

Chapter 2

THE MAKING OF A MONOPOLY



The diamond industry is destined to become the most important branch of our industry, to feed tens of thousands, to tie us to wide world markets and bring the name of our country to distant corners. It is in our hands whether the future of this industry is for thriving and flourishing or for liquidation and loss. Worker, industrialist—guard this important branch. Know at all times that your fate and the fate of the industry is in your hands. Remember! It is not only for us that we toil and construct and build, we are the pioneers of moaning and suffering brothers. We build for ourselves and prepare for them a livelihood, those that starve and on whom hell fell, but whose redemption is near.

—David Rothblum, “Wish Them Godspeed!” *Dapei Hamenahel*
(January 1944): 6–7

Effects of the Occupation

The political and economic historiography of Mandate Palestine has long recognized the presence and power of private capital, in the Jewish sector in particular. It was reflected first and foremost in the centrality of small businesses and larger privately owned manufacturing units in the economic life of the country compared with the parts played by the British government sector and Jewish national Zionist institutions.¹ Despite the relative political weakness of the Jewish middle classes during the Man-

date, it found further social expression in the delimitation by private employers of the capacity of organized labor (the Histadrut) to achieve widespread acceptance and coverage of collective bargaining. Culturally this power could be seen in as varied aspects as in the proximity of capital and industrial owners to British official circles, in their respected status in the towns such as Tel Aviv and Netanya, and in the paternalistic atmosphere they created in their workplaces and offices.²

The Mandate colonial state since the 1920s played a key role in these expressions of power: the support it provided Jewish private industry, and their perception of the Yishuv economy as a leading economic sector that could save on their imperial expenses and justify British colonial developmental approaches.³ However, the deep involvement of the Palestine government and the Colonial Office in defining the public functions of the private diamond industry as a “war industry” reaffirmed the change the British brought to Palestine in previous patterns of state intervention.

Indeed, since the outbreak of World War II, and in particular in the wake of the growing fear in Belgium of German invasion, an urgent sense arose that the project required institutional power and authority. The diamond industry in Palestine needed to be controlled so that no diamonds (rough, polished, or for industrial use) would reach the Germans. All production should be exported so that, apart from owners’ and manufacturers’ profits, ample income of American dollars to the Palestine government and the Sterling Bloc would be assured. All rough diamonds destined to be cut and polished in Palestine ought to arrive from a single source, the DTC (the Diamond Syndicate), so that De Beers could dispose of its reserves and London could maintain its position as the nerve center of diamond trading and distribution. Effective control was also needed to safeguard the Jewish-only character of the industry, to make certain that Ben-Ami’s town Netanya would be the project’s capital, and not least to prevent the Jewish Agency from meddling in the affairs of the diamond manufacturers and their economic aspirations. It was therefore a social engineering of capital and labor, a from-above project through which the Palestine government and Ben-Ami as their entrepreneurial emissary sought to structure the framework of all diamond activities in Palestine. In the eyes of the functionaries at Ministry of Economic Warfare, Palestine was not that different from the subcontractors in diamond mining in Sierra Leone. The status they accorded to the “special natives” who established the diamond industry under their supervision allowed a reproduction of the model. Moreover, the model fitted well the system of concessions and monopolies that colonial Britain routinely used to govern across its empire and also the Middle East.⁴

The urgency to grant the nascent industry institutional power was further aggravated by events in Europe. In May 1940, in the midst of the

preparations in London, Antwerp, and Netanya for the immigration of the diamond experts and for the first shipments of rough diamonds, the Germans occupied Belgium and Holland. German military rule (under Alexander von Falkenhausen) paralyzed the economic functioning of Antwerp, drastically decreased the number of employed in the diamond industry, and the city's communication with main markets for polished stones in the US and India was cut off. The activity of Belgian Jews in the diamond business was curtailed and would soon be mobilized for German interests. The meager supply of rough diamonds that arrived in Palestine from dealers in Belgium now totally ceased. Belgium was therefore placed outside the system of competition among the world's diamond-cutting centers and the hegemony it acquired after World War I was abruptly curtailed. This was one of the main reasons why new centers in Cuba, Costa Rica, England, British Guiana, and Palestine could thrive. Moreover, the occupation of Belgium also nipped in the bud the scheme to bring over to Palestine the manufacturers and experts, and the local initiators of the industry were forced to search for and select entrepreneurs and investors in Palestine itself.⁵

The sense of pressure had another effect. During negotiations in early 1940 in London Ben-Ami suggested to Mathias that Palestine should specialize in the cutting of small stones, just as Belgium and Germany did before the war. Mathias and Ernst Oppenheimer opposed the idea. Palestine's specialization, they argued, would harm the young diamond industry because it could not guarantee full employment during fluctuations in demand for diamonds and periodic downturns in supplies and sales. Moreover, if Palestine specialized in small stones, Belgium's recuperation after the war might be endangered. The argument was far from resolved at the time despite De Beers's consent on direct supply of rough diamonds and on the representation of Palestine at the DTC by Hennig & Co. Ben-Ami's quest for small-stone specialization was accepted only because of the pressing need created by the German occupation to continue with diamond production outside Belgium. The Germans were getting hold of diamonds after all and Belgium needed to be quickly replaced.⁶

Another effect of the occupation was on the spatial structure of the industry. In the early summer of 1940 it was still assumed that because Britain controlled the South African sources of rough diamonds, and the syndicate managed their distribution, London would become the world center of the industry. The assumption was strengthened by the arrival in London of Dutch and Belgian refugees, among them diamond manufacturers, dealers, and skilled diamond workers, who would contribute to the small cutting industry in England but expected to return to Belgium after the war. The German occupation thus aggravated the British dilemma of how to encourage the new industry in Palestine and at the same

time adhere to Mathias's principle of a "temporary alternative," which purported to secure Belgium's recovery after the war. It was imperative now, both the British and the Palestine entrepreneurs felt, to hurry up with the establishment of the diamond industry in Netanya and place it under much stricter control than diamond cutting in England itself. The occupation of Belgium turned therefore a catalyst not just for Palestine's quick replacement of Antwerp but also for its molding as a controlled venture so that diamonds would not reach the Germans and the expansion of the industry in Palestine would be limited.⁷

The establishment of the Palestine Diamond Manufacturers' Association (hereafter PDMA) began in Netanya on the morrow of the German occupation of Belgium and the Netherlands.⁸ The drawing of its regulations followed suit and in late July 1940, with six diamond-cutting factories in operation, the government gave the association its authorization in accordance with the Ottoman Law of Societies.⁹ The process was conducted by Ben-Ami, who placed himself as the PDMA's president, and Chaim Friedman, the former Antwerpian diamond merchant and Zionist activist who became the PDMA's administrative secretary. Advised by diamond experts such as Zvi Rosenberg and Asher Daskal, and by PDMA's "Responsible Directors," the two drew a draft of the organization's regulations that required government affirmation.¹⁰

In summer 1940 they began the screening of the candidates who as PDMA members would be allowed to receive rough diamonds, operate factories, and export the polished stones. The process was closely watched over by John L. Fetcher, the assistant director of the Customs Department in Haifa, and Geoffrey Walsh, the economic advisor to the high commissioner in Jerusalem who reported to the Colonial Office in London on every move. Practically, the shaping of the PDMA took place in the discussions in the government-nominated Control Committee of Rough and Polished Diamonds in Palestine, of which Fletcher, Ben-Ami, and Friedman were members. The committee took care to obtain the initial permits to import the raw material from the DTC and export the products abroad. However, it also assisted the PDMA in determining, as written into its regulations, how to protect the interests of the manufacturers, how to operate the industry, and how to make it certain that in no circumstances would imported rough diamonds be disposed of in an improper manner. In this way government control over the new industry, based as it was on the need to prevent diamonds from reaching German hands, was assured. Moreover, it determined the deep dependence of the industry on the colonial government, both in Palestine's relations with De Beers and in its from-above management of the individual factories. In August 1940 the first shipment of small-sized rough stones arrived from Hennig & Co., the brokerage company in London. Shortly after, the British affirmed

PDMA's regulations and the formal joining of the members of the Association began.¹¹

Organizing Capital

The history of the diamond industry could have provided ample models of organization—from diamond exchanges, administrative and ethical councils, of manufacturers' associations, clubs of merchants and dealers, and even craft unions. They could teach the organizers of the separation between the various phases along the diamond commodity chain and on the separate networks of producers' associations and dealers' organizations. However, because of the way the industry was initiated, its informal character as a "war industry," and the direct engagement of the colonial state with private capital, this rich and varied legacy was hardly influential. The monopoly character of the De Beers cartel and the centralized structure of activity in the diamond mines could have been sources of principles of hierarchy and dependence that could fit well the from-above design of the Palestine industry. But these too were less relevant because of the focusing of Palestine at this stage on cutting and polishing and not on trading. Moreover, while diamond industries in the Low Countries did not lack institutional restraints or politicians who promoted their national import, they were incomparably less centralized, received much less stately attention, and were, as the Jewish concentration in the diamond industries of Amsterdam and Antwerp demonstrated, much more pluralistic.¹²

The second tradition stemmed from the organizations of manufacturers and employers that emerged in Palestine itself twenty years earlier, following the shift from Ottoman to British rule. These organizations were mostly focused on the citrus plantations and on the small commercial businesses in the urbanizing centers of the country. One type was a totally independent initiative, stretching from home industries to factory-based productions, from piecework contractors in various branches to professional services. Another was cooperative industries, practically within (and financially supported by) the roof-structure of the General Federation of Labor. Still another type of organization was of a more protected kind, usually through protective tariffs introduced by the Palestine government since the 1920s.¹³

More influential perhaps were the few industrialists who pressed for larger unifying structures (reminiscent of the individualist and liberal approaches of citrus growers, merchants and small-scale manufacturers). In 1921 the Palestine Manufacturers' Association (PMA) began to represent manufacturers and industrialists, but it was a loose organization and could little inspire action in specific branches. Ben-Ami himself was active in

the 1920s in Bnei Binyamin—an association dealing with land acquisition and assistance to citrus growers—and his experience in the organization undoubtedly affected his later diamond project. More solid organizations (such as the electricity, oil, and potash concessions and, from another angle, the Histadrut's holding company) comprised only a small part of the industry. The points of contact among this plurality of organizations were largely based on the Zionist orientation of private capital and support it sought from Zionist national capital. Still, the organization of business in Palestine was quite frail and the power of capital was more explicitly expressed by individual industrialists and small family firms. The legacy of hierarchy and centralization among capital owners, manufacturers, and employers that came to characterize the diamond industry was there, but the extent of these influences was quite limited.¹⁴

The diamond industry introduced a novel type of organization: an association of manufacturers and capital owners that operated as a private monopoly under close government inspection and control. Compared with existing employers' associations in Palestine, the association became during the war the most powerful and regimented, and practically exemplified a new phase in relations between state and capital. The novelty lay in the degree of state interventionism in the private sector of Palestine's economy, and in the scale of protection and support of private capital, Jewish and Zionist in particular. Furthermore the negotiated state-capital organization of the business created a new atmosphere of mutuality and reciprocity. It was for this reason that the victory of the Ben-Ami faction over the Tishby-cum-Zionist institutions faction was crucial. Once the Palestine government was defined as the source of power and legitimacy of the diamond manufacturers' organization, the Zionist institutions that ran the Yishuv and their close ally the Palestine Manufacturers' Association were kept distant. This reflected the liberal tradition of institutional independence that Ben-Ami and many capitalists in the Yishuv represented. It also served the British, who aspired for economic cooperation with Jewish capital without wanting to be seen as siding with the Yishuv and the Zionist Movement during this period of the White Paper regime. That such a possibility was incarnated in the government's special relations with Ben-Ami enraged the Jewish Agency and would later serve to challenge the PDMA's leadership.¹⁵

The PDMA was defined as a monopoly in six senses. First, it was declared as the sole importer of rough diamonds to Palestine. All diamond merchants in Palestine and all manufacturers who chose not to join the PDMA were not allowed to import diamonds independently. Even PDMA members themselves could not. The members of the Diamond Club, on the other hand, who for years cultivated trading ties with Belgium, the Netherlands, and Germany, were placed outside this controlled system.

Declared as the sole channel through which diamonds could be distributed, the PDMA was therefore made part of the system of British economic warfare against the Germans.¹⁶

Second, joining the PDMA was open for Jewish applicants only. This discrimination leaned on the long-standing association of Jews with the diamond trade and on the centrality of Jews in the diamond industry in the Low Countries. The notion that an ethnic community would be the best guardian and efficient agent of the diamond business mixed here with the Zionist contribution to the Allied war effort and the British support of the Yishuv industry. Moreover, an informal understanding between the British government, the Syndicate, Hennig & Co., and Ben-Ami determined this principle to be an essential prerequisite to the attainment of American dollars for the British war effort.¹⁷

Third, any manufacturers wishing to cut and polish diamonds in Palestine would have from now on to be members of the PDMA. Otherwise they would not be able to obtain the authorization from the British authorities to import or operate the equipment needed to run a factory; neither would they be able to place with the PDMA orders of rough diamonds from London. British intelligence and the Ministry of Economic Warfare kept "black lists" of European and American diamond dealers suspected of trading with the Germans and were therefore involved in the PDMA's screening of applicants for membership.¹⁸ Furthermore, factories would always be owned by PDMA members. Therefore, cutting and polishing at home was not permitted and the entire putting-out and domestic-labor system that developed in the Belgian countryside was transformed in Palestine into factory-based production. The implication of this definition of a PDMA member would be clearly reflected in employment relations, in organizational and workers control, and in relations among the workers themselves.¹⁹

Fourth, De Beers and the Diamond Syndicate were defined as the single authorized source of rough diamonds, and Hennig & Co. was fixed as Palestine's sole representative or "sightholder." The PDMA was not allowed to purchase rough diamonds in any other country and from other dealers, and non-PDMA dealers who kept trading relations with the Low Countries, South Africa, and South America were closely watched. The PDMA's accounts of its imports and allocation of raw material to its members were closely inspected by the government and the MEW, and the entire correspondence (including transaction telegrams) between the PDMA and Hennig was either reported or screened by the British censor. The arrangement that gave Hennig & Co. exclusive representational rights also assured Ben-Ami, as the PDMA's president, 1 percent of all import orders. The moneys were transferred to what was defined as the President's Fund and formally declared as needed for the president's expenses. The ties be-

tween Ben-Ami and George Prins, the leading manager at Hennig & Co., practically turned into the backbone of the system.²⁰

The fifth distinctive aspect of this control system was the orientation of all polished stones to export, and the barring of free marketing of the stones in Palestine itself. Clearly this combined the British interest in increasing the income of American dollars to the Sterling Bloc countries, and, at the same time, attempted to decrease as much as possible the potential of stones reaching the Germans. Thus, from the moment of the PDMA's birth the British authorities were present in almost every move made by the new organization, and through the joint control committee (later developed into Diamond Control) this presence made the incipient industry a war-related one. More than anything else it came to express the new interventionist orientation of the colonial government in Palestine's economy.²¹

Exporting the polished stones was to be based on a twofold system. The manufacturer (the factory owner and PDMA member) would make contacts with authorized dealers, mostly in New York, and he would export an authorized amount of polished stones through the PDMA's offices. In this way the manufacturer was also an exporter but he would not be able to digress from the exporting quotas determined by the PDMA, neither would he be able to export freely on the open market. In this way the British hoped polished diamonds would not reach the Germans, either through their agents in occupied European countries or through Middle-Eastern dealers operating from Syria. Moreover, the system totally bypassed the exporter-members of the Diamond Club in Tel Aviv and the national institutions of the Yishuv and further tightened the unity of functions of import and export held by the PDMA.²²

The final aspect related to ownership. In Belgium the production unit was owned by a diamond entrepreneur, and it could either be his home, an atelier, or a factory. The rough diamonds were bought by dealers who handed them over to the entrepreneur for cutting and polishing. The latter would employ workers, usually on a piecework basis, and on completion of the polishing he would hand the product back to the dealer. In Palestine the functions of buying and owning the rough stones and of producing the stones were to be united and centralized in a factory. In compliance with the designed prevention of free trade and exporting, the factory owners were also supposed to be their own exporters. Practically a diamond manufacturer in Palestine was therefore an integral entity, importer-cum-industrialist-cum-exporter, an integrity that was to serve as a source of power that in the last instance was expressed in the manufacturers' organization.²³

In sum, therefore, even before the gathering of the manufacturer-members, the PDMA's monopoly created an infrastructure of a highly central-

ized and hierarchical organization. In contrast to the organizations and clubs of the industry in the Low Countries, and the often familial character of the diamond-cutting production unit in Belgium in particular, the organization of the manufacturers and the centralization of their activities in the factories were given preference over the independence of the manufacturer and the freedoms diamond manufacturers and traders enjoyed in the traditional cutting centers before the war. Ben-Ami, as the head of the hierarchy, was entrusted with enormous power. Hardly anyone before him in Palestine's economy was turned by the colonial government into such a linchpin of an entire import, production, and export system. Likewise Netanya, still in transition from a plantation to town, was destined to become the nerve center of the organization, surpass the older trading locations in Tel Aviv, and serve as an attraction point for further expansion of the industry (see appendix tables A.1 and A.2). The intended spatial concentration in Netanya seemed to promise control from above, similar to the intended focusing on a single entrepreneurial and municipal bureaucrat. On Ben-Ami (both creator of the organization and created by it) would depend the politics of supply of raw material from London, the production and labor relations policies of the manufacturers, and obviously the selection of the PDMA's future members. Naturally this position would define Ben-Ami's allegiance to the British but also the clientele-like dependence of the selected members on him.²⁴

This allegiance was crucial because it followed the severance of Palestine from the intermediary dealers in the Low Countries and because the diamond merchants in Palestine itself were taken out of the trading chain. Forced by the British to accept De Beers's exclusive supplying position, Ben-Ami and the PDMA turned into the sole clients of De Beers in the Middle East. In diversifying supply routes and organizational traditions in the diamond industry of the Low Countries, these instructions shaped the high degree of centralization of the manufacturers' and employers' organization and seriously limited the freedom of action of the manufacturers within the industry. No less formative was the decision that all work was to be centralized in the framework of a factory. Home work and familial induction systems—among the hallmarks of the industry in Belgium before the war—were barred, and the free movement of expert cutters and inductors between the workshops was equally restricted.²⁵

The myriad aspects of regimentation of the nascent industry and its mobilization for the war effort made the diamond manufacturers' association extremely powerful. It was selective in accepting new member manufacturers, it controlled the wages paid, and it practically turned into an entrepreneurial community espousing a cultural *mélange* of profit, nationalism, and a sense of participation in the fight against Fascism. It was an organization of capitalists that succeeded to make the Mandate govern-

ment an ally, and at the same time to present itself as serving Zionism and Empire. Zionist capital supplied the British with an alternative to Belgium, and the British supplied Jewish private capital with power and opportunity. This reciprocity further impacted the social relations among the diamond manufacturers and between them, the diamond cutters, and their representative organizations, and it demonstrated the extent to which the British became part of and deeply impacted Palestine's social body.²⁶

The formative role of states and governments in the world history of the diamond industry was in impacting and intervening in one of its main features, its relocation. The genesis of the center in Palestine in the wake of Fascism and war demonstrated how these intervention patterns of the state in the diamond industry have now been further activated. Moreover, it was not merely a change of the degree of intervention, but a blurring of the boundaries between sectors with state officials taking part in running the industry; diamond manufacturers, dealers, and experts participating in shaping national policies on usages of minerals and their military-industrial uses; and both cultivating mutual interests, trust, and cooperation. It is this further phase of the state moving from a position of being a midwife of capitalism to actually cementing its foundational position in local society that the diamond industry in Palestine illuminates.²⁷

Power and Contestation

On the PDMA's establishment only a few diamond factories were in operation. Home-work was already announced as forbidden and, in contrast to tradition in the Low Countries, all diamond cutting was forced from above to be concentrated in licensed factories. An entirely new group of factory owners had to be created from the immigrants from Belgium and the locals, and the drawing up of the PDMA's regulations was therefore followed by the urgent task of recruiting the member-manufacturers, of assuring the workings of the monopoly by providing the new organization with a social base. Furthermore, as many of those destined to arrive from Belgium were hampered by the German occupation, the capital owners and investors had to be selected locally. In the next two years the PDMA's social basis was created and by mid-1942 it consisted of thirty-three factories, many of which were owned by two and three owners.²⁸

Table 2.1 Palestine diamond factories and their employees, 1936–1942

	June 1936	Aug. 1937	Aug. 1938	Aug. 1939	Aug. 1940*	Nov. 1941	May 1942
Factories	1	2	3	5	9	26	32
Employees	10	30	60	200	700	1820	2500

* Since summer 1940 all diamond factories in Palestine had to be members of the PDMA.

Sources: CZA, S40/269/2; Jewish Agency, *Census of Palestine Industry*, Compiled by David Gurevich (Jerusalem, 1943), 210–19.

The recruitment of members was entirely controlled, and the activity of members in their individual workshops had to be closely watched. In practice it meant that member-manufacturers had to be authorized by the government, a process that was not only conducive to the centralization of the PDMA but effectively turned it into an informal department of the government, and which encouraged among the new members and factory owners the cultivation of a language that espoused the service of an empire at war. The trust that the Ministry of Economic Warfare and the Diamond Syndicate developed in Oved Ben-Ami in the first months of 1940 was now to be extended to the candidate members, those whose capital and initiative were necessary to make the project viable, but whose integrity and self-harnessing to the project's cause were potentially suspicious. Therefore, while the granting of a monopoly drew the structural features of the PDMA's centralization, the involvement in the selection of members and in the individual operation of the factories turned the British presence in the industry dynamic and thus overtly political.²⁹

An examination of the PDMA's members, the application letters of those accepted and of those rejected, and the association's formal definitions of qualified membership reveals a complex picture.³⁰ Some of the applicants had had some background in the diamond industry in Belgium and Holland and wanted to pursue their trade after immigrating to Palestine. Among these were a few who immigrated to Palestine in the late 1930s and opened workshops in Petah Tikva and Tel Aviv, and some diamond dealers and polishers who were able to flee Antwerp between the outbreak of the war and the occupation of the Low Countries in May 1940. These two groups were characterized as having a substantial expertise in the diamond trade, but mostly in cutting and polishing. Some managed to bring with them equipment and tools, they might have had some diamonds in their pockets or a certain amount of capital, but they based their quest for membership mainly on their know-how. The latter consisted not only of actual expertise but also of their prestige as experienced diamond manufacturers in their countries of origin and their status as having familial and communal connections. Actual capital involved with social capital strengthened their application. The fact that they were in demand and

that the new organization sought to base itself on them, made their acceptance as members a relatively straightforward process. That is, unless they had had some problems regarding their reputation (connections with Germany or illicit dealings), as some clearly did.³¹

A second group of applicants were cutting and polishing workers who acquired the necessary skills either in the Low Countries or already in Palestine—either in the few workshops that operated before the establishment of the PDMA or during its first year of existence. They usually lacked the capital to start a venture on their own and thus gathered a number of experts, workers, and capital owners in order to fill in the membership application. In contrast to the first group they were a sort of a transitory group, moving from being workers and employees into ownership, management, and employing others. This group was too in demand by the association, both for their proven skills and for their dependence on the centralized sources of supply of rough diamonds.

The third group consisted of applicants with no background in the diamond industry and trade who therefore based their application on either having the necessary capital to open a workshop or the willingness to transfer their financial operations from one branch to another. They could be veteran immigrants, Palestine-born, or recent immigrants, but what made them a distinct group was their economic perception of the opportunities opened by the fast-growing industry. Investing the capital they accrued in Palestine's building, commercial, and agricultural sectors in a diamond venture would usually entail gathering experts and workers, buying or renting the necessary equipment, and proving their financial viability. While the first two groups could base legitimacy on expertise and experience, this group was potentially suspicious, in British eyes in particular, because they were perceived as not being previously part of the trust system so prevalent in the diamond world.³²

Moreover, the "diamondless" background of the owners would have long-term effects. "The majority of the [diamond] industrial owners in Palestine," wrote one expert "is made of groups of capital owners that only a part of their wealth and investments is invested in the diamond industry, and they were attracted during the boom of the war days in order to make easy profits. In general there are a few groups of owners in each enterprise there and most of them not only lack any knowledge of the profession but they are actively engaged in another work and participate only in management meetings or stock-holders assemblies."³³

Beyond the proven financial viability and the capacity to employ capital and expertise, three significant aspects gave these groups a homogeneous character. The first was that all applicants were Jews. This ethnic exclusion, a clear corollary of the project's planning, was partly an un-

spoken assumption by the applications of the membership policy jointly designed by the British and the PDMA, and partly a self-selection process. The traditions of the diamond trade and the perception of the Palestine diamond industry as an exclusive ethnic agent made certain that a Jewish business-ethnic complex would be the rule. And as far as can be gauged from the sources, no Arabs applied until after the war ended, and the few who would were mostly merchants, not manufacturers.³⁴

The second aspect was that in terms of class and status they perceived themselves as middle or low-middle class. All applicants, even those who might have been once members or fellow-travelers of the Zionist Labor movement, and even those who were once part of the urbanized lower classes in Mandate Palestine, appeared distinctively as belonging, economically or politically, to what was known in Palestine during this period as the Civic Circles. Thirdly, through their financial, skill, and networking capacities they formed, in the eyes of both the British and the association's organizers, a group that did not harbor a risk. Credible, unscathed background and a reputation of reliability in either trade or work were often as important as the material requirements. This third aspect was the most difficult for the association to screen, and during the first years of its existence it confronted a series of cases in which formal membership was questioned. Contesting an existing member was in part based on information supplied by the British authorities whose intelligence discovered among merchants in Belgium or New York unknown facts about a member.³⁵

Selection of members was mainly based on expertise, good name, and the proven resources of self-capital. "I have been interested for quite a while in the diamond industry," wrote one applicant in affirmation of these expectations. "I am in the profession of diamond polishing and as a capital owner I wish to open a workshop on the model of the workshops in Netanya and Tel Aviv. . . . As far as I know I have the financial means needed for the profession. More so, I have under my hand experts in sawing and polishing who have been working in the industry for two and more years (their names I would not detail here). I have the capacity to organize among my relatives and acquaintances workers who would not be affiliated with any organization or association of workers (so as to prevent employment disputes). In the building I am about to construct at the center of Tel Aviv I could offer a part for a coffee-place or a club well fitting to an important business of this type."³⁶

Clearly the selection process conformed to the principles and guidelines set up by British policies, in particular those that referred to limited expansion alongside a controlled and trusted membership. "The political situation then prevailing had in a certain measure moved capitalists

to invest in new establishments," wrote Oved Ben-Ami to the British in October 1942.

It was natural in such circumstances that the Association should have been flooded with offers of investment in new or existing establishments. Rather than accept such offers indiscriminately, however, we preferred the safer and more circumspect attitude both as to the commercial and other "bona fides" of the persons and firms making these offers, and, more important, as to the technical skill available at their disposal. We realized that we faced the danger of a mushroom growth of new establishments, with its inevitable concomitant of serious loss to existing factories and, worse still, of the definite injury that it was likely to cause to the good name that the young industry had won for itself; further, the few trained experts and cutters at the disposal of the young industry were inclined to a tendency of greed which was beyond the capacity of a young industry to pay for. A policy of realistic caution enabled the Association to rise to the occasion, discharging the disagreeable task of putting severe checks on any hasty development and resisting the heavy pressure exercised on us for the opening of new establishments. With the complete accord of the Competent Authority (Diamonds) the principles were then laid down which have since governed the authorization of new establishments on the basis of a fixed six-monthly quota. On the strength of that quota sixteen new establishments were authorized in 1941, in addition to the seventeen already in existence, thus making a total of thirty-three diamond cutting establishments in Palestine.³⁷

Some of those accepted wished to develop their manufacture in Tel Aviv, perceived at the time as Palestine's main business center. Ben-Ami was interested, however, in luring them to Netanya, and as he controlled the local land company and the town council he could promise them land and credit for investment. The image of security and permanency of land ownership balanced the reputed risks of the diamond business. Moreover, a share of the profits made in the industry by the Netanya-based manufacturers would be later invested in further land expansion and housing projects. This was the reason why capitalists without prior background in diamonds became part of the community that evolved around the PDMA, and why the number of the factories in Netanya increased during the war no less than those in the main commercial center of Tel Aviv.

Table 2.2. Distribution of diamond factories in Palestine, 1939–1944

	Dec. 1939	Nov. 1941	Oct. 1942	Nov. 1944
Petah Tikva	1			
Netanya	2	12	14	13
Tel Aviv	3	14	16	16
Ramat Gan			2	2
Jerusalem			1	2
Total	5	26	33	33

Sources: Oved Ben-Ami, "The Diamond Cutting Industry in Palestine: A Report presented to His Majesty's Principal Secretary of State for the Colonies," October 1942, TNA: PRO CO 852/457/2; CZA, S40/269/2 and S8/315; Report, 11 October 1942, LA IV250-72-1-335; NCA, G/66/379 and G/117/960; Government of Palestine, *Palestine Trade Catalogue*, Jerusalem, 1944.

In the context of the halt of Zionist expansion following the restrictions of the 1939 White Paper, and in the more specific context of Netanya's transformation into a full-fledged urban center, this complex private capital investment in diamonds, land, and construction was crucial.³⁸

The approved members³⁹ entered a framework that aspired to a measure of collectivity. The letter of approval taught the new member-manufacturer the rules of the association, mode of operation, and the industry's structure of authority. The manufacturers—as the correspondence with the factories demonstrated—committed themselves to minute bookkeeping, refraining from free sales of polished diamonds, and having the PDMA approve the destined purchasing dealers abroad.⁴⁰

The president, Oved Ben-Ami, put himself at the top of the hierarchy and saw to it that he would be repeatedly reelected by the members. Together with Chaim Friedman, the PDMA's administrative secretary who functioned also as Ben-Ami's personal assistant, he led what many considered a "dictatorship." He conducted the annual meetings, was personally involved in selecting new members and corresponding with them, and all the functioning committees were accountable to him. Because of the hierarchical nature of the organization, the small number of members, and the narrow geographical distribution of the industry (mostly Netanya, Tel Aviv, and Jerusalem) the members were expected to take part in the working of the PDMA's committees (in particular the executive and the labor committee) and in their decision-making processes. As the mayor of Netanya, Ben-Ami ran the association from his town office. British customs and light-industry officials had often to come to Netanya to discuss the conditions in the industry and its prospects, thus extending the Mandatory seat of power in Jerusalem to the government-sponsored operations elsewhere. The bureaucratic structure Ben-Ami cultivated was based on a detailed and systematic archive (on which this book is partly based) and

on a minute system of personal members' and employees' cards. No wonder he was often accused of turning Netanya into the main focus of the industry and neglecting the local interests of the workshops in Tel Aviv and Jerusalem.⁴¹

Perhaps more significant were Ben-Ami's privileges. In principle the PDMA financed its activities partly by membership dues and partly by the costs paid by a manufacturer for ordering rough diamonds from London. From the start 1 percent of all the orders went to the President's Fund. Formally the fund was meant to finance Ben-Ami's pay and expenses. In practice only Ben-Ami had full control of the fund's expenses, and it thus sustained him personally and blatantly expressed his perception of his role as founder. The British promise to Ben-Ami of the gain he would personally accrue from the industry was never formally recorded but their consent was never doubted. The centralized character of the PDMA was Ben-Ami's creation, and was a corollary of the role he was entrusted with by the British and De Beers. The material gain that accompanied the process turned in reality into a crucial lever of power and influence.⁴²

The British soon realized that the economic and institutional power the monopoly was entrusted with could well challenge the policy of restrained development. One reason was contestation from within. The attraction of the new industry to investors who lacked prior experience in diamond-factory production intensified the competition over experts, inductors for apprentices, and skilled workers. A shortage of experts, caused by the German occupation of Belgium, endangered the investment of a capital owner who was totally distant from the know-how of the industry. Competition even spread to obtaining apprentices. From early on experts were offered higher pay and apprentices were promised assistance in sustaining financially the apprenticeship period.⁴³ The rush and competition inevitably threatened to destabilize the orderliness and image of the obedient economic agents envisioned a few months earlier by the British and the founders of the industry. Some of the investors sought quick profits and were less interested in industrial infrastructure, in producing high-quality polished diamonds, and in long-term Zionist industrialization. Others would not waive their independence (as expressed in this competition and attempting to sell diamonds locally) for the sake of British war efforts. Moreover, additional factories sprouted, in Tel Aviv in particular, and the formal registration of the member-manufacturers in the PDMA had to advance quickly and even be less selective. Increasing numbers of entrepreneurs wished to open workshops and become members of the PDMA to a much greater degree than allowed by the quantities of supplies of rough stones from the syndicate in London and on which the entire operation depended.⁴⁴ The British, worried that local diamond marketing would end in diamonds reaching the Germans, counted on their

arrangement with Ben-Ami but did not expect the conflicts over resources and space the diamond venture provoked. Ben-Ami, on whom the new member-manufacturers were so dependent, conceived the industry as a monopoly but took for granted their restraint. It was an enterprise under state auspices and strict hierarchy but impregnated with entrepreneurial energies and driven by motivations and quest for quick gain that could not be easily streamlined.⁴⁵

However, the more serious contestation to developments in Palestine came from without. As we saw earlier, the plan to bring diamond experts from Antwerp to Netanya brought in spring 1940 meagre results, and many found their way during 1940–1941 to other cutting centers. The London center in particular became ever more associated with developments in Palestine as rough stones from the DTC replaced the prewar Belgian dealers as the source of Palestine's supplies. By the first year following the German occupation, some fifteen thousand Belgian refugees gathered in England, and in October 1940 a Belgian government-in-exile was established in London. From spring 1941 the confiscation of diamonds in Antwerp and the exploitation of the cutters' and polishers' labor force intensified. In London itself refugee diamond cutters were mobilized for the war effort and they were joined by the silversmith and jewelry infrastructure of Birmingham and other British cities. For the exiled Belgians and their government the problem now was how to save their diamond industry and secure its recovery after the war. The information on Palestine's advance spread very quickly and the other cutting centers seemed to progress too quickly—in Palestine with British support and in New York with the help of the Diamond Dealers' Club.⁴⁶

In this context two renowned diamond merchants from Antwerp, Romi Goldmuntz and Herman Schamisso, conceived of the COFDI idea.⁴⁷ The two, who were also involved in winter 1940 in the plan to send diamond experts to Palestine, knew how to read the challenge posed by Palestine's specialization in small stones and the growing American demand of stones cut and polished there. In responding to the emergence of the Palestine challenge and in order to secure the support of De Beers for a scheme to safeguard Belgian postwar interests, they established in October, with the help of Antwerp mayor Camille Huysmans and Camille Gutt, the finance minister of the Belgian government-in-exile, the Correspondent Office of the Belgian Diamond Industry (COFDI). Using the enormous amount of diamonds the British seized during the 1940 sea blockade, and relying on the common interests of England and Belgium in future diamond production and trade, the project installed diamonds at De Beers vaults to be guarded until the end of the war.⁴⁸

Aiming to save the Antwerp diamond industry from total disaster, COFDI's way of working was not only to reserve diamonds for polishing

but also to maintain contacts among the refugees in the various centers and help them materially and mentally so they would return to Belgium after the war. Diamond experts in Palestine and New York were expected to do so as well. COFDI became therefore a sort of a diaspora organization that lobbied persistently against enlarging rough-diamond supplies to these centers, and in the last resort entailed also a Belgian national stance.⁴⁹ In a strange way both in Netanya and in London the same pattern emerged, of capital and state cooperating to advance a business from which both benefited. In London Goldmuntz represented capital and Huysmans the state; in Palestine, Ben-Ami and Walsh respectively. The two projects were linked together by the MEW (and the Royal Navy) pursuing smuggled, black-market, and confiscated diamonds that multiplied during the war conditions, and were partly sent by Germans from Portugal and Spain for sale on the American market.⁵⁰

It was against the threat of conflict among the member-manufacturers and the impact on the British of the pressure from London that the PDMA moved in 1941 to enhance control over the factories. The free movement of experts between the factories was further restricted, and the regulation of the recruitment policies of its members and the production of their factories was tightened. Evidently, the British authorities were not blind to the challenge Palestine began to pose to the "limited expansion" principle and to the logic behind COFDI's response; and Fletcher and Walsh, who oversaw the industry on behalf of the government, took care to make Ben-Ami and the PDMA aware of the limits they were on the verge of crossing. PDMA members would now be repeatedly reminded that they should conform to the rules laid down in summer 1940 and, no less significant for the freedom of action, avoid the temptation to buy diamonds directly from dealers in South Africa or to market polished diamonds in Palestine and the Middle East. "In its infant stages," Fletcher ordered the PDMA in June 1941, "the industry shall be strictly controlled, not only in respect of supplies of raw material, but also in the disposal of finished products." Manufacturers were therefore "required to keep accurate records of all stages of manufacture," and warned that "in the interests of the manufacturers themselves it is not desirable, so long as adequate demand exists in the U.S.A. for diamonds manufactured in Palestine which can be supplied by the manufacturers themselves, that any such diamonds should be disposed of on the local market and this is accordingly prohibited."⁵¹

Without the regimentation by the PDMA, steady supplies from the DTC—where COFDI focused its lobbying—was endangered and Palestine was threatened with a "diamond famine."⁵² Consequently in spring 1941, while the screening of new members was still on its way, the PDMA decided to clarify the definition of its membership. At the heart of the re-worked definition was the wish to prevent the industry from splintering

into small workshops, and therefore the ideal member was fixed to have no less than fifteen diamond-cutting machines. Significantly for the corporate culture, Ben-Ami stated that the new rules aimed to encourage new factories, know personally the members and their work experience, and more significantly assure high quality of production. While the regulations allowed new members to join the PDMA and accept all the privileges without discrimination, they also fixed a transition period of two months' candidacy before becoming permanent members. The new regulations, well inspected by the government, also redefined the power relations in the PDMA and voting procedures. As the factories were partnerships (an average of three owners per factory in mid-1943) each factory was given the right for two votes in the PDMA's assemblies. Moreover, in September 1941 PDMA screening of new candidates stopped completely. The official reason given was the need to finish the training of the apprentices already admitted. In reality the halt, which was to last until winter 1942, reflected the signals Palestine had been receiving from Jerusalem and London that the industry was pushing its accepted limits of expansion.⁵³

Looking back at their industrial and managerial experiences in Antwerp, the experts and manufacturers who took part in establishing the new diamond-cutting center in Palestine could outright sense a difference in the extent of government intervention and the power of the monopoly. Managerial hierarchy, organizational centralization, and disciplining of the individual member-manufacturers were becoming the hallmark of the monopoly of the PDMA and a divergence from the tradition to which they were loyal. If through the establishment of the industry the Colonial Office and the British government explicated a new phase of intervention in Palestine's economy, in the PDMA's monopoly, and in its underlying logic of limited expansion, their impact was wider. Under their auspices and in service of the needs of an empire in war sprouted a capitalist project that could use the colonial umbrella to control an economic niche and attain extensive organizational power. Palestine had hardly known before such a type of employers' association or manufacturers' conglomerate. It was not surprising perhaps that the locus of the project was in the Netanya area, a sort of local frontier that was itself in transition from plantation to town, where new forms of relations between state and capital could be experimented with.⁵⁴

The corporate organization of capital served well the forces that asked to shape this protected industry in accordance with their interests. Moreover it catered to the aims of Ben-Ami, who asked to harness the diamonds to his goals of municipal development. Despite the scathing criticism by some members of the PDMA over centralization and over the constraining of their principled economic liberalism and their freedom of business action, it nevertheless served them well. It provided their ventures with

British protection and organizational backing. It tied them to steady supplies of raw materials and external sources of demand for their produce. Moreover, it shaped for them an organizational and club-like cultural environment that transformed them, at least in self-image, from ordinary investors and manufacturers into a distinct group of nation-builders and respected businessmen. Above all the organizational power of the PDMA set novel international and local standards—internationally, in inventing a new business tradition; locally, in setting a precedent. In Ben-Ami's perception he was building not just a powerful association of manufacturers vis-à-vis the market and the authorities, but, as we shall see later, also against labor.⁵⁵

As a regimented grouping of capital-owners and manufacturers, the PDMA also harbored a potential threat to Britain's and De Beers's concept of restrained development. Its monopoly enabled the PDMA to frame a manufacturing system that was authoritarian but also conducive to focused economic performance. Though the British began to enjoy the income of dollars gained from Palestine's gradually increasing export of polished diamonds to the US, they never imagined the profitability rates and the personal gains that would soon be accrued by the PDMA's members, and so close to the birth of the industry. While deeply involved in the PDMA's organization and culture of regulations and restrictions, the British suddenly realized that the organizational entity they gave birth to was turning into an uneasily tamed creature that used the British shield but also disliked its fetters. This challenge to Mathias's original notion of limited expansion will be better understood by turning now from the diamond manufacturers to the labor process in the factories, and to the diamond-cutting experience itself.⁵⁶

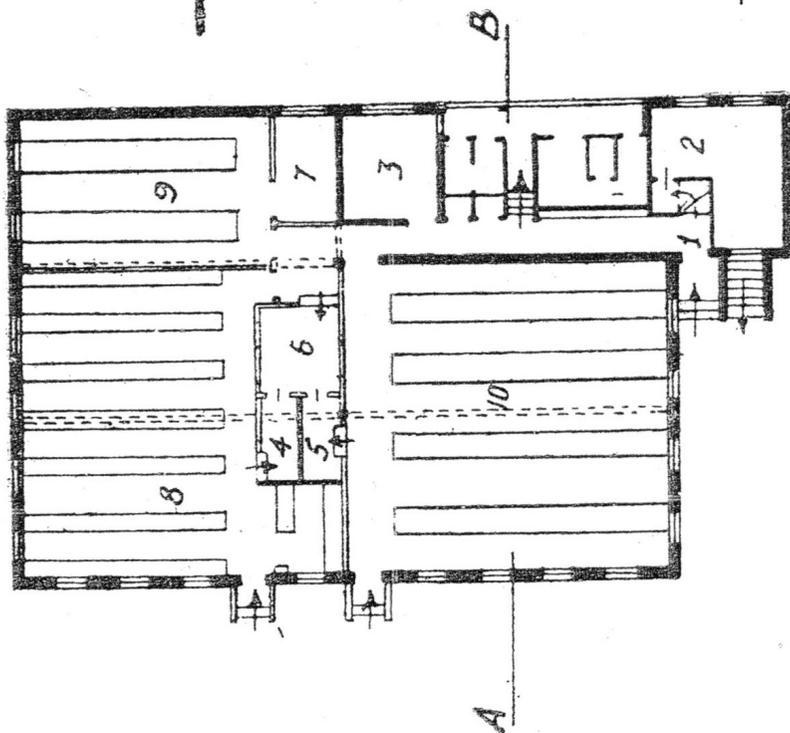
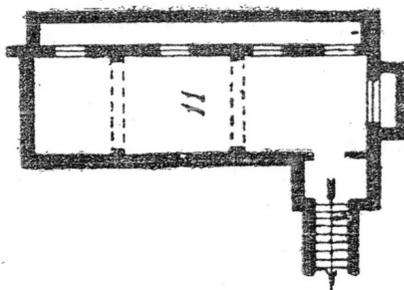
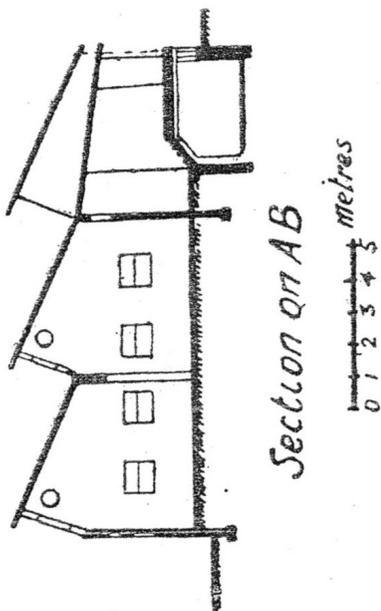


Illustration 2.1.
Plan of Palnat
diamond factory in
Netanya by Architect
Yehuda Magidovitch
(1886-1961).

Source: Paul Grodz-
insky, *Diamond Tech-
nology: Production
Methods for Diamond
and Gem Stones*.
London, 1942.



Illustration 2.2. a diamond factory in Tel Aviv, 1945.

Source: Emil Schmorak, *Palestine's Industrial Future*. Jerusalem, 1946.