrangements, and the local industry is well aware of the need for planning. The fight against Syrian competition can only succeed with Government help in the form of tariffs. The proportion of imported vegetables, although not large, is enough to depress prices and endanger the future of the Palestinian vegetable growers. The success of Syrian produce (which accounts for the major portion of Palestine's vegetable imports) is due to its free access to the Palestine market; the more advantageous technical conditions of production in Syria (such as the cheaper water supply) and Syria's particularly low labour costs. Although this competition is still in its infancy, the quantity and share of imports from Syria is growing year by year. Syria is basing its export trade in vegetables to an overwhelming degree on the valuable Palestine market, and about 95% of its total vegetable exports are now being sent to Palestine. In the case of potatoes, where special encouragement has been given by the Palestine Government to local growers and a protective duty imposed, the Syrian imports (which arrive duty-free) do not fall far behind the volume of the Palestine crop itself. It is, in fact, becoming obvious that the protective duty on potatoes, which was intended to give a fillip to home production, has also gone a long way towards encouraging the Syrian export trade (96% of Syria's potato exports in 1935 were consumed by Palestine).

III. THE OUTSTANDING FEATURES OF PALESTINE AGRICULTURE.

From this survey of the individual branches of Palestine's agriculture, three outstanding features emerge. The first of these is the

shift in emphasis from extensive cereal-growing to intensive mixed farming. This change-over may be seen from the following diagram, which shows the output of cereals to have fluctuated only in response to the weather conditions, whereas the output of vegetables and the sales of "Tnuvah" (Jewish milk and milk produce, eggs and vegetables) have increased steadily and very rapidly :—

The Development of Cereal-Growing and Mixed Farming.



The expansion of the Palestine market for agricultural produce and the particularly rapid increase in the demand for mixed farm produce, is clearly indicated by the following table of foodstuff imports in 1932, 1935 and 1937 :—

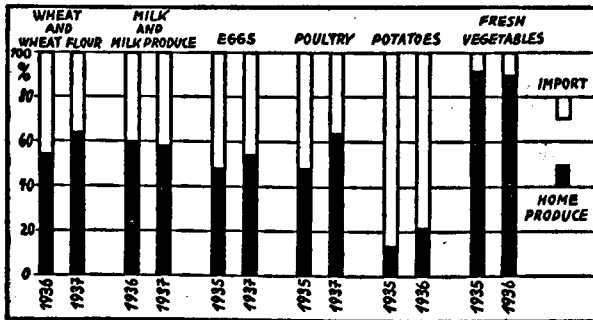
Imports of Agricultural Products (LP.)

| | 1932 | 1935 | 1937 | Percentage Increase 1937 over 1932 |
|-------------------------------------|------------------|------------------|------------------|------------------------------------|
| Cereals, legumes and flour | 710,878 | 828,734 | 1,286,908 | 81% |
| Animals for food, meat, and poultry | 206,864 | 746,807 | 755,320 | 264% |
| Eggs | 34,625 | 138,209 | 182,530 | 423% |
| Milk products ... | 83,645 | 288,727 | 343,401 | 308% |
| Vegetables and fruit | 167,751 | 436,681 | 427,298 | 154% |
| Oils | 20,831 | 21,776 | 42,306 | 100% |
| Fish | 71,382 | 173,564 | 179,670 | 153% |
| Total | 1,295,976 | 2,634,498 | 3,217,433 | 141% |

With demand growing at this rate, the development of a home food supply has become of the first importance both in coping with normal requirements and in preparing for a possible emergency situation in the future. The failure to develop mixed farming in Palestine might have been fraught with serious political and economic results. The trade balance of the country would have been even more adverse than it is at present, to the detriment of Palestine's economic soundness, and of its standard of living. Also, if some unforeseen contingency were to arise, Palestine would have been dependent, to a dangerous degree, on foreign supplies.

The second outstanding feature of Palestine's agriculture is the relatively high proportion of the demand supplied by imports. Rapidly as home production has increased, the growth in population and its demand for foodstuffs, has outstripped the capacity of the local farms. The situation is summed up in the following diagram :—

The Share of Imports and Home Produce in the Supply of Foodstuffs.



There are several causes for the large share assumed by imports in Palestine's food-supply. The most important of these are :—

- a) the lower prices of the imported products — as a result of more advantageous production conditions in other countries, or of export premiums granted by Governments to agricultural exporters. These price differences are particularly marked in the case of some forms of dairy produce and of cattle for slaughter.
- b) competition from adjacent countries, based on cheap labour. Syria, in particular, enjoys an unusually advantageous position vis-a-vis the Palestine market, as the Syrian-Palestine trade agreement provides for the free import of Syrian goods into Palestine. The export of Syrian foodstuffs into Palestine has grown from LP. 446,115 in 1932 to LP. 932,280 in 1936.

- c) A profitable basis of production has not yet been established for certain types of product, which are still being supplied almost entirely from abroad. Examples of this are cattle for slaughter, butter, onions and garlic, and potatoes out of season. Vegetable-growing, milk-production, egg and poultry-farming have already developed mature and profitable methods of production, so that they are able to supply a large portion of the home market. In these other lines, however, local production is still uneconomic.

The third outstanding feature is the unusual method whereby the major section of Palestine's modern mixed farming has been financed. The total investment in Jewish mixed farming has amounted to LP. 7,000,000 made up as follows:—

| | | |
|---|--------|---------------------|
| Investment in Labour settlements | ... .. | LP. 3,600,000 |
| " " Pica settlements | ... .. | 400,000 |
| " " other Small-holders' settlements | | 3,000,000 |
| | | Total LP. 7,000,000 |

Of this LP. 7,000,000, a considerable proportion was invested by public Jewish funds without expectation of profit. Losses were incurred in order to break the path for a new form of farming necessary to the country as a whole, and public capital was utilised, both for the fundamental work of colonisation, such as irrigation and the introduction of modern machinery and fertilising methods, and also for the experimental and scientific work on which this colonisation was based. It is no exaggeration to say that the actual process of colonisation was financed mainly through the Jewish public funds without the expectation of a reasonable return, and without the assistance of the State authorities.

IV. THE PROBLEMS OF AGRICULTURE IN PALESTINE.

a) *The segregation of the Arab and Jewish markets.*

The co-existence, in one small country, of two separate agricultural communities — the first based on primitive methods and a low standard of life; the second using modern methods and machines and maintaining a high standard of living — gives rise to a number of difficult problems. Not only are the producers separated into two distinct groups, but the consumers' markets have been segregated correspondingly — Jew tending to buy from Jew, and Arab from Arab. This segregation has proved possible because of the different standards of commodity, which each group of farmers produces. In the case of dairy-produce, for instance, the higher prices on the Jewish market are justified by the higher grade of product sold — and, to a certain degree, this also holds good of eggs (weight, grading,

etc.). Jewish cereal-growing, on the other hand, has only been able to hold its own through the advantages derived from mechanisation, which have compensated for the higher cost of labour. The greatest difficulty has been felt in vegetable production. There is little difference in quality and the vegetables from the modern farm appear on the market simultaneously with the produce of the indigenous cultivator, who is able, through his cheaper production costs, to offer his output at a lower price. Price variations are also accentuated by different marketing methods — the highly organised co-operative methods of the modern cultivator, clashing with the primitive salesmanship of the villagers. The solution of the problem lies in the transformation of the simple self-sufficient economy of the primitive cultivator to a modern exchange economy, with a higher standard of living. This transformation is gradually taking place of its own accord, under the impact of irresistible economic forces. But the process is not rapid, and in the meantime, modern farming in Palestine is beset with exceptional difficulty.

b) The Problem of Profitability.

The development of intensive farming in Palestine has involved high capital investment, heavy amortisation charges on machinery, expensive irrigation works, and a number of other special expenses. The proportion of this type of expenditure has been increased, and the proportion of labour in the final production cost decreased. In cereal-growing, the profitability of high capitalisation has been proved by experience, but it is not yet clear whether the low prices which other agricultural produce fetch on the local market, are able to cover high costs of production. There are two opposing currents of thought in modern farming in Palestine, the one aiming at an extreme reduction of the share of labour in the cost of production; the other aiming at greater self-sufficiency and a more harmonious structure of the farm through organic improvements, such as fertilisation, rotation of crops etc. The matter, however, still remains open to controversy.

c) Foreign Competition.

Foreign competition of two kinds has aggravated the lot of the local farmer — the competition of certain highly specialised products, such as butter, which are produced under specially favourable conditions in some countries, and bolstered up by State export subsidies; and the competition of products, such as vegetables and eggs, produced in the adjacent countries, with cheap labour, cheap water and generally low production costs. It is most important for Palestine to meet both these forms of competition, as the organic growth of farming demands diversi-

fication, and the farmer cannot afford to confine himself to the few lines of production where no competition exists. Tariff protection and economy in the cost of production are the two chief weapons with which foreign competition is being fought.

d) The Limited Home Market.

The home market for agricultural produce in Palestine is limited, not only by the small size of the population, but by the relatively low standard of life. Among the Arabs, the low standard of living is obvious; but even among the modern Jewish population, the consumption of certain important food-stuffs is small as compared with many European countries as pointed out earlier in this chapter. The expansion of local agriculture depends directly on the possibility of increasing the per capita consumption of the population, which, in turn, involves a lowering of the comparatively high prices current in this country. This question is tied up, not only with a reduction in the cost of production, but also with improved marketing organisation. It is evident that a high technical level of production has been arrived at, without a corresponding perfection in the methods of marketing.

e) The Credit Question.

The rapid development of modern mixed farming in Palestine was possible only with the aid of credit facilities. A part of the necessary capital and credit was granted by Jewish colonisation bodies on very convenient terms and for long periods. This kind of credit has not, in any way, increased the difficulties of mixed farming, as the rates of interest and amortisation are practically negligible. In addition to financing by colonisation institutions, a certain amount of commercial capital has been invested in mixed farming. The expanding market and the organic growth of the farms (increase of cattle, maturing of crops, development of irrigation) impelled the farmer to accept any financing possibilities offered — often on most unfavourable terms. Also, no cheap credit for the financing of current production and marketing has yet been made available in Palestine. As a result, the local farmer suffers under a heavy burden of debts in the form of short-term credits at high rates of interest. In 23 "Kvutzot" — collective settlements established with the help of Jewish public funds — the capital investment (1935/36) was distributed as follows:—¹⁾.

¹⁾ "Yalkut", op. cit. No. 3., p. 25.

| | | |
|------------------------------------|-------------|--------|
| Public and semi-public capital ... | LP. 560,564 | 60.3% |
| Own capital | 78,592 | 8.5% |
| Debts | 289,918 | 31.2% |
| | <hr/> | |
| | LP. 929,074 | 100.0% |

In 1936 the total indebtedness of the labour settlements in Palestine was given as LP. 2,049,000. The interest on debts paid by mixed farming, as a whole, in 1936, amounted to the following sums :—

| | | |
|-----------------------------------|------------|-------------------|
| 36 small-holders' settlements ... | LP. 39,000 | (LP. 20—40 |
| 40 communal settlements ... | 45,000 | per farming unit) |
| | <hr/> | |
| | LP. 84,000 | |

In 1937, this sum increased to about LP. 100,000.—

It is well-known that agriculture is not able to pay high rates of interest and these heavy loans, contracted on unfavourable terms, have had detrimental effects in reducing the standard of living and increasing the cost of production, particularly during the last few years of falling prices and turnover. The heavy burden which interest rates constitute may be seen from the following table :—

Annual Interest Payments as compared with Maintenance Costs of Cultivators in a Number of Mixed Farm Settlements.

| | | Cost of maintenance of cultivators | Interest payments | % of interest to maintenance costs |
|----------------------------------|------|------------------------------------|-------------------|------------------------------------|
| | | LP. | LP. | % |
| i. Communal Settlements : | | | | |
| Settlement 'A' | 1936 | 5,008 | 1,116 | 22.2 |
| | 1937 | 4,645 | 1,099 | 23.6 |
| Settlement 'B' | 1936 | 16,849 | 1,890 | 11.2 |
| | 1937 | 5,032 | 944 | 18.8 |
| Settlement 'C' | 1936 | 5,811 | 1,475 | 21.5 |
| | 1937 | 4,377 | 409 | 8.9 |
| Settlement 'D' | 1936 | 4,827 | 658 | 13.6 |
| | 1937 | 11,452 | 1,461 | 12.7 |
| Settlement 'E' | 1936 | 13,655 | 1,833 | 13.4 |
| | 1937 | | | |

2. *Small-holders' Settlements :*

| | | | |
|--|--------|-------|----|
| In Valley of Jezreel (per family) | 90—100 | 24—25 | 25 |
| „ Emek Hephher „ „ | 70— 80 | 17.5 | 23 |
| „ Judea and Sharon „ „ | 90—100 | 28 | 28 |
| „ Tel-Mond area „ „ | 70— 80 | 22.2 | 30 |
| „ Settlements of the “1000 Family”-Scheme „ „ | 70— 80 | 25.9 | 34 |

The problem of financing this section of agriculture has become especially urgent under the abnormal conditions of the last two years. It is becoming clear that a further development of mixed farming is difficult if the old system of short-term credits at excessively high rates of interest, is continued.

V. THE POSITION IN 1936—1937.

The year 1936 was a particularly unfortunate one for the agriculturists of Palestine. On the coastal plain and in the central and northern districts, the condition of crops was not too unsatisfactory, but the very low rainfall had an adverse effect on the eastern slopes and in the southern hills. In these areas the greater proportion of the cereal and leguminous crops perished through the drought, and in the Beersheba district an area of about 80,000 dunams of crops either perished or failed to germinate.

In 1937 the situation was very much more satisfactory. Climatic conditions were particularly good — rainfall was heavy and well-distributed in the winter, and the summer was one of the coolest experienced for some years. The absence of sirocco winds until October, when little damage could be done, was an outstanding feature.

“It is possible to describe the year as having been a distinctly good one for the agricultural community. Yields from cereal, forage and vegetable crops were on the whole much above the average over the greater portion of the country, with a fair though not a good return from leguminous crops. Heavy crops of potatoes grown from seed imported from the United Kingdom were the rule, yield being up to the high English standard.

“Crops of maize, sesame and durra from all sub-districts gave the highest returns recorded for some years. The olive crop was the heaviest picked for some years and berries contained a high percentage of oil.

“There were, however, exceptions in some sub-districts to the generally excellent winter crops. On the plains of the Acre sub-district, heavy flooding caused a loss ; in the central regions of

the Judean hills cold dry conditions in the spring kept cereals backward, and although early in the season there were excellent prospects of heavy yields in the eastern and southern parts of Beersheba, late rains failed to appear. The water-melon crop, one of considerable importance to the country was a heavy one¹⁾.

Poor crops are usually compensated by high prices, but in 1936 the Arab farmer was denied even this compensation. Marketing was seriously hampered by the disturbed political conditions and the dislocation of communications — and in addition, the segregation of the Jewish and Arab markets was intensified. The Jewish farmer, on the other hand, benefited from this segregation in 1936 — though by 1937 the decreasing purchasing power made itself felt through lower prices on both markets.

With the exception of a short period during the strike in 1936, when the segregation of the markets was complete, the disturbances and the subsequent decline in purchasing power have exerted a more serious effect on modern mixed farming, than on the primitive Arab economy. The Arab villager is more self-sufficient and less susceptible to the ups and downs of the market. But the modern farmer is easily vulnerable through the fluctuations in the prices of his products, as well as through fluctuations in the prices of fodder, which he is not able to supply, wholly, from his own farm. The natural development of this intensive type of mixed farming makes a systematic and regular expansion of turnover imperative. Livestock increases by natural growth — investment increases and repayments become heavier. The whole system is directed towards an expansion in the market. In addition to this organic growth, special efforts were made in 1936 to expand certain branches in order to replace the Arab supplies on which the Jewish towns had formerly depended. It has been estimated that, in 1935, LP. 1,200,000 of Arab-grown agricultural produce was sold to Jews — the total value of Jewish agricultural production in that year (excluding citrus) being LP. 800,000. To change this situation, the Jewish vegetable area, alone, was increased threefold, from 3,000 to about 9,000 dunams.

In 1937 the market ceased to expand through the onset of depression conditions. The following table of monthly "Tnuvah" sales during 1936 and 1937, reflects faithfully the course of events in the Jewish agricultural sector — the rising sales during the summer months of 1936 (the strike period) and the falling-off in the second half of 1937, as economic conditions deteriorated.

1) Agricultural Supplement No. 25, op. cit. p. 2.

Sales of "Tnuvak" Marketing Organisation 1936—1937 (LP.000's)

| | Milk and Milk Produce | | Eggs, Fruit, Vegetables etc. | |
|-----------|-----------------------|------|------------------------------|------|
| | 1936 | 1937 | 1936 | 1937 |
| February | 22 | 22 | 11 | 17 |
| March | — | — | 15 | 20 |
| April | 26 | 28 | 17 | 19 |
| May | 31 | 28 | 23 | 25 |
| June | 38 | 29 | 35 | 32 |
| July | 38 | 31 | 30 | 26 |
| August | 37 | 32 | 16 | 17 |
| September | 32 | 26 | 15 | 12 |
| October | 29 | 34 | 14 | 13 |
| November | 27 | 27 | 17 | 16 |
| December | 24 | 25 | 17 | 16 |

The decreased value of sales was due more to a decline in prices, accentuated by the keen competition of cheap Syrian products, than a decline in quantities sold, so that the effect on profitability has been fairly serious.

The fluctuations and decline in the prices of mixed farm produce during the last few years may give some idea of the difficulties with which the farmer has had to contend.

Tnuvak Prices for Mixed Farm Produce

| | 1935 | 1936 | 1937 | |
|--|------|------|------|--------|
| Milk (farm price per litre) ¹ | 16.5 | 13.5 | 13.1 | (mils) |
| Eggs (selling " " unit) | 4.45 | 4.46 | 4.20 | " |
| Poultry (selling " " kg.) | 94 | 90 | 90 | " |
| Grapes " " " ton | 24.2 | 24.4 | 11.2 | LP. |
| Tomatoes " " " " | 9.3 | 12.2 | 10.1 | " |
| Potatoes " " " " | 8.7 | 7.1 | 6.0 | " |

Together with this declining trend in the prices of produce, the international situation has brought about a rise in the prices of supplies. Fodder prices²) have increased as follows: —

¹) Transport and other charges are included in this price. These charges amount to 2½—3 mils per litre, and, as they remain constant, have an increasingly severe effect on profitability, as prices decline.

²) According to "Hamashbir Hamerkazi" the chief supply organisation for the labour settlements.

Increase in Fodder Prices — 1936 as compared with 1934

| | | Average price in 1936 (mils) | % increase as com- pared with 1934 |
|-------------------------|------------|------------------------------------|---|
| Bran | per kantar | 1.500 | 28 |
| Seed oil-cake | ” ” | 0.688 | 31 |
| Maize | ” ” | 2.625 | 56 |
| Sunflower-seed oil-cake | ” ” | 0.669 | 29 |
| Barley | ” ” | 2.050 | 19 |
| Bones, ground to flour | ” sack | 0.885 | 11 |
| Cake of meat and fish | ” ” | 0.658 | 36 |
| Milk powder | ” ” | 1.157 | 72 |

Mixed farming has thus been caught between two contrary trends, each unfavourable to the industry's prosperity. The combination of these forces during the last two years has been formidable, and mixed farming finds itself, today, in an extremely difficult position.

A further problem has been raised by the relative increase in the burden of debts as prices declined and turnover contracted. During these last years, a larger quantity of produce, extracted at a higher cost of production, was needed to meet stationary debts requirements. Palestine has provided a further instance of "iron debts and rubber prices", a combination which has been experienced in most agricultural countries and has frequently proved the main cause of agricultural decline. Had satisfactory economic conditions continued for some time, the credits raised during the period of agricultural expansion would have been reduced by the maturing of investment, with the concurrent growth in production and increased turnover. As it is, the debt burden could not be reduced, and interest payments have borne heavily on the cost of production and the profitability of farming.

As far as Arab farming is concerned, much of the improvement effected through the progressive development of the urban market has been reversed by these two years of difficulties. The Arab farmer had again to fall back upon the old system of self-sufficiency with the correspondingly reduced standard of living. The reduction in the prices of agricultural produce on the Arab market is shown in the following table, and reflects the increased segregation from the Jewish market, which was the natural consequence of the political disturbances :—

Average Retail Prices of Local Agricultural Products in Jaffa (mils)¹⁾

| | Unit | Dec. 1934 | Dec. 1935 | Dec. 1936 | Dec. 1937 |
|-----------|------|--------------|--------------|--------------|--------------|
| Wheat | Rotl | 30 | 30 | 35 | 32 |
| Bread | " | 55 | 50 | 50 | 50 |
| Flour | " | 45 | 45 | 43 | 40 |
| Milk | Okia | 7 | 6 | 5 | 3 |
| Cheese | " | 20 | 20 | 20 | 20 |
| Olive-oil | Rotl | 160 | 160 | 200 | 150 |
| Eggs | Ten | 50 | 38 | 50 | 38 |
| Potatoes | Rotl | 30 | 30 | 30 | 18 |
| Onions | " | 15 | 20 | 20 | 10 |

On the other hand, the Arab farmer was less affected by the rise in the prices of fodder, his cattle and poultry-raising being more independent of supplies from outside. The equilibrium of the Arab farm was maintained more easily than that of the Jewish, but it has not remained immune from the destructive forces at work. The cutting-off of former profitable markets, and the extraction of large sums of money by armed gangs have borne hardly on the Arab villager. It must, however, be emphasised that, speaking generally, climatic and crop variations are the decisive factors in the success of primitive farming, whereas the influence of financial and marketing conditions is predominant in modern intensive mixed farming.

VI. NEW COLONISATION.

In spite of the disturbed condition of the country, Jewish colonisation of new areas continued throughout 1936 and 1937. Eight new settlements were established in 1936 and 15 in 1937, mainly in the Beisan district and the Jordan Valley, and containing a population of about 1,500 souls. These colonies are part of a scheme for settling 1000 working families on the land, which involves the cost of LP. 500,000, excluding the cost of the land. The actual establishment of the settlements has been successfully carried through, but it would be premature as yet, to discuss their economic development.

¹⁾ Government Retail Prices Bulletins.

CHAPTER IV.

THE VICISSITUDES OF CITRICULTURE.

I. THE CITRUS SEASONS 1935—1937.

Two exceptionally bad citrus seasons have brought expansion in what was Palestine's most popular and profitable investment, to a standstill. In the 1935/36 season, hot desert winds destroyed a large portion of the crop, reducing it to below the 1934/35 level, even in spite of the greater fruit-bearing area. But this short crop did not result in higher prices, as might have been expected. The fruit was large and not of good quality, and shipments were badly timed. When towards the end of the season prices rose, the shippers had no fruit left to consign to the waiting markets.

The 1936/37 season created a record as regards crop — over 10 million boxes of exportable fruit having been produced. The season opened with satisfactory prices, partly owing to the failure of the citrus export from Spain, but from January onwards disaster followed disaster. Storms destroyed 1—1½ million boxes of fruit; large and sporadic shipments from Spain commenced in January, causing such a glut on the market that prices fell to a record low level; excessive rains in Palestine brought about a severe deterioration in the quality of Jaffas, so that whole shiploads of fruit arrived in a wasty condition. This necessitated repacking hundreds of thousands of boxes, with serious losses to the grower. In addition to these misfortunes, the large Palestine crop depressed prices still further. The result was a catastrophic season for the Palestine citrus industry, in so far as cash returns were concerned.

Added to these marketing difficulties, the unsettled situation in the country had its repercussions on the citrus industry. After 6 months of strike at Jaffa port, the Jewish growers (who are responsible for 55% of the crop) decided to divert their shipments through Haifa and, in so far as possible, through the new port of Tel-Aviv. Shipping through Haifa is obviously uneconomical for the fruit from the south, which has to be transported 120 kilometres by rail before reaching

the harbour. Also, the railways were unable to cope with the extra traffic satisfactorily. There was insufficient storage accommodation at Haifa, necessitating the fruit lying in the open air and deteriorating through exposure to bad weather.

Nor were the more general difficulties of the Palestine citrus industry alleviated during 1936 and 1937. There has been no appreciable relaxation of the import restrictions which are strangling the majority of European markets; on the contrary, conditions of export to some of Palestine's hitherto good markets have become still more stringent. The efforts to improve Palestine's export trade — either through the inclusion of Palestine in the scope of Imperial Preference, or through the modification of the "Open Door" clause, have also not gained any measure of success.

II. THE POSITION OF THE WORLD CITRUS INDUSTRY.

While Palestine has been faced with a series of special problems of its own, the world citrus industry, in general, has been passing through a difficult period of expanding output and falling prices. In 1934 world production of oranges was estimated at 170,000,000 boxes. An estimate for the 1935/36 crop was 180,000,000 boxes, and the crop anticipated for a decade from the present is 240,000,000 boxes.¹⁾ From 1929 to 1933, the orange exports of the chief exporting countries increased as follows:—

| <i>Orange Exports (1000 boxes)²⁾</i> | | | | | |
|---|--------------------|---------------|---------------|---------------|---------------|
| | Average 1925/29 | 1930 | 1931 | 1932 | 1933 |
| Spain | 20,935 | 30,654 | 24,173 | 24,902 | 27,641 |
| Italy | 3,435 | 3,744 | 3,431 | 1,739 | 4,036 |
| U. S. | 3,285 | 2,236 | 4,849 | 3,129 | 3,399 |
| Palestine | 2,123 | 2,998 | 2,667 | 3,553 | 4,200 |
| S. Africa | 734 | 1,763 | 1,675 | 1,702 | 1,933 |
| Brasil | 571 | 812 | 2,054 | 1,930 | 2,554 |
| Japan | 449 | 378 | 263 | 412 | 652 |
| Cuba | 120 | 9 | 1 | 1 | — |
| Total | 31,652 | 42,594 | 39,113 | 37,368 | 44,115 |

Thus, in less than 10 years the citrus trade grew by 40%.

¹⁾ These figures have been taken from "Hadar", Palestine Citrus Monthly, June & November 1936.

²⁾ Yearbook of Agriculture, Dept. of Agriculture, U.S. 1935.

So rapid a growth in output has resulted in an appreciable lowering of prices, even though the per capita consumption of citrus fruits has expanded greatly in many countries.

Imports of Oranges and Tangerines per head of Population¹⁾

| Country | Average 1924—1928 | 1933 | Percentage increase |
|--------------------------|----------------------|-----------|------------------------|
| Sweden | 11 pieces | 34 pieces | 209 |
| France | 17 " | 42 " | 147 |
| Belgium | 25 " | 60 " | 140 |
| United Kingdom | 52 " | 76 " | 46 |
| Germany | 20 " | 25 " | 25 |
| Hungary | 6 " | 7 " | 12 |
| Yugoslavia | 2 " | 2 " | 0 |
| Poland | 3 " | 1 " | 67 |

The situation is even more difficult in the case of grapefruit. Production has been increasing at an enormous pace (in 1925—27 it averaged 15,400,000 boxes, but increased in 1934—35 to 25,000,000 and at the present annual rate of increase may reach 35,000,000 in 1938—39, and 50,000,000 boxes in 1945—46²⁾). As grapefruit is more in the nature of a luxury article, and is not very widely popular, this production is far in excess of consumption. "The grapefruit habit has been developed only in the U. S. A., and in the U. K. and even in these two countries the per capita consumption is about 8 and 3 lbs. respectively, as compared with 28 and 25 lbs. respectively for oranges"³⁾.

The recent history of the world citrus industry is, therefore, in essence, a case of over-production in relation to effective consumption. Nineteenth and twentieth century capitalist development is studded with numerous parallels. For some reason — increased consumption, more efficient production, the discovery of new markets — an industry is rendered unusually profitable, and a rush to invest in it ensues. The investment almost inevitably oversteps the mark, not only as regards quantity, but also as regards capitalisation. During the boom period, the price of investment rises to a level that cannot possibly be economic except at the inflated prices existing for the commodity at that particular moment. With the increased output, markets become glutted, and prices fall. For some years, while the uneconomic investments are being

1) Yearbook of International Institute of Agriculture (Rome) 1933/4.

2) U. S. Dept. of Agriculture, "World Grapefruit Production", Feb. 3, 1936.

3) H. Viteles, "Hadar", January 1936, p. 8.

liquidated, the industry is in a parlous condition, but gradually readjustment to a normal and stable level of production and profit is achieved. This has been the history of the rubber industry, the coffee industry, the tin industry, the textile industry, and many others. In some of these industries (rubber and tin are well-known instances) attempts have been made to smooth over the period of readjustment by international regulation of production. So far no move has been made to create an international citrus pool, though the conditions warranting its creation are already crystallising.

Palestine is peculiarly liable to this type of over-expansion. Large sums of refugee capital are constantly entering the country in search of investment, and every profitable opening is eagerly seized upon. The citrus industry is Palestine's classic example of over-investment at uneconomic prices, through the very pressure of investment-seeking capital, but Palestine offers many other, less spectacular, examples of this process. Unless investment can be nationally directed and controlled, Palestine will remain particularly prone to this evil, so long as it remains a haven for migrant capital.

III. THE SPECIAL DIFFICULTIES OF THE CITRUS INDUSTRY IN PALESTINE.

But the speedy growth of the Palestine crop is only one difficulty among many. The problems of the industry have been accentuated for the following reasons :—¹⁾.

1) The expansion of Palestine's citrus industry has been more rapid than that of any other country. The area under citrus has increased as follows :—

Area under Citrus in Palestine (dunams) ²⁾.

| Year | Total | Jewish |
|------|---------|---------|
| 1927 | 60,800 | 24,000 |
| 1931 | 129,000 | 70,000 |
| 1932 | 164,000 | 90,000 |
| 1933 | 204,000 | 120,000 |
| 1934 | 260,000 | 145,000 |
| 1935 | 288,000 | 153,000 |

According to the latest Government estimate, on March 31st 1937,

¹⁾ We have omitted all discussion of costs of production. This is a complicated question which needs a separate and detailed analysis.

²⁾ "Aliyah" IV, published by the Statistical Dept. of the Jewish Agency 1936, p. 43.

there were 298,000 dunams under citrus¹). There has thus been a five-fold increase in the area under citrus within a decade.

The growth in the size and value of the export crop is illustrated in the following table:—

Export of Palestine Citrus.

| | O r a n g e s | | G r a p e f r u i t | | Total (incl. lemons) | |
|---------|---------------|---------------|---------------------|---------------|----------------------|---------------|
| | LP. (000's) | Cases (000's) | LP. (000's) | Cases (000's) | LP. (000's) | Cases (000's) |
| 1926/27 | 846 | 2,669 | — | — | 849 | 2,677 |
| 1930/31 | 728 | 2,425 | 16 | 40 | 745 | 2,470 |
| 1931/32 | 1,725 | 3,585 | 58 | 106 | 1,785 | 3,698 |
| 1932/33 | 1,961 | 4,230 | 129 | 245 | 2,097 | 4,490 |
| 1933/34 | 2,430 | 5,158 | 184 | 353 | 2,621 | 5,534 |
| 1934/35 | 2,829 | 6,510 | 342 | 792 | 3,183 | 7,331 |
| 1935/36 | 2,215 | 4,997 | 305 | 850 | 2,548 | 5,897 |
| 1936/37 | 3,378 | 9,307 | 468 | 1,406 | 3,900(app.) | 10,774 |

Palestine now takes third place in the list of citrus-exporting countries.

2) Palestine is handicapped by the extreme smallness of the home-market. The majority of other countries dispose of a large proportion of their fruit in the internal market, from which competing fruit are rigidly excluded. For example, in 1934 more than 25% of Spain's citrus was consumed locally; in Italy in 1933/34 local consumption amounted to 40% of the crop (in 1935/36 when sanctions against Italy were enforced, 80% of the crop was disposed of internally — of course at low profits, but a market was found for it and no portion of the crop was destroyed); and in U.S. 92—93% is absorbed by the home-market. The small size of Palestine's population, means that Palestine is almost wholly dependent on export. Even though there is an extraordinarily high rate of citrus consumption in Palestine the small local population could not possibly consume more than the culls — which account for only 10% of the total crop. This problem is particularly urgent in Palestine, where the non-exportable fruit constitutes a very high proportion of the crop, owing to the large area of new groves.

3) Palestine is placed in an exceptionally difficult position for the expansion of its export outlets. Through its international legal status it is compelled to maintain, without discrimination, an "Open Door"

¹) Review of citrus season, Govt. Bulletin of Current Statistics, June 1937, p. 10.

to the products of all member-States of the League of Nations, and has thus been precluded from negotiating trade treaties with other countries. Although the high level of imports would constitute a valuable bargaining weapon in dealing with other countries, Palestine is unable, because of this legal disability, to utilize its import trade as a lever in opening up foreign markets. Palestine has also been excluded from the scope of Imperial Preference. As the British market absorbs nearly three-quarters of the country's citrus exports, the necessity to pay a high tax on every box of citrus entering the U. K. has meant a heavy blow for the local industry. It is reckoned that the sum paid direct to the British Treasury during the first 4 seasons that these duties were in force, amounted to L.P. 975,000 !

4) Palestine has a shorter shipping season than any other country. The whole crop must be marketed in less than 4 months, as opposed to a 7—8 months shipping season in Spain, and shipping for nearly the whole year from the U.S. One of the reasons for this is that after March, the Palestinian groves become infested with fruit-fly, and the fruit deteriorates. This extremely short shipping season means that prices are reduced by the glut of fruit all arriving at approximately the same time on the market.

5) Transport conditions have been particularly bad in Palestine. It was not until 1937 that the Jaffa—Haifa highway was completed, and the single railway-track to Haifa was quite incapable of coping properly with the peak traffic during the shipping season. The position has been very greatly improved by the building of the trunk road to Haifa, but the crop is growing so rapidly, that in order to keep pace with the increasing transport demands, constant road improvements are needed. Railway equipment also is still not all that might be desired ; storage and quay space, both in Haifa and in Tel-Aviv, must be further expanded; and the problem of feeder roads is by no means solved. It is, also, a grave drawback that, in the orange-growing district round Jaffa, there is no deep-water harbour where fruit can be loaded safely whatever the weather. To ship all the fruit from Haifa is, firstly, physically impossible ; and secondly, adds greatly to the total costs of transport. The opening of the Tel-Aviv roadstead in 1936, is of the utmost importance in relieving the pressure on Haifa, but will not offer any fundamental solution to this situation until it has been made into a deep-water harbour.

6) The Palestine citrus industry is given no State assistance whatsoever. In many other citrus-exporting countries — such as Egypt and Australia — an export bounty is granted. In Palestine, not only is no such help given, but all services are paid for directly

by the industry itself — the inspection service is maintained by a levy of 1½ mills per box and the advertising service by 3—3½ mills per box.

7) Palestine citriculture has suffered from the political and racial division of the country. Growers in Palestine are divided into two communities — Jews and Arabs. The organisation of the Jewish section of the industry, though far from perfect, is much better developed than that of the Arabs, but political differences have kept the two communities apart. The result is that Arabs have remained outside the Jewish co-operatives, and at the same time have not been successful in organising themselves into co-operatives of their own. The chaos in one half of the industry is highly detrimental to the efforts at control and regulation in the other half. The industry is thus unable to form a united front in marketing and shipping with a deleterious effect on prices and profits.

8) In addition to these special difficulties, Palestine citrus-growers have now to contend with a more general problem, which was inherent in the expansion of the crop, and was bound, sooner or later, to alter the very nature of the Jaffa citrus trade. The Jaffa (Shamouti) orange was, until a few years ago, a luxury article. Its particularly attractive appearance, large size, and special juiciness, gave it almost a monopoly value. Marketing was a question of disposing of a small quantity at as high a return as possible, among the richer strata of the community, who were not greatly affected by small price variations. But with the doubling and trebling of the Palestine crop, the special scarcity value of the Shamouti has disappeared. The "Jaffa" has now become an article of mass consumption, competing with other oranges for the favour of the bulk of the population, and highly sensitive to price variations. This means a radical change in marketing policy. It is no longer the large, luxury orange which is in demand, but the small, cheap orange which can find its way into every household. The demand for this type of orange is extremely elastic — a small fall in price may mean a large increase in consumption — and fluctuates with the general ups and downs of the economic situation.

In the grapefruit trade there has also been a great expansion of output and fall in prices :—

"The retail price of grapefruit in the United Kingdom averaged 6d. in 1920—1923, 5d. in 1924—1928, 4½d. in 1929 and 3d. in 1935. Imports into the United Kingdom were 1,200 tons in the first period, 13,100 tons in 1924—1928, 27,150 tons in 1929, and 59,500 in 1935" ¹⁾.

¹⁾ Final Report of the Mixed Committee of the League of Nations on Nutrition, Geneva, 1937, p. 145.

But grapefruit still remains more or less a luxury article, and here the problem is still one of obtaining high prices in a relatively restricted market, rather than, as in the case of oranges, the disposal of large quantities at low prices, the profit being made on the sheer size of the turnover.

IV. A SURVEY OF PALESTINE'S CITRUS MARKETS.

A survey of Palestine's citrus markets gives the following picture :—¹⁾

Palestine's Citrus Markets.

| Country | 1934—35 | | 1935—36 | | 1936—37 | |
|----------------|------------------|--------------|------------------|--------------|-------------------|--------------|
| | Cases | % of total | Cases | % of total | Cases | % of total |
| U. K. | 5,244,337 | 71.5 | 4,009,503 | 68.0 | 7,714,608 | 71.6 |
| Holland | 367,895 | 5.0 | 344,679 | 5.9 | 612,486 | 5.7 |
| Germany | 509,494 | 6.9 | 222,644 | 3.8 | 318,273 | 3.0 |
| Sweden | 108,325 | 1.5 | 162,229 | 2.8 | 312,794 | 2.9 |
| Poland | 163,086 | 2.2 | 273,205 | 4.6 | 307,791 | 2.8 |
| France | 170,586 | 2.3 | 114,170 | 1.9 | 289,254 | 2.7 |
| Belgium | 124,002 | 1.7 | 84,392 | 1.4 | 243,892 | 2.2 |
| Roumania | 170,027 | 2.3 | 137,622 | 2.3 | 219,699 | 2.0 |
| Czechoslovakia | 62,069 | 0.9 | 77,872 | 1.3 | 177,790 | 1.7 |
| Norway | 105,791 | 1.4 | 107,533 | 1.8 | 158,298 | 1.5 |
| Finland | 35,659 | 0.5 | 44,028 | 0.7 | 74,901 | 0.7 |
| Miscellaneous | 269,575 | 3.8 | 319,433 | 5.5 | 344,573 | 3.2 |
| Total | 7,330,846 | 100.0 | 5,897,310 | 100.0 | 10,774,359 | 100.0 |

What emerges immediately from these figures is the extreme dependence of the Palestine citrus industry on the British market. Nearly three quarters of the total exports are consigned to the U. K., and every vicissitude of the U. K. market has its direct reaction on Palestine's economic life. Nor is this dependence likely to diminish very greatly with the passage of time, unless Palestine is given some bargaining weapon which will enable it to surmount the trade barriers with which other potential markets are surrounded. Palestine's once next most important market — Germany — is steadily being cut off through stringent State regulation of imports and its purchases of Palestine's fruit have fallen from 7% of the total export in 1934/35 to

¹⁾ Review of Citrus Season. Govt. Bulletin of Current Statistics, June 1937, p. 10.

3% in 1936/37. The relative importance of the French market has also been diminishing. The most satisfactory features of the marketing situation is the growing absorption of Palestine fruit by Sweden and Holland. Holland now takes second place in the list of Palestine's customers.

But the *volume* of exports to each market gives no indication of the *profitability* of the market. Almost every country has imposed high duties, quotas, or special clearing or barter arrangements, all tending to reduce the profits of the citrus exporter. There are very few countries, indeed, left, to which Palestine is able to export freely. During 1936 and 1937, the position deteriorated yet further. Germany reduced the quota of oranges it was prepared to accept, even in direct exchange for German exports, and cut down the categories of goods which could be bartered. Denmark, too, has reduced its quota for Palestine oranges. The Canadian market has been virtually cut off by the placing of U. S. oranges on the free list, and the reduction of duty on U. S. grapefruit to $\frac{1}{2}$ cent per lb. as compared with 1 cent on Palestine grapefruit. In spite of these handicaps, a renewed effort is being made this season to reconquer the Canadian market. Regular shipments are to be made to Canada in refrigerated boats, but success hangs in the balance as there are prospects of further negotiations between U. S. and Canada, which will work to Palestine's disadvantage. Difficulties have also been experienced in the French market, where the Palestine quota in 1936/37 was curtailed in retaliation for an increase in the Palestine customs duty on perfumery. A substantial quota for 1937/38 has not yet been granted. In Poland, on the other hand, the position has improved. The quota system is still in force, but the countervalue for Palestine citrus may be exported in the form of boxwood, whereas at one time there was uncertainty if the countervalue could be sent out of Poland at all. Other improvements are the cancellation of duty on grapefruit in Switzerland and Belgium and the reduction of duty on big fruit in Bulgaria (of which Palestine is the only country to take advantage). But these slight alleviations in unimportant markets, can in no measure compensate for the added difficulties in such important outlets as Germany and France.

We have entered into some detail on the marketing question in order to illustrate the extraordinary complexity of the problems with which Palestine exporters have to deal in the present chaotic state of world trade. It is, however, well worthy of mention that the situation in Spain may change the whole position in the coming season. Spain is having enormous difficulties in shipping her fruit, and obtaining the necessary packing materials, and many countries may be compelled

to enlarge their quotas for Palestine fruit as a consequence. This may spread the popularity of the Jaffa, where it is at present little known, and bring a lasting benefit to the Palestine trade. But the fundamental difficulties of export from Palestine — the exceptional dependence on the British market, the network of trade restrictions in all countries, and Palestine's weakness in bargaining — remain unchanged.

V. EFFORTS FOR THE IMPROVEMENT OF THE INDUSTRY.

Under the trying circumstances with which the industry has to contend, it is not surprising that citrus planting has virtually ceased in Palestine, in the last few years. The high cost of maintenance is becoming too heavy a burden on some of the growers, and it will probably not be long before the process of "weeding out" the marginal grove sets in. In the meantime, a number of measures to improve conditions in the industry are being taken.

1) Labour costs and — as must inevitably follow — the question of Jewish-Arab labour, has been under consideration. Wages for permanent Jewish workers in orange groves are 200—300 mils¹⁾ per day, as opposed to the Arab wage of 150—200 mils per day. At the beginning of 1936, a joint committee of Jewish workers, and employers was formed to discuss the situation, and the proposal that Jewish workers should work at the "piece-rate" of a fixed sum per dunam was elaborated. Before any agreement was reached, the disturbances broke out. During the months of Arab strike, Arab labourers were naturally replaced — up to 80% — by Jews. By 1937, this proportion has again been reduced, and the problem has re-emerged with something of its old acuteness.

2) Another attempt to reduce costs has been the struggle for the exemption from duty of imported raw materials used in the citrus industry — a struggle which, after many years, is now meeting with success. Wrapping paper for the fruit and wooden hoops for the boxes are now exempt from duty, and a "drawback" on wood for citrus boxes has recently been agreed to. The duty on nails has not been removed, partly owing to the need for protecting the home nail industry.

3) The Fruit Export Ordinance of 1927, aiming at improving the quality of exported fruit, was revised in July 1936, and again in 1937. The revised rules included: —

¹⁾ Wage-rate Statistical Bulletin No. 3/1937, Govt. Office of Statistics (referring to March 1937).

- a) The prohibition of export of all large sizes of oranges of count 100 and downwards, only oranges smaller than 100 to a case being considered eligible for export in future.
 - b) The postponement of the opening date for orange shipping from the 15th to the 20th November, so that the fruit should be ripe before shipment.
 - c) Blemishes on the fruit have been more precisely defined, thus enabling the Fruit Inspection to decide upon the rejection or otherwise of a box with more certainty.
 - d) The prohibition of the export of size 64 grapefruit after January 31st, in order to limit shipments to the best sizes only, during the months when exports are at their peak.
 - e) The prohibition of all grapefruit exports before October 1st, and the submission of grapefruit to be shipped before October 15th for a maturity test.
- 4) A tax of $3\frac{1}{2}$ mils is levied on each exported box for the purpose of citrus advertising and research into wastage.

5) Shipping services have been improved by the introduction of speedier boats, taking 10—12 days for the journey to the U. K., instead of 14—18 days as before. The first refrigerated boat carrying a full cargo of citrus was chartered in 1936, with such success that refrigerated shipments are being extended.

6) Mechanised sorting of the fruit has made substantial headway. The earlier experiments in this direction were not successful, but a satisfactory machine has now been devised in Palestine and is gaining ground in the industry. It is estimated that this machine makes an economy of 25% in the cost of labour necessary for packing.

7) Co-operative marketing among the Jews has spread more and more. 60,000 dunams of fruit-bearing groves are now organised into marketing co-operatives. Among the Arabs no progress at all has been made in this direction. There is not one single Arab citrus co-operative, and the Government has made no effort to organise the Arab growers. The question of the union of the Jewish co-operatives into one co-ordinating body is now being seriously considered.

VI. DEMANDS OF THE PALESTINE CITRUS INDUSTRY.

The two most important demands which are being made by local citrus-growers are in connection with transport facilities and with markets. An improvement in the railway system has been requested for some time, but the urgency of this improvement was only fully de-

monstrated during the 1936/37 season. Additional rolling-stock and locomotives, and more storage space and loading sheds are becoming essential with the rapid annual increases in the crop. But even if the necessary railway extensions are carried out, the railways will still be unable to cope with bumper crops or any exceptional traffic "peaks", so that an improvement in the road system must go hand in hand with the railway reforms. The completion of the trunk road from Jaffa to Haifa in 1937 has meant a radical change for the better, but the system of feeder roads and roads between the groves is still incomplete, and constant road improvements are needed to keep pace with the growing crop. In Haifa harbour, quay and storage space is insufficient, and, finally, Haifa must be supplemented by additional deep-water harbour facilities in the south. According to present estimates of crop increase, the aggregate storage and loading capacity of Palestine's ports will have to be doubled within the next 5 years. The safe shipping of this extra crop could best be achieved through the extension of the present lighter basin in Tel-Aviv into a fully-equipped deep-water harbour.

The complexity of Palestine's marketing problem has already been referred to. The inequitable position in which Palestine has been placed by the working of Article 18 of the Mandate was fully recognised by the Royal Commission¹⁾ and later by the Mandates Commission of the League of Nations, and various proposals have been put forward to remedy the situation. The most popular of these was for the re-interpretation of Article 18, by dividing Palestine's tariff into maximum and minimum rates — the minimum to apply to those countries manifesting a certain degree of reciprocity in their trade relations with Palestine, and the maximum to those whose purchases fall below the necessary proportion of sales. This proposal has not yet been accepted by the authorities.

The struggle for the inclusion of Palestine within the scope of Imperial Preference has also been continued, still with no success. Failing the granting of Imperial Preference, the citrus industry petitioned for the extension by another month, that is until the 30th April, of the period during which oranges are subject only to the general duty of 10% in U. K. — a higher duty of of 3s. 6d. per cwt. being levied from 1st April to 30th November, — and for the imposition of a general duty of no more than 10% on Palestine grapefruit. A further request was that some portion of the duty paid by Palestine citrus in the U. K. should be refunded for the betterment of the local industry. No concessions have yet been made in any of these directions.

¹⁾ Royal Commission Report, p. 215.

VII. THE IMPORTANCE OF CITRICULTURE IN PALESTINE'S ECONOMIC LIFE.

It is sometimes stated that Palestine is a monocultural country, and that the undue dependence on the citrus industry which has been allowed to develop during the last decade, is fraught with serious dangers for the country's economy. This view is largely a result of an exaggerated concentration on export statistics, and too little attention to the value of home production. Such an error is easy to fall into in a country like Palestine, where no comprehensive production or employment figures are available, but where detailed trade figures have been published for many years.

Citrus accounted in 1935 for 84% of Palestine's exports, and in 1936 for 78.5%. But estimates of the weight of citriculture in the country's economic life, based on wage figures, give an entirely different picture.

In 1935 the wages-bill of the Jewish population — no figures for the Arab population are available — was as follows:—

The Wage-Bill of the Jewish Population in 1935.

| | LP. | % |
|----------------------|---------------|-------|
| Industry | 2,250,000 | 34.9 |
| Building | 2,500,000 | 38.8 |
| Citriculture | 1,200,000 | 18.6 |
| Mixed farming | 500,000 | 7.7 |
| Total | LP. 6,450,000 | 100.0 |

An estimate of 200,000 souls as the total population dependent, directly and indirectly, on citrus, has been made by the citrus industry. 200,000 souls represents some 15—20% of Palestine's population. This figure conforms closely with the 18.6% (proportion of Jewish wages-bill) given above.

The part played by citriculture in the country's economy has been declining in the last few years, and will almost certainly diminish still further with the passage of time. Planting has now ceased, and though additional workers will always be needed as long as new trees enter the fruit-bearing state and the total crop increases, a maximum will be reached within the next ten years, whereas there is no predictable limit to the expansion of general industry, building, transport and mixed farming. Already investment in these branches has far outstripped investment in citriculture, and this tendency will be accentuated in the course of the coming years. It is a further fact of importance that, while the citrus industry represents a very large capital investment, its actual running involves only a limited volume of employment. The

gross return of one dunam of orange grove is estimated at L.P. 20,600 (fruit packed and picked) out of which wages amount to L.P. 6—8,000. Of a price of 350—400 mils per box (f. o. b. Jaffa) only 80—90 mils represent wages in the grove. New methods of cultivation, increased mechanisation etc., have been instrumental in, further decreasing the number of workers employed in the citrus industry.

The decreasing proportion of Jewish investment in citriculture (no figures are available for the Arab population) is summed up in the following table :—

Jewish Investment (L.P.)

| | T o t a l | In citriculture | % of citriculture to total investment |
|------|------------|-----------------|---------------------------------------|
| 1932 | 2,833,000 | 1,090,000 | 38% |
| 1933 | 5,630,000 | 1,391,000 | 25% |
| 1934 | 9,211,000 | 1,509,000 | 16% |
| 1935 | 10,173,000 | 943,000 | 9% |

VIII. CONCLUSION.

The problem of Palestine's citriculture rests ultimately with the future of world markets. If conditions of peace and prosperity prevail, an increased consumption of citrus fruit and a relaxation of trade restrictions are probable. With the free play of demand and supply, a normal rate of profit will then be obtained by the citrus grower. Failing this, profits will continue low until output has been restricted by international agreement, State compulsion or voluntary uprooting of groves by owners. But one way or the other, there is no ground for expecting a return of the unusually high profits gained at the time when demand exceeded supply.

On the positive side it should be remembered, that — other things being equal — as the Palestine groves increase in age, with a corresponding improvement in the quality and size of the fruit, a more favourable market may be expected. Gradually too, no doubt, the internal organisation of the industry and of marketing technique will be perfected, so that costs will be reduced and the high price which has been paid for marketing errors in the past will not have been in vain.

The outlook for grapefruit is less promising than for oranges. The main hope is for the reduction of the total crop by regrafting the trees. This process has already begun, and once the switch-over has reached the desired level, and the grapefruit supply brought into some relation with the demand, there is no reason why the cultivation of grapefruit should not become a moderately profitable industry.

CHAPTER V.
THE POSITION OF INDUSTRY.

I. THE BACKGROUND OF RAPID INDUSTRIALISATION.

Palestine is a country undergoing a rapid process of industrialisation — this fact forms the background of any analysis of industrial developments in 1936 and 1937. How rapid this process has been is illustrated by the figures of industrial machinery imports over the last five years. As the following table shows, over three million pounds worth of such machinery was imported into the country since 1932 :—

Industrial Machinery Imports into Palestine 1932—1937¹⁾ (L.P.)

| | | | |
|------|-----|-----|---------|
| 1932 | ... | ... | 175,208 |
| 1933 | ... | ... | 466,699 |
| 1934 | ... | ... | 966,749 |
| 1935 | ... | ... | 991,892 |
| 1936 | ... | ... | 555,348 |
| 1937 | ... | ... | 448,707 |

A certain decline in these machinery imports after 1935 was, in all likelihood, inevitable, and would have taken place even had the political situation been normal. The very rapid rate of expansion of the preceding years could not have been maintained indefinitely, though, at the same time, it is undeniable that the disturbances accentuated the fall.

Industrial machinery imports per capita have been out of all proportion higher in Palestine than in the surrounding countries. If the per capita level in Palestine in 1935 is equated to 100, the Syrian level of imports is 7.9, the Egyptian 9.1 and the Iraqi 11.9. These figures²⁾ do not serve as any indication of the *degree* of industrialisation in each of these countries, as each country is in a different *stage* of development. In Egypt, for example, industry is older established, and the same quantities of new machinery would not be necessary. But, as an indication for the very rapid *rate* of industrial *growth* in Palestine today, the

¹⁾ All import and export figures are taken from official trade statistics.

²⁾ "Jewish Colonisation in Palestine" — D. Horowitz, 1936, p. 21.

import figures provide a fairly sure basis. In each of these countries the local production of machinery is negligible, and the expansion of industry is a function of the machinery brought from abroad.

The growth of industry since 1921/22 is illustrated in the following table :—¹).

The Development of Jewish Industry 1921—1937.

| | 1921/2 | 1929 | 1933 | 1937 |
|----------------------------------|---------|-----------|-----------|------------|
| No: of enterprises | 1,850 | 2,475 | 3,388 | 6,307 |
| Personnel | 4,750 | 10,968 | 19,595 | 27,260 |
| Capital invested (LP.) | 600,000 | 2,234,000 | 5,371,000 | 12,700,000 |
| Value of annual production (LP.) | 500,000 | 2,510,000 | 5,352,000 | 9,060,000 |
| Consumption of electricity (kwh) | — | 2,214,000 | 6,576,000 | 30,478,000 |

Some set of circumstances, peculiar to Palestine alone, must be looked to as an explanation of this process. The usual motives for industrialisation in a colonial country are lacking in Palestine. Palestine is not a country which has served for many years as a source of raw materials and as a market for the industrial goods of more developed countries. In such countries, the advantage of establishing industries locally, are sooner or later appreciated. Cheap labour, proximity to raw materials, and a market on the spot, eventually attract capital from the metropolis, and new industries strike root. It is characteristic of this form of "colonial" industrialisation that it is never connected with immigration. A sprinkling of skilled labourers and experts is all that is necessary to set the factories in motion, and the finance is provided from abroad. But these incentives towards industrialisation are absent in Palestine ; there is no cheap labour (at least for Jewish industry, which is 80% of the total) and few raw materials.

Another incentive to industrialisation — of frequent occurrence in the post-War period in some of the British Dominions and various countries of east and south-east Europe — has been the adoption of an active interventionist policy on the part of Governments, designed

¹) Jewish industry only is dealt with throughout this chapter. Arab industry consists mostly of small handicrafts which account for less the 20% of the total industrial output of the country. The one exception is the Nablus soap-industry, which is touched upon in this chapter. In the last few years a number of larger Arab factories have been established—a metal-factory, a match-factory and a rice-mill—but these have not yet commenced production. More detailed reference is made to Arab manufactures in Chapter XII.

²) Jewish Agency Industrial Censuses.

to increase the country's self-sufficiency. The breakdown in prices of primary materials and food-stuffs and the failure of export markets for these commodities, led directly to the search for some compensatory activity. Behind artificially high tariff barriers, industries were established, intended to absorb idle labour for which agriculture could no longer find an opening, and at the same time to create a secure internal market for agriculture's surplus produce. The necessary capital was raised either by borrowing abroad or by internal accumulation. The main basis for this type of industrialisation is, therefore, the internal market and the protection afforded by high customs tariffs, which, ultimately, depend on an active and sympathetic Government policy.

II. SPECIAL CONDITIONS FAVOURING INDUSTRIALISATION IN PALESTINE.

a) *Immigration and capital import.*

Industrialisation in Palestine conforms to neither of these two prevalent types — it is closely connected with the process of immigration, and must look for its parallels to earlier centuries. Many instances of such development are known in industrial history; the wool industry was established by the Flemish refugees in England; Huguenot refugees from France in the days of the Reformation transplanted their industries in the countries of their adoption; the Puritans arriving in America reproduced there the crafts of their home-towns; and the Russian-Jewish immigrants of the 90's developed the clothing industry in the U. S. In Palestine, the connection between immigration and industrialisation is not difficult to trace. Palestine's capital supply is imported directly by the immigrants themselves, which explains the availability of a large volume of capital in a new country, at a time when normal capital migration is suffering a severe decline. These capital imports are faced with a limited field of investment, so that any possibility of industrial expansion is eagerly taken up. The volume of industrial investment, and its percentage to total Jewish investment has been as follows:—¹⁾

Total Jewish Investment and Investment in Industry.

| | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 |
|-----------------------------|-----------|-----------|-----------|------------|-----------|-----------|
| Total investment (LP.) | 3,000,000 | 6,000,000 | 9,000,000 | 10,000,000 | 6,500,000 | 5,300,000 |
| Industrial investment (LP.) | 500,000 | 500,000 | 1,500,000 | 1,800,000 | 1,200,000 | 1,000,000 |
| Percentage | 18.0 | 9.0 | 16.0 | 18.0 | 18.0 | 19.0 |

¹⁾ Figures of industrial investment are based on the partial censuses taken

b) The availability of a labour supply.

Industrial investment in Palestine has the great advantage of the availability of a supply of experts and skilled labour. Many of the capitalist immigrants have been engaged in industry abroad and it is only natural that they should return to the occupation for which they are best trained. Industrial experts without capital find little difficulty in inducing idle capital looking for investment to finance their ventures. The immigration of skilled labourers facilitates the whole process.

c) The expansion of the home-market.

Perhaps the most important factor in the movement towards industrialisation in Palestine has been the expansion of the home-market. While in other countries manufacturers have become accustomed to contracting markets and limited purchasing power, in Palestine they are confronted with a market expanding in consonance with the inflow of new immigrants and new capital. The opening of new factories depends directly on this growth in demand. There is a certain technical minimum of output, below which production is not profitable; and it was not until the market was large enough to absorb this minimum of products, that many of the new factories could commence operations.

d) The system of capital "transfer".

An additional stimulus was given to industrialisation in Palestine, by the system of capital "transfer" imposed by Germany. Jewish refugee capital may not be exported from Germany in cash, and the range of goods which may be exported in its stead is very limited. Industrial machinery is one of the most usual media of transfer. It is transferred to Palestine, either directly by private German entrepreneurs who see in this the one chance of saving their capital, or indirectly through industrial shares issued in Germany and the share-capital thus raised transferred by the new company in the form of machinery. The most important industrial enterprises which were established in Palestine during the last few years were financed, partly, on such a basis.

Two contributory factors deriving from the general world economic situation have accelerated the growth of industry in Palestine :—

e) The emancipation of industry from local limitations .

In the nineteenth century the necessity for proximity to power and

in connection with the labour immigration schedule, on import statistics of industrial machinery, and on data supplied by industrial companies. Total investment figures are estimates.

raw material supplies and the need for a highly-skilled labour staff, caused industry to congregate in a few favoured spots on the earth's surface. Twentieth-century conditions have altered this situation. Cheap freight has enabled raw materials to be transported with little cost; the development of electrification has released industry from dependence on a supply of coal which has always been expensive to transport owing to its bulk; the simplification of machine processes has meant a decline in the "monopoly" of the highly-skilled worker. For these reasons, industry today can develop with success in the most unlikely spots. The decentralisation of industry is one of the outstanding economic phenomena of the present age.

f) *The fall in world prices.*

The breakdown in world prices from 1929 to 1934/35 resulted in a substantial cheapening of industrial equipment. The new industries could, therefore, be set up with lower interest and amortisation charges, enabling them to compete with the long-established industries of older countries.

III. A SURVEY OF 1936 AND 1937.

a) *The slowing-down in new expansion.*

After 1935, the rapid growth of industry, which was typical of the preceding years, slowed down. *New* industrial development declined by about one half as compared with 1935, in consonance with the general slackening in economic expansion. But even a fall by one half from the high level of expansion in 1935 is a remarkable achievement, in face of the difficulties experienced during these years.

The fact that industry continued to expand at all during 1936 and 1937 leads to the recognition of a clear distinction between new industrialisation based on the expectation of profit, and the actual position of already-existing industry. The establishment of new industries is no proof at all of a general industrial prosperity among existing industries. The establishment of a new industry depends, primarily, on the *expectation* of an effective demand for its products. (Of course, the existence of unprofitable industries cannot fail, sooner or later, to dampen too optimistic expectations and thus to influence the establishment of new concerns). For this reason, industry has continued to grow in Palestine in certain periods, when the position of older-established industries was far from prosperous. The new factories were founded, either in anticipation of a market expansion; or through confidence that new and better technique and equipment would succeed where less

advanced methods had failed ; or else, in branches of industry which were as yet virtually untried in Palestine. The years 1936 and 1937 were typical of such expansion in a time of depression.

It is highly probable, that even had 1936 and 1937 been years of continued prosperity, some retardation of new industrial development would have been experienced. Before an enterprise can be profitably established, a certain minimum of demand must exist. In 1934 and 1935 the population increase created this necessary demand, and factories were established in response. But for a second factory to commence operations in the same line of output entails a doubling of demand, which must necessarily take a further period of years. Thus a point of temporary saturation was being reached in some branches of industry. These considerations apply mainly to large and highly-capitalised industries ; they naturally have no force in relation to small and medium-sized enterprises, particularly in such branches as building materials and textiles, in which production has already existed for some time.

b) The maintenance of current activity.

The situation of existing industry must be sharply differentiated from the position as regards new expansion. New expansion, as we have seen, continued, but at a very much decreased rate. Current industrial production, on the other hand, did not decrease at all in 1936, and decreased by only about 20% in 1937. But this stability in output must not be taken to imply a continuation of the 1935 prosperity. The unusual phenomenon of a steady level of production at a time of general economic contraction can be understood only against the background of the dynamic process of industrialisation which has already been described. In addition to being a period of trial, 1936—37 was also a period of maturity. Two separate and diverging forces were at work, each neutralizing the effect of the other. On the one hand the depressed economic conditions caused a downward trend in the output of certain existing factories. But on the other hand, the rising curve of *new* production continued on its upward path, as the industries established in the preceding years reached maturity. This *new* output reaching the market in 1936 and 1937 was sufficiently great to override the contraction which conditions imposed on the older factories. During 1933—35 there was a very rapid expansion of new industries, each of which passed through an initial period with production below full capacity. The output of these enterprises could not yet be included in the 1933 census of production, and in 1934 and 1935 production was still in its early stages. It was not until 1936, that the new factories got under way, and the stage of maturity was reached. The additional output thus placed

on the market was able to compensate for the decline in the production of other factories.

c) *The special difficulties of 1936 and 1937.*

What were the circumstances which led to the contraction in certain forms of industrial output in 1936 and 1937? These may be classified under a number of separate heads.

1) The political tension of the last 18 months has inevitably affected the whole "tone" of the Palestine market. Immigration and capital import have declined, and purchasing power has inevitably suffered. Not only has the aggregate volume of purchasing power diminished, but the *desire* to buy has been reduced by the political uncertainty and insecure conditions. Naturally, in such periods there is a certain hesitancy in spending freely, and needs are curtailed in so far as possible.

2) The building movement, in particular, underwent a severe contraction — unemployment increased and part-time work has been wide-spread. The decrease in purchasing power has actually been larger than the increase in the number of unemployed in the community, as wages, particularly in the building trades, have declined. Also, those thrown out of employment were mainly building workers, who had been receiving the highest wage rates. Of all branches of industry, the worst sufferers were the industries producing building materials, as a result of the slackening in the building trades which was bound to follow on the slowing down of immigration.

3) During the actual strike period in 1936, industry had certain special difficulties to cope with. The disturbed transport conditions were a serious handicap to normal operations. On the one hand, the distribution of goods to the consuming centres, and on the other hand, the supply of raw materials, were seriously impeded. The industrial zone round Tel-Aviv which formerly received its imports of raw materials through Jaffa port, had now to be provided for in a roundabout way through Haifa harbour, and thence by road or rail — even though the safety and reliability of both these means of communication had been considerably impaired. These transport difficulties caused a rise in raw material prices and damaged the competitive power of local produce.

Much direct damage was also done — though this was perhaps the least important effect of the riots. 51, mainly small, factories, employing 401 workers were either burned or forced to leave Jaffa.

4) Since the commencement of the troubles in 1936, there has been a strengthened tendency towards the segregation of Jewish and Arab

economic life. Jewish industrial products are now boycotted by the Arab population, which has meant a distinct curtailment in demand.

5) A further depressing circumstance has been the almost complete cessation of new citrus plantations. This was due to the anxious marketing situation, and the doubtful future prospects of citriculture. As a part of local industry is engaged in the manufacture of various types of equipment for the groves, in use mainly in the initial period of planting, the cessation of planting necessarily meant a decline in the activity of these specialised industries.

6) The devaluation of the franc, and hence of the Syrian currency linked to it, first in September 1936, and again at various times in 1937, has meant a blow to Palestinian exports to Syria. Certain branches of the Palestine textile industry have suffered most severely through this circumstance ; and the competition of imports from Syria and other countries with devaluated currencies has been intensified within the Palestine market.

7) The rise in the prices of raw materials on the world market in 1937 has also not eased the path of local industry. Although the edge has been taken off dumping by the improvement in world prices, this gain has been offset by the increasing expensiveness of raw materials and freight rates.

For all these reasons, Palestine's industries were put to a severe test in 1936 and 1937. Most of them had passed through the initial trial period, and were reaching the stage when profitability on the basis of current costs and turnover had to be proved. During the initial period actual costs and prices were less important ; losses were debited to the investment account as a natural part of the outlay during the period of developing new markets and technical experimentation. Once this initial stage had been passed, the hard facts of cost and price had to be faced. Just at this point there was a slowing down of all economic activity. It may be that a further period of expansion would have concealed the structural difficulties under which a number of enterprises had been labouring. As it is, the process of selection has been hastened, and not all enterprises have survived. Some had a top-heavy capital structure. Others were under-capitalized through faulty calculation. In a new country, lacking all industrial tradition, it is particularly difficult to estimate accurately the exact capital investment required, and mistakes on this account have been frequent. They may lead to failures, or to capital reconstruction, or to heavy indebtedness. In few cases is the current turnover sufficient to meet the high rates on borrowed capital or to satisfy the demands of an unduly heavy capital structure. This

has been particularly felt in the last year, when part of the capacity was lying idle, but debt charges remained undiminished. As a result a proportion of the capital has had in more than one case to be written off. Some enterprises have failed for reasons independent of management, investment and organisation; from the start they had no prospect of success under Palestinian conditions, whether they be conditions of cost, price, or market. Viewing the matter in perspective, it was, indeed, inevitable that in an industrial increase of 260% within 8 years, there should be some failures. In a capitalist economy, lacking any of the elements of planning, with a Government attached to the ideology of "laissez-faire", such expansion was only possible through the simple method of trial and error.

d) The increase in exports.

Some alleviation of the difficult industrial situation in Palestine during these two years, has been afforded by the increasing export of manufactured articles. The improving market position of most countries since 1935, and the recovery of world trade, have acted in Palestine's favour and in spite of the many trade handicaps under which Palestine suffers, new markets have been successfully penetrated. The drive towards increased export has also been stimulated by the slack situation in the home-market. It is only natural that when supply could not keep pace with the home demand, little attention should be paid to exports. But once supply finds itself outrunning local needs, and stocks begin to mount up, the attitude of manufacturers towards the export trade is radically changed. Palestine's export of manufactured articles ¹⁾ increased by as much 53% in 1937 as compared with 1935.

e) The position today.

By the second half of 1937, three distinct trends could be clearly discerned in Palestine industry. One group of industries — those connected with the expanding export trade, or supplying a particular part of home demand which is well-protected and relatively insensitive to fluctuations, have remained almost unaffected by the depression. Chief of this group are the potash, aluminium, cotton, oil and soap industries, (all export industries) and the chocolate, confectionery, beer and cigarette industries (protected consumption industries). It is well-known that the demand for foodstuffs is the least elastic of all demands. The electrical industry has also increased its level of output.

¹⁾ Class III in the Trade Statistics :

| | |
|------|-------------|
| 1935 | LP. 370,000 |
| 1936 | LP. 417,000 |
| 1937 | LP. 565,000 |

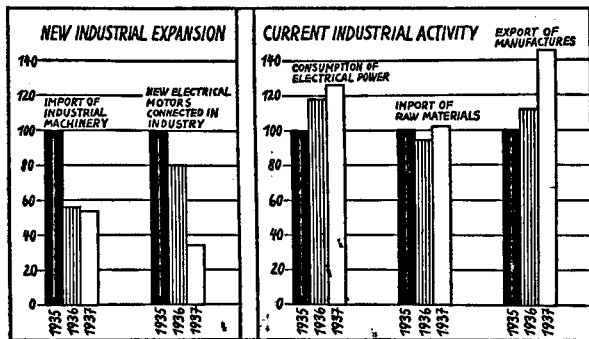
A second group of industries shows a decrease of some 20—25% below 1935 output. These are industries depending directly on the volume of purchasing power in the country — such as textiles, wearing apparel, chemicals, and the wood and metal industries unrelated with the building movement. The declining standard of living has borne hardly on this type of manufacture. Some of these industries have also been affected by the unfavourable currency situation in Syria, which has hindered export to what was their chief market. (Leather and tricotage should be mentioned in particular in this connection).

The third group consists of the building material industries and industries connected with the citrus plantations. The output of these has fallen to about 40% below 1935. This is by no means surprising in the light of the diminution of the volume of building by some 60% in these few years and the almost complete cessation in citrus planting.

f) *The situation summarised.*

This description of the industrial situation in Palestine may be summarised tellingly in statistical and diagrammatic form. The figures for industrial machinery imports and new electrical connections¹⁾ in industry indicate very clearly the falling off in new expansion. On the other hand, the regular consumption of electric current in industry has remained high — even increased — and the imports of industrial raw materials have been well maintained, pointing to the continuation of production in existing industries on a fairly stable level. The striking increase in the export of manufactured goods is also shown.

The Divergence between New Industrial Expansion and Current Industrial Activity.



¹⁾ Figures for electrical connections are available for the Southern District only.

But these statistical indications call for certain general explanations. The rise in the consumption of electrical power by industry must not be taken to represent exactly a corresponding rise in industrial output. It must be remembered that the newly-established enterprises in Palestine reaching maturity in the immediate past, consume relatively more electric power than the older enterprises owing to the more highly mechanised type of factory now being erected in Palestine. Also, parallel to the general process of industrialisation, an even more rapid process of electrification has been taking place. At the same time, these explanations are not sufficient to account for an actual *increase* in electric power consumption, at a time when many branches of industry were contracting their output. This increase corroborates our contention that a number of recently established branches of industry were reaching maturity, and actually *expanding* their output during these years. It seems highly probable, therefore, that had it not been for the unusual political conditions, 1936 and 1937 could have witnessed a spectacular increase in current industrial production (though possibly not in new expansion). Even if the older industries had not advanced beyond their level of output in 1935, the coming-of-age of young industries, would have been sufficient to bring about a considerable expansion in the volume of production.

The fluctuations in raw material imports also merit some remark. In the uncertainty of 1936, these imports fell off *more* than was actually warranted by the volume of production. There were still large stocks remaining from the earlier period of prosperity, and manufacturers hesitated before giving new orders. At the beginning of 1937, when conditions appeared to have quietened down, stocks had fallen very low, and new materials were ordered in large quantities — stimulated also by the rise in the world price of raw materials at that time. Some of these orders were speculative — banking on a still further rise in raw material prices — with the result that the 1937 figures of imports may well have been exaggerated at this period.

It should be mentioned, finally, that employment statistics in Palestine are inadequate to provide any indication of industrial production, such as exists in other countries. But even if the figures were complete, a close correlation between employment and production should not be expected. The new enterprises established during the last few years in Palestine are in general more highly mechanised, owing to the greater supply of capital available today and the change in marketing conditions through expansion in demand. The trend from smaller to larger enterprises within the last few years is unmistakable. The proportion of fixed capital to circulating capital is higher in the

new modern industries than in the other factories established some time ago. If the whole industrial apparatus of the country were not on the increase, this growing mechanisation would undoubtedly lead to a certain amount of "technological" unemployment, as the new factories entered into competition with the old. From 1933 there has been an increase in enterprises run by limited companies. Already in 1933, limited companies accounted for 62.6% of total industrial capital and 18.1% of industrial workers i. e. a small labour force in relation to each capital unit. It appears, therefore, that the transition from handicraft and small enterprises employing mainly manual labour, to large highly mechanised concerns with a higher proportion of fixed capital, is proceeding rapidly.

IV. INDIVIDUAL INDUSTRIES IN 1936 AND 1937.

According to the 1937 census of Jewish industry taken by the Jewish Agency, industrial personnel, investment and production was spread over the following groups of industries (provisional figures) :-

Jewish Industry 1937.

| | Personnel | Production (L.P.) | Investment (L.P.) |
|---------------------------|-----------|-------------------|-------------------|
| 1. Foodstuffs | 3,480 | 2,300,000 | 1,850,000 |
| 2. Textiles | 1,300 | 380,000 | 430,000 |
| 3. Clothing | 3,460 | 540,000 | 290,000 |
| 4. Metal | 2,760 | 790,000 | 740,000 |
| 5. Machinery | 1,150 | 300,000 | 250,000 |
| 6. Wood | 2,980 | 810,000 | 500,000 |
| 7. Leather | 1,790 | 410,000 | 200,000 |
| 8. Printing and paper .. | 2,390 | 580,000 | 600,000 |
| 9. Chemicals | 730 | 720,000 | 1,050,000 |
| 10. Stone and Cement | 2,480 | 1,060,000 | 1,820,000 |
| 11. Electricity | 540 | 140,000 | 120,000 |
| 12. Miscellaneous | 1,770 | 280,000 | 300,000 |
| Total | 24,830 | 8,310,000 | 8,170,000 |
| <i>Concessions :</i> | | | |
| Palestine Potash ... | 920 | } 750,000 | 4,530,000 |
| Palestine Electric .. | 1,510 | | |
| Total | 27,260 | LP. 9,060,000 | 12,700,000 |

Before trying to analyse the position of individual industries during the years under review, some salient facts regarding their structure must be brought to mind :—

- 1) In Palestine, as in all young industrial countries, industry is concentrated mainly on the production of consumers' goods. It is estimated that 75% of Palestine's industry is engaged in the manufacture of consumers' goods, and only 25% in capital goods.
- 2) Palestine's industry is overwhelmingly dependent on the home market. 90—95% of total produce is consumed locally.
- 3) Inadequate industrial protection and Palestine's legal inability to impose discriminatory tariffs, have meant that about half of Palestine's industry is contending with keen foreign competition.
- 4) Only about 40—45% of Palestine's industries use local raw materials, the remaining being dependent on supplies from abroad.
- 5) About one-third of Palestine's industry centres on the building market, and about 10% on supplies for citriculture.
- 6) The relative weight of industry within the economy is on the increase. Today the gross value of its production, both Jewish and Arab, approaches LP. 10,000,000.
- 7) The capital influx, which has been so pronounced a feature in Palestine up till 1936, provides a stronger incentive for investment in industry, than exists in most other countries.

a) *Electrical Industry.*

Production of electric current amounted in 1935 to 53,670,000 kwh., in 1936 to 70,018,000 kwh., and in the first 8 months of 1937 to 50,528,000 kwh. Both the Palestine Electric Corporation and the Jerusalem Electric and Public Service Corporation increased their output considerably, and found their technical resources taxed to the utmost. The distribution of electrical current according to the purpose for which it was employed was as follows:—

Sale of Electricity according to Purpose for which used (kwh.).

| | Power | Irrigation | Domestic and Miscellaneous | Total |
|-----------------|------------|------------|-------------------------------|------------|
| 1935 | 23,024,339 | 16,134,366 | 14,511,693 | 53,670,398 |
| 1936 | 27,128,233 | 24,122,151 | 18,767,614 | 70,017,998 |
| 1937 (8 months) | 19,292,973 | 17,548,201 | 13,687,054 | 50,528,228 |

It is seen that electricity sales are rising, but, as pointed out before, this cannot be considered a conclusive index of economic development, owing to the blurring of the general picture through the process of electrification.

b) Textiles.

In the older branches of this industry, particularly in knitting, there was a substantial reduction in turnover and sales. In one such line of textiles, sales decreased by 40% from 1935 to 1936, which may be taken as typical of some of the older-established branches of the textile industry. (Of course, it must always be remembered that 1935 was a peak for production and sales, so that comparisons with 1935 are apt to be invidious). The decline in 1936 and 1937 led to a reduction of employment, and a system of short-work was introduced in almost all the textile factories in question. This contraction, which affected knitted underwear, outerwear, socks and stockings, was caused by three factors :—

- 1) the segregation of the Jewish and Arab markets.
- 2) export difficulties on the Syrian market, owing to the devaluation of the franc.
- 3) the general decline in purchasing power.

Because of these marketing difficulties, competition between local factories was greatly intensified. Attempts to organise a cartel of cotton knitted goods, failed.

On the other hand, new lines of textile production were developed. Palestine's first cotton-spinning mill, established in 1934/35, expanded its output, in spite of numerous difficulties connected with the disturbances. 80% of the production of this mill is exported, so that the following figures of cotton yarn exports are a fair indication of the growing output :—

Cotton Yarn Exports from Palestine.

| | Kilos | Index | LP. | Index |
|-------------|---------|-------|--------|-------|
| 1935 | 7,335 | 100 | 1,678 | 100 |
| 1936 | 157,902 | 2,153 | 19,298 | 1,150 |
| 1937 | 306,397 | 4,177 | 40,574 | 2,418 |

The very rapid increase in the last two years is explained by the fact that the factory only reached maturity and commenced production in earnest, in 1936.

The same factory embarked also on the production of cotton piece goods. These goods were, however, marketed only in 1937, as the dressing, finishing and dyeing department of the mill were not fully equipped until the end of 1936.

The silk industry suffered less from the general recession. Silk

yarn imports fell by only 5.6% in 1936, and rose by 51.7% in 1937 as compared with 1935 — (109,692 kg. in 1935, 103,570 kg. in 1936, and as much as 166,618 kg. in 1937). This is, to a certain extent, an indication of the level of production in Palestine's two silk mills, as no silk yarn is spun locally. Palestine's silk production consists mainly of artificial silk.

c) *Foodstuffs and beverages.*

Generally speaking, the output of this branch of industry has not declined. It is well-known that the production of foodstuffs is less subject to fluctuations than other branches of industry. The demand for foodstuffs is inelastic and cannot easily be curtailed. A new departure in the foodstuffs' industry was the production of beer, which commenced in 1935 and developed only in 1936. This resulted in an immediate cutting down of the imports of foreign beer from 2,258,357 litres in 1935 to 958,053 litres in 1936, and 1,153,610 litres in 1937. In this year as much as two million litres of beer were produced in Palestine.

A considerable expansion also took place in 1936 in the production of fruit juices and vegetable preserves. A large new factory was established in Nathania and several small enterprises expanded their production, though, on the other hand, one important factory was wound up. The following figures are published by the Department of Agriculture and Forests of the Palestine Government:—

Fruit Juice Production 1936¹⁾ (Tons)

| | Consumed locally | Exported | Stock in hand | Total |
|-------------------------|------------------|----------|---------------|-------|
| Orange juice | 160 | 120 | 320 | 600 |
| Grapefruit juice | 170 | 80 | — | 250 |
| | | | | 850 |

The chocolate and confectionery industries were also little affected. The import of cocoa beans and glucose, which are a fair indication of production in this branch, varied as follows:—

Imports of Glucose and Cocoa Beans

| | G l u c o s e | | C o c o a B e a n s | |
|-------------|---------------|-------|---------------------|-------|
| | Kilos | Index | Kilos | Index |
| 1935 | 880,877 | 100 | 314,883 | 100 |
| 1936 | 819,300 | 93 | 335,460 | 107 |
| 1937 | 827,666 | 94 | 305,168 | 97 |

¹⁾ Agricultural Supplement to the Palestine Official Gazette, 18.2.1937.

In 1937 the profitability of this industry was lowered by an increase in the price of cocoa, while, at the same time, foreign competition prevented a corresponding increase in the price of the finished product.

d) Oil and soap.

This is one of the few Palestinian industries which produce mainly for export. The industry can be subdivided into two sections: the primitive Arab laundry soap factories in Nablus, and the modern Jewish factories, concentrating on toilet soap and oil. The Arab part of the industry suffered severely in 1936, but recovered in 1937. Jewish oil production has been developing satisfactorily.

Export of Oils, Laundry-soap and Toilet-soap.

| | Laundry Soap | | Toilet Soap | | Edible Oils | |
|-------------|--------------|-------|-------------|-------|-------------|-------|
| | LP. | Index | LP. | Index | LP. | Index |
| 1935 | 77,897 | 100 | 1,414 | 100 | 56,595 | 100 |
| 1936 | 52,091 | 67 | 1,707 | 121 | 77,352 | 137 |
| 1937 | 74,259 | 95 | 1,988 | 141 | 203,468 | 359 |

The level of laundry-soap production is indicated also by the import of one of its chief raw materials — acid oil, which fell from 2,092,299 kg. in 1935 to 1,644,820 kg. in 1936, but rose again to 2,473,763 in 1937.

The industry suffered from a rise in raw material prices, but was compensated by a corresponding rise in the price of the finished articles.

e) Tobacco.

Tobacco and cigarette production has remained fairly stable since 1935 — as may be seen from the Government Excise statistics:—

Tobacco Production (Kilos)

| | 1935 | 1936 | 1937 |
|---|----------------|----------------|----------------|
| Cigarettes | 791,264 | 815,196 | 756,908 |
| Tobacco | 18,095 | 16,480 | 14,192 |
| Tombac, snuff and heishah cigarettes | 98,577 | 86,661 | 83,313 |
| Cigars | 1,748 | 2,142 | 1,937 |
| Total | 909,684 | 920,479 | 856,349 |

Several new factories were established, and the quality of the products has greatly improved. The trend of imports was as follows:—

v. Import of Tobacco Products (Kilos)

| | 1935 | 1936 | 1937 |
|--|----------------|----------------|----------------|
| Cigarettes | 63,183 | 56,474 | 83,441 |
| Cigars | 3,061 | 1,826 | 1,841 |
| Tobacco (leaves and manufactured) ... | 183,362 | 156,650 | 118,289 |
| Tombac and other products | 82,712 | 70,155 | 70,018 |
| Total | 332,318 | 285,105 | 273,589 |

These imports are confined mainly to certain specialised categories; the decline in the imports of cigars was caused by the high customs duty imposed on these products.

f) Chemical and pharmaceutical industry.

The most important enterprise in this branch is the Palestine Potash Company. The growing output of this company can be gauged by the statistics of export, as the quantity of goods consumed locally is negligible:—

Export of Potash and Bromine

| | P o t a s h | | | B r o m i n e | | |
|------|-------------|---------|--------------|---------------|--------|--------------|
| | Tons | Value | Price p. ton | Tons | Value | Price p. ton |
| | | LP. | LP. | | LP. | LP. |
| 1935 | 18,124 | 80,231 | 4.4 | 403 | 18,751 | 46.5 |
| 1936 | 23,372 | 132,857 | 5.7 | 478 | 35,097 | 73.4 |
| 1937 | 29,110 | 174,672 | 6.0 | 611 | 48,269 | 79.0 |

It is seen that the price of these products has increased considerably since 1935 — from LP. 4.4 to LP. 6.0 per ton of potash (an increase of 36%) and from LP. 46.5 to LP. 79.0 per ton of bromine (an increase of 70%). These price rises are due to international price agreements and to the formation of international combines, which have greatly increased the profitability of the company. The new extension to the south of the Dead Sea has been developed, and its production expanded. The proportion of Palestine Potash Company products within the whole export of Palestine manufactures has grown as follows since 1935:—

Proportion of Potash and Bromine Exports to Total Exports of Manufactures.

| | Potash | Bromine | Total |
|-------------|--------|---------|-------|
| | % | % | % |
| 1935 | 21.7 | 5.1 | 26.8 |
| 1936 | 35.9 | 9.5 | 45.4 |
| 1937 | 30.9 | 8.5 | 39.4 |

There are five factories in Palestine producing pharmaceutical preparations — medicines, drugs, injections etc. Most of these products are only processed in Palestine, i. e. they pass only through the secondary stage of production, the ingredients being imported from abroad. Only in a very few exceptions are the products made from local raw materials. An agreement has been concluded between some of these factories, dividing up the market for the various categories of preparations between themselves.

The cosmetic industry has also progressed, and the range and variety of its products has been expanded. For certain products arrangements were made for joint manufacture.

The production of carbonic acid has increased since 1935. A new factory producing this commodity from coke (and not from alcohol as hitherto in Palestine) was established. There are also small, but increasing, exports of carbonic acid from this country, as the following table shows :—

Exports of Carbonic Acid

| | | | Kilos | Index |
|------|-----|-----|--------|-------|
| 1935 | ... | ... | 14,508 | 100 |
| 1936 | ... | ... | 31,341 | 216 |
| 1937 | ... | ... | 49,384 | 340 |

Keen internal competition led to an agreement being concluded between the various factories in this field.

g) Metal industry.

Owing to the contraction of the building trade, the metal industry encountered a number of difficulties during these years. The largest enterprise in this field, the Palestine Metal Foundries Ltd., suspended production, and capital reconstruction was found to be necessary. This was effected in 1937. The production of a number of smaller concerns, engaged in locksmithery, iron construction, etc., was also considerably curtailed.

The situation in the non-ferrous metal industry was more satisfactory. Aluminium-ware is typical of this line of production, and its exports increased in quantity in 1936 and 1937 (13,866 kg. in 1935, 14,611 kg. in 1936 and 22,361 kg. in 1937).

The import of aluminium sheets, the raw material of this industry, has also shown an increase, — 106,397 kg. in 1935, 317,857 kg. in 1936 and 190,586 kg. in 1937. The spectacular increase in 1936 was

due not only to an expansion of production, but also to the creation of a new factory in Jerusalem, and a piling up of stocks in view of the rise in raw material prices.

Thus, the metal industry shows a fairly diversified picture. Those branches unconnected with building actually showed some expansion, whereas the branches connected directly with the building trades, contracted.

h) Artificial teeth.

This industry works almost exclusively for export, which has remained steady. In 1935 exports were LP. 33,762, in 1936 LP. 32,200, and in 1937 LP. 34,429.

Production is concentrated in the hands of one factory, which has established a branch in Cyprus, in order to reap the benefits of Imperial Preference on its exports to British Empire countries.

i) Leather.

Leather shoe production declined during 1936 but rose again in 1937. This is corroborated by the import figures of upper leather (local production of this raw material is negligible), which fell from 186,482 kg. in 1935 to 148,269 kg. in 1936, and increased to 185,822 kg. in 1937. The reason for the 1936 decline was the general decrease in purchasing power. A contributory factor was the very keen competition from Syria. Syrian products enter Palestine freely and the Syrian shoe industry employs cheap Armenian labour, with which neither Jewish nor Arab labour in Palestine can compete.

The production of handbags made from fine leather was also reduced. Exports fell from LP. 6,731 in 1935 to LP. 4,006, and LP. 5,423 in 1936 and 1937.

In the tanning industry, some recovery was felt at the end of 1936. Although the largest tannery in the country was compelled to close, other enterprises expanded their output.

j) Wood.

It is obvious that the contraction of the building movement must have brought about a decline in most branches of the wood industry, particularly building joinery and carpentry. The manufacture of furniture, which suffered also from the general decrease in purchasing power, was greatly reduced. The imports of wood for furniture declined by 52% in 1936, only 3,459 m³ being imported as against 7,237 m³ in 1935. In 1937 these imports increased again to 5,967 m³, but were still 18% below the 1935 level.

k) Building materials.

This branch of industry was affected, more than any other, by the disturbances of 1936. On the one hand, the building movement, itself, contracted to about half its 1935 volume; on the other hand, the supply of raw materials, such as lime and various kinds of stone, was badly held up by the difficulties of transport and communication. The cement factory in Haifa continued at full capacity during the first half of the year, but later, production was curtailed. The import of cement decreased from 169,537 tons in 1935 to 69,567 tons in 1936, and to 69,878 in 1937. The floor-tile factories worked at only a fraction of their capacity, and have suffered serious losses.

It may be estimated, that a 40% reduction in the total output of the building material industries took place, corresponding to the decline in the building movement. In some particular lines, notably stone and metalling, there was a shift from Arab to Jewish production, as, owing to the Arab strike, the Jewish building movement was forced to develop its own supplies.

V. INDUSTRIAL WAGES IN 1936 AND 1937.

In the majority of industries, particularly those connected with building — wood-work, metal works, and the manufacture of building materials, — wages fell markedly in 1936 and 1937. This was due to the decline in the building movement, which followed on the political insecurity in the country, and to the pressure of unemployment. Only in some exceptional industries was there a wage-increase. The index numbers of Jewish industrial wage-rates¹⁾ were as follows:—

Index numbers of Daily Wage-Rates for Jews²⁾

1931 = 100

| | 1935 | 1936 | March 1936 | Sept. 1937 |
|--|-------|-------|---------------|---------------|
| <i>Industries connected with building:</i> | | | | |
| Woodworking industries | 129.0 | 115.3 | 112.4 | 103.9 |
| Metalworking industries | 126.1 | 121.1 | 121.1 | 114.2 |
| Manufacture of tiles | 133.3 | 125.0 | 120.7 | 114.0 |
| <i>Other Industries:</i> | | | | |
| Printing and stationery | 133.6 | 135.0 | 135.0 | 138.0 |
| Textiles | 128.9 | 128.9 | 126.2 | 121.0 |
| Tobacco and cigarettes | 143.6 | 159.0 | 169.5 | 166.6 |
| Oil and soap | 114.3 | 114.3 | 118.6 | 118.4 |

¹⁾ Arab wage-rates are dealt with separately, the unusual circumstances determining Arab economic development in 1936 warranting special treatment.

²⁾ Wage-rate Statistical Bulletin No. 4/1937, Government of Palestine.

VI. SPECIAL PROBLEMS OF INDUSTRY IN PALESTINE.

a) *Marketing difficulties.*

Industrialisation in Palestine has coincided with a period of crisis and industrial overproduction in the world at large. Most countries have had surplus stocks of goods which they were prepared to export at almost any price. From the point of view of individual enterprises, exports at cost-price were ultimately more profitable than a reduction in turnover and a relative increase in overhead charges — profits being assured through the protection of the home market by impenetrable trade barriers. From the point of view of Governments, the need for bolstering up the labour market and removing the unemployed from the "dole" — was sufficient inducement to grant excessive export bounties to industries. The result was the development of widespread dumping practices, which knocked the bottom out of the world market for many industrial articles. (In 1936 and 1937, with the spread of economic recovery, dumping practices have somewhat abated).

For infant industries to develop in a new country under such conditions is only possible if:—

- 1) specially favourable conditions exist for the production of some particular type of commodity — such as, in Palestine, potash, orange-juice, wine etc.
- 2) the transport of goods from abroad is particularly difficult and expensive, owing to perishability, high rate of breakage, or high freights. This is the case with most building materials and some foodstuffs.
- 3) the home market is protected sufficiently to concentrate local purchasing power within the country, and render local prices immune from world fluctuations.

Under these conditions, a favourable tariff policy became one of the most vital needs of Palestine's nascent industrialism. It has been pointed out by Palestine industries that the required protection would not mean a material rise in the price of the necessities of life for the Arab farming population, as the consumption of industrial articles by this population is extremely small, and mainly composed of goods not produced by Jewish industry. Local industries claim to be able to produce at much the same costs as in Europe, and point to the importance of an industrial community as a secure market for local agricultural produce. Some concessions to the persistent request for industrial protection were granted in 1936 and 1937.

It is not easy to trace the effects of these duties on imports. In

1936 and 1937 certain lines of imports contracted for other reasons, also, and there is no way of gauging their relative influence. Further, not all the goods protected are specified separately in the import statistics. But there is no doubt that the introduction of these protective tariffs has alleviated some of the difficulties of the industrial situation.

Palestine's marketing difficulties do not spring, exclusively, from an excessively keen foreign competition. Internal competition, also, is particularly fierce, leading in some cases to a decline in prices even below the cost of production. Certain special conditions are responsible for this state of affairs. The capital inflow is large, and investment possibilities are relatively limited, so that every opportunity for profitable investment is seized upon by more than one entrepreneur. In most cases the progressive increase in purchasing power through immigration is discounted in advance by over-expansion of production. But when immigration slackens, the evils of over-production immediately become felt. The intense internal competition which developed during 1936 had detrimental effects for the whole economy. A number of separate plants, each working only to a fraction of its capacity, were maintained; and while profits dwindled, overhead charges swelled disproportionately. Several failures resulted; and in spite of the very individualistic character of Palestine industry, some groups of manufacturers realised the dangers of the situation. A new tendency towards the creation of cartels gained way. These cartels, ranging from loose price agreements to complete combines with production quotas, covered a whole series of industries.

In most cases such cartels were short-lived, and a return to chaotic marketing could not be avoided.

Marketing difficulties in Palestine are also sometimes due to miscalculation. The market's capacity has at times been over-estimated and enterprises established without sufficient basis. The fact that the import statistics of the Palestine Government were not, until the beginning of 1937, sufficiently itemised, contributed to the confusion, as it was impossible to gauge the exact capacity of the country for the absorption of certain categories of goods.

b) Industry's dependence on the building market.

One of the basic shortcomings of Palestine's industry is its dependence on the building market. It is estimated that one-third of local industry is connected with the building movement. Thus the contraction of the building movement in 1936 and 1937 to half its 1935 volume

was a serious blow to industry, and led to a sharp decline in production in some branches.

c) The small proportion of exports.

Two factors have hindered the development of Palestine's export markets :

- 1) until 1936 local demand was still far from being satisfied ;
- 2) the lack of a protected home market meant that Palestine industry could not afford to adjust its export prices to the dumping prices prevalent on the market.

The result of these handicaps was that, out of a total industrial production of about LP. 10 millions in 1935, only LP. 479,000 or 5% was exported.

As already mentioned, there has been a perceptible change in this situation during the last two years. World prices have risen, and trade improved, with a consequent improvement in Palestine's competitive power in foreign markets. Also, the unsatisfactory condition of the home market has compelled manufacturers to turn elsewhere for the disposal of their supplies. But even with this improvement, industrial exports remain low, and their share in total output is still extremely small. It should, in addition, be remembered that over one-third of industrial exports are now accounted for by the special products of Palestine Potash. How important it is that exports should be further developed can only be appreciated if the very small size of the local market, and the value of a high turnover in reducing costs, are borne in mind.

d) Financial structure.

Taking Palestine industry as a whole, the proportion of capital to turnover is 1 : 1.¹⁾ This unusual state of affairs is due to the fact that the full capacity of production of many industries is not being exploited. In those instances where underproduction is due to the industry not having passed through the initial stage of development, the disproportion between capital and turnover is purely temporary. But in the industries which are already old-established the disproportion represents an inherent weakness calling for repair. Such a relation between turnover and capital naturally increases overhead charges with

¹⁾ Owing to the depression in 1937, this ratio deteriorated still further, production being less than investment. The situation appears somewhat better if the highly-capitalised concession industries are excluded.

the result that profits are depressed and local industry less able to compete with foreign products.

A second striking feature which emerges from the balance sheets of Palestine's industrial enterprises is the slow accumulation of reserves and of capital increase. In some cases this capital accumulation is non-existent; in others the capital decreased after a period of operation, indicating a loss of substance. In addition, many new enterprises in Palestine are, from the start, under-capitalised. They are hampered by the lack of sufficient working capital — (with the exception, of course, of large concerns established partly with foreign capital) — and are forced to resort to credits, sometimes of doubtful origin. Such credits usually involve high interest payments, which absorb a large proportion of the profits. The heavy indebtedness of many firms, and the large share of borrowed capital on which they rely, amounts to a shift of income from the entrepreneur to the financier. This over-expansion on the basis of borrowed capital, or of partnerships established only for the purpose of raising new capital, is a dangerous weakness in the financial structure of many local industries.

A serious attempt to deal with the problem of industrial credit has been made by a number of public Jewish institutions within the last couple of years. There is now no lack of short-term credit in the country, but valuable as this is, the real need is for long and medium term credits on easy terms. It is understandable that the question of long-term credits is particularly difficult of solution in the unsettled conditions prevailing in Palestine, but the financial difficulties of a not inconsiderable section of local industry are being eased by the special effort made in the field of medium term (three-year) credits. These loans — financed with the co-operation of public or semi-public bodies — are definitely intended to supplement the manufacturer's lack of primary capital, and to be repaid gradually from the factory's own earnings, and not out of any new credit commitments. In this way, an improvement in the financial position of certain industries may be achieved. A special attempt is now also being made to provide ten-year credits to some enterprises considered of particular importance for the economy as a whole.

CHAPTER VI

BUILDING AND HOUSING.

I. THE ROLE OF BUILDING IN PRESENT-DAY ECONOMICS.

In most progressive countries, housing and construction have become an important weapon in the regulation of trade fluctuations. Slum clearance, low-cost housing and public works are used as a means of maintaining employment and purchasing power during periods of crisis and inactivity. For this purpose, they are ideally suited. They do not compete, as a rule, with commercial enterprise, and they provide certain important social necessities which are insufficiently attractive as an investment for private capital. For these reasons, non-commercial building has been continued even during the worst phases of depression, and has at times formed the very backbone of economic activity. Of course, the maintenance of building in the face of the slackening of all other branches of production, did not depend on the normal laws of supply and demand. Activity had to be stimulated as a deliberate State policy. New purchasing power was artificially injected into the economy, and the wheels kept revolving until better conditions developed.

In Palestine, building has also acted as the medium through which new purchasing power is pumped into the economic life. But this effect — as so many others in Palestinian economics — has been accomplished not by organised planning, but by an extraneous factor, the influx of capital and immigration. The new immigrants exert a continuous demand for housing, which is supplied by the capital influx. The import of capital by a small number of capitalists — who never exceeded 12% of the total annual immigration — could not itself stimulate economic life. It had to be diffused among all strata of the population, and in this work of distribution, the building trades have played a leading part. An exceptionally high proportion of investment in building is paid away in wages, and these wages create a market for agricultural and industrial products. In this way, the demand for consumers' goods in Palestine has been in advance of supply, and the

new capital invested in building has had an immediate impact on all branches of the country's economic life. The building trades are a temporary station through which immigration passes before it is absorbed in the more permanent branches of current production.

The great difference between building as a diffuser of purchasing power in Palestine and in other countries, is that in Palestine the great part of building has been ordinary commercial housing for which the new immigrants have exercised an effective demand. In countries without immigration, effective demand for housing is — in difficult times — as played out as all other forms of demand, and building is only possible if some special public effort is made.

During the last two years, with the falling-off in immigration, the Palestine building market has found itself in much the same position as building markets in other countries during a slump period. The demand for commercial housing has dwindled, and attempts have had to be made to inject public or semi-public funds into the building trades in order to prevent complete stagnancy. But the total absence of Government assistance has so far prevented any really effective revival. The theory that

"public construction should be pushed heavily in times of low private building activity. Since this is a time when tax payments are difficult to make and relief expenditures are high, such construction must be financed by borrowing" ¹⁾ is still far from being officially accepted in Palestine.

II. THE IMPORTANCE OF BUILDING IN PALESTINE'S DEVELOPMENT.

Building has, therefore, played an extremely important part in Palestine's economic growth. Housing, one of the very few commodities which cannot be imported, was inadequate for the rapidly growing population, and building naturally served as the point of departure for the new workers until they could be absorbed in the expanding apparatus of general production. In the initial period of each wave of immigration and expansion, the construction of houses was Palestine's main activity. From 1925-1927, not only was the absolute number of building workers high, but their share in the total labour force reached as much as 43%. In the period of consolidation which followed, their proportion and numbers decreased, and they were slowly absorbed into the other branches of production, which had all the time expanded, thanks to the market created by the building

¹⁾ "World Prices and the Building Industry" Warren & Pearson. Chapman & Hall, London 1937, p. 177.

trades. It was not until the new period of rapid expansion in 1934 and 1935 that the number of building workers again rose. The importance of the building trade lies, therefore, in providing a remunerative field of employment and investment during the initial phases of each spurt in Palestine's economic development. The high proportion of investment in building and the large share of the labour force which building has absorbed may be seen from the following:—

The Share of the Building Industry in Palestine's Economic Life.

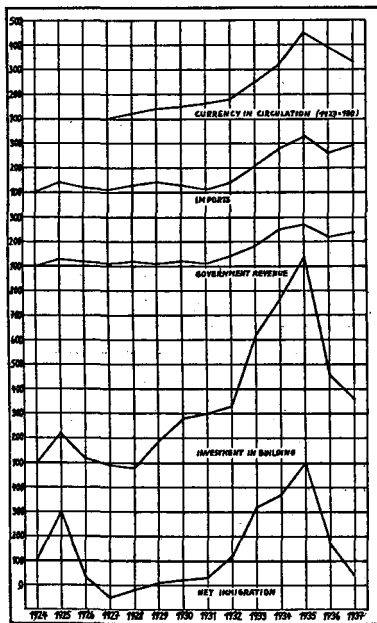
| | Jewish building workers ¹⁾ | % of total Jewish workers ¹⁾ | Jewish investment in building (L.P.) | % of total Jewish investment |
|------|---------------------------------------|---|--------------------------------------|------------------------------|
| 1925 | 7,800 | 43.0 | — | — |
| 1932 | 4,000 | 13.5 | 1,094,000 | 39 |
| 1933 | 7,000 | 16.7 | 2,884,000 | 51 |
| 1934 | 11,500 | 19.2 | 4,554,000 | 50 |
| 1935 | 16,500 | 19.4 | 5,730,000 | 56 |
| 1936 | 13-14,000 | 15.8 | 3,700,000 | 57 |
| 1937 | 11,000 | 10.6 | 2,800,000 | 52 |

Certain advantages — already hinted at — attach to the building industry, particularly in a young and small country. In the first place, the high percentage of wages in the total investment is invaluable in increasing the country's purchasing power. The need for consumers' goods is stimulated, and the reabsorption of labour set free by a temporary saturation of the building market, is facilitated. In addition, building does not involve a recurrent output, with all the dangers of over-production, particularly if the market is very circumscribed. Capital equipment, also, accounts for no more than a negligible share of the investment, so that if immigration falls off and the trend of demand shifts elsewhere, building can be brought to a halt without the need to scrap expensive machinery involving serious losses of capital.

In the past the whole of Palestine's economic life has fluctuated in correspondence with the building movement, and building has become as sensitive a barometer of business conditions as iron and steel output in some other countries. The extent of these fluctuations may be seen by the wave-like motion of building activity since 1924, and the correlation between building and other characteristic indications, such as imports and Government revenue. This correlation between building activity and other enterprise is marked in all countries — but in Palestine it is particularly so.

¹⁾ Statistical Dept. of General Federation of Jewish Labour in Palestine.

The Correlation between Building and other Activity.



The dominant influence of building in Palestine provides a partial explanation of the particularly violent fluctuations which have been experienced in Palestine's economic life. Building, in common with other durable goods,

"generally have such a long life that a period of over-construction is usually followed by an extended period of severe liquidation so that the cycles are long and violent... In all business affairs, there is a tendency to overdo when things are profitable and to be too greatly depressed in times of distress"¹⁾.

But whereas in ordinary consumption goods, supply is easily adjusted to demand, in a commodity such as houses, many years must elapse before the number can be either increased or decreased in accord with the variations of the market. It is thus not difficult to understand

¹⁾ "World Prices and the Building Industry", op. cit., p. 97.

why in Palestine, where so much of activity has centred on the building industry, trade fluctuations should have been particularly severe. On the other hand, the actual length of the fluctuation has been shorter in Palestine than in other countries. Elsewhere, a building cycle has been found to spread over a period of some 18 years, whereas in Palestine it has been nearer 10 years. This more rapid readjustment has been due to the stimulating effect of immigration on the building market. Readjustment has not had to rely solely on internal development, but has been speeded up by the new demand exercised by the influx of immigrant families.

The greater relative scope of building in Palestine than in other countries may be judged by the following *per capita* figures of buildings erected :—

*Building Activity in Palestine & Other Countries*¹⁾.

| | | 1 9 3 4 | | 1 9 3 5 | |
|-----------|--------|-------------------|-------|-------------------|-------|
| | | sq. m. per capita | Index | sq. m. per capita | Index |
| Palestine | ... .. | 0.96 | 100.0 | 1.02 | 100.0 |
| U. S. A. | ... .. | 0.047 | 4.9 | 0.10 | 9.8 |
| Argentine | ... .. | 0.12 | 12.5 | 0.076 | 7.4 |
| Japan | ... .. | 0.024 | 2.5 | 0.026 | 2.4 |
| | | Rooms per capita | Index | Rooms per capita | Index |
| Palestine | ... .. | 0.034 | 100.0 | 0.036 | 100.0 |
| Germany | ... .. | 0.006 | 17.6 | 0.004 | 11.1 |
| Sweden | ... .. | 0.004 | 12.1 | 0.007 | 18.4 |

It is seen from these comparisons that the extent of building per head of the population is many times as great in Palestine as in any of the other countries brought into the comparison. The nearest approach is in Sweden in 1935 and in Germany in 1934, and even in these cases, the per head volume of building was only about one-sixth the volume in Palestine.

¹⁾ League of Nations' World Economic Survey 1935/36, p. 124. Population as at 31.12.34. No. of rooms constructed in Palestine estimated by dividing official figures of sq. m. built by 28 sq. m. — the average size of room built in Tel-Aviv during 1935 and 1936.

It should be mentioned that the ratio of building per capita has been diluted by taking the total population of Palestine. Actually, most of the building has been erected by and for Jews, and if Jews alone are taken, building per capita has been extraordinarily high.

III. THE DANGERS OF THE PRESENT SITUATION AND PROSPECTS FOR THE FUTURE.

The salient position of building in Palestinian economics gives rise to a precarious state of affairs, particularly as building is so directly dependent on immigration. The strong correlation between building and immigration emerged clearly from the diagram (p. 107). The demand for housing in Palestine is determined mainly by immigration. It is estimated that only a small proportion of the building actually executed is destined for the natural increase of the population. The extent of immigration is subject to all the hazards of politics, which means that building—and the remainder of the country's economic activities—are liable to suffer from every political vicissitude. The history of 1935—1937 gave expression to these dangers, as the fall in the building figures indicates:—

*Buildings Authorised to be Constructed in the Four Towns
of Palestine (sq. m.)¹*

| | 1935 | 1936 | 1937 |
|--------------|------------------|----------------|----------------|
| January | 71,900 | 74,500 | 61,700 |
| February | 98,800 | 72,200 | 35,200 |
| March | 110,200 | 75,400 | 51,300 |
| April | 106,800 | 92,500 | 43,000 |
| May | 118,600 | 52,000 | 49,100 |
| June | 147,200 | 52,000 | 48,600 |
| July | 127,200 | 66,700 | 63,900 |
| August | 121,100 | 56,000 | 51,900 |
| September | 79,700 | 44,600 | 49,200 |
| October | 75,400 | 39,700 | 42,800 |
| November | 89,800 | 54,400 | 38,500 |
| December | 67,600 | 65,100 | 42,200 |
| Total | 1,214,300 | 745,100 | 577,400 |

The steep rise in building activity at the beginning of 1935, the contraction at the time of the Abyssinian crisis, the new improvement in the spring of 1936, and the continued depressed conditions since the outbreak of the disturbances — these movements are a close and faithful reflection of the political ups and downs of the period and illustrate the dependence of building on political events.

¹) Monthly Bulletin of Current Statistics of Palestine, February 1937, p. 44. February 1938, p. 54.

In addition, the problems of readjustment arising out of such swings in building activity present certain serious difficulties. Building in Palestine has always been subject to very radical fluctuations, as the diagram above showed, and its important position in the country's economic life has meant that a large part of economic activity has fluctuated in sympathy. It has not always been easy to regain equilibrium after one of these violent swings of the pendulum.

But dangerous as the present situation is, it is by nature temporary, and an improvement is already discernible. As the home population increases, the share of natural increase in the growth of the population expands, and the share of immigration diminishes, so that the country is gradually freeing itself from too close a dependence on immigration, and hence on political vicissitudes. Forms of production other than building, commence developing. In the period of consolidation which follows on a phase of mass immigration both the numbers and the proportion of building workers begin to decrease, as we have already pointed out. It is only in the spurts of economic development, accompanying a wave of immigration, that building preponderates over all other forms of activity.

It is interesting to observe the growing emancipation of the Palestine economy from its dependence on building. In 1925—27, the import of foodstuffs (which is a good measure of the country's purchasing power) and all forms of production, declined in sympathy with the contraction in building. In 1935—37, the import of foodstuffs did not decline at all, and production has fallen to a much smaller degree than in 1925—27, in spite of the violent contraction of the building movement. The reason for this difference is the growth of other, more stable lines of activity, which are relatively immune from political variations in the outside world.

IV. RENTS, OVERCROWDING AND THE MORTGAGE MARKET.

In the past, the greater part of building in Palestine has been left, except for certain public works, to the free play of the market. The results have been far from satisfactory.

According to the 1937 Census of Labour taken by the Federation of Jewish Labour, the percentage of wages paid in rent by 9,551 monthly wage-earners in Tel-Aviv, was as follows :—

Percentage of Rent to Wages of Monthly Wage-earners in Tel-Aviv.

| Wages per month LP. | Average rent paid LP. | % of wages paid in rent |
|------------------------|--------------------------|-------------------------|
| 2—4 | 1.27 | 42.3 |
| 4—6 | 1.51 | 30.2 |
| 6—8 | 1.81 | 25.9 |
| 8—10 | 2.33 | 26.0 |
| 10—15 | 3.07 | 24.6 |
| 15—20 | 3.93 | 22.5 |
| 20—25 | 5.18 | 23.0 |
| 25—30 | 6.10 | 22.2 |
| 30—40 | 6.60 | 18.8 |
| 40—50 | 7.42 | 16.5 |

The percentage of rent to wages in thus seen to rise in the lower-paid wages-groups to as much as 40%, and to fall to under 20% in the higher-paid wage-groups. On an average 25% of workers' earnings is being expended on rent. That this is an inordinately high figure is seen by a comparison with other countries :—

Proportion of Rent to Worker's Income¹⁾

| | | | | |
|--------------------------|-----|-----|---------|-------|
| Tel-Aviv | ... | ... | 1937 | 25 % |
| Argentina (Buenos Aires) | ... | ... | 1933 | 24.7% |
| Denmark (Copenhagen) | ... | ... | 1931 | 19.9% |
| Sweden | ... | ... | 1933 | 17.8% |
| Japan | ... | ... | 1933—34 | 16 % |
| Norway | ... | ... | 1927—28 | 14.4% |
| Germany | ... | ... | 1927—28 | 14.2% |
| Austria (Vienna) | ... | ... | 1934 | 12.4% |
| Latvia (Riga) | ... | ... | 1927—28 | 10 % |
| Belgium | ... | ... | 1928—29 | 9.1% |
| Czechoslovakia | ... | ... | 1929—30 | 9 % |
| Poland | ... | ... | 1929 | 7.6% |

These high rents in Palestine have not been accompanied by a high standard of housing. On the contrary their effect has been a severe measure of overcrowding. According to the 1937 Labour Census, the following figures of persons per room among the wage-earning class in Tel-Aviv and Haifa, were obtained :—

1) Yearbook of Labour Statistics, 1937, p. 195. International Labour Office.

Persons per Room — 1937.

| | | Tel-Aviv | Haifa |
|----------------------|--------|----------|-------|
| Daily wage-earners | ... .. | 2.5 | 2.5 |
| Monthly wage-earners | ... .. | 1.7 | 2.1 |
| All workers | ... .. | 2.1 | 2.3 |

But these average figures must be accepted with reserve. The workers enumerated in the Federation of Labour Census are by no means the poorest stratum of the population, and even within their own ranks, the average figure hides the real state of affairs among the lower-paid wage-groups.

Some idea of the excessive overcrowding among the poorest class is provided by figures which were collected by the Municipality of Tel-Aviv in the course of social welfare work in what can only be termed "slum" districts ¹⁾. In the inquiry 3,532 persons were included, as a random sample, of whom 869, or some 25%, lived in wooden barracks and 2,663 in houses. Congestion per room since 1934, divided according to barracks or houses, was as follows:—

Average of No. of Souls per Room.

| | | Houses | Barracks |
|------|--------|--------|----------|
| 1934 | ... .. | 4.88 | 4.67 |
| 1935 | ... .. | 4.43 | 4.5 |
| 1936 | ... .. | 3.78 | 4.1 |
| 1937 | ... .. | 3.51 | 3.7 |

Even though there has been some improvement since 1934, the situation as regards overcrowding still remains extremely serious, as these figures show.

Why are rents in Palestine so excessively high? It is the result, on the one hand, of demand at certain periods exceeding supply; and on the other, of expensive financing. The high demand is due to periods of intense immigration; expensive financing is due to the shortcomings of the local mortgage market.

Mortgage business is carried on in Palestine on a large scale — the total figures of registered mortgages having exceeded seven million

¹⁾ "Overcrowding and rents among the poor in Tel-Aviv" — Dr. N. Ben-Natan, "Yedioth Iriath Tel-Aviv", Nos. 3—4, 5—6, 1937/8.

pounds in 1935 — the year of peak building activity. Since 1932 the value of registered mortgages has been as follows :—¹⁾

| | | | |
|------|---|-----------|-----|
| 1932 | — | 1,375,000 | LP. |
| 1933 | — | 2,720,000 | ” |
| 1934 | — | 4,868,000 | ” |
| 1935 | — | 7,103,000 | ” |
| 1936 | — | 5,499,000 | ” |
| 1937 | — | 5,977,000 | ” |

The backbone of the Palestine mortgage market is the General Mortgage Bank. This Bank had LP. 2,600,000 of building loans outstanding at the end of 1937. Its capital for mortgage credit is acquired through the issue of debentures. LP. 2,230,000 of debentures had been issued, and the paid-up capital of the Bank was LP. 450,000 at the end of 1937. Apart from the General Mortgage Bank, there are two smaller mortgage banks operating in the country, and additional mortgage credit has recently been extended by British insurance companies, the amount so invested being estimated at over one million pounds. Further, in 1936, the financing of second mortgages by the transfer of building materials from Germany was started, and a considerable sum of mortgage credits given on this basis.

By far the greater part of the country's mortgage credit has, however, been supplied direct by private individuals. 8—9% was the usual rate obtained for long-term credit in Palestine, whereas 4% is considered fairly high for low-cost housing in England or Holland. In Palestine, there are no building societies as in England, and no savings banks as in America or Germany, to supply the market with cheap money. First mortgages in Palestine are limited to about one-half of the buildings value, excluding land, as compared with over 60%, including land values, in many countries of Europe, and 90% in England. As long as this is the case, and mortgages are contracted for periods under 15 years, cheap rents are impossible.

But important as easy finance is in allowing for cheaper and more spacious dwelling accommodation for the middle-classes, its limitations are clearly circumscribed. Interest rates are not the main factor in determining the volume of commercial building.

“...high and low building cause high and low interest rates rather than low interest rates cause high building... The major cause for building seems to be an increase in the demand for buildings relative to the supply rather than low or high costs

¹⁾ Official Bulletin of Monthly Statistics, No. 11, 1937, p. 50. No. 1, 1938, p. 48.

of building and financing. Usually costs are low when there is little building, and high when there is much building. Properties are constructed mainly on the basis of expected income rather than because of low costs" ¹⁾).

For the mass of the population, at all events, commercial building has in no country been able to provide a solution. Even if cheaper finance is available it must be connected with public and semi-public housing schemes, for any real improvement in the housing situation to result. Palestine has had several such experiments. The schemes were not promoted by the Government, as in other countries, but by the General Federation of Jewish Labour through its subsidiary company "Shikun". A number of large-scale housing schemes have been carried out — such as the Kiryat Haim suburb near Haifa, Kiryat Avodah near Tel-Aviv, and various workers' districts and co-operative houses in Tel-Aviv and other towns. But this has touched only the fringe of the problem, and only the better-paid workers have been able to participate. A really popular housing scheme calls for official support which, in Palestine, has not been forthcoming.

V. BUILDING IN 1936 AND 1937.

We have already drawn attention to the violent contraction of building in 1936 and 1937, and its correlation with the shrinkage in immigration, and the political uncertainties of the period. But this correlation should not lead to an over-simplified explanation of the building trend. Building has been further depressed by the rise in price of certain building materials. In 1936 the price of metalling, lime and coarse sand soared to unprecedented heights, due to the difficulty of obtaining Arab supplies, the dangers of Jewish quarrying and the insecurity of transport to the towns. On the other hand, certain factors favourable to investment in building were at work. There was a decline in the price of land and a decrease in building wages. A shift took place from Arab to Jewish quarters, and the problem of housing refugees had to be dealt with. But this could not set off the depressing effect of the falling-off in immigration, and since the end of 1935 building has been extremely slack.

In December 1936, a census of empty flats was taken in Tel-Aviv, and it was found that out of a total of 68,616 rooms, 2,239 or 3.27% were standing empty. This is a very small proportion and leads to the conclusion that the stoppage of new building allowed the accumulated demand to overtake the supply, and a certain equilibrium between

1) "World Prices and the Building Industry", op. cit., p. 144.

supply and demand was created. Nevertheless, rents in Tel-Aviv have declined, in many cases by as much as 35% since 1935, and in Haifa and Jerusalem by as much as 20—25%. The decline in rents is not, however, a serious phenomenon. In 1935, rents were exceedingly high, owing to a lag of the building movement behind expanding demand. They are now reduced to a less abnormal level.

In general, building in 1936 and 1937 was about 50% below the 1935 level. But certain differences existed between the situation in the Jewish and the non-Jewish sectors. Among the Arabs the general strike and subsequent stagnation brought building practically to a stand-still, as the following figures for the one purely Arab town, Jaffa, indicate :—

Building Permits Granted in Jaffa (ooo sq. m.).

| | 1935 | 1936 | 1937 |
|--------------|--------------|-------------|-------------|
| January | 8.2 | 10.7 | 5.8 |
| February | 16.5 | 11.3 | 4.2 |
| March | 11.0 | 10.0 | 4.3 |
| April | 21.9 | 20.7 | 1.4 |
| May | 9.7 | 1.2 | 1.6 |
| June | 64.8 | 0.5 | 3.1 |
| July | 18.0 | 0.1 | 4.6 |
| August | 15.7 | 0.2 | 3.3 |
| September | 6.0 | — | 3.6 |
| October | 6.8 | 0.7 | 1.3 |
| November | 9.4 | 1.2 | 0.8 |
| December | 5.7 | 3.0 | 2.0 |
| Total | 194.7 | 59.7 | 35.8 |

Among the Jews, on the other hand, the decrease was less than 50%. Tel-Aviv, it is true, suffered more, but Jewish building in Haifa was on practically the same level as in 1935, and in Jerusalem the decline was also relatively small.

The contraction of the building movement in 1936 and 1937 has had far-reaching repercussions on the country's economic life. The high proportion of wages in building investment means that the general economy is extremely sensitive to every fluctuation in building activity. A contraction in the physical volume of building reduces purchasing power in greater proportion than the relative investment in building would warrant. The existence of unemployed building workers

diminishes the wages of the employed, and thus an extraordinary sensitiveness to any decline in building is induced in the whole body economic — particularly in a country like Palestine, where building occupies so preponderant a position. The decline in the wages of building workers from 1935—37 may be seen from the following:—

Minimum Daily Wage-Rates of Jewish Labour 1935—37 (mils) ¹⁾

| | Oct. 1935 | Oct. 1936 | March 1937 | Sept. 1937 |
|------------------------------|-----------|-----------|------------|------------|
| Unskilled building labourers | 350 | 300 | 300 | 300 |
| Masons | 600 | 500 | 450 | 450 |
| Carpenters for shutter work | 550 | 500 | 450 | 400 |
| Plasterers | 550 | 500 | 450 | 400 |
| Painters | 450 | 350 | 350 | 300 |

The rates here quoted are the official Union rates. Actually, the *de facto* wages paid fell still further, whereas in 1935 the *de facto* wages were higher than those quoted above.

The far-reaching influence of such a wage-fall can only be appreciated in conjunction with the falling-off in the number of building workers and their share within the whole labour force in the country. It should also be remembered that not only is the share of wages in total building investment high, but that wages per labour unit are higher in building than in any other occupation in Palestine:—

Range of Daily Wage-Rates of Jewish Labour Sept. 1937 (mils) ²⁾

Building workers:

| | |
|--|---------|
| Plasterers, masons and carpenters for shutter work | 400—800 |
| Stone-dressers and locksmiths | 400—700 |
| Cabinet makers and painters | 300—600 |

Other workers :

| | |
|--|---------|
| Soap-makers | 350—480 |
| Knitters and weavers | 300—450 |
| Tile-makers | 250—450 |
| Semi-skilled metal workers | 200—400 |
| Permanent workers in orange-groves | 200—300 |
| Agricultural labourers | 150—200 |
| Tobacco sorters | 160—190 |

¹⁾ Wage-rates Statistical Bulletin No. 4/1937, p. 9. Government Statistical Department.

²⁾ Wage-rates Statistical Bulletin, op. cit.

The effects of the contraction in building were also felt in the field of general industry, where about one-third of the workers are engaged in manufacturing building materials. These branches of industry were severely hit. Similarly, trade in building materials is one of the most important branches of Palestinian commerce. The extent to which this trade suffered may be seen from the following comparison of the import of building materials :— (The rise in 1937 as compared with 1936 is due to higher prices and to the deflation of stocks).

Import of Building Materials 1935—1937 (L.P.)

| | 1935 | 1936 | 1937 * |
|----------------------------|------------------|----------------|----------------|
| Wood for building | 500,137 | 202,569 | 403,111 |
| Bricks | 20,048 | 7,327 | 9,476 |
| Tiles | 103,057 | 52,170 | 73,856 |
| Plate and window glass ... | 68,041 | 32,831 | 46,570 |
| Iron girders | *143,907 | 64,138 | 58,458 |
| Iron bars, angles and rods | 470,500 | 225,569 | 326,527 |
| Door and window fittings | 69,510 | 32,172 | 39,981 |
| Total | 1,375,200 | 616,776 | 597,979 |
| Index | 100 | 45 | 76 |

During 1936—37 there was not only a contraction, but a geographical redistribution, in the building movement as between the towns of Palestine. Haifa and Jerusalem gained in proportion to Tel-Aviv. In Haifa, in addition to the shift from Arab to Jewish quarters, large-scale semi-public building schemes were executed, particularly in Kiryat Haim, and construction in the reclaimed harbour area also gave a fillip to the building movement.

CHAPTER VII
FOREIGN TRADE

Palestine's economic history of the last five or six years is mirrored more clearly in the development of its foreign trade, than in any other single facet of the economic structure. Foreign trade has always been looked upon as a peculiar feature in Palestine's economy, and its abnormalities have for some time attracted attention and comment. The thesis of the present chapter will be to explain these apparent abnormalities as the inevitable concomitant of the special conditions and the unusual rate of progress which have characterised Palestine for many years; to point out, in fact, that Palestine's position as a young, colonisation country made it imperative that its trading situation should differ very substantially from the more "normal" situation in well-developed countries. To expect anything other is to judge all countries, whatever their position, by one and the same rigid standard.

An analysis of the trade figures in the prosperity period till the end of 1935 would, in itself, provide sufficient corroboration of this contention. But our argument has been palpably strengthened by the unsatisfactory turn of events in 1936 and 1937, and the tangible slowing down in development in these two years. By comparing the differences between these two periods, — one of very rapid progress, and the other of stagnation, — we are able to distinguish very clearly the special characteristics which are directly due to the demands of expansion, and which have for many years distorted Palestine's trading figures from what is usually considered "normal".

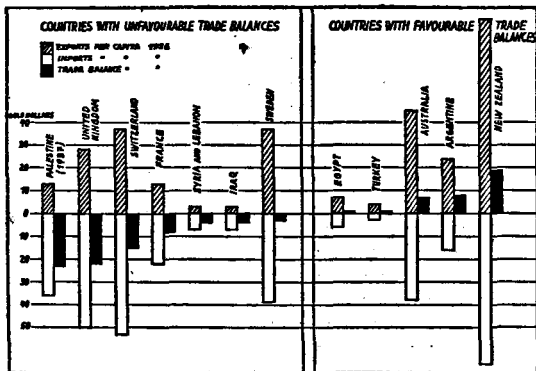
I. THE SPECIAL CHARACTERISTICS OF PALESTINE'S FOREIGN TRADE.

Four unusual features characterise Palestine's foreign trade :—

- 1) the exceptional *size* of trade per capita, in relation to the relatively backward stage of the country's development.

The following diagram shows the extent of Palestine's per capita trade in comparison with other countries :—

Per Capita Trade of Palestine and eleven other Countries



Palestine's trade is seen to be many times as large as the per capita trade of similar countries, such as Egypt, Iraq, Syria and Turkey, and not very much smaller than the per capita trade of U. K., and Sweden, which are among the most advanced trading nations in the world.

- 2) the large adverse trade balance, which, reckoned per capita, is the highest in the world.

A careful examination of the diagram above reveals that about four-fifths of Palestine's foreign trade consists of imports. If imports alone are taken, — the figure for Palestine is seen to be on a par with that of Sweden and Australia, and is exceeded only by such highly developed trading nations as U. K., Switzerland and New Zealand. This extensive import trade has resulted in an extraordinarily high adverse trade balance. These facts are set out in the table below (p. 120).

- 3) The large proportion of capital goods imported.

Palestine's high import trade — and hence, the large adverse trade balance, — is directly due to the import into Palestine of very large quantities of investment goods — machinery, transport equipment and building materials. These special investment goods accounted, during the prosperity period, from 1932 to 1935, for over one-third of Palestine's

Trade per Capita 1936¹⁾ (in gold dollars)

| | Trade balance (+positive - negative) | Imports | Exports |
|--------------------------|---|---------|---------|
| Palestine (1935) | - 34.4 | 45.1 | 10.7 |
| Palestine (1936) | - 23.2 | 31.7 | 8.5 |
| U. K. | - 21.7 | 49.3 | 27.6 |
| Switzerland | - 15.4 | 52.5 | 37.1 |
| France | - 8.4 | 21.5 | 13.1 |
| Syria and Lebanon | - 3.4 | 6.4 | 3.0 |
| Iraq | - 3.3 | 6.4 | 3.1 |
| Sweden | - 2.5 | 39.2 | 36.7 |
| Poland | + 0.07 | 3.3 | 3.4 |
| Egypt | + 0.4 | 6.0 | 6.4 |
| Turkey | + 0.7 | 2.7 | 3.4 |
| Roumania | + 2.1 | 2.8 | 4.9 |
| Australia | + 6.8 | 37.9 | 44.7 |
| Argentine | + 7.8 | 16.3 | 24.1 |
| New-Zealand | + 19.1 | 65.6 | 84.7 |

total ordinary imports²⁾. In this period, investment goods grew in volume and proportion as follows :—

Import of Investment Goods into Palestine (LP. 000's)

| Year | Industrial Equipment | Transport Equipment | Agricultural Equipment | Building Materials | Total | Investment Goods % of total ordinary imports |
|------|-------------------------|------------------------|---------------------------|-----------------------|-------|--|
| 1932 | 304 | 477 | 276 | 527 | 1,584 | 24 |
| 1933 | 664 | 719 | 530 | 952 | 2,865 | 31 |
| 1934 | 1,278 | 1,023 | 694 | 1,806 | 4,801 | 36 |
| 1935 | 1,394 | 1,060 | 769 | 2,141 | 5,364 | 34 |

Raw materials, which accounted for another two million pounds in 1935, have not been included among investment goods, as they are also utilised for recurrent activity.

4) The concentration of exports on one product and one market.

Palestine's export trade is composed up to four-fifths of citrus fruits, and over 70% of citrus fruits are concentrated on the British market. Of the total exports of the country, about 60% are sold to U. K. The U. K. market is six times as important for Palestine as any other, and the only exports of any real significance other than citrus, are the Dead Sea chemicals.

¹⁾ Review of World Trade, League of Nations, 1936, p. 90. Population figures: Statistical Yearbook of L. o. N., 1936/37. Size of population 31.12.1935.

²⁾ Extraordinary imports are military, exhibition, Iraq Petroleum Company stores, and settlers' effects.

II. THE EXPLANATION OF THESE SPECIAL CHARACTERISTICS.

These four unusual phenomena are, in reality, four aspects of one and the same circumstance. Palestine is a young and rapidly developing colonisation country. In such a country, high imports and an adverse trade balance are the inevitable accompaniments to progress. As long as an intensive stream of immigration is being absorbed, and new farms and factories are daily being established, home production must lag behind the needs of the growing population, both for consumption goods and for productive apparatus. Until the young local industries are set in motion, the new population employed in erecting the productive equipment must be fed, clothed and housed, by imported goods.

In Palestine, therefore, imports must be looked upon in the main as a form of capital investment. This explains the high proportion of investment goods imported, to which we have already drawn attention. But investment is also represented by a portion of the consumption goods imports, used to satisfy the wants of the workers engaged in establishing the new industries. If, for example, LP. 10,000 is invested in a factory in Palestine, LP. 3,000 may represent the wages of the workmen employed in building the factory. This LP. 3,000 is expended on rent, food and clothing, a large portion of the two latter items still having to be imported. This consideration accounts for the gap between the actual figures for Jewish investment from 1932—1935, and the import of investment goods, strictly speaking, as shown in the following table. It should also be remembered that some part of investment needs may be supplied by home produce.

Investment and the Import of Investment Goods.

| | Import of Investment Goods | Jewish Investment |
|------|-------------------------------|-------------------|
| | LP. | LP. |
| 1932 | 1,584,000 | 3,000,000 |
| 1933 | 2,865,000 | 5,350,000 |
| 1934 | 4,801,000 | 9,350,000 |
| 1935 | 5,364,000 | 10,000,000 |

It is not surprising that under these conditions, Palestine's export trade should have remained relatively undeveloped. In the years of rapid development, 1932—35, Palestinian manufacturers were barely able to satisfy the demand of the local market, let alone develop export outlets. Also, the products of the new industry needed time for their perfection. The one product of high quality which Palestine could produce, and for which the home-market offered an insufficient scope, was the orange, and citrus exports grew with speed and success. For

the rest, Palestinian production was still too young and untried to have had much time for, or success in, the expansion of an export trade.

It appears, therefore, as inevitable, that as long as the development of the country is to proceed with intensity, Palestine's foreign trade should present certain peculiarities. In fact, these unusual features are only considered peculiar in that Palestine is the one country in a stage of rapid colonisation in the world today. A glance into the past history of other colonisation countries, at the time when they too were being opened up by immigrants or by capital, will show that high imports and an adverse trade balance are the normal accompaniments of immigration and colonisation.

How has Palestine been able to finance its high import trade? Exports, of course, pay for a certain portion of the imports, and a further portion is offset by invisible exports such as tourist traffic, remittances to charitable and religious organisations, remittances arriving through the Jewish public funds, interest on Government investments abroad etc.¹⁾.

¹⁾ The following estimate of Palestine's balance of payments has been made by Dr. L. Gruenbaum, at the instance of the Jewish Agency Economic Research Institute:—

| <i>Balance of Payments 1936 (in 1000 L.P.'s)</i> | | | |
|--|---------------|--|---------------|
| <i>Inflow</i> | | <i>Outflow</i> | |
| 1. Export of merchandise ... | 3,625 | Import of merchandise ... | 13,979 |
| 2. Tourist traffic in Palestine | 650 | Tourist traffic abroad ... | 800 |
| 3. Investment proceeds from abroad | 830 | Payments on Pal. inv. abroad | 575 |
| 5. Bullion and specie exports | 251 | Payments for Banking and Insurance services ... | 170 |
| <i>Recurrent :</i> | | Government payments abroad | 895 |
| 6. Surplus of capital import by immigration ... | 5,000 | Bullion and specie imports ... | 157 |
| 7. Loans and shares sold abroad | 500 | | |
| 8. Remittances to relatives... | 1,030 | | |
| 9. Jewish National Funds ... | 900 | | |
| 10. Christian and Moslem Funds | 500 | | |
| <i>Non-recurrent :</i> | | | |
| 11. Repatriation of Government Funds | 1,033 | | |
| 12. Repatriation of Currency Funds | 700 | | |
| 13. Miscellaneous (Repatriation of private foreign invest- ment etc.) | 1,142 | | |
| Total | 16,576 | Total | 16,576 |

It may be added that Item 13 contains the cost of the British Army insofar as it is paid by the British Treasury, as well as exports of gold and merchandise to the neighbouring countries which are not included in the customs statistics.

But even after allowing for these a gap remains. In past years, this gap has been bridged by capital imports. It has been estimated that during the last 17 years, some LP. 80 millions of capital were brought into Palestine. It was the arrival of these enormous sums which enabled Palestine to carry on so large an import trade.

It has sometimes been felt that an element of danger attached to this dependence on capital imports. But it must be understood that in colonisation countries, the usual gap between imports and exports is almost always covered by loans. The capital influx into Palestine has served precisely the same purpose as the development loans of other countries — and has had the extra advantage of not necessitating any interest or capital repayments to foreign creditors. As long as these development funds were put to productive use, and the capital used for purchasing new capital equipment, the position was sound enough. The time would come when the country would be armed with its own productive apparatus and be able to dispense with the top-heavy import trade, — as has in fact happened in such countries as Australia and Canada. Up till 1935, it was obvious that Palestine was building up such an apparatus with speed and energy.

III. THE EFFECT OF THE WORLD TRADE SITUATION AND PALESTINE'S TRADING HANDICAPS.

What has, perhaps, accentuated the unusual features of Palestine's trade, has been the abnormal situation on the world trading market. At the height of the prosperity period in Palestine, 1933—1935, world-trade was reduced to barely more than half its 1929 — pre-depression — value.

World Trade and Industrial Production and Palestine Trade¹⁾

| | 1929 | 1932 | 1933 | 1934 | 1935 |
|-----------------------------|------|-------|-------|-------|-------|
| Quantum of world trade | 100 | 74.5 | 75.5 | 78.5 | 82.0 |
| Value of world trade (£) | 100 | 54.3 | 51.7 | 54.9 | 57.8 |
| World industrial production | 100 | 69 | 78 | 85 | 95 |
| Value of Palestine Trade | 100 | 116.4 | 157.3 | 210.6 | 253.0 |

The very great fall in world prices during this period may be seen from the disproportionate decline in the value of world trade, as compared with the decline in its volume.

This shrinkage in the volume and value of world trade was due not solely, or even mainly, to the crisis conditions prevailing in most

¹⁾ League of Nations World Economic Survey, 1935/36, p. 158, 13.

countries. In fact, from 1933—35 a general improvement in economic conditions was apparent, and, as the above table shows, industrial production increased fairly rapidly. The recovery of foreign trade from the trough of the depression period was much more sluggish as a result of the very severe trade restrictions which had been imposed by almost all nations. Not only were tariffs raised to almost prohibitive levels, but the still more effective measures of quantitative and monetary restrictions were adopted. Quotas, bilateral agreements, difficulties of currency transfer, all effectively blocked the channels of international trade, and only the strongest of nations could conclude effective trading bargains.

The effect of this disorganisation of the world market was to encourage a stream of dumped imports to flow towards Palestine. Palestine does not number among the economically strong countries of the world, and as regards foreign trade, it is extraordinarily weak. The "Open Door" clause imposes on Palestine the necessity to admit the goods of all States members of the League of Nations without discrimination, which is an effective obstacle in the way of concluding trade agreements with the countries who are Palestine's main suppliers. Even apart from such special negotiations, the Palestine Government has been hesitant in introducing increases in the customs tariff, with the result that Palestine has one of the lowest tariff levels in the world. Palestine was thus unable, in the years up till 1935, to curb the flood of imports which gravitated towards its relatively open market — often at abnormally cheap prices.

Nor, from some points of view, was it desirable that these large and cheap imports should be curbed. In so far as the dumped commodities did not compete with local produce, the low prices were undoubtedly a boon to the consumer. An outstanding example of this is the fact that sugar prices are very much lower in Palestine than in almost any other country in the world — which has proved as valuable for the local confectionery industry as for the direct consumers themselves. Investment in many industries was, also, cheapened considerably, by the substantial fall in import prices, a factor of some importance in accounting for the rapid expansion of investment in Palestine during a period of depression in most other countries.

Even while imports continued to flow in increasing measure towards Palestine, Palestine was having greater and greater difficulty in marketing its exports. One by one the chief citrus markets have dwindled, or been cut off by the imposition of high tariffs, the introduction of quotas and currency restrictions, or the virtual prohibition of citrus

imports. The difficulties were accentuated by the anomalous constitutional status precluding Palestine from negotiating trade treaties on its own account. It has been unable to barter its one important asset — the relatively large purchasing power — in exchange for export concessions to other countries. In this exceptionally difficult export situation lies a further explanation of the smallness of Palestine's exports and their concentration on the one considerable market which has been open to them.

IV. PALESTINE'S FOREIGN TRADE IN 1936 AND 1937.

Since the end of 1935, the trends of the previous years were reversed, both in Palestine and abroad. For most countries, 1936 and 1937 have been boom years. The world recovery which set in, in 1932 and 1933, was accelerated — partly owing to the feverish rate of rearmament — and the output of industry reached new and record levels. Unemployment contracted, prices rose, and all the usual boom symptoms were clearly apparent. For the first time for many years a marked improvement was noticeable in world trade, accompanied by a rise in export prices. In Palestine, on the other hand, these two years have been years of recession. The steady and rapid upward movement of trade which had begun in 1932, was arrested. International difficulties still bore severely on Palestine's exports and the position within Palestine itself was not calculated to lead to any great expansion of the import trade. In the autumn of 1935, the prosperity of the preceding years had already shown signs of flagging. The outbreak of the political disturbances in April 1936 put an effective end to the prosperity period. For six months the Arab population maintained a general strike, and trade in the Arab market was reduced to a bare minimum. Jaffa port was closed for the major part of this time, and even after the completion of the strike a rapid recovery was prevented by the internal trade boycott, and the continuation of political uncertainty.

The course of events in each of the years 1936 and 1937 — though similar in its final effects on Palestine's foreign trade, — varied as to detail. The first result of the onset of depression in 1936 was a contraction in the import trade by as much as 22%. The total value of exports also decreased, though by a lesser extent. In 1937, on the other hand, the import trade recovered almost to its 1935 level, and exports rose to a level never before reached in this country. But in both years, the adverse trade balance has fallen — in the first instance due to the fall in imports, and in the second to the rise in exports :—

Palestine's Foreign Trade 1935—1937

| | 1935 | 1936 | 1937 | Indices | | |
|--------------------------|------------|------------|------------|---------|------|-------|
| | | | | 1935 | 1936 | 1937 |
| Imports (LP.) | 17,853,000 | 13,979,000 | 15,913,000 | 100 | 78.3 | 89.1 |
| Exports " | 4,215,000 | 3,625,000 | 5,820,000 | 100 | 86.0 | 138.0 |
| Adverse trade balance 1) | 13,638,000 | 10,345,000 | 10,093,000 | 100 | 75.9 | 74.0 |

The slowing-down in the rate of progress has, in fact, been reflected in much the same phenomena in both 1936 and 1937. In both these years the import of all categories of investment goods and manufactured articles fell considerably, the import of foodstuffs expanded, and of raw materials remained more or less stationary.

Composition of Palestine's Import Trade (LP. 000's)

| | 1935 | 1936 | Half year 1937 | Indices | | |
|-----------------------------------|-------|-------|-------------------|---------|------|------|
| | | | | 1935 | 1936 | 1937 |
| 1. Investment goods | | | | | | |
| Chief building materials | 1,938 | 911 | 674 | 100 | 47 | 70 |
| " transport equipmt. | 1,011 | 524 | 395 | 100 | 52 | 78 |
| " industrial " | 922 | 555 | 231 | 100 | 60 | 59 |
| " agricultural " | 794 | 474 | 364 | 100 | 57 | 92 |
| Total LP. | 4,665 | 2,464 | 1,664 | 100 | 53 | 71 |
| 2. Chief raw materials | 876 | 822 | 449 | 100 | 94 | 102 |
| 3. Chief consumption goods | | | | | | |
| " foodstuffs | 3,501 | 3,771 | 2,229 | 100 | 108 | 127 |
| " industrial articles | 2,782 | 1,697 | 1,103 | 100 | 61 | 79 |
| Total LP. | 6,283 | 5,468 | 3,332 | 100 | 87 | 106 |

That the import figures for 1937 appear so much greater than those for 1936, is due to a number of special causes, such as the rise in prices of imported goods, the existence of large numbers of military in the country (accounting particularly for the high rise in imported foodstuffs) and the shift of local consumption from the more expensive home-produced agricultural produce to cheaper grades of imported goods. Further, the severe falling-off in stocks in 1936 had to be replenished

¹⁾ Re-exports, which account for a further half million pounds per annum (approx.) have not been included in the export total, so that the adverse balance here appears slightly larger than in reality.

by large new orders in 1937, and some of these orders took on an exaggerated size, owing to the tendency to speculate on a continuation of the price rise in the world markets. For all these reasons, the value of imports in 1937 appears to be very much greater than in 1936, but if its *composition* is studied, we find exactly the same forces at work, as the table above showed.

The same situation exists with regard to Palestine's exports. Although the value of exports fell in 1936 *below* the 1935 level and in 1937 rose considerably *above* that level, in both instances the exports of goods other than citrus expanded. In fact, the whole fall in 1936 was due to the bad citrus crop of that year, which was quite unconnected with internal economic causes. In both years, the contraction of the home market for manufactured goods compelled an added attention to be paid to export outlets, and this — combined with a general improvement in the world export trade, and the quality of Palestine produce — allowed Palestine to make a considerable advance in the value of its exports:—

Exports from Palestine (LP.)

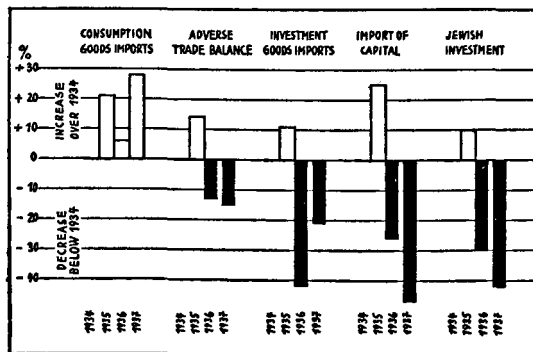
| | 1935 | 1936 | 1937 | Indices | | |
|--|-----------|-----------|-----------|---------|------|------|
| | | | | 1935 | 1936 | 1937 |
| Citrus exports (oranges and grapefruit in cases) | 3,507,000 | 2,792,000 | 4,182,000 | 100 | 80 | 119 |
| Other exports | 708,000 | 833,000 | 1,638,000 | 100 | 118 | 231 |
| Total | 4,215,000 | 3,625,000 | 5,820,000 | 100 | 86 | 198 |

The contrasting positions of Palestine and the world market in 1932—35 and again in 1936 and 1937, are not solely due to coincidence. We have already mentioned that the fall in export prices during the depression period cheapened and encouraged investment in Palestine, and there is no doubt that the unfavourable financial conditions in Europe and America intensified the emigration of both capital and man-power to a new country where a spirit of greater optimism prevailed. In 1936 and 1937 the position of Palestine was reversed. The rising prices on the world market, meant more expensive productive equipment and raw materials, and a correspondingly decreasing eagerness to invest. Also, the general insecurity and depression in Palestine combined with the rising prosperity abroad reduced the flow of immigrants and capital which had turned away from Europe and America and towards Palestine. Conditions in Palestine, to a certain extent, varied inversely with conditions abroad — Palestine profiting from difficulties in other countries,

and losing when they gain. But this applies within strict limitations. The profitability of Palestine's exports, for example, must depend on prosperity, and not on depression, in other countries.

We have already mentioned the falling-off in the import of investment goods in 1936 and 1937. This fact, coupled with the continued high imports of consumption goods and the small decline in the adverse trade balance, may have serious implications. An adverse trade balance, it has been pointed out, is a natural phenomenon in a country such as Palestine. It is, also, natural and harmless that it should be financed by capital imports, — but we have stressed the importance of these capital imports being used for *productive* purposes. In other words, the excess of imports should be composed mainly of investment goods. As the diagram below shows, during the last two years, an unhealthy tendency has emerged in this respect. Investment goods imports — and also the value of Jewish investment — have been falling fairly steeply. Capital imports, too, have fallen, and yet the import of consumption goods has continued unchecked, and the adverse trade balance has remained relatively high.

The Changing Composition of Palestine's Foreign Trade 1934—37



This means that the capital funds, which should have used for development purposes, so as to free Palestine from her dependence on imports, have been used for financing day-to-day consumption needs. If this process (due to the unsettled conditions and consequent decline in the attractiveness of investment) is allowed to continue, the valuable

capital influx will be dissipated before Palestine has provided itself with an adequate productive apparatus.

A further unfavourable factor in Palestine's foreign trade — and one which has had serious repercussions on the economy in general during these two years — has been the change in the terms of trade to Palestine's disadvantage. The prices of citrus — Palestine's main export — have fallen considerably since 1935, and at the same time the prices of imports have been rising steadily. The general increase in import prices in the first eight months of 1937 as compared with the corresponding period of 1935, was found, by the Government Office of Statistics, to be 17.77 per cent.

V. IMPORT AND EXPORT MARKETS.

In the following table a synopsis is given of Palestine's chief import and export markets in 1937 and the proportion of each market in the total trade of the country. The extraordinarily disadvantageous balance of trade between Palestine and some of the countries for which Palestine is an excellent market, is brought into clear relief.

Palestine's Import and Export Markets 1937

| Chief countries | Imports | Exports | Palestine's trade balance |
|--------------------------|-------------------|----------------|---------------------------|
| | LP. (000's) | LP. (000's) | LP. (000's) |
| U. K. | 2,522 | 3,149 | + 627 |
| Germany | 2,628 | 106 | — 2,522 |
| Syria | 1,374 | 625 | — 749 |
| Roumania | 1,372 | 113 | — 1,259 |
| U. S. | 1,099 | 35 | — 1,064 |
| Egypt | 631 | 99 | — 532 |
| Poland | 481 | 157 | — 324 |
| Czechoslovakia | 474 | 77 | — 397 |
| Japan | 494 | 36 | — 458 |
| Belgium | 495 | 177 | — 318 |
| Holland | 231 | 325 | + 294 |
| Sweden | 126 | 155 | + 29 |
| Total Import | LP. 15,913 | 5,820 | —10,093 |

There have been no very marked changes in the relative importance of Palestine's markets and supplies during the last two years.

Palestine's Chief Import Markets 1936—1937

| Chief countries | Imports into Palestine | | Imports into Palestine | |
|----------------------|------------------------|--------------|------------------------|--------------|
| | 1 9 3 6 LP. 000's | % | 1 9 3 7 LP. 000's | % |
| U. K. | 2,776 | 19.9 | 2,522 | 15.8 |
| Germany | 2,040 | 14.6 | 2,628 | 16.5 |
| Syria | 1,401 | 10.0 | 1,374 | 8.6 |
| Roumania | 1,068 | 7.6 | 1,372 | 8.6 |
| U. S. | 1,008 | 7.2 | 1,099 | 6.9 |
| Egypt | 514 | 3.7 | 631 | 4.0 |
| Belgium | 382 | 2.7 | 495 | 3.1 |
| Czechoslovakia ... | 421 | 3.0 | 474 | 2.9 |
| Poland | 429 | 3.1 | 481 | 3.0 |
| Japan | 419 | 3.0 | 494 | 3.1 |
| Iraq | 156 | 1.1 | 361 | 2.3 |
| Total Imports | LP. 13,979 | 100.0 | 15,913 | 100.0 |

U. K. has lost its position as Palestine's leading supplier to Germany, though this is probably no more than a transitory change, due to a speeding up of capital transfer from Germany (in the form of goods). The neighbouring countries, Syria, Egypt, and Iraq, also Roumania, have all increased their share in the Palestine market, but for the rest there are no significant changes.

The situation in the export markets was as follows:—

Palestine's Chief Export Markets 1936—1937

| Chief countries | Exports from Palestine | | Exports from Palestine | |
|----------------------|------------------------|--------------|------------------------|--------------|
| | 1 9 3 6 LP. 000's | % | 1 9 3 7 LP. 000's | % |
| U. K. | 1,970 | 54.4 | 3,149 | 54.1 |
| Syria | 310 | 8.6 | 625 | 10.7 |
| Holland | 199 | 5.5 | 325 | 5.6 |
| France | 48 | 1.3 | 139 | 2.4 |
| Belgium | 67 | 1.8 | 177 | 3.0 |
| Germany | 131 | 3.6 | 106 | 1.8 |
| Poland | 136 | 3.8 | 157 | 2.7 |
| Roumania | 72 | 2.0 | 113 | 1.9 |
| Sweden | 126 | 3.5 | 155 | 2.7 |
| Norway | 54 | 1.5 | 80 | 1.4 |
| Egypt | 63 | 1.7 | 99 | 1.7 |
| Czechoslovakia ... | 53 | 1.4 | 77 | 1.3 |
| Total Exports | LP. 3,625 | 100.0 | 5,820 | 100.0 |

Apart from a certain increase in Syria's importance as an export outlet for Palestine, and a decrease in Germany's importance, there has been little change worthy of special comment.

VI. TRADING PROBLEMS IN 1936 AND 1937.

In 1936 and 1937 renewed attempts were made to free Palestine from the impasse to which its anomalous constitutional status has led it. Further representations were made to the League of Nations, the Palestine Government and the Colonial Office for the modification of the "Open Door" clause in such a way as to allow Palestine to discriminate: a) against countries no longer members of the League of Nations; and b) against countries who do not purchase from Palestine a certain proportion of their sales to Palestine.

Before these representations came before the Mandates Commission, the Palestine Royal Commission had already pronounced as follows on this issue:—

"We take the view that the provisions of Article 18 are out of date. Opinion may differ as to the value of economic nationalism, but its principles are wholly inconsistent with non-discrimination and the Open Door. The application of the principle of the Open Door to Mandated territories was certainly never intended to have an injurious effect on their well-being and development! We think it clear that without an amendment of Article 18, Palestine must continue to suffer from the restrictions which hamper international trade and we recommend that negotiations should be opened without delay to put Palestine trade on a fairer basis"¹).

This emphatic view was endorsed by the Mandates Commission of the League in its 1937 session, which adopted a resolution stressing the urgency of affording Palestine some means of enforcing reciprocity in its trade relations. But in spite of this general agreement that Palestine is labouring under a justified grievance in trade matters, no concrete steps to alter the position have been taken. Except for some increases in the customs tariff during the last two years, Palestine's impotency in trade negotiations remains unrelieved.

Although, in 1936, the first symptoms of a movement towards a more liberal attitude in trading matters became evident in many countries, Palestine's trading position actually deteriorated. Currency restrictions were introduced by Poland and the currency transfer regulations in Germany were tightened up. Transfer agreements have the effect of tying Palestine's trade, involuntarily, to one or two countries, the only alternative being the sacrifice of a large volume of

¹) Royal Commission Report, p. 217.

capital imports. This reduces Palestine's bargaining power still further, compelling it to receive imports from certain countries instead of being able to buy freely in the world market. A further difficulty inherent in this situation is the competition of these "forced" imports with local produce. The sphere of non-competing products is constantly being narrowed down, and it is becoming increasingly difficult to accept the imports, which are usually sold at particularly low prices, without damaging local production. The damage feared is not only the direct one of ready-made goods competing with home manufactures. A large import, even of capital goods, at cheap prices tends to expand production for the home market to a degree which the limited purchasing power of the country cannot absorb, and at a price with which the older industry cannot compete. In this, a clash arises between the interests of the citrus-growers, who are only able to export more to the transfer countries in proportion as Palestine imports more in exchange, and the interests of the manufacturers. The increasing proportion of Palestine's imports from Germany and the decreasing proportion of local exports to Germany, have already been commented upon.

Special difficulties also exist in Palestine's trade relations with Syria and Iraq. Article 18 of the Mandate makes an exception in favour of those Asiatic countries which were, before the War, a part of the Ottoman Empire and entitles Palestine to conclude with them special trade agreements. Such an agreement between Palestine and Syria was in fact concluded in 1929, allowing the free entry into each country of goods manufactured in the other. During the last two years, the question of modifying this agreement arose for discussion. The problem was broached owing to the increasingly unfavourable balance of trade for Palestine which this treaty had brought about. When the agreement was entered into in 1929, a new and promising market had seemed to open up before the Palestine producer. For many reasons these expectations were disappointed. In the first place, Palestine's own purchasing power has grown rapidly since that time, and for many years the interest of producers was fully absorbed by the home market. At the same time industrial development has made rapid strides in Syria, and prices of goods imported from Syria into Palestine were able to undercut Palestine prices. This cut-throat competition from Syria is made possible by low wages, long hours of work, and conditions of labour incompatible with modern standards. Agricultural competition from Syria is no less serious a problem than industrial, and since the devaluation of the franc in September 1936, the whole situation has been aggravated. Both industrialists and agri-

culturists in Palestine are today pressing for a revision of the trade agreement with a view to achieving greater reciprocity of trade relations.

With Iraq, trade relations are also unsatisfactory. In 1936 Great Britain, as Palestine's Mandatory Power, signed a trade agreement with Iraq on behalf of Palestine. This agreement is a most one-sided instrument. In spite of the fact that in 1936 Palestine imported from Iraq some thirty times the value of its exports to Iraq, no reciprocal concessions were granted to Palestine in return for new privileges and facilities extended to Iraq — such as abolition or reduction of duties, free port facilities in Haifa etc. No practical steps to amend matters, as regards either Syria or Iraq, are being taken.

CHAPTER VIII.
THE GROWTH IN COMMUNICATIONS.

I. THE HIGH LEVEL OF EXTERNAL TRANSPORT.

External transport is destined to become one of Palestine's great industries. As the key to both the land and the air routes to the East, Palestine has a particularly valuable geographical situation. Haifa is well placed for the vast hinterland of Syria, Iraq, and Iran, and on the basis of this position, it has developed a transit trade of steadily growing dimensions. It is, in addition, invested with a peculiar significance as the main outlet for the Mosul oil-fields, a few million tons of oil passing through the port annually. For these reasons, the strategic value of the Egyptian ports at the mouth of the Suez Canal, and the trading importance of Beirut, have now been in part diverted to Palestine, and Haifa has experienced a rapid and remarkable rise from an insignificant Levant harbour, to one of the leading ports in the Eastern Mediterranean.

Tonnage Entered in Near Eastern Ports¹⁾

| | 1910 | 1935 |
|----------------------|-----------|-----------|
| Alexandria | 3,698,000 | 6,178,000 |
| Beirut | 1,767,000 | 2,410,000 |
| Haifa | 784,000 | 4,901,000 |
| Jaffa | — | 2,407,000 |

Although as regards the absolute figures of tonnage entered, Palestine's ports must still be considered small; in relation to the small population of the country, shipping activity in Palestine is extraordinarily high. As the following table shows, Palestine's shipping tonnage has reached approximately the same level as that of Greece, Australia or Roumania, and is not much lower than that of Norway —

¹⁾ "Jewish Colonisation in Palestine" — D. Horowitz, Jerusalem 1937, p. 38.

in spite of the very much smaller size of Palestine's population. But reckoning on a per capita basis, Palestine's shipping activity appears to be the highest in the world.

Tonnage Entered 1936 (Foreign Trade only) ¹⁾

| | Population 31.12.35 | Tonnage entered | Tonnage per head |
|------------------------------|---------------------------|--------------------------|---------------------|
| <i>Palestine 1935</i> | 1,144,000 ²⁾ | 5,564,000 | 4.9 |
| <i>Palestine 1936</i> | 1,242,000 | 5,006,000 | 4.0 |
| Sweden | 6,250,000 | 21,542,000 | 3.4 |
| Norway | 2,882,000 | 8,039,000 | 2.8 |
| U. K. | 46,992,000 | 88,767,000 | 1.9 |
| New Zealand | 1,568,000 | 2,878,000 | 1.8 |
| France | 41,900,000 | 52,748,000 ²⁾ | 1.3 |
| Japan | 69,500,000 | 73,215,000 | 1.1 |
| Greece | 6,839,000 | 5,846,000 | 0.9 |
| Australia | 6,753,000 | 6,238,000 | 0.9 |
| Egypt | 15,470,000 | 8,289,000 | 0.5 |
| Roumania 1935 | 19,013,000 ²⁾ | 6,330,000 | 0.3 |
| Bulgaria | 6,171,000 | 1,808,000 | 0.3 |
| India 1935 | 366,800,000 ²⁾ | 9,278,000 | 0.03 |

The importance of Palestine's geographical situation is still only a small part of the explanation of this extensive shipping activity. The particular stage of internal development at which Palestine finds itself today necessitates the carrying-on of an unusually high per capita foreign trade. Palestine is an immigration country in which a modern capitalist economy is in the process of creation. New farms and factories are spreading over the countryside, and the building movement has at times reached extremely broad proportions. These works of construction demand the import of raw materials and of production equipment from abroad. At the same time, the daily necessities of life must be imported to feed, clothe and house the immigrants until the new productive apparatus is set in motion. In absolute figures the value of Palestine's foreign trade is insignificant, approximating to that of relatively backward countries, such as Bulgaria, Latvia and Peru. But reckoned per capita it is on a standard not far lower than that of the richest and most advanced nations in the world :—

¹⁾ Statistical Yearbook, League of Nations (tonnage with cargo and in ballast) 1936/37, Table III.

²⁾ With cargo only.

³⁾ Population end 1934.

Imports Plus Exports 1936 (in million dollars)¹⁾

| | Million dollars | Dollars per capita |
|---------------------------------|-----------------|-----------------------|
| New Zealand | 235.8 | 150.4 |
| Belgium | 818.5 | 98.6 |
| Australia | 558.3 | 82.7 |
| U. K. | 3,613.3 | 77.0 |
| Sweden | 475.0 | 76.0 |
| <i>Palestine</i> 1935 | 63.8 | 55.8 |
| <i>Palestine</i> 1936 | 49.9 | 40.2 |
| France | 1,450.2 | 34.6 |
| Czechoslovakia | 372.1 | 24.5 |
| Greece | 104.9 | 15.3 |
| Japan | 915.1 | 13.2 |
| Roumania | 148.4 | 7.7 |
| Poland | 227.3 | 6.7 |

In addition to these circumstances making for an almost precocious development in external communications, Palestine has a tourist traffic of 50—100,000 persons annually, and an immigrant traffic which reached 60,000 in 1935. Finally, the importance of Palestine as one of the starting points for the trans-desert motor-road to Baghdad should be mentioned. Two motor-routes connect Baghdad with the Mediterranean — the Beirut-Damascus-Baghdad route, and the Haifa-Amman-Baghdad route. Although the former is actually shorter than the latter, English and Iraqi authorities are reported to be giving powerful support to the Haifa route, which runs through exclusively British protected territory, and follows the path of the Iraq oil pipeline through the desert.

II. THE LOW LEVEL OF INTERNAL TRANSPORT.

Relatively to the well-advanced shipping activity, internal transport in Palestine is backward and undeveloped. The road and rail system was not planned, primarily, to suit the commercial needs of the country, but developed under the influence of a variety of motives. The chief railway line, for example, was built for the advance of the British army from Egypt during the War and has never been further adapted to every-day requirements. What should have been the main trunk road of Palestine — the road connecting Tel-Aviv with Haifa — was not completed until as late as 1937, for fear of its competition against the

¹⁾ Review of World Trade, 1936, League of Nations, p. 90.

less convenient — but State-owned — railway. The existence of the railway has, in fact, been a determining influence in Palestinian road policy. Roads were built as feeders to the railway, and not as alternatives, even though the second may have been the more economic course. Generally speaking, the road network of the country is still very small. In 1936, Palestine had, in all, only about 800 miles (or 1,200—1,300 km.) of all-weather roads¹), which means 8 miles of road per 100 sq. miles of territory. How low a figure this is may be seen by a comparison with some other countries. In the U. S., for example, there are 82 miles of road per 100 sq. miles of country, in Czechoslovakia the same figure applies; in Belgium the corresponding figure is 55; in Roumania 58; in Austria 27; in Bulgaria 28; and in Poland 24. The Palestine road network is thus no more than one-third as dense as in even the least developed of these countries. Even if we eliminate the whole "Negeb" district and assume that Palestine's total area is only 5,000 sq. miles instead of 10,000 sq. miles, the road mileage per 100 sq. miles will still be only 16, or on the level of Greece where the figure is 17.

Road building has, in fact, lagged behind the commercial needs of the country. Some roads were constructed only when their strategic necessity became evident. The road to Metullah which was built at lightning pace at the time of the Druse rebellion in Syria, is an early example. But the year 1936 provided a number of further instances. Work on the Tel-Aviv-Haderah-Haifa road was only pushed forward when the alternative routes through the Arab hill districts proved unreliable; and the road along the Syrian frontier, also built within the last year, has obvious strategic implications. In addition, the development of rural roads has been badly neglected.

Although the roads and railways of Palestine were not built primarily in response to the commercial requirements of the country, this does not necessarily mean that they are unsuitable for commercial purposes. For the most part, strategic and commercial interests have coincided in the actual lay-out of the road or railway, but from the point of view of time, commercial interests have suffered. That the Tel-Aviv-Haifa trunk road should have had to wait on the Arab strike of 1936 is an outstanding example. This is a partial explanation of the backward conditions of internal transport.

¹) Figures of road-mileage for countries other than Palestine, are taken from the Statemen's Yearbook 1937. The Palestine figure of 1,200 km. of roads is taken from "Memoranda prepared by the Govt. of Palestine for the Palestine Royal Commission" 1937, p. 163.

The relative backwardness of Palestinian road and rail transport, may be seen from the following comparisons with other countries :—

The Extent of Road and Rail Transport in Palestine and other Countries

| | Persons per passenger motor car 1935 ¹⁾ | | Railway ton-kilomet- rage per capita (1935 or 1936) ²⁾ |
|-------------------------------------|---|-----------------------|---|
| U. S. A. | 5.6 | Canada | 3,500 |
| New Zealand | 10 | Australia | 875 |
| Australia | 14 | France | 650 |
| France | 24 | Belgium | 642 |
| U. K. | 31 | Sweden | 630 |
| Denmark | 40 | U. K. | 540 |
| Argentina | 55 | Czechoslovakia | 470 |
| Switzerland | 58 | New Zealand | 467 |
| Sweden | 59 | Roumania | 217 |
| Belgium | 78 | Japan | 213 |
| Germany | 79 | Egypt | 109 |
| <i>Palestine</i> ³⁾ 1936 | 244 | Bulgaria | 105 |
| Syria ⁴⁾ | 478 | <i>Palestine</i> 1935 | 116 |
| Iraq ⁵⁾ | 885 | <i>Palestine</i> 1936 | 104 |
| Japan | 1,182 | India | 91 |
| † | | Greece | 28 |

But this lag of internal communications behind external is not due only to the general policy of the Government. It is also significant of the peculiar two-fold structure of Palestine's economic life. On the one hand is the Arab producer, barely emerged from his primitive, self-contained economy, tied to the soil, and exerting next to no demand for transport facilities — either for himself or for his products. With about half the population still sunk in this rut of primitive production, it is not to be wondered at that road and rail traffic within the country is extremely limited. On the other hand are the Jews, actively developing a capitalist economy, bound with close ties to the world overseas, and dependent on this world for supplies of production equipment, raw materials, and even, at the beginning, for foodstuffs. Until the new economy is itself able to produce on a

1) League of Nations World Economic Survey 1935/36, p. 129.

2) Statistical Yearbook, 1936/37, L. o. N., Table 113.

3) General Monthly Bulletin of Statistics, Feb. 1937.

4) "Palnews" 1.12.1936, p. 4. Figures for small cars.

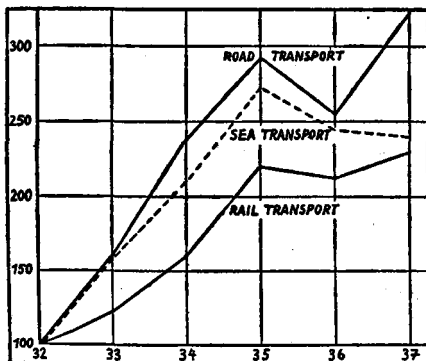
5) Summerscale, J. P.: "Economic Conditions in Iraq", 1933—35" (Dept. of Overseas Trade, London 1936.) p. 12.

sufficiently large scale, this dependence on foreign supplies can barely be expected to diminish. Thus, an anomalous situation has arisen. Jewish colonisation has raised Palestine's need for external transport to an unusually high level, whereas the continuation of Arab life along more or less primitive lines has reduced the need for internal communication below the standard of progressive countries.

III. THE GROWTH IN COMMUNICATIONS 1932—1937.

During the "prosperity" period 1932—1935 all forms of communication expanded rapidly in Palestine, either doubling or trebling their volume. In 1936 and 1937, this upward movement was arrested. The outbreak of the Arab strike endangered road and rail traffic, and the cessation of a large part of the economic activity of the country naturally influenced the volume of transport. The tourist movement fell off, foreign trade was diminished, and the stream of immigration thinned down.

The Development of Transport, 1932—1937¹⁾.



a) *Sea transport.*

Not only is sea transport particularly well developed in Palestine as compared with road and rail traffic, but its *growth* since 1932 has been extremely rapid. The elements contributing to this expansion in shipping activity, may be summarised as follows:—

¹⁾ Road transport index is based on benzine imports, sea-transport on shipping tonnage entered, and rail-transport on ton-kilometrage. The large increase in road transport in 1937 is partly due to military operations.

The Elements of which Palestine's Shipping is composed

| | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Imports (LP. 000's) | 7,769 | 11,123 | 15,153 | 17,853 | 13,979 | 15,913 |
| Exports „ | 2,381 | 2,592 | 3,218 | 4,215 | 3,625 | 5,820 |
| Re-exports „ | 244 | 368 | 333 | 369 | 727 | 751 |
| Transit excl. oil „ | 196 | 188 | 240 | 482 | 513 | 827 |
| Total Trade LP. | 10,590 | 14,271 | 18,944 | 22,919 | 18,844 | 23,311 |
| Transit of crude oil (000's tons) ¹⁾ | — | — | — | 1,853 | 1,954 | 1,931 |
| Travellers (nos.) ²⁾ | 63,253 | 79,833 | 91,823 | 106,823 | 56,665 | 99,268 |
| Total immigrants (nos.) ³⁾ | 11,289 | 31,977 | 44,143 | 64,147 | 31,671 | 12,475 |

There is also a large travel movement of Palestinian residents abroad every summer. Over 100,000 travelled from Palestine in 1937.

Since the new harbour in Haifa was completed in 1933, Haifa has played an increasingly important part in Palestine shipping. In 1935, Haifa had doubled Jaffa's tonnage and the percentage of total shipping claimed by Haifa rose from 55% in 1932 to 67% in 1935. In 1936, the figure was 83% (but this exceptionally high level was due to the strike at Jaffa Port) and in 1937 — 76%. The reasons for Haifa's predominance are both technical and political. Haifa has the only deep-water harbour in the country, and is incomparably better equipped and suited for dealing with all weathers than the open roadstead at Jaffa. Since 1936, the political unreliability of Jaffa port has strengthened the movement of traffic towards Haifa. From an economic point of view, this is not a satisfactory state of affairs, as the major portion of the country's economic activity is concentrated in southern Palestine and the transport costs from the south to the north are by no means a negligible expense. There is, in addition, the consideration of LP. 450,000 of public money having been sunk in technical improvements in Jaffa harbour, where for the last two years shipping has been on the decline.

¹⁾ General Monthly Bulletin of Statistics, February 1937, p. 15.

In the statistics, crude oil is given an arbitrary value of 800 mls per ton, making a value of LP. 1,547,000 in 1937, LP. 1,563,000 in 1936 and LP. 1,483,000 in 1935.

²⁾ Immigration Report 1936, p. 17.

³⁾ Official figures taken from Annual Reports of the Administration of Palestine.

*Total Tonnage entered in Palestine's Ports¹⁾
(Foreign and Coasting Trade)*

| | Jaffa | Haifa | Other Ports | Haifa's % of total |
|--------------------|-------------------------|-----------|-------------|-----------------------|
| 1932 | 1,460,000 | 1,762,000 | 6,000 | 55% |
| 1933 | 2,080,000 | 2,719,000 | 4,000 | 57% |
| 1934 | 2,489,000 | 3,488,000 | 8,000 | 58% |
| 1935 | 2,439,000 | 4,924,000 | 9,000 | 67% |
| 1936 | 959,000 ²⁾ | 4,788,000 | 7,000 | 83% |
| 1937 ²⁾ | 1,498,000 ³⁾ | 4,649,000 | 13,000 | 76% |

In 1936 the port of Tel-Aviv was opened. This was a direct reaction and retort to the closing of Jaffa. Haifa, it was feared, would be unable to cope with all the citrus traffic, in addition to its being uneconomical to transport goods some 120 km. by rail before reaching the harbour, and the demand arose for additional and reliable port facilities for the south. Once permission was granted by the authorities, the Jewish people showed themselves prepared to provide the necessary capital (LP. 75,000 was called for in the first instance) and a jetty was built jutting some 200 metres into the sea, to the north of Tel-Aviv, mainly for discharging cargo. A more ambitious plan of building a lighter harbour, where loading could be performed in quiet waters, was then embarked upon, and a further LP. 50,000 was raised. By the opening of the 1936 citrus shipping season, Tel-Aviv was already able to handle some citrus export.

In the year that elapsed between the commencement of the 1936 and 1937 citrus seasons, enormous progress was achieved in the Tel-Aviv port. A further sum of approximately LP. 100,000 was invested by Jewish bodies, which has had the effect of doubling the calm-water area in the harbour and more than trebling storage capacity and lighterage facilities. Permission has been obtained to load and discharge all types of cargo, and to land passengers. It is, further, estimated that Tel-Aviv will be able to ship, this season, about 1½ million cases of citrus fruit (out of a total export of 10 millions).

But it is not pretended that the building of this lighter harbour offers any ultimate solution to Palestine's shipping problem. As the following table shows, Tel-Aviv's capacity is still very limited (even

¹⁾ Statistics of Import, Export and Shipping, published by Dept. of Customs, Excise and Trade, 1936, p. 262.

²⁾ Commercial Bulletin, Feb. 1938, p. 74.

³⁾ This includes Tel-Aviv.

though its activity is overtaking that of Jaffa), and although it will undoubtedly grow, it cannot be expected to keep pace with the growing demands placed on Palestine's ports. Haifa, which is suitable chiefly as the outlet for the north of the country, is already finding its resources taxed to the uttermost, and it is liable to have military demands made on its small quay space, — as did in fact occur during the disturbances of 1936. Jaffa port, even if it were politically reliable, has always been unsatisfactory from the technical point of view. The demand now is for a purely commercial deep-water harbour serving the south of the country.

The monthly activity of Palestine ports during 1936 and 1937 may be seen from the following:—

*Merchandise Loaded and Discharged at Palestine's Ports 1936
and 1937 (tons)*

| | 1 9 3 6 | | | 1 9 3 7 | | |
|--------------|----------------|---------------|----------------|----------------|----------------|----------------|
| | Jaffa | Tel Aviv | Haifa | Jaffa | Tel Aviv | Haifa |
| January | 63,000 | — | 84,000 | 48,000 | 6,000 | 122,000 |
| February | 54,000 | — | 76,000 | 47,000 | 7,400 | 124,000 |
| March | 45,500 | — | 65,000 | 37,000 | 12,800 | 124,000 |
| April | 17,000 | — | 61,000 | 19,000 | 8,500 | 69,000 |
| May | 258 | 839 | 75,000 | 12,000 | 6,600 | 68,000 |
| June | — | 894 | 54,000 | 11,900 | 11,700 | 59,000 |
| July | — | 5,154 | 58,000 | 10,000 | 9,406 | 50,000 |
| August | — | 1,787 | 72,000 | 9,500 | 10,300 | 62,000 |
| September | — | 4,895 | 84,000 | 12,400 | 9,500 | 68,000 |
| October | 6,000 | 6,103 | 89,000 | 13,000 | 13,800 | 70,000 |
| November | 30,000 | 5,651 | 82,000 | 27,500 | 11,200 | 88,000 |
| December | 36,000 | 4,045 | 121,000 | 43,000 | 17,000 | 91,000 |
| Total | 251,758 | 29,368 | 921,000 | 290,300 | 124,200 | 995,000 |

This table illustrates the commencement of activity at Tel-Aviv port simultaneously with the cessation of activity at Jaffa, and the steady growth in importance of Tel-Aviv, and fall in importance of Jaffa. There were no spectacular changes at Haifa. Work continued there throughout the whole strike period, and during the last two citrus seasons shipping reached a very high level as a result of the heavy crops.

Palestine itself has next to no merchant marine. In 1934, three Jewish-owned shipping companies, possessing 7 steamships, were created,

connecting Palestine with Europe, and carrying on coastal traffic between Egypt, Palestine and Syria. For various reasons, not all of these companies have succeeded in making substantial headway, and the only Jewish passenger steamer, "Tel-Aviv", travelling between Palestine and Italy — was compelled in 1936 to cancel its sailings. One of the difficulties was the competition of rival shipping lines subsidised by their respective Governments, and thus able to conduct competitive rate wars against the Palestinian companies. Shipping companies are today subsidised by the state in almost all countries, and it is not easy for a small Palestinian company with no state backing to compete successfully.

With the opening of the Tel-Aviv port in May 1936, further efforts were made to develop the production and employment potentialities of maritime industries and shipping. Jewish port labour has been expanded and is meeting with success. Until a few years ago practically no Jewish workers were employed in the ports. At the beginning of 1936, only 300 of the 3,000 labourers regularly working in the two Palestine ports were Jews. Since the Arab strike, Jewish workers in Haifa port have increased considerably — in both portering and stevedoring; and Tel-Aviv port is run completely by Jewish workers. About 500—600 workers today find regular employment in Tel-Aviv, apart from those engaged on the temporary work of new construction.

b) Railways.

A large portion of Palestine's railway system was built for military purposes, and, as has already been mentioned, has never been adapted to the daily commercial needs of the community. The smallness of the Palestine railway network is realised by a comparison with a few well-developed countries¹⁾. In Palestine there are 3.3 miles of line for every 100 sq. miles of area, whereas in Belgium, there are 54 miles of lines per 100 sq. miles, in U. K. 23 miles, in Austria 13, and in Poland 9. In the size of its railway network, Palestine is again on the same level as Greece, which also has 3.3 miles of rail to every 100 sq. miles of territory.

In addition to its relatively small size and unsuitability, the railway system of Palestine has been severely overcapitalised, debt charges constituting more than a quarter of total expenditure. The following comparison between the cost of 1 km. of fully equipped line in Palestine and in other countries, illustrates the high interest burden with which the Palestine railways have been saddled :—

¹⁾ All railway figures taken from Statesman's Yearbook 1937.

Cost of Construction of Fully Equipped Line per km.¹⁾

| | | |
|-----------|--------|--------------------|
| Palestine | ... .. | £. 7,000 (approx.) |
| Norway | ... .. | 5,440 |
| Finland | ... .. | 4,660 |
| Bulgaria | ... .. | 4,620 |
| Cuba | ... .. | 5,550 |

As a result of this situation, the railways, year by year, have incurred a deficit, even though working expenses are less than revenue. The annual excess of total expenditure over revenue has been as follows :—²⁾

Palestine Railway Deficits

| | | |
|---------|--------|------------|
| 1931 | ... .. | LP. 67,916 |
| 1932—33 | ... .. | 116,673 |
| 1933—34 | ... .. | 59,259 |
| 1934—35 | ... .. | 33,805 |
| 1935—36 | ... .. | 124,159 |
| 1936—37 | ... .. | 69,631 |

During the prosperity period, the railways joined in the general advance of economic activity. Both passenger traffic and ton-kilometrage of merchandise carried increased rapidly, though the unsuitability of the railway network made this increase less rapid than in the case of road or sea transport :—³⁾

Railway Activity, 1932 to 1936

| | Passengers carried | Ton-kilometrage of regular merchandise |
|------|--------------------|--|
| 1932 | 1,125,439 | 72,718 |
| 1933 | 1,275,308 | 86,391 |
| 1934 | 1,929,107 | 102,892 |
| 1935 | 2,558,913 | 132,502 |
| 1936 | 2,503,244 | 129,074 |
| 1937 | 2,027,668 | 138,662 |

In 1936 and 1937 the upward movement was arrested. But it is interesting that during 1936 rail transport suffered much less than

¹⁾ Palestine and Middle East Economic Magazine, 1929, p. 141.

²⁾ Figures taken from Annual Reports of Pal. Administration.

³⁾ Statistical Abstract of Palestine and Government Monthly Statistics.

road transport. While the index of road transport (based on imports of benzine) fell from 100 in 1935 to 86 in 1936, rail transport only declined from 100 to 97 in 1936. In 1937 road transport recovered, partly owing to the opening of the Tel-Aviv—Haifa road, and to military operations in the country.

Indices of Transport Activity.

| | Sea Transport | | Road Transport | | Rail Transport | |
|------|--|-------|--------------------------------|-------|-----------------|-------|
| | Shipping Tonnage entered ¹⁾ | Index | Import of Benzine Litres (000) | Index | Ton Kilometrage | Index |
| 1935 | 5,526,000 | 100 | 50,985 | 100 | 132,502 | 100 |
| 1936 | 5,006,000 | 91 | 44,043 | 86 | 129,034 | 97 |
| 1937 | 4,862,000 | 88 | 55,743 | 109 | 138,662 | 105 |

This relatively better position of the railways is not difficult to explain. The railway was a safer means of transport during the strike period, and the months of unrest which followed, and a certain amount of traffic was diverted from road to rail, so that in some items of railway statistics an actual increase has been noted. A summary of railway statistics for 1935, 1936 and 1937 is given below:—

Railway Statistics 1935—1937 ²⁾

| (LP.) | 1935 | 1936 | 1937 | 1935 | 1936 | 1937 |
|--|-----------|-----------|-----------|------------|-------|-------|
| | | | | Index Nos. | | |
| Gross revenue | 863,711 | 916,382 | 808,140 | 100 | 106.1 | 92.4 |
| Workg. expenses | 653,850 | 652,328 | 730,058 | 100 | 99.6 | 111.5 |
| Passenger revenue | 339,618 | 318,064 | 260,013 | 100 | 93.7 | 76.5 |
| No. of passengers (excl. season tickets) | 2,558,913 | 2,503,244 | 2,027,668 | 100 | 97.8 | 79.3 |
| Goods revenue | 470,818 | 542,388 | 458,555 | 100 | 115.2 | 97.5 |
| Ton kilometrage | 132,502 | 129,034 | 138,662 | 100 | 97.4 | 104.5 |

It is seen that gross revenue rose in both 1936 and 1937. This rise was due entirely to the increase in goods revenue, as passenger revenue fell. The outstanding general stability of the railway returns during so troubled a period is, in itself, a proof of the diversion of traffic from the roads.

The metric tonnage of goods carried by the railways during the last three years was as follows:—

¹⁾ Foreign trade only.

²⁾ General Bulletin of Monthly Statistics, Feb. 1937, and Jan. 1938.

Metric Tonnage of Goods Carried by the Palestine Railways (ooo tons)¹⁾

| | 1935 | 1936 | 1937 | 1935 | 1936 | 1937 |
|---|----------------|----------------|----------------|------------|-------------|-------------|
| | | | | Index | No. | No. |
| Melons | 15.6 | 9.0 | 13.8 | 100 | 57.5 | 88.5 |
| Building materials | 490.7 | 304.4 | 263.0 | 100 | 62.0 | 53.6 |
| Fuel (kerosene, coal, petrol and firewood) | 173.0 | 142.7 | 147.9 | 100 | 82.5 | 88.3 |
| Manure | 28.1 | 17.7 | 20.2 | 100 | 63.0 | 71.4 |
| Wooden planks for boxes | 18.8 | 17.9 | 27.5 | 100 | 95.0 | 142.1 |
| Potash and bromine | 18.5 | 19.6 | 29.2 | 100 | 106.0 | 152.6 |
| Citrus fruit | 123.1 | 131.5 | 281.3 | 100 | 107.0 | 228.5 |
| Food other than fruit | 165.4 | 221.8 | 189.9 | 100 | 135.0 | 115.2 |
| Miscellaneous | 92.6 | 142.2 | 102.7 | 100 | 153.0 | 110.8 |
| Total | 1,125.8 | 1,006.8 | 1,075.5 | 100 | 89.0 | 95.4 |

The most important declines were in the transport of building materials, fuel, manure and melons. On the other hand, the transport of foodstuffs, fruit and miscellaneous merchandise have all increased considerably. The diminution in the quantity of building materials transported by rail is an obvious reflection of the serious contraction of the building movement which was one of the most characteristic features of these years, and the very great increase in citrus fruit carried is a direct result of the growth in the crop and the concentration of shipping through Haifa.

In general, these figures indicate the not unsatisfactory position of the railways during 1936 and 1937 — mainly at the expense of the roads.

c) Road traffic.

From 1932 onwards, the number of motor-vehicles on the Palestinian roads increased more than three-fold — from 4,389 in 1932 to 15,063 at the end of 1936. These vehicles may be subdivided as in the table below (p. 147).

A study of these figures shows that the most rapid increase has been in the number of private cars, commercial vehicles and motor-cycles. Public service cars and omnibuses have increased relatively little.

Unfortunately, no figures for road traffic exist for any period before 1935. Apart from the above statistics of registered motor-vehicles, a

¹⁾ General Bulletin of Monthly Statistics, Feb. 1937, p. 21.

Registered Motor-Vehicles in Palestine¹⁾

| | 1932 | 1933 | 1934 | 1935 | 1936 |
|-----------------------------|--------------|--------------|---------------|---------------|---------------|
| Private cars | 1,076 | 1,688 | 3,454 | 4,682 | 5,942 |
| Public service cars | 1,033 | 1,046 | 1,084 | 1,087 | 1,194 |
| Omnibuses | 710 | 905 | 1,037 | 1,251 | 1,370 |
| Commercial vehicles | 808 | 1,239 | 2,436 | 2,953 | 3,970 |
| Motor cycles | 754 | 1,120 | 2,163 | 1,873 | 2,565 |
| Tractors | 8 | 9 | 15 | 28 | 22 |
| Total ... | 4,389 | 6,007 | 10,189 | 11,874 | 15,063 |

satisfactory indication of road traffic is provided by the import of transport equipment — vehicles, rubber tyres and benzine. The increase in these was as follows:—

Imports of Transport Equipment (LP. 000's)

| | 1932 | 1933 | 1934 | 1935 | 1936 | 1937 |
|-------------------------------------|------------|------------|------------|------------|------------|------------|
| Motor cars, chassis and tractors | 164 | 371 | 578 | 520 | 191 | 321 |
| Rubber tyres, & tubes | 58 | 66 | 65 | 186 | 56 | 104 |
| Benzine | 183 | 177 | 206 | 275 | 209 | 232 |
| Total | 405 | 614 | 849 | 881 | 456 | 657 |

The very great decline this table shows for 1936 and 1937 was the direct result of the lack of security on the roads ever since the outbreak of the 1936 troubles. But the 1936/37 setback can be no more than a temporary one. During this period a fair amount of road construction — inspired by security and military purposes — has taken place. The most noteworthy examples are the main trunk road from Tel-Aviv to Haifa, and the road joining Nataniah to Tulkarem which have both now been finished. It is inevitable that traffic will move back to the roads from the less convenient rail system. Already the competition of the Tel-Aviv-Haifa road is beginning to revolutionise the railway services, and it is hardly likely that the railway will predominate in the future. Palestine is pre-eminently suited for motor-traffic and — at least as far as passenger traffic is concerned — it is doubtful whether the railways will make progress in the country, particularly if Tel-Aviv port grows in importance.

¹⁾ Govt. Bulletin of Statistics, Feb. 1937, p. 23.

d) Air Transport.

No statistical information of the growth of air transport in Palestine is available, but the very great increase in the frequency of the air services between Palestine and Europe is proof enough of the expansion of this branch of communications. The first air-service to include Palestine in its orbit was the service from Cairo to Basrah, inaugurated by Imperial Airways in 1927. In 1930, the K. L. M. Royal Dutch Air Lines made Palestine a station on their route from Amsterdam to Batavia. Since that time Imperial Airways have established their India—Australia and Africa services, with both of which Palestine is connected. The Egyptian Misr Air Line also runs regular planes from Egypt to Palestine and Iraq. In 1937, two further international air-services connected Palestine with Europe, the Polish "Lot", and the Italian "Ala Littoria". Palestine now claims three airports (Lydda, Haifa and Gaza) serving international lines, and in 1937 five international air services, British, Dutch, Polish, Italian and Egyptian, connected Palestine with the outside world, involving as many as forty air arrivals and departures per week. A local company — Palestine Airways Ltd. — was formed during the year, and an experimental service between Lydda and Haifa was inaugurated. But this cannot become a serious commercial proposition until the population of Tel-Aviv and Jerusalem are served by air-ports of their own. Even then, it is doubtful whether so small a country as Palestine can support an internal air-service.

CHAPTER IX.

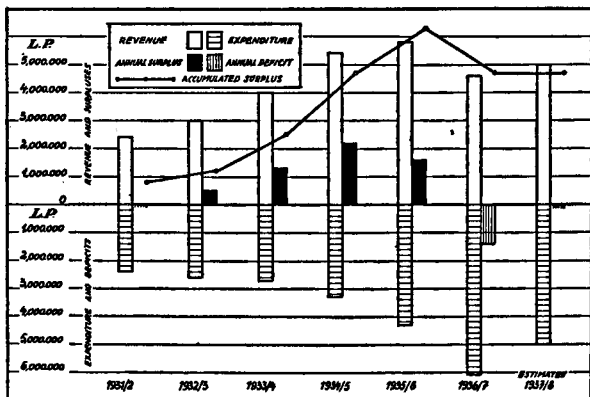
SOME PROBLEMS OF PUBLIC FINANCE

I. GOVERNMENT POLICY.

One of the legacies of the depression years has been a change in the public attitude towards the State. The old days of "laissez-faire" have now finally vanished, and the State is called upon, more and more urgently, to take the initiative in economic life — whether it be to stimulate recovery from depression or to control the runaway tendencies of a boom. In the great majority of countries, the State has emerged as a powerful factor in regulating economic conditions. Often this has taken the form of extensive public and relief works; in some cases the State exercises a stringent control over foreign trade, in others, over production; and there is barely a country in the world where the State has not tinkered with the exchanges. The free play of supply and demand is a thing of the past, and individual initiative as the sole regulatory force has been relegated to a bygone era.

To this, as to so many developments of the last decade, Palestine has remained almost immune. The Palestine Treasury still favours the orthodox idea of finance, and tends to the principle of minimum state interference in the affairs of the community. Faced until 1936, with a revenue mounting at an extraordinary pace — consequent on the increase in immigration and prosperity — the aim of the Treasury has been to prevent expenditure from increasing in sympathy, and so to pile up a respectable surplus which shall serve as a reserve for times of need. The result has been a yearly excess of revenue over expenditure, and a steadily rising surplus which in 1936 reached the extraordinary size of LP. 6,270,000 — more than the total annual budget!

Theoretically, there is much to be said in defence of this financial caution. During boom periods the best policy for Governments — as is becoming increasingly appreciated — is to "sit tight". Any additional expenditure in which they may indulge will only aggravate the inflationary tendencies already at work, and both hasten and intensify the inevitable slump. The wiser policy is for Governments to hold their hands until the advent of the slump, when any injection of new purchasing power into the economy will have a vitalising effect

Palestine's Public Finances, 1931 to 1938¹⁾

on the stagnant markets. This is the general outline of modern financial theory, but — if indeed it was this reasoning which inspired the Palestine Treasury — such a policy can be carried too far. Palestine is still an undeveloped and in many respects primitive country. Its education and health services are sadly lacking; an agricultural development scheme to lift the peasant out of his rut of poverty and indebtedness has been called for by more than one visiting expert; its network of roads and railways can still bear considerable improvements. Under such conditions, the policy of accumulating large surpluses must remain open to controversy.

But even leaving aside this argument, the Government's financial policy may be attacked for lack of consistency. When the time of need came, in the winter of 1935 and throughout 1936 and 1937, — the Government continued to hold its hand. The large-scale public works and enlightened social expenditure which had been hoped for, have not yet materialised, (although, for security purposes, certain additional public works were taken in hand, and certain small increases have been made in the budgets of the Departments of Health, Agriculture and Education).

The Government may defend its policy by pointing to the contracting revenue of 1936 to 1938 and the new and heavy demands made by defence, which would seem to indicate the need for keeping the

¹⁾ The actual figures for 1937/8 later published show a further large deficit of over L.P. 1,000,000, and a reduction of the accumulated surplus to little more than L.P. 3,000,000.

surplus as intact as possible. The Treasurer has, in fact, already stated that the whole of the surplus is earmarked for special purposes. Nor, from the point of view of financial orthodoxy, can this attitude be criticised at the present moment. Political conditions in Palestine are extremely unsettled and it may well be that the surplus of the good years will be needed in its entirety to tide over the difficult years to come. It is true, also, that expenditure on public works and the social needs of the community has increased in recent years. But what is now needed is a special pumping in of new purchasing power, a special effort to increase the welfare of the public — whether through offering employment on new works, or through more direct forms of social service. If the accumulated surplus in the Treasury's possession is already earmarked, new loans should be raised to finance additional expenditure. Palestine has an exceptionally small debt burden, and could shoulder an additional loan without much difficulty. The cranking up of the economy by such means would be well in accord with the policy now being recognised as most effective in progressive countries. New expenditure must be undertaken in the depression years — whether it is financed by added taxation or the raising of a loan — and Palestine, with its singularly few direct taxes on the middle-class, and its singularly small debt service, is in a particularly favourable situation to embrace this policy.

One further circumstance strengthens the validity of the claim to a more progressive spending policy on the part of the Government. Palestine's budget surplus is invested in foreign securities at low rates of interest, and except for these interest payments, the country derives no direct benefit from the existence of the large surplus. No justifiable complaint can be made against the placing of at least the greater part of the surplus in liquid assets abroad, as Palestine itself cannot offer an opening for so large a sum of easily convertible investment. But the very fact that these millions of pounds are being sterilised and rendered useless from the Palestine point of view, is in itself a powerful reason why the surplus should be kept as small as possible, even if this meant the raising of new loans for productive works.

II. FINANCE IN 1936 AND 1937¹⁾.

Since 1936 the trend of the previous years has been reversed. Revenue, which had been mounting steadily for some time previously, sank under the influence of the prolonged disturbances in the country and the accompanying economic setback. At the same time increased

¹⁾ All financial figures referring to Palestine unless otherwise stated, have been taken from the Treasurer's Reports on the Financial Transactions of the Palestine Government.

demands were made on the expenditure side of the Budget, with the result that, for the first time since 1931, the accounts for 1936/37 closed with a deficit. The deficit of LP. 1,400,000 was many times larger than ever before experienced in Palestine. The Budget estimates for 1937/38 also allow for a small deficit, and it is significant that actual receipts for the first nine months of 1937/38 have already fallen below the anticipated revenue and actual expenditure has risen considerably above the estimate.

In spite of this turn in the course of events, too gloomy a view need not be taken of Palestine's financial situation. Revenue in these two years has contracted by only 20%. When the extremely difficult circumstances under which Palestine has laboured are borne in mind, this is a considerable achievement. For half of 1936 there was almost no trade or economic activity among the Arabs, who constitute some 70% of the population; Jaffa port was lying idle; transport was badly interrupted; and the country was submerged in depression. Throughout 1937, confidence has been undermined by acts of violence and prolonged political hesitancy. Notwithstanding this position, the income from Port and Marine — as the following table shows — rose by 11%, and from Posts and Telegraphs by as much as 18%. The greatest declines were in "Customs" — which was of course the corollary of the general decrease in imports — in "Licences, taxes etc." which suffered through the actual physical difficulties of collecting the Urban and Rural Property taxes during the period of the disturbances, and through the onset of depression since; and in "Fees of Court etc." In no case was the decline in revenue more than about 25%.

Palestine Government Revenue 1935 to 1937.

| | 1935/6 | 1936/7 | Nine months ²⁾ 1937/8 | 1935/6 | 1936/7 | 1937/8 ³⁾ |
|-----------------------------|--------------|--------------|-------------------------------------|---------------|-------------|----------------------|
| | LP. 000 | LP. 000 | LP. 000 | Index Numbers | | |
| Customs | 2,751 | 2,019 | 1,543 | 100 | 73.4 | 74.8 |
| Port and marine | 108 | 110 | 90 | 100 | 101.9 | 111.1 |
| Licences, taxes etc. | 1,082 | 853 | 716 | 100 | 78.8 | 88.2 |
| Fees of court etc. | 913 | 703 | 528 | 100 | 77.0 | 77.1 |
| Posts and Telegraphs | 419 | 477 | 370 | 100 | 113.0 | 117.9 |
| Other revenue ¹⁾ | 497 | 479 | 352 | 100 | 76.4 | 94.4 |
| Total LP. | 5,770 | 4,641 | 3,599 | 100 | 80.4 | 83.2 |

1) Includes revenue from Government property, interest, grant-in-aid and miscellaneous.

2) April 1st to December 31st.

3) Interpolated on basis of nine months' figures.

Expenditure during these last years provides a clear reflection of the troubled conditions in the country. The outlay on Defence, and Police and Prisons, was almost trebled in 1936/37, as compared with 1935/36, and accounted for LP. 1,376,933 of the total increase in expenditure of LP. 1,837,300. Under the head "Defence" alone, the increase was LP. 1,151,711. General administrative expenses increased by one-third, and extraordinary public works (undertaken mainly for strategic purposes) has become the largest item of expenditure in the budget. But it is satisfactory to note that in spite of these extra-burdens, the budgets for constructive work have not been curtailed. The following table sums up the position :—

Palestine Government Expenditure 1935 to 1937.

| | 1935/6 | 1936/7 | Nine months 1937/8 | 1935/6 | 1936/7 | 1937/8 |
|--|--------------|--------------|-----------------------|---------------|--------------|--------------|
| | LP.000 | LP.000 | LP.000 | Index Numbers | | |
| Debt charges | 126 | 126 | 159 | 100 | 100 | 168.3 |
| Defence, police and prisons, Transjordan Frontier Force | 844 | 2,221 | 1,150 | 100 | 263.2 | 181.8 |
| Administration etc. including Posts | 1,402 | 1,766 | 1,412 | 100 | 125.9 | 134.3 |
| Health and education | 416 | 448 | 371 | 100 | 107.7 | 119.0 |
| Agriculture and forests | 181 | 202 | 252 | 100 | 111.6 | 135.6 |
| Public works | 347 | 397 | 390 | 100 | 114.4 | 126.8 |
| " " extraordinary | 645 | 705 | 1,462 | 100 | 109.3 | 302.2 |
| Non-recurrent expenditure ¹⁾ | 275 | 209 | 98 | 100 | 76.0 | 47.3 |
| Total | 4,296 | 6,074 | 5,234 | 100 | 143.4 | 164.8 |

This steep increase in expenditure at a time of contracting revenue, has been possible only through a diminution in the accumulated surplus. This surplus, which exceeded LP. 6,000,000 before the disturbances, had fallen to LP. 4,835,000 at the end of the 1936/37 financial year, and on December 31st, 1937, amounted to only LP. 3,120,000. The unsatisfactory condition of Public Finance in 1937/8 does not emerge clearly from the diagram (p. 150), which is based on the estimates for the year. The situation has proved less promising than the Treasury experts anticipated. But the heavy expenditure on defence and public works are obviously temporary phenomena, and the buoyancy of revenue warrants the hope that a return to financial stability waits only on a turn in the political tide.

¹⁾ Posts & Telegraphs extraordinary, T. J. F. F. extraordinary, Railways (deficit).

III. THE EXPANSION OF REVENUE SINCE 1929.

The expansion in Palestine's revenue and receipts is an excellent index of the growing prosperity of the country. Without imposing a higher general rate of taxation, the Government of Palestine has been able more than to double its revenue over the last 8 years. The increase in receipts was continuous till 1935/36, since when there has been some decline.

Government Revenue, 1929—1938

| | Revenue LP. | Settled population at 30th June | Revenue per head LP. |
|------------------|----------------|------------------------------------|----------------------------|
| 1929—30 | 2,355,623 | 882,511 | 2.67 |
| 1933—34 | 3,985,492 | 1,038,331 | 3.83 |
| 1934—35 | 5,452,633 | 1,104,605 | 4.94 |
| 1935—36 | 5,770,457 | 1,194,529 | 4.83 |
| 1936—37 | 4,640,821 | 1,269,965 | 3.65 |
| 1937—38 (estim.) | 5,014,909 | 1,316,767 | 3.81 |

Revenue per capita has also increased since 1929, and is considerably higher than in any of the surrounding countries:—

Revenue per Head 1936/37 (LP.)¹

| | | |
|--------------------|------|----------------|
| Palestine | 3.65 | (1935/36—4.83) |
| Egypt | 2.3 | |
| Turkey | 2.1 | 1 1/2 |
| Iraq (1935/36) | 1.5 | |
| Transjordan (est.) | 1.4 | |

IV. PALESTINE'S TAXATION SYSTEM.

The progress and prosperity revealed in these figures are highly satisfactory, seen against the background of contracting revenue and budget deficits from which most countries have been suffering, notwithstanding the imposition of heavier burdens of taxation. But satisfactory as the Palestine revenue totals are, an inquiry into the taxation system on which they are based, dispels any too great a degree of complacency. Palestine's revenue is derived from the following sources:—

¹ League of Nations Statistical Yearbook 1936/37 Table 131.

The Transjordan figure is taken from the Palestine Administration Report 1936.

Palestine Government Revenue

| | 1931 - 1932 | | 1937 - 1938 (estimates) | |
|------------------------------------|----------------------|--------------|----------------------------|--------------|
| | LP. | % | LP. | % |
| Customs | 948,737 | 40.3 | 2,200,010 | 43.9 |
| Port and marine .. | 17,532 | 0.7 | 125,850 | 2.5 |
| Licences, taxes etc. ... | 632,450 | 26.9 | 1,019,400 | 20.3 |
| Feet of court etc. ... | 248,362 | 10.6 | 680,800 | 13.6 |
| Post and telegraphs ... | 211,173 | 8.9 | 517,800 | 10.3 |
| Other revenue ¹⁾ | 296,442 | 12.6 | 471,049 | 9.4 |
| Total | LP. 2,354,696 | 100.0 | LP. 5,014,909 | 100.0 |

We see that the country is dependent, for nearly half of its total revenue, on customs receipts. The returns from the customs tariff are not only high, but their importance has increased over the last five years. The share of licences and taxes, on the other hand — generally speaking a more progressive form of taxation than customs dues — is small and becoming yet smaller.

As this suggests, Palestine's fiscal system is inequitable from the social point of view. Its two most objectionable features are:—

- 1) the very low proportion of direct taxation on income and property.
- 2) the lack of any graduations in taxation, with the one exception of the Rural Property Tax.

The small share of direct taxation in total revenue has already emerged from the table above. The next table illustrates this point further by comparing the receipts in Palestine and in other countries (p. 156)²⁾.

Taxes on income and property represent no more than 10.7% of Palestine's taxation proper. Only in Switzerland is this proportion lower. On the other hand, the proportion deriving from customs receipts is unusually large, being exceeded again only by Switzerland. These facts may be illustrated, also, by a comparison of per capita taxation in Palestine and other countries, as given below.

1) Income from Government property, interest, land sales, grants-in-aid, and railway revenue, colonial development fund and miscellaneous.

2) We wish to make it clear that all comparisons of budgets and taxation between Palestine and other countries must be accepted with the utmost reserve, as different systems of state accounting are adopted in different countries.

*Percentages of Taxes on Income and Property and of Customs Receipts
in Total Taxation 1936¹⁾*

| | Taxes on income and property % | Customs receipts % |
|--------------------------|--------------------------------------|--------------------------|
| Switzerland | 7.5 | 76.2 |
| Palestine 1935/36 | 10.7 ²⁾ | 66.0 |
| Argentina | 13.8 | 51.9 |
| Netherlands | 16.8 | 14.5 |
| Australia | 16.9 | 41.8 |
| Austria | 22.2 | 16.5 |
| Canada | 22.4 | 25.6 |
| New-Zealand | 22.7 | 38.6 |
| Sweden | 23.4 | 19.9 |
| France | 25.8 | 19.6 |
| Norway | 27.0 | 31.2 |
| Belgium | 28.0 | 19.7 |
| U. K. | 40.5 | 26.5 |
| U. S. A. | 48.1 | 6.4 |
| S. Africa | 53.6 | 32.2 |

*Taxation per capita (LP.) in Ascending Order of Size 1935
or 1935/36²⁾*

| Taxes on income and property | | Customs receipts | |
|---------------------------------|-------|------------------|------|
| India | 0.034 | India | 0.11 |
| Japan | 0.28 | Japan | 0.11 |
| Bulgaria | 0.31 | Bulgaria | 0.29 |
| Switzerland | 0.35 | U. S. | 0.47 |
| <i>Palestine</i> | 0.37 | S. Africa | 1.02 |
| Argentina | 0.44 | Sweden | 1.09 |
| Australia | 1.19 | Netherlands | 1.65 |
| Sweden | 1.37 | Argentina | 1.67 |
| Norway | 1.43 | Norway | 1.92 |
| S. Africa | 1.81 | <i>Palestine</i> | 2.30 |
| Netherlands | 1.92 | France | 2.57 |
| U. S. | 2.02 | Australia | 2.95 |
| New-Zealand | 2.42 | New Zealand | 4.07 |
| France | 3.65 | U. K. | 4.21 |
| U. K. | 6.22 | Switzerland | 4.77 |

¹⁾ League of Nations, World Economic Survey, 1935/36, p. 223.

²⁾ This includes Urban & Rural Property Tax, House & Land Tax arrears, Tithe arrears, Animal Tax.

³⁾ League of Nations World Economic Survey, 1935/36, pp. 220-221.

Population and rates of exchange according to League of Nations Statistical Yearbook 1935/36.

It is seen that except in Palestine, a certain proportion between these two forms of taxation usually exists. In India, Japan and Bulgaria, for example, the rate in both types of taxation, is extremely low; in France, U. K. and New Zealand, both rates are high; in Sweden, Norway, South Africa and the Netherlands, both rates per capita are approximately equal. U. S., it is true, is an exception, but the bias is towards higher taxes on income and property, as foreign trade (and hence customs receipts) plays a small part in American economic life.

To object, in principle, to all forms of indirect taxation, and to favour all forms of direct taxation, is to oversimplify the issue. The social significance of a tax cannot be assessed by any rule-of-thumb method. If the direct property tax falls with equal weight on rich and poor alike, it may be as evil socially, as a tax on daily articles of consumption. In the same way, a tax on luxury consumption may be more equitable than an ungraded income tax. The fact, therefore, that there is a disproportion in Palestine's taxation with the bias towards consumption taxes, means little, in itself. The test is, whether, *within* each tax — direct or indirect — there is some progressive gradation i. e. whether the tax falls more onerously on the rich than on the poor.

This is not the case in Palestine. The principle of progressive taxation has not been introduced — with the one exception of the Rural Property Tax. But it must be understood that the question of direct taxation, in a country such as Palestine, is a highly controversial one. The two sections of the Palestinian population diverge so strongly in economic development and structure, that the introduction of an income tax would be fraught with many difficulties unknown in other countries. An expert, brought by the Government to inquire into this subject, reported against the imposition of a direct tax on incomes. These considerations must be taken into account when any claim for a socially equitable taxation system is advanced.

a) Customs.

Regressiveness is extremely noticeable within the customs receipts themselves. In 1935/36 LP. 2,751,246, and in 1936/37 LP. 2,019,479 was raised in customs revenue, the fall being entirely due to the recession in trade. A large proportion of this total fell with severity on the poorest section of the community. Referring to 1936/37, LP. 550,700 was raised on foodstuffs and tobacco alone; such popular articles of consumption as sugar, rice, and wheat-flour accounting for as much as LP. 251,300. The duty on kerosene, the most commonly used fuel for domestic purposes in Palestine amounted to LP. 106,100.

But perhaps the most unsatisfactory feature of the Palestine customs tariff, is that it is too much a *revenue* and too little a *protective* tariff. Under the present conditions of world trade disintegration, a protective tariff has its justification. But four-fifths of Palestine's customs dues are levied on 36 large items, the majority and the most important of which are *not* produced within the country. The duty on commodities produced in the country accounts for a maximum of 30% of the total duty collected.

b) Excise.

The excise duties have an equally regressive nature. That salt and matches should be subject to special taxes must obviously be a social evil. LP. 28,136 was raised through the match excise in 1936/37. It has been calculated that the excise increases the price per box of matches by 0.9 mils, or 40%. The revenue from salt excise in 1936/37 was LP. 13,250, increasing the price of salt by 20%. The largest excise tax is on tobacco (LP. 214,946 in 1936/37). This may be considered a luxury tax, — it is a controversial point — but it is undoubted that tobacco is almost as widely consumed as basic foodstuffs. To make this more equitable, the least that could have been done would have been to differentiate according to the value of the tobacco. But in Palestine all grades of tobacco pay the same rate of excise — 250 mils per kg. The least unjustified of these excise taxes is that on wines and spirits (LP. 74,002). There is a certain degree of differentiation according to alcohol content, and in any case, the consumption of wine and beer is not a prime necessity of life.

c) Property Taxes.

The situation is not much better when it comes to taxes on property. The Urban Property tax, introduced in 1928, is also an unprogressive tax. The tax amounts, in essence, to 10% of net annual rental value of the property, exemption being granted on property with an annual value lower than a certain minimum. When it is remembered that this is the only tax paid directly to the Government by urban property-owners, the generally regressive nature of Palestine's taxation becomes clear. In 1936/37 only LP. 194,849 was raised from all urban property in the country. The Rural Property tax (LP. 84,747 in 1936/37) is the one progressive tax in the country. Rural land has been divided into 16 categories, according to the profitability of the crop grown, and the tax levied at a fixed rate of mils per dunam, according to the categories, the highest being payable on citrus land. Much has been said against this tax — that the higher grades are too highly taxed, that the profitability of the crop varies from year to year, while the tax remains

constant, and so on, — but generally speaking, this is the one tax in Palestine which is planned on equitable lines. No objection can be made, in principle, against the road transport taxes (LP. 34,043), property transfer dues (LP. 196,289) and stamp duties (LP. 88,939). In practice, however, the motor taxes have been badly applied. The same licence fee of LP. 2.— a year is levied on public and private motor-car alike, whatever may be the value of the car. The owner of a highly-powered luxury limousine is therefore taxed no more heavily than the taxi driver, driving a small and cheap car for his livelihood.

V. THE GROWTH IN EXPENDITURE SINCE 1929.

As has already been pointed out, the expenditure of the Palestine Government has not increased as rapidly as the revenue. There has, nevertheless, been an advance in per capita expenditure from LP. 2.75 in 1929/30 to an estimated LP. 3.86 in 1937/38, as the following table shows :—

Government Expenditure in Palestine.

| Year | Expenditure | Settled population at 30th June | Expenditure per head |
|---------|-------------|------------------------------------|-------------------------|
| | LP. | | LP. |
| 1929/30 | 2,245,989 | 882,511 | 2.54 |
| 1933/34 | 2,704,856 | 1,038,331 | 2.60 |
| 1934/35 | 3,230,010 | 1,104,605 | 2.92 |
| 1935/36 | 4,236,202 | 1,194,529 | 3.55 |
| 1936/37 | 6,073,502 | 1,269,965 | 4.78 |
| 1937/38 | 5,077,167 | 1,316,767 | 3.86 |

In spite of this advance, expenditure per head in Palestine, though very much higher than in the surrounding countries, is still extremely small compared with progressive countries, whether they be young colonisation countries, or old-established economies in Europe. This is stressed in the following table :—

Total Expenditure per Head 1936/37 (LP)¹

| | |
|-----------------------|------|
| U. K. | 19.2 |
| New Zealand | 15.7 |
| Australia | 12.9 |

¹ Calculated from data provided in League of Nations Statistical Yearbook 1936/37, Table 131.

| | | | | | |
|-----------------------------------|-----|-----|-----|------|------------------|
| France | ... | ... | ... | 11.5 | |
| Canada | ... | ... | ... | 7.0 | |
| Argentina | ... | ... | ... | 5.2 | |
| Palestine (1937/38 ¹) | ... | ... | ... | 3.86 | (1935/36 — 3.55) |
| Greece | ... | ... | ... | 3.7 | |
| Egypt | ... | ... | ... | 2.3 | |
| Turkey | ... | ... | ... | 2.1 | |
| Iraq | ... | ... | ... | 1.5 | |
| Syria (1934/35) | ... | ... | ... | 1.5 | |
| Transjordan (1935/36) | ... | ... | ... | 1.3 | |

VI. AN ANALYSIS OF PALESTINE'S BUDGETARY EXPENDITURE.

The development of Palestine's budgetary expenditure over the last five years is summarised below :—

Expenditure in Palestine (LP.)

| | 1931—32 | 1937—38 (estimate) | Percentage increase |
|--|------------------|-----------------------|------------------------|
| Debt charges | 124,396 | 158,900 | + 28 |
| Defence, police and prisons, Transjordan Frontier Force | 724,130 | 1,356,608 | + 87 |
| Administration and miscellan. | 764,551 | 1,551,064 | + 103 |
| Health and education | 255,157 | 524,739 | + 106 |
| Agriculture and forests | 83,762 | 226,825 | + 170 |
| Public works recurrent | 236,513 | 437,917 | + 85 |
| Public works extraordinary | 101,038 | 639,653 | + 533 |
| Special non-recurrent expendit. | 88,078 | 181,461 | + 106 |
| Total LP. | 2,377,625 | 5,077,167 | + 113 |

According to these figures, the expenditure of the Government has more than doubled since 1931. The increase is noticeable under all heads — the greatest increase of all being manifested by public works extraordinary. "Social expenditure" on health, education, agriculture and public works recurrent, has increased correspondingly with the general expansion of the budget, and also shows a certain per capita increase. The increased expenditure on agriculture is particularly noticeable.

¹) The high figure for 1936/37 was abnormal. The 1937/38 figure is the official estimate.

Expenditure per Capita (LP.)¹

| | 1931/32 | 1935/36 | 1937/38 |
|------------------------------|---------|---------|---------|
| Health & education | 0.266 | 0.348 | 0.399 |
| Agriculture & forests | 0.088 | 0.151 | 0.172 |
| Public works recurrent ... | 0.247 | 0.290 | 0.333 |

There are two outstanding features in the composition of Palestine's budget — the very small debt charges, and the small expenditure on social services. The favourable debt situation may be attributed to two factors, the prosperity of the country, and the large import of capital by private individuals which has enabled development without recourse to large foreign loans. An interesting comparison of per capita interest and amortisation charges, showing the extraordinarily low debt service in Palestine, compared with countries such as Australia and New Zealand, is given below :—

Annual Debt Service per Capita (Interest and Amortisation payments)²
1935/36 (LP.)

1935 or 1935—36

| | |
|-------------------------|------|
| <i>Palestine</i> | 0.11 |
| Poland | 0.22 |
| Turkey | 0.27 |
| Argentina | 1.10 |
| Denmark | 1.26 |
| South Africa | 1.33 |
| Switzerland | 1.40 |
| U. S. | 2.04 |
| Canada | 2.52 |
| Belgium | 3.22 |
| France | 3.75 |
| U. K. | 4.79 |
| Australia | 5.37 |
| New Zealand | 6.23 |

¹) Settled population as on 30th June of the respective years.

²) League of Nations World Economic Survey, 1935/36, p. 240.

For population and exchange rates, L. o. N. Statistical Yearbook, 1935/36.

It is noteworthy that during the 5 years of our comparison, Palestine's debt service has remained stationary. This debt service covers both internal and external debt. The tendency in other countries is for the expansion of internal debt and contraction of external debt. Palestine has no internal debt at all.

The small expenditure on social services — health, education, agriculture — unsatisfactory as it is, must be viewed in conjunction with the fact that the Jewish community has provided for itself a network of schools and hospitals, and has itself expended many millions on agricultural colonisation and development. This has relieved the Government of a large part of what, in any other conditions, would have been one of the first calls on its financial resources.

CHAPTER X

CAPITAL IMPORT, CREDIT, AND THE BANKING STRUCTURE.

I. THE INFLATIONARY EFFECT OF CAPITAL IMPORT.

Financial conditions in Palestine have been determined in the main by the import of capital. In 1935 capital import was estimated at L.P. 10—12 millions, while the whole volume of production in Palestine — including agriculture, industry and building — barely exceeded L.P. 20 millions. The impact of such large capital sums on a relatively small economy must have profoundly influenced the economic development of the country.

The effect of the capital influx into Palestine, is, plainly, an inflationary one. The inflation has a dual origin — on the one hand it springs directly from the injection of new capital and bears in its consequences certain resemblances to a currency inflation in other countries ; on the other hand, it derives from the expansion of credit to which the import of new capital gives rise. This credit expansion is disproportionately *small* in relation to the capital imports which form its basis, and indicates a restrictive rather than an inflationary credit policy. But it is so large in relation to the size of the economy, that the stimulating effect which it exerts resembles the effects of inflation in other countries. In Palestine, the credit inflation has the exceptional advantage of being linked up with an immigration movement which brings with it a demand for goods and services. The new capital does not, therefore, remain idle, but percolates throughout the entire economy. The original medium of distribution is the building movement. The first demand of the new immigrants is for housing, and housing activity is also the first field of investment for the imported capital. Labour employed in building serves as a channel for the distribution of the new purchasing power, and the increase in purchasing power attracts the new capital to various forms of investment. There is a second factor preventing the imported capital from remaining idle. The capitalist entering the country has as a rule no source of income

except his capital. He is therefore forced to invest — his capital must be transformed into *earning* capital with the utmost speed.

The fact that immigration is connected with capital import, is not in itself sufficient to account for the potent influence this combination of forces has on the country's economic life. Large capital imports could not be fructified by a thin stream of immigration; nor could rapid immigration mean an immediate and effective expansion of demand, unless accompanied by a substantial capital flow. There is a certain optimum relation between these two factors, which would, theoretically, be reached at the point when their union would make for the maximum of economic expansion. Of course, such a point is probably never reached in practice, and the fluctuations in economic conditions depend, to a certain extent, on the degree of approximation to this optimum. Palestine has passed through many vicissitudes in this respect—periods of an over-supply of capital in relation to the labour admitted under the immigration schedules, and vice versa. But during the three years 1933—35, the proportions appear to have been fairly well balanced. This linking-up of capital import with immigration, and the subsequent expansion of both purchasing power and investment, distinguishes Palestine's monetary expansion from that of other lands.

This inflationary tendency in Palestine, which lasted throughout the prosperity period, has lacked one feature which is characteristic of inflations in other countries — there has been no tendency towards a *general* rise in the price of commodities. The reason for this is clear. A disproportionately large section of Palestine's commodity supply is covered by imports and not by home production, and the price of imports is, of course, independent of local conditions, particularly as the local customs tariff is low. At the same time, the prices of commodities which are specifically local in origin — such as houses, perishables, land, services, labour and bulky building materials — showed unmistakable signs of inflation during the boom years. This does not mean that there have been no radical shifts *within* the price-structure, but that general price fluctuations have been relatively small. As Palestine grows less dependent on imports and produces more of its supplies at home, the inflationary effect of capital import is bound to become more apparent.

In other countries an inflationary policy is usually connected with certain internal factors — either with currency devaluation, or with Government borrowing on a large scale, or with State financing of public works. In Palestine, none of these factors exist. The currency is linked to sterling and has remained stable since 1931; the

Government clings to its orthodox laissez-faire policy, and its influence has been, if anything, deflationist. The Treasury has increased its revenue from LP. 2,354,696 in 1931/32¹⁾ to an estimated LP. 5,014,909 in 1937/38¹⁾, and accumulated a surplus exceeding, at one time, LP. 6 millions, which was invested in foreign securities. The Treasury has thus actually put large sums of capital *out* of circulation. Government financing of public works has been undertaken on a very small scale. Palestine's foreign indebtedness (there is no internal debt) is exceptionally small, as compared with other countries:—

Foreign Debt per Head²⁾

| | | |
|-------------|--------|---------|
| Palestine | ... .. | LP. 3.4 |
| Egypt | ... .. | " 6.4 |
| S. Africa | ... .. | " 10.9 |
| Australia | ... .. | " 69.6 |
| New Zealand | ... .. | " 81.8 |

With these internal factors eliminated, Palestine's inflation must be attributed wholly to the import of capital, through other than State channels. This system of financing new development by capital imports from abroad is typical in new colonial countries, as illustrated in the following table:—

Capital Imports 1924—1930 (inclusive)³⁾

| | | |
|--------------|--------|-------------------|
| Argentine | ... .. | £P. 180,000,000.— |
| Australia | ... .. | " 270,000,000.— |
| South Africa | ... .. | " 55,000,000.— |

But one significant difference between Palestine and other colonial countries, must be stressed. Other parts of the world have been developed by immigrants of the labouring classes, the capital being provided by groups of capitalists remaining in their home countries. This has meant that the developing country takes upon itself the onus of providing regular interest payments abroad on its capital supply — these payments often constituting a severe drain on the still unconsolidated finances of the new country. In Palestine the settlers have themselves imported their capital requirements, with the result that Palestine has an extraordinarily small foreign debt. It is this influx of "refugee" capital which has determined the expansionist character

¹⁾ Reports by the Treasurer on the Financial Transactions of the Palestine Government.

²⁾ Statistical Yearbook of the League of Nations, 1936/37, Table 132.

³⁾ League of Nations, World Economic Survey, 1931/2, p. 40.

of Palestine's economy within the last few years. A similar capital influx has been experienced in the U. S., and has led to the accumulation "of large amounts of 'excess reserves' that have not yet been utilised to expand the monetary circulation.... They are largely due to an inflow of refugee capital, 'bad money' that may be withdrawn at short notice by a return capital flight."¹) In Palestine, the new capital is very much more liable to be drawn into circulation, as explained above.

The mechanism by which Palestine's capital influx has been transformed into a credit inflation may be described as follows:— The new capital causes an increase in bank deposits disproportionate to the normal turnover in the country. This burden of deposits weighs on the financial structure of the banks and forces them into an expansionist credit policy for which the large amount of deposits (some LP. 17 millions during 1936 and 1937) provides a safety valve. It is interesting to note that the burden of deposits notwithstanding, the decrease in the interest rate in Palestine was extremely small.

The function of credit in the modern economy has been defined as follows:—

"The credit medium might perhaps be likened to the circulation of the blood in the body economic. Not all the credit is circulating among the organs: there is always some in the central reservoir and, in a growing organism, some is drawn off to aid in the processes of growth."²)

In Palestine, the stimulus to invest causes a fairly rapid credit circulation. This explains, in part, the high rate of interest in spite of the pressure of increasing deposits constantly reinforced by new capital imports. Other reasons for the stiff interest rates are connected with certain technical and banking conditions peculiar to Palestine, on which we shall elaborate later.

II. DEFLATION IN 1936 AND 1937.

Inflation on the basis of capital import — such as we have described — determined the tenor of Palestine's economic life in the years previous to 1936. 1936 started under the auspices of a deflationary movement. Whether the collapse of the inflation was the result of a normal cyclical development, somewhat accelerated by the political events in Abyssinia and the Mediterranean in the autumn of 1935, or whether its origin was wholly in the political uncertainty of the time, is a controversial question. It is true that the cyclical curve was "flattening" already before the Abyssinian crisis, but the suddenness

1) League of Nations' World Economic Survey, 1935/36, p. 258.

2) *Op. cit.*, p. 260.

of the deflation, and the run on the banks, was without any doubt connected with extra-economic causes and, at any rate, a new influx of capital and immigration might have neutralised the effect of the cyclical movement. The analysis of what led to this crisis is, however, beyond the scope of the present survey, which will confine itself to tracing the course of the deflation in 1936 and 1937.

Whatever may be the opinion as to the soundness and desirability of the credit expansion of 1935, there can be no doubt that the sudden deflation which terminated it, was extremely harmful. The pyramid of credits which had been built up in the prosperity period, suddenly contracted, following the wholesale withdrawal of deposits from the banks. The phenomena which usually accompany such deflations — declining prices, unemployment, and all the other symptoms of depression — are well enough known from experience abroad. In Palestine, the situation was aggravated by a shift of deposits from the numerous small banks — which suffered more during the “run” — to the larger banks, which are more rigid in their methods and were not able to adapt themselves so rapidly to the demand for credits. The psychological “malaise” and lack of confidence, which followed the run on the banks increased the deflationary tendency still further. In a short time, about L.P. 1—1½ millions of deposits had been withdrawn, with a simultaneous but smaller credit shrinkage. In some smaller banks there was an almost complete cessation of discounts. The issue of securities naturally also suffered a setback. Legitimate credit for industry was also curtailed, and the difficulties in the labour market aggravated. Even in those cases where the volume of credit did not contract, its character changed from expansion credit to emergency credit. The statistics, therefore, do not reflect the full extent of the curtailment of credit for expansion purposes.

At the beginning of 1936, the financial institutions of this country were faced with the task of readjustment. A certain amount of “reflation” was imperative to set the economic machine in motion again. In other countries, such reflations are always extremely difficult. The flabbiness of the financial market must somehow be stiffened up, and with a confidence crisis to the forefront of the public memory, this is by no means easy to achieve. In Palestine, reflation was facilitated by the disproportionately large influence of external forces, such as the import of capital. Throughout the crisis, this import did not cease, and the new energy which it pumped into Palestinian finance was well on the way to reaping effective results in the spring of 1936. These favourable developments were cut short by the political disturbances (the promulgation of the currency restrictions in Poland acted as a

further dampener) and have not since recovered. The import of capital since April 1936 has remained on a consistently lower level, and the "inflation" period has been brought to an effective end.

Import of Capital 1936 and 1937¹⁾

Average 1935 = 100.

| | 1936 | 1937 |
|-----------|------|------|
| January | 74 | 41 |
| February | 72 | 44 |
| March | 95 | 43 |
| April | 117 | 62 |
| May | 59 | 41 |
| June | 52 | 37 |
| July | 42 | 42 |
| August | 40 | 41 |
| September | 30 | 38 |
| October | 38 | 37 |
| November | 46 | 36 |
| December | 45 | 45 |

The stringent restrictions on capital export imposed abroad were partly responsible for, and accentuated, the decline in capital imports already referred to. "Transfer" from Germany has, for some time already, been possible only in the form of goods, and year by year the regulations are being tightened up. In 1935 Lithuania also imposed currency restrictions, and in 1936, Poland, the country of largest capital export to Palestine, followed suit. These currency restrictions have affected all branches of Palestine's economic life. The composition of foreign trade has been changed in conformity with the necessity to import goods from countries of capital export, enabling the capital to be "transferred" in the form of commodities. A conflict between this type of capital import (mainly from Germany) and local industry arose. The transferred commodities often arrived in the form of capital equipment, which was drafted into industry and increased the total of local products. The local market was soon saturated, and this automatically curtailed further imports of capital equipment. The "transfer" of consumers' goods was also cut down, as industrialists raised objections to the import of goods competing with their own produce, and, as a result, these imports were prohibited by public bodies in control of the transfer institutions. Palestine is thus being faced with a discrepancy between

¹⁾ These statistics are based on actual capital imports (after eliminating remittances for current exchange of goods) through one of the largest banks in the country, and may be considered as representative of the general trend.

the interests of existing industrial production, and the demands of capital "transfer" in the form of commodities.

In the same way as there was no general rise in the price of commodities during the inflation period, the fall in prices which might have been anticipated during the deflation period, has also not taken place. In the world markets, these last years have been characterised by rising prices, and the predominant influence of imports on Palestine's economic life has meant that the higher price-level abroad has been projected on to the Palestine market, in spite of the depressed local conditions. It is only in the case of commodities whose supply derives mainly from home sources, that the deflation has been able to express itself in the usual form of falling prices. Rents, wages, payments for services, prices of perishable agricultural produce — all these have fallen markedly since 1935, though their weight is insufficient to influence the general price-level.

The deflationary process of the last two years can be traced in a number of financial indications. It is reflected in the stationary figures of bills discounted by the banks — the most sensitive banking index of current business conditions — even though "advances" have been increased by a banking policy calculated deliberately to ease the situation.

A further indication of the deflation is in the gradual switch-over from "demand" to "time" deposits. During 1937, the proportion of time deposits has been steadily increasing, at the expense of demand deposits. This

"seems to indicate that a number of depositors, lacking more profitable fields of investment, have decided to transfer part or all of their funds from demand deposit accounts where interest rates are low, to time deposit accounts yielding higher rates of interest."¹⁾

In this, there is sign of the diminution in the desire for investment in the general economic life of the country, and a slackening of confidence in the business situation. But in spite of this, the proportion of time deposits is still extremely low.

Changes in the total volume of deposits have not been considerable in spite of so long a period of political unrest. In the second half of 1937 some decline in deposits is, however, noticeable. Various explanations have been advanced — the summer exodus of Palestinian residents to Europe, who withdrew their deposits to cover the expenses of the journey; the decreased capital import, together with the increased commodity imports, involving a strain on the country's balance of payments, which was in part met by a diminution in the volume of bank deposits.

¹⁾ Government Banking Statistics Bulletin No. 10/1937, p. 1.

Another reliable sign of the times is the falling currency circulation.

Currency Circulation in Palestine

| | Year | LP. | Index |
|-------|------|-----------|-------|
| 31.12 | 1933 | 3,579,664 | 100 |
| " " | 1934 | 4,738,964 | 132 |
| " " | 1935 | 6,561,135 | 183 |
| " " | 1936 | 5,741,135 | 160 |
| " " | 1937 | 4,829,134 | 135 |

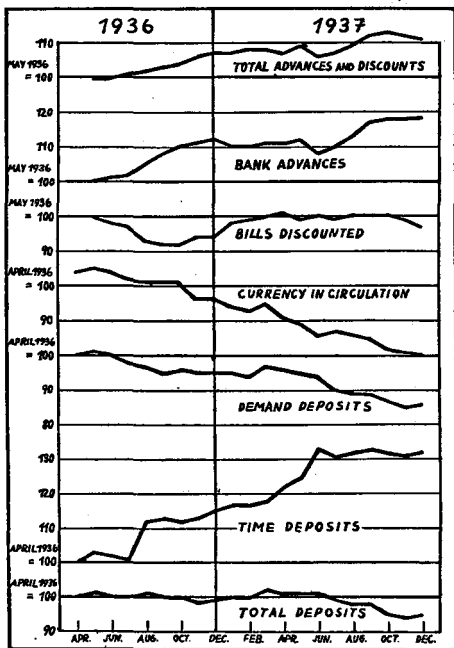
Finally, the number of bills protested give some idea of the financial difficulties of the period. Actually, the official statistics are not, in this case, very illuminating. The banks were inclined to go to the limits of leniency in view of the political situation. Bills were protested in very few cases, and were readily exchanged if some payment on account was made. It appears that this leniency went still further among the Arabs. Thus, the statistics do no more than emphasise the fact that difficulties in repayments of debts were experienced in 1936 and 1937:—

Bills protested in the District Courts of the Four Chief Towns of Palestine 1935—1937.

| | 1935 | 1936 | 1937 |
|-----------|-------|--------|-------|
| Jerusalem | 1,127 | 1,188 | 1,106 |
| Haifa | 1,788 | 2,253 | 1,724 |
| Jaffa | 1,522 | 1,770 | 1,642 |
| Tel-Aviv | 2,827 | 4,900 | 3,515 |
| Total | 7,264 | 10,111 | 7,987 |

The position is brought out clearly in the following diagram, showing the falling currency circulation, the divergent trends of time and demand deposits, the slight decline in total deposits and the stationary figures for discounts of bills. The rising total of bank advances is seen to be in direct contrast to the remainder of these indications. This is due to the particularly lenient policy of the banks, who have deliberately adopted the principle of credit expansion, in so far as possible, during these years, with a view to pumping additional purchasing power into the sagging economy:—

Financial Indications 1936, and 1937.



III. SPECIAL FEATURES OF PALESTINE'S BANKING STRUCTURE.¹⁾

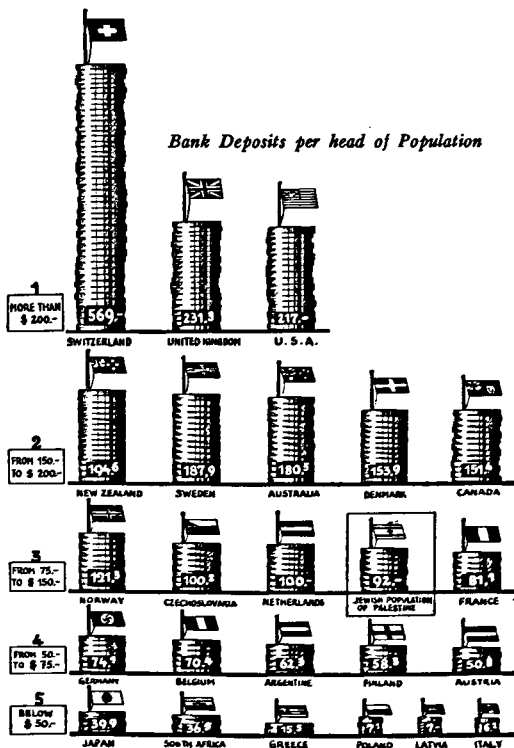
a) *The question of bank deposits.*²⁾

An important feature of finance in Palestine is the comparatively large total of bank deposits. In 1934 (March 31st), deposits — demand

¹⁾ Palestine's banking system consists of 6 "foreign" banks — i. e. branches of banks whose headquarters are situated abroad — some 70 local banks, many of which were founded in the boom period 1933—35, and operate on a small scale, and some 90 co-operative credit societies. The comparisons between 1937 and preceding years are open to some qualification, as some banks have been closed and some are no longer included in the records.

²⁾ All Palestinian banking figures, unless otherwise indicated, are taken from the Monthly Bulletin of Current Statistics, or the Bulletins of Banking Statistics, issued by the Office of Statistics of the Government of Palestine.

and time — amounted to LP. 12,500,000¹). In 1935 (March 31st) to LP. 16,000,000²), in April 1936 to LP. 17,200,000, and in April 1937 to LP. 17,300,000. As the following diagram shows, the volume of Jewish-owned deposits per head of the Jewish community in Palestine is on the level of such developed countries as France and Holland²) :—



The high level of deposits is due to the continuous import of capital, which exceeded LP. 26 million in the three years 1934—36.

1) Short Statistical Survey of Palestine, April 1936 — Anglo-Pal. Bank, p. 3.

2) Palestine and Middle East Economic Magazine, No. 11/1937, p. 535.

It is considered by many that the volume of deposits in Palestine is disproportionately high in relation to the economic activity of the country. This can be judged by inquiring whether these deposits are being continuously absorbed into the economy, or whether they remain in the banks as a fixed and stationary entity.

The statistics of investment for the last few years indicate that the first of these alternatives is, in fact, the case. Investment activity has been large, falling not far short of the total of capital imports, of which the deposits are largely composed. Also, deposits are used by banks as a basis for productive loans. That deposits do not remain long without use is indicated by a further fact. According to the experience of many Palestinian banks, the *composition* of their deposits is subject to frequent change, even though the total may remain constant. This would lead to the conclusion that a time-lag exists between capital import and investment. Because of this lag, deposits may appear high at any one movement, but the sums of which it is composed are constantly shifting out of the bank and into some form of investment. Furthermore, a very small proportion of Palestine's deposits are "time" deposits — three-quarters are "current", ready to be withdrawn at a moment's notice. The following table shows the proportion of time and demand deposits in Palestine and other countries, the very low proportion of time deposits in this country emerging clearly:—

The Division of Total Deposits between Time and Demand Deposits¹).

| | | | Time deposits as % of total deposits | Demand deposits as % of total deposits |
|-------------|-----|------------|--|--|
| Palestine | ... | Dec. 1936 | 21.2 | 78.8 |
| " | ... | " 1937 | 28.1 | 71.9 |
| Australia | ... | June 1936 | 62.8 | 37.2 |
| New Zealand | . | " 1936 | 54.0 | 46.0 |
| Canada | ... | Dec. 1936 | 67.2 | 32.8 |
| Netherland | ... | " 1936 | 30.0 | 70.0 |
| Sweden | ... | " 1936 | 71.7 | 28.3 |
| U. S. | ... | June 1935 | 38.2 | 61.8 |
| U. K. | ... | March 1937 | 45.5 | 54.5 |
| Denmark | ... | Dec. 1935 | 62.0 | 38.0 |
| Poland | ... | " 1936 | 31.8 | 68.2 |
| Switzerland | ... | " 1935 | 35.6 | 64.4 |

¹) Based on figures given in "Commercial Banks" 1937, League of Nations. "Total deposits" does not here include the categories "Savings Accounts" and "Other Deposits" which are separately specified in this publication.

The hesitancy in depositing for fixed terms in Palestine may be explained in part, by the desire for a speedy investment. There may also of course be some apprehension on the part of certain depositors against binding their money too closely to this country.

In spite of the switch-over from "demand" to "time" deposits in recent months, the total of bank deposits has remained fairly firm, but we are not entitled to draw conclusions from this in a country such as Palestine, where the impact of new capital from abroad is so pervasive in its effect. The only permissible conclusion which emerges is that there has been no run on the banks, even in the worst days of the disturbances. Probably, the banks' powers of resistance had been strengthened by the successful tackling of the 1935 confidence crisis. The money withdrawn in the autumn of 1935 had been returned, almost completely, by spring 1936, and there has been no renewal of withdrawals since.

b) Discounts, advances and investment.

The reflection of business activity in banking figures is illustrated, again, in the relationship between bills discounted, bank advances and bank investments. We are unable to give any analysis of the long-run trends in Palestine banking, owing to the lack of statistics for any year earlier than 1936. This is unfortunate, as 1936 differed from the preceding years, economically as well as politically. A tentative comparison may, however, be drawn between banking in Palestine and other countries :—

The Distribution of Banking Business in Palestine and other Countries ¹⁾

| | | Bills discounted % | Advances % | Investment % |
|-------------|------------|-----------------------|---------------|-----------------|
| Palestine | Nov. 1936 | 16.7 | 48.7 | 34.4 |
| " | " 1937 | 18.7 | 53.3 | 28.0 |
| U. K. | March 1937 | 13.7 | 50.6 | 35.7 |
| Netherlands | Dec. 1935 | 30.4 | 63.5 | 6.1 |
| Sweden | " 1936 | 24.3 | 62.6 | 13.1 |
| Poland | " 1936 | 31.3 | 55.4 | 13.3 |

This comparison must be accepted with the greatest reserve. The same heading may cover different activities in different countries. For instance, in other countries bills are a very liquid asset, and so a greater proportion of bank assets may safely be invested in them, whereas in Palestine they have an entirely different character. The high proportion of bank assets placed in investments does, however, reflect correctly

¹⁾ Calculated from "Commercial Banks" 1937, League of Nations.

the position of this particular aspect of Palestinian banking. It is worth mentioning that there has been a general increase, in other countries as well, in investment relatively to advances and bills discounted. "The Banker" of January 1937, states:—

"Difficulties which commercial banks now experience in a final remunerative and safe employment for their resources, and the growing tendency to invest in Government and other securities, are likely to have important consequences in years to come".

This tendency, which is a direct result of economic stagnation, was arrested by the business revival of 1936 in most countries. What is interesting, is that the proportion of investments in Palestine is barely larger than in England, even though 1936 was by no means a year of brisk business activity in Palestine.

c) The ratio of capital to deposits.

Palestine's banking statistics reveal a very high ratio of capital and reserves to deposits. Capital and reserves in local banks and co-operative societies in March 1937¹⁾ amounted to LP. 2,269,604 and total bank deposits to LP. 16,957,101, i. e. a ratio of 13.4%. The corresponding ratio for the English clearing banks is 5.8%. But this comparison is superficial, as the Palestinian banks cannot all be lumped into one category. Local banks must be divided off from foreign banks. The figures for local banks and co-operative societies (October 1937) are as follows:—

| | |
|-----------------------------------|-----------|
| 1) Co-operative Banks : | LP. |
| Capital and reserves ... | 511,128 |
| Deposits | 2,422,744 |
| Ratio | 21.1% |
| Local Banks : | |
| Capital and reserves ... | 1,758,476 |
| Deposits | 3,300,866 |
| Ratio | 53.3% |
| 2) Co-operative and Local Banks : | |
| Capital and reserves ... | 2,269,604 |
| Deposits | 5,723,610 |
| Ratio | 39.7% |

We see, that when local banks alone are taken, the ratio of capital and reserves to deposits is very much higher. The reason for this is that the foreign banks, which are responsible for over two-thirds of the deposits, (LP. 11,233,491 out of LP. 16,957,101 in March 1937) have no separate capital resources for their branches in Palestine. The

¹⁾ Treasurer's Report 1936/37, p. 13.

tremendous reserves which they hold abroad, and upon which they may fall back in time of need, bear no proportion to their comparatively small business activity in Palestine¹). Naturally, the absence of capital held locally by the foreign banks, reduces the general proportion of capital to deposits²). The local banks are in an entirely different position. They are compelled to rely mainly on their own capital. The greater risks involved in business in Palestine demand that their margin of safety should be particularly wide. Many banks were forced to work wholly with their own capital for the first few years after their establishment, as they could not expect to accumulate any deposits.

d) The cash ratio.

Cash liquidity presents a similar problem. Liquid reserves vary conspicuously with the type of bank. The ratio of liquid reserves to total deposits according to type of bank, is summarised in the following table :—

Ratio of Liquidity according to Type of Bank (31st March 1937)³

| | Foreign Banks LP. | Local Banks LP. | Co-op. Banks LP. | Total LP. |
|--------------------------|----------------------|--------------------|---------------------|--------------|
| Cash and balances with | | | | |
| other banks in Palestine | 879,960 | 736,733 | 663,869 | 2,279,562 |
| Total deposits | 11,233,491 | 3,300,866 | 2,422,744 | 16,957,101 |
| <i>Cash Ratio</i> | 7.8% | 22.3% | 27.4% | 13.4% |

This table is not entirely satisfactory as no figures were available for balances held by banks *outside* Palestine, subdivided into local and foreign banks. We give below a second table *including balances held abroad*, but here no distinction could be made between local banks and foreign banks :—

The liquidity of Palestinian banks is high owing to the fact that more liquid assets are kept under the heading "investments" than is the case abroad, i. e. that Palestinian banks hold a very large proportion of gilt-edged securities. When the banks are split off into categories (as in the form of the above tables) the same situation is seen to exist as in the question of the size of capital and reserves. The foreign

¹) The Anglo-Palestine Bank constitutes an exception to this rule. Practically all of its business is conducted in Palestine, but as it is registered as a foreign bank, its capital and reserves are not included in the local figures.

²) On the other hand, there is a group of banks operating in Palestine (mainly established by American Jews) which do not act as deposits banks, whereas their capital and reserves enter into the total of bank capital into the country.

³) Treasurer's Report 1936/37, p. 13.

*
Ratio of Liquidity December 1936

| | Banks (local and foreign) LP. | Co-operative Societies LP. | Total LP. |
|--------------------------|-------------------------------------|----------------------------------|--------------|
| Cash & balances ... | 3,780,223 ¹⁾ | 750,371 ²⁾ | 4,530,594 |
| Deposits | 14,195,915 | 2,850,042 | 17,045,957 |
| <i>Cash Ratio</i> | 26.6% | 26.3% | 26.6% |

banks, with the sole exception of the Anglo-Palestine Bank, which has its centre of gravity in Palestine, can always draw on the resources of the head offices abroad, and therefore keep a smaller reserve in the country. As they are responsible for two-thirds of the banking business in Palestine, their system of small cash reserves colours the picture for the whole country. If the local banks are looked at separately, the ratio is seen to be higher. This high liquidity is imperative in the absence of a central discount bank or State issue bank in Palestine. It is a partial explanation of the high rate of interest current in Palestine, but by no means the whole explanation. High interest rates are mainly caused by the greater risks involved in business transactions in a young country; by the payment of interest for deposits on demand, which bear no interest in well-developed countries; and by the concentration of banking business on a few branches, such as advances and discount of bills, whereas abroad banking costs are spread over a larger variety of other activities such as stock dealings.

e) Distribution of bank credits.

As banking statistics are available only for 1936, we are again hampered by an inability to compare 1936 with previous years. Even within these narrow limits, the statistics are very instructive, as an indication of the relative weight of the various branches of economic activity in Palestine. It is, of course, erroneous to assume that the distribution of credit conforms exactly to these relative weights. The amount of credit granted depends also on guarantees of security, and on the technical conditions of the industry which make it more or less needful of credit assistance. Credit distribution is distorted, also, by the availability of other forms of financing.

The following table shows the distribution of credits in Palestine :—

¹⁾ Balances held in Palestine for foreign banks or for head offices abroad have been subtracted from total balances.

²⁾ Balances with other banks in Palestine minus balances held for other banks.

Distribution of Bank credits in Palestine 30/9/1937¹⁾

| | % | % |
|---|-------|---------|
| Municipalities and public utilities | | 2.92 |
| Agriculture : — | | 25.64 |
| Citriculture | 15.65 | |
| Live stock | 0.33 | |
| Agricultural holdings | 9.69 | |
| Industry : — | | 10.99 |
| Food, drink and tobacco | 2.74 | |
| Textiles and clothing | 1.38 | |
| Metal | 1.65 | |
| Stone, cement, bricks | 1.35 | |
| Wood and paper | 1.01 | |
| Other | 2.86 | |
| Construction | | 3.99 |
| Commerce : — | | 21.19 |
| Wholesale merchants | 16.06 | |
| Retail | 5.13 | |
| Miscellaneous : — | | 35.17 |
| Religious, charitable and entertainment insts. | 0.90 | |
| Transport | 2.50 | |
| Financial concerns | 5.46 | |
| Professional and private individuals | 10.36 | |
| Purchase of land | 5.50 | |
| Building mortgages | 4.27 | |
| Other | 6.18 | |
| | | 100.00% |

Banking in Palestine is developed mainly among the Jews, and credit distribution reflects the structure of the Jewish economy more closely, than that of the country as a whole. Jewish economic life is capitalistic in character and broadly resembles the economic structure in Western Europe. This is a partial explanation of the relatively small proportion of credit devoted to agriculture — only 26% of the total — in what is a predominantly agricultural country. But it must be remembered that in all countries, agriculture absorbs only a small proportion of banking credit — its main credit supply deriving from other sources. Even taking this into account the proportion of

¹⁾ These figures are subject to qualifications, as the figures submitted by the Banks do not always exactly reflect the distribution of credits according to the various branches of the economy.

bank credit going to agriculture is particularly small in Palestine. Out of this 26%, 16% are credits granted to the citrus industry, both Arab and Jewish, which is run on a modern commercial basis, and from a technical point of view, is very much dependent on credit. The small remainder which goes to mixed farming, is mainly taken up by Jews. Primitive Arab farming still relies for the greater part of its credit (estimated at LP. 2,000,000 in the Strickland Report) on private money-lenders — in any case, it offers little opportunity for safe commercial credit.

Another item where a discrepancy exists is industry. In the Jewish economy — on which banking credit is mainly concentrated — industry accounts for about 30% of activity, while the credit granted is only 11% of the total. In other countries, also, the volume of credit to industry is often smaller than the relative weight of industry would indicate. But this is due to other financing facilities — such as security issues, accumulated profits etc. — none of which exist in Palestine. Here, the main reason is the weakness of industry, which cannot yet afford a sufficiently strong basis for a larger volume of credit.

Building and mortgage credits account for only about 8% of total credit, as mortgage banks are not included in the Palestine banking statistics. The building contraction in 1936 and 1937 is also partly responsible for the smallness of this percentage. It should in addition be remembered, that the volume of mortgage credit is smaller in relation to the volume of building in Palestine than in other countries, and that a considerable proportion of building credit comes from private sources¹).

The small sum of credits for municipalities and public bodies is the result of the very strict control exercised by Government on municipal budgets, and official discouragement of any tendency to incur debts for development purposes. The indebtedness of municipalities in Palestine is incomparably lower than elsewhere.

IV. PALESTINE'S SECURITY MARKET.

Together with the evolution in Palestine of the normal attributes of a capitalist economy, a new trend is making itself felt in the form which investment takes in this country. In other countries "indirect" investment — i. e. investment through the purchase of the shares and debentures of enterprises, rather than through the direct establishment of new enterprise by the investor himself — is one of the most characteristic and powerful factors in modern economic development. This type of investment, based on the divorce of ownership from manage-

¹) The question of mortgage credit is dealt with in Chapter VI.

ment, is only now taking on significant proportions in Palestine. The very recent nature of this tendency is shown in the following table, which compares the value of Palestine securities issued at the end of 1932 and the end of 1937 :—

The Increase in the Value of Palestine Security Issues since 1932¹⁾

| Name of enterprise | Year of foundation | Securities issued (L.P.) | |
|--|--------------------|--------------------------|----------------------------|
| | | End 1932 | End 1937 |
| Jewish Colonial Trust | 1899 (?) | 395,239 | 395,239 |
| Anglo-Palestine Company | 1902 | 300,000 (?) | 860,854 |
| Jewish National Fund | 1907 | — | ca. 220,000 |
| Palestine Land Development Co., | 1909 | 80,000 | 287,400 |
| Workers' Bank Ltd. | 1921 | 30,000 (?) | 126,000 |
| General Mortgage Bank | 1921 | 250,000 (?) | 2,390,000 |
| Palestine Corporation | 1922 | 139,000 (?) | 460,000 (?) |
| Nesher Cement Co. | 1923 | 250,000 | 300,000 |
| Palestine Electric Corporation | 1924 | 877,000 (?) | 2,537,625 (?) |
| Palestine Economic Corporation | 1927 | 500,000 (?) | 740,000 (plus reserves) |
| Jerusalem Electric Corporation | 1929 | 320,000 | 475,000 |
| Cold Storage and Supply Co. | 1929 | 35,000 (?) | 66,080 (?) |
| Palestine Potash Ltd. | 1929 | 300,000 (?) | 749,450 |
| Nehushtan Ltd. | 1930 | 4,000 | 44,298 |
| Palestine Brewery Ltd. | 1934 | — | 50,000 |
| Rural and Suburban Settlement Co. (Rassco) | 1934 | — | 65,562 |
| Nir Ltd. | 1934 | — | 387,230 |
| Investment Corporation of Palestine Ltd. | 1935 | — | 40,000 |
| Bizur Ltd. | 1936 | — | 181,000 |
| Palestine Agricultural Settlement Ass. (Pasa) | 1936 | — | 233,000 |
| Mekoroth Ltd. | 1937 | — | 75,000 |
| Total | — | 3,480,239 | 10,683,798 |

The trend towards indirect investment has been fostered during the last few years by a number of special circumstances :—

1) The immigration of capitalists accustomed to this form of investment.

2) The establishment of larger undertakings (as a consequence of the growing scope and complexity of Palestine's economic life), which were forced to resort to the capital market in order to raise the necessary funds.

¹⁾ "The Security Market as a Means for the Up-building of Palestine" by Dr. E. Kahn. (The Economic Research Institute, Jerusalem), p. 2.

3) The curtailment of direct investment possibilities during the last two years of political and economic insecurity; and a certain hesitancy on the part of private capital, during this period, to shoulder the personal risks of direct investment.

4) The satisfactory record and high profitability of Palestine securities — at least those marketed in the Tel-Aviv Securities' Clearing House.

5) The large influx of German immigrants who are only permitted to transfer their capital in the form of goods, and whose transfers are accelerated if securities of certain companies are purchased — the companies themselves effecting the transfer in the form of imported capital goods.

We have mentioned that the record of Palestine's securities has, on the whole, been favourable. The following indices, which cover a critical period in Palestine's history, illustrate the stability of Palestinian securities on the local market:—¹⁾

Tel-Aviv Index of Stock Quotations, 1937.

| | Jan. | Febr. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. |
|------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Debentures | 100 | 100.7 | 100.5 | 101.1 | 101.9 | 101.7 | 101.7 | 102.5 | 101.5 | 101.6 | 102.2 |
| Shares | 100 | 100.6 | 104.2 | 102.8 | 101.2 | 97.9 | 98.7 | 100.2 | 98.3 | 97.2 | 96.6 |

London Index for Palestinian Securities, 1937

| Jan. | Febr. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. |
|------|-------|-------|-------|------|------|------|------|-------|------|------|
| 100 | 97.0 | 94.5 | 91.9 | 93.7 | 90.5 | 88.5 | 88.9 | 84.7 | 84.7 | 83.7 |

General London Share Index (Financial News)

| Jan. | Febr. | March | April | May | June | July | Aug. | Sept. | Oct. | Nov. |
|------|-------|-------|-------|------|------|------|------|-------|------|------|
| 100 | 98.9 | 96.2 | 100.8 | 92.5 | 89.5 | 88.5 | 91.8 | 82.1 | 82.5 | 82.2 |

More detailed figures for individual Securities dealt with on the Tel-Aviv Security Clearing House during 1936 and 1937 are given below (p. 182).²⁾

The stability of the Palestine security market is to be explained by the limited turnover and relative absence of speculation. The majority of the securities bought are purchased for purposes of per-

¹⁾ Bulletin of the Economic Research Institute, Jerusalem 1937, No. 6/7.

²⁾ Security Prices Bulletin No. 2. (1/1938) p. 3, Govt. Office of Statistics.

"Low" and "High" Buying Quotations of Palestinian Securities during 1936 and 1937

| Security | 1936 | | 1937 | | Rise or fall in year |
|---|---------------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------|
| | Low | High | Low | High | |
| Debentures: | | | | | |
| General Mortgage Bank. | | | | | |
| 5% Deb. 1938/55—39/56 | 95 ³ / ₄ | 96 | 95 ³ / ₄ | 98 ¹ / ₈ | + 2 ⁵ / ₈ |
| 5% Deb. 1941/56—42/57 | 95 ³ / ₄ | 96 | 95 ³ / ₄ | 98 ¹ / ₈ | + 2 ⁵ / ₈ |
| 6% Deb. 1934/54 | 100 ¹ / ₈ | 102 ¹ / ₂ | 100 ⁵ / ₈ | 102 ⁵ / ₄ | - 1 ¹ / ₄ |
| Bizur Ltd. | | | | | |
| 6% Deb. 1938/43 | 97 ¹ / ₂ | 97 ¹ / ₂ | 97 ¹ / ₂ | 98 ¹ / ₄ | + ³ / ₄ |
| Keren Kayemeth Ltd. | | | | | |
| 1 ¹ / ₂ % Deb. 1934/53 | 63 ¹ / ₄ | 71 ¹ / ₄ | 65 ³ / ₄ | 72 ⁷ / ₈ | + 3 ⁵ / ₈ |
| Nir Ltd. | | | | | |
| 4% Deb. 1937/52 | 72 ¹ / ₂ | 73 ³ / ₄ | 70 ³ / ₄ | 76 ³ / ₄ | + 2 ⁵ / ₈ |
| Preference Shares: | | | | | |
| 6% General Mortgage Bank | 102 ¹ / ₄ | 109 ¹ / ₄ | 105 ¹ / ₂ | 117 | + 4 ¹ / ₂ |
| 6% Pal. Land Dev. Co. | 88 ³ / ₄ | 103 ¹ / ₄ | 88 ¹ / ₂ | 96 ³ / ₄ | + 2 |
| 5% Nir Ltd. | 66 | 74 | 57 | 70 ³ / ₄ | - 8 |
| 5 ¹ / ₂ % Palestine Potash Ltd. | 13/3 | 19/4 ¹ / ₂ | 9/10 ¹ / ₂ | 14/1 ¹ / ₂ | - 4 ¹ / ₂ |
| Ordinary Shares (bearer) | | | | | |
| General Mortgage Bank | 103 ³ / ₄ | 109 ⁷ / ₈ | 105 ³ / ₄ | 129 | + 7 ⁷ / ₈ |
| Pal. Land Dev. Co. | 87 | 111 | 84 ³ / ₄ | 101 | + 1 |

manent investment, and are thus less susceptible to speculative fluctuations. The policy adopted by the banks of deliberately supporting the securities market is also partly responsible for the high degree of stability. (The considerable "discount values" of some of the shares is due to their purchase through "transfer", as explained above.)

A further expansion of this type of investment in Palestine is likely. The same factors which have brought about the shift from demand to time deposits in the banks, will, in all probability, increase the demand for local shares and debentures.

IV. CONCLUSIONS.

In 1936, a period of credit inflation gave way to a period of credit deflation. The inflation of the preceding years acted as a stimulant to the economy, and contributed to the rising tide of pros-

perity. It gave a fillip to purchasing power, and financed investment. The inflation was not a result of deliberate Government policy; it was created by the influx of capital, which exerted an irresistible pressure on the banks to expand credit and so maintain their earnings. In its effects, this inflation did not differ greatly from a normal currency inflation — but the accompanying phenomena were far less dangerous. A currency inflation inevitably tends to get out of hand; but a capital inflation linked with credit expansion, can more easily be kept under control. The new capital, itself, provides a sound enough basis for expansion. In Palestine a rise in prices is limited by the low customs tariff, and is confined to local products which are immune from world trends. It is also prevented by the stability of the currency, which is linked to the pound sterling, and cannot fluctuate of its own accord. The deflation, which started at the end of 1935 was prevented from proceeding on a rapid downward course, by the infiltration of a certain amount of new capital.

In Palestine, one of the following three contingencies is possible :—

- 1) A correspondence between the volume of capital import and the volume of investment, the amount of deposits remaining fairly constant.
- 2) A capital import in excess of investment, leading to an increase in deposits.
- 3) A capital import smaller than investment, leading to a decrease in deposits.

The years 1934 and 1935 were characterised by the second of these contingencies. Large as investment was, capital import was still larger, and deposits were on the increase. In 1936 and 1937, the third possibility might have been anticipated, as capital imports fell off, due to currency restrictions abroad and political disturbances at home. However, investment declined approximately in the same proportion as capital imports, and the total of deposits remained fairly constant.

As a rule, purely financial measures are limited in their effects, and monetary policy has usually failed to change long-run economic trends. In Palestine, the lack of a central State bank to impose a uniform policy on all the financial institutions of the country, should have emphasized these inherent limitations of monetary policy. Yet, the unusually important part played by the import of capital from abroad, and the linking-up of capital import with immigration, have increased and intensified the influence of monetary factors on economic development.

CHAPTER XI.

THE WORKER AND HIS STANDARD OF LIVING.

I. THE FORMATION OF A PROLETARIAT.

The Jewish labour community is the predominant section of the Palestinian working-class. In other branches of economic and social life in Palestine, Jewish preponderance is the product of better organisation or of a higher level of activity, but in labour this preponderance is due, also, to actual numerical weight. It is only natural that the capitalist structure of Jewish Palestine should be based on a relatively larger number of wage-earners than is needed by the Arab economy, which rests on the foundation of a primitive peasant population.

A proletariat is, as a rule, created by one of two methods. In countries where the evolution of modern industrialism commenced many years ago, a workers' class forming an organic part of society, emerged gradually in the course of generations. In this drawn-out process, class and occupational delimitations have become continuous, and to a great extent inflexible. In other countries, where industrialisation and urbanisation have been more recent and rapid, the workers' class has been built up within a generation through a shift from village to town. The Jewish working-class has a different nature and origin. It is not an organic stratum in a strictly defined economic body, nor is it the product of the usual urbanisation of the rural community. It has been built up through immigration, and through the occupational and class redistribution inherent in the construction of a new economy. In the following table (p. 185) the numerical growth of the workers' class in comparison with the growth of the whole Jewish community is indicated.

This table alone provides sufficient proof of the transition of Jews from other classes into the labour classes. The class transition is interwoven with a second process, usually defined in Palestine as "productivisation". Together with the shift from the lower middle-

The Growth of the Jewish Working-class.

| | Workers (excluding wives of workers) | | Jewish Population | |
|--------------------|---|-------|-------------------|-------|
| | No. | Index | No. | Index |
| Labour Census 1926 | 25,187 | 100 | 149,500 | 100 |
| Labour Census 1937 | 104,122 | 413 | 386,084 | 256 |

class to the proletariat, there is a movement away from the occupations on the fringes of the economy, and towards the more basic occupations and trades. The major portion of the Jewish community abroad was engaged in small trade or in the liberal professions; in part it was declassed, lacking any strictly defined occupation at all. The transformation of these strata into a working-class is, economically, technically, and psychologically, one of the most fundamental facts in the creation of the Jewish community in Palestine. This dual process—the *economic* transition from a lower middle class or a declassed stratum, and the *occupational* transition from intellectual or commercial pursuits to manual labour, and from light manual labour in secondary industries to heavy manual labour in primary, — is reflected in the following table:—

*Occupational Distribution of Fathers of Palestinian Workers Abroad,
and of Palestinian Workers in Palestine.¹⁾*

| | Fathers Abroad | | Workers in Palestine | |
|--|----------------|--------------|----------------------|--------------|
| | No. | % | No. | % |
| Agriculture | 3,904 | 3.8 | 24,419 | 23.4 |
| Building | 1,924 | 1.8 | 11,001 | 10.6 |
| Transport and heavy industries ²⁾ | 8,984 | 8.5 | 22,626 | 21.6 |
| Light industries ³⁾ | 7,834 | 7.5 | 7,863 | 7.5 |
| Traders | 50,105 | 48.2 | — | — |
| Factory-owners | 2,398 | 2.3 | — | — |
| Undefined occupations | 13,084 | 12.6 | 2,601 | 2.5 |
| All others | 15,889 | 15.3 | 35,612 | 34.4 |
| Total | 104,122 | 100.0 | 104,122 | 100.0 |

¹⁾ Compiled from Table 22, Labour Census, March 1937. "Pinkas" No. 8. Supplement to "Davar", Tel-Aviv 1938.

²⁾ Wood, metal, building materials, electricity, unskilled workers.

³⁾ Weaving, tailoring, leather, foodstuffs.

This table illustrates a further unusual feature in the formation of the Jewish proletariat in Palestine. The class and occupational distribution has been combined with a trend from the town to the village — in direct contradiction to the usual drift away from the village and into the town, which is characteristic in other countries. Of course, this shift was not only the result of personal inclinations, but has been necessitated by the peculiar occupational distribution of the Jewish people in their countries of origin, where they tended to concentrate in the professional and trading classes. On arrival into Palestine, the Jewish immigrant had to face an occupational transformation — which, for psychological reasons, he often accepted gladly— and convert himself into a manual labourer, very often into an agricultural labourer. The shift from the town to the village was also necessitated by the exigencies of the Jewish colonisation movement, which held, as one of its basic tenets, that the new Jewish structure in Palestine should be as many-sided and well-balanced as the economic structures of other peoples. This principle sprang from the fear that the Jewish population in Palestine might be tempted to become an upper stratum, living on cheap native labour and resembling certain colonial communities in sub-tropical countries, or the landlord-class in some countries of Eastern Europe. If this had come about, the Jewish colonisation movement would have reproduced in Palestine the dangerous combination of simultaneously clashing national and class interests. History has more than once witnessed the results of such dual clashes. The communities superimposed on the indigenous population, and depending on it for the more vital functions of economic life, are eventually swept away in some violent political or social upheaval.

In the course of this transformation of middle-class immigrants into wage-earners, and of town-dwellers into farmers, a number of very special difficulties and problems have arisen. The training of individuals, lacking any tradition of manual labour, to perform skilled jobs in the new industries and settlements which were being established, was bound to result in a certain wastage and in the uneconomic expenditure of money and effort. The process of occupational redistribution could only be achieved by trial and error, and this has proved costly for the country as a whole. The ensuing wastage is reflected in the following two tables, which show the shifts and countershifts from occupation to occupation, involving, irrationally at times, a loss of skill and experience, and a necessity to train workers in new occupations, while others with the required skill were switching over to still other callings :—

Occupational Redistribution of Palestinian Workers.¹⁾

| | A b r o a d | | I n P a l e s t i n e | |
|-----------------------------|----------------|---------------|-----------------------|---------------|
| | No. | % | No. | % |
| Agriculture | 2,515 | 2.42 | 25,212 | 24.21 |
| Building | 1,713 | 1.64 | 11,001 | 10.56 |
| Industry | 21,020 | 20.19 | 27,096 | 26.02 |
| Transport | 981 | 0.94 | 6,551 | 6.30 |
| Service | 509 | 0.49 | 9,555 | 9.18 |
| Clerks and free professions | 15,518 | 14.90 | 20,227 | 19.43 |
| Trade | 7,725 | 7.42 | — | — |
| Students and undefined | 52,994 | 50.90 | 2,601 | 2.50 |
| Others | 1,147 | 1.10 | 1,879 | 1.88 |
| Total | 104,122 | 100.00 | 104,122 | 100.00 |

Shifts and Counter-Shifts in Occupations of Jewish Workers²⁾

| Occupation in Palestine | No. in Palestine | Occupations of these same Workers abroad | | | | | | |
|-------------------------|------------------|--|-----------|----------|--------|---------|-------|-----------|
| | | Weaving | Tailoring | Printing | Clerks | Leather | Metal | Agricult. |
| Weaving | 1,110 | 272 | 109 | 7 | 69 | 3 | 29 | 4 |
| Tailoring | 2,731 | 8 | 1678 | 1 | 31 | 15 | 8 | 4 |
| Printing | 1,426 | 16 | 11 | 437 | 32 | 2 | 16 | 3 |
| Clerks | 12,486 | 55 | 75 | 31 | 2975 | 56 | 140 | 115 |
| Leather | 1,333 | 9 | 38 | 3 | 24 | 780 | 6 | 5 |
| Metal | 5,182 | 14 | 18 | 14 | 111 | 20 | 2109 | 27 |
| Agriculture | 24,419 | 300 | 978 | 148 | 1472 | 281 | 672 | 1388 |

These, in some cases, unnecessary occupational shifts were not only the result of organisational defects, but were also brought about by the psychological processes inherent in the trend towards voluntary "proletarianisation". The workers-to-be deliberately discarded their former experience, so as to take roots in the new life in the very occupations from which they were most remote in the old. As the above table showed, textile workers became agriculturists, while agriculturists became clerks. Tailors transformed themselves into weavers, leather workers and farmers, while clerks transformed themselves into tailors.

¹⁾ Compiled from Table 22 Labour Census.

²⁾ Compiled from Table 23, Labour Census, op. cit.

A striking example of these countershifts is the fact that 140 metal-workers became clerks, while 111 clerks became metal-workers.

This redistribution was further accentuated by the creation of certain new forms of life, such as the collective commune, which were possible only on an agricultural basis. Economic, social, and psychological factors combined and interacted in reshifting the whole economic and occupational structure of the immigrant Jewish community.

Thus, the Jewish proletariat has been recruited from abroad, and created by the process of immigration. Its most outstanding feature is that it has derived — not as usual from the farming community — but from the towns of Europe. Its origin lies, not in the landless peasant, but in the lower middle-classes.

The Arab proletariat, on the other hand, has been created as a direct result of the impact of capitalism on the primitive rural economy which characterised Palestine until a generation back. Just as the coming of industrialism and the growth of capitalism broke up the semi-feudal structure of Western Europe a century ago, and of Eastern Europe in the past few decades — so have Palestine and the other countries of the Middle-East now been drawn under the influence of world forces, and shaken out of the self-sufficient village system, which had been the prevailing form of economy for centuries. The emergence of the Arab proletariat is of so recent a date, that it has not yet had the education or opportunity to evolve from an inchoate mass into an organised entity. The few attempts at organisation — whether in joint Jewish-Arab or separate bodies — have not met with any great measure of success. The result of this incoherence within the wage-earning stratum of the Arabs, is that wages are still extremely low, and the standard of living still borders on the primitive. The Arab worker has not yet become a distinct force in the economic life of this country.

II. THE COMPOSITION OF THE JEWISH WORKING-CLASS.

The composition of the Jewish working-class has been profoundly influenced by one further deviation, in Palestine, from the normal pattern of labour development. In other countries an apparatus of production is created by the evolution of capitalism, and the wage-earning class is formed by and drawn into this capitalist structure. In Palestine, the immigration of labour *preceded* the growth of capitalism. Thus the idea took shape among the workers of creating their own demand for labour, of being their own employers and establishing an independent labour economy. This conception had already begun to assume a practical form in the pre-war and war period, but its

realisation was greatly intensified in the years immediately following the war. The new labour economy was financed by the funds of the national Jewish colonisation institutions and by direct support from Jewish labour in all countries. In this way, certain key positions in Palestine's economic life, which either exerted no attraction for private capital (such as mixed farming) or were occupied by labour from the outset (such as transport) became an integral part of the independent labour economy. Some positions, such as the almost monopolistic control of the building market which labour possessed in the early days, were lost in the course of time, as private capital gradually penetrated, and the sector established by nationally-planned colonisation lost in relative weight. But in its essence the labour economy has been carried over into the new capitalist conditions, and continues to hold its own side by side, sometimes in competition and sometimes in co-operation, with private enterprise.

The result of this dual sociological structure, is that the Jewish working-class is not composed entirely of hired wage-labour. A considerable proportion of the workers is engaged directly within the labour economy. The workers employed in mixed farming are, for the most part, neither peasants, in the usual sense of the word, nor ordinary hired labourers. They live and work in collective or co-operative farms, or in joint enterprises based on varying grades of co-operation. These farms vary in form from small-holders settlements, with joint sale and purchase, joint use of machinery, a prohibition of hired labour and national landownership, to the complete collective commune, with joint production and consumption based on the principle of "from each according to his capacity, and to each according to his needs" — within the means and possibilities of the farm as a whole. In these collective settlements, co-operation is thorough-going, and colours every walk of life — communal kitchens, dining-halls, children's houses, etc. being the rule, and no direct wages being paid.

The members of the transport and producers' co-operatives in the towns, are the urban counterpart of the independent agricultural worker. These co-operatives do not differ in form from the usual producers' co-operatives in Western countries, but numerically and economically, they have a much greater importance in Palestine than elsewhere. There are, finally, a number of economic institutions established directly by the all-comprehensive General Federation of Jewish Labour — the "Histadrut". These institutions are neither co-operative nor collective groups, but economic enterprises, based on the capital of the labour union instead of on private capital.

The exact percentage of the whole workers' community which is organised on the basis of joint ownership in production or consumption is not known, but according to the 1937 Labour Census there were 14,060 such workers (or 13% of the whole labour force) in the agricultural settlements alone.

Except in the case of transport, the ordinary wage-earner and "independent" worker work side by side in every branch of Jewish activity, and there is, inevitably, a perpetual shift from one group to the other. In the same agricultural settlement, for example, a wage-earning community working as hired labourers in privately-owned citrus-groves, may co-exist with a collective group of workers, cultivating their own groves. Similarly, in the towns, a workers' co-operative bakery may operate in juxtaposition to a private bakery employing hired labour. The position is further complicated by an intermediary type of worker — combining private employment with membership of a co-operative group. These workers contribute the wage they earn to their group, which is organised on collective lines, and which often maintains some form of productive activity of its own, in addition. There are many examples of this combination in the citrus-growing region, where collective groups, in addition to running their own farms or groves, send out their members to work in the neighbouring privately-owned groves. Members of collective groups are also sent to work in special industries — such as the Palestine Potash — or in special occupations, such as the building of the Tel-Aviv port — the wage always accruing directly to the group as a whole.

This complex situation has, in its turn, given rise to a number of difficulties. Although the various types of workers — the simple wage-earner, the independent worker, and the intermediary type just described, — are all banded into one comprehensive Trade Union, their interests are sometimes divergent. The members of a collective group who hire themselves out to work, for instance, in the citrus groves are enabled by the very nature of their economic background, to accept a lower wage than the individual worker. To such problems, there can be no immediate solution. They are the natural concomitant of a society which is partly co-operative and partly pure capitalist in its structure.

Although as capitalism has developed in Palestine, collective and labour enterprise has suffered a *relative* decrease, the trend towards collectivisation has not paused. This trend is determined by two factors — the economic, and the ideological. In the fight against adverse natural and economic conditions the pooling of strength and resources provides a powerful weapon. For this reason collective

groups have also been encountered in other countries of new colonisation with difficult natural conditions. In Palestine the difficulties were accentuated by the transition from one class to another and, in many cases, from one occupation to another. Mutual aid, training, etc. are of course greatly facilitated by collective enterprise. The ideological factor is the desire of the workers to create the nucleus of some new social form in Palestine. This aim has achieved some degree of realisation with the aid of the financing facilities of the national funds, and the special conditions created by a pioneer colonisation movement.

III. WORKING-CLASS ORGANISATION.

When these special features and functions of the Jewish labour movement are borne in mind, it is natural to expect that its organisation should assume an original form. The outstanding characteristic of the "Histadrut" is the union within one body of three separate functions — the functions of a Trade Union intent upon protecting wages and labour conditions; the functions of an economic organisation aspiring to the construction of a planned economic sector within an individualist economy; and the functions of a cultural and social service institution. In other countries the second two of these functions fall under the direct aegis of the State or into the hands of private enterprise.

The "Histadrut" is organised on the basis of "one big union" subdivided into trade sections. The numerical strength and development of this labour organisation may be gauged from the following table, which shows the very rapid increase in membership, and the extraordinarily high percentage of the population which this membership represents:—

The Growth in "Histadrut" Membership.

| | Members of Histadrut | | Total Jewish Population | | % of Histadrut members to total Jewish population |
|------|----------------------|-------|-------------------------|-------|---|
| | No. | Index | No. | Index | |
| 1920 | 4,433 | 100 | (1922) 83,790 | 100 | 5% |
| 1925 | 10,085 | 228 | 121,725 | 145 | 8% |
| 1931 | 30,060 | 678 | 172,028 | 205 | 17% |
| 1933 | 47,819 | 1,079 | 209,207 | 249 | 23% |
| 1936 | 98,636 | 2,225 | 370,483 | 442 | 27% |

It is difficult to estimate the relative weight of the independent labour economy within the whole economic life of the country, but

there is no doubt that this sector forms one of the most powerful "concerns" in Palestine. It possesses its own financing institution — the Workers' Bank. It centralises the activities of the agricultural settlements through the Agricultural Audit Union. It organises the supply of a fair part of the community through the wholesale purchasing organisation "Hamashbir Hamerkazi". It organises the sale of agricultural produce through its marketing co-operative "Tnuvah". It influences a considerable section of the building market through its contracting organisation "Sollel Boneh". It carries out citrus planting through its citrus contracting institution "Yakhin". It plans and executes workers' housing through its housing company "Shikun". It runs its own insurance company "Hassneh". In conjunction with the Jewish Agency, it participates in the financing of public works through the "Bizur" Company. It finances a part of agricultural settlement through the "Nir" Company. It centralises the transport and industrial producers' co-operatives through the "Merkaz Hacooperaziah" (Co-operative Centre). Such ramified and comprehensive activities must profoundly affect the economic development of the country; the more so, as these activities are co-ordinated and centralised within one institution "Hevrat Ovdim", the right of which to control the various subsidiary institutions is vested in the law, as well as in the custom and in the very system of labour organisation in Palestine. This whole economic structure is connected through the "Hevrat-Ovdim" and through the personal membership of each of its participants, with the all-comprehensive Trade Union and with each of its trade sub-sections. It is clear from this that the economic activities of the "Histadrut" are run on two different systems — either through the method of autonomous co-operative enterprise, or through centralised institutions or companies. These differing systems are the expression of a difference of opinion as to the method most suitable for the development of an independent labour economy. In general, the influence of the "Histadrut" is towards greater planning and regulation in economic matters.

We have already mentioned the social services of the "Histadrut". These services cover a whole network of specific functions — education, sick funds, press, social insurance — and accentuate the influence of the "Histadrut" as a whole. The financing of these many and various activities is aided by co-operation with the Jewish colonisation institutions, which, in turn, benefit from the support of so powerful an economic body.

The result of these manifold activities is, in short, that a widely-spread labour economy has been created in this country of a weight

incomparably greater than anything similar in other capitalist countries. A considerable proportion of Palestine's economic life is controlled by the activities of the "Histadrut". The "Histadrut" is the dominating factor in Jewish mixed farming (both production and marketing); it has, through its members, an almost monopolistic control of transport; it operates important building, insurance, planting, marketing and purchasing concerns; it has its own bank, and affords, to some extent, independent financing for the many enterprises under its aegis.

It should be pointed out, in conclusion, that the strong Trade Union activities of Jewish labour were, in part, brought about by the presence of a cheap and unorganised Arab labour force, raising before the Jewish worker the threat of being reduced to the primitive standard of life to which the Arab has been accustomed for centuries. His defence against this threat was to organise solidly, and through the strength of his organisation to dominate at least the Jewish section of the labour market; and, simultaneously, to organise the Arab worker and raise his low wage-rates to the Jewish level. While Jewish labour has been successful in the first of these two directions, for various reasons little progress has been made in the second.

The organisation of Arab labour is still in its initial stages. A number of separate Arab Trade Unions have been formed in recent years, but few of them actually function. Some Arab workers were organised by the General Federation of Jewish Labour into Arab Sections of the Jewish Unions, but though some success attended this policy in the years preceding 1936, the strained relations of 1936 and 1937 have brought this movement to an end. The few mixed Arab-Jewish Unions — notably that of the Railway, Post and Telegraph employees — almost ceased to exist after 1936.

IV. THE STANDARD OF LIVING.

The question of wage-rates and the standard of living has given rise to much discussion and dispute in Palestine. The immigrant Jew, accustomed to a fairly high standard of life, finds himself in competition with the Arab worker, only just emerged from the primitive conditions of a semi-feudal village. With the aid of their strong organisation, the Jews have succeeded in maintaining a European level of nominal wages, in spite of this competition, with the result that Palestine is in the anomalous position of possessing, for each grade of work, two distinct wage levels. This may be seen from the following table:—

Average Daily Wage-Rates (mils) ¹

| | Jewish Labour | Arab Labour | % Increase of Jewish Wage over Arab Wage |
|-------------------------------------|---------------|-------------|--|
| Quarry labour | 353 | 190 | 85.8 ²) |
| Carpenters and cabinet makers . . . | 371 | 272 | 36.4 |
| Turners | 389 | 355 | 9.6 |
| Hand compositors (newspapers) | 483 | 244 | 98.0 ²) |
| Bricklayers | 536 | 425 | 26.1 |
| Plasterers | 531 | 332 | 59.9 |
| Floor-tilers | 541 | 375 | 44.3 |

Of course, this comparison must be accepted with reserve, as wage-rates should be considered in conjunction with the worker's output. In same cases Jewish output exceeds Arab.

The problem whether Jewish wage-rates are uneconomically high, in relation to the conditions of this country, has often been broached. The exact situation may be seen from the two tables (p. 195). The first of these compares the general level of wages earned by *all* daily Jewish workers (excluding agricultural workers) in Palestine and the general wage-level of all workers (also excluding agricultural) in 10 other countries. The Palestine figures have been calculated from the Labour Census returns, based on data provided by the workers themselves.³)

We see from the first of these tables, that if the wage-level of all Jewish workers, skilled and unskilled, male and female, is taken, nominal wages in Palestine are not unduly high. They are considerably below the level obtainning in advanced countries (Western Europe, North America and the British Dominions) though higher, it is true, than in the less advanced countries of Europe.

The second table is calculated on a different basis, and gives a somewhat different picture. Here, workers have been divided into 9 grades, and a separate comparison made for each, between Palestine

¹) Wage-rates Statistics Bulletin, Government of Palestine No. 4/1937, pp. 11-14. Based on employers' returns.

²) The very great differences in the wages of these two types of labour are due in the case of quarry-labour, to the use of machinery by the Jews, and in the case of printing, to the non-competitive nature of the trade as between Jews and Arabs.

³) Labour Census, Tables 34 and 38. Daily workers only have been taken as monthly wage-earners constitute a negligible proportion in industry, and their wages cannot be computed on an hourly basis.

*Comparison of General Wage-Level 1936¹⁾
Hourly Earnings (mils)*

| Males and Females | | Males | | Females | |
|-------------------------|--------|-------------------------|--------|-------------------------|-------|
| Bulgaria | 14.58 | Bulgaria | 17.12 | Bulgaria | 12.61 |
| Estonia | 17.58 | Estonia | 20.20 | Estonia | 13.01 |
| Poland | 24.25 | Poland | 26.92 | Poland | 18.95 |
| Hungary (1935) | 25.88 | Larvia | 37.26 | Larvia | 23.20 |
| Italy | 27.32 | <i>Palestine (1937)</i> | | <i>Palestine (1937)</i> | |
| Czechoslovakia | 36.80 | (Jewish workers) | 44.25 | (Jewish workers) | 27.00 |
| <i>Palestine (1937)</i> | | Denmark | 63.99 | France | 34.25 |
| (Jewish workers) | 41.89 | Sweden | 65.88 | Denmark | 39.09 |
| Sweden | 59.08 | Australia | 73.53 | Sweden | 39.22 |
| Denmark | 60.00 | France | 75.03 | Australia | 40.72 |
| U. S. A. | 124.84 | Switzerland | 77.12 | Switzerland | 45.10 |
| | | U. S. A. | 119.61 | U. S. A. | 87.12 |

and eight European towns. The type of work chosen is in every case, except unskilled building labour, highly skilled, and represents the best-paid grades of labour in this country. The figures for Palestine are based on a sample enquiry among employers :—²⁾

Comparison of Wage-Rates of 9 Grades of Skilled Male Workers in Palestine and other Countries (mils per hour)³⁾

| | Masons Bricklayers | Carpenters | Painters | Unskilled Building workers | Cabinet Makers | Fitters | Hand com- positions | Bakers | Bookbinders | Arithmetic Average |
|------------------|-----------------------|------------|----------|----------------------------------|-------------------|---------|------------------------|--------|-------------|-----------------------|
| London | 83.3 | 83.3 | 79.2 | 62.5 | 83.3 | 71.2 | 92.7 | 65.1 | 83.3 | 78.2 |
| Stockholm | 78.0 | 78.0 | 89.4 | 70.2 | 62.4 | 45.8 | 71.2 | 74.9 | 65.5 | 70.6 |
| Palestine (Jews) | 72.5 | — | 49.8 | 46.6 | 46.4 | 47.4 | 60.4 | 62.5 | 45.0 | 53.8 |
| Marseille | 53.2 | 55.1 | 49.4 | 44.6 | 55.1 | 51.3 | 51.3 | 47.5 | 51.3 | 51.0 |
| Vienna | 52.1 | 54.7 | 48.6 | 39.1 | 36.9 | 44.5 | 55.9 | 58.5 | 52.1 | 49.2 |
| Budapest | 38.8 | 35.9 | 37.0 | 22.3 | 44.7 | 48.2 | 110.0 | 41.7 | 56.4 | 48.3 |
| Warsaw | 32.7 | 32.7 | 32.7 | — | 24.7 | 36.1 | 50.2 | 36.5 | 50.2 | 38.4 |
| Palestine (Arab) | 50.2 | 30.2 | 33.4 | — | 30.2 | 31.4 | 30.5 | 27.8 | 21.0 | 32.1 |
| Belgrade | 25.3 | 25.3 | 34.5 | 13.8 | 26.7 | 36.8 | 44.2 | 13.8 | 44.2 | 29.4 |
| Riga | 26.8 | 21.2 | 22.0 | 16.4 | 20.4 | 24.0 | 30.8 | 22.4 | 31.2 | 23.9 |

¹⁾ Table XIII, Yearbook of Labour Statistics 1937, International Labour Office.

²⁾ Wage-rates Statistics Bulletin, Government of Palestine, No. 4/1937, pp. 11-14. Wages as in September, 1937.

³⁾ Table XV, Yearbook of Labour Statistics 1937, International Labour Office. Wages as in October 1936.

The results of this table show a level of wages for skilled Jewish workers in this country comparable with the French and Austrian, about 30% lower, on the average, than that obtaining in London slightly higher than in Vienna and Budapest, and very considerably higher than in Warsaw, Belgrade or Riga. These two tables, taken together, throw light on the vexed question of the Jewish wage-level. It appears that in certain skilled grades of work — such as building, carpentry and printing — Jewish wages are fairly high in comparison with other countries, but if the general level of all wages is taken, these high wages are somewhat offset by the low wage-level among the unskilled grades of labour and among the women workers.

No wage-comparison can afford to neglect such important factors as the productivity and efficiency of the worker, and the degree of capitalisation in the enterprise wherein he is employed. An efficient worker, i. e. a worker with a high output or a better quality of work, would naturally be worth a higher wage, on purely economic grounds, than a less efficient one. Similarly, an enterprise with a high proportion of fixed capital (machinery etc.) could afford to pay higher wages as the productivity of its workers would exceed that of less mechanised concerns. These considerations may provide a partial explanation of the high wage-rates for skilled workers in Palestine. The Jewish worker is, as a whole, efficient and intelligent. Also, the organic composition of industrial capital has shown a shift towards fixed capital at the expense of circulating capital, thus increasing the productivity of the worker.

From the point of view of the welfare of the worker, income and the purchasing power of wages (or real wages) are a far more interesting subject of study than wage-rates. The Labour Census of March 1937 provides some data regarding the income of Palestine's working-class. The income-groups of the Jewish workers may be classified as follows:—

The Level of Incomes of Jewish Workers (Male and Female)¹

| | Income group | No. of workers | Percentage |
|----------------------------|------------------------|----------------|--------------|
| <i>i. Monthly Workers.</i> | | | |
| Under | LP. 6 per month | 6,472 | 27.7 |
| | LP. 6—8 | 4,349 | 18.6 |
| | LP. 8—10 | 4,082 | 17.5 |
| | LP. 10—15 | 5,413 | 23.2 |
| | LP. 15 and over | 3,019 | 13.0 |
| | Total | 23,335 | 100.0 |

¹) Labour Census, Table 34-40.

2. *Daily Workers.*

| | | |
|------------------------|---------------|--------------|
| Under 200 mils per day | 12,613 | 31.8 |
| 210—250 | 5,078 | 12.8 |
| 260—350 | 9,920 | 25.1 |
| 360—450 | 6,566 | 16.6 |
| 460 and over | 5,423 | 13.7 |
| Total | 39,600 | 100.0 |

On the basis of these figures an estimate¹⁾ has been made of the actual income of the Jewish working-class today, assuming that 30% of the daily workers work full-time, 20% work 4 days in the week, 20% 3 days, 20% 2 days and 10% one day. The results are as follows:—

Income Distribution of all Jewish Workers — Daily and Monthly.

| Income group | No. | % of total |
|--------------|---------------|---------------|
| LP. 1—6 | 49,572 | 59.22 |
| 6—8 | 10,879 | 13.00 |
| 8—10 | 7,213 | 8.62 |
| 10—15 | 11,352 | 13.56 |
| 15—20 | 3,197 | 3.82 |
| 20 and over | 1,545 | 1.78 |
| Total | 83,698 | 100.00 |

We see from this that 60% of Jewish workers have an income under LP. 6.— per month, 80% an income under LP. 10.—, and about 95% an income under LP. 15.—.

This relatively low income level in Palestine is not matched by a correspondingly low price level. Rents, in particular, are especially high in this country. It is not easy to make any direct international comparison of rents, but we have already (page 111) laid emphasis on the particularly large proportion of workers' income which is expended on rents in Palestine (some 25%) as compared with what is usual elsewhere (10—15%). The detailed figures for the proportion of rent to income, as given in the 1937 Labour Census, are as follows:—

Average Proportion of Income Expended on Rent²⁾ (%)

| | Tel-Aviv | Haifa | Jerusalem |
|---|----------|-------|-----------|
| Monthly workers | 25.5 | 26.6 | 22.4 |
| Daily workers (assuming 25 days employment per month) | 21.1 | 24.1 | 17.5 |
| Daily workers (assuming 20 days employment per month) | 26.4 | 30.1 | 21.8 |

¹⁾ An internal inquiry undertaken by F. Naphtali and Dr. E. Maschke, on behalf of the Economic Research Institute — 1938.

²⁾ Table 55, Labour Census.

It is not possible to lay down any definite generalisation as to the level of food prices in this country. Certain imported foodstuffs, such as sugar, rice, tea, coffee and foreign eggs, are very cheap, but on the other hand such basic necessities as milk, meat, butter, potatoes and bread are, comparatively speaking, expensive.

A more scientific method of comparing the cost of living — at least in so far as the cost of foodstuffs is concerned — is by comparing the cost of an "international basket of provisions" representing the typical weekly consumption of an adult male worker — in this and in other countries. Such a comparison has been carried out by the Government Office of Statistics¹⁾ with the following results :—

Cost of International Basket of Provisions (Oct. 1936).

| | Mils | Index Numbers (London=100) |
|-------------------------------------|--------|-------------------------------|
| London | 344.2 | 100 |
| Marseilles | 373.4 | 108 |
| Vienna | 374.3 | 109 |
| Stockholm | 366.6 | 107 |
| Belgrade | 270.7 | 79 |
| Riga | 176 | 51 |
| Warsaw | 221.2 | 64 |
| Palestine (Jewish market) | 352.42 | 102 |
| " (Arab market) | 273.43 | 79 |

The cost of a specially calculated Palestinian Jewish basket of foodstuffs, taking into account the different diet of this country, is 280.43 mils per week or 81 as compared with London. Thus the general price-level for food would appear to be somewhere midway between the low prices of the semi-agricultural lands, and the higher prices of the industrial lands of Western Europe ; and divided between very high prices for some commodities and very low for others.

But the important matter from the point of view of the worker is not the absolute price level of foodstuffs, but the quantity of foodstuffs which his wages will buy for him. Combining the costs of the weekly basket of provisions with the average general level of male wages (as given in table p. 195) in Palestine and in the 4 other countries for which the complete data is in our possession, the following results for the purchasing power of wages over food are obtained :—

¹⁾ International Comparison of Real Wages, Oct. 1937.

No. of Times the Weekly Wage of an Adult Male Worker will purchase the International Weekly Basket of Provisions. ¹⁾

| | | | Weekly Wage (mils) | Cost of Weekly Basket of Pro- visions (mils) |
|------------------|--------|------|-----------------------|--|
| Latvia | ... .. | 10.2 | (1788.5 | 176) |
| France | ... .. | 9.6 | (3601.4 | 373.4) |
| Sweden | ... .. | 8.6 | (3162.2 | 366.6) |
| Poland | ... .. | 5.8 | (1292.2 | 221.2) |
| Palestine (Jews) | ... .. | 6.0 | (2124.0 | 352.42) |

If the specially calculated Palestinian basket of provisions is taken, the figure is increased to 7.6.

From this it appears that the real wages of the Palestine worker, is so far as his purchase of food is concerned, are extremely low.

Not only is the Jewish worker in Palestine handicapped by the high proportion of his income which he is compelled to spend on rent, and the low purchasing power of his wages in terms of food, but he is offered next to no public assistance, in the form of social services. He is, for the most part, a member of the Sick Fund, organised by the "Histadrut", but this fund is supported almost entirely by the contributions of the workers themselves (in a few enterprises and institutions the employers also pay some contribution). In the majority of countries, medical services for workers are partially provided for by the State. It is usual for the workers themselves, to contribute only a small fraction of the cost, and the remainder derives from employers' contributions and from contributions direct from the Treasury. The absence of similar help from the employer or the State in Palestine, means that the worker pays a very high premium for his health insurance.

There is, also, no free Jewish education in Palestine, neither elementary nor secondary. Unemployment insurance is completely lacking, and all other social services are on a charitable or voluntary basis.

It should, finally, be mentioned that electricity rates in Palestine are high, costing the domestic consumer more than three times as much as in England for the same consumption of light and power. An electric consumption of 25 kwh. for light and 100 for power per month, in Palestine (in areas served by the Palestine Electric Corporation) would cost LP. 1.525 ²⁾, as against LP. 0.510 in England. If the

¹⁾ The assumption has been made of a 48-hour week.

²⁾ A. Birnbaum — "The Price of Domestic Electricity". "Davar", 30.3.1938.

consumption increases to 45 kwh. lighting and 200 kwh. power, the monthly cost is LP. 2.665 as against only LP. 0.760 in England.

The point on which the Palestinian worker may be said to score, is in the generally cheap price of industrial articles. Palestine has a particularly low tariff level, and the cheapest types of goods gravitate to the local market from all corners of the earth, with the result that manufactured articles are, as a rule, to be bought at very low prices. These low prices cannot, however, exert a very beneficial effect on the workers' standard of living, as the total expenditure on clothing (the main item of industrial goods purchased by workers) is usually no more than 10—15%¹⁾ of a working-class family's budget, and probably even less in Palestine because of climatic conditions.

The conclusion from this survey of nominal and real wages in Palestine is as follows:— Although certain grades of skilled male labour receive fairly high wages, the general level of wages for all types of labour lies midway between the level of the advanced countries of the West, and the less advanced countries of Central and Eastern Europe. Incomes, particularly when the present prevalence of short-time work is taken into account, are small. The purchasing power of wages in terms of food is limited, as the prices of certain basic foodstuffs in Palestine are higher than is usual in countries where wages are as low as in this country. Further, an exceptionally large proportion of the workers' income must be paid away in rent. State-provided social services and free education are lacking, and electricity prices are high. The only favourable aspect is the low price for manufactured articles, which cannot however, affect real wages very substantially.

This discussion of wages and the standard of living has been concerned only with the Jewish worker. It is well-nigh impossible to compare the conditions of life of the Arab worker either with his Jewish colleague in Palestine, or with workers in the countries of Europe. The nominal wage-rates for skilled Arab labour were seen (table p. 195) to be higher than in Belgrade or Riga, though considerably lower than in the other countries compared, but no data exists as to the general wage-level, the size of incomes, and the proportion of income paid in rent. Food prices are considerably cheaper in the Arab markets of Palestine than in the Jewish. These markets are, in the main, segregated. The cost of the international basket of foodstuffs was 273.43 mils (October 1936) for Arabs as against 352.42 mils for Jews. But the diet of the Arab worker differs so greatly from that of any European,

¹⁾ Distribution of working-class expenditure. Table XX, Yearbook of Labour Statistics, 1937, op. cit.

that such comparisons are meaningless. The health and education services of the Arab are provided directly by the Government but are far from being up to a European level. No social insurance or services of any kind are open to the Arab worker.

V. THE LABOUR POSITION IN 1936 AND 1937.

The last two years have, on the whole, been difficult ones for the working-class of Palestine. Falling wages and unemployment have been accompanied by rising prices and a definite upward trend in the cost of living so that the level of real wages has suffered. The only favourable feature has been the fall in rents. The diverging trends of prices and wages may be seen from the following table :—

Diverging Trends of Wage-Rates and Prices 1934—1937¹⁾

| | Index of Wage- | Index of Prices | | Index of |
|--------------|----------------|-----------------|-------------|-----------------------------|
| | Rates (Jews) | Wholesale | Retail | Import-prices ²⁾ |
| | 1931=100 | 1929=100 | 1922=100 | 1930=100 |
| 1934 | 135.0 | 72.5 | 54.3 | 82 |
| 1935 | 131.1 | 74.9 | 53.6 | 83 |
| 1936 | 126.2 | 77.7 | 57.7 | 92 |
| 1937 (Sept.) | 121.1 | (Oct.) 83.8 | (Oct.) 58.5 | 103 |

The effect on income has been more injurious than the fall in nominal wage-rates would imply. A certain proportion of workers are today working part-time only, and there has been a shift *within* the Jewish working community from the higher-paid wage-groups (such as building workers) to the lower-paid.

The employment situation in Palestine commenced to deteriorate soon after the run on the banks in September 1935. At the beginning of 1936 — during the time of the citrus harvest — there was some improvement, followed by the outbreak of the disturbances in April 1936. During the subsequent six months of Arab strike, the labour market was, naturally, disorganised. Most Arab activity was at a standstill, but Jewish employment did not suffer as severely as might have been expected. Work was found for many Jewish workers in the police and defence forces; on the hastily implemented public works which were put in hand by the Government, and in the expansion of Jewish agricultural production, which was planned to compensate for the cutting off of Arab supplies. Also, the Jewish institutions adopted a

¹⁾ Government Wage-rates and Prices bulletins.

²⁾ Privately calculated.

progressive policy of public works and housing schemes, which provided a fairly large volume of employment. The entry of Jewish workers into port work — both in Haifa and in the new harbour of Tel-Aviv, offered a further fruitful source of employment.

In 1937, the situation was less satisfactory. Defence no longer absorbed large additional numbers of workers. Agricultural expansion was curtailed, as the market was now well-supplied, both from the new Jewish farms established in 1936 and by the renewal of Arab supplies. The building market continued depressed, and there was a further slowing-down in general activity. In the Arab economy, the employment position has been very depressed.

CHAPTER XII

THE ARAB ECONOMY.

In some parts of this survey, and in particular in the present chapter, developments in the Arab economy have been made the subject of separate discussion and analysis. This special treatment is warranted by two considerations — the semi-feudal, semi-sufficient nature of the primitive Arab economy, which marks it off distinctly from the capitalist system typical of modern Palestine; and the fact that in 1936 and 1937 Arab economic life was at a standstill, the political upheaval being strong enough to blur all other trends, even more so than among the Jews.

The usual economic problems of capitalism — trade fluctuations, finance, inflation and deflation, balance of payments — are almost completely absent from the Arab economic organisation, which is centred — up to 60-65% — on more or less self-sufficient agriculture. This type of agriculture gives rise to specific problems of its own, and it is with these that our analysis must, in the first place, be concerned.

I. THE TRANSFORMATION OF THE ARAB VILLAGE.

Until very recently, the Palestinian village was a completely self-supported unit, not yet emancipated from the century-old usages of the feudal system. Exchange of goods was of minor importance; the use of money was limited. The village community was bound by tradition, and the forms of life and work had been preserved unchanged, from generations past. This type of economy has been described as follows :—¹).

“Among the reasons for the fellah's backwardness social factors play a role similar to, and it may even be said, greater in importance than technical conditions. While indeed it may be possible

¹) Bulletin de l'Union Economique de Syrie, Paris 1928 : M. Delbes, Director of the Agricultural Experiment Station in Lataquia.

in a comparatively short time to spread knowledge of modern agricultural methods, it is far more difficult to change the social conditions of the tiller of the ground and the land ownership regime under which he lives. One of the main present obstacles to agricultural advance is to be found in the existing system of land tenure ... The owners of large landed property, — families or groups of families — take little if any interest in the agricultural development of their lands ... The fellahen who work these lands live in a state comparable to that of the serfs under the Carolingian dynasty. Hardly 20% of the gross procedure of the soil remains to its cultivator ... It may almost be said that landlords here are engaged not in exploiting the land, but those who cultivate it ... As under the existing system of taxation no charge is levied on uncultivated lands, landlords are able, without loss, themselves to leave large areas unused. It is probable that with the introduction of a land tax proportionate to value and levied equally on cultivated and uncultivated land, a large additional area would be brought under cultivation".

This ancient social fabric is now being penetrated and dissolved by the impact of capitalism. Improved means of communication and transport draw the country into the orbit of the world market. Money has become the measure of economic value, and has been adopted as the sole medium of exchange. The fellah has grown aware of new needs and a new standard of living, although his income has remained meagre, and barely suffices to keep body and soul together.

The first result of this impact of the modern world has been to increase the exploitation of the peasant by the landlord and the money-lender. As the fellah's need for cash increases, he is brought into dependence on the usurer, who is often, at the same time, the landlord and the grain-dealer. The large land-owners do not hesitate to take advantage of the weak position of the indebted peasant, and a process of "buying out" the small-holder is set on foot. The immediate consequence is that economic differentiation within the Arab village is rapidly gaining ground. On the one hand, the small-holder is proletarianised; and on the other hand, large properties are accumulated in the possession of a few rich landlords. This process has not been confined to Palestine alone, but is common to all the countries of the Near East. In Syria, large land-properties have been built up, remaining partially uncultivated and hindering the expansion of the total cultivable area. In Egypt these developments have taken place on an even bigger scale. The Johnson-Crosbie investigation¹⁾ revealed this differentiation in Palestine, where the co-existence of

¹⁾ Report on the Condition of Agriculturists in Palestine — Government of Palestine — 1930.

large land-owners and landless labourers within the same villages, is a common enough feature.

In this way, the economic medium-sized farm unit gives way to large estates on the one hand, and dwarf-holdings on the other. Nor is this the end of the process. Gradually the small-holdings also crumble up and pass into the hands of the large land-owners. The fellah cannot hold his own in a world of competition, or vie with goods produced by modern methods in countries overseas. He sinks into indebtedness and dependence on the labour market. The transition of the small proprietor into the landless labourer is of frequent occurrence, as the essential condition for the survival of the small-holding — that it should yield a return higher than the wages paid on the labour market — is lacking.

The heavy indebtedness of the fellah is one of the main causes for the break-up of his land-holding. Credit is a first necessity for the agriculturist catering for an outside market, as for a large part of the year his capital is under the ground. In Palestine, no cheap credit facilities are available to serve the fellah's need, so he is obliged to borrow from money-lenders at a usurious rate of interest. "A rate of 30% per annum is perhaps the commonest, but 50% for three months is not unusual"¹⁾. The average debt per fellah family has been reckoned at LP. 27.—; and the total indebtedness of the fellaheen class at LP. 2,000,000.—²⁾.

This cruel burden of debt, under which the fellah has long laboured, and which has been gravely accentuated within the present generation, has been described as follows :—²⁾

"It is generally alleged that the Palestinian fellah is born in debt, lives in debt and dies in debt. It is also contended that for many generations, and indeed centuries, his life has been made miserable by the pressure of his creditors, and that his moral and material progress has been severely handicapped by the burden of his debts and by the cruel rate of interest paid by him".

The Palestinian fellah's indebtedness represents the full value of his annual income from crops and agricultural stock. This compares as follows with the short-term indebtedness of small-holders in two other countries :—³⁾.

¹⁾ Report on the Condition of Agriculturists in Palestine, op. cit. para. 66.

²⁾ Memoranda prepared by the Government of Palestine to the Palestine Royal Commission, p. 41.

³⁾ *ibid.* p. 42.

Rural Indebtedness in Palestine, England and U. S.

| | Average Indebtedness per farmer with hold- ing of 100 dunams LP. | Ratio of Indebtedness to value of annual produce |
|-----------------------|---|--|
| U. S. A. | 94 | 1 : 6 |
| England | 15 | 1 : 20 |
| Palestine Fellah | 27 | 1 : 1 |

Exactly comparable figures are not available for other Near Eastern countries, but that the position is much the same as in Palestine is indicated by an inquiry recently undertaken into Lebanese village life. This showed that the Lebanese villager paid away 35% of his income in interest, and 30% in taxes.

The system of land tenure also bears hardly on the fellah. Leasehold is the prevalent system throughout the Near East, which means that the large landed properties are leased out to the peasants in the form of small-holdings, the owners enjoying a share of the peasant's reward for his toil. The land is thus made to support a class which does not participate in the actual work of cultivation or management, in addition to providing for the tenant and his family. The share expected by the owner in the form of rent is very high (as much as 30% of the gross returns or 50% of the net income) even though the advantages of improved methods of mechanisation which are the concomitant of large land-holdings in other countries, are lacking. Further, the uncertainty of tenure is a deterrent against the amelioration of the land.

But the impact of capitalist forces, which is similar in its effect in all countries of the Near East, is by no means wholly unfavourable in its results. The consequences of the break-up of the small-holdings are neutralised by the new possibilities which a development of the country opens up before the rural population. In Palestine the beneficial aspect of economic modernisation has been accentuated by the special influence of Jewish colonisation.

The consequences of this colonisation movement — in so far as they bear on the Arab economy — may be traced along a number of lines. The towns have grown as wages rose and employment facilities increased. Since 1922, the Moslem urban population of Palestine has grown more rapidly than the rural population as the following table shows :—

Moslem Population of Palestine.

| | U r b a n | | R u r a l | |
|---------------|--------------|-------|-----------|-------|
| | No. | Index | No. | Index |
| Census 1922 | 139,074 | 100 | 451,816 | 100 |
| Census 1931 | 188,075 | 136 | 571,637 | 126 |
| Estimate 1936 | 229,000 | 165 | 619,000 | 137 |

Further, the increased revenue has enabled the Government to execute large public works, which employ a considerable proportion of the surplus rural population, and provide the population still engaged in cultivation with an additional source of income out of season. These increased employment opportunities offer an outlet for the surplus rural population, which in other Near Eastern countries, weigh heavily on the whole structure of the economy. In this connection, a comparison of wage-rates in Palestine and the adjacent countries is very illuminating :—

Range of Daily Wages in Industry.¹⁾

| | | |
|------------------------|-------------|------------|
| Palestine (Arab wages) | ... 1934 | 70—500 mls |
| Syria | 1933 | 50—310 " |
| Lebanon | 1935 | 70—210 " |
| Iraq | 1933 | 40— 60 " |

Another, even more important, opportunity for the Arab farmer is provided by the expansion of the urban market for foodstuffs. From 1922 to 1936 the urban population of Palestine expanded from 264,000 to 582,000, mainly as a result of Jewish immigration. This urban population is a large consumer of foodstuffs, and a fair proportion of the total output of the Arab farms is disposed of in the towns. The development of markets capable of absorbing the products of intensified farming is of decisive importance for the progress of the Arab rural economy. The increase in Arab-owned poultry by 127% since 1930, is a characteristic symptom of this process.

The improvement of Arab farming which has resulted from the accumulation of capital, made possible by the expanding market facilities and the sales of surplus lands to Jews, has more than once been officially commented on. Agricultural machinery is being purchased by the Arab villages in larger and larger quantities. Intensive methods of cultivation are being adopted and more remunerative crops sown. The farmer has also received direct assistance from the Government, which,

¹⁾ Palestine Blue Book 1934 p. 193. Himadeh — "Economic Organisation of Syria" p. 17. Summerscale — Department of Overseas Trade, "Iraq", 1936, p. 30.

backed up by a prosperous Treasury, has been able to adopt a fairly progressive and generous policy. Rural taxes have been reformed, and a rural property tax imposed replacing the heavy burden of tithe and "werko". In bad years, taxes were remitted. From 1930 to 1936 the Government remitted LP. 600,000 of rural taxes, and granted agricultural loans amounting to LP. 169,000¹). Farming has also been directly improved by the selection of seeds, provision of saplings and stocks, and, in general, by the work of the Government experimental stations. Finally, the grain cultivator has been protected from foreign competition by a system of duties on wheat and barley, based on a sliding scale, which guarantees a minimum profit for the farmer.

The semi-feudal, closed structure of the Arab rural economy is tottering under the impact of the new capitalist forces which have penetrated into the Near East since the World War. But in Palestine, the impact has been softened by the vast new possibilities opened up by the colonisation of the country. The real development of the Arab economy is the resultant of these two divergent forces.

II. THE GROWTH OF THE ARAB TOWN.

We have, so far, confined ourselves to a discussion of the structural changes which the Arab village has undergone. In the Arab town, the changes have been scarcely less pronounced. The process of industrialisation, though less marked than among the Jews, has not left the Arab world untouched. Statistical material is scant, but we know that in the period between the end of the War and the Government Industrial Census of 1928, 1373 new Arab enterprises, representing an investment of LP. 613,000, were established. From 1931 to 1937 a further 529 Arab enterprises (companies, co-operatives and partnerships) were registered. The increase of the Arab urban community has also been reflected in the growth of the municipal budgets — particularly in the mixed towns.

Increase in Municipal Revenue of Arab Towns and Mixed Arab and Jewish Towns 1920/21—1935 (LP.)²

| | 17 Arab Towns | | 5 Mixed Arab and Jewish Towns | |
|-------------------|---------------|-------|-------------------------------|-------|
| | LP. | Index | LP. | Index |
| 1920/21 | 56,725 | 100 | 102,738 | 100 |
| 1935 | 79,509 | 140 | 305,818 | 341 |

1) Palestine Administration Report, 1936, p. 55.

2) Palestine Administration Report 1922, and Government Blue Book 1936.

This comparison is made with 1935, as in 1936 the figures were reversed under the stress of the unusual circumstances of that year.

The development of Arab citriculture involving the investment of large capital sums, bears witness to the capital influx into the Arab economy. The area of citrus groves owned by Arabs has expanded from 22,000 in 1922 to 147,000 in 1936.

Gradually an Arab middle-class is developing. Merchants, industrialists, clerks, and the free professions gain ground at the expense of the rural community. The number of Arab officials in the Government services is increasing. The growth of this new stratum has been accelerated by the sale of land to Jews at very high prices. Within the 5 years, 1932—36, 209,000 dunams of land were sold to Jews at a price of LP. 4,510,000¹⁾. Such an influx of capital must have had a profound influence in the formation of the new Arab middle-class²⁾.

Side by side with this emergence of an Arab bourgeoisie, there has been a growth in the Arab wage-earning class. The new employment facilities in the towns, and in the expanding citrus area, have attracted landless peasants from the countryside and stimulated an immigration of Arabs from the neighbouring countries. The fact that this new wage-earning class is still unorganised, and the fellahin community from which it derives is weak and poverty-stricken, has meant that wages have remained low and conditions of work primitive. The result is a more strongly pronounced class distinction within the Arab population than within the Jewish, even though the Arab worker is less class-conscious.

The economic background, against which the events of the last two years in the Arab economy must be set, may therefore be summarised as follows :—

A semi-feudal, almost self-sufficient, rural economy is being transformed under the impact of new capitalist forces, working in two contrary directions. On the one hand, the impingement of capitalism converts the self-sufficient closed village into an exchange economy, increasing the cash requirements of the peasant, and aggravating his indebtedness. The fair-sized land-holding gradually disappears, giving way to dwarf-holdings and large landed properties. On the other hand, the wealth created by Jewish colonisation and industrialisation counteracts some of the adverse effects of this process. A market is created for agricultural produce, and the fellah is enabled to intensify his farm. The Government expands its agricultural, health, and education services. New employment opportunities are created in the towns, and public works

1) Statistical Abstract of Palestine, 1936, p. 98.

2) An interesting indication of the growth of this class is given by the number of wireless applications made in Arabic, a wireless set in the Arab community being mainly the privilege of the middle classes. In 1936 there were 805 Arab wireless applications; in 1937 — 1,253.

are set on foot, offering an extra income to the farmer out of season. In the towns, land sales at high prices, industrialisation and the expansion of commerce create a middle class with a concomitant accumulation of capital. The town assumes a more important place in the Arab economy, and with it, there emerges an Arab wage-earning class, employed in the cities and in the expanding citrus plantations.

III. THE YEARS 1936 AND 1937.

The events of 1936 have forced this new Arab economy, which had just commenced to break through its shell of self-sufficiency, to fall back upon its own resources, and return to its former segregation. The six months strike in 1936 revealed that the primitive Arab village system had not yet been completely submerged in the exchange economy. The work of cultivation did not cease, even though severance from the town markets — which had in former years proved a valuable outlet for the surplus crops, — was naturally injurious to the fellah's interests. It is estimated that out of the annual surplus produce of Arab farming, about LP. 1,200,000 worth of goods is sold to the Jewish population. During the disturbances, this Jewish market was almost entirely shut off from the Arab producer, owing to Arab boycott activities. The difficulties of marketing openly in the Arab towns, at the time of the strike, in conjunction with the decreased purchasing power of the Arab urban population, give some indication of the handicaps imposed on Arab farming.

We have already described the position of Arab agriculture during the last two years (Chapter III). There was a sharp decline in the prices of most agricultural products on the Arab markets, and large quantities of produce rotted or were disposed of uneconomically. In addition to these man-made difficulties, nature itself was inclement. In 1936, poor crops were harvested through a deficiency in rainfall, and the bad market situation prevented the farmer from recouping his losses by means of high prices. In 1937, the crops were bountiful, but the generally bad economic situation prevented any market recovery. The following comparison in the yields of the major Arab crops during the last three years, is indicative of the extent of fluctuations caused by natural conditions :—

| | | <i>Yields of Major Arab Crops 1935—1937 (tons) ¹</i> | | |
|--------|--------|---|--------|---------|
| | | 1935 | 1936 | 1937 |
| Sesame | ... .. | 6,900 | 1,847 | 9,317 |
| Barley | ... .. | 68,000 | 55,169 | 75,417 |
| Durrah | ... .. | 46,000 | 22,122 | 61,023 |
| Melons | ... .. | 69,000 | 81,335 | 102,857 |

1) Agricultural Supplement to Palestine Gazette, No. 13, 1937; No. 25, 1938.

The plight of Arab agriculture is also reflected in the diminished import of beasts of burden, as compared with 1935 :—

Import of Camels and Donkeys.

| | No. | LP. |
|------|-------|--------|
| 1935 | 5,143 | 31,137 |
| 1936 | 2,739 | 15,465 |
| 1937 | 3,963 | 21,099 |

In conjunction with the deterioration in Arab rural conditions, came a lessening of two of the most important sources of help for the fellah — the organisation of credit co-operatives, (which was curtailed in 1936 but revived somewhat in 1937) aimed at freeing the peasant from the yoke of the usurer ; and the supply of capital through the sales of surplus lands to Jews. This capital influx had enabled many farmers in the past to intensify their farms, and its drying-up has been a serious blow. The following table shows the spectacular decrease in the area and value of Arab land sales to Jews since 1935 :—

Land Purchases by Jews from Non-Jews¹⁾

| | Dunams | LP. | Price per dunam LP. |
|------|--------|-----------|---------------------|
| 1935 | 72,905 | 1,699,448 | 23.310 |
| 1936 | 18,146 | 158,000 | 8.707 |
| 1937 | 29,367 | 392,916 | 13.379 |

It is interesting to note that in spite of the difficulties of the local farmers, the import of foodstuffs into Palestine increased from LP. 3,647,000 in 1935, to LP. 3,939,000 in 1936 and to LP. 4,148,000 in 1937. This apparently anomalous increase was due, in 1936, to the process of segregation which each community pursued. Among the Arabs, crops were destroyed through lack of markets ; and among the Jews, foodstuffs were so scarce that imports from Syria and elsewhere had to be purchased in increased quantities. In 1937, the position changed somewhat. Jewish production was able to supply the needs of the Jewish population, but the decline in purchasing power had resulted in a shift of consumption towards the cheaper imported products. The presence of the military in the country also influenced the volume of food imports.

The Arab urban population has been more affected than the rural by the events of the last two years. In spite of all his crop and

¹⁾ General Monthly Bulletin of Current Statistics, January 1937 and January 1938.

marketing difficulties, it must never be forgotten that the fellah is still basically self-sufficient and can carry on whatever the situation in the towns. But the townspeople depend primarily on their daily earnings, and with the stagnation of trade and industry, a fair proportion of the population was left destitute.

An event of importance for the Arab urban economy has been the decline of activity at Jaffa port. This was caused by the strike in 1936, and the subsequent diversion of trade to Haifa and to the new port of Tel-Aviv, which had been established on the stoppage of operations in Jaffa.

Cargo Handled at Jaffa Port 1)

| | January to April | | May to December | | Total year | |
|------|------------------|-------|----------------------|-------|------------|-------|
| | Tons | Index | Tons | Index | Tons | Index |
| 1935 | 199,648 | 100.0 | 374,434 | 100.0 | 574,082 | 100.0 |
| 1936 | 178,186 | 88.1 | 72,609 ²⁾ | 19.4 | 250,795 | 43.7 |
| 1937 | 140,473 | 69.4 | 138,796 | 37.1 | 279,269 | 48.7 |

There has also been a serious reduction in Arab building, typified by the figures for the all-Arab town, Jaffa:—

Building in Jaffa (sq. m. authorised) 3)

| | Sq. m. | Index |
|------|---------|-------|
| 1935 | 193,657 | 100.0 |
| 1936 | 59,719 | 30.8 |
| 1937 | 35,801 | 18.0 |

The setback suffered by Arab industry, particularly in 1936, is also indicated in the export figures of Arab manufactured products:—

Exports of Arab Manufactures.

| | Laundry Soap | | Olive Wood Manufactures | | Curios and Articles of Piety | |
|------|--------------|-------|-------------------------|-------|------------------------------|-------|
| | LP. | Index | LP. | Index | LP. | Index |
| 1935 | 77,897 | 100.0 | 3,435 | 100.0 | 6,993 | 100.0 |
| 1936 | 52,091 | 66.9 | 1,928 | 56.1 | 5,852 | 83.7 |
| 1937 | 74,259 | 95.3 | 3,949 | 115.0 | 5,602 | 80.1 |

In general, trade and transport have contracted to a fraction of their former volume. There are no statistics to illustrate the effects

1) Commercial Bulletins of Government Dept. of Customs, Excise and Trade.

2) Mainly strike period.

3) General Monthly Bulletin of Current Statistics, January 1937 and January 1938.

of the political upheaval on motor-car transport which occupies an important place in the Arab economy, but there is no doubt that it has suffered severely. Wages have also declined considerably, reflecting the privation to which the wage-earners have been subjected. Although, during the strike, "doles" were distributed by the Strike Committee, this could not serve as a sufficient substitute for regular wages and, as the figures below show, wage-rates deteriorated even further in 1937:—

Weighted Index of 8 Groups of Arab Wages.

| | | | | |
|------------|------------|-----|-----|-------|
| | 1931 = 100 | | | |
| 1934 | ... | ... | ... | 112.4 |
| 1935 | ... | ... | ... | 110.3 |
| 1936 | ... | ... | ... | 104.1 |
| Sept. 1937 | ... | ... | ... | 98.5 |

An effective general indication of the bad situation in the Arab towns is provided by the Municipal budget figures for 1935 and 1936. The comparison with 1920/21 accentuates the low level of revenue in 1936, particularly when the increase in population since that time is remembered:—

Municipal Budgets of 17 All-Arab Towns 1920/21—1936.

| | Revenue | | Expenditure | |
|---------|---------|-------|-------------|-------|
| | LP. | Index | LP. | Index |
| 1920/21 | 56,725 | 100 | 47,589 | 100 |
| 1935 | 79,509 | 140 | 75,876 | 159 |
| 1936 | 58,885 | 104 | 56,441 | 119 |

The final blow to the Arab economy in these years was provided by the failure of the citrus crop in 1935/36 and the extremely bad prices fetched in the 1936/37 season. The Arabs suffered from the bad prices even more severely than the Jews, as the Arab sales are concentrated on the British market — where the price decline was particularly violent — whereas the Jews were able to compensate for part of their losses on the British market by their more profitable sales to Continental markets. Also, there was a higher percentage of rot among Arab citrus exports than among Jewish.

Perhaps the best reflection of the economic distress among the Arabs is given by the vital statistics for 1937, when the destitution among broad strata of the population began to make itself felt. In 1936 it was still too soon after the prosperity period for any pronounced change to be noticeable. A lag of demographic developments behind

economic processes is, of course, inevitable, and can be observed only after a period of time has elapsed.

Moslem Vital Statistics.¹⁾

| | 1936 | 1937 | Difference in 1937 |
|--------------------------------------|--------|--------|-----------------------|
| No. of births | 41,543 | 40,261 | - 1,282 |
| No. of deaths | 15,624 | 20,091 | + 4,467 |
| No. of infant deaths | 5,657 | 7,219 | + 1,562 |
| Birth rate per 1000 of population | 53.14 | 49.74 | - 3.40 |
| Death rate per 1000 of population | 19.98 | 24.82 | + 4.84 |
| Infant mortality rate | 136.2 | 179.3 | + 43.1 |

We see from this, that both the absolute number of births and the birth-rates among the Moslems have fallen, whereas the absolute number of deaths and the death rates have risen. There has been a particularly heavy increase in infant mortality. How striking this deterioration is, can only be fully appreciated when the very substantial improvement of the previous years is borne in mind. Among the non-Jews, the death-rate in Palestine had fallen from 31.4 in 1927 to 22.3 in 1935 and the infant mortality rate had fallen from 213.4 to 146.

Just as this picture of the Arab economy in 1936 and 1937 has been coloured by the political turmoil of the period, so will future trends hang intimately on political events. It is obvious that both the Jewish and the Arab economic organisms are on the threshold of a new epoch in their development, and the events of the next few years — both at home and abroad — will, in all likelihood, be the decisive factor in shaping the nature of the Palestine economy of the future.

¹⁾ Government Bulletin of Current Statistics, March 1938.