Chapter 8

REPRODUCING THE PACT

> Further deterioration in the situation of the world diamond markets is recently felt, in particular in the United States of America. . . . The competition lowers diamond prices. . . . The development of the diamond industry in Germany is renewed, and with lower wages. . . . The producer in Israel is left with no profit. . . . Considering that the industrialists suffer these loses for already four months most of them would cease work if government assistance is not provided or the situation improves. In practice many enterprises would shut down but for their hope for government help.
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> —Jacob van Amerongen, Record on the crisis in the diamond industry, 8 March 1949, ISA/RG/48/90/23.

State of Transition

The effects of the crisis in the diamond industry accentuated its exposure and fragility. Fluctuations had always been an integral part of diamond production and trade long before the industry was founded in Palestine, and after the war they recurred with no less force. The downturn in Palestine was therefore not an unknown fact for the manufacturers and experienced dealers, and perhaps their adaptability to the vagaries of the postwar period was a clear proof of this accustomed fact. Furthermore, the shifting map of cutting centers was also a historically recurring phenomenon. Antwerp surpassed Amsterdam largely following the First World

War. The German cutting industry knew well how to exploit the world depression of the 1930s to create a strong competitive center that threatened to replace Antwerp. Palestine itself was a schemed alternative to the paralysis of the polishing centers of the Low Countries; and the centers in Havana, Rio de Janeiro, San Jose, Johannesburg and New York, could not have thrived without the war-provoked flight of Jewish refugees. Palestine's decline in 1947, which was strongly affected by the intersection of Belgium's return to business and the enhanced role of diamond industries as national-economic assets, was part of these shifting gravity points of the preceding decades.[1]

Still scarred by the crisis, the industry now entered the transition phase from British Mandate rule to Jewish sovereignty in the state of Israel. The transition was fourfold. First was the state-like role assumed by the Jewish Agency. Largely a military and an institutional process, it manifested itself in the role played by the agency and its departments of trade, industry, and labor in facilitating the diamond industry's recovery from the crisis. Reflecting the growing centrality of the Zionist institutions in the economic preparations of economic firms to the watershed political transition that was about to take place in 1948, the role of the Jewish Agency was based on direct economic assistance, on relaxing the tense relations between capital and labor, and on making the industry aware of the new government in charge.[2]

The second process was the British retreat that followed the UN resolution for the partition of Palestine in November 1947 and was completed in mid-May 1948. This process gave the transition immense geographic and political import. For the diamond industry, the retreat manifested itself in the exclusion of Palestine in February 1948 from the Sterling Bloc and in the institution of new government-like control. Moreover, the British departure harbored deep political and institutional implications for the population, the bureaucratic structures that regulated daily life and the expectations the Arab and Jewish communities were accustomed to from the colonial regime. For the diamond industry the impact was overwhelming. The industry had been born and reared by the British Mandate state, by the authorities in London (the CO, MEW and the like), and by particular regime-related personalities that weaved the network between the PDMA and De Beers. A series of thorny questions would be raised now, touching upon the policy of rough diamond supply, relations with Antwerp, local control, and government support of the private sector. The institutional vacuum that emerged already in summer 1947, and its supplanting by the new state in the course of 1948, was reminiscent of the previous and no less dramatic intervention of the Mandate in the daily operations of the diamond industry eight years earlier.[3]

The third major aspect of the transition was the Arab-Israeli war that erupted in spring 1948 and ended with the armistice agreements between Israel and the Arab states in summer 1949. While the diamond industry emerged in 1939–1940 largely due to the war in Europe, now it became an integral part of a war that brought about dramatic human cost and institutional change. The 1948 war prolonged the recovery of the industry from the crisis and at the same time embedded it, as it did the entire Jewish private sector, in the Israeli state-building process. The fourth and final aspect, the actual establishment of the state of Israel in May 1948 as a sovereign political entity, brought these processes to a climax. The emergence of the state was so cataclysmic demographically, politically, and economically that it took many years for the historiography of the transition period to acknowledge the tremendous impact and legacy of British Mandate rule. In 1940 the British government bureaucracy and military forces in Palestine transformed the institutional infrastructures of earlier Mandate rule. The handling of the diamond industry and its relations with the Diamond Syndicate, the MEW, and the Belgians was part of this transformation, and they were reflected in particular novel forms of state intervention in civil society and in industry. In a sense the diamond industry was not just a "war-industry"; rather it was a state-capitalist sector, the two sides living off one another and developing mutually dependent relations. The state of Israel, with its emphasis on the need to finance the 1948 war and absorb Jewish immigrants through a "managed economy," marked a direct continuity in this reciprocity and gave the involvement in the recuperation of the diamond industry new dimensions.[4]

Shaping this intervention, and practically coloring the entire system of relations between the state and the industry, was the contrast between world trends in the diamond industry and local performance. The two factors on which the diamond operation in Palestine depended—the steady Diamond Syndicate sales of rough diamonds and the demand in the US for finished stones—seemed at the end of the decade to provide a favorable climate for the expansion of the local cutting centers. Between 1947 and 1951 DTC sales doubled, and, in particular, the sales of rough stones for jewelry diamonds rose at the expense of industrial diamonds. Moreover, diamond imports from the syndicate to the US resumed their wartime levels—from $64.2 million in 1945 to $118 million in 1946, declining only in 1947 to $43.5 million.[5]

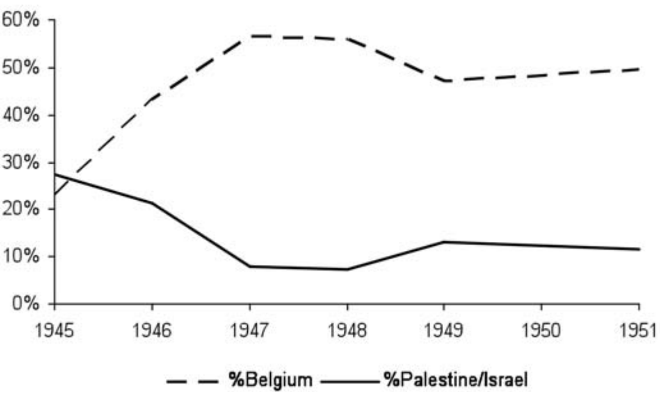
In clear contrast to these favorable conditions the diamond industry in Palestine (and Israel from 1948) found it hard to recover. The number of workers employed in the industry decreased dramatically, and its share in the overall polished diamonds imports to the US declined from 27.5 percent on the year World War II ended, to less than half of that share at the turn of the decade. Evidently, the recuperation of the Belgian diamond industry accentuated the contrast. From accounting for less than a third of the imports of finished diamonds to the US in 1945 the Belgian industry climbed in the early 1950s to half, leaving Israel behind with only half of that Belgian share.

Table 8.1 Imports to the US of polished diamonds, 1945–1951

	Total (in thousands of dollars)	From Belgium	From Holland	From Palestine/ Israel	% of total from Pales- tine/ Israel	Average price per carat in the US in dollars	Employed in the diamond industry in Palestine/ Israel
1945	64,185	14,621	520	17,685	27.5	170	4,100
1946	117,968	51,150	7,724	24,972	21.2	195	5,000
1947	53,472	30,368	3,743	4,298	8.1	154	2,000
1948	56,245	31,476	5,110	4,139	7.3	145	800
1949	41,428	19,582	3,202	5,402	13.0	124	1,000
1951	58,525	29,115	4,845	6,834	11.7	119	2,200

Sources: Albert Ehrenfeld, “Israel Diamond Industry,” *Israel Economist Annual—1952* (Jerusalem, 1953), 138; Albert Ehrenfeld, “Israel Diamond Industry in 1953 and 1954,” *Israel Economist Annual—1954* (Jerusalem, 1955), 111–13; “The Diamond Industry,” in Israel’s Ministry of Commerce and Industry, *Israel’s Industrial Future: Outlook 1960–1965* (Jerusalem, 1965), 228–32; *Hayahalom* 154 (June 1988): 62.

Figure 8.1 Share of imports of polished diamonds into the US from Belgium and Palestine/Israel 1945–1951



Sources: Albert Ehrenfeld, “Israel Diamond Industry” *Israel Economist Annual—1952* (Jerusalem, 1953), 138; Albert Ehrenfeld, “Israel Diamond Industry in 1953 and 1954,” *Israel Economist Annual—1954* (Jerusalem, 1955), 111–13; “The Diamond Industry,” in Israel’s Ministry of Commerce and Industry, *Israel’s Industrial Future: Outlook 1960–1965* (Jerusalem, 1965), 228–32; *Hayahalom* 154 (June 1988): 62.

The contrast was obviously a reflection of the lingering effects of the crisis.[6] The prolonged stoppage of factory production and the related growth of home production harmed the quality of polished diamonds and the reputation of the industry among dealers and merchants in New York. The concurrent contraction of the workforce in Palestine, and expansion of that in Antwerp, added to the decline in reputation. The superior capacity of Belgian manufacturers to obtain rough diamonds from the syndicate (but also in lower prices from the US) was indicative of the effects of the crisis on previous marketing advantages that Palestine enjoyed during the war and immediately after.[7] Moreover, the ability of the manufacturers to pay for their orders of rough diamonds improved a little in the latter part of 1947 but not enough to regain the trust of the brokers and the syndicate in London. The financial guarantees the PDMA was forced to promise the manufacturers in order to balance the growing mistrust heightened tension among the members of the organization, and between the PDMA and the banks that were its sources of credit. The diamond cooperatives, partially replacing the private factories during the downturn, could hardly expand their production and bear the increasing insurance costs.

The reestablishment of Antwerp as a center for sales and gathering of foreign buyers stressed the physical injuries the crisis caused. India was Palestine's main alternative outlet to market its produce (other than the American one that the Belgians controlled); but it was caught in a civil war that hampered import of polished diamonds. The closure of the Indian market to Palestine diamonds from early July 1947 resulted in a substantial deficit in Palestine's balance of trade.[8] As the Belgian industry enjoyed more favorable exchange rates of foreign currency than Palestine, the competition with Antwerp was indeed fierce. Compared to Palestine the Belgians could lower wages, save more on labor costs, and press the syndicate more successfully to favor Antwerp over other cutting centers. Moreover, world competition would include now also the diamond-cutting industry in Germany, which reemerged after the war (with the aid of the Americans) and, albeit more modestly, of the Dutch industry as well. In this competition the role of the Diamond Syndicate was crucial. Wishing to secure the diamonds mined in the Belgian Congo, it favored the industry in Antwerp and thus narrowed down significantly the supplies to other centers. These advantages were also used in blatant attempts to attract refugees to return to Belgium. The picture was therefore reversed: Palestine diamond cutting could take off in the early 1940s because of Antwerp's paralysis, and now, with the Belgian diamond industry dynamically recuperating, it had to face again limitations similar to those set by the Belgian hegemony in the 1930s.[9]

Adding to the fragility of the industry was the fact that the PDMA itself was still recovering from the organizational blow it suffered during the crisis and from Ben-Ami's internment. Many in the industry sensed this leadership crisis and its consequent effects on the position of Palestine in the politics of supply in London and on Ben-Ami's ability to pull the old strings. It was perhaps one of the long-term impacts of the crisis that, despite the resilience and solidarity cultivated among the diamond owners and manufacturers during the happier times of boom and world success, they were now overshadowed by distrust and organizational limpness that would heal only years later.[10]

The political and military upheaval from late 1947 to summer 1948 and the economic disruption it wrought on the country accentuated the lingering effects of the crisis and added new ones. The disruption of air communications slowed down the supply of rough diamonds. Manufacturers, workers, and dealers alike were mobilized, and those that maintained the operation of the factories knew well that, unlike the war that gave birth to their industry, this one was not conducive to production and export of luxury items. For the diamond industry it meant first of all partial loss of communication with the world outside Palestine and with the syndicate. The disconnection of Palestine from the Sterling Bloc in February 1948 threatened to have serious consequences on negotiations over the supply of rough diamonds, on trade and consequently on profitability. Moreover, rough diamonds, which were supplied in meager quantities since early March 1948, could not reach Palestine regularly, and the export of the polished stones that depended on the Clipper airplanes was destabilized after the takeover by the Jordanian Legion in June of the Lydda airport. Insurance companies were more reluctant to cooperate with the industry or virtually became unbearable for the individual manufacturers and merchants. It was for these reasons that more than half of the rough diamonds the industry in Palestine obtained during this period came from informal (non–Diamond Syndicate) and illegal sources.[11]

Institutional uncertainty was no less destabilizing. The communication between the industry and the British government was disturbed and the control over imports and exports almost collapsed. The manufacturers feared that the retreat of the government would cut off the import of supplies, and the political vacuum seemed to the syndicate in London to be a potential menace. The industry already had its established sightholders on whom it could count to receive the rough stones from the Diamond Trading Company in London. But the retreat from the Mandate seemed to harm the enormous help the diamond industry received from the British in the struggle for supplies, in exerting pressures on De Beers, and in assuaging the Belgians. Unsurprisingly the diamond manufacturers would now do their utmost to secure the interest in and attention of the Jewish Agency to the role of the industry in building the state. Not many years back, the Zionist institutions worked relentlessly to influence the industry and delegitimize its robust assertion for institutional and economic independence. Now the two sides would join together in a concerted effort, and strongly nationally motivated, to reproduce the state-capital relations shaped earlier with the British.[12]

The breakout of the 1948 war in May brought further aggravation. The war engulfed the urban areas where the diamond industry was located. The syndicate stopped sending supplies and 1,200 of the 2,000 workers employed in the factories (apart from 800–1,000 in the home industry) were called up for military service. The remaining 800 remained confined in the thirty factories under a special arrangement granted by the defense authorities so as to keep exports going. But because of the suspension of postal services and malfunctioning of government departments, all marketing and export was disorganized, probably allowing for more chaotic business. Most of the exports during the first months of the war found their way out by private arrangements. Consequently the value of import of rough diamonds between July 1947 and July 1948 (LP 2.5 millions) was three times higher than the value of export of polished stones (LP 0.7 Millions).[13]

The trend was accentuated in autumn 1948 by the decision of the syndicate, clearly provoked by the Belgians, to further cut down rough supply to Israel, and by the insistent demand at the syndicate that the industry should pay for its orders in hard currency. Another fall in demand for polished diamonds in the US at the end of the year caused a further decrease in prices and accumulation of stocks at the hands of American importers. The competition from the German diamond industry in the American zone intensified, largely resulting from low costs paid on labor and from the willingness of British and Dutch diamond dealers to send Germany their rough diamonds for cutting and polishing. Unfavorable exchange rates between the Israeli Lira (LP) and the American dollar were influential too, as well as the expectations of American buyers that polished stones could be now obtained much more cheaply in Germany and in Belgium than in Palestine.[14]

By the end of the 1948 war the industry was still only a fifth of its size at its peak in 1945–1946, the gain it accrued from exports was small, and overall salaries paid to workers averaged 40 percent lower.[15] The accumulating effects of the crisis, Belgian competition, the war, and the supply policy of the syndicate significantly limited the capacity of the industry to take off again and further splintered the veteran factories into small-size undertakings and production units.

Table 8.2 Diamond cutting in Palestine/Israel, 1946 and 1951

	Factories 1946	Workers 1946	Factories 1951	Workers 1951
Tel Aviv	18	2,657	66	1,060
Netanya	11	1,585	21	616
Jerusalem	2	350	7	102
Ramat Gan	1	*	4	24
Petah Tikva			3	19
Bnei Brak	1	*	1	7
The Negev			1	18
Total	33	4,592	103	1,846

Notes: * included in Tel Aviv

The 1,846 workers in 1951 were divided into sixty factories with 486 employed, thirty-five with 934 and eight employed 426. This was a significant reduction in firm size compared with an average of 139 workers per factory in 1946.
Sources: Minutes of the first meeting of the central committee of the National Organization of Diamond Workers, 9 December 1946, LA/IV-208–1-4551; The 1952 Israel's Industrial Census as summarized in Yaakov Arnon, "The Diamond Industry," *Haaretz*, 8 June 1955.

The diamond industry was a "war baby" as many defined it, it was used to disruption, and its adaptability was renowned. Moreover, political uncertainty and Belgian competition that narrowed down supplies may have kept alive a black market, and even increased demand for locally marketed diamonds as an inflationary hedge. However, as restructuring of the factories demonstrated, the protracted recovery from the crisis and the 1948 war virtually brought its transformation.[16]

The Pact

It was against this background of war, political change, and aggravating competition among diamond-producing centers over the American market that a new pact emerged in spring 1948 between the state, the industry, and the workers. The rapprochement was already in the making upon the intervention of the Jewish Agency in the attempts to resolve the crisis. Following the British decision in spring 1947 to hand over the Palestine question to the UN and the arrest of Ben-Ami in the summer, the Jewish Agency intensified its involvement. The decision on the partition of Palestine and the beginning of military recruitment of workers following the spread of hostilities in early 1948 gave this institutional involvement its formal countenance.[17]

Let us first look at the actors that took part in the process. In February 1948 the leaders of the Jewish Agency resolved to help the industry protect itself against increasing attacks on the factories by the LEHI underground. In parallel it set up an advisory committee on diamond affairs aimed to resuscitate the industry and counter the Diamond Syndicate's policy to stop sending supplies of rough diamonds to Palestine. Albert Ehrenfeld of the Palestine Corporation and the main advisor on diamonds to the British, the Jewish Agency, and the PDMA itself was appointed diamond controller. Jacob van Amerongen (later Arnon), a central figure in the Dutch diamond industry and the Jewish community in Amsterdam, was nominated as Ehrenfeld's deputy.[18] In April 1948 the two established the Department of Diamond Control under Minhelet Haam, the "People's Administration" that ran the affairs of the Yishuv on the eve of the establishment of the state of Israel.[19] On the formal establishment of the state in May, diamond control was incorporated into the Department of Trade and Industry, headed by Peretz Bernstein,[20] one of the central figures in Dutch liberal and Zionist politics and formerly the director of the Jewish Agency's Economics Department. In addition an advisory committee on diamonds was established in the Ministry of Trade and Industry that practically replaced the British diamond control (the DCB). It was here that Minister Bernstein, the two diamond controllers, and the representatives of the industry, including Ben-Ami, convened to shape diamond policy. The move was further backed by the renewing the coordination between the PDMA and the association of Jewish industrialists (formerly the PMA). By the end of May 1948 the entire system of authorization of diamond imports and exports and of the formal relations between the industry, the state, and the banks was institutionalized, and the State of Israel formally replaced the British in regulation of the industry.[21]

Bernstein, Ehrenfeld, and van Amerongen (Arnon) epitomized the state entity in the making. Bernstein was in charge of industrial policy in the transitional administration, while Ehrenfeld and van Amerongen handled the transfer of diamond control from the British to the new sovereign. The three knew each other well from prewar Amsterdam. Ehernefeld and Van Amerongen had deep backgrounds in diamonds and diamond banking and trade in the Low Countries, and they shared with Bernstein a mix of a liberal economic approach with a commitment to state building and to the need of a state-managed economy. Their recruitment reflected the state's mobilization of professionals who were not well versed in the trade but schooled in relations with state bureaucracies. Ehrenfeld worked in diamond control under the British authorities and from his pivotal position in the Palestine Corporation he handled the credit policy of the banking system in 1940s Palestine vis-à-vis the diamond manufacturers and the PDMA. Van Amerongen was closely connected to the diamond world through his family and the diamond firm he ran in Amsterdam in the 1940s. A renowned economist and a prominent leader in the Dutch Zionist Movement, he seemed fit to join Ehrenfeld in shaping the diamond-control policy of the new state while maintaining the continuity of the close association of the diamond industry with state authorities. Together they expounded the intertwining of industrial recovery, loyalty to occupational traditions, and state building and came to represent during the transition from Mandate to state the needs and interests of both the state and the private industrial sector: higher foreign-currency earning, absorption of occupationally focused Jewish immigrants, and transferring the industry from the black market and home production back to formal production, the diamond factories, and untarnished trading.[22]

The second actor in shaping the pact was the industry itself. It was now a mixed composition of manufacturers, master craftsmen, and merchants. Many of the larger factories they were part of only few years ago that had many capital owners without prior background in diamonds had been replaced by small-sized factories that worked on a diversified array of stones and thus were more professionally focused. The diamond manufacturers' association and the Diamond Exchange (which included the Diamond Club) provided this contracted group with some cohesion. However, they mostly perceived themselves as less committed to organization as they had been in the early days of the PDMA monopoly. In the latter part of 1949 the monopoly of the manufacturers' association over the reception of supplies of rough diamonds from London ended following the recommendation of the syndicate,[23] and the establishment of a new manufacturers' organization— the "Diamond Cutting Works Federation"—was in process. Consequently, the transfer of the institutional power of the industry from Netanya to Tel Aviv was now completed, the latter town inhabiting in 1952 66 percent of the 103 factories and 70 percent of the 2,195 diamond workers. However, it also reflected the decline of Ben-Ami's power in late 1949, in the wake of the ending of the monopoly and his resignation from the presidency of the diamond manufacturers' association that followed in early 1950. The transformation largely reflected the retreat of the British from Palestine and the concurrent cooperation of Eherenfeld and Van Amerongen in the state's diamond control with the DTC in London on the one hand and with the Tel Aviv manufacturers on the other.[24]

If anything, what the diamond manufacturers had in common was their search—vented by the crisis, the British retreat, and the impact of the war—for the umbrella of the new state. Perceiving the new government institutions as an expression of Jewish sovereignty and a successor to previous state-capital cooperation, they happily lent themselves and their capital to serving state building. Palestine's expulsion from the Sterling Bloc and the association of competition with Belgium with foreign affairs shaped their need for government backing. More crucially, the positive reception of independent Israel in diamond circles worldwide—at De Beers in London, among merchants in New York, among Jews in the Low Countries—was an essential lever for this private sector. Ben-Ami himself, so tightly entangled in relations with the British in land, municipal, and diamond affairs, wanted to see such continuity from the British protection to that of the state he so cherished, even though he may have been suspicious of overintervention from the new diamond control. The opposition of some manufacturers to his authoritarian rule in the PDMA—composed as it was of the old opposition camp and the Histadrut-oriented cooperatives—was even a greater supporter of a pact with the state and with the approach that upheld a managed and national-oriented economy.[25]

As happened to other groups in Yishuv society, the 1948 Arab-Jewish war made the Zionism of the diamond manufacturers, workers, and merchants more explicit and blatant. Earlier occupational and cultural aspects of that nationalism were reflected in the felt presence in the diamond industry of Revisionists and the right-wing underground organizations, and of the liberal Zionism espoused by the leaders of the industry. The economic nationalism that was expressed in the competition with other diamond-cutting centers, the barring of Arabs from the industry that was greatly helped by the British, and the moral justification to inherit the German diamond industry were equally essential ingredients in this national vocabulary. The industry recruited itself to the war effort and contributed to it financially. And in asking to exempt some of its workers it stressed the importance of keeping alive an industry that could gain hard currency and global trading connections for the Jewish polity. Hard hit by the crisis and the straining relations with the syndicate, the diamond manufacturers were held now together not just by their occupational commonality but also by the state, the state's backing of the industry, and the state-building project to which the diamond manufacturers expressed their full commitment.[26]

The diamond workers were the weakest actor in the pact, though their participation was essential. One of the long-term effects of the crisis and the protracted recovery of the industry was the contraction in the size of the diamond factory. This was well reflected by the increase in the number of diamond-cutting production units from 33–35 in 1940–1946 to 130 in 1952. Caused by the flight of workers away from the occupation, workers moving to the informal market, and not least by the financial demise of the industry, this sizing down was extremely influential. In splintering the workers into multiple workplaces, potential workers' solidarity was hampered. Union representation was further decreased and consequently the propensity to embark on strike action weakened. By the late-1940s half of the diamond workers became to an increasing extent an incoherent grouping. Some—in particular, cooperative members—were represented by the Histadrut-affiliated diamond workers union (the DWO, still led by Pinchas Smagarinsky) and they generally espoused solid support of state presence in the industry. Other workers who swarmed the informal, home-based diamond industry aspired to independence though they too sought the protection promised by the pact between the new state and the industry.[27]

At the outbreak of the 1948 war the one thousand registered workers in the diamond industry was a mere fifth of the labor force in the peak years of 1944–1946. A third of them, three hundred to four hundred strong, worked in the diamond cooperatives and the rest in the older factories that had survived the 1947 crisis. The number of the unregistered and unorganized was much higher, however, consisting of self-employed workers, casual workers employed by contractors who themselves were only recently diamond workers, and many others for whom cutting and polishing diamonds at home or at a makeshift establishment was a mere addition to other employment. This human landscape of the diamond industry was naturally the accumulated outcome of crisis and war, and its increasingly unorganized and unrecorded character was itself a symptom of the contrast with the boom years of the war period. The nature of the work done during these years was equally less clear. The transition from Sand to Melees was a long process, and the shrinking of large-sized working forces in the factories made the industry less focused on technological advancement and quality control.[28]

At the same time, however, the chaotic conditions in the industry allowed the expert workers to freely develop independent reputations and maintain a level of production that would later allow them to expand and establish a new generation of experts and workers. Likewise, the postwar immigration of diamond cleavers and the focused project of the Jewish Agency to train cleavers so as to find new venues for the diamond industry allowed a new occupational tradition of diamond cleavage to establish in Israel during these years that had been absent before 1946. Despite their ordeal, the diamond workers in the late 1940s were still relatively well off. They might have worked less continuously, but the exemption of many among them from conscription (granted by the new state authorities) allowed continuity in earnings, and the home industry provided them with substantial additional income.[29] Cutting and polishing were still attractive occupations, and the reason why it took them few more years to expand had less to do with the material conditions of the workers and more with the limits of competitiveness and expansion that were set by international interests and forces.[30]

The strengthening of the presence of the Histadrut in the diamond industry in 1947, largely on the basis of the diamond cooperatives (25 percent of PDMA membership), was far from an all-country success. In Netanya, the power center of Ben-Ami, only three cooperatives were established; and when the fourth was about to be established in winter 1948, with the active support of the Histadrut, the PDMA used all the means to thwart the plan. The PDMA was still aiming at delimiting the power of the Histadrut so as to prevent the recreation of an all-industry regime of collective bargaining.[31] However, neither the diamond cooperatives that solidified the Histadrut's presence in the industry, nor even Mapai, the leading party of the Labor movement that was now running the government, could help organized labor strengthen its position in the industry in any significant way. The effects of the crisis on the dispersion of the workers and on the employment arrangements of workers outside the factory workplace took their heavy toll. As the new state-capital pact was concocted between diamond control and the PDMA, the notion of the competitive capacity of the diamond industry through wage restraint was greatly advanced. The voice of organized labor in the diamond industry seemed at the end of the decade to turn into nothing but a shadow of its presence during the massive strikes just a few years earlier.[32]

The complex of actors and subgroupings in the diamond industry reaffirmed the long-term effects of deregulation and the crisis. But it also explained why the industry became ever more dependent on state bureaucracy. Earlier in the decade it was the war that shaped this dependence of the diamond manufacturers and experts on the colonial power and on the cooperation of the government in London with the diamond cartel. To revive itself, the industry had to again lean on economic and political power. Evidently the reciprocal agreement it struck now was reminiscent of the understandings and assumptions harbored in the wartime pact orchestrated by the British, the PDMA, and the Ministry of Economic Warfare. British colonial rule asked to expand the industry and at the same time to limit its expansion. The state of Israel, seeking in the early 1950s to recruit private capital to the national cause, would now undo this structural contrast by linking the support it gave to the industry's expansion to state building and social formation.

First and foremost it was an economic pact. It was based on the premise of the economic leaders of the new state that the diamond industry was to serve as the chief source of hard currency and therefore had to be inspected but also developed. To be urgently assisted diamond control was therefore quickly organized. The licensing of diamond importers and exporters was started and an aggressive campaign against the black market in diamonds was planned so as to increase the state's revenues. More significantly, the state began allocating credit and foreign currency to manufacturers so they could purchase rough diamonds to get the industry going again. Moreover, the factories would from now on be regularly inspected, the number of workers and quantities of stock would be recorded, and the Diamond Syndicate could be assured that the industry was taken care of to become reliable again. In return the Department of Trade and Industry made certain that all the returns in foreign currency from the export of diamonds were handed over by the diamond manufacturers to the state's treasury. No parcel of rough diamonds was released by the state's customs unless the importer signed a commitment to transfer to the Israeli Treasury a specified amount in hard currency at the date of release out of the diamond exports within three to five months after the date of the release. PDMA members were allowed to buy rough diamonds only according to the working capacity of their factories and only by proving previous earnings. As all diamonds were to be exported (similar to the British 1940 directives), the state's treasury could keep now close control on the amount of foreign currency spent by each manufacturer for the purchase of raw materials. The dollar earnings from exports were checked to make sure that none of the finished diamonds "leaked out." Furthermore, diamond control virtually intervened in the economic rationalization in the factories and in the efforts of the factories in saving on production costs. This reordering of industrial activity was further accompanied by the state's direct assistance in competing with the Belgians by finding new markets for polished stones outside the American sphere. Clearly Ehrenfeld and van Amerongen were structuring state-capital relations on the models they knew from the Low Countries, creating trust relations between the two sides but also mobilizing the industry for the needs of the new state.[33]

However, motivated to help the diamond industry recover and enhance the foreign currency earnings, the state exceeded the support of the British in its economic aid to the industry. One expression of this support was the consent of the state to exempt diamond workers from military service. Basing their production on highly skilled workers and the labor process, on complicated induction and on lengthy cultivation of trust, the diamond manufacturers were allowed to keep many diamond workers outside the battles of the 1948 war and "barter" conscription for gaining hard currency for the state. Military recruitment was replaced with obligatory confinement of the workers to the workplace and attenuated the decrease in the number of the employed. Moreover, the decrease from two thousand diamond workers in the factories in May 1948 to eight hundred in August created a severe shortage that was to be balanced by increased admission of new immigrants. The entire process seemed, at least in the short run, to revive factory work at the expense of the home industry because unrecorded workers in the informal industry could not be bureaucratically freed from recruitment.[34]

Further state intervention seemed necessary following the failure in the first part of 1949 to successfully compete with the Belgians and to withstand the low wages paid to diamond cutters in Germany, which in turn increased the reserves of rough diamonds in the hands of the manufacturers. The state therefore offered to buy the manufacturers' unsold diamonds, to reserve them for times of better of marketing conditions, and help them sell diamonds abroad through centralized machinery. The manufacturers were offered increased export premiums and were allowed to sell reserves of rough and unpolished stones abroad. In return the foreign currency accrued from these sales was handed over by the manufacturers to the state but also served to buy rough diamonds for cutting and polishing. In the latter part of 1949 this assistance was crucial because of the drastic narrowing of supplies from the syndicate to the Israeli diamond industry and the consequent search for alternative sources. The system was perfected by Van Amerongen by introducing currency switching—using the income accrued from the difference between the British pound and the American dollar to finance further purchases and settle the manufacturers' financial obligations. These arrangements were to be handled in 1950 by a private company in which the state participated and that was to be entirely under state control. The owners and stockholders of the company, Chevrat Pituach (literally "development company"), were no others than the two diamond controllers Ehrenfeld and Van Amerongen; they were joined by Jack Brin, the general manager of the Ministry of Trade and Industry, and Yosef Pick who in 1949–1950 was in charge of export and trade agreements in Israel's Ministry of Finance. During the 1950s the company was instrumental in finding new sources of rough diamonds in Africa and Central America for the industry, in making the industry more competitive, and, more crucially, becoming a lever in national-oriented mobilization of the diamond industry in establishing factories in Israel's new development towns.[35]

Closely associated with the economic aspects of the pact, and in particular with the question of international competition among the diamond-exporting countries, was Germany. Palestine had long shared Belgium's fear of the revival of the German diamond-cutting industry. Arguing consistently that Palestine did not pose a competitive threat to the recuperating diamond industry in the Low Countries, it asked to be regarded as a legitimate "heir" to the flourishing diamond production in Germany before the war. In introducing the language of victims' rights and international morality, the leaders of the industry undertook to represent not only Palestine but the Jewish diamond cutters and dealers in Amsterdam and Antwerp who during the war suffered confiscation, forced work, and extermination by the Germans. Belgian memory of the German aggressive competition in the 1930s over obtaining rough diamonds and its disastrous effects on the industry in the Low Countries served well in softening Belgian fear for its hegemony. Allaying Belgian fears of competition was therefore closely associated with the larger Zionist quest for international legitimacy during the transition from Mandate rule to sovereign state in 1947–1949. The De Beers cartel and the Antwerp-based Universal Alliance of Diamond Workers were crucial sources of such legitimacy, and cooperating with the Belgians against the Germans helped to give these sources further assurances.[36]

At the end of 1948 some four hundred cutters were formally working in the American and French zones in Germany. German diamond manufacturers were clearly reproducing the prewar tactics of paying low wages and dumping diamond prices. Remembering well the failure of the attempt to boycott the German diamond industry in 1939, a new international boycott campaign was organized by Belgian manufacturers, workers, and merchants to combat the German industry by depriving it of rough diamonds. By late 1948 Israel was a crucial actor in this campaign.[37] In summer 1950 the International Diamond Manufacturers Association of Belgium, the Netherlands, the US, Israel, and South Africa decided to intensify the boycott policy on German finished diamonds because of the continued German dumping strategies, the disparity in wages and work hours, and the growth of the illegal diamond trade that swept Europe during this period. An international convention of diamond workers in Amsterdam in June 1950 lent support to the move and even suggested to organize the German diamond workers so as to have them join the international effort against competition and maintenance of equal levels of pay across the centers so as to prevent unemployment. Both bodies supported the idea to refrain from a formal supply of rough diamonds to Germany and a formal purchase of its cut and polished stones.[38]

The failure of the boycott—largely because the Americans were keen to help the Germans resuscitate their industry, and because of Israel's search for reparations—hardly devalued the reciprocal gain that the cooperation in the boycott campaign brought to the state of Israel and the local diamond industry. The role both played in the attempt to thwart the reemergence of the German cutting industry was symbolic. After all, the industry in Palestine was born in the wake of Fascism, it responded to the fears of the Allies and De Beers of German competition, and it certainly reacted to the occupation of the Low Countries. In an ironical twist of history, the Israeli diamond industry campaigned now against a country that it asked to inherit, that it asked to be excluded from a system that the Israelis wanted to see as open to all. Moreover, the attempt by the diamond industry to curtail the revival of Germany played a role in ushering in the secret negotiations between Israel and West Germany on restitution and compensation that were finalized in September 1952.[39]

Epilogue

In the final analysis, the economic and moral-political pillars on which the pact between the state and the industry stood in the late 1940s and the early 1950s incorporated a national dimension. The diamond industry was clearly a major ingredient in the economic nationalism of the new state. Similar to postwar trends in Belgium, the Netherlands, and the United Kingdom, this economic nationalism asked the private sector to take part in economic recuperation and its gains were sought after as levers for further economic growth and competition. Defining the Israeli diamond industry as a national resource was, however, particular, as economic nationalism has always been. First, it was a mobilization of the private sector to state building and to making the new managed economy viable and sustainable. Second, the diamond industry was, as were other privately owned ventures, part of an immigrant-absorptive economy. It was to participate in absorbing immigrants from North African and Middle Eastern countries as well as from Poland and Hungary through its particular emphasis on acquisition of high-skilled occupations and on socializing the immigrants into the organized world of factory work and efficient production.[40]

Furthermore, the migration of diamond experts and manufacturers from Belgium, and to a lesser extent from the Netherlands, Brazil, the US, and Cuba, was now encouraged. Since liberation, Belgium applied a similar policy of promoting the return of refugees and the gathering of experts, merchants, and workers who populated the diamond industrial diasporas created in the wake of the war. In 1949–1950, the campaign in Israel focused on the Zionism of diamond manufacturers, merchants, and workers, and on the role of the newcomers in solidifying the standing of the Israeli diamond industry in the face of growing Belgian pressure against the renewed expansion of the industry in Israel. The campaign further encouraged the arrival of the highly-skilled diamond cleavers, who were direly needed in the Israeli diamond industry and whose significance for the production diversification had been already noted by the British authorities at the end of the war.[41] Moreover, the prospective immigrants were allowed by the state of Israel to bring over their reserves of rough diamonds without formal screening and supervision so as to free them from the need to get hard currency in Israel for their further work. In this way the government continued the Jewish Agency's postwar policy to bring over to Palestine Jewish technical experts and professionals, and at the same time asked to assist in maintaining the long-standing historical association between Jews and diamond manufacturing and trading.[42]

The pact had, however, a more long-term expression. In a few years the industry joined in a state-planned scheme to found new development towns on a sound economic basis, and to harness the particular characteristics of the diamond industry to cultivate an occupational culture that has historically been perceived as ethnicity specific. The project, significantly spreading in many areas from the mid-1950s, involved the establishment of diamond-cutting factories in the development towns in Israel's peripheral regions in the south and north of the country through the financial support of the government and the private initiative of the diamond manufacturers. As diamonds were easily mobilized, the product would connect the financial center with the periphery, and the labor cost should be economical enough to sustain an industry that placed so much importance on craft and labor. The national ideology immersed in this logic mixed the wish to cater to the economic needs of the inhabitants of the towns with the search of the diamond industry for low-cost workers. Isreal didn't have to face much concern for the Jewish control of the industry; instead it could now allow itself to focus on making the industry more viable by combining low-cost labor with developmental ideas. Moreover, the ideals of training Jewish workers in a traditional industry merged here with "productivization" of the immigrants and with the economic advance of the newly built towns.[43]

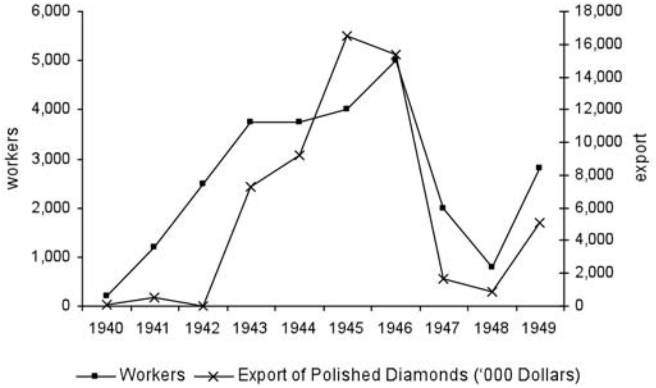
Thus, the circle that opened in the early 1940s in the derogation and suspicion in the industry of its loyalty to the British and distance from the Zionist "triangular thread" was now closed. Since the early rise of manufacturing in Palestine in the mid-1920s, the central economic role of private capital and its social acceptance had been gradually advancing, despite contemporary ambivalence toward the Jewish participation in a capitalist economy and toward the urbanization of the Zionist project. It further intensified during the invigorated industrialization of the first half of the 1930s, as reflected in the parallel ripening of the industrial activity of the private sector in Palestine's towns, the rhetoric of the national role that capitalism came now to fulfill, and the recognized capacity of capital to work for the "Zionist social good." With state building becoming a reality in the early 1950s, the national legitimization of private capital, the withering of the outcast image, and the sense of marginality of the diamond industry in particular were complete.[44]

At the same time, however, national legitimacy was not only facilitating the recovery of the diamond industry from its long, drawn-out ordeal of economic contraction and the loss of more than half of its workforce. Rather, it was also part of a wider process of the gradual unshackling of private capital in the new state, and the acceptance of the frail status of organized labor and the Histadrut in Israel's private industrial sector. The vocabulary that this process encouraged both supported service to state building and the merits of the private-capital road to the materialization of Zionism. Both were cultural means for securing the state's sheltering and espousal of capital, but also of socializing the Histadrut in the new reality of the pact between the two. More specifically, the terminology revered entrepreneurial capital and its independence to the point of actually becoming level with, if not surpassing, other social forces as the main builders of Zionist sovereignty. Not interrupting capital's way; enabling its ambitious search for markets and skilled work; culturally legitimizing its social individualism, institutional independence, and high living standards—these were increasingly becoming routine claims and accepted norms.[45] Indeed, the national-oriented derogation of the diamond industry of the early 1940s completely faded, and its transnational networking and cosmopolitan image would be conveniently adapted by the state of Israel to national use. Hardly being able to emerge again without the state, the diamond industry would soon be part of the way paved for Israel's later liberal-ideological and social shifts.[46]

As a capitalist sector that sprouted in symbiosis with the interests and policies of the De Beers cartel, British colonialism and the war against Fascism, the diamond manufacturers wished to show their commitment to the state, and in particular to state building following the 1948 war. This was reflected in participation in military-oriented production, confining workers to the workplaces during the war, and pronounced self-mobilization in the struggle of the new state against economic illegality (the black market, tax evasions, unreported exports, and the like). But these national-oriented commitments should be understood in yet another perspective. The main part played by the diamond industry in the pact was in the cooperation with the state in the actual recovery of the industry, and in the understanding that the recovery was not only a private and individual issue. Israel as a diamond cutting and trading center was to be maintained, invested in, and advanced.[47]

The 1947 crisis, the slow recovery from the crisis, and the abrupt collapsing of some of the diamond-cutting centers that sprouted around the world during the war cannot be ignored in deciphering this logic of the diamond capitalists. The options of closing down the industry in Israel, of transferring manufacturing and trading activities to Antwerp or New York, and of succumbing to the forces that harmed the viability of the Israeli center were always there and were not taken. These options and decisions go a long way to explaining the role of the diamond people in the pact, far from a mere capitalist support in state building. Was it the Holocaust, the Jewish experience in occupied Belgium, the wish to sustain an ethnic occupational specificity in the new conditions of a political sovereignty of Jews? It is difficult to ascertain. Nevertheless, during the 1950s capital-state understanding and coalescence of interest clearly had an enormous impact on role of private capital in the managed economy that characterized Israel's state-building process.[48]

Figure 8.2 The diamond industry in Palestine/Israel, 1940–1949



Source: Hayahalom 154 (June 1988).

At the start of that decade the map of diamond-cutting centers unraveled the story of World War II in clear, graphic terms. Antwerp's supremacy in diamond cutting and trading was revived. Some 16,000 diamond workers populated its factories and workshops, but with only a fraction of the thousand Jews that served as the industry's social basis prior to 1939. The German diamond industry, the great menace of the late 1930s, was also recuperating. In 1951 between 3,000 and 4,000 workers were employed in the industry, and despite the deep scars left by the Allies on German diamond production, it easily surpassed the Netherlands (1,400 workers) and the US (1,700). The diamond diasporas established by the many who fled Belgium and the Netherlands were contracting now—some like France and Brazil almost completely dismantled. The industry in Israel, absorbing as it did in the late 1940s only a small number of diamantaires, cleavers, and cutters, and reaching some 2,000 workers, was still recovering from the harsh ordeals it experienced in 1947–1948.

The relocation of the diamond-cutting centers brought about by World War II was therefore only partially undone. And only in 1960, when the number of employed in the Israeli diamond industry increased to 5,000, similar to the peak of spring 1946, did the marks of the wars and political changes in Europe and in Palestine begin to fade.[49] That the reciprocal relations between the diamond industry and the state of Israel had a crucial role in withstanding these lingering effects brings us back to the initial trigger for unraveling in this book of the formation of the Israeli diamond industry.

While seeking for clues to the social history of economic boom in World War II Palestine and to the high propensity of the diamond workers to strike, I realized the need to explain the centrality of three state structures in the social organization of the private sector in pre-1948 Palestine. One was the British colonial regime, without which the diamond industry and the local initiative to transfer it from Antwerp, let alone the obtaining of the raw materials from the diamond cartel, would not have materialized. The second was the state-like presence of Zionist institutions and the Jewish Agency. Suspicious and alienating at first, these institutions subsequently enabled the diamond industry to survive the grave crisis that beset it following the freeing of Antwerp from German occupation. The third was the state of Israel that reproduced previous state backing, and without which the withstanding of world competition over resources and markets would have brought the Palestine diamond industry to resemble the demising cutting centers after the war.

The question of the historical predominance of Jews in the world diamond industry has been posed many times in the past. Often it evoked the economic advantages of an ethnic group that could mobilize its inner mechanisms and social institutions to cut commercial transaction costs and advance a highly profitable trading business based on informal dimensions of reputation and networks of trust. While the notion of trust relates to diamond trading in these discussions, and to capitalism's search for efficient middlemen groups to maintain global low-cost commerce, it also affected diamond production itself. The disciplinary systems developed by owners and manufacturers to oversee the cutters and control the polishing labor process testified to the failure to replace trust as the defining factor in the ecology of the diamond workplace. In the same vein the ties and "reputational knowledge" that workers and experts wove and created during their apprenticeship and work experience served them well when they later turned to business and trading and to creating familial lineages of diamond merchants and bourse traders. In this sense the possibility of a diamond-cutting center that the British allowed to materialize early in the war reproduced the social basis of a Jewish diamond-trading group that would later cultivate the older reliance on communal ties and trustworthy relations.[50]

However, beyond these aspects of the diamond-trading culture and the economic advantages Jewish diamond dealers have traditionally enjoyed, it must be remembered that the diamond industry in Palestine started first and foremost as a diamond-cutting and -polishing center and that the world trading prowess of the Palestine and Israeli diamond-merchant community developed only much later. That the Israeli community of diamond dealers and merchants and the national involvement of the state of Israel in its affairs were a corollary, not the precondition, of the country's production center and its backing by the De Beers cartel and the British government problematizes the origins of such commercial networks.[51]

The presence of the colonial state in the formation of the diamond industry closed the circle opened in the latter part of the nineteenth century by the increasing dependence of capital in diamond mining, production, and trading on imperial influence and state powers. It also brought the penetration of state structures into civil society and capitalist activity, which began in Palestine during the late Ottoman period, to a new climax. However it also affected the dual identity of the Jewish diamond manufacturers in Palestine and the practice of their capitalist activities. On the one hand they were tied to, depended on, and committed to the British, to the empire, and to the relational network of diamond making the British wove between Africa, Europe, and the Middle East. Without this commitment of the diamond manufacturers and their monopoly organization, the initial emergence of the industry in Palestine would have been inconceivable. In this sense British rule in Palestine was deeply immersed not only in impacting the urban economy (as the development of Netanya and Tel Aviv demonstrated) but more significantly in the social formation of a significant representative of the Jewish (and later Israeli) middle class.[52]

On the other hand, the diamond industry became increasingly committed to Zionist state building. And it was directly and indirectly part of the economic infrastructure that enabled the empowerment of the Jewish economy in Palestine and its later transformation into the state of Israel. After all, without this national commitment to the business ideology and political language of the diamond manufacturers, the rebirth of the industry in the 1950s would have been equally unimaginable. The crucial role played by colonial rule in social formation was therefore continued by the economic policies and social ideology of the political elite in the state of Israel.

In this context of state intervention in the private industry and capital's alignment with state structures, the Jewish diamond workers in 1940s Palestine underwent a portentous experience. They flocked to the expanding industry in hundreds, turned into better-paid workers, and changed the industrial scene, union map, and human landscape of Netanya and Tel Aviv. They took part in one of the earliest examples of the Zionist-related efficiency drive in the Yishuv, and at the fall of the industry in the latter part of the decade they sophisticated home work practices and informal employment that colored later developments of the Israeli working classes. Their labor experiences told, however, of the deepening weakness of union organization in the private sector. From the moment the diamond industry in Palestine was entrusted to the hands of an organizational monopoly, and was literally enclosed to unselected member-entrepreneurs, labor was isolated as well. The ties that bound the few diamond workers in prewar Palestine to the Zionist-Socialist Labor movement were severed, and organized labor was kept out of the selection of the workers. The facilitated entrance of many workers from non-Histadrut labor organizations prevented the Histadrut from achieving the organizationally hegemonic position it had enjoyed in the rest of the industry in the Yishuv. Piecework distanced the diamond workers from the more-organized workers, and, more importantly, their high wages placed them apart. The luxury items these workers were producing may have added to the general imagery, bringing them closer to mere gain seekers than to the laboring classes so central in the ideology of Zionist state building. While collective bargaining lingered on in the diamond industry, accompanying as it did the fundamental piecework structure of employment in the industry, the assumption of union frailty and absence of strikes turned routine and increasingly unspoken. The balance of power between capital and labor, to which the bulk of workers during the Mandate period became accustomed, was clearly tipping now in capital's favor.[53]

Thus, the story of the formation of the Israeli diamond industry told in this book well reflected the shaping of relations between state and capital in Mandate Palestine. The reciprocal uses made of each other exposed a mutual system that hardly existed in the country under Ottoman rule and flourished after the British left it. In this system the national language of private capital and the liberal language of the state were but symptoms of the material reality of reciprocal relations that in the final analysis enabled private capital to become such a powerful force in Israeli society and harbingered the decline of organized labor. That the process took off during the 1940s and then accelerated during the transition from British rule to Israeli sovereignty—under Labor's political hegemony, and in the context of the postwar transformation of the British Empire and the world diamond industry—pointed to a historical continuity that deserves further scholarly attention.

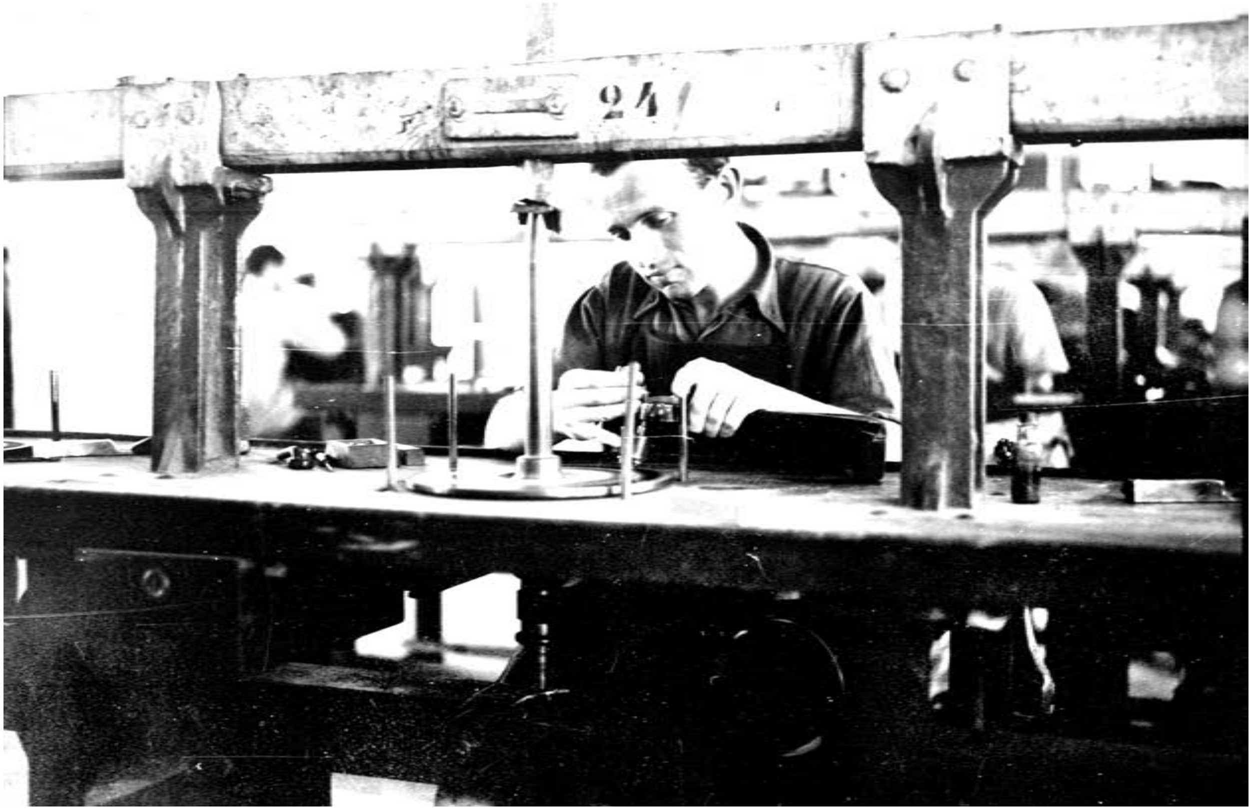


Illustration 8.1. diamond cutter at a Tel Aviv factory, May 1949

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