Israel Economic Review Vol. 21, No. 2 (2023), 139-148

REVIEW OF "ECONOMICS, LAND AND NATIONALISM: ISSUES IN ECONOMIC HISTORY AND POLITICAL ECONOMY IN THE MANDATE ERA AND THE STATE OF ISRAEL" BY JACOB METZER

REUBEN GRONAU

Recently, we have been fortunate to have Jacob (Kobi) Metzer assemble and translate some of his English publications over the last 50 years into Hebrew. The collected essays appeared in Hebrew under the title "Economics, Land and Nationalism: Issues in Economic History and Political Economy in the Mandate Era and the State of Israel".[1] It is almost impossible to review such a wide range of articles summarizing, in its way, the career of one of the more influential members of the Israeli group of economic historians. This, as Kobi asserts in the introduction, is not a summary but an attempt to close a door on some of the issues that have troubled him over his rich half-a-century career. He addresses a broad range of issues, including the interactions between the Jewish and the Arab economies during the British Mandate era, the impact of World War II on the economy of Palestine, the Zionist land regime during the Mandate era and the land regime in Israel, the Jewish employment status in the diaspora, Mandatory Palestine, and Israel, (concentrating on the extent of self-employment), the special features of the Jewish "colonization" of Palestine and their parallels in world history, and more. Needless to say, pointing out the novelties in the various papers is an impossible task. Suffice it to say that this is an important addition to the ever-growing economic literature on the economy of Palestine over the last 150 years. The book provides a magnificent chapter in the tradition started by the Fifth-Aliya members (e.g., Dusterwald-Dorot, Grunbaum-Gaathon and others) 90 years ago, followed by Palestine: Problem and Promise, the book authored by Nathan, Gass and Creamer, and the first generation of the Hebrew University economists, led by Szereszewski and Gross. As the list of references of this book (which ranges over 34 pages) testifies, this is a story written by so many, and Kobi is clearly one of their leaders.

This paper will discuss, therefore, only the book's first two chapters, which are dedicated to an overview of the economic interactions between the Jewish and the Arab sectors during the Mandate Era. I will try to summarize the main results, and follow up with their sequel—the story of the Jewish and the Arab sectors in Israel. This story is clearly too intricate to be told in a short book review, and I will focus, therefore, only on two of its major components—the demographic change, and the change in the standard of living of the two populations.[2]

[1] Published by The Hebrew University Magnes Press, 2023. Reuben.gronau@mail.huji.ac.il

[2] A much wider discussion of the economy of the Arab sector can be found in the recent survey written by N. Kaliner-Kasir and E. Yashiv ("The Arab Economy in Israel") which

Kobi's main findings are described in Table 1. The table illustrates the demographic and economic dynamics of the mandate time. Immigration was the source of an extremely high rate of growth of the Jewish population (at an annual rate of 8.5 percent), and increased the share of the Jewish population over the period 1921–47 from one-tenth to one-third. Jewish immigration and capital inflow were major sources of economic growth in the Jewish community, increasing its share in Palestine's Net Domestic Product (i.e., National Income) from one-fifth to over one-half. The growth in output was the result of the demographic change as well as the changes in the industry composition (i.e., the increase in the service industries and manufacturing at the expense of agriculture), the change in the professional composition, and the size of capital inflow. The annual rate of growth of the Jewish income per capita during the inter-war period (4.8 percent) placed the Jewish sector as the fifth fastest growing economy of the "advanced" world, where the only countries enjoying a faster growth were 4 European countries whose economy had been devastated by World War I, and Venezuela, due to its oil discovery.

Still, as shown in the appendix table of Chapter 1, which ranks 48 countries from all 5 continents by income per capita in index terms (US=100), the income per capita of the Jewish sector in Palestine on the eve of World War II was relatively low by Western standards. According to the table, the Jewish income per capita in Palestine was below the median of the 48 countries, and below all European countries, except only for Yugoslavia and Romania. The list, consisting of 48 countries (belonging to all five continents), included 27 countries that belong nowadays to the Organization for Economic Cooperation and Development (OECD). Using these countries as a reference point, the Jewish population in Palestine stood in 1939 in 24th place, followed only by Romania, Mexico and Turkey.

The Arab population of Palestine did even worse. According to the Appendix, it was at the bottom of the table, followed only by China and India, and below Egypt and Turkey, whose population in 1939 enjoyed a standard of living (as measured by income per capita) that was 60–80 percent higher than that of Palestine's Arabs.

Finally, according to Table 1, the Arab average income per capita in 1922 was over one-half of the Jewish one, but due to the differential growth rates it deteriorated to 40 percent of the Jewish income per capita in 1947.

appeared in A. Ben-Bassat, R. Gronau and A. Zussman (eds.) *The Israeli Economy 1995–2017 – Lights and Shadows in a Market Economy* (Cambridge University Press, 2021).

Table 1
Population and Product, Palestine, 1921 – 1947

		Jews	Arabs	Total
Population				
Population at the End of Year (Thousands)	1921	74.7	666.1	740.8
	1947	630.0	1,340.3	1,970.3
The Share of Total Population	1921	10.1	89.9	100.0
	1947	32.0	68.0	100.0
Population Growth	Thousands	555.3	674.3	1,229.5
1922–1947	%	45.2	54.8	100.0
Annual rate of Growth	%	8.5	2.7	3.8
Domestic Product				
Net Domestic Product in 1936 Prices (Thousand LEIs)	1922	1,732.0	6,628.0	8,360.0
	1947	38,532.0	32,345.0	70,877.0
Share of Net Domestic Product (percent)	1922	20.7	79.3	100.0
	1947	54.4	45.6	100.0
Annual rate of Growth	%	13.2	6.5	8.9
Net Domestic Product (NDP) Per Capita				
Net Domestic Product (NDP) Per Capita in 1936 Prices (LEI)	1922	19.3	10.1	
	1947	62.4	24.7	
Annual rate of Growth	%	4.8	3.6	

Source: Table 1-1, Metzer, P. 15.

Kobi's story is based on a variety of statistical sources: data assembled by the Mandate authorities, data collected by the Jewish Agency and other Jewish sources, and the estimates of previous economic historians. To tell the sequel—the story of the demography and the standard of living of the Jewish and Arab population over the last 7 decades in the State of Israel—one has to rely on the information provided by the Israeli Central Bureau of Statistics (ICBS). The easy part of this story relates to the demographic part. Table 2 demonstrates the demographic impact of the Nakba. The population of the State of Israel in 1948 was only one-half that of the population that inhabited the Mandate borders one year earlier. The Arab population that constituted over 2/3 of the Mandate population was decimated to less than one-fifth of the population of the State of Israel in 1948.[3] The table illustrates the impact of immigration and natural growth on the Israeli population, which led to a population increase of more than ten-fold over the 73 years, placing Israel in first place among advanced countries in terms of demographic change (with an annual rate of growth of 3.3 percent). Still, in spite of the rapid Jewish growth due to the waves of immigration from Europe, North Africa and

[3] Part of them living outside the Israel's borders, and part of them leaving during the wartime.

the Middle East and the ex-USSR countries, the Arab growth rate, based solely on natural growth, exceeded that of the Jewish population (3.6 percent vs. 3.2 percent). The differences in education levels of the two populations seem to be the main explanatory variable of these differential trends.

Extending the economic part of the story is a much more ambitious task. The first part of this task seems easy. Kobi used Szereszewski's Consumer Price Index (CPI), revised by a newly constructed rental price index, to translate the 1922 and 1947 National Income estimates into 1936 Palestine Pounds (LEI - לא"י).[4] It is only natural to bring these estimates up to date by translating them into 2021 NIS (New Israeli Shekels). Table 3 describes the increase in output in 2021 prices.

Table 2
The Population of Palestine and the State of Israel, 1921–2021

		Jews	**Arabs**	**Total**
Population at the End of Year (Thousands)	1921	74.7	666.1	740.8
	1947	630	1,340.3	1,970.3
	1948	758.7	156	914.7
	2021	7,455.1	1,997.8	9,452.9
Share of Total Population	1921	10.1	89.9	100
	1947	32	68	100
	1948	82.9	17.1	100
	2021	78.9	21.1	100
Population Growth (Thousands)	1921–1947	555.3	674.3	1,229.5
	1948–2021	6,696.4	1,841.8	8,538.2
Annual rate of growth (percent)	1921–1947	8.5	2.7	3.8
	1948–2021	3.2	3.6	3.3

The translation of the Mandate data expressed in Palestine Pounds of 1936 into 2021 NIS requires multiplying them by 155–the CPI increasing by 1.555 million and the rate of conversion being 1 NIS = 10,0000 LEI.[5] Table 3 shows that the Net National Product in

[4] J. Metzer and O. Kaplan, *The Jewish and the Arab Economy in Mandatory Palestine: Product, Employment and Growth* (Maurice Falk Institute for Economic Research in Israel, in Hebrew, 1990), pp. 175-177.

[5] We used as the price deflator the CPI. The use as a deflator of the price index of National Accounting hardly changes the results. The CPI changed 3.2-fold during the Mandate period 1936–1947. It increased by a factor of 36 during the next 30 years, increased by a mind-boggling factor of 2783 during the inflationary decade 1977–1987, and slowed down to a factor of 6.6 over the last 34 years (1987–2021).

The LEI was converted in 1980 into the shekel at a rate of 1:10, and was converted, in its turn, as part of the policy to halt inflation in 1985, into the New Shekel (NIS) at a rate of 1:1000.

current prices at the beginning of the Mandate times (in 1922) was equivalent to NIS 1.3 billion, and by end of that period (in 1947)—NIS 11 billion.

The lower part of the table testifies to the remarkable growth Israel underwent as an independent state. Rather than using (like Kobi) the estimates of Net Domestic Product (NDP), most modern bureaus of statistics report the Gross Domestic Product (GDP). The difference between the two estimates is the estimate of depreciation, which is prone to manipulation and inaccuracies, and weighs about 23–25 percent of GDP. The earliest estimate of ICBS relates to the GDP of 1950. According to Table 3, this estimate is more than twice as large as Kobi's estimate of the 1947 NDP. The difference may seem bewildering at first. But recalling that depreciation accounts for about one-third of NDP, that the Jewish population between 1947 and 1950 almost doubled (by the end of 1950 it was almost 1.2 million), and that the government expenditures (especially in the field of social security, housing and immigrant absorption) were substantially higher than those of the Mandate government and the Jewish National Institutions, the 1947 and 1950 estimates seem consistent. As shown by the table, the growth process in the first 25 years following the establishment of the state not only did not slow down, but even accelerated to a rate of 9.3 percent p.a. This extremely fast rate was halted abruptly following the 1973 Yom Kippur war, slowing to an average rate of 4 percent thereafter.[6] As a result of this rapid growth, Israel's GDP (in 2021 prices) grew over the 71 years by almost 67 times, from NIS 24 billion in 1950 to NIS 1.6 trillion in 2021.

Table 3
Palestine's and Israel's Domestic Product
1922 - 2021 (in 2021 Prices in NIS Million)

	Year	**Total**
Net National Product	1922	1,297
	1947	10,998
	1950	23,667
Gross National Product	1973	199,450
	2021	1,578,038
Average Annual Rate of Growth (percent)	1922–1947	8.9%
	1950–1973	9.3%
	1973–2021	4.0%

The same trends are also reflected in Table 4 describing the increase in product per capita.

[6] Kobi struggled with the explanation of the slowdown in his paper "The Slowdown of Economic Growth in Israel: A Passing Phase or the End of the Big Spurt?" in Yoram Ben-Porath (ed.), *The Economy of Israel: Maturing through Crises.* Cambridge, Mass.: Harvard University Press, 1986, pp. 75–100.

The rate of growth of product per capita, which was among the highest in the world during the Mandate times, accelerated to a rate of 5.3 percent in the State of Israel over the period 1950—1973, slowing down to a rate of 2.1 percent after the Yom Kippur War. In the period 1922–2021, annual product per capita in 2021 prices grew almost 85-fold—from approximately NIS 2,000 to a level of NIS 170,000.

Table 4
Palestine's and Israel's Domestic Product per Capita
1922 - 2021 (in 2021 Prices in Thousand NIS)

	Year	Total
Net National Product per Capita	1922	1.8
	1947	5.6
Gross National Product per Capita	1950	18.7
	1973	60.8
	2021	168.5
Average Annual Rate of Growth (%)	1922–1947	4.7%
	1950–1973	5.3%
	1973–2021	2.1%

Note: The 1922 NDP per capita was calculated by the author using Metzer's estimate of the Palestinian population at the end of 1921.

One of the main challenges facing Kobi (and his collaborator in the 1990 study—Oded Kaplan) was the estimate of the economic indicators of the separate sectors, the Jewish and the Arab. Their mission was assisted by the almost complete separation of the two sectors. According to the authors' estimate at the eve of the complete separation between the sectors during the 1936–39 Arab revolt, only one-seventh of the Arab output was "exported" to the Jewish sector, and only about 7 percent of the Jewish sector's output went in the opposite direction. Consequently, it was natural to regard the two sectors as separate economies. Economic researchers of the period were aided also by the separation of the statistical systems, the reports of the Mandatory Statistical Offices and those of the Jewish Agency, allowing the separation of the information on Arab economic activity from the Jewish one. The researcher of the Israeli economy does not enjoy such a luxury, since, as of 1966 and the abolishment of the military regime, the economic activity of the Arab population has been fully integrated with that of the Jewish sector.

The statistical reporting of the Arab economic activity has expanded over the years. Whereas in the first Israeli census, in 1948, the ICBS included the Arab population only in the Census's first stage (the report of the demographic characteristics) and the economic data collected at the second stage was confined to Jewish households, the 1954 Labor Force Survey included the Arab population as well, and the 1961 Census collected data on the Arab economic activity too. Unfortunately, though, these data included information on the Arabs population's education level, labor supply, housing conditions, and the ownership of durables, but did not include information on their income.

Income questions, and questions on households' consumption, were the focus of the Survey of Household Consumption inaugurated in 1956–57. The Survey sample in the first two rounds (in 1956–57 and 1959–60) was too small to yield reliable estimates for the Arab population, and therefore the first estimate we have on the money income of Arab urban employees relates to 1967 (based on the 1968–69 Survey). These are the estimates shown in Table 5. The early consumption surveys were confined to the urban population (i.e., urban employees). This may bias our results since the majority of the Jewish population (over 90 percent in 1968) lived in cities, but less than half of the Arab population were urban.

Since 1997, the ICBS publishes the money income of the total population of employees (regardless of their place of living). According to ICBS, these surveys cover 97 percent of the population, with the exception of the Bedouin inhabitants of Southern Israel and Jews living in Kibbutzim. These data appear in the lower part of Table 5. The income data relies, therefore, on different sources. However, if there is a common trait that unifies the Mandate data and that of the Israeli Period it is that "Nothing has Changed"—there has been no dramatic change in the ratio of the income per capita of Arabs and Jews since the end of the Mandate period, and the Arab income per capita (however it is measured) is only 40–45 percent of that of the Jews. The gap is explained by the Arab lower household income due to the lower average schooling level, by the differences in occupational structure and the number of average earners in household, and, at the same time, family size. Economists of the Bank of Israel who have studied the issue quite recently, using a 2001–21 panel sample, reached the same conclusions.[7]

Still, Table 5 also contains a "surprise". Whereas the growth rate of the Jewish income per capita during the Mandate times exceeded that of the Arab one, things turned around in Israel, according to the ICBS, and the growth rate of income per capita of Arabs significantly exceeds that of Jews.

Finally, many economists believe that the standard of living (and households' welfare) are not absolute terms, but are determined relative to the household's reference group (Duesenberry's Relative Income Hypothesis), so the question arises "How Green was the Neighbors' Grass?"—or in other words, what were the Jews' and Arabs' income per capita rankings in the world order? To answer this question for the Mandate period, Kobi used the ranking of 48 developed and less developed ("developing") countries on the eve of World War II. As mentioned, according to this ranking, the Jewish population of Palestine in 1940 was in 29th place, whereas the Arab population, the 47th.

[7] The Bank of Israel Annual Report 2022, Ch.7 (March 2023).

Table 5
The Jewish and Arab Domestic Product (Annual Money Income) per Capita 1922 - 2021 (in 2021 Prices in Thousand NIS)

	Year	Jews	Arabs	Ratio
Net Domestic Product (Income) Per Capita	1922	3.0	1.6	52%
	1947	9.7	3.8	40%
Per Capita Money Gross Income in Urban Households of Employees	1967	21.2	8.2	39%
	1983	25.6	11.8	46%
Per Capita Money Gross Income in Households of Employees	1997	53.3	20.6	39%
	2021	84.3	38.5	46%
Average Annual Rate of Growth (%)	1922–1947	4.8	3.6	
	1967–1983	1.2	2.3	
	1997–2021	1.9	2.6	

Israel joined the OECD in 2010, and since then it uses the economic performance of the OECD countries as a reference point to measure its own success. The list of the 38 OECD countries includes 27 that were included in Kobi's sample.[8] In this list, as shown in the left side of Table 6, the Jewish sector in Palestine ranked 24th (ahead of Romania, Mexico and Turkey). Had we added the Arab sector in this table, it would have ranked last, with an income per capita that was only about half that of Turkey.

Table 6 demonstrates the long way Israel has traveled since World War II. According to the OECD ranking of 2021 based on GDP per capita, Israel was in 12th place, in line with Finland, Austria, Canada, Belgium and Germany, and ahead of New Zealand, the UK, France, Japan, and Italy. Comparing the two left parts of the table the relative income per capita of the Jewish population rose over the years 1940–2021 from about one-fifth to about three-quarters of that of the US.

Israel's 2021 rank is explained partly by the sharp appreciation of the NIS since 2002. Since it is not clear that this change affected the price level, Table 6 presents also the 2021 ranking according to the GDP per capita adjusted for the 2017 Purchasing Power Index (PPP).[9] The correction for the cost of living, as expected, lowers Israel's 2021 rank from 12th place to 18th, Israel's per capita purchasing power being about 2/3 of that of the US.

Table 6 describes the 2021 standard of living of the average Israeli consumer, and does not relate to ethnic background. Assuming the Arab population constitutes about one-fifth of

[8] The OECD list includes five countries that were not included in Kobi's list: Iceland, the 3 Baltic countries (that were under Soviet regime) and the Slovak Republic (that was part of Czechoslovakia). In contrast, 13 South-American, 5 Asian (including India and China), and 2 European countries (Yugoslavia and Bulgaria) that were included in Kobi's list did not make it to the OECD.

[9] For the effect of the rate of exchange rate change on the PPP see my paper "Israel's Schizophrenic Price Policy 1996-2017", Falk Institute Discussion Paper 23.01E, Feb. 2023.

the population, and that its income per capita is about one-half of the Jewish one, the Arab consumer enjoys an income per capita that is about 55 percent of that described by Table 6.

Table 6
The Ranking of OECD Countries in Terms of GDP (Income) Per Capita 1940, 2021
(US = 100)

Rank	Income Per Capita 1940		GDP Per Capita, Current 2021 $		GDP Per Capita, Constant 2017 PPP $	
1	United States	100.0	Luxembourg	190.2	Luxembourg	181.7
2	United Kingdom	81.7	Ireland	142.6	Ireland	161.0
3	Switzerland	80.3	Switzerland	131.0	Switzerland	111.6
4	Sweden	78.7	Norway	126.9	Norway	103.1
5	Australia	72.7	United States	100.0	United States	100.0
6	New Zealand	71.5	Denmark	96.8	Denmark	91.0
7	Germany	70.9	Sweden	86.9	Netherlands	88.9
8	Canada	70.2	Australia	86.0	Austria	85.0
9	France	63.1	Netherlands	82.2	Sweden	84.2
10	Denmark	61.0	Finland	76.4	Germany	83.5
11	Netherlands	61.0	Austria	76.4	Belgium	81.3
12	Luxembourg	51.3	**Israel**	74.3	Australia	78.2
13	Norway	50.4	Canada	74.0	Finland	76.6
14	Belgium	47.1	Belgium	73.0	Canada	75.2
15	Japan	46.5	Germany	72.9	France	70.7
16	Ireland	44.8	New Zealand	69.4	United Kingdom	70.6
17	Italy	44.7	United Kingdom	66.2	New Zealand	67.4
18	Chile	39.3	France	62.1	**Israel**	66.1
19	Finland	33.2	Japan	56.0	Italy	65.9
20	Austria	30.0	Italy	50.8	Japan	64.1
21	Greece	28.6	Czech Republic	38.2	Czech Republic	64.0
22	Czechia	24.2	Greece	28.7	Hungary	52.8
23	Hungary	22.6	Hungary	26.7	Turkey	49.4
24	**Palestine (Jews)**	19.2	Chile	23.2	Romania	48.3
25	Romania	15.5	Romania	21.2	Greece	46.4
26	Mexico	13.5	Mexico	14.3	Chile	40.0
27	Turkey	13.3	Turkey	13.8	Mexico	30.0

If we ignore the cost of living, this implies that the Israeli Arab income per capita is about 40 percent that of the US. This standard of living would have placed the Israeli Arab in 21st place in this table, ahead of the ex-Eastern block and the Latin America countries. This level of income per capita is 3 times that of the Turkish consumer.

According to the World Bank data, Israel's GDP per capita in 2021 was $52,000. Hence, according to this calculation, the GDP per capita of Israeli Arabs would be about $29,000. This is significantly higher than the GDP per capita of the Arab countries that are not oil exporters, the GDP per capita of Egypt, Jordan, Iraq, Iran, Lebanon and the North-African countries being less than $5,000. The Israeli Arab's estimated GDP per capita also fares reasonably well compared with the oil exporting Arab countries. It is lower than that of the United Arab Emirates and Qatar, but is higher than that of Saudi Arabia ($23,000), Oman and Bahrain (not to mention, Libya). It is only reasonable that had we used the PPP corrected estimate the picture would have been less rosy, but the ICBS data do not allow the separation of the price levels facing Jews and Arabs.