

Chapter 4

THE CHALLENGE AND ITS CONSTRAINTS



Under the pressure of the Belgian diamond interests concerned active machinery has been set up in London for the defense of Belgian diamond interests. We submit that it would be only fair if we too were afforded similar facilities for maintaining direct personal contact with all the factors concerned, especially with a view to convincing the Belgians that our own industry in Palestine will not be a rival of theirs, and that in post-war plans we could cooperate to the benefit of both of us.

—Oved Ben-Ami to John L. Fletcher, 12 January 1944,
ISA/RG 5/1463/19.

In Antwerp's Absence

The PDMA's steadfast guarding of its autonomy and right for social incorporation in the Yishuv would not have been possible but for the dramatic performance of the nascent industry. Indeed the take-off of diamond cutting during the war gave the manufacturers an economic confidence in such a short span of time that they often seemed too self-assured to the bureaucrats at the Jewish Agency and to the workers' unions and were occasionally disparaged. This imagery, cultivated by the enclosed ecology of the diamond-cutting workplace and the secretive aura of the PDMA's inner deliberations and ties with the Diamond Syndicate, was perhaps the

clearest symptom of the penetration of capitalist culture. The confidence of the manufacturers found expression also in the Hebrew and English press, while outside Palestine it evoked praise and amazement, partly because of the reputed fluctuations of the diamond business.¹

In London, in particular, where exiled Belgian circles were planning their postwar future, the information coming out of Palestine on the expansion of its export of polished diamonds to the US seemed menacing. This was indeed puzzling. If upon the birth of the industry the British and De Beers imposed on the diamond industry in Palestine the principle of “limited expansion,” and if COFDI’s activity in London was a constant reminder to the authorities in the United Kingdom that Belgium’s future recovery should not be compromised—how could the spurt of the Palestine diamond industry that these reactions testified to be explained?

The historian is fortunate that the swift expansion of the industry in the early 1940s has been accounted for and interpreted over and over again by contemporaries. The industry itself felt a persistent need to shape its purchasing and selling policies on the basis of daily analysis of the American market and the demand capacities of places such as India and Canada. Reporting to the British on exports was an essential component in relations between the PDMA, the DTC, and the authorities. The committees occasionally established in Palestine and London to regulate the diamond industry and plan its future amassed an enormous amount of testimonies of manufacturers, merchants, workers, and bankers on the industry and its peculiarities. Above all, the distinct image contemporaries held—abroad, no less than in Palestine itself—of the sudden and breathtaking progress of the industry popularized the affairs of the manufacturers and workers, made the daily press a consistent reporter of its changing motions, and produced a climate of both curiosity and suspicion. Mostly emphasized in these sources was the extent to which the spurt was a multifaceted phenomenon, originating in a complex of intersecting material and political contexts and forces and continuously depending on market fluctuations and political circumstance.²

Let us begin with resources. The occupation of Belgium created the crucial precondition for the growth of the Palestine diamond industry during the war—the absence of Belgian competition. Long before all other causes for the spurt emerged, the paralysis of the Belgian diamond trade and industry was the key factor enabling the proliferation of other centers including Palestine’s. The creation of COFDI in London in autumn 1940 aimed to bring back Antwerp into the competitive scene after the termination of the occupation, but it could only attempt at containing Palestine’s advance, not its total thwarting. Thus as a replacement for Belgium’s pre-war hegemony the industry in Palestine could thrive on the noncompetitive climate that the German occupation of the Low Countries created.

German diamond products also disappeared temporarily from the American markets following aggressive Allied economic warfare and trading embargoes. Other countries (South Africa and Brazil, for example) could achieve a marketing advantage in America if they exported industrial diamonds; but in cutting small stones they could hardly surpass the quality of the Palestine product, nor its competitive price. These were the advantages Palestine enjoyed during the war—and as we shall see in a later chapter would lose on Belgium's return to business.³

In such a climate Palestine could use to the full the success of De Beers and its selling organization. World War II marked a continuous rise in world sales of rough diamonds by the DTC, and close links evolved between the needs created by the warring countries and the profits of the cartel. As can be seen in the table below, from the establishment of the Diamond Syndicate in the mid-1930s until the end of the war in 1945 the cartel was a tremendously successful business giant on which many entrepreneurs and countries depended. Moreover, the supply of rough diamonds arriving from the syndicate, and on which Palestine was dependent (despite a flourishing Middle Eastern black market in diamonds), was part of this significant upturn in De Beers's world sales. By mid-1942 sales were almost double the prewar quantities, and compared to 1939 they increased at the end of the war in 1945 by almost 300 percent.⁴

Table 4.1 Rough diamonds sales by the Diamond Trading Company, 1938–1945 (Million Pounds Sterling)

	Jewelry Diamonds	Industrial Diamonds	Total
1938			3.7
1939			5.9
1940			6.1
1941	5.4	2.0	7.4
1942	6.25	4.25	10.7
1943	15.0	5.4	20.4

Source: Albert Ehrenfeld, "Israel Diamond Industry," *Israel Economist Annual—1952* (Jerusalem, 1953): 137; Albert Ehrenfeld, "Israel Diamond Industry in 1953 and 1954," *Israel Economist Annual—1954* (Jerusalem, 1955): 113.

Behind this increase were the war, the economy the warring countries ran, and the war-related individual consumption of diamonds. States' policies revealed a twofold picture. On the one hand the industrial uses of rough diamonds were crucial to the warring and nonwarring countries alike. The properties of hardness and durability made diamonds important

for the automotive and aircraft industries. Diamond tools were known to last long, work fast, and offer precision in cutting various substances, and their use in optical manufacturing and in drilling gas and oil turned them indispensable. On the other hand states advanced and protected their diamond industries in order to expand exports and gain the American dollars so direly needed during these times of war and economic warfare. And they could do so partly because of the reserves of high-quality rough diamonds the syndicate accumulated during the depression of the 1930s that allowed their sale at low prices.

This mix of state and business sources for growth was greatly assisted by the fact that the Belgian Congo, Sierra Leone, and South Africa were kept outside the orbit of the war, and their mined and alluvial diamonds could be sent continuously to London for sorting and distribution. But-tressing this continuity was Forminière, the Belgian group of producers of diamonds in the Kasai province in the Belgian Congo, which maintained the arrangement with De Beers to market the diamonds mostly through the syndicate. So was the De Beers's subsidiary, the Sierra Leone Selection Trust. As we saw earlier, one of SLST's directors, Mathias, played a crucial role in diamond advising at the Ministry of Economic Warfare and in the development of the industry in Palestine.⁵

In this diamond production scene, Palestine had a clear role. Its diamond industry was part of the gem-quality diamond business, not of the industrial one. And it was perceived by the British as an exporting mechanism of finished diamonds for obtaining American dollars, and thereby maintaining the economic war effort—in the Middle East and beyond. Stones of less quality and fit for industrial uses, or crushed diamond powder used in the cutting process, were excluded, and were ordered by the British to be sent from Palestine back to the syndicate.⁶ Moreover, the small stones the syndicate sent through Hennig & Co. were drawn from De Beers reserves accumulated during the 1930s. This made the industry in Palestine a “designed customer” of rough diamonds, feeding directly from the London selling mechanism, and only indirectly from the mines in Africa.⁷

In the absence of the purchasing activity of Antwerp, the Diamond Syndicate's sales to Palestine during the war grew dramatically. One estimate pointed to an annual LP1.5 million purchase of the total quantity of gem stones the syndicate sold of LP15 Million during 1942–1943. Of the total turnover of the syndicate of small stones (Sand and Melees), Palestine's share was 30–50 percent annually.

Table 4.2 Palestine's rough diamond imports from the Diamond Trading Company, 1940–1943

	Carat (in thousands)	LP (in thousands)	% Eight-Cut in import
1940	11	25	80.74
1941	58	154	69.21
1942	179	372	69.56
1943	472	1,139	64.17

Note: Eight-cut is also known as “old single-cut.”

Source: Editor, “The Diamond Industry,” *The Israel Economist Annual 1949–1950* (Jerusalem, 1950): 149.

This tremendous increase—and the predominant share of small stones therein—testified to the policy of the British and De Beers to assure steady supplies. However, they also demonstrated the reciprocity created between De Beers's needs to sell their reserves on the one hand, and the industry in Palestine to stand on its feet on the other. The reciprocity was greatly assisted by the favorable attitude of the British, as was reflected in the absence of customs duties. As a typical wartime industry, the steady supply of the raw material was a crucially determinant factor in the rate of growth. Evidently speedy development was achieved by a noted difference from the prewar Belgian diamond industry where polishing owners bought the rough diamonds not directly from the syndicate but from Belgian dealers. The direct link between the PDMA and the syndicate that the British encouraged cancelled out this problem and significantly lowered the purchasing costs for the owners and manufacturers—in particular, as the prices in America for polished stones rose during the war by almost 70 percent. Consequently, compared to 10 percent average profit for a single diamond manufacturer in prewar Belgium, in Palestine profits soared to 30 percent and even to 40 percent. No wonder the nascent industry was so attractive for capital owners in Tel Aviv, Netanya, and Jerusalem, and for many who had no previous stake or background in diamond cutting and trading.⁸

The increase in the Diamond Syndicate's sales and the fact that all Palestine's finished stones were destined (by a government directive) for export draws our attention to consumption and in particular to the American consumer. Individual consumption of jewelry diamonds has been mostly based on the demand for diamond-set engagement rings—the consumers seeking symbols of everlasting love, marital bond, or investment. As a luxury item (which included also small stones set in watches and bracelets) diamonds have always been valued by individual consumers because of

their cost, their utility deriving from showing off wealth, from using diamonds as a store of value, and by giving them as a gift of value. This has been known to all involved in the industry as the “diamond effect”—its value counting much more than the diamond itself or its size. That was why during economic boom the consumers’ demand for diamonds rose and during crises (economic depressions and wars)—when currency was restricted or foreign exchange rates were destabilized—speculators joined in and further increased the demand.⁹ The consumption of diamonds in the United States in 1940–1943 followed this pattern.

Palestine’s dependency on demand for polished diamonds in the US was grounded, however, in a wider historical tradition. The demand for diamonds in America after the Civil War of 1861–1865, and the discoveries of diamond mines in South Africa and Brazil in the late 1860s, were influential factors in the boom of the Dutch diamond industry after 1870 (known as the Cape period). It also affected the large-scale absorption of Jews as diamond workers in Amsterdam and the flourishing of diamond trading in the Dutch Jewish community.¹⁰ American consumption of diamonds clearly affected the diamond industry of 1920s Antwerp, and the fall in American demand during the Great Depression equally impacted employment levels of the city’s diamond cutters and polishers.¹¹

Moreover, parallel to the birth to the cutting and polishing industry in Palestine, a related and relevant process was taking place in the United States. In 1937–1938 the prices of diamonds in Europe were on the decline and De Beers was forced to improve its market strategy for the American consumer. This resulted in one of the more influential commercial campaigns in history, conducted by De Beers and the American Ayer & Son advertising company. Which focused on strengthening the association between the engagement ritual and the diamond engagement ring in the minds of American consumers. Concurrently many speculators exploited the downturn of prices of diamonds in the late 1930s and accumulated stocks that they would sell now in better prices. Thus already before America’s entry to the war in December 1941 diamond acquisition by consumers and speculators increased, the price of diamonds soared, and it reached in the following years the peak that fittingly served Palestine. Partly based on the increasing purchase of diamonds as a safer replacement for bonds and an inflation hedge, and partly on the popularization of the diamond ring in engagement rituals, the demand for polished diamonds rose, surpassing even the levels of the Allies’ demand for industrial diamonds.¹²

Palestine could benefit therefore from the advancing of diamond consumption in wartime—encapsulated, as noted in 1943 by a diamond analyst in Palestine, in the slogan “You cannot ration romance.” Be that as it may, the main reason why the growing American demand for finished

stones was oriented towards Palestine was the paralysis of the Low Countries and the severing of linkages between the American market from these traditional cutting centers. The demand also followed the quickly spreading recognition that the industry in Netanya and Tel Aviv had successfully replaced Antwerp and the German centers of Hanau and Idar Oberstein. Palestine became known now for its specialization in the small stone, it could thrive on the image of the transplantation of the know-how and skill from Antwerp, it made all aware of the inventive adaptations of the cutting machines practiced in its factories, and it could benefit from the favorable evaluation by international diamond circles of the fine workmanship of the Palestine industry in stones of small sizes. Other centers such as England, Puerto Rico, Rio de Janeiro, or Cuba lagged behind Palestine because of their size; the wider variety of stones they cut, which harmed cutting quality; and Palestine's superior cutting technology.

There was, however, another reason for the American focus on Palestine. While the official rate of exchange between the American dollar and the British pound caused wages of diamond workers in Palestine to be considerably high, for the standards of living in the United States they were still considerably low. The gap excluded the possibility of competition between Palestine and the cutting centers in the US that cut small diamonds. Finally, Jewish diamond merchants and dealers in New York campaigned now to boycott diamond trading with the Germans and to focus on Palestine products instead. After all, the latter were known to be relatively cheap, steadily supplied by De Beers, and backed by the British authorities.¹³

The boom in the diamond industry should also be understood in a local context. Since the beginning of British Mandate rule Palestine experienced two economic upsurges—in the mid-1920s and early 1930s—but they were pale in comparison to the dimensions of the economic change brought about by World War II. Previous booms were associated with Jewish immigration to Palestine and with the import of capital and skill. The boom of the early 1940s, which followed the cessation of immigration to Palestine, was entirely the result of the outbreak of the war. It was the demand created by the British Army and the turning of the Middle East into the Allies' supply center that allowed the capital and skill that had gathered in Palestine in the 1930s to ripen and become operational. Industry surpassed agriculture as a leading sector, unemployment that had greatly troubled Palestine on the eve of the war disappeared, the living standards among both the working and the middle classes increased, and as usual in such periods, workers became more militant, sensing the opportunity to extract gains in wages and employment conditions from their employers. In all these parameters the diamond industry, which became by 1943 the

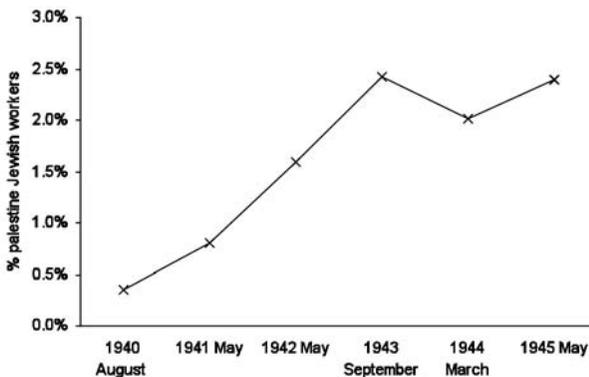
world's largest single source of small gem diamonds, expanded incomparably much higher and quicker.¹⁴

Table 4.3 Growth of the Palestine diamond industry, 1940–1945

	Diamond Factories	Diamond Workers	Other Employees	Total Employed	Palestine's Jewish Workers (exc. Spouses)
1940 August	6	420	60	500	120,000
1941 May	12	1,000	200	1,200	125,000
1942 May	33	2,100	400	2,500	132,000
1943 September	33	3,341	418	3,759	138,000
1944 March	32	2,875	455	3,601	143,000
1945 May	33	3,650	399	4,043	152,000

Sources: NCA, G/101/760 and 124/1027; Gurevich, *Workers' Wages*; Oved Ben-Ami, "Die Diamantindustrie in Palastina," *Schweizer Goldschmied* 5 (May 1948): 32–33; "The Diamond Industry," *The Israel Economist Annual 1949–1950* (Jerusalem, 1950): 148; Gershon Cwydrovich, "Manpower and Working Age in the Yishuv," *Hameshek Hashitufi* (30 January 1948): 8–11.

Figure 4.1 Diamond workers as percentage of Palestine's Jewish workers



Sources: NCA, G/101/760 and 124/1027; Gurevich, *Workers' Wages*; "Die Diamantindustrie in Palastina," *Schweizer Goldschmied*, 5 (May 1948); "The Diamond Industry," *The Israel Economist Annual 1949–1950* (Jerusalem, 1950): 148; Gershon Cwydrovich, "Manpower and Working Age in the Yishuv," *Hameshek Hashitufi* (30 January 1948): 8–11.

What were the effects? The growth of the diamond industry reflected the impact of the war on the booming of the Palestine economy: first, the short span of time in which the factories and workforce were created and second, in coming very quickly to resemble other typical war-related industries such as food, clothing, and machinery in the high number of workers per plant.

Table 4.4 Growth of industry in Palestine's Jewish sector, 1937 & 1943

	Plants		Personnel		Personnel per plant
	1937	1943	1937	1943	1943
Food	290	383	3,676	7,377	19.7
Metal Works	178	191	1,957	5,716	29.9
Textiles	86	247	1,508	5,632	22.8
Chemical Products	71	180	2,002	4,795	26.6
Machinery	88	208	915	4,058	19.5
<i>Diamonds</i>	-	32	-	3,571	111.6
Clothes	124	184	1,264	2,802	15.2
Printing & Paper	157	193	2,282	2,226	11.5
Electrical Appliances	38	54	332	2,146	39.7
Stone & Cement	156	72	3,058	1,966	27.3
Leather	61	124	842	1,806	14.6
Woodwork	246	180	2,048	1,644	9.1
Miscellaneous	57	72	674	1,310	18.2
<i>Total</i>	1,552	2,120	20,594	45,049	21.2

Note: The first two diamond workshops were established during 1937 and therefore were not recorded. At the end of 1940 there were 6 diamond plants, thus the bulk of the 32 plants were established in 1941–1942. In summer 1943 the number of factories was 33.

Sources: Industrial Census 1937 and 1943 according to David Gurevich, Aharon Gertz, and Arie Zanker, *Statistical Handbook of Jewish Palestine 1947* (Jerusalem, 1947); Shlomit Mishka, "Structural Changes in the Industry during 1939–1947," *Hameshekh Hashitufi* (5 August 1948): 127–28.

Compared to the initiation of the diamond industry in the late 1930s, the extent of the phenomenon was indeed dramatic. In the four years between the end of 1939 and summer 1943 the number of diamond factories increased from 4 to 33, and the number of the employed from a mere 100 to almost 3,800. Between 1941 and 1944 more than LP1.5 million was invested in the factories in purchase of raw material, wages, and acquisition of machinery, and the number of sawing, cutting, and polishing machines increased from 2,937 to 6,841 respectively. These numbers may have concealed the characteristic lower added value of the diamond industry, namely, that the costs paid by the manufacturers on raw materials and labor decreased profits, but it hardly lessened the impact. Between 1942 and 1945 the net labor productivity per worker employed in the diamond industry increased from LP 244 to LP 718 and from LPP 676,000 net branch productivity to LP 2,390,000. In 1945, only few years after its

establishment, the productivity of the diamond industry constituted some 8 percent of all Palestine industry.¹⁵

The take-off was clearly seen in the increase in the export of the finished diamonds and in the central role the American market played in absorbing these exports. While in 1941 the export of diamonds to the US and Egypt was largely similar, in the following year almost all exports were sent to New York, reaching in 1943 almost 90 percent of the entire export. The rest that year went from Palestine to Canada, Egypt, and India.

Table 4.5. Palestine's diamond export, 1940–1943 (Carats and LP)

	Carats (% to USA)		LP (% to USA)	
1940	1,032	(100.0)	25,000	(100.0)
1941	6,320	(98.6)	206,719	(96.7)
1942	25,280	(88.3)	926,156	(90.2)
1943	58,655	(88.3)	2,604,857	(88.6)

Sources: Government Report, 1946, 41; Ian W. Gaskin, "Palestine 1939–1945: A Study of Economic Colonial Policy," D.Phil thesis (University of Oxford, 1992), table 6, 346; "The Diamond Industry," *The Israel Economist Annual 1949–1950* (Jerusalem, 1950): 148; Albert Eherenfeld, "Israel Diamond Industry," *Israel Economist Annual—1952* (Jerusalem 1953): 138; Albert Eherenfeld, "Israel Diamond Industry," *Israel Economist Annual—1954* (Jerusalem 1955): 113.

The economic impact was decisive. In 1942 rough diamonds import was 7.5 percent of the entire value of imports of raw materials to Palestine and in 1943 it rose to 10.5 percent. The share of export of polished diamonds in Palestine's entire export grew from 10.9 percent in mid-1942 to 20.3 percent in late 1943. By 1944 the export value of polished diamonds surpassed the value of the entire export of Jewish industry and the value of the entire export of Palestine before the war. Its share in the overall world diamond export was growing steadily, thus making Palestine a world-class producer and exporter and a significant actor in the war economy. Consequently, the dollar income of the British government and the Sterling Bloc expanded significantly.¹⁶

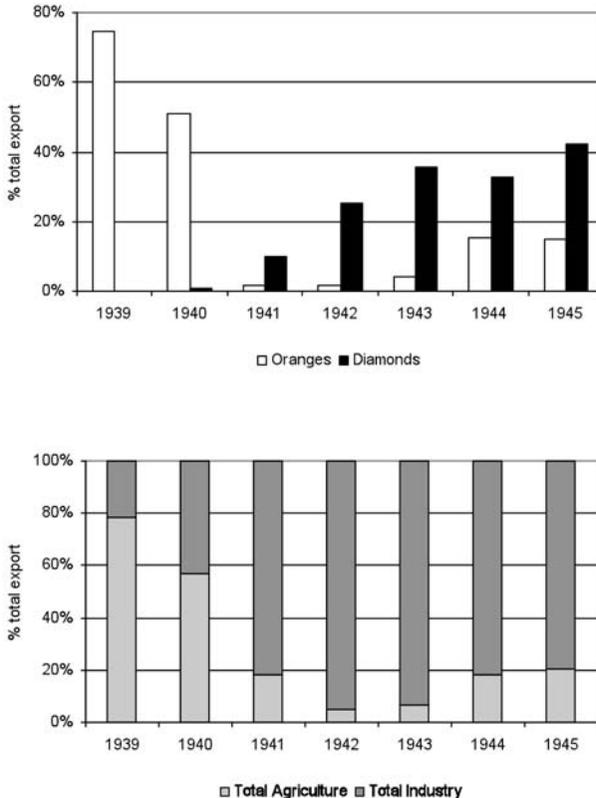
Moreover, the shifting balance in the Yishuv from agriculture as leading sector on the eve of the war to diamonds as a chief exporting branch was one of the hallmarks of the war period. One estimate at the end of 1945 was that the LP 300,000 accrued from the diamond industry was 3.5 percent of all income in Palestine, above 5 percent of all income in the Yishuv, and much above 10 percent of the net income in the Jewish industry.¹⁷

Table 4.6 Composition of Palestine’s merchandise export, 1939–1945 (%)

	Agricultural Produce			Industrial Produce			Total Export
	Oranges	Others	All Agriculture	Diamonds	Others	All Industry	
1939	74.5	4.1	78.6	-	21.4	21.4	100.0
1940	50.9	6.0	56.9	0.9	42.2	43.1	100.0
1941	1.8	16.6	18.4	10.0	71.6	81.6	100.0
1942	1.6	3.6	5.2	25.2	69.6	94.8	100.0
1943	4.3	2.3	6.6	35.5	57.9	93.4	100.0
1944	15.5	3.0	18.5	32.6	48.9	81.5	100.0
1945	14.8	5.8	20.6	42.3	37.1	79.4	100.0

Source: Based on the sources cited in Nachum Gross, *Not by Spirit Alone: Studies in the Economic History of Modern Palestine and Israel* (Jerusalem 1999), 321.

Figure 4.2 Composition of Palestine’s merchandise export, 1939–1945 (%)



Source: Based on the sources cited in Gross, *Not by Spirit Alone*, 321.

Intermittent downturns could of course moderate the expansion. When in December 1941 the United States entered the war against Germany and Japan following the attack on Pearl Harbor, the demand for engagement rings fell and prices dropped. In parallel, military recruitment in the United Kingdom reduced personnel at the syndicate, which were needed to sort the diamonds and care for their shipments. For these reasons Palestine experienced a temporary slowdown of production during the winter of 1942, hitting some workshops quite badly and even provoking unrest and protest among the workers. However, if not for the restraints imposed on the industry—to which we will turn shortly—its expansion would have been much more intense. In a short time some 15,000 to 20,000 persons in Netanya, Tel Aviv, and Jerusalem were fed by and made dependent on diamond production, changing Netanya’s social structure and urban landscape, and causing widespread amazement and bafflement.¹⁸

Table 4.7 Urban population in Palestine, 1931 and 1944

	Total		Jews	
	1931	1944	1931	1944
Total in Towns	420,940	825,880	145,334	415,380
Tel Aviv	47,431	166,660	46,363	166,000
Jaffa	55,346	94,310	7,749	28,000
Netanya	253	4,900	253	4,900
Jerusalem	90,503	157,080	51,222	97,000

Source: Government of Palestine. *Statistical Abstract of Palestine 1944–1945*. Jerusalem, 1945.

Among contemporaries there were those who were in favor of this “mushroom growth,” as some named it, stressed the industry’s absorptive capacity (of pre-1939 immigrants and unemployed), immense contribution to Palestine’s trade balance and to the war effort, and, no less so, its part in cementing the infrastructure for the Yishuv’s autonomous economy. But there were also those who suspected the speediness of the spurt, disliked the reliance of the Zionist polity and its industry on exogenous factors, or were simply saddened by the veering of the Yishuv towards manufacturing of luxury goods for the world middle classes and towards capitalism per se. Hardly anyone failed to see the contrast between the exponential rise in standards of living in Palestine and the terrible fate of the Jews in Europe. The boom in production of a luxury item such as diamonds readily seemed to be one of its blatant expressions.¹⁹

The Politics of Supply

The persistence of the expansion of the industry seemed certain as long as the Belgian diamond industry was paralyzed, the demand in New York for the Palestine-produced stones was unabated, and the chain system was eking out of the workers a high level of productivity in polishing small stones. Protected by the British, these factors coalesced into a recognized structure of activity that the Palestine manufacturers and workers began to take for granted. However, weighty as these factors were in explaining the spurt, they could not be separated from a fundamental dimension on which the entire Palestine project depended—the supply of raw materials. As a dynamic system of relations and intersecting interests created by the conditions of the war, this dimension knew occasional fluctuations and much politics. The politics of supply was earlier explicated as a set of relations that unfolded in London between the PDMA, the MEW, and the DTC on the one hand, and the pressures exerted by the COFDI-Belgian lobby on the other (see chapter 2). This politics was the arena of the industry's "foreign relations" on which depended the decisions on the material lifeline of the industry, and which harbored the potential of the industry's demise.

Two vectors in this arena were clearly set on a path to clash. One was Palestine's industry taking off and breaking the agreed-upon (but largely undefined) limitations on its expansion. The other was the quest of Belgian diamond circles in London to see their industry in Antwerp recover the world supremacy it had enjoyed before being paralyzed by the German occupation. The tension between the two forces was the reason why the PDMA's president Ben-Ami spent so many months of the war in London attempting to secure supplies of raw material. His telegrams to the PDMA, letters to his family, and the information he consistently took care to convey to the press revealed the extent to which the hard-fought campaign for Palestine's supplies, and by implication for its sustained growth, integrated the diamond factories and the PDMA's offices in Netanya and Tel Aviv into a much larger geopolitical web.²⁰

To reiterate—the main reasons why Palestine received supplies of raw diamonds from the Diamond Syndicate was Palestine's perceived role as an alternative to Antwerp, a barrier against diamonds reaching the Germans, a buyer of De Beers's reserves, and a promising dollar-earner for the British. Once Palestine committed itself to buy rough diamonds only at the syndicate—and this commitment was guaranteed by the government—stones began to arrive in Netanya and Tel Aviv. The Belgian government-in-exile and COFDI activists who often expressed their criticism of the cutting centers "taking advantage of Belgium's misfortune" could not easily disrupt this new system. After all, they were hosted by the

country that led the anti-German campaign, and the British promised to regulate Palestine's advancement. In a way, therefore, COFDI developed in conflict with the active support the British gave the PDMA, a support that manifested itself, for example, in the British decision in late 1941 to include the Palestine diamond industry in the British-sponsored trade exhibition in Cairo.²¹

Evidently, the attention of the Belgian government in London focused on building reserves for future recovery and less on the practical limitation of Palestine's advance—a role that the British took upon themselves and was expressed in supervising the selection of the PDMA's members. In fact the exiled Belgians in London and the officials at the Foreign and Colonial Offices were never indifferent to Palestine's advance, and, as we saw earlier, the slowdown at the turn of 1942 in admitting new manufacturers to the PDMA reflected this international sensitivity. The "limited expansion" principle was never altered and was occasionally reiterated to the PDMA's leaders as a precondition still in force for further supplies of raw material from the syndicate. However the stir that the spurt caused now was of a new scale because the context had changed.²²

First and foremost was the entry of America to the war in late 1941, and its impact on relations with the Allies and the United Kingdom in particular. Matters relating to diamond production would now be part of the military and economic cooperation between the British and the Americans, and from 1943 onwards a joint Anglo-American diamond committee would intensively deal with the thorny issue of the wartime role and freedom of action of the De Beers cartel.²³ The relevance of these contacts to Palestine was in the increasing importance of the minerals of the Belgian Congo (such as uranium, which was essential for the Manhattan Project) to the American war economy, and consequently the need of the Allies to develop good relations with the Belgian government-in-exile in London.²⁴

From this followed the second change—the splitting of the Belgian diamond industry. One part was under German occupation and was swiftly adapted to the military, financial, and ideological interests of Nazi Germany. The other part was free. It consisted of the refugees in London, leading politicians such as Camille Huysmans who ran the exiled government and COFDI (see chapter 2), and activists in diamond production in the Belgian Congo, the resources of which were mobilized for the war effort. Palestine's success seemed ominous to these actors, in particular because it specialized in the small stone, got hold of the American market, and turned into a regular customer of the syndicate. The argument the PDMA voiced since early on that it did not orient itself to compete with Belgium but rather to inherit the pre-1940 German diamond industry did not convince the Belgians, who remembered well how much they had toiled to

reach their world supremacy in diamonds in the two decades before the war.²⁵ Furthermore, what mattered most to the British and the Americans in view of the importance of the Belgian Congo was not to alienate the Belgians. Any challenge to Belgium's economic future was now sensitive, and the British dilemma between encouraging the production of diamonds in Palestine and limiting its expansion so as not to endanger the recovery of the Belgian diamond industry deepened.²⁶

A third change raised the issue of regional control. By late 1941 the Germans already occupied most of Europe. As they were reaching the limits of their territorial expansion they began to prepare for a long war, aiming mainly to sustain the war against Russia. Consequently they increased the ruthless exploitation of the occupied countries, partly by hardening their attitude towards those who until the occupation were involved in the diamond industry. The "Aryanization" of the Belgian diamond industry advanced quickly during 1942, entailing confiscation of property, forced production, and completely excluding Jews from the rest of Belgian society. Similarly the proliferation of diamond-cutting centers (in Rio de Janeiro, Palestine, Puerto Rico, the Dutch East Indies, South Africa, the United States, Cuba, Venezuela, and British Guiana) widened the possibilities open to the German to obtain diamonds and use them for either industrial needs or as a financial resource. It was against this background that the Joint Boycott Council of the American Jewish Congress and the Jewish Labor Committee formed in late summer 1941 a committee to combat increasing German sales (of diamonds looted by the Nazis) in the US. Likewise, stricter control in Palestine aimed specifically against the emergence of what was defined as "uncontrolled" diamond trade and its spreading to the Middle East.²⁷ Despite British efforts, large quantities of diamonds were informally traded in Egypt, Sudan, and Turkey, many of which reached the Germans.²⁸

In this tense climate the challenge Palestine posed to "limited expansion" was perceived in a new light. It not only posed a threat to the post-war recovery of the Belgian diamond industry but also placed an additional burden on the British in their efforts to stem diamond traffic from the Middle East to Germany. Moreover it menacingly provoked the Belgians in London to use the Belgian Congo as a lever to press the Allies. As much as the diamond industry in Palestine served the war effort, it also seemed to harbor a price that was becoming too high for both the Belgians and the British to pay.²⁹

The British authorities were not blind to the challenge Palestine was beginning to pose both to "limited expansion" and to the logic of the COFDI response. Moreover, the industry continued to attract new capital owners and manufacturers and soon the British could witness the consequences of the rush—inner competitiveness over experts and supplies, overpro-

duction in the factories, flourishing of home work, and deterioration of the quality of the polished stones. Fletcher and Walsh took care to make the PDMA aware of the limits they were about to cross. PDMA members were repeatedly reminded that they should conform to the rules laid on its establishment. They were warned in particular to avoid the temptation to buy diamonds not from the DTC but directly from dealers in diamond-producing countries such as British Guiana and South Africa, or to market polished diamonds in Palestine and the Middle East. British worry that local, regional marketing would end in diamonds reaching the Germans tightened control over the factories as reflected in the new insistence on accountability.³⁰ Moreover, in August 1941 the PDMA and the British inspectors began to reject new applications for membership in the PDMA. "Honorable friends," Ben-Ami wrote to the members in August 1941, "this decision does not intend to close ourselves, neither does it intend to prevent members as manufacturers to obtain monopolistic positions in this industry. Our branch is almost the only one that does not fear the competition and the growth in product quantities. However, this decision would serve as a shutter against many difficulties and disturbances."³¹ None of these steps were fruitful, however, and for many international observers the growth of the diamond industry in Palestine seemed unstoppable. Indeed, the growth in production and exports during 1942 showed that what happened in Palestine since May 1940 was nothing less than spectacular, that the "limited expansion" principle was unrealizable, and that while Palestine served well the purposes set for it early in the war, it had to be further contained.³²

In London the Belgians increased the pressure. The minerals in the Belgian Congo were becoming so important for the British and the Americans that any signs that the Belgians would not market rough diamonds through London and the syndicate (based on the agreement that was about to be renewed in summer 1942) became a frightening prospect. Furthermore, the British noted that manufacturers in Palestine transgressed the rules set for the industry's operation by accumulating a large stock of rough diamonds that were unsuitable for cutting and were supposed to be returned to London. The risk felt in London was that the rough diamonds would be traded illicitly and may even reach Middle Eastern markets and finally the Germans. Thus in July 1942 the CO ordered the government in Palestine to publish new Defense Regulations on diamond control. An elaborate system of bookkeeping, complete with full monthly returns prepared under the supervision of chartered accountants, was introduced as compulsory in all the factories and at the PDMA's offices. The system, placed under the new post in Palestine of the controller of Light Industries, and aimed in the final instance to contain Palestine's advance, applied a full control on each stone cut, from the moment of arrival in Palestine until its shipment

as a finished stone to world markets.³³ The post of controller, held first by John Leslie Fletcher, the Customs functionary who already in 1939–1940 was instrumental in the establishment of the industry, formally introduced Diamond Control in Palestine, reflecting the British perception that the matter required special treatment and making all involved aware of the needed limitation. “The position today is extremely delicate,” warned Mathias in September 1942 at the MEW, “and every effort must be made to allay fears on the part of the Belgian Government that moves within the Empire may greatly interfere with the post-war industry in Antwerp (Palestine’s policy is rather frightening).” Indeed this was followed in the autumn by a clear British message to the PDMA that no additional factories would be approved from now on, no more manufacturing licenses would be issued, and no one would be allowed to become a shareholder in an existing factory without the approval of the light industries controller. A standstill order was issued in November 1942 that set the number of manufacturers at a maximum of thirty-three—a ceiling that was to be maintained until the end of the war.³⁴

In reality neither the formalization of British Diamond Control nor the restriction on local production pacified the Belgians. CODFI, the representative of diamond interests, consequently became ever more vocal in 1943 and openly used the lever of the minerals of Belgian Congo to curtail further developments in the various cutting centers. Palestine was increasingly caught in the politics of the rehabilitation in Europe after the war and part of a larger system that affected its factories. In this system the interest in keeping good relations with the Belgians gradually overshadowed the interest in Palestine’s role as a temporary alternative to Belgium or as an earner of foreign exchange. This was true both for the MEW and De Beers, the first getting more involved in the periodic fluctuations in supply of rough stones, the latter signaling its willingness to use the leverage of supply to avert Palestine’s becoming serious competition to postwar Belgium. The more the Palestine industry succeeded in the American market, the more the local means of its restraint seemed futile, the greater became the role of exogenous forces in responding to the challenges Palestine posed. That this entanglement occurred when the decimation of European Jewry was in full force and the Zionist Movement was decidedly demanding the establishment of a Jewish state in Palestine deeply impacted the fate of the diamond industry.³⁵

Adamant London

In August 1943 the Diamond Syndicate suddenly decreased the supply of the small stones to Palestine, and recommended that the diamond indus-

try diversify the stones it was cutting from predominantly eight-cuts and Sand to Melees. If up to now eight-cuts were 75–80 percent of the output and Melees were the remainder, now the ratio would have to be changed to 80 percent Melees and 20 percent eight-cuts. Furthermore if the average size of the polished stones (in eight-cuts) was until now 70–80 stones per carat, now it would be 5–15 stones per carat (in Melees). This entailed obvious consequences—less labor needed to cut the stones, retraining workers to work on Melees, and higher prices of the Palestine stones for the American consumer. Three reasons were clearly behind this change of supply. First, the Sand on which the Palestine industry thrived came in 1940–1943 from accumulated stocks from South African, Belgian Congolese, and Sierra Leonean mines, and these had dwindled. Second, the syndicate had obligations to the Belgian diamond-cutting industry and decided to take into consideration that what was mined in the Belgian Congo and sent to London would go mainly to them. Third, the supply of Sand to Palestine was a war measure and when the war was over, so it was argued, the quantities of Sand sent to Palestine would be negligible.³⁶

The syndicate's turnabout could have been anticipated. On the establishment of the industry in mid-1940, Palestine was recommended by Oppenheimer and Mathias not to specialize in a single type of stone and cut. Many voices were heard in those years from the experts and managers warning that specializing and too-speedy expansion were dangerous and problematic. All were aware of the fact that on Belgium's liberation it would not tolerate the competition that this specialization harbored. However, when the change came, the shock was immense. It signaled that the trust the British had in the PDMA was cracking, and that they coalesced with the Belgians and the cartel to make the limitation of Palestine's expansion more effective. The reign of the small stone, its overwhelming effect on production processes and employment relations, was about to end.³⁷

To effect these changes, the Palestine government established in August 1943 a Diamond Control Board (DCB), thus adding bureaucratization and formalization of the British presence in the industry to the change of supplies.³⁸ The new institution had to report daily to the government on the regulation of the diamond industry, inspect its import and export activities, advise the PDMA on its internal affairs, and even deal with labor unrest. Its personnel told of its significance—Geoffrey Walsh, the food controller and the government's economic advisor, as its chair; John Fletcher of the Customs Department and controller of light industries, another representative of the government's financial secretary; Oved Ben-Ami and Yehoshua Mazur from the PDMA; Oscar Fischer, the diamond merchant and investor; and David Andreson of the Palestine Corporation. This group would soon be joined by Albert Ehrenfeld, one of the main

shapers of relations between the PDMA, the banks that backed the industry, and the British authorities.³⁹

If until summer 1943 the regimentation of the Palestine diamond industry focused on selecting and licensing manufacturers and factories, now it would be enforced through the type of stones Palestine was allocated. It reflected the conviction in London that effective control of the diamond industry was possible only through supply and a forced change in labor process, that is, the inevitable switch-over in production methods and labor training. As the US, Canada, and India relied heavily on Palestine's output of small stones, their future purchases would have to orient themselves more to other centers (Brazil, Cuba, the US) and to postwar Antwerp. Furthermore, Palestine diamond cutters would have now to improve quality and focus on a uniform standard of output. The change of stones ushered, therefore, also a new atmosphere of competition, long before the removal of protection that would take place two years later. As during this period the government also decided to allow marketing of stones in Palestine itself, an incipient sense of liberalization of controls and its use to moderate the power of the PDMA monopoly was equally emerging.⁴⁰

The suddenness of De Beers's change of supply policy took the PDMA's members by surprise and effectively signaled a beginning of a breach in the trust in relations between Palestine and the DTC. Though Oppenheimer warned already in summer 1940 against Palestine's objection to stone diversity and to its specialization in the cutting and polishing of Sand, the ambition and self-confidence of the local manufacturers sealed their ears. Ben-Ami was from the start aware of the Belgian sensitivity regarding Palestine's competitiveness but he heeded the warnings that the exiled Belgian government and diamantaires in London were powerful enough to steer the syndicate against Palestine's challenge of "limited expansion." Indeed, the Belgians made perfect use of their power in the Congo to let De Beers know that Belgian postwar recovery through Sand diamond cutting preconditioned Congo's continuous supply of rough stones to De Beers. Palestine was part of this politics of supply and Ben-Ami and George Prins (the PDMA's great supporter among the syndicate and brokers' circles in London) took it for granted in their business calculations. The suddenness was therefore a calculated move. It prevented the activation of Zionist circles against the decision, and in creating an abrupt but real threat on diamond manufacturing in Palestine it stunned the PDMA out of a serious response. This was in fact the price Palestine had to pay for its dependence on De Beers, on British interests in Africa, and on the international politics of supply that placed on the chess board places as far away as Congo, Antwerp, London, and Netanya. Still, the radical change should be mainly ascribed to Belgian influence wishing to hamper any further competition in the production of small diamonds. It

was here, months before the end of the German occupation, that it planned its resumption of its prewar position.⁴¹

In a longer perspective the change of stone was as dramatic as the initial agreement by the DTC in winter 1940 to supply Palestine with Sand. First, it marked a deeper intervention of the British in Palestine's industry. It left the PDMA no choice but to start adapting the labor process to a variety of stones, and through the DCB it formalized the control over the industry, which applied new means of pressure. All the means available to the PDMA to resist the change (the Zionist lobbies in London and Johannesburg and the personal contacts with George Prins at Hennig & Co.) seemed weaker than the means of control and dependence employed by the MEW-DCB axis. It was not surprising therefore that the manufacturers would soon start searching for alternative sources of Sand supply (in British Guiana for example) and that this search would turn in 1944–1945 into a heated contention with the government.⁴²

The second effect of the change was the adaptation in the factories. Many of the workers would have now to be retrained, adapt themselves to new types of stones and cuttings, and cultivate new specialization. Many workers would become unemployed in the process, some would have to leave the industry altogether, and new ones would have to be screened. Those workers who could handle a variety of stones and sizes would become more secure and privileged than the less skilled and the newcomers. In turn relations with the unions would change and items in the collective agreement would have to be renegotiated with the Histadrut (which would be empowered by the process). Furthermore, the stone-diversification process increased the significance of the function of the work manager who sorted and distributed the stones to the workers and oversaw their work. The number of work managers would consequently increase and strengthen their separate professional organization. These effects accentuated the extent to which policies decided upon in Europe could impact the furthest corners in Palestine's civil society.⁴³

The third corollary was reflected in the PDMA itself and the organization of the industry. The atmosphere in the PDMA was one of instability and anxiety. Many manufacturers sensed a reduction in production or a coming loss of business as a result of the Belgian threat. The opposition exploited the change to blame Ben-Ami and the executive for lack of foresight and for not preparing the manufacturers for the coming change. The call to investigate Ben-Ami's private share in the PDMA's budget became ever more vocal. Furthermore, the demand for more freedom of action intensified, in particular the freedom of movement of experts from factory to factory to ease the diversification. The DCB would now become an essential address of the discontented manufacturers who realized Ben-Ami's dependence on London and deference to the government. The centraliza-

tion in the PDMA was now spoken of not as an asset, a means to maintain the monopoly, but a burden, an outdated form of running the industry. This was true in particular with regard to export and marketing strategies. Many now felt the need to free Palestine of its dependence on the American market and relocate business to India, Brazil, and the Middle East itself. Diversification in markets was closely associated with the demand that the PDMA should rid itself of its exporting function and with the freedom of trade. The stone change seemed now to begin undoing the suppression of individual trading and of the members of the Diamond Club that since its institution in spring 1940 was one of hallmarks of the opposition to the PDMA. No wonder that in late 1943 the DCB allowed the establishment of an independent organization of exporters and for the first time after three years merchants who were not necessarily cutters or manufacturers were allowed to export diamonds. This was a significant step towards liberalization of controls that would take place after the war.⁴⁴

Closely associated to foreign trade, the fourth effect of the stone change was on Palestine's relations with Europe. In December 1943 CODFI announced great victories over the industries of Palestine and Brazil. The Palestine industry would need now to maintain the trust relations with the Diamond Syndicate in order to secure some quantities of Sand and further quantities of Melees. Searching for other sources of supply could disrupt relations in particular as the war was not yet over. Belgium's favor among the managers of the syndicate was now a significant factor in re-vamping the language of Palestine's moral right to inherit the Germans.

But were the stone change and its effects just restraining Palestine's usurpation of Antwerp's prewar hegemony in cutting and exporting small stones, or were they practically threatening to halt the intensive growth of the industry? The issue was crucial because it exposed the Janus-faced nature of British policy and its effects on capital and industry in Palestine. Evidently the various dimensions of the boom of the industry demonstrated that the attempts to regulate its advance were more effective in diversifying the stones and less in debilitating its growth potential. After all, the British refrained from harming their own creation—the great economic service that their “special native” was providing in terms of accruing American dollars and being a temporary substitute to Antwerp. Belgian circles also demonstrated sympathy for an industry built on their tradition and expertise and whose manufacturers and experts they expected to see back in Belgium after the war. Zionist circles in London and the United States, who supported the idea the PDMA advanced regarding Palestine inheriting the German cutting industry, joined in providing some protection to Palestine among British government circles. More significant though, among the reasons for the often ineffective pressures to contain Palestine's advance were the adaptive capacity of the factories to

the changes in supply of stones and the capacity of the manufacturers and the PDMA to persist in expanding production, in increasing exports and even in diversifying export destinations. In impacting what was produced in Palestine, the politics of supply and the ambivalence they created between growth and containment determined the character of the industry during the war and after. It shaped the perceptions of the diamond manufacturers of the unpredictability and instability of the world diamond business, and, as can be judged from the sense of alarm regarding the future of the industry in Palestine itself, it significantly influenced the relations between them.⁴⁵

The forcing of the diamond industry by the Ministry of Economic Warfare and the DTC to reorganize its production in late 1943 was in fact only the start of procrastinating negotiations over supplies. At the background was first and foremost the growing criticism in British military circles, following reports originating with American intelligence (Office of Strategic Services), that the Palestine government failed to control the diamond industry and that despite assurances it gave to authorities in London, illegal and speculative trade in diamonds and diamond smuggling flourished. Various British government authorities in the Middle East were equally accused of slackened control that enabled the smuggling of gem and industrial diamonds from South Africa to Egypt, from there to Palestine, Syria, and Lebanon, arriving then in Turkey and ending finally in Germany. As the Germans were running out of industrial diamonds, which they direly needed for their war machine, contraband diamond trade in the Middle East could serve them well. This was why in January 1944 British strategists and the diamond control committee at the MEW set up a special control system in Egypt, and why Palestine's diamonds seemed now not just a source of revenue but also a potential liability.⁴⁶

The cry aired by CODFI in London undoubtedly impacted the new atmosphere. Operating as a mechanism of harboring diamonds in De Beers's safes in London for the future recovery of the industry in Belgium, the organizers of COFDI sought at the turn of 1944 to step up pressure on the Belgian government-in-exile to accumulate more diamond reserves sent from the Belgian Congo. The various cutting centers that sprouted in the previous two years—and the one in Palestine in particular—seemed more threatening than ever. The reduction of Sand production in Palestine hardly assuaged the exiled Belgians who aspired to see former experts returning from the "industrial diasporas" to Antwerp after the war. The Belgians began therefore to threaten the DTC and the Allies that continuous supply of industrial diamonds originating from the Congo would from then on depend on further limiting of supplies to other diamond-cutting centers.⁴⁷

Furthermore, diamond manufacturers in Britain, among them many refugees from Belgium, were mobilized by the Board of Trade to the war effort. They were told to dedicate most of their products for export so as to help Britain's foreign-exchange balances, and refrain from local marketing of polished stones so as not to risk the trade getting out of hand and stones reaching the Germans. This fitted well with the larger British objective to assure the postwar revival of the diamond industry in Antwerp so that London could continue serving as a center of supplying raw materials. Uncontrolled cutting centers scattered around the globe could harm this objective, and Palestine, which from start was considered a war industry and part of a larger economic warfare system, seemed now closer than ever to violating this spirit.⁴⁸

The tensions produced by these problems were encapsulated in winter 1944 in what seemed as an ominous breakdown of trust between the MEW in London and the PDMA's leadership in Netanya. The British suspected that the PDMA and the factories were misreporting their exporting activities, and that rough diamonds and diamond dust that were required to be returned to the DTC after being excluded from polishing were illegally maintained in Palestine. Control of the industry by the government was relatively tight. The books of every manufacturer and cutter were examined by government auditors and all diamonds found unsuitable for cutting were deposited in the PDMA's safes in the Palestine Corporation, where they were held under the cutter's name until they entered supervision. However, there were many loopholes. Illegal possession and storage of diamonds seemed much more widespread than formally allowed. Palestine was thought by the officials of the Controller of Light Industries and the recently appointed Control Board (DCB) to accumulate too many diamonds that could reach the enemy or simply allow the industry to expand beyond the limits the British set for it. Because of the forced change from predominantly cutting Sand to Melees, the monopoly seemed less accountable and less trustworthy. Alarming rumors spread in government circles in Palestine and among the syndicate's managers in London that many manufacturers who were troubled by the change of supplies and their effective reduction in early 1944 began purchasing rough diamonds outside the syndicate. COFDI's arguments for curtailing the expansion of the Palestine industry that focused on the future of Antwerp's diamond industry were now taken as a proof of the emerging reality in Palestine itself. To the British the industry seemed now to react more severely to its total dependence on the syndicate and to its exclusive treatment by the MEW through defiance and collusion.⁴⁹

The strategies the British employed to confront these problems varied from demanding stricter accountability to tightening bureaucratic control on the PDMA and the factories, to the harshest of all—the significant

narrowing down of supplies and preconditioning future supplies on immaculate accounting of factories' stock and refraining from accumulation of diamonds unsuitable for cutting. These measures reflected not just continuous taming as made explicit in the stone change of autumn 1943 but a potential distancing from the unquestionable support the British had given the industry since winter 1940. As Colin Newbury, Eric Laureys and other scholars have shown, this should be understood against the growing importance for the British of the Belgian Congo mines and of industrial diamonds for military and economic uses. From a Middle-Eastern perspective the distancing was even clearer because of the increasing significance for the British of maintaining in the region a geopolitical system of alliances that gave preference to good relations with Arab interests over supporting the Jewish National Home.⁵⁰

To ensure supplies the PDMA now needed to employ its entire London arsenal of the representatives of the Zionist Movement and of friends at the syndicate itself. The pressure would focus on delegitimizing—in the ears of the worried officials at the Ministry of Economic Warfare—COFDI's anti-Palestine politics and on convincing all involved that Antwerp's future recovery was hardly compromised. Doubting that the British or the London brokers Hennig & Co. (e.g., George Prins) could advance Palestine's interests regarding supplies, in mid-January 1944 Ben-Ami renewed the PDMA's application (which had been rejected in November 1943) to send representatives to London. The PDMA has been loyal and disciplined, Ben-Ami assured Fletcher, the controller of light industries, but it must have a first-hand picture of the politics of supply in London. Ben-Ami realized that Palestine was too weak to face the coalescence of interest concocted in London between De Beers, the Diamond Syndicate, the Belgian government-in-exile, and the MEW. They all seemed to prefer Belgian diamond interests and COFDI's activities on expanding diamond supplies to Palestine.

If Belgian diamond interests were allowed such powerful representation in London, Ben-Ami complained, why not Palestine? The Belgians needed to be convinced by the Palestine diamond experts themselves that Palestine was not and would not be their rival. If any, their rival was Germany and its legacy of a powerful prewar diamond industry. The continuity of British gains from the trade system with the British Empire could not be assured without the active consultation provided by the diamond experts from Palestine. This continuity was essential as the diamond industry provided throughout the war the main exporting item of Palestine's foreign trade, and had supplied the Sterling Bloc with a considerable amount of dollar exchange. Realizing that the thorniest issue was the postwar period, Ben-Ami concluded, "It is clear that it will be seriously prejudicial to the Palestine diamond industry if present plans and post-war structures

are decided upon without associating us in the final crystallization of the plans, and without giving us the opportunity to make our view heard for an appropriate and fair share in the new plan deal of world [diamond] industry." In reflecting on the close association between state and capital, the language Ben-Ami and the PDMA expounded tied together the interests of local capital with the interests of the British Empire. "We believe," he continued, "that our mission can serve a very useful explanatory purpose by bringing the facts home to the experts of the British Government themselves and convincing them definitively that what is at stake is in reality the trade and industrial interest that transcends the narrow confines of this country." British benevolence was not enough; only when defending the Palestine diamond industry was understood as defending British imperial interests would its future be secured. It was British colonialism, not the war as such, that had to be tied in everybody's minds to the Palestine diamond industry.⁵¹

By mid-February 1944 the MEW was still unresponsive to Palestine's request. The industry first had to undergo an accounting survey, intelligence had to be convinced that the amount of diamonds in the regions was reduced to controllable quantities, and both the exiled Belgians and the syndicate had to be assured that Palestine was more submissive. The available supplies in Palestine were menacingly dwindling and some factories began to press the PDMA to start searching for alternative source of supplies, at least as a signal to the MEW and the syndicate that Palestine could not be starved of diamonds anymore. Other manufacturers feared that such a threat might further alienate the British from the industry and might cost Palestine a total disengagement from its supply arteries. Clearly the thirst for raw materials in winter 1944 caused a rift in the PDMA, an unintended consequence of the MEW-COFDI-Diamond Syndicate axis that had been evolving in London.⁵²

To deal with this array of problems and sense of disintegration, the PDMA composed a lengthy (and confidential) document in which it was explained to the British that its orientation and that of the syndicate on limiting the industry was tantamount to bringing its demise. Narrowing the quantity of Sand and forcing the change to Melees was not the only problem. The Melees that Palestine was now receiving were not of high quality. They forced Palestine to reorient its marketing from the US to India, the chief buyer of this type of stone, and brought down profits. Less profit would gradually harm the investment made in recent years in training, skill, and technological advancement. It would in turn cause widespread unemployment among those that had become so skillful in Sand, and deplete the advantage of the Palestine industry. Furthermore, there was no reason to allow this to happen just because Belgian diamond circles feared postwar competition.

Palestine's diamond experts revered the tradition and expertise developed in the Low Countries and practically threw on them. The experts and manufacturers who came from Antwerp to Palestine had no intention of returning to Belgium, and what they had created in Netanya and Tel Aviv should be regarded not as a threat to Antwerp but rather as an inheritor to the German prewar diamond industry that competed with Antwerp so fiercely—and often with the help of the Belgians themselves (see chapter 1). The diamond industry in Palestine should therefore be thought of as part of a European system to forestall the recovery of the *German* industry, not the Belgian. If Palestine were further limited and harmed, it would be forced to buy rough diamonds outside the syndicate, and an important client of the syndicate's goods would be lost with detrimental effects on the interests of the British Empire as a whole. Other cutting centers—e.g., Cuba and Brazil—would flourish without the British and the Belgians being able to respond to it as they could in Palestine. The latter founded the diamond industry on Jews, the report continued, and the diamond industry and trade were not just an international business but to a large extent in Jewish hands. Therefore, "Interested circles must take into consideration the facts that their behavior towards the Palestinian industry will have repercussion within the diamond trade all over the world and that the growing diamond industry in Palestine develops new possibilities for the diamond trade and may create an enormous additional amount of goodwill for the diamond interests." The employment of political, ethnic, and cultural arguments in the context of the decimation of European Jewry, and their coupling with economic argumentation that could not be thought of separately from race, ethnicity, and world politics, was astounding. It clearly asked to turn the blow that the diamond industry in Palestine had experienced since the stone change of autumn 1943 into defiance.⁵³

These arguments and efforts were, however, to no avail. The full trust the British had in the PDMA seemed to wane, and in particular the trust in Ben-Ami who was suspected now of personally meddling in the PDMA's supply orders for personal gain. The MEW and the Diamond Syndicate allowed a small amount of Sand to be sent to Palestine, in addition to the ordinary Melee supplies, but it was far from what could keep the industry going when the adaptation to Melees was still in progress. In a series of urgent telegrams sent in late February and early March 1944 to the British, the PDMA conveyed a sense of a looming catastrophe and a growing rift within the PDMA.⁵⁴

Accountability and Vindication

The manner in which Ben-Ami was functioning in the London arena reminded many manufacturers of how centralist and hierarchical the PDMA had turned since its establishment in summer 1940. However, as long as the industry was expanding, the inner criticism against the distancing of local diamond polishing from tradition, the deteriorating quality of product, and limited marketing and centralization remained frail. Ben-Ami's many successes and few failures in London cultivated among the PDMA's members the image of their president as an irreplaceable politician on an imperial scale with an unmatched maneuvering dexterity and diplomatic skill. Ben-Ami, serving also as Netanya's mayor, enjoyed this reverence of the members, in particular as criticism mounted from the Jewish Agency and its economists on the possible effects the industry's problems might have on the Yishuv. At the same time, however, the intensive growth and intense politics of supply it provoked in London made their mark on a growing rift in the industry.

This contact point between the politics of supply in London and local organizational culture cannot be underestimated. In Palestine's history external forces such as incoming migration, capital import, and the presence of foreign powers always played major formative roles, and historians have for long acknowledged their impact on the structuring of local society and their presence in local social and political relations. Indeed, the diamond industry demonstrated how artificial the distinction between exogenous and endogenous factors was, and the extent to which the boundaries between the industry as a community and the worlds around it—local and international—were blurred.

The tension in the PDMA reflected this well. When in late 1941 and early 1942 Oved Ben-Ami and his close circle of manufacturers completed the structuring of the PDMA and selecting its members, they envisioned a sort of a collective of capitalists. I use the term *collective* instead of *association* (as the PDMA was legally defined) because the members were expected to share a common corporate good, held together as a group of individualists but motivated to act collectively. They would define themselves to the external world as capital entrepreneurs, expert in diamond making, committed to the Zionist national cause and independent from suppressing pressures either from local community institutions or from diamond circles abroad. Facing inward, the members would reach decisions together in an egalitarian manner and jointly concede the execution of the decisions to the president at the top of the hierarchy, and to the bureaucracy he built around him. Ethical conduct and sharing supplies of raw diamonds, policies regarding piecework and wages and towards the change of the traditional cutting and polishing processes—all were

expected to be brought into the PDMA offices in Tel Aviv and Netanya, debated democratically, and remain accountable for later reference.⁵⁵

This kind of “capitalist collectivity” was achieved through selection and regimentation, and by mobilizing the backing of the British authorities for the group. Ben-Ami employed in fact a dual strategy. He cared not to intervene too deeply into the affairs of each factory so as not to compromise the independence of the manufacturers. Often, however, Ben-Ami’s authoritarian personality and conduct made this climate of plurality only a semblance of reality. It was balanced, however, by the show of force the PDMA and Ben-Ami demonstrated to the world outside the industry—the Zionist institutions, the British and the DTC in London. Ben-Ami recognized that without a sense of financial and organizational freedom, the manufacturers would not provide the PDMA the social basis for its actions. At the same time all involved realized that without an assertive “foreign” policy in matters of supplies, the manufacturers would achieve nothing. The practice of this duality was to make the members of PDMA feel that they were well represented, their voices heard, that no one was thinking on their behalf; and that external threats on their economic activity and gain were contained.⁵⁶

The centralized structure of the PDMA and its vision of a capitalist collective revived the opposition. In fact the opposition organized in summer 1940 in the wake of the Ben-Ami initiative did not dissolve completely. Because of the PDMA’s hierarchical structure and the allegiance of the members, the opposition’s focus of activity was transferred to the Diamond Club and to the Zionist institutions—in particular to the Department of Trade and Industry of the Jewish Agency. However, as long as the industry expanded and received consistent backing from the government, the opposition remained frail. It did not have enough supporters and it chose to wait and see what sort of relations would develop between the diamond industry and the Yishuv and how it would conform to the national-oriented directives of the Jewish Agency, in particular in absorbing workers and resolving disputes through arbitration. The opposition also lacked the contacts in London that Ben-Ami cultivated and all attempts of the Department of Trade and Industry to recruit Zionist activists in London against what they regarded as the overly independent initiative by Ben-Ami came to nothing. Further weakened by the mere success of the industry and the silent acquiescence of the British authorities in the excessive centralization in the PDMA, the opposition turned now to exposing Ben-Ami as a liability to the entire project.⁵⁷

Led by diamond experts and manufacturers such as Moshe Offen, Marc and Ferdinand Schein, and Eliyahu and Yehoshua Mazur, the focus of the opposition gradually veered from the Zionist institutions and the Diamond Club to the PDMA itself. In January 1942 it protested against Ben-Ami’s

preference of the Netanya manufacturers over the ones operating in Tel Aviv and against the customary practice to not consult members in decision making, in particular with regard to employment relations. A month later the opposition attempted to negate Ben-Ami's move to strengthen the power of the PDMA's executive by determining compulsory arbitration between disputing manufacturers. In another effort the opposition criticized the PDMA's "totality of functions" and demanded a reversal to the traditional Belgian model that separated between diamond importers, manufacturers, and exporters.⁵⁸

The suspicion of Ben-Ami's managerial and ethical misconduct that emerged in mid-1942 gave the opposition a new opportunity. In May George Prins at Hennig & Co. proposed that the PDMA to buy LP 80,000 worth of rough diamonds at LP 20 per carat. The PDMA first declined the offer, because the looming general workers' strike in the diamond industry (finally erupting in July) threatened to leave rough stones uncut. Two weeks later the brokers proposed again, this time at LP 27 per carat, and because of the strike Ben-Ami asked the order to be reserved for September, without protesting the rise of the price. When the time to pay for the order came, members of the PDMA executive noticed the change and pressed Ben-Ami to probe into the matter—the answer received from London was that the earlier and cheaper price was a mistake. Rumors were quickly spread by the opposition that Ben-Ami and Prins had conspired to raise the price and personally profited by some LP 30,000. Ben-Ami denied the rumors, the Diamond Syndicate confirmed that the LP 20 price was a mistake, and the PDMA decided to go on with the purchasing order. In January 1943 the PDMA's Audit and Inspection Committee, newly headed by the oppositionist Marc Schein, began suspecting irregularities again but to no avail.⁵⁹

Tension hardly abated and Ben-Ami's unaccountability to the PDMA's institutions was increasingly associated with accusations of managerial misconduct and personal profiteering. In March 1943 the PDMA's executive asked to rewrite the constitution and some members even resigned in protest of Ben-Ami's "dictatorial regime." "It is a well known fact," the Jewish Agency was informed by a diamond expert in September 1943,

that the chairman of the Association receives a brokerage of 2 percent from the value of each consignment, from the syndicate. One percent is supposed to go to the Association for covering expenses, and one percent goes to the chairman of the Association as his private profit. Such a thing should not exist, and when it became known much resentment was caused among those connected with the industry in this country and even more so in America where at present many diamond traders from Holland and Belgium reside.

Ben-Ami had all the merit for establishing the industry, the claim went on, but he must not continue after the war because he could also destroy it.⁶⁰

As long as the industry expanded and was profitable the leadership of the PDMA could withstand the opposition, and it seemed that the external pressures to limit the industry buttressed against disintegration from within. This was the reason why the atmosphere of instability and anxiety in the PDMA in the wake of the stone change in autumn 1943 was crucial. Many manufacturers experienced a reduction in production, and in the light of COFDI's anti-Palestine moves in London, many sensed an ominous loss of business. The opposition exploited the change to blame Ben-Ami and the executive for lack of foresight and passivity. The call to investigate Ben-Ami's private share in the PDMA's budget became ever more vocal. Furthermore, the demand for the manufactures' freedom of action intensified, in particular of the movement of experts from factory to factory so as to ease the adaptation to the stone diversification. The DCB gradually became an essential address for the unsatisfied manufacturers who knew from first hand Ben-Ami's dependence on London and deference to the government. The centralization in the PDMA was now spoken of not as a means to maintain the monopoly, but as an overly bureaucratic form of running the industry. This was true in particular with regard to export and marketing strategies, to the need to free Palestine of its dependence on the American market and relocate business to India (an important buyer of Melees), Brazil, and countries in the Middle East. Diversification was now linked to the need that the PDMA should rid itself of its exporting function and allow exporters and merchants develop their own.⁶¹

A step in that direction was made by the DCB in late 1943 when an independent organization of Palestine's Jewish diamond exporters was created, and for the first time since 1940 merchants and Diamond Club members, who were not necessarily diamond cutters or manufacturers, could export diamonds. This did not include, however, free importing of rough stones (and from non-Diamond Syndicate sources such as British Guiana) and thus the opposition to the PDMA's monopoly was joined now by many diamond merchants.⁶²

Matters came to a head when "supply politics" were at their peak and when a PDMA delegation was sent to London to present its case before the MEW and the syndicate. "The members have no trust [in Ben-Ami] regarding his capacity to fulfill a trustworthy mission in London" said the suit tabled by Schein and the opposition to an internal PDMA inquest in October 1943, "because there is a conflict of interest between his private interests and the interests of the members. . . . [He] used methods of terror. . . . Among his actions there are those that have a criminal character." Running the PDMA as his private fief and making certain that the member

manufacturers were his clientele seemed, according to the suit, to transgress the powers he had been allowed at the start of the project.⁶³

Though nothing came out of the suit (and Ben-Ami's countersuit for libel) the growing confidence of the opposition in coming out openly against Ben-Ami demonstrated that the troubled relations with London were making a deeper impact on the PDMA's organizational culture. Ben-Ami, his supporters in the PDMA and the British authorities stood at one camp upholding centralization, regimentation, and freedom of Jewish capital to act without the supervision of Zionist national institutions. On the other camp were the Tel Aviv diamond manufacturers, the Jewish Agency, and some diamond experts and merchants who ardently propounded the need of private capital to be of service to Zionism and be submissive to the national institutions. Increasingly the latter camp founded its criticizing of the state of the PDMA on a depoliticized professional language and on the professional and managerial experience they had cultivated since the establishment of the industry. The terminology mixed the quest to uphold the past traditions of diamond cutting with a purist wish for a decentralized industry based on personal trust and less on bureaucratic control. The way to achieve that was through further specialization, meticulous training, absolute quality control, and better selection of new manufacturers. These emphases would divert attention from the less-important issues of prices, wages, and industrial relations to the more crucial issues of professionalism, skill, and responsibility for the quality of the product. The language of expertise and free practice found in the opposition to Ben-Ami a window of opportunity to reattach the industry to its roots in Antwerp and in older production traditions. Moreover, as nothing could be advanced in these matters without the British and the DCB, the opposition now attempted to cause a rift between Ben-Ami and the British on the charge of abuse of power. The reasoning of the opposition was that such a rift would either bring the intervention of the Zionist institutions or the establishment an alternative manufacturers' association.⁶⁴

The government initially backed Ben-Ami. Walsh, the DCB chairman, argued that the government was not willing to meddle in relations between the manufacturers and that it counted on the PDMA's capacity to regulate the tensions independently and effectively. Ben-Ami was a colleague, a member of the DCB, a friend. Ben-Ami himself claimed before the DCB that all the accusations were baseless and that they did nothing but reflect larger political opposition to British policy in Palestine. The PDMA was a democratic institution, the opposition was a small and vocal minority, most of the manufacturers supported him wholeheartedly, and the arrangements with London were entirely in accordance with the initial British directives and expectations.⁶⁵

The quarrels among the members of the PDMA reached such a volume in winter 1944 that DCB chair Walsh decided to appoint an inquiry committee. This was hardly surprising considering the effects of the politics of supply on relations among the members and on the increasing threat on their business viability. Though never for a moment considering the wavering of the PDMA's monopoly, Walsh and the DCB felt that because of the PDMA's alleged mismanagement, British interests were at stake and that it was time to interfere in order to protect the interests of the PDMA's members. The reputation of Ben-Ami and of the manufacturers that provided him the majority in the PDMA's institutions has been questioned since the PDMA's establishment—first by the Tishby-Weiss camp and now by manufacturers inside the association who kept close ties with the national camp. The British were therefore increasingly worried that dissatisfied members could in the final resort challenge the monopoly itself.⁶⁶

The three members of the DCB subcommittee were attuned to the need to maintain the association, its monopoly, and its symbiotic relations with the British—and through them with the syndicate. Fletcher, the controller of light industries, was one of the more knowledgeable functionaries in the Palestine government regarding these ties. Salomon Horowitz, a prominent Jerusalem lawyer, had been situated for many years at the juncture of the ties between the government and the Yishuv; and he served here as the legal expert on the PDMA and on the Ottoman Law of Associations under which the PDMA operated. And finally, banker David Andreson (formerly in the Netherlands) knew first hand the operational relations between the diamond industry, the banks, and the brokerage company in London.⁶⁷

After three months of testimonies and deliberations (March–May 1944) the report of the subcommittee reinstated Ben-Ami's status as the leading captain of the industry and thus cemented the PDMA's hierarchical structure. The British authorities were indirectly cleared of corroborating with Ben-Ami's misuse of authority. Moreover, the diamond manufacturers were praised for their social, economic, and political utility, and the PDMA's leadership and pluralist organizational culture were reaffirmed. The committee reasserted Ben-Ami's singular role in establishing the industry in Palestine, justified the need at the early stages of the industry (in abnormal war conditions) for centralization and authority, and praised the Mathias–Ben-Ami axis for Palestine's success in the politics of supply. Furthermore, in responding to allegations against Ben-Ami and his manipulations in London, the committee ascertained Hennig's and Prins's clean hands and thus criticized Ben-Ami's "bitter" opponents. However, the committee recommended that Ben-Ami's "benevolent despotism" should be replaced with a more democratic structure. The latter should be based on relegation of authority from the president to a business manager,

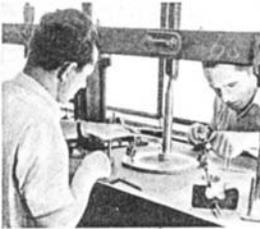
removal of offices to Tel Aviv, reworking relations between the organization and the members, and rewriting the PDMA's regulations—to the point of turning it into a full-fledged company under the British Companies' Ordinance. In the final analysis, Ben-Ami was cleared.⁶⁸

The opposition could well sense now that the industry, its advance and profits, were somehow more important than the need to democratize the organization. The government, not Ben-Ami, turned the great hero of the affair for it taught the manufacturers how the state worked with capital. At the same time, however, the report not only cleared Ben-Ami. In bringing the PDMA's Netanya-based stronghold on the one hand and the Tel Aviv-based and externally aided opposition on the other to a head-on confrontation, it drew the limits of Ben-Ami's power. In criticizing the opposition's weak evidence, the report defined the qualities needed for membership in an organization in which trust was essential. In examining the hierarchy in the PDMA and the decision-making processes, the committee exposed the implications of excessive managerial power and its relations to the monopoly that the colonial regime helped to create. The report therefore paved the way to split the PDMA into two manufacturers' organizations and to gradually transfer power from Netanya to Tel Aviv.⁶⁹

The implications were, however, wider. The focusing on financial mismanagement demonstrated the centrality of personal relations and trust in the industry, in particular during the war. That the colonial state was central to these relations was crucial not just for the establishment of the diamond industry but also for its future after the British withdrawal from Palestine. While clearing Ben-Ami of the allegations of financial mismanagement, the British warned all involved in the industry of the limit of their freedom of action. Second, protecting Ben-Ami against the Tel Aviv opposition was required because dismissing him would enhance the intervention of the Jewish Agency, something the British were keen to prevent. Third, Ben-Ami was warned that mounting PDMA apprehension against the stone change and supply policies could be costly. This was why Ben-Ami and his group accepted the report of the committee with deference. It temporarily assuaged the opposition, it provided the PDMA's leaders with enough signals of the international framework in which they operated, and it left enough room for the industry to keep going. In the final analysis, despite tremendous growth, the diamond industry, the manufacturers, and the PDMA's power structure continued to depend on the colonial state. The episode taught all concerned that under normal conditions, challenges to the system of trust would cost the local diamond industry the delicate relations and networking it would need once Belgium was freed and the diamond industry in Antwerp recovered.⁷⁰

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Illustration 4.1. Trademark of Orah factory, 1944. Source: Government of Palestine, *Palestine Trade Catalogue*. Part IV. Jerusalem, 1944.

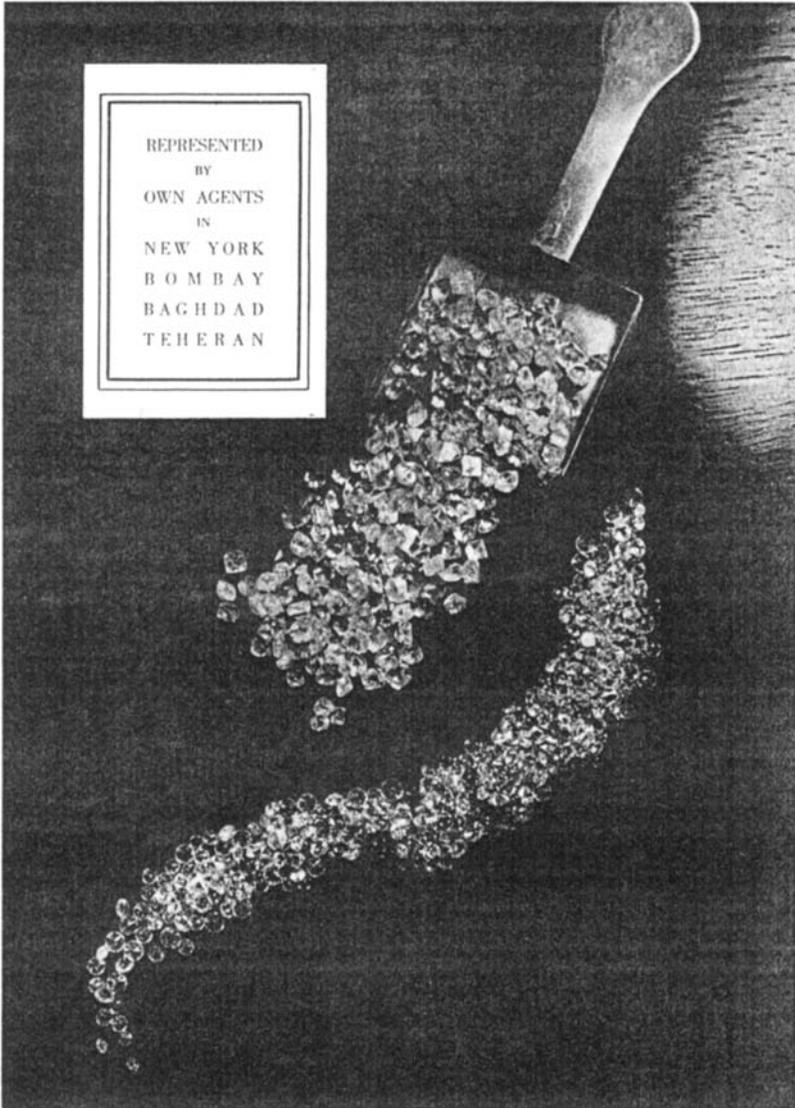


Illustration 4.2. Export trademark of the Palestine Diamond Manufacturers' Association, 1944. Source: Government of Palestine, *Palestine Trade Catalogue*. Part IV. Jerusalem, 1944.



Illustration 4.3. A diamond cutter at a Netanya factory, 1946.
Photographer: Anna Riwkin-Brick. Source: CZA, PHR/1174093. Used with permission of
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