V. The Palestinian Economy
19th Century Jerusalem

Jerusalem is holy to the three great monotheistic religions. This nineteenth-century lithograph by David Roberts, seen from the Mount of Olives, shows sites venerated by Jews, Christians, and Muslims.
Outline

1. History:
   - Islam & Crusades
   - Ottomans and Colonialism
   - British
   - Jordan & Egypt

2. 1948: Israel, Palestine and Refugees

3. Why doesn’t the Palestinian Economy Grow?

4. The Current Crisis
1. History – Islamic Conquest

• We last visited the Holy Land in the Roman period, discussing the early Christians.

• Fast forward to Islamic Empire: In 638, Islamic armies captured Jerusalem.
  - Build Al Aqsa Mosque and Dome of the Rock
    - oldest monuments in Islam
    - on the site of the ancient Jewish temple destroyed by Romans (remember them?)

• After Mecca and Medina, Jerusalem is the third holiest city in Islam, the site of the prophet’s ascent to heavens and the original direction of worship.

• Forcible conversion only applied to pagans, so Christian, Jewish and others remained as protected minorities
  - paid a special poll tax in exchange for protection (remember Coase?)
Layers of history
History – Islam and Crusades

- 1076: Seljuk Turks reportedly desecrate Christian holy places, act brutally to pilgrims
- 1099: Crusaders capture Jerusalem at urging of Pope Urban II
  - massacre Muslim and Jewish residents
- Latin Kingdom of Jerusalem established, poll tax (of Muslims and Jews) and relative tolerance returns with a secure government
  - Coase and hostage theory, human rights
- 1187: Saladin defeats Franks, recaptures Jerusalem, tolerant of Christians, including pilgrims
- Subsequent Crusades manage to conquer parts of Palestine, but never Jerusalem
Ottomans and Colonialism

• For most of the next millennium Palestine is a quiet, dusty province of successive Islamic empires, including the Ottoman, sometimes jurisdictionally part of Syria or Lebanon

• Feudal agriculture
• Trading through ports at Jaffa and Haifa
• Small streams of Christian, Muslim and Jewish pilgrims come to Jerusalem

• Europeans in the meantime colonize Egypt and Lebanon, along with most of the world, East to the Philippines and West to California but had never bother with Palestine.

- Why? (Hint: it’s the __________, stupid.)
Quick, spot the Economic Resources
British and French

• Ottoman Empire collapses at end of WWI: France gets Lebanon and Syria, British gets Iraq and Arabian Peninsula, including Palestine. Neither are very enthusiastic because there are few resources to exploit.

• So they started giving parts away..

• France carved Lebanon out of Syria in an attempt to create a country with a Christian majority (- that lasts for only a few generations)

• Britain carved Jordan out of Palestine to reward wartime ally Amir Abdullah

• Quiz: Why are Lebanon and Syria Republics, while Jordan, Iraq and Egypt started out as monarchies with parliaments?
British Mandate and Zionism

• After WWI League of Nations granted British a Mandate over Palestine while the world figured out what to do.
• Zionism is a Jewish nationalist movement begun in Europe in late 19\textsuperscript{th} century
• Large Zionist emigration from Europe to Palestine, beginning at turn of 20\textsuperscript{th} century
  - established agricultural settlements, introducing European agricultural methods
  - urban service and manufacturing economy, introducing mechanized manufacturing
British Mandate - Population

• Palestine became the most competently governed economy in the region, with the most investment, flourishing economically
• 1929: Palestine has ¾ million residents,
• 1939: Population had doubled to 1.5 million (of which ½ million Jews) mostly due to immigration of Jews from Europe and of Arabs from surrounding countries
  - emigration mostly to urban neighborhoods,
    including mixed Arab/Jewish neighborhoods
• 1947: 1.2-1.3 million Arabs, 2/3 rural, often in villages of small farms with absentee landlords, economic autarky
  1/3 urban in workshops, trade, services
  0.6 million Jews, mostly urban
British Mandate and WWII

• 1932: Nazis elected in Germany, increased Jewish immigration
• 1939: WWII begins
• 1941-45: Nazis kill 6 million Jews,
  - quotas on Jewish refugee emigration in allied countries, including Palestine
• 1947: United Nations votes to partition Palestine into Jewish and Arab regions [map] with Jerusalem and Bethlehem as international zones.
  Jews accept partition, Palestinian leaders reject it
2. 1948: Israel, Palestine and Refugees

- British leave
- Jews declare State of Israel on Jewish section
- Surrounding states invade from Arab sections
- Israel retains Jewish section and Western Galilee, East Jerusalem.
- Jordan controls the “West Bank” of Jordan river
- Egypt controls the Gaza “strip”
Refugees

Arab Refugees:
- During the war 600-750,000 Arabs fled or were forced to leave the area that became Israel (British Foreign Office estimates)
- They became refugees in the West Bank, Gaza and Lebanon - as many as 500,000 in the West Bank and Gaza
- 100,000 Arabs remained to become citizens of Israel

Jewish Refugees:
- By 1957 Israel’s Jewish population increased by 1 million, mostly because of migration from
  a) newly dangerous nationalist governments in Arab countries
  b) displaced persons camps in Europe
  c) communist countries of Eastern Europe

- From 1949-1967 Jordan administered the West Bank while Egypt administered Gaza
- Slow economic growth due to
  a) lack of investment in infrastructure and education
  b) weak government,
  c) lack of private investment
  d) high birth rates
  e) poor trade possibilities

1967: Israel won the war with a pre-emptive air strike against Soviets backed coalition of Syria-Egypt-Jordan-Iraq-Lebanon
- conquered the West Bank and Gaza
  - Combined population of 1m

- Palestinian Economy still suffers from:
  a) lack of investment in infrastructure and education
  b) weak government,
  c) lack of private investment
  d) high birth rates

BUT poor trade possibilities replaced with ability to export labor services to Israel yields rapid economic growth

Note that these relatively high wage jobs go only to men, so they do not affect birth rates
Why Slow Growth? 2000-Present

- Palestinian Economy still suffers from:
  a) lack of investment in infrastructure and education
  b) weak government,
  c) lack of private investment
  d) high birth rates
  e) Lack of trade possibilities as Israel closes borders to protect civilians from attack
### 4. The Current Crisis

<table>
<thead>
<tr>
<th></th>
<th>Household Income (monthly)</th>
<th>Employment in Israel (thousands)</th>
<th>Population</th>
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<tbody>
<tr>
<td></td>
<td>West Bank</td>
<td>Gaza</td>
<td>West Bank</td>
</tr>
<tr>
<td>Summer 2000</td>
<td>$730</td>
<td>490</td>
<td>60</td>
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<tr>
<td>February 2002</td>
<td>330</td>
<td>190</td>
<td>20?</td>
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<tr>
<td>April 2002</td>
<td>“Humanitarian Disaster”</td>
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</table>

Source: PCBS, April 2002.
Note: Poverty line is $360 for median family.
The Crisis: Priorities of Households

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<th>Gaza</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money</td>
<td>27%</td>
<td>39</td>
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<td>Job</td>
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<td>23</td>
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<td>Security</td>
<td>12</td>
<td>8</td>
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<tr>
<td>Food</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: PCBS, April 2002; Survey of 2/02.
The Crisis in Perspective

- During the Great Depression in the U.S. income fell by 1/3, unemployment peaked at 25% and exceeded 20% for only 3 years.
- Palestinian incomes have fallen by over ½, and unemployment may exceed 40%.
  - caveat on agricultural economy
- Aid per capita in Palestine was $215 in 2001 (World Bank).
What would it take to make Palestine economically viable?

- A government secure enough to attract private investors
- Open borders to benefit from trade with diverse economies
  - Egypt and Jordan aren’t diverse enough, Why?
  - Israel, the U.S. and Europe are more valuable trade partners
The future of trade with Israel?
What scares private investors?
(Kanaan 1998)

- Property rights are insecure
- Inputs and products are delayed at border
- Workers are delayed or blocked at checkpoints and border
- Government interferes with business decisions