

CUT TO ZIONISM

The Emergence of the Diamond Industry in British-Ruled Palestine

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For quite some time it has been a well-known fact that Palestine was transformed between the late 1930s and the late 1940s. The rise of Fascism in Europe and the Second World War changed the character of the country's economy, and the Holocaust transformed its demographic and cultural horizons. The retreat of the British Empire had an impact on Palestine politically, and by the end of the 1940s a bloody civil war had resulted in the birth of the state of Israel and the statelessness of thousands of Palestinians. Historians have fittingly dedicated considerable effort to unraveling these vicissitudes. However, only in recent years have economic and social historians begun to draw attention to the fact that the British-backed maturation of capitalism in Palestine, particularly in the economy of the Jewish polity (the *Yishuv*), was a major part of the transformation. Indeed, after years of capital import and slow economic growth, the 1940s saw a remarkable economic boom, a flourishing of industry largely at the expense of agriculture, and the unprecedented activity of private manufacture, aided as it was by the economic policies of the British Palestine government.¹

As contemporaries readily recognized, this period of industrialization was also expressed in the strengthening of the heretofore weak organizations of manufacturers and merchants who aspired to translate economic achievement into social and political power. An integral part of the transformation was the destabilization of the representational power of Jewish organized labor (the Histadrut), particularly in industry. The latter was also related to an unprecedented upsurge, between the years 1941 and 1946, in workers' strike action, at times independent of and occasionally against the authority of the orga-

Notes for this chapter begin on page 217.

nized labor movement. State-sponsored efforts at strengthening private capital formed the basis of a contemporary Middle Eastern pattern, and in Palestine as elsewhere it laid the infrastructure for subsequent social change.²

Less perceptible, however, was the growing integration of private capital and entrepreneurship in the life of the *Yishuv* by groups seeking to enhance the legitimization of capitalism as a way of thinking and of social practice. Built in the 1930s on the integration 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 wartime protective economic policies, Jewish industrialists and manufacturers could, in the 1940s, claim a victory over the suspicion and even derogation they had experienced earlier regarding their social and Zionist roles—their “national egoism,” as Labor's leader David Ben-Gurion had phrased it in the mid 1920s.³

The central economic role of private capital in Palestine and its social acceptance have gradually advanced since the early rise of manufacturing in the mid 1920s, despite contemporary ambivalence toward 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 concomitant maturation of the industrial activity of the private sector in Palestinian towns, the rhetoric of a national role that 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 gradually became far from an internal *Yishuv* affair and much more tightly linked to outside forces and events. Furthermore, during the war particular standard-bearers of the process were able to 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 by Fascism and war. In both senses, the economic and social boundaries of Palestine's Zionist polity were blurred, integrated not only into larger political and military systems, but also into imperial networks and rival international economic interests. 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. A study of the formation of the diamond industry is particularly instructive in unraveling this process.⁴

The Making of a Production Center

The diamond industry is illuminating in this case because of the long-standing historical association of Jews with diamond cutting and trading. The central

role played for many years by Jews in the diamond industry in the Dutch and Belgian economies was indicative not only of Jewish integration in particular economic niches, but also of the importance of ethnic ties and trust relations in modern economic development.⁵ However, examining the diamond industry is even more instructive both because the industry arrived in Palestine so late, and because its emergence was less in diamond trading than in production itself. During the first thirty years of the twentieth century, there had been some scattered attempts to establish a diamond industry in Palestine. The social climate of professional induction and “skilling” of youth had developed in Palestine already by this time, and Dutch and Belgian diamond merchants and cutting experts showed a willingness to transfer capital and polishing machines from the traditional diamond centers in the Netherlands to Palestine. The diamond industry in Antwerp, globally dominant as it had been since the decline of Amsterdam after the First World War, would not encourage rival cutting centers, however, and in this competitive stance it was greatly assisted and backed by the De Beers diamond cartel. Moreover, most of the Jews who dominated diamond cutting and trading in Amsterdam and Antwerp between 1870 and 1930 hardly conceived of Palestine as an option in which to develop an industry that was heavily dependent on Jewish ethnic networks and on Europe as an entrepôt for the international diamond business. Finally, and no less significantly, the customs duties that the British Mandate in Palestine placed on the import of rough diamonds from Europe were too high to allow cutting and polishing in the country to become profitable. None of the historical forces that shaped the presence of Jews in the European diamond production and business as a middlemen minority and occupiers of an occupational niche could overcome these limitations. Palestine would only become a part of the historical continuum of relocations that had characterized the diamond industry in the past (and still do) when a tremendous shift began to crack Antwerp’s domination.⁶

Two separate processes contributed to this shift. One was the rise of Fascism in Europe, the other the strengthening of business ties between the British Empire and the De Beers diamond cartel. On Hitler’s assumption of power, the world diamond industry was in the midst of a recovery from the economic slump of the early 1930s. The industry in Antwerp was also expanding, partly due to the movement in Europe of merchants, capital, and expertise that National Socialism provoked. More significant was the new German policy of enlarging the diamond cutting industry (located in Hanau and Idar-Oberstein) for export, and acquiring industrial diamonds essential for the armament economy. By the beginning of the war, the German diamond cutting industry surpassed that of the Netherlands and had positioned itself as a competitive threat to Antwerp. Belgium’s Jews, a majority of whom were involved in trading and polishing diamonds, were also beginning to experience instability and a rise in anti-Semitism.

From 1936 to 1938, a small number of Jewish diamond merchants and experts left Antwerp for these reasons, some even going to Palestine. The majority stayed and even took part in the flourishing diamond trade with German diamond dealers, who now offered diamond cutting at much cheaper prices than those in Antwerp. The Second World War broke out against this ambivalent backdrop of the destabilization of Jewish life in Belgium on the one hand, and the continuity of a vibrant diamond business on the other, which threatened the very existence of the industry in Belgium.⁷

De Beers was likewise destabilized. Its recovery from the world economic crisis of the late 1920s and the development of its sales organization in London (the Diamond Trading Company) in 1934–1935 were based on expanding diamond mining in Africa. Its ties with the British government and imperial presence in South Africa and Sierra Leone were improving, demonstrated by the mining concession given in 1935 to the De Beers–British subsidiary company, the Sierra Leone Selection Trust. At the same time, however, the German threat to the Netherlands and to the Belgian Congo (a key source for industrial diamonds) endangered the cartel's capacity to keep up its sales of rough diamonds. The British too felt threatened by the potential decline of the cartel and the consequent implication this might have on their business interests in Africa. When war broke out, De Beers and the British strengthened their ties in a joint effort to find alternative cutting locations to the Netherlands and to counter the advancement of the German diamond industry. These ties would be central to the part played by diamonds in the Allied economic warfare and the context in which Palestine's cutting industry emerged.⁸

The search by the British and the diamond cartel for an alternative to Antwerp opened a window of opportunity for an initiative that originated in Palestine and was backed by the Colonial Office and the Ministry of Economic Warfare in London. Behind the initiative stood Oved Ben-Ami, the head of the Netanya town council, while the argument in favor of British support was designed by Frederick Albert Mathias, the director of the Sierra Leone Selection Trust and at that time the main diamond advisor to the Ministry of Economic Warfare. Ben-Ami, a local liberal politician, ardent Zionist, land and urban developer, and upholder of the capitalist road to Zionist state-building argued that the threatened diamond industry in Antwerp and its Jews could be transferred to Palestine in order to save the Jews, to industrialize the largely agricultural town of Netanya, and to serve the anti-German Allies. For his part, Mathias was an enthusiastic believer in cultivating government support for the diamond business. The argument he developed in supporting Palestine combined, on the one hand, anti-German economic warfare with the distance of Palestine from the diamond-seeking Germans, and on the other, the British need for American dollars with the selling interests of De Beers. In a larger perspective Mathias, in siding with the Ben-Ami campaign, practically orches-

trated the forging of networks along a complex diamond chain—starting with the mining of rough diamonds in Africa, to sorting and distributing them in London, then cutting and polishing the stones in Palestine and exporting the finished diamonds to the United States.⁹

The marriage of Ben-Ami's and Mathias's approaches was predicated on the industry in Palestine serving the interests of the British and Allied war needs while remaining a Jewish-only industry. Furthermore, it guaranteed Palestine a steady supply of rough diamonds from the Diamond Trading Company in London. This would be mediated by a Jewish broker and a known and trusted sightholder with De Beers. For its part, the cartel was assured by the Colonial Office and the Palestine government that it would be Palestine's sole seller of stones and that moves against illicit trade in diamonds in the Middle East would be accelerated.

The British protective intervention in establishing the diamond industry and its operation as a controlled capitalist venture meant endowing the initiators of the industry with monopoly status. The British supervised the selection of the experts chosen to move from Antwerp to Palestine, the authorization of the manufacturers in Palestine itself, and the import-export operation to New York, Cairo, and Bombay. In agreeing to make the small town of Netanya the center of the industry in Palestine, the British bowed to the pressure of Oved Ben-Ami, the town's mayor and the key figure in this private-capital project. The British ordered all the polished stones to be exported, thus promising themselves a steady income in American dollars. Furthermore, all trading and exporting were inspected and in effect left to the manufacturers, thereby curtailing free trade.

However, a caveat was added that the expansion of the diamond industry in Palestine was to be limited in terms of the quantity cut and polished. According to the reasoning of the time, while the transference of the industry to Palestine was based on trustworthy relations between state, capital, and skilled experts, nothing was to be done in Palestine that would hamper the future recovery of the Belgian diamond industry—not even a Jewish-only diamond cutting center that espoused anti-German warfare, a capitalist venture and a Zionist goal. The notion of trust, so prevalent in the historical and ethnic-based diamond trade, was now applied by imitation to international commitments but had to be buttressed (uncommon in the diamond trade) by bureaucratic arrangements and official stipulations. In view of Belgium's dominant position in the world of diamond production and trade, and of the British imperial and business interest in maintaining good relations with the Belgian Congo and De Beers, these understandings and arrangements harbored a strong claim for legitimacy. It was now considered a private industry in the service of the war, the Empire, and the Zionist cause.¹⁰

Legitimization

Confronting a different source of authority produces some variations on this theme. Indeed, the institutions that ran the *Yishuv*, and in particular the Jewish Agency (dominated since the early 1930s by Mapai, Labor's leading political party), were no less instrumental in the establishment of the industry. The department of trade and industry of the Jewish Agency had been involved in the 1930s in an attempt to introduce diamond capital and expertise from Antwerp to Palestine, and to persuade the British government to reduce the customs on imported rough diamonds. The department was also in contact with diamond dealers in Tel Aviv who ran a small diamond exchange, as well as with Zionist activists in England and South Africa who helped with contacts to the De Beers cartel. But the diamond industry, designed by the British and the manufacturers linked to Ben-Ami, was to be a private affair. It was an independent capitalist venture under the auspices of the British government and free of the national-oriented control of the Zionist institutions. No matter how involved the national institutions in Jewish industry were, and how crucial in their eyes the industrialization of the *Yishuv* economy, from the outset they were kept outside the sphere of decision-making and control over diamond production.¹¹

By barring Zionist institutional control over an industry that linked Jewish capital, the Palestine government, and international business interests, the Zionist political and industrial elites slung a barrage of historical and social stereotypes against the manufacturers and the character of their project. The independence of the capitalists was criticized for displaying a lack of allegiance to national institutions; they were charged with preferring their profits and independence over Zionist state-building and over cooperation with the more loyal Palestine Manufacturers' Association. The diamond industry produced luxury items, mainly for the American middle class. They were nonproductive in the Zionist view, which valued agricultural and industrial work and production. As such, they were seemingly steeped in an unbridled indulgence of the acquisitive spirit and thus were anathema to Zionist values. If the great profits of the industry were harnessed to the Zionist project, if they were not solely to benefit the capitalists and the British, the industry would be legitimized. Moreover, the problem was less with the capitalist nature of the industry and more with how it highlighted the incapacity of Zionism to fully engineer its social forces and control its actions, in particular when the capitalists' autonomous action was supported politically by the Palestine government and economically by growing demand in the United States for stones polished in Palestine. This sense of marginalization only affirmed that state-backed capitalism, which the diamond industry reflected, was taking root in Palestine.¹²

The anti-diamond rhetoric seemed to Ben-Ami and his circle of diamond manufacturers and diamond factory owners an empty diatribe that could be overturned swiftly once their independence was compromised. And indeed, the more the Jewish Agency realized the powerful economic performance of the industry during the war, the more it was willing to overcome its estrangement from the industry. For Ben-Ami, the introduction of a diamond industry to his small town was to industrialize it, to attract the young, to urbanize the town. This was part and parcel of his idea of Zionism, earlier founded on land acquisition, territorial expansion, and the designation of land and rural plantations for the Jewish people. But while the earlier vision was local, the diamonds had widened the horizons. They would serve a national cause, but they would do so by modernization, international networking, and world trade. The earlier sense of the capitalist road to Zionist realization could now reach maturity in the Jewish polity by moving out of the local confines and joining in world capitalist competition. All was to be harnessed to this cause—efficiency, productivity, regimentation. The tradition of skilled cutting, cleaving, and polishing was a clear case in which novelty and technological advancement could flourish.¹³

The diamond industry in Palestine therefore emerged, Janus-faced, in the early 1940s. It became Britain's "special native" in the Middle East, a standard-bearer of capitalist entrepreneurship and the servant of Zionist goals. This quid pro quo arrangement, happening as it did in the context of a very restrictive British white paper policy in Palestine, was a particularly useful means for legitimating requisitions. It joined service to the empire and the fight against the Germans. It promised the Belgians self-restraint and gave De Beers an outlet for its unsold merchandise. It added to British finances in the Middle East and greatly supported the cooperation between the Colonial Office, the Ministry of Economic Warfare, and the De Beers cartel. In Palestine itself it structured Ben-Ami's posture as a capitalist entrepreneur and liberal municipal activist, a Zionist in the service of the empire and the war, a savior of Jews otherwise forced to serve the German interest in diamond cutting, and, last but not least, a great contributor to the Zionist cause of industrializing the *Yishuv* economy. The long-standing historical association between Jews and the diamond industry in the Diaspora now became, in Palestine, and with the direct assistance of the British and the international diamond cartel, a component of the economic infrastructure of the Zionist polity.¹⁴

International Politics

The diamond industry aspired to independence and autonomy from Zionist institutional control and went about materializing these aspirations through the guardian intervention of the British (now militarized) rule of Palestine. How-

ever, as previously noted, the diamond manufacturers were deeply dependent on external forces and considerations—that is, the Belgians, with whom the British wished to cultivate good relations, and the Diamond Trading Company, without which rough diamonds would not have reached the diamond factories. To add to this complex situation, the Diamond Trading Company needed the Belgians for their access to mines in the Belgian Congo, and the Belgians needed good relations with the United Kingdom—the host of their exiled government and of many Belgian and Jewish refugees. Early in the war, when Belgian and Jewish diamond circles established, with the direct assistance of the cartel, a special diamond reserve to aid in the recovery of the diamond industry in Antwerp at the end of the German occupation (COFDI), the British government was compelled to approve it. Belgian diamond interests in wartime London ran what can be called a “politics of supply” aimed at regulating the distribution of rough diamonds from De Beers to the alternative cutting centers, mainly in Palestine.¹⁵

Indeed, the greatest ambivalence besetting the diamond industry in Palestine was toward Belgium. On the one hand, this was where the diamond experts and know-how originated. Amsterdam was significant also as a legacy of the networks between the diamond industry, Jewish communal life, and trade union organization. Antwerp, however, especially since the First World War, was closer kin. It had specialized in cutting small stones as Palestine was now doing; it served as a model for the industry’s organization, internal relations, and ethics; and the entire network of which the Palestine manufacturers were a part stemmed from and revolved around Antwerp and its exiled communities in other places. On the other hand, however, Belgium was the reason why the British wished to limit expansion of Palestine’s diamond productive capacity. As much as its diamond industry had been paralyzed since mid 1940, Antwerp was Palestine’s main future competitor. And as much as its leaders, such as the socialist Camille Huysmans, were pro-Zionist, the shadow that the Belgians cast, exemplified by COFDI’s activities in London, worried the manufacturers in Palestine and forced their deep involvement in the politics of supply.¹⁶

The international bargaining revolved around Palestine’s expansion in the cutting of small stones (otherwise known as sand), which was also Antwerp’s prewar professional specialty. If Belgian interests held the upper hand, the cartel’s Diamond Trading Company would curtail the supply of small stones for Palestine and force its factories to reorient themselves to bigger stones (e.g., brilliants and baguettes), and guide the workers and the labor process accordingly. If Palestine had its way, the postwar recovery of Belgium’s diamond industry was endangered. One aspect of these political maneuverings was the development of arguments aimed at assuaging Belgian concerns. Whereas for the British, the Palestine diamond manufacturers were the “special native” and for Zionism they exemplified “capitalist nationalism,” for the Belgians they car-

ried the weight of the victim's moral right. Palestine wanted neither to compete with Belgium, so the manufacturers argued, nor to hamper its postwar recovery. It had, though, the moral right to "inherit" the Germans and their prewar diamond cutting industry.

Indeed, during the 1930s Amsterdam was in decline, other cutting centers were not yet born, and the German diamond industry was Belgium's fiercest contender. Germany was to be blamed for the war, for the occupation of Antwerp, for the looting of diamonds, and for forcing Jews to continue cutting diamonds in the concentration camps in Vught (in the Netherlands) and in Bergen-Belsen (in Germany). It confiscated reserves of rough diamonds for industrial use and aimed at acquiring mineral-rich African colonies, such as the Belgian Congo. The suffering that Germany caused the Jews, exemplified in the demise of their occupational communities and trading centers, was no less harsh and horrendous than the fall of Belgium, the German challenge of Belgian colonies, and German economic exploitation of the Netherlands. Palestine was, therefore, fully justified in claiming a place in the diamond production, not as a challenge to Belgium but as part of an international diamond community of which Belgium was the recognized leader. More significantly, Palestine was entitled to inherit the German diamond industry for the purpose of economically building the Zionist polity, as if thereby being compensated for the crimes committed against the Jews. Diamonds were now endowed not only with the international mission to counter German economic warfare and revive the economy of the Netherlands, but also with the idea of serving Zionism. The logic was naturally also tailored to the desires of the national leaders in the Zionist institutions in Palestine who opposed the industry's independence but also recognized the meaning of its success for economic state-building in Palestine. In the late 1940s, this logic would resurface when the Palestine diamond industry, the Jewish Agency, and diamonds circles in Belgium cooperated in a concerted action to limit the revival of the diamond industry in Germany.¹⁷

Working Diamonds

The "Zionization" of the historically Jewish-dominated diamond industry was, however, far from a straightforward matter, even within the confines of the *Yishuv*. The Labor Movement was politically a dominant force in the *Yishuv*, but it accepted capitalist Zionism as long as it was controlled and directed by the national institutions. When the diamond industry arrived in Palestine, it had to confront what some diamond manufacturers defined at the time as an institutional "triangled thread" of economic and political cooperation between the Jewish Agency, the Palestine Manufacturers' Association, and the Histadrut. As a nationally oriented labor movement, the latter, however, not only objected

to capital's quest for total institutional independence (in which it joined forces with many of the *Yishuv's* industrialists), but also couched it in exclusionist terminology that made some diamond manufacturers sense that they were politically and socially marginalized and fittingly imagined as "bastards."¹⁸

In such a highly skilled occupation as diamond cutting and polishing, work and workers were the keys to the industry's capacity to establish itself and survive. In the Netherlands the diamond worker spent many months in apprenticeship, being supervised and nurtured, which served to foster interest, pride, and ambition between the manufacturers and the workers. This was encouraged by the domination of the occupation by Jews and by a common sense of distinctiveness. This coalescence did not exclude social conflict, and the strength of the diamond workers' unions in Amsterdam and Antwerp seemed to testify to the need to challenge the manufacturers and at the same time to regulate unrestrained conflict. In Palestine, though, organized labor posed a much greater challenge to the manufacturers; this confrontation itself was an expression of the capitalist transformation the war wrought on Palestine.¹⁹

First and foremost, the diamond industry in Palestine was managed and controlled by adherents of a liberal tradition in employment relations that objected to the total domination of the diamond workplace by the Histadrut. These liberal forces, headed by Ben-Ami and the manufacturers (some Belgian, some local), did not oppose collective bargaining so much as the excessive intervention of organized labor in the affairs of the diamond factories. This referred in particular to the issue of the "Taylorization" of the cutting and polishing labor process. Contrary to tradition, Palestine asked De Beers to specialize in one type of stone, namely the small stone, or sand. This had also been Antwerp's specialty, and it catered to the diamond cartel's need to dispose of large reserves of such stones, which had been provoked by the paralysis of the Netherlands. Specialization in the small stone turned Palestine into one of the world's leading suppliers. Furthermore, while in the Netherlands it took at least three years to induct an apprentice cutter and polisher, and apprenticeship usually covered all types of stones and all cutting and polishing skills, in Palestine the labor process was fragmented into a system called the "chain" or "phases," in which the apprentice learned just one phase of the polishing process. This "Taylorization" of production helped shorten the learning process to six months and speeded up a cutter's entry into production and earning.

The "Taylorization" of the labor process not only accentuated the supplanting of home work by the factory, it also accounted for a new kind of paternalism in the diamond industry that was less known in the Netherlands. A blatant expression of this paternalism was the bonding of the apprentice to the factory and to the manufacturer until all the apprenticeship tuition was paid. In both the matters of "Taylorization" and bondage as well as the process of selecting the apprentices, the Histadrut remained excluded. Piecework, which was so

characteristic of the occupation and anathema to the Histadrut, was maintained, even though most work was done in factories. Finally, and crucially, workers' representation was structured by the manufacturers in such a way that the Histadrut could never claim a majority among the workers and was forced to renegotiate regularly with four or five other trade unions to achieve a common stance against employers. This fragmentation of representation amounted to a lack of Histadrut control in the factories.²⁰

The Histadrut activists among the diamond workers attempted to surpass the other unions by recruiting unorganized labor. Its position among the workers was, however, weakened by the intensity of strike action in the diamond industry, partly due to the intermittent supply of rough diamonds from London, which often left the piecework workers without work and pay. The Histadrut's incapacity to force restraint on workers was also a cause for wildcat militancy. To challenge the diamond manufacturers, the Histadrut could either join any strike that broke out in any small factory, or mobilize the Zionist institutions to act against the manufacturers' autonomy of action.²¹

The latter option was usually chosen. The recruitment of the national institutions was reflected in the enhanced role the labor movement assigned to the Jewish Agency, and in particular to its Departments of Trade, Industry, and Labor, in bargaining over working conditions and in resolving conflicts over workers' representation. National intervention in disputes and strikes followed, resulting in significant involvement in the industry's general economic survival. Recruitment was, however, buttressed by a political language that grouped the national institutions and the Histadrut together with the diamond manufacturers and better-off diamond workers on the opposite side. The manufacturers were derided as exploitative capitalists reminiscent of the worst in Jewish history, dedicated to producing goods for luxury consumption, deceiving the workers, and refusing to cooperate with labor Zionism. This derogatory imagery well illustrated the criticism vented by the Zionist political elite against the non-national independence of the diamond manufacturers.²²

Cut to Zionism

The terminology the diamond manufacturers used to challenge the negative images labor had of them naturally alluded to the twenty-year-old controversy in the Zionist movement regarding the correct path (public or private) for Zionist state-building. In focusing on the efficiency of private capital and on the imperative to postpone socialist experimentation to the period after a Zionist entity in Palestine had materialized, the diamond manufacturers reproduced those elements of the 1920s debate that provided the diamond industry with

an image of a worthy economic project, risky yet successful, promising and real. Their independence was justified, because it was Zionist. The manufacturers rationalized the specialized fragmentation (even Taylorization) of the labor process and the consequent paternalism of the workplace; this was a paternalism based not simply on the role of the owner and employer as a capitalist, but also his role as the source of inspiration for the linking of capital with the nation, and the harnessing of capital accumulation to the Zionist cause. This merging of capitalist efficiency with considerations of time and international competitiveness interested the Zionist economists who propounded the association between Herzl and Taylor, coupling a national home for the Jews with efficiency, and could thus be referred to as the Zionization of the labor process. It also attracted the attention of the diamond trade in London, of whom some members were Jewish Belgian exiles, fearful that Palestine's subsequent specialization in small stones would not only surpass Belgium's prewar supremacy but also hamper its postwar recovery.²³

At the same time, however, this terminology introduced novel utilitarian conceptions aimed at legitimizing capital's roles in the wartime economy. The argumentation focused on the industry's high productivity and income from foreign trade, both part of the tremendous boom Palestine experienced during the war. The Palestine diamond industry was part of the Allies' war effort and had a role to play in absorbing refugee cutters and polishers from the Netherlands; those not so fortunate as to escape were forced to labor in the diamond cutting workshops in Bergen-Belsen. It advanced the moral legitimacy of the Zionist economy in Palestine in inheriting the German industry, and played a key role in relaxing economic competition with Belgium by weaving international connections among the manufacturers and the diamond workers' unions. In its self-presentation, the diamond industry imagined therefore a world in which Zionism, despite the war and the Holocaust, did not reject its Jewish and European pasts. In this local politics of identity, the external and international played a key role, and the more successful the industry in Palestine, the more legitimate it became.²⁴

Nothing was more powerful in this process than the dramatic growth of the Palestine diamond industry. In the absence of competition from Belgium between 1940 and 1944, and with the strong impact of rising demand for diamonds in the American middle classes during the war, the Palestine industry expanded far beyond the limits designed for it in 1940 by the Colonial Office and the Ministry of Economic Warfare. Despite the restraints applied to the industry in late 1943 (by forcing it to move to cutting larger stones), growth continued unabated. While the number of diamond factories did not change from 1942, the number of workers acquiring cutting and polishing skills increased consistently, and by 1945 the industry could boast some 4,500 work-

ers (see Appendixes 1 and 2). In Palestine's industrial context, this was more than an ordinary change, highlighting as it did the technological capacity and managerial skill that made good use of the uncompetitive international environment.²⁵

Economic advancement and an international reputation convinced the suspicious leaders of the Zionist institutions, and of the Jewish industrialists organized in the Zionist Palestine Manufacturers' Association, of the diamond industry's economic viability. Furthermore, it provided work for many Jews, raised the standard of living of the young diamond cutters and polishers, and provided Palestine with an international economic legitimacy that impressed the local *Yishuv* leaders. The high levels of strike action among diamond workers affected this image, mainly among British officials in Palestine, but this could scarcely tarnish the emerging image of economic prowess and its global resonance. Criticism would shift now from the autonomy of the manufacturers to their profitability and the coalescing of interest with the British authorities. When the British authorities decided after the war to liberalize control of the industry and ease the restraints on the local diamond trade and world destinations, the manufacturers quickly adapted; more workers were employed in the cutting factories, and much of what was left of the opposition to the industry among the *Yishuv*'s economic and political elites evaporated.²⁶

At the end of 1946 the competition between Belgium and Palestine along with the seething unrest in Palestine's diamond workshops coincided with a sharp decline in American demand for Palestine's polished diamonds. After the war, De Beers reoriented its supplies toward the Netherlands, and the economic nationalism of Belgian manufacturers and unions tolerated little overseas competition. The Zionist claim that its diamond industry had the moral legitimacy to inherit the German prewar diamond industry went unheeded by the Europeans. In parallel, the British authorities in Palestine who were about to withdraw from the country withdrew their protection of the local diamond industry.²⁷

The grave crisis that the local diamond industry experienced in 1947 as a result of these factors, and the prolonged period of recovery that extended to the early 1950s, demonstrated again the blurred boundaries between the local and the external. The withdrawal of the British Mandate from involvement in the industry was replaced by the growing presence of the *Yishuv* institutions and later by the state of Israel. The dependence on, and almost patrimonial relationship with, one state structure was replaced by another, and the diamond capital owners and manufacturers readily transferred their claims for help in the international competition and attainment of resources to this state-in-the-making. For the latter, the diamond industry would soon serve the expansion of Israel's foreign trade and state-sponsored attempts to erect a private-capital infrastructure in Israel's newly built development towns.²⁸

An Emerging Diamond Community

The question of the historical predominance of Jews in the world diamond industry has been posed many times in the past. Often it invoked the economic advantages of an ethnic group able to mobilize its internal mechanisms and social institutions to cut commercial transaction costs and advance a highly profitable trading business based on informal dimensions of reputation and trust. While the notion of trust relates in these discussions to diamond trading, and to capitalism's search for efficient middlemen groups to maintain global low-cost commerce, it also affected diamond production itself. The disciplinary systems that owners and manufacturers developed 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. Along 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, which 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.²⁹

However, beyond these aspects of the diamond trading culture and the economic advantages Jewish diamond dealers 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.³⁰

The diamond industry in Palestine of the 1930s and 1940s took off largely due to an intertwining of external factors and local motivation. Quickly finding itself along a global commodity chain temporarily distorted by the war and relocated by war aims and international business interests, it then recuperated after it. Furthermore, it developed local and national characteristics of the diamond cutting labor process and of employment relations exactly because it was so linked internationally and had to survive in competition with international forces. The language the manufacturers and the diamond entrepreneurial organizers used created essential slots of meanings that would later legitimize the unshackling of capital and the weakening of the Zionist labor movement. The terminology idealized both the private-capital road to the materialization of Zionism and service to the British Empire as a cultural means for securing the

state's sheltering and espousal of capital. More specifically, it revered entrepreneurial capital and its independence to the point of actually presuming to surpass other social forces as main builders of Zionist sovereignty. Not impeding capital's path, facilitating 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.³¹ Indeed, as the nationally oriented derogation of the diamond industry gradually faded, its cosmopolitan images would be conveniently adopted by the state of Israel for national use, and the small group of capitalists in diamond manufacturing and trading would help pave the way for Israel's later liberal-ideological and social shifts.³²

Appendix 1

The Diamond Industry in Palestine, 1940–1948

	Factories	Employed
1940	5	200
1941	12	1,200
1942	23	2,500
1943	33	3,570
1944	33	3,600
1945	33	4,000
1946	34	5,000
1947	30	3,000
1948	30	800

Sources: David Gurevich, *Workers' Wages in the Jewish Diamond-Polishing Industry in Palestine, 1944* (Jerusalem: Department of Statistics of the Jewish Agency, 1945) (H); Avraham Friedman, "The Diamond Industry in Palestine's Economy," *Hameshek Hashitufi*, 23 February 1947 (H); Oved Ben-Ami, "Die Diamantindustrie in Palästina," *Schweizer Goldschmied* 5 (May 1948).

Appendix 2

Diamond Cutters and Polishers 1939 and 1946

	Early 1939	Early 1946
Belgium	25,000	15,000
Holland	8,000	1,000
Germany	8,000	—
France	3,500	450
United States	500	4,000
South Africa	400	1,000
UK	—	800
Palestine	60	5,000
Brazil	100	4,000
Cuba	—	3,000
All	45,460	34,250

Source: *Report of the Proceedings of the First Congress after the Liberation of the Universal Alliance of Diamond Workers*, Antwerp, 2–6 September 1946, The George Meany Memorial Archives, Silver Spring, MD, RG 18—005/12.

NOTES

1. The chapter is part of a project on the history of the Israeli diamond industry. Hebrew sources are marked (H).
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