

Chapter 6

LIBERATION AND LIBERALIZATION



An industry born and nurtured in such abnormal circumstances is ill equipped to face world competition . . . without some measure of guidance and control. . . . Newcomers avid to participate in the profits of the diamond industry without proper regard to the changed conditions . . . might well endanger the whole future of the local industry unless properly controlled. At the same time the maintenance in a sheltered position of some 33 factories who happened to be established when an embargo was placed on expansion is difficult if not impossible of justification now that the peculiar conditions necessitating the embargo no longer apply. [December 1945].

—Government of Palestine, *Report of a Committee Appointed by Government to Examine the Question of Post-war Regulation of the Palestine Diamond Industry*, 1946, 8.

Contrasts at War's End

The evolution of the diamond industry has so far been shown to have been less a straightforward transplantation of expertise and occupational culture and much more a turbulent adaptation. In the technological make-up of the industry, in the organization of business, in relations with the sources of the diamond material and in the social unrest in the “diamond community”—in all these levels an intensive negotiation had been unfolding between the external and the local, the imported and the vernacular,

between the diamond industry as an occupational specificity and its dynamic as a social and political happening. Affecting this turbulence was the atmosphere surrounding the industry—its dramatic growth, its ambivalent absorption in a society not habituated to capitalist spurts, and in the organizational presence and power Jewish capitalists introduced to Palestine's urban economic scene.

The accommodation by local and nonlocal forces to the novelty of the industry and its claims and challenges was fittingly rugged and testing. On the one hand the industry experienced fierce "politics of supply" in London that forced it, even though Belgium was still under German occupation, to limit itself and to diversify its production process. On the other hand adversarial employment relations in the factories aggravated, and caused the manufacturers to reevaluate their apprehension of organized labor and their rejection of intervention by the Zionist institutions. These intertwined processes elucidated the complex nature of the industry: a capitalist venture with strong Zionist commitments, driven by the war and backed by the diamond cartel, dependent on and serving Palestine's colonial ruler, and experiencing in the midst of war and the genocide of the Jews in Europe the throes of its dependence on European and imperial considerations.¹

The resumption of work in the factories after the long strike and the clearing of Ben-Ami took place against a growing awareness among the British diamond-control functionaries that something was fundamentally problematic in the logic they drew for the diamond project in Palestine. The project was a success and the capacity of the factories to adapt to the change to cutting bigger stones seemed to progress well. While the adaptation was forced upon the industry by a mixture of political and economic motivations, it brought out a technologically focused adaptive capacity instilled in the industry by the inventiveness of the experts and the sheer hard work of the workers, no less by shared expectation of the manufacturers and workers for increasing profits. The numbers reflected this well: while the number of factories and workers employed did not change between 1943 and 1944, the import of rough diamonds grew from LP 1,112,500 to LP 1,550,000, and exports of polished diamonds from LP 2,600,000 to LP 3,300,000. And while the share of diamonds in Palestine's industrial produce declined from 35.5 percent in 1943 to 32.6 percent in 1944, the role of the industry in the economy, in the country's exports, and in its American dollar income (\$22 million in 1942–1944) was undoubted. The forced stone change in autumn 1943 therefore taught the manufacturers that they still possessed the advantage of the absence of competition from Belgium and Germany and the persistence of American demand for stones for engagement rings. Learning to work a variety of stones was imperative and the British witnessed how all sides joined in an enthu-

siastic drive to assure the industry's survival and the maintenance of its advantages.²

However, this sense of a fruitful structuring of the industry conflicted with what the MEW recognized as a failure of control.³ This was fully exposed during the visit to Egypt and Palestine in June 1944 by a mission headed by Joseph Lewis Reading (1907–1980) and the MEW's Diamond Committee. Reading's visit to African and Middle Eastern countries attempted to follow the trail of diamond smuggling. Examining closely the Middle East Supply Center in Cairo and the diamond factories in Netanya, Reading realized that British economic warfare was far from effective. Too many diamonds reached the Germans via Syria and Turkey, and the availability of large quantities of diamonds in Palestine helped maintain the smuggling networks. The visit consequently ended with the PDMA being forced to sign an agreement with Reading that conditioned further supplies to Palestine on the PDMA's commitment to send back to the Diamond Syndicate in London all the material unsuitable for cutting—the crushed diamond powder and unmarketable stones that potentially could be used by the German war industry.⁴

But could this tension between Palestine's fulfillment of the role assigned to it on the inception of the industry and British larger war aims and economic interests be relieved by these measures? The problem, as the exiled Belgians in London and the advisors on diamonds at the MEW recognized all too well, was that the industry in Palestine has long ceased being a mere alternative to Antwerp. Despite its dependence on external supplies, despite its need to diversify the stones it cut and the markets to which it sent the finished product—and more significantly despite the certainty of Belgium's future recuperation of its world supremacy in diamonds—the local industry had grown and matured. It stood on its feet, technologically and organizationally, and the four thousand employees showed energy and viability befitting an industry that ceased serving only war aims and had turned into a dynamo of economic growth, as the economies of Tel Aviv, Netanya, and Palestine as a whole proved.⁵

Increasingly this ripening was accompanied by economic nationalism. The industry cherished the independent space it carved for itself in world diamond cutting and in the Yishuv. And it cultivated an image of service to the Zionist project through the economic infrastructure of the Jewish polity, its export capacities, and industrial diversification. This self-legitimacy and claim for a role in the Zionist project was further based on the argument that after the war Palestine did not intend on competing with Antwerp but on "inheriting" the German diamond industry that before the war had been so threatening to Belgium.

During 1944 the idea of "inheritance" became the current catch phrase in PDMA circles, in its dealing with the Zionist institutions and in the poli-

tics of supply in London. If Germany and the rise of Nazism set the stage for the emergence of the diamond industry in the late 1930s, now they provided the fodder for its justified existence, viability, and sustenance in the face of both international pressure and internal turmoil. For the British to justify the limitation of the Palestine industry they had now, in the midst of the German extermination campaign, to counter this national logic, and they readily excluded this option.⁶

When the MEW and the Palestine government were placed in a similar dilemma in early 1940—namely, how to encourage the birth of the industry and also limit its expansion—their strategy was to entrust an industrial monopoly in the hands of an interested private entrepreneur, Oved Ben-Ami and to back his capitalistic autonomy from the institutions that ran the Zionist project he himself was very much a part. This strategy was now progressively becoming irrelevant because of the pressures on the PDMA from diamond manufacturers and merchants demanding more freedom of action, and from workers seeking a larger profit share and secured employment.⁷

No less influential was the rapprochement between the industry and the Zionist institutions that the British opposed from start. Between autumn 1943 and the summer of 1944, with the stone change forcing adaptation, supply politics becoming fiercer, and strikes becoming longer and ever more destabilizing, the trust in the PDMA's leadership weakened and the industry looked for external help. It therefore softened its antagonism toward the "triangular thread" and began to make more use of Zionist institutions for politics in London, for arbitration with workers in the factories, and assimilate more deeply in Yishuv society.⁸

The thaw in relations between the diamond manufacturers and the Zionist institutions was closely associated with the question of the industry's freedom of action during the war. The war produced an informal agreement of mutual gain between the British as the colonial rulers of the "Mandate state" and the Jewish diamond manufacturers as owners of private capital. In this agreement the former enjoyed an expansive addition to the Treasury's coffers, industrial means in the anti-German economic warfare, and a spirit of cooperation from the De Beers diamond cartel. The diamond manufacturers on the other hand gained the authorization to operate and export and exclusive opportunity for exponent profits. Couched in the agreement was a framework of action that limited purchase of raw materials in the free market, disallowed free merchant activity, excluded Arabs, and put a cap on the number of licensed manufacturers. This war-induced understanding contributed to the economic buildup of the Yishuv and its increasingly advantageous position vis-à-vis the Arab economy. At the same time, however, it effectively distanced the involvement of the Zionist institutions in the industry. Resembling the role of the state in the

formation of capitalism in various parts of the Middle East, the model of relations between state and capital created here for the private diamond manufacturers was indeed ambivalent: supportive and defending and at the same time regimenting and limiting.⁹

In the new atmosphere of Zionist rapprochement and the increasing palpability of the Zionist commitments of the diamond community, the British—the midwife of the industry—had to opt therefore for another strategy. Wholly oriented toward the future economics and politics of the postwar period and strongly guided by their relations with Belgium, the Belgian Congo, and the US, the strategy was nothing less than to usher the Palestine diamond industry to “normalization.” Until now the conditions in which the industry sprouted had been abnormal—war, distraught trade, government protection. In this climate a monopoly was *sine qua non*, and dependent and reciprocal relations between the colonial state and capital were fully acceptable. For the British the time came now to undo this peculiarity. And it was timely because the watershed event that was about to unfold now in Europe, namely, the freeing of Belgium from German occupation, was hoped for by many in the diamond industry in Palestine but also feared.¹⁰

In summer 1945 the wartime boom in Palestine’s economy gave way to a cyclical downturn and to the reemergence of widespread unemployment. The rising standards of living induced by wartime military demand now encountered decreasing wages and serious absorptive problems for ex-servicemen and for Jewish refugees from Holocaust Europe. Moreover, after the war Palestine entered a period of political destabilization caused by the aggravating tension between Arabs and Jews, British reconsideration of their presence in the Middle East, and the onset of the Cold War in Europe. No less dramatic was a contrasting vector of hope and aspiration. It was fed primarily by the political rise of Labor in Britain in July 1945 that began Clement Attlee’s majority government (to last until 1951), by the international mobilization of resources for the postwar economic recovery, and not least by the proliferation of international organs of economic cooperation and conflict resolution. Caught in between these two trajectories, Palestine society would be soon facing the onset of a postcolonial situation in which not only its political future was determined but also its economic character and the mode of operation of its capitalist and public economic agents. The diamond industry was an aptly instructive prism for this drama, and in particular for the reshaping of the existing model of state-capital relations.¹¹

For the Palestine diamond manufacturers and workers the war ended twice. The first ending was on 4 September 1944, when following the rout of the German armies from Normandy, Allied forces surged eastward from France into Belgium and the city of Antwerp fell to the British. Five

days later the exiled Belgian government returned from London to Brussels, signaling the nearing transition of the gravity center of diamond supply politics to Antwerp, where the “diamond community” would soon be rebuilt. The news provoked mixed feelings in the diamond factories in Tel Aviv and Netanya. The relief felt by the end of the four-year German occupation was coupled with the awareness that the distancing of the Belgians from London would not ease the pressure the Belgians exerted on the supply policies of the syndicate. On the contrary, the rehabilitation of the diamond-cutting and -trading center in Antwerp (after being heavily plundered by the Germans) would divert attention from Palestine. Anxiety was further stirred by the wish of some diamond experts who had been absorbed in the diamond-cutting diasporas to return to Antwerp and to reinstate themselves in the occupational world their fellow Jews lost in May 1940. The number of the Jews in Antwerp, which stood at 29,500 in 1940, increased slowly from 800 on the liberation, to 1,200 at the end of 1944 and to 2,000 in August 1945 upon the return of Holocaust survivors. Despite the slowness, the recovery of the diamond business seemed assured. This was CODFI’s finest hour; its reserves began to be used from winter 1945 in the gradual recuperation of the diamond industry. Though quicker recovery was hampered by the massive German bombardment that lingered until March 1945, the liberation was a harbinger of the change that the industry in Palestine was about to experience. This was even truer upon Germany’s fall in May 1945, the actual end of the war, which situated the diamond industry in totally different circumstances.¹²

That the liberation of Belgium evoked mixed feelings can be seen from the need felt among decision makers at the Diamond Syndicate to give assurances to the manufacturers that Palestine would not be injured by the pending revival of diamond cutting in Antwerp. Adding to this atmosphere was the decrease in demand in the US for polished diamonds, apparently because of the approaching end of the war and because many who planned their return to Europe sold diamonds to finance their personal recuperation. “The Liberation of Belgium,” Ben-Ami telegraphed Ernst Oppenheimer in September 1944, “has placed bulk of markets [for] our finished stones in state of suspense which has considerably added to [the] difficulties of our industry.”¹³ Panic spread in the PDMA’s offices and the unions’ secretaries were hurriedly called in for consultation. “[As] a result of the new situation created by the changes in the war front,” Ben-Ami told then, “it is clear we shall be facing a crisis. How we overcome it is difficult to determine and we must act so that the industry does not collapse. The crisis is serious and aggravating. It is difficult to know what the opening of the industry in Antwerp brings. We shall face changes in raw material and in adapting the wages. . . . We must take steps against

the expected trouble . . . [and] for the time being work only three days a week until the situation is clarified."¹⁴

Some manufacturers suggested to cease work altogether because of the expected shortage in supply of raw materials and reduction in prices. Others called to strengthen the PDMA's marketing campaign in India so as to counter the expected competition with Belgium over the American market. Palestine's brokers in London thought it was essential that a delegation come from Palestine to discuss the situation face to face with the syndicate and the Colonial Office. DCB chair Walsh was equally alarmed and emphasized that all involved in the industry should take into account that the approaching competition among the cutting centers would necessitate further efficiency and increase in productivity and would inevitably entail dismissals.¹⁵

The Belgians, for whom the recovery of the diamond industry was nationally paramount, were naturally agitated. The industry suffered a severe blow by the expropriation, deportation, and extermination of Antwerp's Jews, and its recovery would have to be based on newcomers that would have to be trained and continuously supplied with rough stones from London. Palestine was considered, despite the curtailment of half of its small-stone production, as a competitor and a real menace to the Belgian marketing potential in the US. The massive mining in the Belgian Congo—now safely back under direct Belgian rule—would have to be used, so the Belgians realized, as a lever against England and De Beers in case they sustained their support of Palestine. After all, the Belgian Congo was a convenient lever that supplied the uranium for American atomic bombs. As a national asset, diamond cutting and trading in Antwerp symbolized the country's victory in the long battle against the Germans, and Jewish diamond experts and merchants who populated the cutting centers in Palestine, London, Cuba, and New York (mostly non-Belgian citizens before the flight) were expected to return.¹⁶

The diamond manufacturers realized now that the conditions in which the diamond industry in Palestine had spurred were about to change. The fact that the syndicate freed for COFDI the stocks of small stones that were destined for cutting in Antwerp was only the first worrying sign. Though few in number, the manufacturers, experts, and merchants who moved from Belgium to Palestine in 1936–1940 might want to return to Antwerp, to what they had for long seen as the main world center of the industry. De Beers was likewise worrying, and despite the fact that Palestine had been one of the cartel's most loyal customers with LP1.5–2 million annual purchasing of rough diamonds, it concurred with Belgium's need to recover its industry. The Belgian Congo was the main source for the cartel's operations and profits, and the recuperation of the trading and cutting center in Antwerp would take care of the rough diamonds the

cartel was distributing. Palestine, according to De Beers, would not have to close down but downsize its activities, readapt itself to the changing circumstances of postwar Europe and to the changing needs of the cartel. The American market for the Sand small stones would need to reorient itself back on Belgium's hegemony, and Palestine could therefore keep on thriving on the production of Melees. Sales of diamonds might decrease now because of the change in consumers' behavior that the ending of the war might bring about. Belgium's recovery was therefore higher on De Beers's business preferences, much more than Palestine's steady growth, and thus a negative turn against Palestine in the politics of supply might be expected.¹⁷

From a local perspective the PDMA feared that new applicants to join the industry might endanger the monopoly. No less worrying were manufacturers wishing to free themselves from the PDMA and British control, merchants aspiring for full liberalization of controls, Arab diamond merchants who wanted to do away Jewish exclusiveness, and experts and cutters who developed home work. Diamond workers became equally anxious for the future of the industry and their employment. The expected change was even deeper. "It will be necessary to reduce our production costs as soon as Antwerp resumes exports on a larger scale," wrote one diamond business expert in December 1944.

Diamond cutting in Belgium before the war was a largely home industry and we shall not only have to reduce wage rates which are particularly high but also employ all modern methods of workshop management. It may be necessary too to revise the structure of the industry as a whole and to concentrate workshops in larger units. Experts consider it necessary to improve the training of the workers, whose present apprenticeship lasts only a few months, so that Palestine need not confine itself to small stones of the eight-corner type but might handle the larger and more valuable cuts and industrial diamonds as well.¹⁸

Clearly the defeat of Germany created a climate of material change, but also one of anxiety that could be allayed only through international cooperation, reliable state backing, and relaxed politics of supply. However, uncertainty overshadowed the politics of supply, in particular because pressure from the Belgians was only slowly building up. The extent of recovery of the diamond industry in Antwerp as well as the number of diamond manufacturers and merchants who returned to Belgium was unclear to the manufacturers in Palestine. More than 30,000 diamond cutters in Europe ceased work in the wake of the war early in the decade and the resumption of activity of those that survived was yet unknown. Equally enigmatic was the future behavior of the consumers of diamonds, whose demand during the war favored Palestine and for whom the transition to peace was financially bewildering.¹⁹

Perhaps more significant was British ambivalence. Their interest in the recovery of the Belgian industry was unquestionable. Diamond mining in Sierra Leone was important for them and they wanted a stake also in the Belgian Congo, in particular in the context of British relations with the Americans and the latter's total opposition to cartels. The support in De Beers and the syndicate was essential for the British financially, and no less so if they wanted to develop a viable diamond cutting center in England itself, something they failed to do during the war. And the latter could be harmed if Belgians exiled in London were now forced to return to Belgium because England was committed to help the revival of the Belgian diamond industry. Moreover, too uncontrolled competition in the diamond world might harm the image of diamonds as an investment and their prices might consequently be hurt and the cartel harmed. Continuity in support of the diamond industry in Palestine seemed therefore assured, but its excessive expansion and competitive power had to be curtailed so as not to hamper Belgium's recuperation. This was also the logic drawn by Mathias and the Colonial Office on the eve of the German occupation of Belgium in 1940 when Germany's quest for diamonds was a real threat.²⁰

To ease the tense atmosphere Ernst Oppenheimer, the syndicate, and the British organized a conference in London in December 1944. The occasion allowed Oved Ben-Ami and Albert Ehrenfeld to try to gain the consent of the Belgians and the syndicate on distribution of raw materials and on the level of wages paid to the diamond workers. During the conference a meeting was held between Frederick Mathias, the advisor on diamonds for the Americans Sidney Bull, and John Fletcher of the Palestine government to discuss diamond control. The system in Palestine (the PDMA being the sole importer, the Diamond Syndicate the sole seller, and the government and the MEW in London as the licensing authority) seemed to the participants to be successful in preventing diamonds leaking to Germany and Japan. Control was not to be relaxed, therefore, until the war was over, as long as the threat of leakage continued and unlicensed manufacturers threatened to enter the scene. It was decided that as long as Belgium and Holland did not fully recover, it was the PDMA, as the effective means in British hands that should restrain on behalf of the British authorities the expansion of the industry while expanding the income of American dollars. Control of diamond exports was to be retained so as to prevent the fleeing abroad of capital from Palestine and in order to maintain currency control over exports. All in all, the participants in the meeting surmised, the PDMA's future should not be compromised and massive unemployment in the diamond industry should be prevented until normal conditions resumed in the Low Countries. Conceived now as replacing the prewar German diamond industry, Palestine was assured of De Beers's supplies and was even allowed to buy a small amount of

rough diamonds from non-Diamond Syndicate sources. The British were clearly thinking of how not to threaten Belgium's capacity to recover. At the same time, however, they continued to care for the stability of the diamond industry in Palestine, for its service to British interests, and thus for the PDMA's power.²¹

It was in this context that the London conference advanced—months before the formal ending of the war—the concept of deregulation. The concept was aired earlier by both people in the industry and government officials who envisioned a competitive postwar economy and who sought to advance liberal notions of lessened state control. Ideas and policies on economic deconcentration became prevalent in Europe at the close of the war and undoubtedly had their impact. The British Economic and Industrial Planning Staff, an interdepartmental body set up in the government in London in early 1944 to study the economic plans for liberated or occupied territories in Europe and in which the MEW played a leading part, further contributed to crystallizing the concept. Accordingly the future of the industry and of the diamond monopoly would be normalized and judiciously planned and the planning would be drawn jointly by all involved in the industry—the manufacturers, the organizations, the British, and even diamond merchants whose freedom of trading activity had been heretofore restricted. The diamond industry, Britain's "special native," whose development was directed from above from start, was therefore to plan its own restructuring and prepare its own normalization. If in early 1940 the principles formulated by Frederick Mathias gave the industry its basic form, and if in the course of the war they had been challenged (by the spurt of the industry, the failure to totally secure diamonds reaching the Germans, and by the persistent turbulence in industrial relations), now the emerging peace in Europe required a further adaptation of the original assumptions and structures, and the full participation of all those concerned with diamonds in the transformation.²²

Evidently, there was in this normalization concept a sense of the future viability of the diamond industry, and that the fears of pending collapse at least in the short run were exaggerated. The British continued to support the PDMA and the manufacturers and they kept on enjoying the massive gains of hard currency Palestine's diamond exports were producing. The government also considered the industry a potential absorber of ex-servicemen in the Palestine economy, a thorny social and economic issue that they had to handle after the war, in particular because as a Jewish-only industry they did not mean it to cater Arabs as well. Moreover the local diamond industry seemed to the British to be a proper counterbalance to the potential revival of the diamond industry in Germany. The cartel itself, as Ernst Oppenheimer and the syndicate repeatedly stressed, was still interested at this point of time in a strong diamond-cutting indus-

try in Palestine that until Belgium's fuller recovery would be a consistent buyer of its rough diamonds. Such an outlet served the cartel well as the mining companies in the Belgian Congo were promised unmitigated sales through their relations with the cartel.²³

These myriad interests resulted in a comforting agreement signed at the conference in January 1945. The agreement supplied Palestine, in addition to the Melee and Sand quotas, with a variety of rough diamonds that allowed the industry to diversify and specialize in cutting and polishing larger stones. The PDMA was allowed to expand its membership and the new members were assured of receiving supplies. Furthermore, the Palestine factories could now maintain the existing cutting and polishing labor force and even train and employ a limited number of cleavers—a highly skilled diamond-splitting occupation that had hitherto been absent from Palestine. Even more significantly the conference agreed to liberalize controls—Palestine could add other sources for the rough diamonds it purchased from the syndicate, notably from South Africa, and it could expand the marketing of the stones polished in Palestine to Middle Eastern and other Asian countries. The conference thus assured the continued operation of the Palestine factories: it freed its long-standing focus on the single market of eight-cuts marketed in the US, and it did so without compromising Antwerp's recovery of its prewar hegemony. Instead of competition, so the conference hypothesized, Palestine and Belgium were now to cooperate, to supplement one another in supplying the world markets that seemed now to offer ample room for both. In these new circumstances the PDMA would have to change and liberalize, but it could still reserve its powers and preside over the liberalization process and initiate the industry into the circumstance of the peace.²⁴ No wonder that the PDMA and the diamond manufacturers perceived these assurances not only as an expression of gratitude for war service but as virtually placing Palestine on an equal footing with any other diamond industry in the world. Praised by the Hebrew press for the achievements in London, the diamond manufacturers could now sense the extent to which their industry was progressively expressing a national asset and contribution to the Zionist project in Palestine.²⁵

The favorable atmosphere the British and the Diamond Syndicate created for the Palestine manufacturers in winter 1945 was obviously backed by the chaotic conditions in liberated Antwerp that hampered quicker resumption of Belgian production and export. Romi Goldmuntz arrived back in Belgium only in March 1945 and the distribution of CODFI's reserves among the dealers and manufacturers would start only few weeks later. The transition from British control over the diamond industry and its revival to the Belgian Diamond Office (fully completed in July 1945) was cumbersome. Compared to the thousands of diamond cutters employed

in Antwerp before the war, by the end of spring 1945 only 5,600 diamond cutters resumed work, and the city's diamond exchanges would fully resume their activities only in early 1946.²⁶ This lag between liberation and recuperation allowed Palestine to exploit the reputation it had acquired in the American diamond market during the war. Consumption patterns among the American middle classes reacted slowly to the transition from war to peace and could thus contribute the persistence of growth in Palestine's diamond output and exports. In May–December 1944 alone, Palestine doubled its exports of polished diamonds, and between 1944 and 1945 its exports increased from 79,000 carats to 138,000.²⁷

The situation in the Tel Aviv and Netanya factories seemed equally encouraging. While in summer 1943 some 3,800 workers were employed in thirty-three factories, in spring 1945 the number increased to 4,000 workers and few months later to 4,500.²⁸ The expansion of the labor force followed the adaptation of the industry to the earlier change in small diamond production. However it also reflected the training of workers and ex-servicemen who were absorbed in the industry between the end of the war in May 1945 and early 1946 despite the anxiety over Belgium's recovery. Encapsulated in the phrase "peace scare," this contrast between growth and an escalating sense of foreboding was the reason why the end of the war was more crucial for the diamond industry than the liberation of Antwerp few months earlier. Only now would the conditions of emergency and noncompetition begin to change, and the fate of the diamond-cutting diasporas that were born in the wake of Antwerp's paralysis would be tightly linked to Antwerp's return.²⁹

Incipient De-Control

The immediate impact of Belgium's liberation and the end of the war on the diamond industry was not expressed in short-term material effects but rather in the assembly of exogenous and local forces that coalesced in the second half of 1945 around the consensus on the normalization of the industry, its deregulation, and practically its architectural restructuring. The British-Belgian-De Beers axis was the main force.

In June Mathias paid a crucial visit to Belgium, still a military zone, and prepared an agreement between the British and the Belgians to forestall the menacing revival of the German industry. The Belgians succumbed to the British demand that the entire industry in Antwerp should stick to a one-channel supply—that is, to purchasing rough stones only at the syndicate—and that London should remain the world center of distributing the raw materials. "This agreement, we think, will go further than the mere selling of Belgian diamonds through London," emphasized Math-

ias. "It may probably ensure that all future productions shall come direct to London and be sorted here instead of, as was the practice before the war, in Belgium." In return the British promised the Belgians full commitment to the recuperation of their diamond industry and the revival of their prewar world hegemony. The logical consequence of this reciprocity was restraining the expansion of the diamond industry in Palestine.³⁰ "The industry which has sprung up in Palestine appears to be the bone of contention," added Mathias.

It was explained to the Minister of the Colonies at the official reception, and later to a general meeting called by the Minister for Economic Affairs, that the development of the industry in Palestine was a consequence of the chaos produced by the war. England at the time stood alone facing bankruptcy so far as foreign currency was concerned, and we were compelled to use diamonds in order to better our financial position. Palestine was at present restricted to 3,500 workers which represent only about half of the number employed by Germany prior to the outbreak of the hostilities. Palestine further realized that their long-term policy must be one of full employment and was under no illusions that certain considerations militated against the further expansion of their industry.

Mathias then listed the considerations: First, the limited supplies of suitable rough diamonds available. Second, the possibility of removing diamond control in Palestine with the result that small manufacturers and private individuals would start up competition with the bigger firms. Third, British commitment to "the status of the industry in the Low Countries,"; and fourth, the growth of the industry in other parts of the world. Mathias then concluded that in order to secure recovery, the Belgians would to attempt "to recall their nationals to further their own industry and this they proposed to do by sending an official delegation to various countries with a view to encouraging the return of these ex-patriots."³¹

Aspiring to reinstate their hegemony, the Belgians were naturally concerned with the state of the diamond diasporas, in particular the Cuban and the New York centers because of the large number of refugees from Antwerp who settled there. Palestine was, however, their main problem, realizing all too well that only the British and the Diamond Syndicate that made the industry thrive could reshape it. Their interest in the return of diamond manufacturers and experts from Palestine to Antwerp further dictated their preference for a nonconflicted approach with the British, De Beers, and Palestine itself that owed much to their traditions and occupational culture.³²

The British and De Beers concurred with this consensual approach, in particular after witnessing the aggressive politics of COFDI during 1943–1944. Palestine seemed to the diamond cartel to be a long-standing, loyal consumer of its rough diamonds and a sort of backing against antitrust proceedings in the US, and against Belgian usage of the mines in the Bel-

gian Congo as a lever. It adapted to the cartel's policies during the war, its ethnic insularity proved efficient and reliable, the brokers that represented it were among the pillars of the trade, and it agreed to the arrangement to limit its purchase outside the syndicate to the necessary minimum. For both the cartel and the British, Palestine's runaway expansion could threaten Antwerp, but it should not be totally done away with because the PDMA's monopoly position and dependence on the British and the syndicate were essential to the restraint of competition against Belgium and to the absorption of ex-servicemen in Palestine itself. Thus, the only way to resolve the invigorating conflict between the expansion of industry and the need to promote Belgium's recovery was "normalization."³³

The pressures to move in this direction came also from other sources, in particular from groups that heretofore were kept outside the industry. One was the Zionist institutions who at this period of political transition were deeply engaged with economic planning and institutionalization of their power. Normalization of the industry was in line with the more general work of the industrial planning committees of the Jewish Agency and with its quest to reshape the relations of the diamond industry with the Yishuv. Another more vocal group was the diamond merchants. Arab merchants gathered around the Nablus-based Johar Company pressed the British to free the entry of non-Jews into the industry.³⁴ Jewish diamond dealers and traders who were traditionally close to the Tishby-Weiss camp and the Diamond Club (see chapter 1) and lost ground to Ben-Ami and the PDMA's monopoly in 1940 pressed now for deregulation and direct exporting ties with New York and South Africa. One such body, the Diamond Traders Association, which consisted in summer 1945 of fifty-eight licensed diamond exporters, emphasized free trade and severing trading from the PDMA's control. Common to all these forces was the deepening sense of dissonance between the climate created by the approaching end of the war and the controls that the British and the PDMA operated.³⁵

Support for the merchants sprang from within the PDMA. The inquiry committee that in June 1944 exonerated Ben-Ami of misbehavior restrained the voice of the opposition, but not for long. Upholding the message of democratization of the PDMA's structure and organizational culture, the opposition led a campaign to transform the constitution of the manufacturers' association, to decentralize the organization and recover the PDMA from collusive financial operations. Unsurprisingly the campaign, which paralleled the bewilderment caused in diamond circles by Belgium's liberation, also protested against that distancing of the industry from the old, established Belgian traditions. Furthermore, the opposition sought the support of the Jewish Agency and the Palestine Manufacturers' Association, which seemed, at least in principle, a force the PDMA needed in the politics of supply. Abolishing the monopoly and the com-

pulsory membership of diamond manufacturers in the PDMA brought these forces together.³⁶

These pressures forced the PDMA to propose in June 1945 to transform state control of the industry into regulation and to assure that the new mechanism would not in any way challenge British support for the recovery of the industry in Antwerp. The argument was that the British were so instrumental in the establishment of the industry, its linkage to the syndicate, and its success that it should continue perceiving the industry as serving a British interest and thus persist in regulating it and preventing its demise. The state, as the interwar period taught, was instrumental in protecting industries from fluctuations and shocks and now, in the new postwar conditions, such protection should be expressed also in economic planning. The planning should indeed allow the diamond manufacturers' freedom of action, but the factories should still remain as members in one association and manufacturers would still have to be licensed by the government. As the diamond industry yielded so much, the state must be interested in its normal and healthy growth (especially now upon Belgium's return to business) and it must therefore make it its concern and not leave it only to those that profit from it. The purchasing of the rough diamonds could be also from non-Diamond Syndicate sources but would remain centralized. A special diamond-manufacturing regulatory board should make the new regulation of diamond production operational and act as an official channel between the government and diamond-producing or -buying countries and the cartel. The PDMA would, however, maintain its dominance. It clearly wished for attenuated regulation and "a gradual transfer to deregulation," not the total abolishment of control that might have endangered the industry altogether.³⁷

Led by Moshe Offen, Zeev Nagler, Asher Daskal, and Zvi Rosenberg, the opposition reacted with a firmer liberal approach. They argued that they saw the compulsory membership in the PDMA as a temporary government measure. The threat of diamonds reaching the Germans was over and there was no need to maintain the PDMA's centralized structure and forced membership. Why bar a manufacturer or an expert who was active in diamonds abroad? Why should a mature diamond industry be controlled from above and the finished stones supervised at all? Why should factory force to retrain a worker to work on stones dictated by the syndicate and why not allow him to be hired concurrently by more than one employer? Why limit the expansion of the industry at all by disallowing its turning to non-Diamond Syndicate sources of raw materials? Before the war the industry in the Netherlands was severely restricted and that in Belgium was freer—the first failed and the latter succeeded. Even if control were needed, why should it be enacted by the government and not by an exogenous body? "In our view" concluded the opposition, "there is

no justification whatever in allowing the destinies of capitalists, experts and workmen to depend on the whims and ambitions of a group of persons who are mainly guided by what they regard as their own interest."³⁸ "In peace time diamonds are a 100 percent non-essential commodity," explained diamond merchant, Norbert Guttenberg in autumn 1945. "Who then is interested in the regulation and control? Certainly not the population at large and not the government. . . . The only small and insignificant part of the population who will benefit from such control and whose only aim is to benefit from such control are the owners of the existing diamond factories in Palestine, at the expense of all other persons interested in that industry, including the diamond traders and workers."³⁹

The Histadrut was also suspicious of the PDMA's proposal. It feared that deregulation would bring wages down and thus harm the industry and the workers, but also help the Belgians and the workers in Antwerp who backed the world hegemony of their industry and joined in calling for Jews to return to Antwerp. Deregulation would mean that anyone could buy and sell diamonds and thus (similar to what happened in prewar Antwerp) the industry would splinter into small units, domestic work would flourish, family and child exploitation would be rampant, union membership decline, and collective (and strike) action made impossible.⁴⁰

The British reacted to the proposal with an uncharacteristic hesitation. Since the end of 1939 they cultivated special relations with Oved Ben-Ami and the PDMA, and guarded the monopoly through a multitude of directives and orders. Even when they acted to restrain the industry's expansion they never gave up the diamond production and exporting system they created with Ben-Ami and the PDMA's fellow manufacturers. If they wanted to put an end to the industry in Palestine so as to facilitate Belgium's recovery and to encourage Belgian refugees to return to their prewar businesses, they could have done so swiftly by drying up Palestine's rough diamond resources or by allowing total freedom to buy, produce, and sell diamonds. Why therefore, the British pondered, give up a financial resource that was so essential to the Sterling Bloc countries? Why not keep on using Palestine as a warning to the Belgians not to alienate themselves and the Belgian Congo from London? Germany would now want to resume its own diamond industry that had fared so well before the war—why not therefore give the diamond manufacturers in Palestine what they wanted, which was "to inherit Germany"? Furthermore, harming the industry in Palestine might harm the syndicate. De Beers was aware of the slowness of recuperation of diamond cutting and trading in Europe, and Oppenheimer, De Beers's chief, was after all an ardent sympathizer of the industry in Palestine that was still a serious buyer of rough diamonds. The British oscillation reflected, therefore, a wider transitional phase both Europe and Palestine were undergoing. In Europe it was not

clear yet what would be the tempo of Belgium's economic recovery and what were the best means to prevent German reindustrialization and remilitarization. Equally perplexing was the British capacity to withstand anticolonial pressures in Palestine in a period when the position of the Middle East in the incipient Cold War was becoming essential.

If in winter 1940 the calculations made by Frederick Mathias, and the advice he gave to the MEW, sufficed to decide on the establishment of the industry in Palestine, the questions the British were now busy with were to be handled differently. First, from around spring 1945, the British aired the idea that the capacity of the diamond industry to survive in the competition expected to be renewed in the postwar period, and it should be deregulated. Second, in order to materialize the new organizing principle and do away with the oscillation, the professional opinions of the entire diamond industry in Palestine, including those knowledgeable about diamonds and not part of the monopoly and the Ben-Ami clientele-like system, were now to be probed.⁴¹

The final move was made by the DCB where Walsh, Fletcher, and Ehrenfeld, the actual controllers of the industry in Palestine, advanced the establishment of an inquiry committee to decide on the extent and mode of deregulation. They agreed that the government should help the industry in coming out of its monopoly state, in particular as nowhere in the empire was there control over a commodity that was not the natural product of the country exercising control. On the other hand a certain measure of state control should still be maintained for it could advance the reputation of the industry, its workmanship, and financial orderliness. Furthermore, the nature of deregulation should be decided upon only after the inquiry committee heard all the forces in the industry, in Palestine, London, and even in Antwerp. After all, Palestine was destined to adapt itself to Belgian traditions and to the needs entailed by its recuperation. Indeed the committee established on 22 August 1945 was not to become a fiercely debating site between supporters and opponents of deregulation. Rather its findings would turn into a policy of bringing together the various parts of a jigsaw puzzle the British had gradually concocted since early in the year and would complete and turn into a policy when the British, largely following an investigative visit of Geoffrey Walsh to Antwerp in spring 1946, gave the inquiry's report their formal blessing.⁴²

While the inquiry committee was making its initial steps, a sudden and dramatic reduction of rough supplies to Palestine was announced. The reason for the urgency was the growing pressure of the industry in Antwerp on the syndicate to secure more supplies. Influential too was a periodical slowdown in diamond mining mainly in the Congo, which raised prices for the buyers of rough stones at the Diamond Syndicate and narrowed down production. An atmosphere of invigorated competition

among the diamond centers was noted by the press, and Ben-Ami's and Ehrenfeld's achievements in securing supplies in winter 1945 seemed futile. Palestine's annual exports of polished diamonds showed a decrease from LP3,325,117 to LP2,808,433.⁴³ Consequently the PDMA discouraged new applicants and the British again rejected the application of the Arab merchants at the Johar Company. Diamond cleavers, only recently allowed to operate in Palestine, were threatened to be left without jobs, and ex-servicemen and refugees from Europe seeking training in diamond cutting were turned away by the manufacturers. Reaching an understanding with the cartel on the one hand, and with the Belgians on the other, became essential now.⁴⁴

The International Diamond Conference that assembled in London in September 1945 became a crucial site for Palestine to discuss these issues. The conference was aimed at creating a World Society of Diamond Manufacturers. It signaled the governments of the participants that as much as each center was advanced and protected as a dollar earner and a national asset, some cooperation was still possible. Its common ground would be the support of the revival of the Belgian diamond industry and the quelling of the German one. Other guiding principles for the postwar period were advanced as well—international accommodation of supplies of rough stones, workers' wages, relaxation of trade restrictions, and freedom of international trade. In this atmosphere the PDMA's entire rhetorical arsenal was employed so as to allay Belgian resistance to Palestine and promote the notion that, rather than aiming to compete with the Belgians, Palestine was the legitimate successor of the Germans, in particular now when the full extent of the Holocaust became clear. Convinced on these moral and political grounds, the syndicate finally promised to supply Palestine with rough diamonds for six months and to negotiate on future supplies. However, it was clearly the narrowing of mine production and growing Belgian pressure for a larger share of rough diamonds (so as to allow a quicker recovery) that were behind this decision. Moreover, the syndicate made it clear that Palestine must further specialize in stones bigger than Sand—the small stone on which the recovery of Antwerp depended.⁴⁵

From London, Ben-Ami rushed to Brussels in mid-October 1945 to find further support for Palestine in the convention of diamond manufacturers and merchants. It was here that Ben-Ami heard again the Belgian demand that Palestine should not expand production and exports until Belgium recovered, and that wages and prices should be internationally coordinated. The agreement signed at the convention between the PDMA and the Belgian manufacturers coordinated the opposition to the revival of the German industry, dictated similar wage structures in the diamond industries of the two countries, and, significantly, included the obligation of Palestine not to accept new apprentices for training.⁴⁶ In the final

analysis these international strictures on Palestine weakened the PDMA and cemented the campaign in London and Palestine to do away with the monopoly. The Histadrut, flabbergasted at the PDMA's acceptance not to absorb more workers, now supported the deregulation of the industry. In the PDMA itself it was felt that without restructuring the monopoly and liberalizing the industry, the search for non-Diamond Syndicate sources for rough stones and new markets to sell the polished stones would be futile. Ben-Ami himself realized now that the PDMA could not remain a state-backed monopoly forever.⁴⁷

Deregulation

This certainly influenced the members of the Inquiry Committee and its deliberations. Geoffrey Walsh, the government's chief economic advisor and the head of the DCB, chaired the committee. Next to him was John L. Fletcher, the manager of customs, DCB member, and formerly the controller of light industries; and L. D. Watts, an expert accountant. The secretary of the committee was B. G. Bourdillon, the assistant to the government's chief secretary. Most of what has remained of the committee in the archives are the PDMA's preparatory notes, the report the committee's members wrote at the end of December 1945 on the basis of some sixty testimonies, the reactions the committee solicited in order to produce a final version, and the related visits to Belgium in spring 1946 after which the committee's report was made public. Most of the deliberations did not survive the fires that erupted at the offices of the controller of light industries in Tel Aviv in November 1945, and on the bombing of the King David Hotel in August 1946 in which Walsh and Bourdillon were killed. These materials enable us, however, to understand the various conceptions of postwar industrial planning of the British and the Yishuv, and more crucially the reshaping of the place of private capital and capital's relations with the structures of the state after the war.⁴⁸

The clearest statement of the committee was its emphasis on the need for the diamond industry in Palestine to change. The industry grew in "extraordinarily favorable conditions due entirely to the war." First and foremost it enjoyed "the complete absence of competition from the important and old established diamond cutting and polishing industries on the continent of Europe." Second, because rough diamonds were "so easily transported across the most closely defended of frontiers and of great potential value to the enemy" an extremely close control was necessitated. To these two "peculiar features" was added the forwarding to "the infant industry in Palestine" of supplies of rough diamonds that would have been "normally" allocated to the older centers. Fourth, once it was real-

ized that the local industry turned into a serious “dollar-earner factor” in Palestine’s export trade balances, it became in the interest of the British authorities that supplies be maintained, the operations safeguarded from misuse, and the industry developed “on sound lines with due regard to the eventual return of Belgium and Holland to the field of competition.” Fifth, the resulting structure of operation was the confining of raw material supply to one source (the Diamond Syndicate) and the confining of its distribution to “one narrow channel” (the PDMA). The consequent sixth aspect defining the anomalous operation of the industry was that as a consequence of its closure to new manufacturers, the cutting factories reached high levels of prosperity, “extremely good profits,” and “high wages to the workers.” Clearly, stated the report, “an industry born and nurtured in such abnormal circumstances was ill equipped to face world competition in the fields of procurement of the rough or in the disposal of polished diamonds.” The report stated therefore that it wished the industry to develop along healthier lines and that “the aim of the Government should be the eventual freedom of the diamond industry from all control.” In the transitional period some regulation would be maintained—that is, until normal conditions returned and the local industry adapted to the inevitable shock of reduction of supplies and to the reappearance of world competition.⁴⁹

But how was the new form of control to be achieved? British control of the diamond industry reflected government intervention in the economy and in Palestine’s civil society in general because it was, above all, a web of threads and links. Walsh and Fletcher worked to link the PDMA and the associated banks with London, with the Colonial Office, and finally with De Beers. Ben-Ami’s contacts were often made through the government controller, and Palestine’s high commissioner could design an economic policy in relations to this war-essential industry by counting on the reports discussed together by control and PDMA officials. More significantly, control meant inspection of quotas, regulating imports and exports, licensing and selection of the diamond manufacturers, and no less so exhibition representation in fairs and shaping of a language that was destined to mirror a supposedly imperial achievement. The entire structure was formalized within the government’s Defense Regulations, a legislative project that endowed the PDMA with the power and authority it enjoyed during the war. The committee asked therefore how to restructure the industry in such a way that it could survive without harming Belgium and without suffering from competition with a recuperated German diamond industry. How to end the wartime umbrella the state gave the industry without creating an anarchy that could both endanger the industry and the care for Belgium’s recovery?⁵⁰

The division of opinions among the witnesses and members of the committee over the nature of the new form of control reflected the power

structure. One group of witnesses were the PDMA representatives, worried that import, cutting, and export functions would be severed and that the British umbrella was about to be taken away, but keen to adapt the monopoly to the inevitable change. The second group consisted of the experts in cutting and trading, partly involved in the industry but mainly kept aside for being involved with the “national camp” earlier in the decade or for simply unwilling to accept the PDMA’s rules. Perceiving themselves as standard-bearers of occupational and organizational traditions, they constituted an opposition to the PDMA’s hierarchy and were eagerly awaiting a climate of less-politicized and -militarized industry and one of more focused occupational culture. The third group gathered all sorts of newcomers who wished to integrate with the industry and join in its “celebration” of profit and provision of luxury. Finally there were the merchants, wishing to specialize in import and export, proud in their world connections and, after being restricted during the war, seeking a free post-war world of trade.⁵¹

Clearly the last three groups had in common their wartime exclusion from the monopoly, their incessant patrolling of the industry’s boundaries. Moreover, it was the differences between the first two groups over the supply and distribution of rough diamonds and over licensing new manufacturers that made them two distinct schools of thought. In the name of efficiency and specialized manufacturing, the experts’ camp opposed the monopoly of the Diamond Syndicate and of the PDMA, called for licensing specialized exporters and for obtaining the rough stones also from sources outside the syndicate. These proposed actions would mean significantly decreasing the intervention of the government in the industry. The PDMA’s representatives agreed with the call for further efficiency but opposed an outright opening of the ranks. Safeguarding their own interests as manufacturers and experts, they wished to see the government protecting their status albeit with a softer version of control and with easing the single-path dependency on the syndicate.⁵² The final word of the committee was that eventually the industry ought to be freed of government control and the PDMA should be transformed from a compulsory association to a voluntary one. Import of rough diamonds would have to be opened to importers outside the PDMA and new factories would be permitted to operate. However there should be must be a transition period of regulation until normal conditions resumed and the government and the industry fully adapted to them. Government control would be therefore maintained so as to ensure both the industry’s healthier development and that the industry would survive the crisis expected to follow after the reduction of supplies and reemergence of world competition.⁵³

The committee’s report was concluded in December 1945 but not made public. For all intents and purposes it turned now into a battleground.

Many in the PDMA who supported liberalization still feared losing the monopoly. Jewish diamantaires abroad who wanted to immigrate to Palestine preconditioned it on changing the PDMA's authoritative structure. The pressure from the supporters of freer trade remained frail because the PDMA, still backed by Walsh and the CO, could still pull the strings. Moreover, the government itself conveyed the message that the conditions for implementation of deregulation had not ripened yet. On the other hand, many forces that pushed for deregulation and abolishment exerted concerted pressure to advance the process. Among them were the Exporters' Association of Palestine Polished Diamonds (79 members in spring 1946), the Palestine Diamond Club (125 members), the Diamond Traders Association (importers, 39 members), and the Palestine Cleavers' Organization (39 members). These groups were, however, rejected by the government in the claim that as the industry was now battling to get supplies and position itself in the new conditions of Belgium's return, freeing the industry of its monopoly structure would only bring chaos, uncontrolled home production, and unemployment.⁵⁴

While the orientation of the report was already clear to diamond circles, in Palestine it was felt in the government that the committee's recommendations had to be checked against the models of diamond production and government control that were now evolving in Belgium, and against the tension between the cutting centers. For this reason Geoffrey Walsh, one of the main architects of government's economic policy and a key figure in the development of the diamond industry, was sent to Europe. Walsh's own report was added to that of the committee's so that the CO and the government would better understand how a diamond industry could practically operate without government control. Walsh admired the Belgian model in which diamond dealers and manufacturers gathered in a Diamond Club—a keeper of high professional standards and a moral barrier against malpractice. The club cooperated with a Diamond Office, which was government controlled and which inspected the import of the rough diamonds and the export of the product. It was a liberal and plural model, but at the same time by interdicting the flight of diamantaires' capital abroad it harnessed the industry to the needs of Belgium's recuperation. The model did not entirely exclude governmental presence but was based on a subtle cooperation. Walsh saw here an apt example of how a control-free industry could still serve both imperial needs, reflected in dollar income, and local-developmental ones, namely, Palestine's economy. Furthermore, Walsh saw the model as another application of a European financial culture to be introduced in the Middle East where suspicion of the way business was conducted was part of the British experience and paternalist approach. Finally, though the model allowed purchasing raw diamonds from more than one supplier, in practice the De Beers monop-

only remained unchallenged and thus the relaxation of controls was somewhat mitigated. Consequently in early June 1946 the government decided it was time to make the recommendations of the committee public.⁵⁵

It would take some time for the full effects of deregulation to show their mark. The industries in Belgium, the UK, and the US were at this point in time much more deregulated than in Palestine, where deregulation mainly took the form of freer imports of the rough diamonds and gradual separation of imports of the rough stones from actual cutting.⁵⁶ Still, the publicity of the report and its much-debated recommendations for a freer industry made liberalization irreversible. The reasons were clear. First, in a reversal of the 1940 principles, the policy that followed the committee was now of doing away with the PDMA's monopoly and allowing new manufacturers and capital owners to join in. Second, trade was made freer, as exemplified by the opening of the diamond exchange in Tel Aviv. Third, exporters could now operate more freely, organize themselves separately from the manufacturers, and cultivate ties with manufacturers in other countries. In common these immediate effects of deregulation constituted a transition from state-sheltered capitalism to a more independent one.⁵⁷

More than any immediate consequences, deregulation meant a change in the basic assumption shared by anyone producing or dealing in diamonds in Palestine since the mid-1930s: that as private and capitalist producing and dealing in diamonds has always been, it has never been free of dependence on the state or of state intervention. Even if formal authorization to anyone wishing to be active in diamonds were successfully bypassed and informal activity was practiced, the transgressor's concern would always be there that at one point or another he would tackle a delimiting state authority or the PDMA as its proxy. The obligations to be a PDMA member, to buy rough diamonds only from the syndicate, and to export all the finished product were the formal expressions of what turned into a distinct social reality of a Jewish-only industry. The later was deeply protected and manipulated by the interests of the British and the syndicate, heavily guarded by the Ben-Ami citadel-like administration of the industry, and abnormally restricted regarding free trade. This was now to change.

That the British actually administered the deregulation was not surprising. After all, they provided the legal and political status of the PDMA's monopoly, they oversaw and controlled the purchasing and exporting of the diamonds, and entry to the industry and trade was largely dependent on their consent. If anything deregulation was a weakening of their central position in the industry. However, one cannot ignore the fact that deregulation was an intervention in an industry that was so much part of the Yishuv, its groups of capitalists and workers, and that any restructuring would entail changes in relations among the manufacturers and between them and the workers. In this sense the British explicated, again

as they had done since the 1920s, their crucial role in shaping Palestine's industrial scene and even its post-Mandate future. That this process ripened in spring 1946 when the Anglo-American committee completed its deliberations on the political future of Palestine demonstrated the extent to which the political and the economic aspects of the British regime were intertwined.⁵⁸

Two areas of influence should be stressed in particular. One was the freer operation of importers of rough diamonds. This meant not only a gradual decrease in the dependence on the syndicate for supplies but also the freeing of the individual manufacturers from total dependence on the brokerage axis run by the PDMA and Hennig & Co. The latter would therefore entail decentralization in the industry, a weakening of Netanya's position as the main stronghold of the industry, and last but not least resumption of merchants' activities and of a trading culture that had been quelled since early in the decade. The second area of influence of deregulation was the labor process. Deregulation meant that the individual manufacturer and its team of experts and managers could shape more independently the character of the factory's production: the stones cut, the local division of labor, and the degree of upholding or distancing from traditional production processes. Perhaps this was the deeper meaning of the normalization of the industry: not just undoing the wartime strictures on the industry but also creating the possibility for change in workplace relations. As we saw earlier (see chapter 3) the formation of the industry in Palestine was also an adaptation to national and local needs. Deregulation was closely associated with reverting back to the Belgian model and with the need to adapt the local specificity to the postwar circumstances of renewed Belgian hegemony. After all, many thought this was the model in which Jews historically mostly succeeded.⁵⁹

Strengthen pluralized foci of power was a crucial effect of deregulation. One power was the traders (importers and exporters) who rallied around their older demand for independence and free trade and cultivated these ideas in organization. They were first recognized by the British and then gradually, in particular following the report, were legitimized by the PDMA. This plurality of interests affected Ben-Ami and his supporters. In reaction to the process, in spring 1946 this "old guard" tried to run the PDMA in such a way as to monopolize all imports of rough stones and thus preserve power. This turned into a serious point of contention, pitting the exporters' association and the importers against the monopoly and in support of free movement and action. The campaign, greatly energized by the decontrol process, peaked in spring 1946 and virtually caused Ben-Ami to back away from too-personalized dealing with the syndicate. Furthermore, the campaign was greatly helped by the growing black market in diamond trading and production in Palestine since early

1946, which exposed the growing irrelevance of total monopoly control in the industry.⁶⁰

Closely associated with liberalization and the weakening of the PDMA's monopoly position was the establishment of the bourse. In late March 1946, the Palestine Diamond Exchange was founded under the presidency of Ben Schafferman (1896–1974) as a stock company in Tel Aviv. In fact it was a company of 180 importers, manufacturers, and traders, and its main purpose was to create the exchange. The bourse did not have trading halls at its disposal, and its members' activity was conducted at the Diamond Club, the Palatine café, and the Bank Igud hall—all in Tel Aviv's main commercial center. In the "Memorandum of Association of the Eretz Israel Diamond Exchange (31 March 1946)" the composition of the company's share capital was determined, as were its twenty goals, showing the solid and visionary basis that its founders lay. Among these goals were to form, within the framework of the company, special committees for the purpose of managing a diamond bourse, manage suitable buildings for the purposes of the diamond bourse, resolve differences of opinion among the bourse members, institute arbitration courts, set honest and just principles in the diamond trade, and maintain unity in the rules, instructions, and customs of the diamond trade. In fact a circle was closed in bringing the adoption of the Belgian model and also the Dutch one to fruition.

From the perspective of the thirty to fifty diamond traders, deregulation was more than a mere economic blessing. They could now revert to the short period in 1938–1940, between the reduction of customs and the barring of independent trade, and revive the global contacts that fed their businesses. On the return of the importers, exporters, and middlemen to business, they witnessed the change that totally transformed the manner of their financial transactions. Some were keen to see Belgium recover; some even looked for dealing again with the cutting industry in Germany. Others preferred cultivating a diamond trade from the new diamond centers in Palestine, intertwining a sheer search for renewed profits with a fervent sense of Zionist state building.⁶¹

The effects of deregulation were, however, deeper. A wave of offers to sell factories emerged. As running a factory was possible only by holding a government license and with membership in the PDMA, full deregulation was expected to empty the licenses of their value. Consequently many owners quickly placed offers on the market, trying to seize the moment as much as they could and putting many workers at risk. At the same time, however, the sales of factories or shares in ownership facilitated the emergence of the Histadrut as a potential buyer, and as we shall soon see, it began setting up diamond cooperatives through its holding company.⁶²

Furthermore, domestic work was back now in full force. Similar to the cheaply paid cutting in Belgium's rural Flanders, here too, in Netanya and

Tel Aviv, layers upon layers of small and large middlemen transferred to, operated, and encouraged a culture of small-scale, artisan-based home work that wrongly seemed to have vanished from the industrializing landscape of wartime Palestine. This was truly uncontrollable, and the PDMA's attempts to discipline the wave seemed ridiculous as the organization's members themselves now "sinned" in this way. The factories seemed now to contract; the workplace effect of concentration, singing, and solidarity seemed to evaporate, replaced as they were by the individual and his family. No organizational power could stop this. In early or mid-1946 manufacturers even started to send stones for cutting from Palestine to Belgium. It would be cheaper.⁶³

Deregulation thus reemphasized the centrality of British rule. If in the early 1940s it accommodated private industry to the needs and conditions of the war, now it was the primary force behind its adaptation to the new postwar conditions. Deregulation fitted British liberal visions of economy and society, but it also matched its stately interests and goals: assure the recuperation of the Belgian industry, cooperate with the cartel in shaping the postwar diamond mining in the Congo and distribution in London, hamper the revival of cutting in Germany, and keep good relations with the Americans in the context of the emerging Cold War.⁶⁴ The gradual undoing of the monopoly, the easing of entry barriers for new manufacturers, and the freeing of diamond importers and exporters from the throngs of war restrictions and thick bureaucratic controls constituted in the diamond industry a legacy for many years to come. Distancing itself from control and moving towards regulation, the government signaled the limit of its intervention in industry, to its protectiveness, in particular as its dismantling of its rule in Palestine seemed close than ever, but more so as its interest in relations with Belgium, De Beers, and the Belgian Congo would now surpass its Middle East crown colony. As much as freeing the industry of the constraints forced upon it by the war strengthened the private sector in Palestine, it was also a state project and served well in blurring the dividing lines between privately owned industries and the state.

In an ironical twist of history, deregulation and the further integration of particular cutting and trading centers in a postwar world system harbored also economic-national dimensions. The recovery in Belgium was made part of the Belgian postwar national project and British strategies were obviously part of the economic nationalism espoused by the Atlee government. In Palestine the linkage between liberalization and national considerations took a specific form. The presence in the diamond industry of Zionist institutions gradually increased, and Zionist state-building considerations emerged more forcefully. Second, the voice of the Histadrut gradually increased, reflecting as it did the postwar strengthening of cooperation in the Yishuv's industrial sector between Mapai-led Jewish

Agency and organized labor. The testimonies in the deregulation inquiry committee and the moves made in practice in spring 1946 demonstrated that the more the British thought of liberalizing the diamond industry and signaled that they were about to distance themselves from it the more invigorated was the presence of Zionist institutions. The question was not anymore whether there would be Zionist-public intervention in the affairs of the diamantaires but when and in what volume. Many months before the British withdrawal from Palestine, this interconnectedness between one state power withdrawing and another emerging became ever more apparent.⁶⁵

Illustration
6.1. Diamond
workers at
a Netanya
factory, early
1950s.
Photographer:
Zoltan Kluger.
Source: NCA,
0939.01. Used
with permis-
sion of the
Netanya City
Archive.



Illustration
6.2. A diamond
cutter at a Tel
Aviv factory,
May 1949.
Source: CZA/
PHPS/1325364.
Used with per-
mission of the
Central Zionist
Archive.

