

Introduction

GLOBAL AND NATIONAL

War, Diamonds, and the Colonial State



“Processes” do not imply that different spheres of life are marching in step like soldiers on a parade. Although the term may conjure up some picture of nonlinearity, the concept of process does not imply such an unrealistic idea. The opposite is true: trends are multifarious. Hence all kinds of crises and all kinds of surprises: deep retreats and setbacks, the sturdiness of historical traditions even in and despite hectic changes, considerable flux and fogginess produce occasions and circumstances when actions by an individual can make a difference—or be entirely futile. —Moshe Lewin, “Agency and Process in Russian and Soviet History,” in *Extending the Borders of Russian History* (2003).

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The book was triggered not by the usual reasons that produce books on diamonds. After years of research in the social and urban histories of Palestine during the first half of the twentieth century, I found myself focusing on labor strikes. I was puzzled by the intensity of labor disputes during British rule, the centrality of strikes in Palestine towns in shaping relations between labor and capital and their use, with a strong national sentiment, in both anticolonialist struggles and in state building. While examining the peak levels of labor militancy during World War II and the concurrent cooperation in strikes between Arabs and Jews, I noticed that the most vocal and militant among strikers were Jewish diamond cutters and polishers. At first I imagined this group of highly skilled workers to

be an untypical segment of Palestine's industrial force. They seemed an unlikely candidate for widespread workers' solidarity and co-organizing with unskilled industrial workers, a "labor aristocracy" of a sort enclosed in small ateliers and cutting workshops.

As a social historian I have always seen the potential in researching strike action in history to bring forth workers' unheard voices and subjectivities. I began searching for a clue for this propensity. I quickly realized, however, that accounting for the wartime salience of these skilled craftsmen in labor disputes was nothing but a corridor to a wider understanding of some central features of Israel's early capitalism; in particular the close association of the evolution of the private sector with exogenous factors—the rise of European Fascism, British colonialism, and the war against Germany. Salient among these features were the umbrella given by the British Mandate to private capital, the growing legitimacy Jewish society in Palestine gave the capitalists, and last but not least the increasing power of the Jewish middle class vis-à-vis the politically hegemonic Zionist Labor movement. Furthermore, looking closely into the dynamic world of the diamond industry during the 1930s and 1940s and its transplantation into Mandate Palestine unraveled some wider historical continuities—the longstanding global presence of Jews in the occupational niche of diamond production and trading, the centrality of the Low Countries in the history of diamonds and diamond workers' unionization, the transnational nature of the trade, and the winding path that the spread of diamond-polishing centers in the modern era has taken. The result is this book, which explores the intense ripening of capitalism in Palestine under British rule through the complex formation of what has become—and still is—one of the world's main strongholds of diamond production and trade.

Diamond cutters and polishers are situated on a commodity chain that starts with the mining and collecting of rough diamonds. Before World War II, these raw materials were sent primarily from South Africa, the Belgian Congo, and Sierra Leone to the London-based Diamond Trading Company (DTC), the sales and marketing subsidiary of the De Beers monopolistic diamond-mining cartel (the Diamond Syndicate).¹ At the DTC the stones were allocated, through a traditional distribution ritual, to sight-holders, who passed the sorted rough merchandise on to other middlemen. The stones then found their place on the tables of the cleavers, sawyers, cutters, and polishers. After a highly skilled labor process they would be returned to middlemen and then to the diamond exchanges—notably in Antwerp and Amsterdam—where they would be evaluated and sold. At the end of the commodity chain the polished diamonds would reach the jewelry shops and the consumers, the latter seeking symbols of everlasting love, marital bond, status, or investments. They would also reach

countries and companies that used them industrially for abrasives and drilling, and even rebel armies who bartered them for arms.²

This commodity chain has persisted since the start of the take-off in diamond mining, trading, and finishing in 1870s until quite recently, without national borders seriously bounding it. The swift cross-country movement of the gem dealers matched the minute size and easy mobility of the merchandise. Ethnic networks of Jews and Palanpuri Jains families among which the diamond trade has been flourishing drew alternative coordinates to geopolitical boundaries. And the itineraries mapped by the diamond commodity chain easily blurred accepted political and economic divisions. This transnational mobility, in addition to diamond cutting being historically outside the traditional guild system, was perhaps one of the main preconditions that enabled Jews from North Africa and Europe to occupy so decidedly the occupational niche of the diamond trade. After all it was a niche they were allowed by rulers and states to hold, that fitted well their conditions as migrants and intermediaries, and one in which they could cultivate a business culture based on such classic ingredients of social capital—informal communal arrangements, reputation, and trust.³

At the same time, however, diamond cutting and polishing has always been attached to localities; and it has often been colored by national adaptations and local diversifications of traditional cutting and polishing skills. Like other consumer goods (as Leonard Helfgott reminded us in his work on the Iranian carpets),⁴ diamonds never moved only through the continuum of production, distribution, and use in what might seem a historical vacuum. Each stage of their social existence was shaped by political, cultural, economic, and technological factors within the region of their initial production and within their national and international socioeconomic and political contexts. If in recent years the transnational perspective has been encouraging labor and business historians to think in terms of commodity chains, diamond production demonstrates also the need to interlace international linkages with local and state specificities and examine the extent to which the interactions between them have been formative and mutually influential.⁵

In the history of the diamond industry, the state and local bureaucracies were present in each of the different phases of the diamond commodity chain. Moreover, national wars, imperial rivalries, and state interests made use of locally diamond-producing communities, financially and militarily, and the economic impact of national and civil wars has strongly affected diamond sales and distribution. One cannot imagine the mining activity in South Africa, Belgian Congo, and Sierra Leone without the close relations between the De Beers cartel, its mining subsidiary companies, and British colonialism. The operation of the diamond exchanges in the Low Countries was overseen by the latter's governments and always been per-

ceived by them as necessary components of their national economies. Diamond cutting has often seen attempts of state regulation and more often competition between states over the exporting capacities of the diamond production centers.⁶ The Netherlands and Belgium traditionally placed their diamond industry and business as a central asset of their economic nationalism, and Nazi Germany purposefully adapted diamond production to its 1930s remilitarization. As will be demonstrated in this book, during World War II diamonds were not just a means in the Allies' anti-German economic warfare. Rather, they were a turbulent site of national competitiveness in Europe over the great income diamonds could accrue from the American market. As much as diamond mining, cutting, trading, and selling was a capitalist venture, initiated and driven by private entrepreneurs, firms, and capital, they were no less structured by states, national movements and conflicts, and tense international relations.⁷

In the historical presence of Jews in diamond production and trade, states and national bureaucracies have played a prominent role. The intermediary position Jews played in the diamond trade centers of Amsterdam and Antwerp cannot be explained without the blessing of their respective rulers, and without these rulers and elite groups practically using the middling minority function to promote commerce in luxury goods such as gems and precious stones. State-like intervention in the formation of this ethnic occupational niche was explicit in the diamond-mining history of South Africa, where the presence of Jews in the early De Beers cartel structure was favored by the British and by the state-backed activities of the London City in the trade. The decline after World War I of Amsterdam as a diamond-cutting center in favor of Antwerp, and the related passage of Jews in the diamond trade from one city to the other, was regarded in the Netherlands as harming the national economy. In Belgium it was likewise supported for the same reasons. Nazi Germany's advancement in the latter part of the 1930s of the German diamond-cutting industry impacted not only the diamond industry but specifically also the Jews in Europe who were directly associated with it. As will be argued below, the creation of a diamond-cutting and -polishing industry in Palestine and the migration of the craft on which it was based was a product of a multifaceted change and dislocation in which the specific qualities of its social carriers intersected with imperial and state structures and interests. The process started with the flourishing of the cutting center in Amsterdam in the last third of the nineteenth century. It was then followed by Antwerp's hegemony after World War I, and continued with the spread of fierce competition among the European cutting centers by Nazi Germany. Antwerp's fall in spring 1940 brought this spatial dislocation and relocation to a climax.⁸

The duality of the national and the transnational that has come to characterize the modern diamond industry in the first third of the twentieth

century was dramatically enhanced by World War II. First and foremost the war paralyzed significant parts of the international diamond trade, in particular those that linked the Low Countries with mining posts in Africa and marketing targets in the US. The breakdown of these connecting links strongly impacted localities of mining, making, and trading—in particular their capacity to thrive on international resources and on their traditional dependence of world production on them. Secondly, the proliferation the war caused in diamond-cutting centers—largely stemming from the flight of Jews out of Antwerp and Amsterdam—was in itself a signal of the increasing splintering of the system of diamond making and trading into nationally and locally based production centers. The competition between these centers emphasized the interplay in the diamond industry between global business systems and economic nationalism. Finally, the war also kept alive the international system. In mobilizing the diamond industry to the economic warfare against Germany and in solidifying the ties between the warring states and the diamond business, it sustained the infrastructure of linkages between the cutting and trading centers and of a system that did not (and could not) collapse into totally estranged producing and commercial units.⁹

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These processes bore specific relevance to the historical centrality of Jews in diamonds and the impact of the relocations of the industry on them. The decline of the diamond industry in Amsterdam was closely associated with the migration of Jews to Antwerp. The Nazi from-above engineering of a diamond-cutting industry was a direct response to the departure of many Jews from Germany in the 1930s. And the paralysis of the industry in Antwerp at the turn of the decade was a blatant expression of the terrible fate of the Jews, their uprooting, spoliation, and decimation. Evidently, the “diamond diasporas” that sprang out of the Belgian mother-center and sprouted in South Africa, Palestine, Brazil, Puerto Rico, Havana, New York, and the United Kingdom were almost entirely established by Jews and depended on the diamond manufacturing they cultivated and on the ethnic-occupational enclaves they created.¹⁰

The impact of the war on the diamond industry raises two historiographical problems. Diamonds have for long attracted scholarly attention. The mining of diamonds, their trading mechanisms, their financial institutions, and not least their cultural expressions as luxury items have engaged the work of historians, economists, social scientists, and international relations experts. However, manufacturing and the social history of diamond cutting and polishing have been relatively neglected and were often left to

the technical writings of gemologists and diamond inductors. This is correct also with regard to the massive presence of Jews in diamonds. Their history has largely centered on Jewish merchants, the ethnic foundation in their capacity to become hegemonic in the occupational niche of diamond making and trading, and their particular noncontractual arrangements that allowed them to save on trading transaction costs. Much less attention has been paid to the social history of the manufacturers and the cutters, their prominence among the laboring and low-middle classes in the Low Countries, and above all their experience as immigrants. Palestine, which developed during World War II one of the world's largest and fastest-growing polishing centers, received equally uneven treatment. Overdue emphasis has been laid in the literature on explaining the spectacular performance of diamond manufacturing in Palestine during the war, while the nature of the manufacturers and their organization, the workers and their unions, the production culture, and the close association of the industry with Europe have been largely ignored.¹¹

These lacunae harbor a second and much thornier problem. It has long been recognized that communities and socially distinct groups create institutions and mechanisms of trust, reliability, accountability, and reputation, and that these further propel their social formation and create for them economic advantages and occupational niches. This was well demonstrated in the historical and contemporary example of Jewish diamond merchants that has featured widely in the economic and legal literature since the early 1980s. Basing themselves on the thought-provoking work of Avner Greif on the eleventh-century Maghreb traders, legal and business scholars such as Lisa Bernstein and Barak Richman have carefully dissected the social and legal institutions that for many years helped Jewish diamond merchants to distance themselves from formal state and public legal institutions; and through reputation, community institutions, familial connections, and trust to gain hegemony in the diamond industry and to get selected by forces of capital as efficient carriers of low-cost transactions. In recent years the interests in such mechanisms increased because of the success in globalization of groups to use their inner trust systems and social capital to move freely in the economic networks, and sustain private governance systems that fit the so-called waning of the state.¹²

In most of this literature, however, the state's positive reaction to the kind of social activity the diamond communities and networks operated is assumed as fixed and continuous; a mere bystander and a contextual framework for the real activity that goes on in this particular industry and trade. Significantly, this distancing from state intervention has also been the picture that the diamond merchants themselves and the networks they are immersed in promoted through their secrecy, trading rituals, informal justice system, and their enclave-like noncontractual understandings.¹³

In focusing on the diamond industry in Mandate Palestine, this book aims to provide a more nuanced picture to this approach that takes the impervious boundaries of such communities and groupings too uncritically. In this picture the state is brought into the discussion as a primary force that enables the existence and operation of such occupational communities, well embedded in their quotidian routines, business strategies, and future calculations, to the point that the boundaries between state and capital become often blurred.¹⁴

That Palestine was transformed between the late 1930s and the late 1940s has been for long an acknowledged wisdom. The rise of Fascism in Europe and World War II changed the character of the country's economy. The Holocaust transformed its demographic and cultural horizons. The retreat of the British Empire impacted Palestine politically, and by the decade's end a bloody war resulted in the birth of the state of Israel and the uprooting of thousands of Palestinians. Historians have fittingly dedicated enormous efforts to unravel these vicissitudes. However, only in recent years economic and social historians began to draw attention to the fact that the British-backed maturation of capitalism in Palestine, and in particular British-backed empowerment of private capital in the Jewish polity (the *Yishuv*), was a major part of the transformation.

Indeed, after years of capital import and slow-paced economic growth, the 1940s saw a remarkable economic boom, a flourishing of industry largely at the expense of agriculture, and unprecedented activity of private manufacture aided by the economic policies of the Palestine government. As contemporaries readily recognized, this industrialization phase was also expressed in strengthening the organizations of manufacturers and merchants who aspired to translate the economic achievement into social and political power, and in the destabilization of Jewish organized labor (represented mostly by the *Histadrut*) and its relative power in the Jewish industrial sector. Furthermore, an unprecedented upsurge of workers' strike-action in 1941–1946 (partly independent of and occasionally against the authority of the organized Labor movement) signaled that capital was indeed on the rise. State-espoused strengthening of private capital was a contemporary Middle Eastern pattern, and the social unrest it brought forth in Palestine as elsewhere exposed an infrastructure for subsequent social change.¹⁵

Even less noticed, however, was the growing integration of private capital and entrepreneurship in the life of Jewish society in Palestine by groups seeking to enhance the legitimization of capitalism as a way of thinking and social practice. Built on the assimilation in the 1930s of capital's national role in Zionist state building, and pushed further to the center of economic activity by Palestine's economic boom and British war-

time protective economic policies, Jewish industrialists and manufacturers could in the 1940s claim a victory over the suspicion, even derogation, they had experienced earlier regarding their social and Zionist roles—their “national egoism” as Labor’s leader David Ben-Gurion phrased it in the mid-1920s.¹⁶

The central economic role of private capital in Palestine and its social acceptance has been gradually advancing since the early rise of manufacturing in the mid-1920s despite contemporary ambivalence towards the Jewish participation in a capitalist economy and towards 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 capitalism came now to fulfill, and the recognized capacity of capital to work for the “Zionist social good.” What was novel in the latter part of the Mandate period was that capitalism and its legitimization were gradually becoming far from an internal Jewish affair and much more tightly linked to exogenous forces and events. Furthermore, during the war particular standard bearers of the process could grow, operate, and struggle to carve a recognized place in society because they were located at the juncture of local and international contexts created and shaped by changes wrought in Europe by Fascism and war. In both senses the economic and social boundaries of Palestine’s Zionist polity were blurred, assimilating not only in larger political and military systems, but also in imperial networks and rivaling international economic interests.

Capitalism as a way of thinking and a practice in business and society was making a headway in Palestine well before the 1940s. It could be seen emerging in the Palestinian villages, in the coastal mixed towns and even up in the hillier areas. The increasing presence of foreign capital and powers since the late nineteenth century and involvement of imperial powers in the regions acted as agents of capitalism no less than the minority social groups that had by the 1920s and 1930s accumulated capital and led more comfortable lives. But in the course of the latter part of the Mandate period under discussion here, new possibilities opened and spaces created for the transformation in thinking and action to start taking place. The significance of this process in the formation and advancement of capitalism in modern Palestine would seem self-evident. But only by analyzing the specificity of the ties woven by these groups in the context of the war can we uncover the meaning of this blurring and explain its relation to the British presence. The formation of the diamond industry in the late 1930s and in the course of the 1940s is aptly instructive in unraveling this process.¹⁷

The history of relations between state, capital, and labor in Palestine during the British Mandate is one of the most understudied phenomena that have shaped the country, its social make-up, and the politics of the Arab-Jewish national conflict. While the ideological and political foundations of these relations have been explicated long ago, the ways they have unfolded in practice, their multifaceted materialization at the branch and workplace level, and their diversity across economic sectors and occupations have yet to be researched. This is true in particular in the case of the Yishuv, the Zionist polity in Palestine, where capital-labor relations were a key factor in determining its internal cohesion, power, and political path, and therefore its relations with Palestinian society. The firm, the factory, and the office, no less than the citrus plantation or the building sites, the shops, and home as a place of work—all these have been hidden in the Yishuv's economic and social histories as if they were silent and fragmented components of a highly politicized and ideological civil society. They were masked, however, more by the historians than by the politicians and ideologues of the period who saw the significance of their mobilization, their importance as arenas of social tension.¹⁸

The little that has been written about the social history of these relations told a story of exchange of political hegemony for economic liberalism. The Labor movement grew through this exchange to become in the 1930s the politically hegemonic force in the Yishuv while the capital owners and private employers enjoyed the liberty to pursue their capitalist enterprise. Both sides espoused Zionism but they differed in their conceptions of the social order in the Yishuv and the path to Zionist state building—the former upholding a collectivist approach and the latter a more individualistic and liberal one. Private capital, the stronger economic force in the Yishuv, gave Labor its way because of the latter's national functions. Labor, representing a larger electorate, allowed capital to maintain its enclaves of Arab cheap labor.¹⁹

Significantly, British colonial rule had a crucial role to play in this system. Since the early 1920s the authorities supported the “strong” sectors of the economy, gave half-hearted recognition to trade-unionism, and shied away from protecting workers through labor legislation. The relatively low colonial presence in the Jewish community in the early Mandate period was therefore buttressing a system of relations that was perceived as low-cost for the Empire and the British taxpayer and as a barrier against social disorder. Evidently, as long as the Mandate state kept relatively low levels of intervention in civil society, the exchange relations between capital and labor remained stable. The fierce political and ideological conflict between the Mapai party, Labor's main political power, and the Revisionist Movement in the 1930s did not destabilize the exchange system either. When in 1935 David Ben-Gurion became head of the Jewish Agency, the

leading Zionist national institution, nothing changed in Labor's power to impact the capital owners. On the contrary, capital's liberty of operation only increased.

In fact little could hamper the growing centrality of capitalism in the Yishuv economy and society to the point that it hardly needed expression of political power. The dependence of the Yishuv economy on the import of private capital was one reason for this growth. Another was the orientation of the Jewish population, mostly increasing through massive immigration in the mid-1920s and early 1930s to settle in Palestine's towns and advance the Yishuv's urbanization. On the eve of World War II the Yishuv, a small polity of half a million inhabitants, was already on the path that distanced it from Labor's earlier conceptions of a Socialist society and closer to becoming a capitalist society. As the emergence of the diamond industry demonstrates, World War II and the dramatic intervention of the British Mandate state in Palestine's civil society and in the Yishuv in particular made the process irreversible.²⁰

This argument touches first and foremost upon the marked contrast in the economic historiography of the region: the accepted notion of the role of colonial rule in the development of capitalist structures in Middle Eastern countries on the one hand, and the older perception of relatively weaker British intervention (mainly until World War II) in Palestine's economy on the other. More recent literature has demonstrated clearly the centrality of the Colonial Office and the Palestine government to economic developments and relations in Palestine's civil society. However, understanding the myriad interventions and involvement of the British Mandate state in the diamond industry from the late 1930s to the end of the Mandate in the late 1940s pinpoints the need to soften this contrast. This is clearly borne out by the centrality of the British Mandate rule and the Colonial Office in London in shaping the Jewish control of the diamond industry and thus in the segmentation of Palestine's urban labor market which was traditionally thought of as driven and operated by ethnic groups and market mechanisms.²¹

Furthermore, these arguments concern the puzzling conflation in the Palestine/Israel historiography between two state structures. Because of the embryonic state-like bureaucracy developed by the Yishuv, the Jewish polity in Palestine before 1948, and because of the dramatic emergence of the state of Israel as a Jewish sovereignty during the 1948 war and after, the state of Israel was read back into the Mandate period as the reference point for Jewish private capital and the main apparatus with which it was in relation. Consequently the role of the more significant authority of the British Mandate that impacted Jewish capital owners and its later substitution by Zionist institutions was underrated. Even the recognition of the intensified intervention of the British in the economy during World War

It still left the Mandate state as a contextual and external force, deeply involved in regulating security, immigration and land transactions but foreign to and distant from local civil society. The evolution of the diamond industry clarifies this conflation between the two state structures. First, it pinpoints the need to reposition British colonial regime (the 'Mandate state') in its proper place in the flourishing of private capital, in the formation of Palestine's industrial and business environments, its deeply felt presence in Palestine's social fabric. Secondly, it unravels the foundations of state-capital relations laid during the Mandate and which were reproduced upon the establishment of the state of Israel.²²

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To account for the emergence of the diamond industry in 1930s–1940s Palestine and its complex interlacing with international history and with the history of diamond production, I followed its principal actors, the frameworks in which they intersected, and the perceptions they conveyed on the realities and forces they encountered. Ample material on states' interests and policies regarding diamonds and their financial and industrial use were found in archive material in the United Kingdom, the United States, and Israel. The centrality and involvement of the De Beers diamond cartel and its central selling organization in London were drawn on the rich correspondence between the cartel, the British Ministry of Economic Warfare, the Palestine Diamond Manufacturers' Association, the office of the economic advisor and light industries in the Palestine government and with the Ministry of Trade and Industry of the State of Israel. The rich archive of the Palestine Diamond Manufacturers' Association in Netanya enabled a thick description of the business world of the diamond owners and manufacturers. Finally the portrait of the diamond workers and the analysis of the actions of their unions were well explicated by the archives of The General Dutch Diamond Workers Union (the ANDB) in Amsterdam and of the Zionist Labor movement in Israel. I followed also the rich press that accompanied the actors and often served them—from the daily press in Palestine to the labor press of the diamond workers and ending with the rich occupational and business bulletins of the diamond industry itself. Equally significant were the treasures of books on diamonds in Amsterdam, Antwerp, and Ramat Gan, and the expanding internet sites of diamond companies and of the diamond industry and bourse in Israel.²³

On the basis of the letters, reports, protocols, quantitative evidence, and biographical and memoirist texts, I drew a narrative of the making of the diamond industry in Palestine and its myriad relations within its own boundaries, and with the international contexts and forces in which

the industry was embedded. The discussion is divided into three parts. The first (chapters 1–3) focuses on the emergence of the industry in the context of the Belgian hegemony. It unravels the inherent tension between development and delimitation that characterized British policy towards the industry and looks at the organizational implications of that tension. The second part (chapters 4–5) looks at the spurt of diamond production in Palestine during the war. It explores the challenges this take-off posed both to internal Yishuv arrangements and norms, and to the exogenous attempts to limit its competitiveness. The third part (chapters 6–8) discusses the harsh effects of the liberation of Belgium on the industry in Palestine and the crisis that beset the industry on the eve of British withdrawal. The narrative closes with the re-emergence of the pact between capital and state during the 1948 war and the recuperation of the industry in the wake of the establishment of Israel.

Illustration
1. Diamond
Workers at
a Netanya
Factory, 1943,
unknown
photographer.
Source: CZA,
PHG/1017028.
Used with per-
mission of the
Central Zionist
Archive.

