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Jewish Agency, economic implications of UNSCOP report,
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ECONOMIC IMPLICATIONS OF THE UNSCOP REPORT

In its report the United Nations Commission has allotted a place of secondary importance to all the economic problems arising out of the partition of Palestine. The Commission has stated in the preface of the Report the Palestine problem to be primarily a political and human one. It is only natural, therefore, that the economic implications of their proposals have not been elaborated in detail, nor have they been considered with a full view of their bearings on the purpose, which has been before the eyes of the authors of the Report.

From the economic point of view the most important stipulation of the majority Report is the establishment of an "Economic Union" between the "Successor States". Its meaning is that the economic sovereignty shall not rest with the individual member State of the union, but with a body with overriding powers, called "Joint Economic Board". This body is entitled even to force upon the Jewish or the Arab State an economic policy against their will or interest. Such a situation is not unlikely to arise taking into account that the Jewish State will include a great proportion of Arab inhabitants and will control a third only of the votes of the Joint Board. If we remember that one of the primary motives for the Jewish aspirations towards statehood was the will to achieve sovereignty rights also in the sphere of economic matters, the curtailment of these rights along the lines of the Majority Report must cause grave concern. This has not yet been sufficiently realised by the public. For the next years, perhaps the next decade a primary task of the Jewish State will be to conduct economic policy in such a way as to make possible the rapid absorption of a Jewish mass immigration. The absorptive capacity is, however, closely related to the economic policy of the authorities from the top level to the lower grades. If in such matters the Jewish State is unable to follow an independent line of economic policy, the execution of a vital task will be enormously hampered.

Moreover, if there is such a substantial minority of Arabs living within the Jewish States, creating the well-known complications in the economic sphere, then the resulting situation will not be very different from that which prevailed in the pre-partition period; and constituted then one of the driving motives towards partition.

The advantages of a larger customs area are obvious but if they are

contingent upon concessions dangerous to the prosperity and capacity of growth of the country's economy, they must be very carefully examined before approval. The following observations are the result of these examinations with a view to presenting them to these conducting the negotiations before UNO.

1. According to the text of the UNSCOP Report an agreement is to be concluded between the two states with "provisions to establish the Economic Union in Palestine and to provide for other matters of common interest."
2. The term "Economic Union" is so wide that in its extreme interpretation it might mean the annulment of that independence which is to be achieved by a Partition. While, as we understand, the Jewish Agency is in principle prepared to accept the Union as such, it is clear from the outset that the term requires further qualification and limitation.
3. Our committee understands its task to the effect that it should, within the frame of the principles of an Economic Union, formulate such further definition and limitation which would make an Economic Union acceptable.
4. In this it may set out from the fact that the report itself has already endeavoured to apply such a limitation. * The following points are enumerated therein as the "objectives of the Economic Union":

"1. The Economic Union of Palestine.

The objectives of the Economic Union of Palestine shall be:

- (a) A Customs Union
- (b) A common currency.
- (c) Operation in the common interest of railways, interstate highways, postal, telephone and telegraphic services, and the ports of Haifa and Jaffa.
- (d) Joint economic development especially in respect of irrigation, land reclamation and soil conservation."

5. Our Committee need not, therefore, deal with any other points.
5. The legal form to be aimed at is that of an agreement between two states. Representatives or responsible administrators persons of both states will have to enter negotiations with one another with the aim of achieving an agreement on several economic problems which will do justice to the economic interests of both parties.

*Footnote:from the section "A Commentary on Partition":

"This limits therefore the functions with which the board can be clothed and confines them to such neutral services as communications, or to a function which, though carrying a political quality, is dictated by the necessities of the overriding interest of unity.

6. The negotiations are to be conducted within (by) a body to be called the "Joint Economic Board". In order to prevent a deadlock in these negotiations, representatives of the UNO, apart from the representatives of the two states, should also be members of this Board, so that majority decisions can always be obtained. Such majority decisions should be decisive concerning points (a) - (c) while concerning (d) the consent of both states shall be required.

7. The formal question, to what extent the so created legal authority shall or may act as a contracting party towards a third party instead of the two states, e.g. at the conclusion of agreement is doubtful, and we have for the time being left it open, here. Concerning the material question, however, i.e. as to the question of the matter with which the Board is to deal, it may be inferred that it is to deal solely with those "objectives of Economic Union", which are specifically enumerated under a) - d).

8. Our committee has first dealt with Point (a). They then took up their attitude towards (b) and (c) whilst (d) was not considered of immediate importance, as there we cannot be overruled by a majority decision.

As to Points (b) and (c), UNSCOP Report confined itself to their enumeration. As to Point (d) it pointed out the necessity of unanimous decisions. With regard to (a), however, - "Customs Union", the report supplies qualifying details.

9. The comprehensive introductory sentence of this qualification reads: "There shall be a common customs tariff with complete freedom of trade between the States and the city of Jerusalem."

The details following thereafter mention the establishment of a Commission consisting of representatives of each of the two states in equal numbers to draw up the tariff schedules ("the tariff schedules shall be drawn up by ..."), and finish up with fixing the distribution key for the customs revenue.

10. The drawing up of customs schedules has a double function:

a) a fiscal one and b) one of trade policy. In the report only the fiscal function is dealt with. From this it is clearly to be seen that UNSCOP was above all interested to determine the source from which the Arabic state might derive a secure revenue exceeding its own productive capacity. No attempt is made to conceal the fact that thereby the revenue of the Jewish sector are to be shared by the Arab

State. It is also for this reason that the drawing up of customs tariffs has been made subject to the principle of arbitration, and the percentage governing the distribution of the revenues was laid down.

11. As to the rate of distribution i.e. 50% mentioned in the Report we should reserve our attitude with regard to the rate though we might be prepared to accept the principle expressed herein; but such an acceptance must be limited in time and made clear as a definite good will concession on our part; and it will depend on the general attitude of the Arab State whether we after the lapse of the time specified shall continue to forego part of our revenue in its favour.

12. The fact, however, that the drawing up of the customs tariffs should be subjected to the principles of arbitration, implies a considerable intrusion into that autonomy which the Jewish State requires in order to adapt its economy to the needs of an increasing immigration ("absorptive capacity"). An attempt should accordingly be made to find a way of securing larger revenues for the Arabs, without the Jewish Economy having to run the risk of a disadvantageous customs tariff being drawn up.

13. This would seem even more logical in view of the fact that the purposes of trade-policy to be achieved by the drawing up of customs tariffs in themselves present only one aspect of the whole field of foreign trade relations. The whole of this field by far exceeds what the report laid down as the "objectives" of the Economic Union. In its entirety this field does not come within the scope of the Economic Board, but only in its partial aspects of customs and currency. At least this is unequivocally clear from the wording. Should, however, a broader intention lie behind the wording, i. e. the intention of placing the whole field of foreign trade relations within the scope of the Joint Board, then we could hardly express a grave enough warning not to agree thereto. Such enlargement of the "objectives" of the Economic Union would seriously endanger, or even frustrate, any control over and direction of the machinery for the creation of the Absorptive Capacity.

14. We not only recommend resistance against any attempt to extend the competence of the Economic Board, but we also recommend the utmost clarity in the definition of its limitations. We consider the limitation contained in the report - to the drawing up of customs tariffs excluding other ways of regulation of imports - without prejudice to the recommendations set out below to be acceptable in case of

need. It must then, however, be clearly understood that for example the question, control of imports and exports will be within the competence of the two different states, and not within that of the Joint Board.

15. We are living in times when the economic life is governed by the regulation of imports. The conception of "undesirable import" plays such an important part that we cannot ignore it here. We do not have to answer today the question of whether we do on principle recommend free or restricted imports, as for years to come it will be a merely theoretical question: practice imposes the regulation of imports upon nations.

16. The Jewish State must obtain the right to defend itself against undesirable imports from abroad. That is a demand which does not affect the interests of the Arabic State, for we do not intend to recommend a restriction of imports from the Arabic State.

17. If that is so, then the principle of "freedom of trade" between the two States and the "City of Jerusalem", which we do accept on the whole must be restricted to the products of the two States and the City of Jerusalem. Only in this way can the two states be protected against having their respective import policy thwarted by the other State. (A similar limitation existed within the Palestine-Syria Trade Agreement.

18. We further have to draw attention to the whole field of indirect taxation, which will undoubtedly be autonomously regulated by the States. Within this branch there fall matters such as fees, excise, duties, etc. The essence of these matters is, that they levied a tax on certain products produced within the country, before they reach the consumer. If then the Jewish state levies such taxes on e.g. beer, matches, salt, etc., which are produced within the Jewish State, it must be protected against producers, (Jewish or Arabic) in the Arabic State or in Jerusalem, where perhaps such taxes will not be payable, using the principle of "freedom of Trade..." in order to supply such products to the Jewish State at cheaper prices.

19. To the above mentioned limitation of this "freedom of trade" to products of the respective states, another limitation must accordingly be added: the right of the States to levy those contribution it levies on products in its own economy also on similar products in case they are to be imported, provided, of course, that

the products in question, are not subject to the same contribution in their country of production. (Beer, for example, which has been produced in the Arabic State, may be imported without any charge into the Jewish State if the Excise is just as high in the Arabic State as in the Jewish State; if it is, however, lower in the Arabic than in the Jewish State, then the Jewish State may levy the difference for its revenue. In practice this will of course bring about the fact that the Arabic State will not levy lower Excises than the Jewish state, which lies completely within the fiscal interests of the Arabic State.

20. While we believe that we may for the time being confine ourselves to these remarks regarding the original, as far as Point (a) is concerned, we have to add that the interpretation of a final sentence appended after the definition and description of the "objectives" of the Union, i.e. of the Joint Board, causes us difficulties:

"All international conventions and treaties affecting customs tariffs, communications and commercial matters generally shall be entered into by both States."

We were at first inclined, in view of its comprehensive formulation and of its place (at the end), to consider this sentence as a general clause dealing with the part Palestine plays in general, comprehensive, international "conventions and treaties": International railway or air traffic conventions etc. Being thus interpreted we would have no objections to this sentence. As, however, in the course of the discussions doubts were raised as to the correctness of this interpretation, it is necessary to arrive at a clarification of the matter.

21. There is a number of agreements which the Jewish State may and must conclude with other governments without their having the slightest connection with the economy of the Arabic State. Examples are Zionist Loan Agreements, Capital Transfer Agreements such as the Jewish Agency has just now concluded with Hungary. An enumeration of such cases justifies the apprehension that the above quoted sentence might really be thus interpreted ad absurdum. In any case we recommend, however, to amend the sentence as follows: "All international conventions and treaties affecting railways, ports and postal services as based on decisions taken by the Joint Board shall be entered by both States."

Should, however, the interpretation predominant amongst us be correct, and the sentence refer only to international conventions, then this change would be superfluous; on the other hand the term "international conventions" would then need further definition.