



# A History of Money in Palestine: From the 1900s to the Present

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A History of Money in Palestine: From the 1900s to the Present

A dissertation presented

by

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to

The History Department

in partial fulfillment of the requirements  
for the degree of  
Doctor of Philosophy  
in the subject of  
History

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## **A History of Money in Palestine: From the 1900s to the Present**

### **Abstract**

How does the condition of statelessness, which is usually thought of as a political problem, affect the economic and monetary lives of ordinary people?

This dissertation addresses this question by examining the economic behavior of a stateless people, the Palestinians, over a hundred year period, from the last decades of Ottoman rule in the early 1900s to the present. Through this historical narrative, it investigates what happened to the financial and economic assets of ordinary Palestinians when they were either rendered stateless overnight (as happened in 1948) or when they suffered a gradual loss of sovereignty and control over their economic lives (as happened between the early 1900s to the 1930s, or again between 1967 and the present). Finally, it explains how the sustained absence of a sovereign state and a sovereign currency of their own affected the Palestinians' economic behavior, and shaped their relationship to the monetary and banking apparatus of the various political regimes under which they lived.

The dissertation makes two broad arguments: the first is that not having a state, and access to sovereign institutions of their own, and, especially, not having a central bank and a sovereign currency of their own, rendered the Palestinians particularly, and repeatedly, vulnerable to being dispossessed of their financial and monetary assets. The second is that, despite this vulnerability, the Palestinians nevertheless showed themselves capable, again and again over the course of this century, of fighting for their economic rights, and of exhibiting a canny understanding as to how best to protect their financial assets from dispossession. While

they used a range of strategies to do so, one of the surprising conclusions that emerges from this work is the extent to which they turned to the law, and to the legal and judicial arms of the state, to seek protection against the executive and legislative arms of the same state, regardless of whether that state was Ottoman, British, Jordanian, or Israeli.

## Table of Contents

<i>Acknowledgments</i>	vii
<i>List of Figures</i>	xii
<i>List of Abbreviations</i>	xiii
<i>Note on Transliteration</i>	xiv
INTRODUCTION	1
CHAPTER 1: The Honorable Consuls Finn and Kayat	22
CHAPTER 2: Banks, Bonds, and Bankrupts	58
CHAPTER 3: The Case of the Frozen Bank Accounts of 1948	105
CHAPTER 4: The Arab Palestinians React	140
CHAPTER 5: The Lawsuits	169
CONCLUSION	231
BIBLIOGRAPHY	250

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## List of Figures

Figure 1: Partial list of lawsuits filed by Arab Palestinians against Banks (1937-1942)	74
Figure 2: The Arab Bank's balance sheets, 1935 and 1936	89
Figure 3: Deposits and loans at end of 1936: Foreign v local banks v Arab Bank in Palestine	90
Figure 4: Ottoman Bank's numbers for total Arab frozen accounts, as of November 1948	135
Figure 5: Estimate for total Arab frozen bank deposits as of November 1948	135
Figure 6: Palestinian trade and price indices, 1945 and 1946	136
Figure 7: Five ways to calculate the present value (2011 terms) of P£6 million in 1948	137
Figure 8: Estimate for number of frozen accounts as percentage of total Arab Palestinian population as of November 1948	149
Figure 9: Partial list of lawsuits filed by Arab Palestinians against Barclays Bank in 1953-4	190
Figure 10: Partial list of Arab Palestinians who received their "frozen" balances back from Barclays Bank	218
Figure 11: Partial list of Arab Palestinians who received their "frozen" balances back from Ottoman Bank	219
Figure 12: Percentage of total "frozen" Arab bank accounts released as of 3.31.1964	221

## List of Abbreviations

ACAJ	American Colony Archives in Jerusalem
BBA	Barclays Bank Archives
CZA	Central Zionist Archives
ISA	Israel State Archives
NA	National Archives (United Kingdom)
OFAC	US Government's Office of Foreign Assets Control
PA	Palestinian Authority
PLO	Palestine Liberation Organization
PP	Palestine pound
UNCCP	United Nations Conciliation Committee in Palestine
UNGA	United Nations General Assembly
UNRWA	United Nations Relief and Work Agency for Palestinian Refugees

## **Note on Transliteration**

For the purposes of consistency with sources used and quoted, I have retained all proper-noun spellings as they appear in the original archival materials when those materials are in English. For proper nouns which appear only in Arabic and Hebrew sources, I have followed the transliteration guidelines suggested by the International Journal of Middle East Studies (for Arabic) and the Library of Congress (for Hebrew). When the same names appear in Arabic that have also appeared in English archival sources, I use the transliteration used in the English sources.

For my parents



## INTRODUCTION

"In the end, money counts. No money, no country. No money, no weapons.  
No money, no life."

- Senior Israeli security official, commenting anonymously on the rationale behind the ban on all cash transfers into the Palestinian Territories imposed by Israel, the US and the EU in March 2006.<sup>1</sup>

Writing in the summer of 1950 “against a background,” as she described it, “of both reckless optimism and reckless despair,” Hannah Arendt disparaged what she saw as the gap between the rhetoric and reality of human rights discourse.<sup>2</sup> “The Rights of Man,” she wrote, “had been defined as “inalienable” because they were supposed to be independent of all governments; but it turned out that the moment human beings lacked their own government and had to fall back upon their minimum rights, no authority was left to protect them and no institution was willing to guarantee them.”<sup>3</sup>

The essential difficulty, as Arendt saw it, was that, no matter how loudly it proclaimed its adherence to human rights ideals, any state, even the most liberal of democracies, could, in reality, “alienate” groups of its own citizens from their supposedly inalienable rights by declaring them non-citizens; by depriving them of all or some protections ordinarily due citizens; by creating separate legal categories for them; or even, if it saw fit, as recent European history had

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<sup>1</sup> Adam Entous, “Bank sanctions to curb aid to Palestinian cabinet,” *Reuters*, 15 March 2007

<sup>2</sup> Hannah Arendt, *The Origins of Totalitarianism* (New York: Harcourt Brace Jovanovich, 1951), vii.

<sup>3</sup> Arendt, *Origins*, 291-2

made distressingly clear, by expelling or murdering them. This was because there was no other entity, apart from the state, which could enforce or protect rights. And if a state should choose to renege on its duties in this regard there was nothing, Arendt argued, that any other state or non-state institution could do about it. This was because the principle of state sovereignty always trumped individual rights considerations, and because there was no international mechanism through which states could legally interfere with the internal goings-on of any other sovereign state. Nor was there any law that could “enforce” human rights from outside, or, for that matter, any consensus on what those “rights” should constitute; nor institutions which could come to the rescue of people who no longer had any state to speak for them.

Arendt was describing a world which had just been plunged, right after having emerged from the furnace of the second world war, into the ice-bath of the Cold War. It was a world awash with refugees and stateless people; with thousands who had been driven from their countries or who had chosen to flee in order to stay alive, only to realize belatedly that they could never go back; it was a world of people without passports, people without homes, people without states, and people without institutions to protect them and to defend their rights. The realities, not just of almost every country in post-war Europe, but also of post-partition India and Pakistan, and post-partition Palestine, had led Arendt to write this bitter description of the refugee problem which afflicted the world as she saw it: “Since the Peace Treaties of 1919 and 1920 the refugees and the stateless have attached themselves like a curse to all the newly established states on earth which were created in the image of the nation-state.”<sup>4</sup>

The world today looks perhaps less “reckless,” or at least less cursed with refugees than it was when Arendt was writing – though refugees from Syria continue to flee in hordes to

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<sup>4</sup> Arendt, *Origins*, 291

neighboring countries, as I write – but Arendt’s basic criticism of human rights discourse continues to hold true: for all its lofty aspirations, the principle of inalienable individual human rights continues to be trumped by that of state sovereignty, and stateless people continue to remain defenseless and vulnerable to the actions of hostile states, having no sovereign institutions of their own to protect them. Barring controversial and costly military interventions or sanctions – which tend to reflect the balance of power of international politics, and thus appear lopsided, insincere, or, worse, hypocritical – there is no easy way for states to interfere in the internal affairs of other states to uphold the rights of the most vulnerable people.

But Arendt, and other writers who have grappled, in her tradition, with the problem of statelessness in the 20<sup>th</sup> century understood it as fundamentally a political matter, that is, as a problem of *political* rights. Apart from a few glancing sentences about the confiscation of refugees’ assets by hostile states, the literature on statelessness barely touches on the economic aspects of the problem, and relegates to footnotes such questions as: what happened to the bank accounts of the millions of refugees who “cursed,” as Arendt put it, the 20<sup>th</sup> century with their plight? What happened to their property? What about their safety deposit boxes, and their stocks and shares and dividends? What, in other words, did it mean to be stateless, when it came to the banal – to use an Arendtian word – stuff of economic and financial life?

This dissertation started out as a project aimed at answering those questions. I wanted to understand the economic dimensions of statelessness, and, in order to do so, I set out to study the economic and, more specifically, the monetary history of a people who have been stateless, to varying degrees, and in differing senses of the term, for over a century: the Palestinians. As it developed, the project turned into a broader study of the economic and monetary behavior of ordinary Palestinians as they navigated the various political transitions that disrupted, sometimes

violently, sometimes gradually, their lives through the course of the 20<sup>th</sup> century, and as they became increasingly stateless. But it also became a narrower investigation into the question of what happened to the financial, and particularly, the banking, assets of these ordinary Palestinians during, and after, those transitions. In a sense, then, this project attempts to answer two separate, but related, questions: how does the condition of statelessness affect the economic and monetary *behavior* of ordinary people? And how does the fact of their statelessness affect their economic and monetary *assets*?

In answering these two questions, this dissertation undertakes a brief chronological exploration of Palestinian economic and monetary life in the 20<sup>th</sup> century as it was experienced by ordinary Palestinians. Beginning in the waning years of the Ottoman era (early 1900s to 1917), it goes on to explore the British Mandate years (1917-1948); then the Israeli, Jordanian and Egyptian regimes (1948 to 1967); and finally the period of Israeli occupation (from 1967 to the post-Oslo present, when the Palestinians continue to live under Israeli rule, but have a quasi-sovereign “Palestinian Authority” which nominally governs them).

My primary goal is to present a history of money and monetary behavior in Palestine by describing how the Palestinians avoided, subverted, challenged, used – and sometimes got the better of – the various monetary policies and banking and financial institutions imposed on them by the different regimes that have governed them since the beginning of the 20th century. Through this historical narrative, I explore how the sustained absence of a state, and of a currency of their own, has affected their economic behavior and, more specifically, their economic agency.

The following pages outline briefly the argument, approach and narrative structure of this dissertation. But first, because this is a dissertation built upon many stories, I'd like to start with a story that explains how I got started on this project, and why I think it is important.

### **1. The present: Mahmoud al-Zahar and his briefcase full of cash**

On 14 June 2006, Mahmoud al-Zahar, then the foreign minister of an ill-fated, short-lived Hamas-led Palestinian government, was reported by Reuters to have smuggled a briefcase filled with \$30 million in cash into the Palestinian Territories through the Gaza-Egypt border.<sup>5</sup> As the news spread, the details of the story grew wilder and stranger, with some newspapers claiming that the foreign minister had hidden the cash in twelve different suitcases; others announcing that the money had, in fact, been hidden in candy-tins; and still others suggesting that various ministers of the new Hamas-led Palestinian government had smuggled in as much as \$120 million, over the course of the previous few months, via the same cash-in-briefcase method. While it was difficult to fathom how al-Zahar and his colleagues might have managed to pull any of these feats off – for, at the time, the Gaza-Egypt border was strictly policed by two separate layers of European and Israeli monitors – it was easier, for even the least observant of Palestine-watchers, to understand why high-ranking ministers of the Palestinian Authority would have felt compelled to resort to such desperate, and seemingly un-ministerial, acts.

In March 2006, barely two months after Hamas' unexpected electoral victory in the Palestinian parliamentary elections, Israel, the United States, Canada and the European Union,

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<sup>5</sup> Various news outlets reported the story, some more salaciously than others. See for instance: *Reuters*, "Hamas minister carries millions of dollars into Gaza," 15 June 2006 ; Avi Ischaroff, "Al-Zahar vows to continue taking cash donations into Gaza Strip," *The Associated Press*, 18 June 2006; Matthew Levitt and Biaca Wasser, "Making Smugglers Pay: Underwriting Egyptian Border Security," *The Washington Institute for Near East Policy*, Policy Watch 1505, April 13 2009.

acting in concert, issued an order to all international and local financial institutions operating in the Palestinian Territories to “freeze” all cash transfers into the West Bank and Gaza. This order was part of a broader ban on all fund-and-aid transfers into any areas controlled by the Hamas-led Palestinian Authority.<sup>6</sup> Since Hamas had been designated a terrorist group by America, Israel, and the European Union, this ban on funds transferred to any entity linked to it was in keeping with American and European anti-terrorism regulations.<sup>7</sup> A further justification was provided by the Hamas government’s presumed, though as yet untested, refusal to recognize Israel, renounce violence, and accept previous treaties.<sup>8</sup>

The ban was implemented immediately, and all American and international financial institutions were put on notice that “even inadvertent violations [of the ban] could potentially subject financial institutions to a range of U.S. penalties under provisions of the USA Patriot Act and other laws.”<sup>9</sup> Any bank found to have transferred funds to any entity linked “directly or indirectly to Hamas” was, it was announced, to be subjected to “punitive action;” even banks operating only as correspondent banks to Arab Banks based in the Palestinian Territories, with no direct links to individual Palestinian customers, were instructed to be on their guard.<sup>10</sup> Arab banks were pointedly warned that “any foreign bank refusing to cooperate with the U.S. would

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<sup>6</sup> Jeremy Sharp and Christopher Blanchard, *Note for Congress: US Foreign Aid to the Palestinians* (Congressional Research Service: June 27 2006), 1. <http://fpc.state.gov/documents/organization/68794.pdf> All major news outlets reported the news of the ban. See for instance, *Agence France Press*, “Washington cuts direct aid to Palestinians,” 7 April 2006; *Agence France Press*, “EU suspends funding to Palestinian Authority,” 7 April 2006; David Gow and Conal Urquhart, “EU Suspends Aid to Palestinian Authority,” *The Guardian*, 10 April 2006.

<sup>7</sup> These included the following regulations issued by the US government’s Office of Foreign Assets Control (OFAC): Global Terrorism Sanctions Regulation, 31 CFR Part 594; Terrorism Sanctions Regulations 31 CFR Part 595; Foreign Terrorist Organizations Sanctions Regulations, 31 CFR Part 597.

<sup>8</sup> Sharp and Blanchard, *US Foreign Aid to the Palestinians*, 1-2

<sup>9</sup> Sharp and Blanchard, *US Foreign Aid to the Palestinians*, 5. The “other laws” included the OFAC regulations mentioned in note 4.

<sup>10</sup> Mohammed Assadi and Adam Entous, “Banks balk at sending funds to Hamas government,” *Reuters*, April 23 2006

have its American assets frozen and lose its access to American financial markets; American banks, in turn, would be required to terminate any correspondent accounts with it.”<sup>11</sup> This latter threat held particularly serious consequences for Palestinian banks, which had no choice but to operate in US dollars and maintain correspondent accounts with American banks, as the Palestinians had (and continue to have) no sovereign banking system, or currency of their own, and as every Palestinian bank transaction must, consequently, to be routed via American banks in US dollars (or euros).<sup>12</sup>

By the end of April that year, all international and local banks, without exception, had complied with the freeze order. The Arab Bank, the largest commercial bank in the region, and long a loud proclaimer of its own Palestinian roots, had, in addition to stopping all cash transfers into the Palestinian Territories, also frozen the Palestinian Authority’s main treasury account.<sup>13</sup> Despite the Arab Bank’s obedient compliance with the anti-terrorist banking regulations, the Bank of New York had taken the additional precaution of freezing the Arab Bank’s own account with it in the US. The Israeli government had, meanwhile, stopped all transfers of tax and customs revenues, which it was required, by the Oslo agreement, to remit monthly to the

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<sup>11</sup> Assadi and Entous, “Banks baulk.”

<sup>12</sup> The following local (ie. headquartered in the Palestinian Territories) banks were operating in the Palestinian Territories at the time of the ban: The Bank of Palestine; Palestine Commercial Bank; Palestine Investment Bank; Arab Islamic Bank; Palestine Islamic Bank; al Rafah Microfinance Bank; and Quds Bank;. Foreign and regional banks operating in the Palestinian Territories at the time included the Arab Bank; Cairo-Amman Bank; Bank of Jordan; Egyptian Arab Land Bank; Jordan Commercial Bank; Jordan Ahli Bank; Housing Bank for Trade and Finance; Jordan Kuwait Bank; Union Bank and HSBC. *Annual Report of the Palestine Monetary Authority, 2006* (Translation from Arabic).

<sup>13</sup> Assadi and Entous, “Banks baulk.” The Arab Bank had been founded in Palestine by an Arab Palestinian entrepreneur in 1933. Upon the termination of the British Mandate for Palestine in May 1948, the bank had relocated to Jordan, where it had reconstituted itself as a Jordanian entity. It returned to the Palestinian Territories in the mid-90s under the aegis of the Oslo Agreement.

Palestinian Authority, and all foreign aid donations, which constituted almost 40% of the PA's annual revenue stream, were also frozen.<sup>14</sup>

The new Hamas-led Palestinian government was thus faced, within a few weeks of having taken office, with an extraordinary economic crisis. By the summer of 2006, the World Bank reported that the Palestinian government's revenues had dropped by 61% when compared to the same period the previous year; public sector salaries had not been paid since March; and, despite the American government's proclamation that its goal was "not to punish the Palestinian people, but to pressure Hamas to change its platform," the effects of the ban on cash were felt by ordinary Palestinians everywhere: hospitals struggled to maintain essential services; daily blackouts crippled all economic activity; public schools remained closed as schoolteachers went without pay; social service payments to the elderly and poor were suspended; and the sprawling bureaucracy of the Palestinian Authority, which employed some 100,000 people in the West Bank alone, ground to a slow halt.<sup>15</sup> The situation in Gaza, where a large percentage of the 1.3 million inhabitants were PA employees, was particularly acute.

As grim reports began to circulate, by the autumn of 2006, as to the inevitability of imminent economic collapse, desperate Palestinians began hoarding food, pawning jewels, racking up debts, selling land, and, for small daily transactions, resorting to bartering. Shopkeepers were forced to operate, if they could manage to keep their shops open at all, on

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<sup>14</sup> The customs and tax duties which the Israeli government collected "on behalf" of the Palestinian Authority constituted a significant portion of the PA's revenue stream. In 2005 these totaled \$814.3 million, which represented 42% of the PA's revenues. The Israeli government stopped transferring these amounts to the Palestinian Authority from February 2006. World Bank, *"Coping with Crisis: Palestinian Authority Institutional Performance,"* Jerusalem: World Bank, November 2006.

<sup>15</sup> Oxfam Briefing Note, "Poverty in Palestine: The Human Cost of the Financial Boycott," April 2007, and World Bank, *"Coping with Crisis: Palestinian Authority Institutional Performance,"* Jerusalem: World Bank, November 2006.



credit. Some, particularly the elderly, who had stopped receiving their pensions, even resorted, driven to desperation, to begging.<sup>16</sup>

And yet, all banks and financial institutions, including Palestinian ones, fearing American sanctions, resolutely continued to obey the freeze order, and refused to allow the PA to use their facilities to transfer funds from abroad into the country.<sup>17</sup> By the winter of 2006, the World Bank and other international organization had taken to issuing frequent reports announcing the collapse of the Palestinian economy.<sup>18</sup> Given the context, al Zahar's dash for cash across the border seemed less the rashness of a madman than the pragmatic solution of a politician who knew he needed a way to get money into the country, before the country was plunged into chaos, taking his new government with it.

Foreign journalists and other observers, like myself, who lived in the Palestinian Territories at the time, reported, with alarm and fascination, on the effects of the absence of cash on the local economy and on the society at large. They watched as ordinary people – public school teachers, road workers, electricity meter readers, garbage collectors, my own landlord – went without salaries for months; as shopkeepers changed from being initially sympathetic towards their customers and willing to extend informal loans to being openly hostile towards anyone who was a state employee; as public sector employees scrambled to look for jobs in the private sector (there were none); as desperate and menacing crowds milled about the banks every morning; and as the banks themselves, having grown prudently nervous, ramped up their security and put up their shutters.

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<sup>16</sup> Harvey Morris, "Pain of Hamas boycott worse than feared for Gaza's people." *Financial Times*, May 9 2006.

<sup>17</sup> Not that there were very many willing sources for funds, even had the banks allowed them; apart from Iran and a few Gulf states, all countries obeyed the American freeze order.

<sup>18</sup> World Bank, "Coping with Crisis: Palestinian Authority Institutional Performance," Jerusalem: World Bank, November 2006.

By January 2007, the Palestinian economy had, for all practical purposes, ceased to function. The shortage of cash affected everything: the relationship of the banks to the people; the relationship of the people to the government; the relationship of the government to the banks; and, of course, the relationship of the people to the people. As life in the cash-less land grew increasingly surreal, I was reminded of Marx's reflections in his 1844 manuscripts – "If money is the bond binding me to human life, binding society to me, connecting me with nature and man, is not money the bond of all bonds? Can it not dissolve and bind all ties? Is it not, therefore, also the universal agent of divorce?" – and I began to feel, as perhaps everyone else living in Palestine did as well, that Marx' universal agent of divorce was, by its absence, tearing apart the fabric of the society in which I was living.<sup>19</sup>

## **2. The past: The case of the frozen bank accounts, 1948**

And yet, for all its singularity, the situation in Palestine at that moment was oddly, and, for the few Palestinians old enough to remember it, frighteningly, reminiscent of one small aspect of the greatest trauma in modern Palestinian history: the "Nakba" of 1948. Between 1947 and 1948, once the British had announced their intention to withdraw from the Mandate, a full-fledged war had broken out between Arab and Jewish militias in Palestine. In the course of the fighting, hundreds of thousands of Arab Palestinians had fled their homes to seek refuge in neighboring countries. In December 1948, seven months after having declared its independence, the new state of Israel passed an order decreeing all those Arab Palestinian refugees to be "absentees," and created a new bureaucracy, "The Custodian of Absentee Property," which was ordered to seize all the property and assets that the fleeing refugees had left behind. At around

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<sup>19</sup> Karl Marx, *Economic & Philosophical Manuscripts of 1844, Third Manuscript: Money* (April – August 1944).

the same time, the Israeli government also ordered every bank in the country to freeze the accounts of all Arab Palestinian customers, and to transfer all their balances, and the contents of their safe deposit boxes, to the account of the Custodian.

All banks operating in Israel obeyed these orders, and, thus, every Arab Palestinian who had had a bank account in 1948 lost, overnight, all access to their money and savings. All Palestinian financial investments were similarly “frozen” by the Israeli government and transferred over to the Israeli Custodian; as were all checks issued to Palestinians and Palestinian companies. It would take almost a decade of complicated legal wrangling and diplomatic maneuvering brokered by the UN before these sums, which represented almost the entirety of Palestinian financial life before 1948, were transferred back to their Palestinian owners; and, till today, there remain many refugees who have yet to receive the money that they – or their fathers, or their grandfathers – had left behind when fleeing Palestine.

As perhaps the final signifier of the financial loss that the termination of the Mandate represented to the Palestinians, the currency of Mandate Palestine, called the Palestinian pound, was withdrawn from circulation by the end of 1948 and replaced by the Israeli shekel; and with its disappearance, the only currency that Palestinians had ever known as their own, and which had had the word “Palestine” inscribed on it, vanished from their lives.

### **3. Argument**

While I hope to avoid drawing too simple and straight a line from the past to the present monetary crises in Palestine, these two episodes, separated by some sixty years, help illustrate the central argument of this dissertation: that of the vulnerability of stateless people to

dispossession. As the stories told in the following chapters will show, not having a state, and state institutions of their own, and, especially, not having a central bank and a sovereign currency of their own, left the Palestinians particularly, and repeatedly, vulnerable to being dispossessed of their financial assets.

This was for two reasons: the Palestinians' assets were (and continue to be) easily confiscated by hostile actors because there was no state or sovereign central bank to prevent such confiscations or to deem them illegal; this was particularly so when the hostile actor was (as in 1948 and then again in 2006) a state(s) which enjoyed international legitimacy, and which had a seat at the table of the community of nations. Being stateless also meant that the Palestinians themselves never had a seat at that table, and were thus not able to represent themselves as a sovereign state at international negotiations at the United Nations. Nor were they invited to bilateral negotiations, such as the Anglo-Israeli and Anglo-Jordanian "End of Mandate" negotiations in the early 1950s, which apportioned all the assets and liabilities of the erstwhile Mandate Government between the two successor states, Israel and Jordan, while leaving the Palestinians out.

But this dissertation also makes a second, and no less important, argument, and that is that: despite this vulnerability, the Palestinians nevertheless showed themselves capable, again and again over the course of this century, of fighting for their economic rights, and of exhibiting a canny understanding as to how best to protect their financial assets from dispossession. The surprising, and little-known, extent to which the Palestinians turned to the law to seek protection and redress from the threat of financial dispossession emerges as a recurring theme in the stories told here, and provides the evidence for my second argument about Palestinian economic agency in the face of dispossession and statelessness.

#### 4. Approach

There are two aspects to the approach taken in this dissertation. The first is the lengthy time frame, covering about a hundred years of Palestinian history, beginning in the early 1900s, during the waning years of the Ottoman era, and ending in the present, post-Oslo period, when the Palestinians have a semi-autonomous government but not yet a state, or sovereign institutions, of their own.

This lengthy time-frame allows me to explore the ways in which ordinary people navigated the abrupt transitions from one regime to another – Ottoman to British in 1917; British to Israeli/Jordanian/Egyptian in 1948; Jordanian/Egyptian to Israeli in 1967; and Israeli to semi-autonomous “Palestinian Authority” since 1993 – but, just as importantly, it also allows me to explore the *continuities* between one regime and the next. In the third chapter, for instance, it emerges that the Absentee Property Legislations passed by the Israeli parliament in 1948 in order to legalize the confiscation of Arab bank accounts were loosely based on British Mandate regulations used during the second world war to confiscate the assets of German nationals living in Palestine. Similarly, the story of the Banco di Roma branch in Jaffa, which was forced shut by the Mandate administration in 1940 (because Italy had joined the Axis powers), is echoed in the story of the Arab Bank (recounted in the fourth chapter) which was forced to close all branches which fell under Israeli territory after May 1948.

Secondly, this work attempts a “bottom-up” economic history: although the state is an important actor throughout this story, the dissertation focuses far less on the state than on the people on whom the state’s actions are implemented. Questions as to the state’s intentions and

motivations – whatever “the state” is at any given moment of time – are, thus, side-lined in this narrative in favor of a focus on the people who tried, as best they could, to challenge, subvert or openly defy the “state’s” actions to control their assets.

The people who populate the stories told here might be described as members of the ordinary middle classes: they belong neither to the old Ottoman landed elites, nor to the peasantry (both of which have both been the subjects of much of Palestinian historiography), but, instead to the new professional classes which flocked to the booming cities of Ottoman Palestine at the turn of the century. They are clerks in banks; lawyers; teachers; doctors; small business owners; money lenders; housewives; widows; shop-keepers. What unites them, for the purposes of this dissertation, is that they all had some formal interaction with the banking and financial institutions of the state; they kept their savings in banks; they kept their jewelry in safe-deposit boxes; they bought stocks and shares and government bonds; they applied for mortgages and business loans.

Because the interactions of the people with their banks forms such an important thread in this dissertation, the banks themselves are important actors in this narrative. Three banks in particular play starring roles here: the Ottoman Bank, which was the largest bank during the Ottoman era, and continued to be an important bank, though no longer the largest, during the Mandate years; Barclays Bank, which was the largest and most important bank in Palestine during the Mandate years, and which functioned as a quasi-official central bank; and finally, the Arab Bank, a small bank founded by an Arab Palestinian in the early 1930s.

Finally, the law courts (and lawyers) are a fourth actor in this story, along with the state, the banks, and the people, for one of the surprising discoveries of my research is the extent to

which ordinary people sought recourse from the law – and help from lawyers – when their assets were taken from them by hostile actors, whether the state or the banks. Nonetheless, the law can only be used by stateless people when they find a legal regime which can accommodate them.<sup>20</sup> In the Palestinian case, as the following chapters will show, this became increasingly difficult: from the Ottoman and British Mandate law courts of the first two chapters, from which Palestinians received a measure of justice; to the situation after 1948, when only Jordanian courts could help the Palestinians get the verdict they needed to have their accounts unfrozen; to the present day, when the Palestinians have no recourse to the law, and no way to sue the American or Israeli governments for having confiscated their assets after Hamas’ electoral victory.

## **5. Structure**

This progressively restrictive framework of legal conditions provides the narrative structure by which the dissertation is organized. The first chapter (“The Honorable Consuls Finn and Kayat”) is set in the waning years of the Ottoman era and the early years of the British Mandate. It explores how the Arab inhabitants of Palestine navigated the transition, in 1917, from Ottoman to British rule, and argues that even the humblest among them revealed an instinctive understanding of complex financial matters as well as a keen sense of the economic protections that were owed them by the colonial state. And when such protections proved to be lacking, it shows how Palestinians of all classes and backgrounds strove, through whatever means they had at their disposal, to stand up to the banks, credit cooperatives, mortgage finance agencies, loan guarantee provision schemes and the whole host of colonial financial institutions which aimed ostensibly to safeguard their interests, but did, in reality, quite the opposite.

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<sup>20</sup> I am grateful to Professor Charles Maier for suggesting this sentence.

The second chapter (“Banks, Bonds and Bankrupts”) examines financial life in Mandate Palestine in the 30s and 40s by focusing on the three-way relationship between the Arabs, the Mandate administration officials, and the banks which operated in Palestine during that era. The chapter describes the dynamics of the interactions between these three groups and shows how each continually attempted to protect and promote its interests by getting the better of, or at least gaining the upper hand over, the other two. It goes on to extend the argument begun in the previous chapter by showing how the Arab Palestinians proved increasingly adept at outmaneuvering the other two in order to safeguard their own interests, thereby demonstrating a degree of financial savvy and economic agency that outshone the more modest variety exhibited by the Palestinians of the previous chapter.

The third, fourth and fifth chapters follow the event described earlier in this introduction: the freezing of Arab Palestinian bank accounts in 1948 by order of the Israeli government. These three chapters form a temporal and analytical bridge between the first two chapters, which are situated in the colonial period and focus on ordinary Palestinians’ interactions with the economic and financial institutions of the colonial state, and the final chapter, which describes Palestinian economic life at a time of military occupation when even the most basic political and economic rights have been curtailed. These chapters suggest that the tactics used by the Palestinians to fight to unfreeze their bank accounts after 1948 demonstrate not only their understanding of themselves as economic actors with inalienable rights to ownership of their own material assets, regardless of the political situation around them, but also their nuanced perception of the motivations and anxieties of the management of large international banks, and the vital importance placed by these managers on good public-relations and a “good name” for the bank. Finally, these chapters argue that the Palestinians also demonstrated, through their relentless



pursuit of their rights through various international law courts, their understanding of how even the most complicated of legal systems could be used to their advantage.

The sixth chapter (“Even the Tables and Chairs”) examines the two parallel “End of Mandate” negotiations which were conducted by the United Kingdom with the two “successor states” that had inherited the territory of Palestine: Israel and Jordan. This chapter shows how the Arab Palestinians were unable to claim payments which were owed to them at the termination of the Mandate because they had no state to represent them at these bilateral talks. These payments included revenues due to the Palestinians from three separate asset groups: the assets of the Palestine Currency Board after it was wound up; the unpaid amounts of the Palestine Bearer Bonds; and sums owed to Palestinian citrus traders by the Citrus Marketing Board; sums owed to the (east) Jerusalem Municipality by Barclays Bank; and the sums left unspent in the coffers of various agricultural credit banks – such as the Agricultural Mortgage Co of Palestine, and the Ottoman Agricultural Bank – which had been collected in previous years from Palestinian farmers, and had been earmarked for “improving the conditions of Arab agriculturalists.”

The concluding chapter (“In Contempt of Court”) brings the dissertation to the present day. Continuing the argument that forms the common thread that runs through each chapter in this dissertation, this final chapter shows how the absence of political and economic sovereignty continues to affect the economic lives of ordinary people in the most extraordinary ways. Using as its lens of analysis a legal case filed by an American family against the Palestinian Authority in an American civil court in March 2000, the chapter shows how Palestinians continue to struggle to conduct their financial and monetary lives in the absence of sovereign institutions, such as an independent central bank and independent commercial banks, which could have protected their assets at moments of crisis.

## 6. Sources

This dissertation is based on archival material (in Arabic, Hebrew, and English) gathered from public and private archives in Israel, the Palestinian Territories, and the United Kingdom. Alongside governmental records, I draw from the private records of banks, particularly Barclays Bank, which operated in Palestine through this hundred year period. Local court records and documents from the archives of a private Palestinian law firm provide another rich source of material, as they tell an interesting story of Palestinian economic behavior as expressed through the legal actions taken by Palestinians through the course of the 20<sup>th</sup> century.

The first chapter makes particular use of the Ottoman-era records of the Ottoman Bank in Palestine, which are currently stored at the Israeli State Archives in Jerusalem. The second chapter draws from the records of three private Mandate-era law firms held at the Israeli State Archives, as well as from the records of the British Mandate administration in Palestine, found at the Israeli State Archives as well as the British National Archives. The third, fourth and fifth chapters draw heavily from material from the private archives of a Palestinian law firm in Ramallah as well as from the archives of the Barclays Bank in England. The concluding chapter is based almost entirely on the private archives of the American Colony Hotel in Jerusalem.

Finally, the interviews I have conducted with a small group of elderly Palestinians form the heart of, and the central inspiration behind, this work. In a field in which state archives tend to dominate, this combination of banking, legal, and oral sources allows me to tell an unusual story of Palestinian economic history from the perspective of those who lived it, despite the absence of a Palestinian state, and Palestinian state archives.

## **7. Contributions**

It is hoped that this dissertation will contribute both to regional studies of the Middle East and Palestine, as well as to more general or non-place-specific economic and financial history.

It contributes, most broadly, to the field of economic history by highlighting the economic dimensions of statelessness. While questions of statehood and sovereignty are generally understood as political problems, and are treated as such in all the scholarly literature, this dissertation shows how statelessness also deprives people of the ordinary financial protections that are afforded by the state, while denying them a “seat at the table” at international forums such as the United Nations or the International Criminal Court, thereby rendering them particularly vulnerable to dispossession of their financial and monetary assets. This work thus emerges, surprisingly, as a strong defender of states as the only possible guarantor of the economic rights of individuals, and this is the most important contribution, in my estimation, of the project.

Palestinians are of course, unfortunately, not the only people to have suffered confiscations. It is hoped that this work will be in conversation with a small but growing body of literature which explores the economic fate of people caught in moments of political rupture, whether in periods of revolution (as in revolutionary France, America, or Russia); or in times of war; or other radical transformations, such as the India/Pakistan partition.

This dissertation will also, it is hoped, contribute to the field of financial and banking history by providing a narrative of the actions and motivations, over the course of a century, of the three most important banks in Palestine: Barclays Bank, the Ottoman Bank, and the Arab

Bank. While financial histories tend to present large commercial banks as monolithic institutions with single-minded aims, the stories told here show how these three banks were, in fact, managed by conflicted and vacillating individuals who felt themselves frequently trapped, in the conduct of their Palestinian operations, between the dictates of the state on one hand, and the needs of their customers on the other. In addition to illuminating the complex relationship between these banks, the state, and their Palestinian customers, this dissertation also “writes Palestine into” the story of international banking history in the 20th century, from which it has, thus far, largely been absent.

Within the field of Middle Eastern history, this dissertation’s focus on the economic lives and monetary behavior of ordinary people distinguishes it from the state-centric works of economic history which dominate the field, and gives voice to a new class of actors. Most economic history of the region tends to be focused either on the state, or on peasants or sometimes on merchants. This work explores the dilemmas of people who can be said to be in “in the middle”: neither landed property owners, nor merchants, nor peasants; not elites, nor very poor.

Finally, in the narrower field of Palestinian historiography, the most important contribution of this project, as I see it, is that it tells stories that have not yet been told: of how the successive inflationary Ottoman currency issues during the first world war steadily robbed the Palestinians of their savings; of how the Israeli government ordered all banks to freeze Palestinian accounts in 1948; and of how, in the post-Oslo present, the Palestinian Authority’s assets and Palestinian bank accounts were once again “frozen” by American anti-terror laws. These stories ought, I feel, to be known; and the desire to make them so animates my work, and provides me my chief motivation.

## 8. “In the end, money counts.”

At the time of writing, the Palestinians’ economic and monetary behavior continues to be shaped – notwithstanding their leaders’ impotent bid for statehood at the United Nations last year – by the absence of sovereign institutions, a central bank, and a currency of their own. They continue, as their predecessors whose stories will be told in the following chapters did, to develop a certain set of practices which protect their rights at moments of financial distress. They have become skilled at applying to the judicial arm of the state for redress against the actions of the fiscal and monetary arms of the same state, even if that state does not count them among its citizens. They do not hesitate to subvert the law when the law is against their financial interests. Though they remain a people without a state of their own, and without a currency, or a central bank, or even an effective government that can protect their rights, they continue to demonstrate that, if needed, they can stuff cash into their briefcases and smuggle it in.

An Israeli official, commenting anonymously on the rationale behind the ban on all cash transfers into the Palestinian Territories imposed by Israel, the US and the EU in March 2006, said: "In the end, money counts. No money, no country. No money, no weapons. No money, no life."<sup>21</sup> He was right; without money, there can be no life. Writers and thinkers going all the way back to John Locke, and perhaps even before him, have recognized that savings and money are the basis of assuring families and individuals a future; their confidence in continuity. The following chapters provide an insight into the lives of a people seeking to protect their money so as to safeguard their lives, their futures, their confidence in continuity. Most of us can take that for granted; this is a study of those who cannot.

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<sup>21</sup> Adam Entous, “Bank sanctions to curb aid to Palestinian cabinet,” *Reuters*, 15 March 2007

## CHAPTER 1

### The Honorable Consuls Finn and Kayat

In January 1856, Consul Finn, the British representative in Jerusalem, while writing home about the prosperity that the cotton boom of the 1850s had brought to the lower Syrian (Palestinian) provinces of the Ottoman Empire, had sniffed at the locals' lack of sophistication when it came to protecting their newfound wealth: "...they export grain, they greedily grasp the coin in return, and then hide it in the ground often dying without revealing their secret."<sup>1</sup> Two years later, he noted again that: "the [Arab] peasantry has accumulated an unprecedented degree of wealth, but they bury the coin in holes, they purchase arms, and they decorate their women." M. Kayat, another consular dignitary in Jerusalem and a contemporary of Finn's, commented in a letter of his own, written at around the same time, on the "peculiar habit" of the local Arab women of wearing real gold and silver coins on their headdresses, a custom which he was evidently not alone in finding remarkable, judging from the great number of photographs taken by Europeans at the turn of the century of Palestinian coin-headdress-wearing women.<sup>2</sup>

Finn and Kayat's attitude – a frank condescension at the Palestinians' lack of monetary sophistication, mixed in with a whiff of Orientalist delight at the picturesque coin-necklaces-and-holes-in-the-ground practices, topped off with a dash of paternalistic concern for the ignorant

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<sup>1</sup> Alexander Scholch, "European Penetration and the Economic Development of Palestine, 1856-82." In *Studies in the Economic and Social History of Palestine in the Nineteenth and Twentieth Centuries*, ed. Roger Owen (The Southern Illinois University Press, 1982), 18-19.

<sup>2</sup> Sarah Graham Brown, *Palestinians and their Society 1880-1946: A Photographic Essay* (London: Quartet Books, 1980). 9-14. For photographs of women wearing coin headdresses, see pages 17, 62, 71, 151. The term "Palestinian" to describe the Arab inhabitants of the lower Syrian provinces of the Ottoman Empire at the turn of the 20<sup>th</sup> century is not technically accurate, as the areas that were united as Palestine under the British Mandate were still three different provinces or sanjaqs of the Ottoman Empire. But the term is convenient, and, besides, the Arabs who lived in these three provinces already formed, by the mid-19<sup>th</sup> century, a cohesive socio-political unit, as they all spoke the same dialect of Arabic and observed similar customs and traditions.

masses who did not know how to safeguard their money – was representative of the European view of Palestinian economic behavior at the turn of the century. In reports and letters sent back to London and France it was customary to bemoan the plight of the “poor ignorant Arab,” who was “helplessly beholden to the vicious village moneylenders;” on whom “centuries of customary tenure and land usage” had “failed to establish habits of thrift, savings and investment;” and who was easily “frightened at the slightest hint of modern scientific methods.”<sup>3</sup> This attitude was not only pervasive, but also, for a region where almost everything turned on its head every twenty years, surprisingly enduring: a commission set up by the British Mandate Administration in Palestine some seventy years after Consul Finn had first weighed in on the Palestinians’ inability to properly safeguard their money found that “The public view a bank as essentially a place from which to borrow money and are not at all interested in, and have not the knowledge, to ascertain the standing of the institution from which they borrow money.”<sup>4</sup>

But this view of the Palestinian people as an economically ignorant, unsophisticated and miserable lot is not borne out by the evidence of Palestinian behavior and practice from very early on in the 20<sup>th</sup> century, which suggests, on the contrary, that Palestinians were in fact often very capable of understanding complicated monetary and economic matters and of exhibiting a great deal of resolve and resilience when it came to protecting their economic interests from the actions of various menacing actors. Though they were often at a disadvantage when compared to their opponents, they were not afraid to challenge them, and, when they lost the ensuing battles, they did not go away quietly.

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<sup>3</sup> Report of the Jewish Agency (1902) and United Nations Conciliation Commission for Palestine (UNCCP), *Note on Currency and Banking in Palestine and Transjordan* (United Nations, A/AC.25/W/17, 18 July 1949). The Central Zionist Archives in Jerusalem (henceforth, CZA) S25/S791

<sup>4</sup> Correspondence from the Committee on the Control of Banking in Palestine to the Colonial Office (June 1934), The British National Archives in London (henceforth, NA) CO 733/264/10.

## 1. Two pensioners versus the Ottoman Bank

In February 1936, an elderly Palestinian pensioner named Clement Menni filed a civil suit in the District Court of Haifa against his former employer, the Ottoman Bank, for having “incorrectly calculated [his] pension, for consequent arrears of pension, and also for arrears of salary.”<sup>5</sup> Two months later, Anees Mansour, another former employee of the Ottoman Bank, filed a similar suit with the same complaint at the same court. The District Court ruled in favor of the Ottoman Bank in both cases, and dismissed both suits. Undeterred, the two pensioners appealed the judgment and their cases were opened again in February 1937, this time at the Supreme Court sitting as a Court of Appeal.

The Ottoman Bank had been established in Istanbul in 1856 by a group of British and French capitalists and was taken over by the Ottoman government in 1863. It had opened its first branch in Palestine in Jerusalem in 1904, then in Jaffa in 1905, and in Haifa in 1906.<sup>6</sup> Though there were a few other foreign banks operating in Palestine before the First World War, the Ottoman Bank was the largest and most powerful among them; its balance sheet in 1900 indicated that its total assets that year amounted to over fifteen thousand pounds and by 1913 this had grown to over twenty four thousand pounds.<sup>7</sup> In addition to its healthy balance sheet, the Bank had become, by the late 19<sup>th</sup> century, the official bank of the Ottoman Empire; its name had changed to the Imperial Ottoman Bank and it wielded in Palestine, as elsewhere in the Empire, the clout that came from this status.

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<sup>5</sup> Judgment by the Senior Puisne Judge and Mr. Justice Copland in the appeal of Clement Menni v. The Ottoman Bank, Haifa, Appeal from the Judgment of the District Court of Haifa, 5 February 1936, and in the appeal of Anis Mansour v The Ottoman Bank, Haifa, Appeal from the Judgment of the District Court of Haifa, 16 April 1936 (henceforth, *Menni and Mansour v Ottoman Bank*, 1936). The Israeli State Archives in Jerusalem (henceforth, ISA) 248/11 5 and ISA 223/15

<sup>6</sup> Edhem Eldem, *A History of the Ottoman Bank*, (Istanbul: Ottoman Bank Historical Research Center, 1999), 290-1

<sup>7</sup> George Hakim and M.Y. El-Husayni, “Monetary and Banking System” in *Economic Organization of Palestine*, ed. Sa’id B. Himadeh (Beirut: American Press, 1938), 464



The dispute between the Bank and its two employees in Haifa originated in a difference of opinion on currency conversion which neatly illustrates, on one hand, the multiple bewildering currency transitions that Palestine underwent in the first three decades of the 20<sup>th</sup> century, and, on the other, the attempts by ordinary Palestinian people to wade through the monetary chaos. At the beginning of the century, several European currencies circulated freely in Palestine alongside Turkish gold and silver coins; these Turkish coins, Consuls Finn's and Kayat's observations notwithstanding, were trusted by the locals because they were freely convertible into European currencies and because they were stable and predictable in value, being worth their exact weight in gold or silver.<sup>8</sup> The monetary situation in Palestine was thus fairly orderly till 1913, despite the creeping growth in the money supply and resulting inflation caused both by the booming agricultural trade with Europe (as described in Consul Finn's letters home) and by the rapid urbanization which that trade had engendered since the 1890s.<sup>9</sup>

This serene situation changed, like so much else in Palestine, with the start of the First World War. The Ottomans introduced a new paper currency in 1914 in order to finance their war effort, and a decree establishing the new paper notes as the sole legal tender all over the Empire declared that the gold and silver coins were no longer to be used. As the war progressed, the Ottomans resorted to increasingly inflationary issues of this paper currency – there were seven different issues between November 1915 and April 1918 alone – and a spiraling inflation afflicted all the provinces of the Empire. In Syria and Palestine, especially, the situation was

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<sup>8</sup> Hakim and el Husayni, *Monetary and Banking System*, 445

<sup>9</sup> Sarah Graham Brown, "Political Economy of Jabal Nablus, 1920-1948" in *Studies in the Economic and Social History of Palestine in the Nineteenth and Twentieth Centuries*, ed. Roger Owen (The Southern Illinois University Press, 1982), 90-2

catastrophic.<sup>10</sup> By April 1916, the price of foodstuffs in Jerusalem had increased on average by 1246 percent and the price of basics such as sugar had risen by 5000 percent; the paper currency, meanwhile, had depreciated so rapidly that, by the end of 1916, the notes were worth less than 10% of their face value.<sup>11</sup>

The economic situation in Palestine was made more dire by the ravages inflicted by the war: the prosperous agricultural trade with Europe came to an abrupt end; the Ottoman military draft emptied the villages and towns of virtually all able bodied men; there were mass deportations and forced evacuations of entire cities, and public hangings of all those deemed by the Ottoman governor to have been traitors; there was the misery of the enforced work gangs, in which “volunteers” were made to slave for hours building roads and rail tracks to aid the war effort; there were chronic food and fuel shortages; an attack of locusts in 1915 which destroyed all the crop and caused a virtual famine; and everywhere, in the cities and the towns and the villages, disease, hunger, and death.<sup>12</sup>

Palestinians did what they could to survive those four miserable years: men who were not drafted and who could find no work took to begging; women whose men disappeared entered the work force, for the first time in Palestine, in droves; desperate war widows even resorted to prostitution.<sup>13</sup> People reverted to bartering goods and services, as their grandfathers had done two generations ago, as most merchants were refusing, by the end of 1916, to accept the

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<sup>10</sup> Hakim and El-Husayni, “Monetary and Banking System,” 445 ; ISA 223/15 Menni and Mansour v Ottoman Bank (1937) ; and Eldem, *Ottoman Bank*, 341

<sup>11</sup> Hakim and El-Husayni, “Monetary and Banking System,” 445

<sup>12</sup> Jane Fletcher Geniesse, *American Priestess: The Extraordinary Story of Anna Spafford and the American Colony in Jerusalem*, (Nan A Talese/Doubleday, 2008), 245-251 and Salim Tamari, *Year of the Locust: The Great War and the Erasure of Palestine’s Ottoman Past* (private copy of draft manuscript), 25

<sup>13</sup> Tamari, *Year of the Locust*, 25-26

depreciated Turkish currency. Those who still possessed gold and silver coins hoarded them, despite the Turkish governor's having announced that hoarding coins was to be considered a crime punishable by death; the coins stitched into head-dresses and buried in holes, which Consuls Finn and Kayat had so mocked a few years ago, turning out, in retrospect, to have been a more prudent way of protecting a family's savings than putting them in a bank, where they would have been forcibly converted into paper currency and rendered, by the end of 1916, worthless.

Some Palestinians took matters into their own hands, quite literally, by forging half-lira paper notes, which were easily copied as they were printed on only one side and had the additional attraction to a counterfeiter of being widely used despite the devaluation; the Ottoman Bank's branch offices in Jerusalem and Jaffa were rife during the war years with reports of the arrests of "native counterfeiters."<sup>14</sup>

The managers of the Ottoman Bank branches in Palestine did not fare much better than their customers: in May 1917, Cemal Pasha, the Ottoman governor of the Syrian provinces – whose policies were so brutal that he had been nicknamed *as-Safah*, the butcher, by the Arabs he governed – issued a proclamation blaming the depreciation of the currency on "the speculation of *sarrafs* (money changers) who, in order to make profits on exchange operations, cheat the public in a despicable way."<sup>15</sup> After noting ominously that the government had been "forced to proceed with vigor against some guilty persons," the Pasha went on to declare that he was calling upon the Ottoman Bank branch managers, along with other "financial notables," to "eliminate all differences between paper and gold currency." He did not specify how this equality was to be

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<sup>14</sup> Eldem, *Ottoman Bank*, 341

<sup>15</sup> Eldem, *Ottoman Bank*, 343

achieved; he merely stated that it needed to be done by May 15 1916, and, if it was not accomplished by that date, the consequences for the Bank managers would be dire:

“If I am disappointed in my expectations, and if, by 15 May, all differences between the value of paper money and that of gold have not been suppressed, that is to say, if any good or commodity is not sold at exactly the same price in paper money as it would in gold, we shall proceed, by drawing lots, with the deportation to the *vilayets* of Anatolia and Rumelia of 10 percent of the aforementioned notables, including the managers of the Ottoman and German banks. The governors shall, for this purpose, submit to me a list in two copies with the names of these notables in alphabetical order, together with the number of persons in their families. Six weeks after the deportation of the first group, a second group will be subjected to the same treatment, followed by a third, and so on, until the re-establishment of the real value of paper currency. The prejudice caused to Syria and Palestine by the present situation of Treasury notes is of the most disastrous nature, and I consider even the most drastic measures used to remedy this evil as a real benefit for the poor and the country in general.”<sup>16</sup>

The hapless Ottoman Bank managers were unable, naturally, to equate the value of the worthless paper currency to gold, and had no choice but to set about drawing lots for the threatened deportation. The unfortunate Mr. Kevorkian, comptroller of the Bank’s Jerusalem branch, was the first to be named for deportation, though he was ultimately rescued from that fate by Mr. Christodoulides, the head of the Bank’s operations in Palestine. Meanwhile, the Turkish currency continued to plunge and the Ottoman government’s response remained hysterical: in November 1917, the death penalty was proclaimed as punishment for anyone found to have been hoarding or using coins instead of paper currency.<sup>17</sup>

Luckily for the Palestinians (who continued to hoard gold coins) and for the Ottoman Bank officials in Palestine (who continued to be unable to magically equate the paper to the gold), the situation came to a happy ending, of sorts, in November 1917, with the arrival of the British army in Palestine. On November 23 1917, a few weeks before he captured Jerusalem,

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<sup>16</sup> Eldem, *Ottoman Bank*, 344

<sup>17</sup> Eldem, *Ottoman Bank*, 344-6

General Allenby, the Commander of the British army, issued a proclamation declaring all Ottoman currencies to be illegal in the areas under British military rule and replacing them with the Anglo-Egyptian pound.<sup>18</sup> Contemporary Palestinian accounts indicate that this new currency was initially met with suspicion by the people – their brief experience of paper currency had, after all, been unhappy – but, once it became evident to them that the Egyptian pound was a stable colonial currency tied to the British pound, this suspicion melted away and they began to “readily use the Egyptian currency,” although the gold Turkish coins remained in circulation for a while.<sup>19</sup>

From 1917 to 1927, Egypt and Palestine were effectively in a currency union, with the latter’s economy being dragged through the same post-war cycles of inflation and deflation as the former. This system remained in place even after the San Remo conference in 1920, at which point Britain gifted itself the Mandate for Palestine (and neatly divided between France and itself the other Middle Eastern limbs of the cadaver of the Ottoman Empire). A Public Notice posted in local newspapers on 1<sup>st</sup> February 1921 confirmed that “Egyptian gold, notes, silver, and nickel coins and British sovereigns” would continue to be legal tender in the new Palestine.<sup>20</sup> The Egyptian pound remained the official currency in Palestine until November 1 1927, when yet another currency ordinance declared that there would be yet another new currency in Palestine, the Palestinian Pound.<sup>21</sup>

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<sup>18</sup> S. Hoofien, “Currency Reform,” *Bulletin of the Palestine Economic Society*, No 3 (July 1923): 3

<sup>19</sup> Hakim and El-Husayni, “Monetary and Banking System,” 446

<sup>20</sup> Robert David Ottensooser, *The Palestine pound and the Israel pound; Transition from a Colonial to an Independent Currency*. (Geneva: E Droz, 1955)

<sup>21</sup> Hakim and El-Husayni, “Monetary and Banking System,” 447

All these monetary transitions had, of course, an immediate effect on the lives of ordinary Palestinians, and Menni and Mansour were no exceptions. When they had both first started working for the Bank, before the First World War, their salaries were paid in Turkish gold coins, as was the custom. During the war, they had had no choice but to accept payment in the successive vastly depreciated paper currencies; the Ottoman Bank made no remedies to compensate its employees for the real loss in income that this paper currency represented to them.

After the war, the Ottoman Bank continued to operate in Palestine, albeit with dramatic changes in name and character (the word Imperial was struck from its title and it had ceased to be the central bank of the Turkish government; its assets were taken over by private British and French interests).<sup>22</sup> Menni and Mansour managed to weather these storms and remained, as before, employees of the Bank, but now they had to once again accept payment of their salaries in a new currency, the Anglo-Egyptian pound. Then, in 1927, when the currency changed yet again from the Egyptian to the new Palestinian pound, Menni and Mansour had once again to adjust, as did everyone else, to the new dispensation.

The Ottoman Bank's managers, too, had to decide, with each transition, how to convert the salaries of their employees from the previous currency to the new one. In 1917, they had decided to use a rate of 0.878 Egyptian pounds for each Turkish paper pound, which reflected not the actual equivalence between the two currencies in November 1917 but a pre-war rate of exchange, picked arbitrarily.<sup>23</sup> In 1927, after the introduction of the Palestine pound, the Bank had yet again to decide on a method with which to proceed paying salaries, and this time it

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<sup>22</sup> Eldem, *Ottoman Bank*, 419

<sup>23</sup> *Menni and Mansour v Ottoman Bank*, 1936, ISA 248/11 ¶ and ISA 223/15

settled on a fixed rate of 0.900 Palestinian pounds to each Turkish pound, which, once again, was based not on the actual exchange value of the Turkish pound to the Egyptian pound, but on the relative value of each coin to gold, known as the “mint parity” of the two currencies.

But neither the 0.900 rate adopted in 1927, nor the 0.878 rate used in 1917, reflected the real value of the exchange rate between the Turkish gold coin (the original currency in which the salaries of Menni and Mansour had been paid) and the Palestinian pound; this was particularly true at the end of 1931, when the English pound (and, consequently, the Palestinian pound) was taken off the gold standard, and the Turkish gold pound became worth more to the Palestinian pound than the 0.900 at which the Bank had fixed the rate. Proof of this is found not only in the court documents deposited by Menni and Mansour – which, after all, may have been biased against the Bank -- but also from the cash ledgers of another commercial entity operating at the time, the American Colony of Jerusalem, which had nothing to do with Menni and Mansour or the Ottoman Bank.

The “American Colony” was the name that had become informally attached, over the years, to a motley and ever-expanding and ever-changing group of American, Scandinavian, and German Protestant missionaries, who had arrived in the Holy Land towards the end of the 19<sup>th</sup> century and who had proceeded, while also building hospitals and women’s charities and conducting other charitable deeds, to amass considerable amounts of land and wealth in Jerusalem. The wealth of this “Colony” came from three separate and thriving businesses: a general store which they opened near the Jaffa Gate of the Old City; a photography department which sold “Holy Land” souvenirs to pilgrims and tourists; and a “home and hostel” which catered to all manner of visitors to the Holy Land. The neatly handwritten account books of these businesses indicate that, at least as of May 31<sup>st</sup> 1933, the Colonists’ book-keepers were

converting Turkish pounds into Palestinian pounds at the rate of 1.180 Palestinian pounds to one Turkish lira, a rate exactly double that of the one used by the Ottoman Bank to convert its employees' salaries.<sup>24</sup>

This bit of exchange-rate skullduggery on the part of the Bank formed the crux of the complaint against it by its employees; from the court documents it is clear that Menni and Mansour objected – though they had other causes for complaint – solely to the arbitrary fixed exchange rate used by the Bank to convert their salaries and argued that they ought instead to have been paid the full value of their “*original* salaries converted at the rate of exchange *prevailing at the date of each payment*” into the Palestinian pound.<sup>25</sup>

The pay sheets issued by the Bank to its employees listed their salaries and pensions in two parallel columns; the first expressed the original salary of each employee in Turkish pounds and the second stated the amount actually paid out in Palestinian pounds, calculated at the fixed rate of exchange (this practice of noting each expenditure twice, in two columns and in two currencies, appears to have been a popular method, among the businesses in Palestine at the time, of staying above the confusion engendered by the continually changing currencies; the cash ledgers of the American Colony Stores indicates that the Colonists' book keepers, too, used this method).<sup>26</sup>

Menni and Mansour were each contracted, from the beginning of their service with the Bank before the first World War, to receive 23 Ltq (Turkish lira) per month; this was the amount noted on the first column for each, and the amount on the second column was multiplied by .900

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<sup>24</sup> American Colony Balance Sheet 31<sup>st</sup> May 1933, American Colony Archives in Jerusalem (henceforth, ACAJ) 2/9

<sup>25</sup> *Menni and Mansour v Ottoman Bank*, 1936, ISA 248/115 and ISA 223/1 5 (Emphasis added)

<sup>26</sup> See for instance balance sheets of the American Colony, ACAJ 2/9



to arrive at a figure of 20.7 PP (Palestine pounds). This was the sum that Menni and Mansour were paid every month by the Bank, and it was much smaller than the amount they would have been paid if their salary had been “converted into the local currency at the appropriate rate on the date of each payment,” and exactly half of what they would have been paid had the Ottoman Bank used the rate of exchange employed by the American Colony’s accountants at around the same time.

Despite the obvious imbalances in power between the powerful international bank and its two branch-office employees, Menni and Mansour had not acquiesced quietly to this state of affairs; each month, they, along with several other employees of the Bank, registered their protest about the exchange rate “emphatically in writing” every time they signed their salary receipts; as each month wore on, they repeated their protests in writing and referenced their previous written comments. In May 1933, realizing that this form of muted dissent was getting him nowhere, Menni took matters one step further and refused to accept his salary unless it was paid at the correct rate. The Bank had, until that point, ignored the matter, but when Menni began refusing to accept his salary altogether, the management decided that the only proper solution to was to promptly put Menni and Mansour into early retirement, and to pension them off at a fraction of their previous salaries.

Thus, from December 1933 on, Menni and Mansour were without salaries and jobs, and they were recorded in the Bank’s paysheets as having been paid monthly pensions of 11.96 Turkish lira each, which was roughly half their original monthly salary, and which was converted by the Bank at its preferred fixed exchange rate into roughly 10 Palestinian pounds a month. Spurred on, perhaps, by this insult added to injury, Menni and Mansour filed their separate suits against the Bank at the District Court in Haifa in February and April 1936 respectively.

The court documents provide little detail about either plaintiff, but some facts can be gleaned from reading them carefully: when the Bank finally forced them into early retirement in May 1933, they had each already completed over twenty years of service; thus, they must have both started working for the Bank at around 1912/1913, just before the first World War. Those pre-war years were prosperous ones for most Palestinians, particularly for Palestinians in the cities, and both Menni and Mansour were originally from Haifa (though Mansour had gone briefly to Amman to serve in the branch there), a city which had enjoyed a period of sustained prosperity since the arrival of the Ottoman-and-French sponsored Hijazi railway in 1909.<sup>27</sup>

As mid-level employees of the most prominent bank in Palestine, neither Menni nor Mansour could have come from poor families, but, also, evidently, neither were members of the wealthy land-owning classes which had had the ears of Syria's Ottoman rulers for centuries, for the sons of such families would hardly have deigned to work as mid-level staffers at a bank, no matter how prominent. Their original salaries of 23 Turkish lira per month would have provided them with a comfortable living before the war, though during the war years their economic situation would most certainly have been very difficult, as the paper currency in which they were paid would have been worth nothing in the markets. In the early years of the Mandate, their reduced salaries of 20 Palestinian pounds a month – which, as per the calculations above, was

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27 The Palestine Trade Catalogue of 1948 describes the transformation of Haifa thus:

“Uneventfulness in the little town [Haifa] had plunged inhabitants into a deep state of lethargy from which they were not aroused until the construction, by the Turkish authorities, of a railway line from Haifa to connect with the Holy Hijaz railway from Damascus to Mecca and Medina. The construction of this line made of Haifa a beehive of activity. The town became a granary into which cereals poured from Palestine and adjacent countries. It became the place where businessmen from every part of the Levant and tourists and pilgrims from all over the Christian and Moslem worlds met [...] So many ships were then anchoring in the roadstead that the provision of facilities for the handling of passengers and cargo became a matter of urgent necessity and the Turkish authorities constructed a small jetty off the eastern part of the town. Lighterage services inaugurated to transfer passengers and goods between ship and shore.” Palestine Trade Catalogue, Part VII: Transport, Finance, Commerce (Government of Palestine, 1948), 10

roughly half of what they ought actually to have been receiving from the Bank – would have likely allowed them a manageable but not comfortable living; judging, for the sake of comparison, from the wages allotted by the American Colony to various members of its domestic staff (in May 1933, the cook received 10 Palestinian pounds a month; the laundry woman received P £9.5; the night-watchman, P£7) Menni and Mansour, as clerks in a bank, were paid just double what the Colony’s cook was being paid, and, after they were fired in 1933, their pensions were exactly equal to the salary of the Colony’s maid.<sup>28</sup> By no means can this have been a fair wage level for the two long-serving mid-level employees of the Bank.

Despite the obvious unfairness of the fixed-exchange rate system employed by the Bank, the District Court originally sided with the Bank, but Menni and Mansour persevered, and jointly appealed the decision. The case was heard again, a year later, by the Supreme Court sitting as a Court of Appeal, and this time the court listened more carefully to the arguments of the appellants and found that it agreed with them. In ruling in favor of Menni and Mansour, the British judge of the Supreme Court concluded thus:

“In view of my findings on the various issues the [prior] judgment of the Haifa Court should be set aside and there should be substituted a judgment to the following effect:

- a) It is declared that the plaintiff is entitled, as from the 1<sup>st</sup> December 1933, to receive from the defendant a monthly pension of 11.96 Turkish gold pounds to be converted into Palestine currency *at the rate of exchange on the date of each payment*.
- b) It is further declared that the plaintiff was entitled to receive from the defendant from the 1<sup>st</sup> June 1933 to the 30<sup>th</sup> November 1933, a monthly salary of twenty three Turkish gold pounds, which should have been converted into Palestine currency *at the rate of exchange on the date of each payment*.

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<sup>28</sup> American Colony Cash Ledgers, 1930-33, ACAJ 2/14

c) The defendant is further ordered to pay the plaintiff the difference between the sum that ought to have been paid to him as salary in view of the declaration.<sup>29</sup>

Thus, in February 1937, a full twenty years after the Ottoman Bank had first adjusted their salaries, Menni and Mansour were proven right by the Supreme Court on the precise point on which they had differed with the Bank: they were able to have their salaries and pensions re-converted at a floating rate of exchange as opposed to the fixed rate that the Bank had used. They were additionally able to enjoy the satisfaction of having set a legal precedent, which would allow their colleagues to claim the same compensation for foregone salaries and pensions, and of being allowed by the Court to require the Bank to reimburse them their legal costs.<sup>30</sup>

The case caused no particular sensation at the time and appears not to have merited the attention of any of the local newspapers; the court documents were duly filed away in the Haifa District Court archives and were considered unimportant enough to have been left behind when the British made their hasty retreat out of Palestine some ten years later. But the outcome was remarkable for several reasons: because the courts in Palestine were at that time composed solely of British judges; because the Ottoman Bank, its name and history notwithstanding, was, by the time of the lawsuit, a powerful private bank owned by British and French interests; because the appellants were Arab men represented by an Arab lawyer, Abcarius Bey, who went up against a team of seasoned British lawyers for the Bank headed by Mr. Saunders; and because both Menni and Mansour were, as noted above, ordinary pensioners, neither hailing from a prominent or wealthy family. And yet, against all odds, they sued the powerful international bank, and lost, and sued again, and won.

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<sup>29</sup> *Menni and Mansour v Ottoman Bank*, 1936, ISA 248/11 5 and ISA 223/15 (Emphasis added)

<sup>30</sup> *Menni and Mansour v Ottoman Bank*, 1936, ISA 248/11 5 and ISA 223/15

But even more remarkable than the outcome of the case is the fact that it was fought in the first place: that Menni and Mansour, contrary to the views of the Europeans and the British as to the ignorance and quaint backwardness of Palestinians when it came to money matters, were so certain of their conviction that the arbitrary fixed exchange rate used by the Bank was wrong that they went to the highest court in the country to prove it and to fight for their rights, despite having lost in court once already, and despite having already been fired for their views. This is a story of stubborn resistance and resilience on the part of two Palestinian men who were ordinary in every way and who had no claim, till now, to the history books, but who in their own quiet way proved the Honourable Consuls Finn and Kayat wrong.

## **2. Palestinian peasants and the Ottoman Agricultural Bank**

On April 23 1940, a handwritten petition was sent to the High Commissioner of the British Mandate Government in Jerusalem by two brothers in Bethlehem who signed their names as “Monwar and Mohammad sons of Paiker wife of Ahmad Effendi.” The petition, written in erratic but neat English and signed in Arabic, was as follows:

“Your Excellency’s humble petitioners request to put the following representation for sympathetic consideration.

Our late mother died during the financial year 1332; as both of us being minors at the time, money totaling to 1,665 Turkish piasters found in her possession was reserved to our names in the Sharia court Tulkarem as “orphans deposit.”

We have enquired from the aforesaid court about the present state of the money and we were informed as stated in the attached explanation supplied by the Court that this amount was deposited to our names in the Ottoman Agricultural Bank of the Government for increasing purposes together with its interest until we reach maturity to be able to receive this money.

On enquiry regarding the fate of the said Bank we could reach to a result that that Government of Palestine after the Occupation took place had liquidated all accounts connected with this Bank and the collected money were reserved to the Treasury of Palestine Government.

The evidence we possess to this matter in question is the records of the Sharia Court of Tulkarem.

Our strong belief with the British Justice which is already the supporter of misarables [sic] and our necessity and poverty encouraged us to claim that this money our mother left behind for her children be paid to us together with the interest.

Trusting that your Excellency will not render us hopeless in our claims,  
We have the honor to be, Sir, your obedient servants,  
Monwar and Mohammad.”<sup>31</sup>

The response to this petition came, some two months later, in June 1940, from the office of the Chief Secretary of the Government of Palestine. The letter was brief and employed the standard form of evasion beloved of bureaucrats the world over: it asked the petitioners for further documentation. The brothers responded by sending in the court documents from the sharia court in Tulkarem, to which the British response was another golden standard in the universal bureaucratic arsenal: silence. The brothers from Bethlehem sent a few more pleading petitions along the lines of the one quoted above, but, after a few months, the case disappeared from the Chief Secretary’s files. The only hint as to what had happened is contained in an undated and unsigned handwritten exchange, scrawled on a Chief Secretary’s Office Minute paper, between two anonymous British officers. The first wrote:

“The records of the Ottoman Agricultural Bank were handed over to the Department of Land Registration. I suggest that the petition should be referred to the Director, and claimants might be asked to substantiate their claims by the submission of some evidence.”

And the second responded:

“The books in my possession do not contain any records of sums due by the Bank. They are all debtors’ ledgers of sums due to the Bank.”<sup>32</sup>

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<sup>31</sup> Letter from Monwar and Mohammad, Sons of Paikar, to High Commissioner, Government of Palestine (April 25 1940), ISA 296/25 2 [All errors in original]

The anonymous author of the second sentence had summarized perfectly, if unknowingly, the trajectory of the relationship of the Ottoman Agricultural Bank in Palestine with its Palestinian customers.

Established in Istanbul by imperial decree in August 1888, the Ottoman Agricultural Bank (henceforth, OAB) was conceived of as a cornerstone of Sultan Abdul Hamid II's economic reform project, which aimed at "catching up" the Ottoman economy with that of its European competitors. The OAB was entrusted with the express task of providing small low-interest loans to impoverished peasant farmers to help them escape the clutches of the "usurious moneylenders," towards whom, as noted earlier, the Europeans and British felt a particular antipathy, which the Ottomans borrowed in their race to match their competitors.<sup>33</sup>

In 1898 the OAB opened its first branch in Palestine, and, over the next ten years it succeeded in granting small loans to hundreds of Palestinians all over the country; by 1910, it had grown to such an extent that it had branch offices in Jenin, Nazareth, Haifa, Tulkarem, Gaza, Hebron and Acca. Its quick success in attracting customers from rural Palestine was all the more remarkable because of the complicated procedures it instated for granting loans to farmers: first, various long forms had to be filled out; then, farmers had to provide solid evidence that they could assure the protection of the bank's capital, and this was almost always to be in the form of land that was mortgaged against the loan; and finally, the prospective debtor had to prove that he owned the land that was being mortgaged by providing ownership documents and tax payment receipts which had to be notarized by the village chief (the *mukhtar*), which was not easily done,

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<sup>32</sup> Monwar and Mohammad to High Commissioner, April 25 1940, ISA 296/25 7 [Emphases original]

<sup>33</sup> Donald Quataert, "Dilemma of Development: The Agricultural Bank and Agricultural Reform in Ottoman Turkey, 1888-1908," *International Journal of Middle East Studies*, Vol. 6, No. 2 (April 1975): 210-227

as the *mukhtars* were often the very same “usurious moneylenders” who had been the traditional sources of credit for the farmers and, thus, the natural competitors of the OAB.<sup>34</sup>

And yet, despite the detailed procedures and forms, the opposition of the *mukhtars*, and the prerequisite of land ownership, the OAB was indisputably a popular source of credit for rural Palestinians in the early years of the century. Moreover, while it was primarily a credit-granting institution, it also had many customers who used it as a normal savings and deposit bank; its success in this can be judged from the fact that it had some thirty thousand pounds in bank deposits in 1914, just before the beginning of the First World War, which put it at second largest, in terms of cash at hand, among the banks in Palestine at the time (the Ottoman Bank, as noted in the previous section, was the largest).<sup>35</sup> The great success of the OAB after merely two decades of operation in Palestine attests to the ability of the supposedly ignorant Palestinians, even illiterate peasants, to judge for themselves the relative advantages of using a bank versus a money lender for their credit needs.

The war years were not kind to the fortunes of the OAB; it suffered, as did everything else in the Palestinian economy, from the depredations described in the previous section. When the British arrived in 1917, despite the uncertainty that tainted the beginning of their tenure in Palestine, they lost no time in rearranging the financial affairs of the Bank (just as they had lost no time in issuing a new currency and declaring the Turkish currency illegal).<sup>36</sup> In June 1918, they confiscated the bank’s assets and turned them over to the newly established Office of the

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<sup>34</sup> Quartaet “Dilemma,” 215

<sup>35</sup> HMG Foreign Office, *Notes on the Ottoman Agricultural Bank and Kadoorie Bequest*, April 1950, NA FO 371/82555

<sup>36</sup> HMG Foreign Office, *Brief of on the Ottoman Agricultural bank of Palestine*, 24 June, 1949, NA FO 371/75225. The British military administration also liquidated the German *Deutsche Palestina Bank* at the same time. (see ISA 5022/16 2)



Public Custodian of Enemy Property; by the end of that year, the decision had been taken to collect all the debts outstanding to the OAB and to repay the deposits of all those who had kept accounts with the bank.<sup>37</sup> By early 1919, the bureaucrats in the Custodian's office had completed the painstaking process of drawing up lists of all debtors of the bank and all loans still outstanding.<sup>38</sup>

The immediate task set before the Custodian's Office was the collection of all loans that remained outstanding on the books of the OAB, regardless of the size of debt, the date due, or the ability of the debtor to repay. The only method of collecting these debts, which, as noted above, had been given to farmers all over Palestine, was to goad the local agents of the bank, whom the British had inherited from the Ottoman era, to the task; thus, in early 1921, a furious correspondence ensued between the Custodian's Office and these agents.<sup>39</sup> From this correspondence, which was left behind by the British when they left Palestine in 1948, it is evident that the attitude of the British officials towards the Palestinian debtors wavered between concern for their wellbeing and a determined inflexibility on the question of repayment, the latter attribute quickly prevailing over the former as the year wore on and the debts remained unpaid.

As the official attitude hardened, so did the policies towards the debtors: while in 1921 requests for remissions or partial payment were accepted in cases with extenuating circumstances, by 1925 these were being refused outright, and any failure to pay was met with an outright seizure of mortgaged property regardless of the size of the amount owed or the

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<sup>37</sup> Various correspondence filed under "Ottoman Agricultural bank in Liquidation" (1920-40), ISA 296/25n

<sup>38</sup> "Ottoman Agricultural Bank," NA FO 371/75225 and "Ottoman Agricultural bank in Liquidation," ISA 296/25

<sup>39</sup> ISA 296/25n

circumstances and ability to pay of the debtor.<sup>40</sup> The amounts owed were invariably small, sometimes even miniscule, and yet, even the smallest debts were relentlessly chased after: in July 1931 a £5.400 loan which had been divided b/w 7 people in Tulkarem was collected by the confiscation of the property which had been put up as collateral for the loan; in June 1922, a £2.460 amount outstanding in Nazareth was similarly collected. The effort to which the Custodian's Office went to collect even the most meaningless of sums is clear from this letter, sent by the Custodian to a collector in Jenin in July 1931:

“...It is clear that the debtor still owes piastres £0.111 in respect of the principle of the debt. I will not release from mortgage any property nor will I close this account until the balance of the debt is paid. If there is no note in the Tabu that this property is mortgaged to the Bank, please send me a Tabu extract of the property in question when I will apply to the Director of Lands for action to safeguard the interests of the Bank.”<sup>41</sup>

If the debt could not be repaid, the lands that had been mortgaged to the OAB in the Ottoman era were sold, promptly and efficiently, often without the prior notification of the owner of the land; it was more efficient to simply publish the notice of sale in a local newspaper after completion. By 1929, properties in villages all over Palestine were being sold off in peremptory fashion, and notices of foreclosures proliferated in the local newspapers. The 9 September 1931 edition of the paper *Mirat Al Sharq*, to take just one day's example, is littered with notices of such sales.<sup>42</sup> The increasingly callous attitude of the British officials towards the debtors is vividly captured in this curt reaction to the news of a debtor's suicide in Gaza in July 1931: “I

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<sup>40</sup> Various, “Ottoman Agricultural Bank in Liquidation” (1920-40), ISA 4992/2 ʔ, ISA 5022/17 ʔ, ISA 5022/14

<sup>41</sup> Various, “Ottoman Agricultural Bank in Liquidation” (1920-40), ISA 5022/16ʔ

<sup>42</sup> ISA 5022/16ʔ

note that because of the suicide ... there will be a delay in carrying out the seizure of the immoveable property securing the debt.”<sup>43</sup>

If the debtor had no property to offer as collateral then anything that he might possess of value was taken instead; usually gold and jewelry was seized, but in some cases the material poverty of the debtor was such that the items seized verged on the absurd: a jar of olive oil and five kilos of olives were taken a debtor in Hebron, a carpet from another in Hebron.<sup>44</sup> In 1931 the agent in Hebron was ordered to collect “all the movables” of a group of debtors from a nearby village who collectively owed the bank £P2.460.<sup>45</sup> If the debtor happened to have been unfortunate enough to work for the government, the amount he owed was deducted from his salary, as happened in the case of a hapless policeman, Abdul Rahman Hijazi, in July 1931 in Ramleh, and that of another man, unnamed, who worked at the Public Courts in Haifa.<sup>46</sup>

It is easy to reconstruct British attitudes towards the Palestinian debtors; it is harder to gauge the attitude of the Palestinians themselves, as the correspondence files are limited to letters exchanged between the Custodian’s Office and the Bank’s agents, and the Palestinians are not given a voice in those pages. But it is clear, by reading between the lines of the official correspondence, that the “poor ignorant Arab debtors” were often very skilled at dodging the efforts of the debt collectors: some tried to get out of paying by claiming to have already paid off their debt during the Ottoman years, a tactic used successfully by Debtor No 2136, an Ahmed Kaseem Soliman Ali of village Damoun, who presented a forged receipt of payment purportedly signed by someone at the OAB; the receipt, the British official noted, “bears no official stamp of

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<sup>43</sup> ISA 5022/16n

<sup>44</sup> ISA 5022/14 n and ISA 5022/16 n

<sup>45</sup> ISA 5022/14 n A 5022/16 M n

<sup>46</sup> ISA 5022/16 n

the bank and is not signed by a responsible official of the Old Bank.”<sup>47</sup> But more often the method of evasion was just to delay payment to the extent possible; some cases dragged on for years, as in, for example, that of Ibrahim Ibn Hussein al Sandirsy of Beit Dajani, who took over seven years to repay the small sum he had owed, but who successfully avoided foreclosure of his property by making interest payments in dribs and drabs.<sup>48</sup> Or the case of the Abdul Hadi family in Jenin sub-district, who simply did not respond to the attentions of the collection agents for years, and who disappeared from their village, taking all their belongings with them.

Sometimes the more determined among the debtors went to court, mimicking the actions of Menni and Mansour against the Ottoman Bank, to prevent the foreclosure of their properties, as did one Rafful Hakim, who appealed the District Court in Haifa in July 1931 for a delay on the foreclosure of his property, which the Custodian’s Office had threatened to carry out in three days, on the grounds that: “I have paid a lot of money to the Bank in the past for other debts. I cannot pay now. I am applying for three months’ delay, after which I will pay this installment and the next which will then be due.”<sup>49</sup> In a letter to the District Court in Haifa on 23<sup>rd</sup> July 1931, Hakim’s lawyer further pleaded his case thus:

“Although my client had on 4.7.31 offered to pay the said sum of LP 400 (Palestinian lira) and to discharge this plot from mortgage and had also offered to pay the balance within one year’s time from the above date, yet Your Honour, irrespective of the grave financial crisis and notwithstanding that my client by paying the LP 400 would have paid so far LP 1400 from the mortgage debt which is only LE 1551 (Egyptian lira)...has given the aforementioned order of 19.7.31. Therefore I have instituted an action to the High Court applying for relief and for the revocation of Your Honour’s order of 19.7.31.  
[...] Whereas there will be no harm to the Bank if the transfer is delayed until the settlement of this action, and whereas the transfer of the plot will cause undue

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<sup>47</sup> ISA 4992/3 נ

<sup>48</sup> ISA 5022/25 נ

<sup>49</sup> ISA 264/19 ט

hardship to my client because the said plot is worth 3 or 4 times the amount offered by the Bank, and whereas the Bank is sufficiently secured by other plots of land, therefore I pray that:

(a) that the Sale be stayed and the offer of my client of 4.7.31 be granted in view of the present crisis

(b) alternatively that the sale be stayed pending the decision of the High Court...<sup>50</sup>

The judge of the District Court in Haifa, unmoved by this emotional appeal, refused the application and allowed the Custodian's Office to carry out the enforced sale of Rafful Hakim's property. It is not clear from the documentary record how Rafful Hakim responded to this enforced sale, and how he and his family survived the aftermath. Yet, his defeat did not deter other Palestinians from resorting to the courts, again and again, for the protection of their rights against the collection agents of the OAB.

In many cases it appears that the local agents of the OAB themselves helped the debtors by allowing cases to drag on for years, or by letting them lapse entirely, though it is unclear whether this was deliberate on their part, inspired either by an animosity towards the British officials or from a loyalty to their own impoverished countrymen, or just an outcome of their incompetence and laziness. Whatever the reason, it is clear that they were slow to collect the debts, and the letters sent to them by their superiors in the Custodian's Office indicate a mounting impatience, which soon turned to rage, on the part of the British towards them.

In a letter, for example, from the Custodian's Office to the agent Khaled Eff. Jarrar in Jenin, on 23 November 1927, the agent is accused as follows: "I am awaiting reply whether you have collected from debtors of above loan ... This is one of the numerous cases where I have to keep in sending you reminders urging replies to the questions asked. I should like you to

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<sup>50</sup> ISA 264/19 5

understand once and for all that all letters from this Office must be replied promptly.”<sup>51</sup> And, in another letter, this in 1931, from the Office of the Custodian to an agent in Tulkarem: “Nobody will make me believe that it requires two months to get in 600 mils at the rate of 200 mils from each of the three debtors, and this proves to me what I have in mind for quite a long time that nothing is being done in Tulkarem in regard to the work of the Bank...”<sup>52</sup> And this, to a collection agent in Jenin in October 1931: “I will, without any hesitation whatsoever, dispense with the services if all the officers of the branch and close up the office at Jenin. You must understand that I am not prepared to continue paying salaries to officers unless they justify with real work the emoluments they receive.”<sup>53</sup>

The British were painfully diligent in their attempts to collect the debts outstanding on the ledgers of the OAB, but they expended little effort in trying to track down the many people who had left cash deposits in the Bank and who were therefore owed money back when it was liquidated. Despite this having been also a stated intention of the Custodian’s Office when it had first been set up to take over the assets of the OAB in 1917, no effort was made by the British bureaucrats to trace the depositors; nor was any attempt made to pay them back. This is evident in the case of the unfortunate Paikar brothers in Bethlehem, whose petitions to the British High Commissioner, quoted at the beginning of this section, went unanswered for years. And yet, although the Paiker brothers did not eventually succeed in getting back the money that their mother had deposited in their names with the Bank, still, their repeated petitions to the Custodian’s office suggest a tenacity and ability on their part, despite the obvious disadvantages of their position – they were illiterate orphans; the petitions they sent had clearly been written by

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<sup>51</sup> ISA 5180/1`ג

<sup>52</sup> ISA 5022/14ג, ISA 5022/13ג, ISA 5022/16ג

<sup>53</sup> ISA 5022/13ג

someone else on their behalf – to take on the British authorities and to try to fight for their financial rights, through whatever means they could muster.

In the end, the British Custodian officials managed to collect some thirty thousand pounds from the OAB's debtors, out of a total outstanding loan balance of approximately sixty thousand pounds.<sup>54</sup> These thirty thousand pounds were placed by the Mandate Administration in a reserve fund that was ostensibly earmarked "for application to any suitable purpose involving assistance to the Arab agricultural community."<sup>55</sup> Yet, no part of this money was ever utilized for this purpose and the full thirty thousand still remained on the books of the Bank when the Mandate was terminated in May 1948, at which point the British Treasury decided that it would be easier to simply absorb the amount into the general ledger of the assets of the former Mandate Government.<sup>56</sup> The Paiker brothers, whose dying mother had left a thousand Turkish piasters for them, saw not one piaster of this humble legacy; nor was a piaster of this thirty thousand pounds used to grant pardons to the most destitute of the hundreds of debtors of the OAB.

Still, the consolation remains that the Palestinians tried: the Paikers of Bethlehem with their repeated petitions to the High Commissioner; Rafful Hakim of Haifa with his emotional appeals to the district court; Ahmed Kaseem Soliman Ali of Damoun with his forged receipts of payment; the Abdul Hadi family in Jenin by simply running away; and hundreds of other nameless debtors by defaulting, in one way or the other, on their loans, sometimes with the help of the agents like Khaled Jarrar of Jenin who probably looked the other way as they escaped. Not all stories of Palestinians defending their financial interests against the mighty banks and the

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<sup>54</sup> NA FO 371/75225

<sup>55</sup> NA FO 371/75225

<sup>56</sup> NA FO 371/75225 and NA FO 371/82555

mightier British officials ended happily; few were as fortunate as Menni and Mansour. And yet, even the humblest illiterate peasants tried, and they too deserve to have their names recorded in the annals of all those Palestinians who proved, with their actions, the Honourable Consuls Finn and Kayat wrong.

### **3. Palestinians object to the Anglo Palestine Bank**

In February 1919, the military governor of Nablus noted in one of his weekly reports that “local opposition to the establishment of a branch of the Anglo Palestine Bank in Nablus is not abating... this opposition is based on local antagonism to the establishment of any Jewish concerns or interests in the district.”<sup>57</sup> A handwritten note at the bottom of the report added that Ronald Storrs, the head of the British Military Administration at the time, had been told by Zionists that “the opposition is being engineered by the mayor and not by the inhabitants,” a view which was apparently shared by the military governor of Nablus, who wrote in March 1919 that:

“It appears a great local objection to establishment of APB emanates from representatives of rich families... Mayor Sheikh Omar Zowaita is also opposed... due more to a desire of keeping the people quiet and avoiding restlessness than to the bank as such. This question is now so much mixed with the anti-Zionist movement that it is most difficult to get any reliable information.”<sup>58</sup>

The military governor goes on to quote a letter from the Mayor of Nablus, Sheikh Omar Zowaita, who explained that that the establishment of a branch of the APB in Nablus would be

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<sup>57</sup> Correspondence, Office of the Military Governor of Nablus (6 March 1919), ISA 3/82

<sup>58</sup> ISA 3/82



“a failure because it is condemned by the religion of the inhabitants.”<sup>59</sup> A prior letter, from the assistant administrator, on 28 Feb 1919, argues, in similar vein, that “the opposition is being engineered by the mayor, not by the inhabitants, who, before the war, actually asked for a Jewish bank.”

The Anglo-Palestine Bank (henceforth, APB) had been established in 1902 by Zionists in London as the realization a dream of Theodore Herzl, who had wanted to create a banking and investment vehicle in Palestine that would cater exclusively to the financial needs of the growing Zionist community. The Bank was modeled, as per Herzl’s vision, on the tradition of the great European colonial banks which were simultaneously commercial and investment banks.<sup>60</sup> Its first branch was opened in Jaffa in July 1903, and it concentrated from the start on attracting the custom of the Jews of the city; as one of its directors stated some years after its establishment: “Since the APB was set up as a financial instrument to further the progress of Jewish Palestine, its development had little meaning outside the framework of the basic Zionist objective.”<sup>61</sup>

But the directors of the bank were unable to pursue this “basic Zionist objective” as single-mindedly as they would have liked as they soon ran into difficulties with the Ottoman officials, who refused to grant the bank formal recognition in response to the objections of members of the Palestinian-Arab community, who had taken a dim view of the openly Zionist aims of the bank and criticized it for furthering the Jewish colonization of Palestine.<sup>62</sup> Though the APB was eventually granted recognition by the Ottoman administration because of the interventions of the British ambassador in Constantinople -- the Bank was a British incorporated

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<sup>59</sup> ISA 3/8 2

<sup>60</sup> Halevi et al *Banker to An Emerging Nation: The History of Bank Leumi Le Israel* (Shikmona, 1981), 5

<sup>61</sup> Halevi et al, *Banker*,7

<sup>62</sup> Halevi et al, *Banker*, 27

company, and the British government frowned upon any discrimination against British companies -- its first directors had no choice but to placate the Turkish officials and the Arabs by opening branches of the bank in Arab areas and by trying to attract Arab customers.<sup>63</sup>

Thus, in 1906 the Bank opened a branch in Beirut, in 1907 in Hebron, in 1908 in Haifa, in 1910 in Safad, in 1913 in Tiberias, and in 1914 in Gaza.<sup>64</sup> The major business of the bank was, as with the Ottoman Agricultural Bank and the other banks operating in Palestine at the time (Credit Lyonnais, the Deutsche Palestina Bank, and the Ottoman Bank) the provision of short term credit to farmers, merchants, and traders, and, notwithstanding the objections voiced by leaders of the Palestinian community, it appears to have been initially at least quite popular with many Palestinian merchants and farmers: the Bank's annual report in 1914 indicates that a third of its borrowers and nearly half of its depositors were Palestinians.<sup>65</sup>

But this popularity was short lived. The Palestinians' suspicion of the bank's real aims had grown apace with their suspicions as to the real aims of the Zionist enterprise in Palestine, and, by the beginning of the First World War, groups of Palestinians managed to successfully lobby the Turkish officials into restricting the operations of the bank to such an extent that it was forced to operate clandestinely, through illicit branches in Zionist officials' houses and even allegedly through a "branch" in the Spanish consul's house.<sup>66</sup> In January 1915, the Turkish governor Cemal Pasha ordered the bank to be liquidated, but, the general confusion of the war years and the division of the country by April 1917 into territories controlled by the British and

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<sup>63</sup> Halevi et al, *Banker*, 27

<sup>64</sup> Halevi et al, *Banker*, 30 -35

<sup>65</sup> Halevi et al, *Banker*, 33

<sup>66</sup> Halevi et al, *Banker*, 45

Turks allowed the bank to continue operating, though still clandestinely in the Turkish areas, right up to the victorious arrival in Jerusalem of General Allenby's troops in December 1917.

The problems of the APB vis-à-vis the governing authorities came to an end with the establishment of the British military administration in Palestine, but the suspicion with which the Palestinian community regarded its activities continued unabated, and groups of Palestinians continued to agitate, as they had done in Ottoman times, for an end to the bank's activities; the report from the military governor of Nablus in 1919 indicates the extent to which these protests had succeeded in attracting the attention of the newly minted British administration in Palestine.

Whatever the source of the hostility towards the APB - whether engineered, as the British and Zionists felt, by elites such as Sheikh Omar Zowaita and other local leaders, or a genuine expression, of the growing resentment of ordinary Palestinians towards the bank – by 1921, it had achieved its aim, and the APB branch in Nablus was closed. After the riots in Hebron in 1921 further closures followed, and, by 1930, no APB branches remained in areas solely populated by Arabs.<sup>67</sup>

The short-lived career of the APB in the Arab-inhabited parts of Palestine suggests that the Palestinians were capable of taking effective political action and lobbying the governing authorities, both Ottoman and British, to protect their financial interests when they felt they were threatened, and when they felt that they could get away with it. This astuteness on their part, in choosing an effective strategy for opposing the expansion of the APB into their areas, suggests another small corrective to the views of Consuls Finn and Kayat.

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<sup>67</sup> ISA 1265/2 ɔ

#### 4. Palestinian businessmen in the early 20<sup>th</sup> century

Consuls Kayat and Finn's portrayal of the Palestinians as simple and unsophisticated people when it came to monetary and economic matters has been accepted more or less uncritically by even the most sympathetic chroniclers of Palestinian history. Accounts of Palestine in the early 20<sup>th</sup> century describe the Arabs as ignorant and helpless victims of the vast transformations that were sweeping through their land at the turn of the century. These transformations are rarely attributed to the Palestinians' own contributions to the development of their country's economy and are explained instead as resulting from, variously, the increasing European missionary presence in the Holy Land from 1850s on; the Ottoman modernization policies (mainly, fiscal and land reforms) of the 1870s; the rapid incorporation of the Palestinian economy into the international capitalist market in the 1890s via a booming trade in agricultural goods; the investment activities of the Zionists, who had started arriving in droves and buying up land and settling it with great dispatch by the turn of the century; and finally, the arrival of the British in 1917. And through all these changes, the Palestinians are usually portrayed as passive, ignorant, helpless bystanders who were forced, in one historian's words, "not just to move away from known modes of production or lose their traditional means of production, but also to abandon a way of life, a set of beliefs that had helped them make sense of their lives, but without a blueprint for the future."<sup>68</sup>

But, far from being pawns in a vast economic chess game played by powers greater than themselves, many Palestinians played an important role in shaping and bolstering their country's economic fate from very early on in the 20<sup>th</sup> century. There had sprung up, by the early 1900s, a small generation of pioneering Palestinian businessmen, underestimated and discounted by their

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<sup>68</sup> Ilan Pappé, *A History of Modern Palestine: One Land, Two Peoples* (New York: Cambridge University Press, 2004), 24-5

contemporaries as well as by historians, who had the courage and gumption to move away from agriculture and the other traditional economic pursuits of their families, towards commerce and the ancillary industries which the thriving agricultural trade of the previous century had engendered. The members of this newly emerging commercial class provided the capital which enabled several new industries to develop and thrive.

These nascent industries were located in the cities, which were flush in the early years of the 20<sup>th</sup> century with examples of Arab entrepreneurial success: Toufiq and Mitri Majdalani created their own import and wholesale company, dealing with timber, cement, and iron, in 1899 in Haifa; Jean Damiani established his famous soap factory in Jaffa in 1890; Boulous and Wadia Said established the Palestine Educational Company, a thriving book, stationary and office goods supplier, in Jerusalem in 1910 (and opened another branch in Haifa shortly thereafter); the Issid brothers opened their olive oil soap manufacturing and exporting company in Jaffa the same year; Antoine and Francois Gelat founded the National Palestinian Flour Mills Company, also in Jaffa, in 1914; and the first two Chambers of Commerce in Palestine were established in 1912 in Haifa and in Nazareth.<sup>69</sup>

These new trades and businesses generated demand for new jobs, which in turn encouraged a steady migration of Arab labor from the villages to the cities, which led to a population boom in the cities; this was particularly true in Jaffa, where at least 5000 people, according to one estimate, were employed daily in picking oranges during the orange season.<sup>70</sup> But Jerusalem and Haifa, too, were bursting at the seams in the early 1900s. And, as more and more people moved into the cities, the cities themselves began to creep beyond their old walls;

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<sup>69</sup> Palestine Trade Catalogue, Government of Palestine (1943); George Khadder, "Arab Chambers of Commerce in Palestine" in *Arab Chamber of Commerce Directory* (1937)

<sup>70</sup> Interview, Toni Khoury, Amman, Jordan, May 18, 2010

new neighborhoods and ‘colonies’ sprung up where once there were small villages and pastureland, and the cities witnessed a building boom for new housing, which led to yet another newly flourishing new trade: in building materials. The construction boom allowed the prosperity of the cities to spread to the small towns of the interior, even to villages like Bethlehem and Beit Jala, which had been sleepy little hamlets at the end of 19<sup>th</sup> century but which became, in the new century, the center of a new construction industry.

This frenetic economic activity was not restricted, in the early years of the 20<sup>th</sup> century, to Palestinian cities and towns alone; perhaps infected by the entrepreneurial spirit sweeping their homeland, droves of adventurous and fortune seeking Palestinians emigrated to North and South America in the early 1900s. Some of these emigrants prospered so well in their new homes that they were able to send vast sums of money home, as well as to create thriving business ventures in the Americas, despite having arrived there as illiterate and penniless foreigners. The al Bireh company, which sold ladies’ clothing and carpets, was established in New York just before the first World War by Ali al Judeh, who had emigrated to the States from al Bireh in the early years of the century; Ali and Judeh Ismail Jadallah and their partners Mshushir al-Na‘ura and Dahdul Hamdan established the Palestine Company, a wholesale concern, also in the heart of Manhattan; Hamdan Ghannam and his brothers established the Deir Dibwan Company.<sup>71</sup> There were others: Abdullah and Issa al-Batih, Hanna Hishmeh and Aziz Shahin from Ramallah; Eid Hussein Alur from Deir Dibwan; Othman al Ata and Abdel Jawwad Abu Alis from Bireh; and, best known among these, Abdul Hameed Shoman, an illiterate peasant from Beit Hanina, who emigrated to America in the early 1900s and amassed so much wealth during his American sojourn that he

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<sup>71</sup> Saleh Abdel Jawad, “Landed Property, Palestinian Migration to America and the Emergence of a New Local Leadership: al-Bireh 1919-1947,” *Jerusalem Quarterly* 36 (Winter 2009): 21-25

was able to return to Palestine in the late 1920s and go on to establish, with his own capital, the Arab Bank, the first Palestinian owned and run bank.<sup>72</sup>

While Shoman was the most celebrated among the early Palestinian financiers – and the remarkable story of his bank deserves more attention, which it will get in the following chapter – he was hardly alone, nor even the first: Ismail Husseini, a member of the prominent Husseini family in Jerusalem, had attempted to establish a bank as early as 1909, though the project was shut down by the Ottoman governor; and a group of Palestinian entrepreneurs had approached the British government for permission to establish another bank in Palestine in 1935, as a rival to the Arab Bank. These entrepreneurs, led by a Mr. Naufal, traveled to London to plead their case, and the British officials who met them wrote the following revealing report about their efforts and motivations:

“The Arab element in Palestine and TransJordan are anxious to establish an Arab Banking Institution in the country in order to foster and develop Arab finance, industry, commerce, and agriculture. The Arab leaders themselves are quite able to produce all the capital necessary for such an undertaking, but they realise that they lack the necessary experience and organization and would prefer that the bank should be under British control... the rank and file are behind the scheme morally and financially and subscriptions are offered from all classes of Arabs. Mr Naufal (the delegate of the Pan-Arab Corporation) suggests that the Arab element should take 49% of the capital and the British 51%... There are several millions of pounds hoarded by the people which would subsequently be deposited in this new bank...”<sup>73</sup>

The efforts of Mr. Naufal and his group of Palestinian would-be bankers were eventually repudiated by the British officials of Palestine, under the guise of protecting the Palestinian people and its economy from the efforts of such apparently ruthless and self-interested operators. That the British viewed Palestinian entrepreneurs such as Naufal and Shoman as threats to their

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<sup>72</sup> Jawad, “Palestinian Migration,” 25 and Abdul Hameed Shoman, *The Indomitable Arab: The Life and Times of AbdulHameed Shoman (1890-1974)*, (Arab Bank Ltd., 1984).

<sup>73</sup> Correspondence regarding proposed formation of Anglo-Arab Bank in 1937, NA CO 733/348/7

interests is evident from the language and tone of a report titled “The Control of Banking in Palestine (1934),” which expressed much concern about the “recent mushroom growth of so-called banks in the country” and about the need to protect the ignorant public “from the dangers of unscrupulous small banks which are often nothing but groups of money lenders cloaking themselves under the title of bank.” The report, which goes on to make the interesting observation that “Every grocer in Palestine can become a banker,” ends with this note about the Palestinian public, who “view a bank as essentially a place from which to borrow money and are not interested in, and have not the knowledge to ascertain, the standing of the institution from which they borrow money.”<sup>74</sup>

This report, when compared against the evidence of actual Palestinian entrepreneurial activity both at home and abroad early in the 20<sup>th</sup> century, suggests that, while perhaps much of the burgeoning prosperity of Palestine in the early years of the 20<sup>th</sup> century did indeed stem from external factors – the modernizing efforts of the Ottomans; the investment activities of various groups of foreigners; the growing presence of the Zionists; the arrival of the British – much of it was also built on the backs of Palestinian capitalists and laborers, who strained to create wealth and develop their country despite the efforts of those who ruled them.

The view, propagated by the likes of Consuls Kayat and Finn, and, perpetuated, many years later, by the authors of the Report on the Control of Banking in Palestine, of Palestinians as simple people who took the fruits of the new prosperity of their country and “greedily hid it in the ground” is thus not borne out by the evidence of their actual behavior and practice from very early on in the 20<sup>th</sup> century. It is true that the economic prospects of the Palestinians declined greatly over the course of the first three decades of the century, but this was not on account of

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<sup>74</sup> Government of Palestine, Report on the Control of Banking in Palestine, 1934, NA CO 733/264/10



Palestinian ignorance or passivity. The interests of the Palestinians were usually inimical, unfortunately for them, to those of the ruling authorities, but they were aware of this, and acted accordingly to protect themselves to the extent that they could from it. Sometimes they managed to outsmart their adversaries; often, they tried but failed. But the stories recounted here suggest that they demonstrated, regardless of their very real and growing powerlessness, an understanding of complicated economic and monetary matters from very early on in the century. That they so often failed to prevail against the odds is less a judgment on their abilities than on the odds themselves, which were stacked, almost always, against them.

## CHAPTER 2

### **Banks, Bonds, and Bankrupts**

In November 1939, a wealthy Arab property owner and politician, Sheikh Suleiman Taji al-Farouqi, wrote a note to the senior partner of the law firm that had been representing him since January of that year in his legal battles against the Arab Bank and the Arab Agricultural Bank.<sup>1</sup> Among the various matters al-Farouqi raised in his letter, including some indelicate phrasing to the effect that his lawyers were not doing enough to advance his interests, there was the following verbatim report of a recent meeting al-Farouqi had had with two of the law firm's junior partners, Schwarz and Caspi:

“I told them, too, that we wished to put an end to this Agricultural Bank, which I see that its presence is of no value as its nonpresence. This Bank that has spent uselessly £P140,000 and has nothing now, but revenge. I told them that we must get rid of this bank by any means, certainly lawful ones.”<sup>2</sup>

The bank referred to in this splenetic paragraph was the Arab Agricultural Bank (al-Bank al-‘Arabi al-Zira’i). Established in May 1933, just a few years before al-Farouqi’s writing, the Agricultural Bank had been launched with much fanfare, and to much commendation from the Arabic-language press, by the owner of the Arab Bank, Abdul Hameed Shoman, who announced that he was establishing this new subsidiary specifically so that it might serve the credit needs of the impoverished Arab cultivators who were by then rapidly losing ground, both literally and

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<sup>1</sup> Letter from Sheikh Suleiman Taji al-Farouqi, Ramleh to Dr. Joseph, 10 Nov 1939. [All errors in original]. For the purposes of consistency with sources used and quoted, I retain all proper-noun spellings in this chapter as they appear in the original archival materials when those materials are in English. For proper nouns that appear only in Arabic and Hebrew sources, I follow the transliteration guidelines suggested by the International Journal of Middle East Studies. Private Papers of Bernard Joseph & Co., Advocates, The Israeli State Archives in Jerusalem (henceforth ISA) 854/105

<sup>2</sup> Letter from al-Farouqi to Dr. Joseph, 10 Nov 1939, Private Papers of Bernard Joseph & Co, Advocates. ISA 854/105

figuratively, to their Jewish counterparts.<sup>3</sup> At the time it was the only Arab funded and managed bank in Palestine to provide short and long term agricultural loans to Arab farmers, a distinction its owners wore proudly.<sup>4</sup>

The chairman of the bank was a politically and socially prominent landowner from Gaza, Ahmed Hilmi Pasha, who was not only the chairman of the Agricultural Bank, but also the president of the Jerusalem chapter of the Arab Chamber of Commerce, the chairman of the board of the Arab Bank, and the inspector of Islamic endowments (awqaf) in Jerusalem.<sup>5</sup> He happened, too, to be the father-in-law of the wealthiest and most powerful Arab financier in Mandate Palestine at the time, Abdul Hameed Shoman, the founder of the Arab Bank.

Ahmed Hilmi Pasha's estimable credentials, however, seemed not to have impressed al-Faruqi much, for, in another letter to his lawyers, this is how he described him:

“This Ahmed Hilmi is almost a poor man. He is indebted to the Bank to which he is the manager with prodigious sums. The only property which he possesses is an Orange Grove in Bait Hanoun village Gaza District, the dunum of which costs no more than £P10. This beside other debts. If this man is summoned as a witness he would probably not deny this and may, too, admit the bad fix in which the Bank stands.”<sup>6</sup>

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<sup>3</sup> For examples of the enthusiastic response to the establishment of the Agricultural Bank and its progress during its first year of operation in the Arabic-language press of the day, see the following articles: “Ta’sis bank zira’i fi Filastin: fikrat mudir bank al-’Arabi,” *Filastin*, 29 May 1933; “Fara’ al-Bank al-Zira’i fi Gaza,” *Filastin*, 24 Nov 1933; “al-Bank al-Zira’i: al-Taqrir al-Qanuni” 16 Dec 1933; “Ijtima’ shariket al-Bank al-Zirai’i: ziadet ras al-mal,” *Filistin* 24 Dec 33. For a more muted report in the leading Jewish English-language daily, see: “The Projected Agricultural Bank,” *Palestine Post*, 31 August 1933. The Central Zionist Archive in Jerusalem (henceforth CZA) S90/2003/1-4

<sup>4</sup> George Hakim and M.Y. El-Husayni, “Monetary and Banking System” in *Economic Organization of Palestine*, ed. Sa’id B. Himadeh (Beirut: American Press, 1938), 493; 500-1

<sup>5</sup> Ahmed Hilmi Pasha, “Introduction by the President of the Arab Chamber of Commerce, Jerusalem,” *Directory of the Arab Chamber of Commerce* (1937) and Abdul Hameed Shoman, *al Muhami: sirat ‘Abd al-Hamid Shuman 1890-1974* (Beirut: al Bank al- ‘Arabi al Mahdud: al-Mu’assasah al-‘Arabiyah lil-Dirasat wa-al-Nashr, 1982), 177

<sup>6</sup> Letter from al-Faruqi, Ramleh to Dr. Joseph, 16 June 1941 [All errors in original] ISA 854/10E

But the bulk of al-Farouqi's invective was reserved for the bank itself, and for its business practices. As he said in a subsequent letter to his lawyers, written when his case against the bank had already dragged on for some years:

“The Arab Agricultural Bank means nothing. I believe that in its coffers there is no more than 10% in cash from the capital. This inspite of the false accounts. Most of the capital is consumed by unattainable debts to his Ahmed Hilmi and his friends such as Ata Shawa, member of the Board of Directors, and the Ghussein Family, which owed the Bank tens of thousands etc.”<sup>7</sup>

The scorn expressed in al-Farouqi's letters for the bank and its chairman was not the mere airing of personal prejudice, though that may have had something to do with it; it was the direct consequence of the bank's recent and repeated attempts to get al-Farouqi to pay back all the debts he owed it. The bank had threatened to take legal action if al-Farouqi did not pay up, and, as it happened, not only did al-Farouqi not pay up, but he hired a law firm and filed a pre-emptive law-suit against the bank first, claiming that it had charged him an unlawful rate of interest.

The case dragged on for some years, and, although the bank attempted to settle out of court, al-Farouqi kept it in the appeals process for as long as he could. He did so not because he hoped to win – he know he wouldn't, as the evidence against him was too strong; he clearly owed the bank money – but because he wanted to delay making payments for as long as he could.

The dispute between al-Farouqi and the Arab Agricultural Bank provides us with an unusual view of financial and economic life in Mandate Palestine in the 1930s and 1940s, particularly as experienced by those living in the urban centers of Jaffa, Jerusalem, and Haifa. It

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<sup>7</sup> Letter from al-Faruqi, Ramleh, to Dr. Joseph, 16 June 1941 [All errors in original] Private papers of Bernard Joseph & Co., Advocates. ISA 854/10E

suggests, as this chapter will argue, that the Arab Palestinians of this period, though they had little faith in the officials and institutions of the Mandate, and though their economic position worsened steadily, vis-à-vis that of the Jews in Palestine, as the years of the Mandate wore on, were nevertheless surprisingly resourceful when it came to protecting their own financial and economic interests, and particularly so when it came to delaying, or evading altogether, their debt repayments.

Moreover, as this account of their legal actions against the banks will suggest, they became adept, in the 30s and 40s, at using the legal institutions and legislative policies of the Mandate to their own advantage in pursuing this end. Nor were they shy about fighting for their interests even when these conflicted with the grand designs of the people (and institutions) who presented themselves as champions of the Arab cause in Palestine; they were as eager to sue the small local banks owned by fellow Arab Palestinians as they were the powerful international commercial banks which came to collect their debts.

This chapter presents a narrow view of financial life in Mandate Palestine as expressed through the interactions between the Arab Palestinians, the banks, and the Mandate officials from the late 1930s to the early 1940s. If the relationship between these three groups could be pictured, it would look like a pyramid in which the Palestinians would form the base (as they were the most numerous and least powerful, economically and politically, of the three); the Mandate officials the tip (as they were the least numerous but the most powerful in every regard); and the banks the middle (as they were beholden, on one hand, to the Mandate authorities for permission to operate in Palestine as well as for monetary and fiscal policy support but dependent, on the other hand, on Arabs and Jews for business and patronage).

Although they were at the very bottom of the pyramid, this chapter shows how the Arab Palestinians proved adept at outmaneuvering the other two in order to safeguard their own interests; in the game of getting the better of the two other groups in the pyramid, thus, they often proved to be the winners, thereby demonstrating a degree of economic agency that outshone the more modest variety exhibited by the Arabs of the previous chapter.

The first section of this chapter focuses on the base of the pyramid, and analyses a few of the many lawsuits that were launched by Arabs against the banks in the late 1930s to early 1940s. The second section focuses on the middle of the pyramid and describes the banks in Palestine, especially the Arab Bank, which was most commonly on the receiving end of the lawsuits examined in the first section. The third section rounds out the story by including a brief description of the tip of the pyramid: the Mandate officials, who attempted to control and regulate, quite often unsuccessfully, the financial activities of both the banks and the Arabs.

## **1. The Base**

The facts relating to the dispute between al-Farouqi and the two banks can be pieced together – albeit with difficulty, for the records are neither chronological nor complete, and the Arabic legal documents are filed haphazardly in the Israeli archives – from the correspondence between al-Farouqi and his lawyers and from the records of the district court of Jaffa.

It appears that al-Farouqi had opened two current accounts with the Arab Bank and the Arab Agricultural Bank respectively in around 1933, on both of which he was allowed an overdraft of £P2,000. Between 1933 and 1937, he also took out a series of short-term loans from both banks, which he usually settled by paying checks to the bank on the dates the loans were

due from his current accounts, sometimes overdrawing those accounts to do so.<sup>8</sup> The last loan al-Farouqi took out from the Arab Bank was for the sum of £4,742, and, instead of paying back that amount with a check when it came due as was his custom, he wrote the bank a promissory note, guaranteed by his friend, Hassan Rafaat Effendi Mohammed Hafif el Khoury.<sup>9</sup> When the year ended he wrote another promissory note to the bank for the same amount, and did so each year till 1937 - essentially “rolling” the loan over, in banking terms, without paying down any of the principal. The Arab Bank accepted these rolled-over promissory notes, but added an 8% charge of interest, compounded every three months, to each. By 1937, the Arab Bank claimed that it was owed a total of £P6,400 by al-Farouqi, though the original amount of the loan taken out by al-Farouqi had been only £P4,742.<sup>10</sup>

In mid-1937, the management of the Arab Bank had decided to embark upon an aggressive campaign to get the bank’s debtors to pay back their overdue loans. A revealing paragraph in Abdul Hameed Shoman’s – the bank’s founder’s – memoirs explains why he had decided to pursue this policy of debt-collection despite the stated aims of his bank to become the bank of choice of the Arab businessmen and merchants and farmers of Palestine. The bank was, in 1937, struggling to make a profit, and the indiscriminate manner in which it had granted loans in the first few years of its operation – which it had done to distinguish itself from the other

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<sup>8</sup> District Court of Jerusalem. *Judgment in Arab Bank of Jaffa v Sheikh Suleiman Taji el Farouki of Ramleh and Hassan Rafaat eff. Mohamed Hafif el Khury of Ramleh*, 15 July 1939. Henceforth, *Arab Bank v al-Farouqi*, July 1939. ISA 162/235

<sup>9</sup> A promissory note is essentially a bond in reverse: the writer of the note makes a promise to pay the full amount of the note at a later date, and the collector of the note collects interest in the interim till the note “comes due.” These were popular in Palestine during the Mandate as they allowed people to obtain short-term loans without having to attach property or other physical assets as security. The promissory note usually had to have a guarantor, and al-Farouqi used his friend Hassan Rafaat Effendi to guarantee his. But the bank had no “security” that it could take if the original note-writer failed to pay.

<sup>10</sup> *Arab Bank v al-Farouqi*, July 1939, ISA 162/235

commercial banks in Palestine, which were far more careful about whom they took on as debtors – threatened to jeopardize its future:

“He (Shoman) was as anxious as anyone else that the great figures of the community should be persuaded to support the Arab Bank until it became a strong and prosperous institution, but at the same time they had to appreciate that the Bank could not hope to achieve this condition *if they were permitted to borrow huge sums from it indefinitely*. One night he was kept awake pondering this embarrassing problem until he finally decided that there was only one way to solve it. *He would take it upon himself, he resolved, and quite regardless of any repercussions that might follow, to insist that all outstanding debts to the Bank should be discharged. This was a duty he owed to the bank, and he was fully determined to perform it, even if it involved legal action to recover some of the debts.*”<sup>11</sup>

Pursuant to this new hard-nosed policy – or duty, to use Shoman’s word for it – the Arab Bank contacted all its debtors towards the end of 1937, and demanded immediate repayment of all outstanding loans, plus accrued interest. Al-Farouqi was just one of many such debtors thus contacted and threatened with a lawsuit if the sums he owed were not repaid. In response, he took two actions: first, in May 1938, he launched a pre-emptive lawsuit in the district court of Jerusalem against both banks for charging him “Excessive and unlawful interest, within the meaning of the Usurious Loans Ordinance 1934, Section 2.”<sup>12</sup> And second, in January 1939, he wrote an oblique letter to the senior partner of the law firm Bernard Joseph & Co. in Tel Aviv, requesting legal advice on behalf of “a person who is indebted to a number of banks with a few thousand pounds (although) the debt does not constitute more than 10% of his fortune” – hastening to add, in a post-script, that the response from the law firm was to be marked “confidential” in Arabic.<sup>13</sup>

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<sup>11</sup> Shoman, *al Muhami*, 186-7 (translation; emphases added)

<sup>12</sup> *Arab Bank v al-Farouqi*, July 1939. ISA 854/105

<sup>13</sup> Letter from Sheikh Suleiman Taji al-Farouqi, Ramleh, to Dr. Joseph, 24 January 1939. ISA 854/105



Both of al-Farouqi's actions were curious: the launching of a pre-emptive lawsuit that al-Farouqi must have known, since he had had legal training, that he had slim chances of winning -- for the records pertaining to the promissory notes that he had written to the banks were bound to be in the bank's files and easily presented at court in the bank's defense -- as well as the choice of Bernard Joseph & Co, a reputable Tel Aviv law-firm owned and run solely by Jewish partners, to represent him.<sup>14</sup> This was especially curious as Al-Farouqi was not only a wealthy Arab land-owner, but he was also among the most vocal and earliest of Arab anti-Zionist nationalist politicians in Palestine. So engaged was he in the politics of his day that a cursory summary of his activities during the first three decades of the 20<sup>th</sup> century also provides a nice précis of the political developments of that era: in 1910 he had organized one of the first political parties in Ottoman Palestine, the Patriotic Ottoman Party (al-Ḥizb al-Waṭani al-‘Uthmani), which announced “that the main reason for its establishment is the feeling of its members and founders that the country is in danger and that a flood threatens to engulf it and has almost put an end to its political and economic life, and that threat is the Zionist organization.”<sup>15</sup> In 1913 he was one of the first and loudest Muslim voices calling for the Muslims and Christians of Palestine to unite against Zionism; in 1920 he was the chief promoter and organizer of the Third Palestinian Congress in Haifa; and in 1923 he was elected president of the newly-formed Palestinian Arab National Party (al-Ḥizb al-Waṭani), which had been set up by members of the so-called “opposition movement,” led by Raghīb al-Nashashibi, to oppose the Arab Executive faction that

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<sup>14</sup> Lawyers from Bernard Joseph & Co. represented al-Farouqi in his cases against the Arab Agricultural Bank and the Arab Bank for at least five years, from 1939 till 1942; what happened after 1942 is unclear, as the ISA has no more files on the case. The Arab Agricultural Bank was represented in its legal battles against al-Farouqi by Abcarius Bey. Why al-Farouqi chose a Jewish law firm, and Jewish lawyers, to represent him when he was publicly such a staunch anti-Zionist and nationalist, and when there were many reputable Arab lawyers and law-firms around, remains a mystery.

<sup>15</sup> Yohoshuah Porath, *The Emergence of the Palestinian-Arab National Movement, 1918-1929* (London, Cass 1974), 29

was dominated by the Husayni group.<sup>16</sup> The sheikh was also an influential and frequent writer of political opinion pieces, first in Haifa's al-Karmil newspaper and later in Mir'at al-Sharq, a newspaper published from Jerusalem.<sup>17</sup> Finally, he was also a practicing Muslim clergyman, an 'alim, who not only delivered regular Friday sermons at the Great Mosque in Ramleh, but also sometimes preached in churches in Haifa while exhorting the Muslims and Christians of Palestine to unite against their common enemy, the Zionists.<sup>18</sup>

What could have prompted a man of so many parts, who had such standing in society and such impeccable nationalist credentials, to hire a Jewish law firm to fight against the only two Arab-owned banks in the country, the owners of which presented themselves as staunchly nationalistic champions of Arab businessmen and cultivators? And what could have prompted him to launch into these law-suits when he knew that his case was so weak?<sup>19</sup>

The answer might be guessed at from a close reading of the correspondence between al-Farouqi and his lawyers in 1940-1, by when it had become clear that the courts were going to side with the banks. The Jerusalem district court had already decided in favor of the Arab Agricultural Bank in October 1940, and had awarded the bank the full amount that al-Farouqi owed (P£2,000), plus all the interest that had accrued on the debt from 31 December 1936 until actual payment, plus, adding insult to proverbial injury, it had also ordered al-Farouqi to pay all

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<sup>16</sup> Porath, *Emergence*, 29, 108-9, 131, 138, 210, 214, 222

<sup>17</sup> Ibid 108, 222

<sup>18</sup> Ibid. 108. al-Farouqi was also, apparently, in addition to all this, a man of considerable appetites, whose love for food had rendered him so fat that his friend Bulus Shehadeh once remarked, when inviting him for dinner, that "You are welcome to come but your belly must be left behind." (As told by Fu'ad Shehadeh).

<sup>19</sup> It is clear from his letters to his lawyers that al-Farouqi also knew that a favorable judgment in the first case, against the Arab Agricultural Bank, would likely lead to a similar judgment in the second case, against the Arab Bank, to which he owed a far larger sum of money. The total amount he would have been required by the courts to pay, if both banks were awarded full damages plus costs, would have been almost P£10,000, and that would not have included the amounts he owed his own lawyers for their legal fees and court expenses.

the bank's legal fees.<sup>20</sup> Al-Farouqi promptly appealed the district court's decision, but, as he made clear in a letter to his lawyers, he did so not because he hoped to win the case eventually but because he wanted to delay payment, and he knew, on the strength of his legal background, that so long as the case was in appeal, no payment could be demanded by the bank. In his letter to Dr. Philip Joseph in July 1941, he states his strategy succinctly: "I am ready for payment. *All I ask for is a reasonable extension of time.*"<sup>21</sup>

Why would a "reasonable extension of time" matter so much to Al-Farouqi, and why would he take such a litigious path to ensure that he got it? His letters to his lawyers, once again, provide a clue as to his reasons: he calculated that, at best, he would get a judgment in his favor, in the sense that the courts would agree that the 9% interest, compounded every three months, that the banks had charged on his promissory note was illegal under the Usurious Loans Ordinance of Palestine of 1934.<sup>22</sup> This would result in a reduction of interest, and, thus, a reduction of the total amount he would eventually have had to pay the banks, though the principal outstanding would be the same. This was his strategy in court from the beginning; he made no attempt to deny that he owed the bank money, as the District Court noted in giving judgment in his case against the Arab Agricultural Bank: "In his defense al-Farouqi admits he

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<sup>20</sup> *Arab Bank v al-Farouqi*, July 1939. ISA 162/23 5 and District Court of Palestine. *Affidavit by Sheikh Suleiman Taji al-Farouqi in his appeal against the judgment of the District Court in al-Farouqi v. Arab Agricultural Bank*, 8 Nov 1940. ISA 854/105

<sup>21</sup> Letter from al-Farouqi, Ramleh, to Dr. Joseph, Feb 1941. ISA 854/10 5. (Emphasis added)

<sup>22</sup> This ordinance prohibited interest rates higher than 9% on all loans in Palestine, and was promulgated by the British Mandate authorities in 1934 as part of their ongoing efforts, both fiscal and legislative, in the early 30s to rescue the rural Arab cultivators from the poverty and misery in which they were mired. An additional goal of these measures was to lessen the power of the money-lenders, to whom the rural farmers were usually indebted. Hakim and el-Husayni, "Monetary and Banking System," 498. The government of Palestine reported that these measures "...sought to protect the honest agricultural debtor against unfair imprisonment and to give him the same remedies as were open to debtors among other classes of the community in case of bankruptcy. Legislation was also introduced with the purpose of weakening the position in law of the unscrupulous usurer." Government of Palestine, *A Survey of Palestine: Prepared in December 1945 and January 1946 for the Information of the Anglo-American Committee of Inquiry* (Palestine, 1946) Vol I., 365

owes the Bank money but he does not know how much. He disputes the bank's figures and alleges usurious interest and compound interest."<sup>23</sup>

In this best-case scenario, too, al-Farouqi reasoned, a judgment of "usurious interest" against the bank would cause considerable embarrassment to the banks' founders, Abdul Hameed Shoman and Ahmed Hilmi Pasha, both of whom, as noted above, regarded themselves as staunch and selfless Arab nationalists whose main purpose in life, at least as advertised by themselves, was to provide much-needed financial help to their fellow Arabs. Al-Farouqi calculated that the banks' managers would do anything to avoid the public embarrassment that would inevitably be the outcome of such a judgment, and could thus likely be induced to settle out of court, with the result being that he would end up paying a lower sum than was originally due.

On this supposition al-Farouqi was exactly right, for, even though the case was decided in their favor at the district court level, the managers of the banks contacted al-Farouqi's lawyers, soon after the court had delivered its verdict, to try to prevent al-Farouqi from taking the case to the Supreme Court of Appeal. Al-Farouqi's lawyers wrote to him the week after the case went against him:

"As we have already told you, the Bank have expressed *their willingness to settle with you notwithstanding the judgment which they obtained against you*. And we would advise you to get in touch with the Bank before the expiry of the period of appeal, *as at present the Bank is likely to settle the claim*."<sup>24</sup>

But al-Farouqi, disregarding both the advice of his lawyers and the offer of the bank managers to settle out of court, lodged an appeal at the Supreme Court soon after the verdict of the district court was known. His reasons for doing so were clear: he knew that, by taking the

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<sup>23</sup> *Arab Bank v al-Farouqi*, June 1941. ISA 171/305

<sup>24</sup> Letter from Philip Joseph to al-Farouqi, 4 Nov 1940. ISA 854/105 [Emphasis added]

case to appeal, he would gain a delay in payment of some years, as the banks could make no movement to execute the decision of the court while the case was still in the appeals process. This delay was crucial for him, for he didn't have the P£10,000 to hand that he would need to pay the banks, and he knew that he would thus have to sell some of his property to raise the sum. This would mean selling at a loss, as property prices in Palestine were depressed in 1940. He explained the matter to his lawyers:

“This point is very important. Execution means sale of property, because, presently, there is no such amount of money available. This shall be carried out relative to prevailing prices, which means 25% of its original value. This will result with enormous damages that amount to thousands. These damages when inflicted are unrepairable.... Moreover the present grave conditions are acknowledged by everybody and by the Government which decided to grant loans to Citrus Growers and delayed the collection of tithes and taxes...”<sup>25</sup>

Although al-Farouqi was a wealthy landowner who owned several properties and large swathes of land in the Ramleh sub-district, the fear of being forced to sell his land at below-market prices in order to pay the banks, and the fear – which was never far from any Arab's mind at the time in Palestine – that this forcibly-undersold land would inevitably pass on to Jewish hands – was what propelled these legal shenanigans for five years. As he confessed in yet another letter to his lawyers, “I am in a desperate position” – and, for all his status and standing in Palestinian society, and for all his wealth, and for all the invective he hurled at the banks and their founders, he was right; he was.

It is unclear, from the archival materials, how al-Farouqi's cases against the Arab Bank and the Arab Agricultural Bank were eventually settled, as the files in the Israeli State Archives, which were taken from the law firm Bernard Joseph's offices, are incomplete.<sup>26</sup> But, regardless

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<sup>25</sup> Letter from al-Farouqi, Ramleh, 16 June 1941. ISA 854/105 [All errors in original]

<sup>26</sup> See note 31 on sources

of the outcome, it is clear that he got, in suing the banks pre-emptively, what he really wanted: a delay in payment, and thus, a legally-sanctioned way of getting out of having to sell his lands to repay his debts. It is possible, too, that the banks eventually settled with him out of court and agreed to be paid a lower sum in exchange for an end to the matter. But whether they did or not, as of June 1941, when the archival record on his case goes cold, he had not yet paid a piaster of what he originally owed the bank.

Al-Farouqi was, by all accounts, and not least by the account of his personality that emerges from the colorful letters quoted here, an extraordinary and unusual man. But in his legal battles with the two banks, as it turns out, he was not all that exceptional, for, as the records of the private law firms operating in Palestine at the time indicate, the district courts of Palestine were overrun in the late 30s and early 40s by civil suits filed by Arabs of all backgrounds and classes against the banks operating in the country.<sup>27</sup> Many of these cases resemble, in their particulars, al-Farouqi's lawsuits against the Arab Bank and the Arab Agricultural Bank.

There was, for example, the case launched by Abdul Fattah Nusseibeh and Fakhri iddin Nusseibeh against the Arab Agricultural Bank in 1938, which involved the payment of a mortgage that they had taken from the bank in 1934, against the security of an orange grove they owned in Jaffa.<sup>28</sup> The total amount of the mortgage was P£3,000, and the payments were to be made in five installments over five years, plus interest. In mid-1937, however, the Agricultural Bank came calling, as it had done in al-Farouqi's case, and insisted on full repayment of the P£1,800 – a modest amount when compared to the princely sums al-Farouqi owed – that was still

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<sup>27</sup> For a list of these cases please refer to Figure 1

<sup>28</sup> District Court of Jerusalem, *Abdul Fattah Nusseibeh and Fakhri iddin Nusseibeh v Arab Agricultural Bank*, 13 Sep 1938. ISA 177/145. As with al-Farouqi's case, I keep all proper name spellings as they appear in the archival documents, when those documents are in English. For the sake of consistency, when the same names appear in Arabic that have also appeared in English archival sources, I use the transliteration used in the English sources.

outstanding, and threatened legal action, as it had done in al-Farouqi's case, if no payment was made.

In September 1938 the Nusseibehs responded exactly as al-Farouqi had done: by preemptively suing the bank. The Nusseibehs claimed, in their suit, that they had paid the bank on schedule and as required up to that point in time, but that they had fallen on hard times, and could not pay the remaining P£1,800 in one lump sum.<sup>29</sup> They admitted to the court from the outset, as al-Farouqi had done, that they owed the bank money, but unlike al-Farouqi, they claimed that they had arrived at a verbal agreement with the chairman of the bank, Ahmed Hilmi Pasha, to repay their debt in installments of P£500. Hilmi Pasha was, at that time, in exile in Cairo – being one of the many political casualties of the Arab revolt – and the bank's local manager Shawkat Hammad denied all knowledge of such an agreement and demanded payment of the full sum as per the conditions set down in the bank's new debt-collecting policy.

The Nusseibehs' case centered on the claim that they were willing and able to pay back the loan, but only wanted to be allowed to pay in installments and not in a lump sum. Abdul Fattah Nusseibeh wrote personally to the president of the district court to plead his cause, and, in doing so, complained, as al-Farouqi had done in his letters to his lawyers, about the gap between the Agricultural Bank's lofty rhetoric about existing solely to serve the credit needs of the Arabs of Palestine and the cold harsh reality of its debt-collecting policies. Nusseibeh's tone was milder than al-Farouqi's had been, but the sentiment was the same, as was the reference to the necessity of waiting till the economic situation had improved so that any property that had to be sold could fetch its proper market value:

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<sup>29</sup> District Court of Jerusalem, *Abdul Fattah Nusseibeh and Fakhri iddin Nusseibeh v Arab Agricultural Bank*, 13 Sep 1938. ISA 177/145

“The Arab Agricultural Bank was founded with the purpose to help the farmer and the orange grower. It is because of the present circumstances and the late conditions that developed in Palestine made it difficult for me to pay the mentioned debt in its due time. This being so against my will. It is only expected, Your Honour, that the orange grower should receive the help of the bank, especially under present conditions of financial stress.

“It is to be realized that any property put on auction sale at the present only goes for about one fourth of its value. Therefore the loss I would incur would be manifold if an action is taken at the moment.

“On the other hand, the Bank will not lose if the action was deferred. On the contrary, the Bank will profit as it will continue drawing up interest on the debt, and at the same time having a property which is about eightfold the debt value as security.

“I am calling on your help and asking your kind consideration to be granted in this case. It is British Justice that I am resorting to.

“May I remind Your Honour that I am prepared to pay the installments as mentioned above.”<sup>30</sup>

The archival record is even less complete in Nusseibeh’s case than it is in al-Farouqi’s, and it is unclear how the case ended.<sup>31</sup> But it seems safe to conclude, from the wording of the

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<sup>30</sup> Letter from Abdul Fattah Nusseibeh to President of the District Court of Jerusalem, 7 July 1939. ISA 177/145

<sup>31</sup> The source material for all the cases cited in this chapter come from the records of the Bernard Joseph & Co. law firm at the Israeli State Archives. These papers are stored haphazardly and, as noted above, the files are incomplete and not categorized in English or Arabic, and thus only accessible to those who read Hebrew. The documents in Arabic are preserved poorly and are, more often than not, in tatters. But we are fortunate to have them at all, for the records of the many Arab law firms that were operating during the Mandate, particularly those that were based in Jaffa and Jerusalem –firms such as those owned by ‘Aziz and Fu’ad Shihadeh; Subhi Ayubi; Abcarius Bey; Hanna Atallah; and the other well-known Arab lawyers of the day – have all been lost. As have the records of the Palestinian businesses, shops, accounting firms, hotels, tourist companies, citrus traders’ firms, all that which comprised the Palestinian business sector. One of the obvious difficulties in writing Palestinian history is that the Palestinians, sadly, have no archives of their own, and the private records of these Arab businesses and law firms, which would have been such a rich source of material for the kind of history attempted here, have all but vanished, either destroyed in the fighting and chaos of ‘47-‘48, or left behind when the Arabs fled for their lives. Had al-Farouqi and the others mentioned here not hired Jewish law firms to represent them in their battles against the banks, their stories would have been lost entirely. And even if some of the documents of the Arab firms and law-offices have survived the transition in 1948, and have somehow made their way to the Israeli State Archives, the staff at the ISA have neither the resources, nor the institutional will, nor the requisite language ability, to read through Arabic-language documents; so, perhaps they are there, molding in boxes in the ISA’s warehouses somewhere, but they are not accessible to us. The British, when they abandoned the Mandate for Palestine, took with them only what they thought were the most essential files and records, which were generally limited to documents relating directly to British policy, and politically-sensitive matters such as land-ownership and immigration. Although the National Archives in London do have a rich collection of documents on Mandate Palestine, these include are no records of the district courts of Jerusalem, Jaffa and Haifa, which, had they survived, would have also provided a rich source of material for anyone interested in the economic, social, and legal history of the era.



letter quoted above, that the Nusseibehs' main goal in taking pre-emptive legal action against the Arab Agricultural Bank was to buy themselves a legally-sanctioned delay in repaying the bank and thus to avoid having to make a distress sale of their property when prices were below normal levels.

Little else is known about these two lawsuits, but it is clear that the Nusseibehs and al-Farouqi were in good company, for the list of names of the Arabs who took legal actions against the banks between 1938 and 1942 reads like a Who's Who of Palestine of that era (see figure 1 below): it includes businessmen and entrepreneurs like Ali and Nabeel al-Mustakim, who owned the Cinema Nabeel in Jaffa; land-owners like al-Farouqi; citrus grove owners like the Nusseibehs; and even two members, Rushdi bey Imam el Husseini and Rajai Bey el-Husseini, of Palestine's most prominent political family.<sup>32</sup>

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<sup>32</sup> *Rushdi bey Imam el Husseini and Rajai bey el Husseini vs Arab Bank*, Nov 1942. ISA 181/15 Unfortunately this file is mysteriously empty, with no documents in it at all, not even the merest scrap, so the details of the Husseinis' dispute against the bank are not known, though it is clear that a case was indeed launched by them against the Arab Bank in Nov 1942, as the file contains the number assigned by the district court to the suit.

<b>Name of Plaintiff</b>	<b>Bank</b>	<b>Year</b>	<b>Details and Amounts if known</b>
Suleiman Taji al-Farouqi	Arab Agricultural Bank	1938	Claimed bank had charged him "excessive and unlawful interest." Amount disputed: P£2,500 (original principle plus interest)
Suleiman Taji el Farouki	Arab Bank	1939	Claimed bank had charged him "excessive and unlawful interest." Amount disputed: P£6,400 (original principle plus interest)
Yousef Musleh Hanoun	Arab Bank	1939	Claimed bank had charged him "excessive and unlawful interest" on a promissory note he had already repaid. Amount disputed: interest charged on prom. note of P£1000
Ali and Nabeel el-Mustakim	Arab National Bank	1947	Default on payments of promissory notes
Subhi Meheshem and Anis Mudawwar	Arab Bank	1939	Claimed bank had altered the wording of a promissory note after they had signed it. Amount disputed: prom. note P£50
Mogannam brothers	Arab Bank	1941	Claimed bank charged them interest on amounts of mortgage they had already paid
Subhi al-Ayouni	Arab Bank	1944	Claimed bank had not paid him the sums due to him in his capacity as the bank's lawyer in various legal cases. Amount disputed: P£951
Joseph Muhanna and Co	Arab Bank		Unknown
Hahif el Khoury	Arab Bank		Unknown
Asma al-Jamai al-Khatib (waqf al-Khatib)	Arab Bank		Dispute regarding auction of property belonging to Asma el Jamai el Khatib
Stepho Awad and Jabia Awad	Arab Bank	1938	Dispute regarding unpaid promissory note. Amount disputed: P£50
Raffoul Kara'a	Arab Agricultural Bank	1939	Dispute regarding non-payment of a promissory note written by Kara'a against issuance of shares of a company that was never registered. Amount disputed P£468
Rushdi bey Imam el Husseini and Rajai bey el Husseini	Arab Bank	1941	Unknown
Maryam al-Ghussein	Arab Bank	1939	Dispute regarding foreclosure and distress sale of deceased father's property; father died without repaying loan to bank of 18,000; mortgaged property sold by Arab Bank at P£13,000
Abdul Fattah Nusseibeh and Fakhri iddin Nusseibeh	Arab Agricultural Bank	1938	Dispute about non-payment of a promissory note; P£1,800
Mogannam	Arab Bank	1941	Dispute about payment of mortgage installment and interest accrued
Farid Badr el Kalouti and Tawfil Badr el Kalouti	Arab National Bank	1944	Dispute about non-payment of a promissory note. Amount disputed: P£200
Ali Arif Abdul Hadi	Arab National Bank	1947-8	Unknown
Nimer Odeh and Najib Khoury	Arab National Bank		Unknown
Abdul Ra'ouf Ma'touk	Arab National Bank	1947	Unknown
Jamil Saoud	Arab National Bank	1947	Unknown

Source: Israel State Archives, Various

**Figure 1: Partial list of lawsuits filed by Arab Palestinians against Banks (1937-1942)**

But even more interesting is the fact that this list of litigious Arabs includes not just the rich and famous of Palestine at the time, but also some very ordinary people - widows, government employees, school teachers, doctors - who were not wealthy and whose disputes with the banks were for amounts as miniscule as P£50. It included people like Maryam al-Ghussein, daughter of a Mohammad Tawfik Bey al-Ghussein, who sued the Arab Bank in 1939 in the district court of Jaffa for having foreclosed on her late father's property, which had been mortgaged to the bank, without her knowledge.<sup>33</sup> Mrs. al-Ghussein was the wife of a doctor attached to the Government Hospital in Jaffa; she was neither prominent nor wealthy, and yet she did not hesitate to take legal action against the Arab Bank to prevent it from making a forced distress sale of her father's foreclosed property at a price below its true market worth. In her legal depositions, Maryam al-Ghussein begged the court to prevent the bank from selling the property, as it was planning to do, to the first bidder who came along, "as the property is worth much more than any of the bids."<sup>34</sup> An additional cause for her anxiety was that the first bidder who had approached the Arab Bank was the Zionist investment fund, Keren Keyemeth le-Israel, which meant, inevitably, that her father's property would not only be sold at below-market rates but that it would pass on to Jewish hands.<sup>35</sup> Once again, it is unclear how the matter ended, but Miriam el-Ghussein took her case against the Arab Bank all the way up to appeal at the Supreme Court, for she, like al-Farouqi and the Nusseibehs, was not intimidated by the prospect of a protracted legal battle against the banks, and she, like so many of her compatriots, knew that any

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<sup>33</sup> District Court of Jaffa Execution File No. 164/39: *The Estate of Mohammed Tewfik bey Ghussein v The Arab Bank Co. Ltd., Jaffa*. ISA 179/32

<sup>34</sup> Affidavit by Mrs. Miriam el-Ghussein to the Supreme Court sitting as a High Court of Justice, 22 Nov 1942. ISA 179/32

<sup>35</sup> Affidavit Mrs. Miriam el-Ghussein, 22 Nov 1942. ISA 179/32

sort of legal action would mean a delay on the sale of property. As of January 1943, her father's property, which had been foreclosed by the Arab Bank in 1939, remained unsold.<sup>36</sup>

While Mrs. Al-Ghussein's legal efforts aimed at preventing the sale of her dead father's property at below-market rates to a Zionist investment fund, the lawsuit filed by Yusuf Musleh Hanun against the Arab Bank in August 1939 was closer, in its particulars, to that of al-Farouqis, though the sum involved was far more modest. Hanun sued the Arab Bank for having charged him "usurious interest on a very high scale," and commissions to which he had not agreed, on the loan of P£1,000 which he had taken from the bank in December 1936.<sup>37</sup> Hanun was a simple man who spoke no English, and yet, like the others mentioned here, he turned to the legal apparatus of the state – in his case, the district court of Jaffa – to protect himself from the actions of the bank. So did Anees Mudawwar of Haifa, who sued the Arab Bank in 1939 for the tiny sum – especially so when compared to the sums involved in the al-Farouqi and Nusseibeh cases – of P£50. His claim against the bank was that it had demanded payment on a promissory note of P£50 that he had already repaid, and he accused the Arab Bank of having tampered with his note after he had already signed it.<sup>38</sup>

## 2. The Middle

A common theme that emerges from the legal depositions filed by the Arabs in their battles against the banks in this period, from the late 30s to the early 40s, is the harshness of the

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<sup>36</sup> District Court of Jaffa Execution File No. 164/39: *The Estate of Mohammed Tewfik bey Ghussein v The Arab Bank Co. Ltd., Jaffa*. ISA 179/325 The court documents indicate that the Arab Bank had contracted to sell the property to Keren Keyemeth le-Israel for P£11,000. Miriam al-Ghussein alleged that the property was worth at least P£18,000.

<sup>37</sup> *Yusuf Musleh Hanun v Arab Bank*, August 1939. ISA 181/2 5

<sup>38</sup> *Anees Mudawwar and Subhi Meheshem of Haifa v Arab Bank*, 1939. ISA 182/95

economic climate at the time of filing and the desperate situation of those who had taken out loans in happier times which they could now not afford to repay. The contrast to the economic situation of just a few years earlier, in the 20s to mid-30s, when the Palestinian economy was enjoying a sustained boom, and when Arab entrepreneurs and businessmen were full of confidence for the prospects of their newly-founded companies' balance sheets, if not for their country, seems particularly cruel, for the optimism of those earlier years is partly what had fuelled the establishment of the very institutions, the Arab Bank and the Arab Agricultural Bank, to which so many Arab businessmen were soon to become indebted.<sup>39</sup>

The Arab Bank and the Arab Agricultural Bank were not the only financial institutions established by the Arabs in those years. The Arabia Insurance Company was established 1936, and the National Fund (Şunduq al-Ummah), which was conceived of as the first Arab-owned investment fund in Palestine, was established by Fu-ad Saba in 1931. Modeled on the lines of the successful Zionist investment funds, it aimed to collect funds from ordinary people and invest them in industrial projects in Palestine. Though the scheme soured quickly, it had begun with much promise: 2,300 people had subscribed to its first collection in Jaffa in 1932, and other

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<sup>39</sup> The Palestinian economy enjoyed a sustained expansion from the end of the First World War till about 1935; Hakim and el-Husayni date the beginning of the recession to 1936. Hakim and el-Husayni, "Monetary and Banking System," 450. While differing with them on dates, as he suggests that the recession began earlier in the 30s, Roger Owen agrees that: "There is no doubt that the Palestine economy enjoyed a high rate of growth during the inter-war period[...] However it is also clear that this advance was due largely to the peculiar feature of Jewish immigration and large Jewish capital transfers[...]. A second feature of Palestine's economic performance is that it tended to grow more rapidly at periods when the world economy was slowing down, as in the mid 1920s and early 30s[...]. On the whole, Arab economic activity seems to have followed the same cycles, sharing in the booms of the mid-20s and mid 30s but then being hurt, not only by the general downturn but also by the political reaction which always followed periods of rapid Jewish migration, most notably during the rebellion of 1936-9." Roger Owen, "Economic Development in Mandatory Palestine, 1918-1948" in George Abed ed., *The Palestinian Economy: Studies in Development Under Prolonged Occupation* (Routledge London and New York, 1988), 25. In the first chapter of this dissertation I include a lengthier description of the expansion of Palestinian business and industrial activity in the 20s and early 30s, and argue that some portion of the economic growth in those years must rightly be attributed to the entrepreneurial efforts of the Arab Palestinians. This argument is supported by the figures given by Sa'id Himadeh, who notes that: "There was a tremendous growth in the number of enterprises in all the different groups of industries [between 1917 and 1928]... Of the 2,269 enterprises established since the War, 1,373 or 60.5% of them were Arab, representing an investment of P£613,000." Sa'id B. Himadeh, "Industry" in *Economic Organization of Palestine*, ed. Sa'id B. Himadeh (Beirut: American Press, 1938), 230

collections were carried out in Jerusalem, Haifa, Nablus, Gaza, Ramallah, Tulkarem, Jenin and even, by an enterprising group of Arab émigrés, in Tambico, Mexico.<sup>40</sup> A whole host of trade unions and chambers of commerce were also established in the mid-30s, as, for example, the Arab Architects and Engineers Syndicate in Haifa (established 1934); the Association of Arab Engineers & Architects in Jerusalem (established in 1936); and the Jerusalem chapter of the Arab Chamber of Commerce (established in 1936).

Considering the clouds that were to darken the economic outlook of all these entrepreneurial Arabs by the middle of that year, the cheery injunctions printed on the last page of the Directory published by the Arab Chamber of Commerce in 1937 – “Buy Arab National Products - Encourage Arab Enterprises - If you are in doubt where to shop buy this Directory” – seem more an elegy to the times that had just passed than an advertisement for those that were to come.<sup>41</sup> For, if one had to paint a picture of the Palestinian economy from early 1937 till the beginning of war years, it would have to be done in stormy colors, with dark clouds representing the delayed effects of the global depression, which badly affected the agricultural sector in the mid-30s; the further blow to agricultural sector caused by two bad harvests in 31/32 and 33/34; the currency crisis and the run on the banks precipitated by the panic caused by the Italian-Abyssinian conflict in 35; and the sustained effects of the political strife that roiled the country in the late 30s, from the Arab general strikes of April to October 1936, to the Arab revolt, from 36-39.<sup>42</sup>

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<sup>40</sup> Porath, *Emergence*, 16-17

<sup>41</sup> *Directory of the Arab Chamber of Commerce* (Jerusalem, 1937). Property of the family of Nahed Bishara of Tarshiha.

<sup>42</sup> For effects on the agricultural sector of the economy of the global depression and the bad harvests, see Owen, “Economic Development in Mandatory Palestine,” 21, 25. For effects on the financial and banking sector caused by the Italian-Abyssinian conflict, see Hakim and el-Husayni, “Monetary and Banking System,” 450 and Nachum Gross, *ha-Mediniyut ha-kalkalit shel ha-mimshal ha-Briḡi ha-mandaḡori be-Erets Yiśra`el*, (ha-Makhon le-meḡkar kalkali be-Yiśra`el ‘al-shem Moris Falk, Jerusalem, 1983). For effects of the Arab revolt and the general strike, see

Despite these looming clouds, however, Abdul Hameed Shoman, the founder of the Arab Bank, remained resolutely optimistic about his Bank's future at the beginning of 1937. Early that year he announced plans to open a fourth branch in Nablus, having already opened second and third branches in Jaffa and Haifa in previous years (the first having been established in Jerusalem in 1930); and prepared to open a fifth branch, later in the year, in Amman.<sup>43</sup> Clearly, then, Shoman felt early in 1937 that bank's future was bright, and that it was on its path to fulfilling the grand ambitions – Shoman was a man much given to grand ambitions – that he had in mind for it. As he declared at a board meeting of the bank in 1937, as explanation for why he wanted to expand the bank's share capital so that they could open a branch in Amman, outside Mandate Palestine's borders:

“This institution is not a Shoman property. It does not belong simply to the people of Jerusalem, nor even to Palestine, but to the entire Arab nation... The Arab Bank shall strive to achieve two goals: first the economic prosperity of Palestine, and second, the strengthening of Palestine's ties with other Arab lands.”<sup>44</sup>

Shoman was also, like others who are given to grand ambitions, not easily put off once he had made up his mind to do something. Having started out life as the illiterate younger son of a humble stone mason from a village, Beit Hanina, near Jerusalem, he had immigrated to America in the early years of the 20<sup>th</sup> century, like many other Arabs in the late Ottoman era, to seek his fortune. Beginning in New York as a humble itinerant peddler who had no money, spoke no English – couldn't even write Arabic – and knew nothing of banks and businesses, leave alone general accounting practices, he ended by becoming, within a few years, as per the standard stuff

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Owen, “Economic Development in Mandatory Palestine,” 25 and Hakim and el-Husayni, “Monetary and Banking System,” 450.

<sup>43</sup> Shoman, *al Muhami*, 186-194 (translation). Shoman had already applied to the British authorities in Transjordan for the requisite permissions and had tried, albeit unsuccessfully, to recruit the manager of the Ottoman Bank in Amman, Haidar Shukri, to work for this proposed new branch.

<sup>44</sup> Shoman, *al Muhami*, 240-2 (translation)

of the American Dream, a prosperous businessman who owned a string of stores – “Shoman’s – in New York, Baltimore, and Philadelphia.<sup>45</sup>

From very early on in his time in America, Shoman had become obsessed with the idea of creating a bank for all Arabs. Alternately inspired and frightened by the success of the Jewish-owned banks and investment funds in Palestine, Shoman dreamed of an Arab Palestinian institution that would do the same for the Arabs: that would serve as the bank of choice for their savings and be the vehicle for their investments. He gradually became convinced that he was just the man to create such an institution, and took to talking about it endlessly whenever he ran into groups of his fellow Arab émigrés in New York. Soon he became known, and mocked, in those circles, for being in the grips of an obsession, and when he tried to get his compatriots to join him in contributing capital for the establishment of such a bank, he was laughed out of the room.<sup>46</sup> Unable to raise the necessary capital to fund his scheme, Shoman reluctantly gave up on the idea, and, with ill-concealed resentment towards his Arab-American cohort, returned to focusing his energies on his retail business.

But he was not, as noted earlier, a man to give up lightly his ambitions. About ten years later, in mid-1929, Shoman tried once again, this time traveling to Egypt to meet with Tal’at Harb, the prominent chairman of the Bank of Egypt (Bank Misr), whom he tried to interest as an investor in a new banking project in Palestine. According to Shoman’s account of the meeting,

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<sup>45</sup> In the first chapter of this dissertation I have a longer descriptive section on the Arab Palestinians who traveled to America in the early years of the 20<sup>th</sup> century and prospered there in various trades. These were Ali al- Judeh who established the al-Bireh clothing company in New York; Ali and Judeh Ismail Jadallah and their partners Mshushir al-Na’ura and Dahdul Hamdan who formed the Palestine Company; Hamdan Ghannam and his brothers who established the Deir Dibwan Company; and others such as Abdullah and Issa al-Batih, Hanna Hishmeh and Aziz Shahin from Ramallah; Eid Hussein Alur from Deir Dibwan; Othman al Ata and Abdel Jawwad Abu Ali from Bireh. But Abdul Hameed Shoman was the most celebrated among these, and the only one who returned to Palestine to become even more prosperous at home than he had been abroad. For more on the Arab Palestinians who became prosperous businessmen in America, see Saleh Abdel Jawad, “Landed Property, Palestinian Migration to America and the Emergence of a New Local Leadership: al-Bireh 1919-1947,” *Jerusalem Quarterly* 36 (Winter 2009) and Habib Ibrahim Katibah, *al-Natiqun bi-al-dad fi Amrika* (Jerusalem, al-Maṭba’ah al-Tijārīyah, 1946)

<sup>46</sup> Shoman, *al Muhami*, 186-194 (translation)



which renders the incident in somewhat implausible (and unintentionally comic) colours, Harb agreed to participate in the scheme on the condition that it would be a joint venture, with 49% of the capital coming from the Palestinian side and 51% from Bank Misr. The new bank was to be called the Egypt-Palestine Bank (Bank Miṣr-Falastin), though Shoman tried, without success, to reverse the word order so that it might be called the Palestine-Egypt bank.<sup>47</sup> But the scheme, just like its predecessor ten years ago, was still-born: shortly after the riots in Palestine in 1929, Harb appeared to have developed a case of cold feet, and, explaining to Shoman that the climate in Palestine was unsuitable for a new and ambitious banking venture, pulled out of the scheme. Shoman was left, once again with his dreams of a bank, and his plans for a bank, but no funds, and thus, no bank.

Deciding that he could do nothing from afar, Shoman wound up his affairs in America, left “Shoman’s store” in the hands of a cousin, and moved back to Palestine, thus distinguishing himself from most of his fellow Arab émigrés, who, once they had become successful abroad, tended to remain there.

In 1930, when Shoman arrived back in Palestine, the local economy had already, as described earlier, been booming for a few years, and there had been a remarkable increase in the amount of money in circulation since the end of the First World War. In 1930 the total value of notes and coins in circulation was over two million pounds, and this increased steadily every year for the next eight years until, in 1938, it had reached over five million.<sup>48</sup> A local Jewish English-language newspaper, the Palestine Post, boasted, at the end of 1935, that “the per capita

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<sup>47</sup> Shoman, *al Muhami*, 111-2 (translation)

<sup>48</sup> Figures for the total Palestinian currency in circulation (in millions of Palestine pounds) are as follows: 1928: P£1.89; 1929: 1.79; 1930: P£2.12; 1931: P£2.37; 1932: P£2.40; 1933: P£2.82; 1934: P£4.07 Hakim and el-Husayni, “Monetary and Banking System,” 450

currency in circulation in Palestine is appreciably higher than in all neighboring countries.”<sup>49</sup>

This seems to have held true for the following year as well, despite the troubles that beset the Palestinian economy half-way through 1936.<sup>50</sup>

This increase in the money supply meant that people in Palestine had more cash on hand than they had ever had before, and this led to a consequent increase in their demand for banks that would cater to their needs. According to one contemporary estimate, the number of local banks in Palestine had grown from just twenty in 1930 to seventy in 1936, a staggering 250% growth in six years.<sup>51</sup> While the bulk of this demand for new banks (and the main cause for the increase in local money supply) came from Jewish refugees – who, fleeing persecution and terror in Europe, were by then pouring into Palestine in the hundreds, and bringing with them their capital and assets – the Arabs of Palestine, too, were flush with new cash, and looking for banks where they could keep it safe. The correspondence files of the local branch offices of the Barclays Bank – which was by then the largest and most important bank in Palestine, and which functioned as the semi-official bank of the British Mandate government – provide ample proof of this new demand, as they are rife with reports of the tactics used by Barclays’ managers to capitalize on it, and to win over as many clients as possible from their rivals at the Ottoman Bank and Banco di Roma.

At the time, Barclays was the largest foreign bank in Palestine, and had the advantage of being considered by the Mandate authorities the de-facto bank for all government business – it

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<sup>49</sup> “Currency in Circulation in Palestine: Year End Report of the Palestine Currency Board,” *Palestine Post*, Dec 11 1935.

<sup>50</sup> According to Hakim and el-Husayni, the per capita note circulation in Palestine (in USD) as of Dec 31 1936 was \$15.91, compared to \$4.59 in Syria and Lebanon; \$5.97 in Iraq; \$6.43 in Egypt; \$8.19 in Turkey; and \$8.99 in Greece. The number for the UK that year was \$53.50. Hakim and el-Husayni, “Monetary and Banking System,” 450

<sup>51</sup> On the growth in the numbers of local banks in Palestine between 1930 and 1938, see Hakim and el-Husayni, “Monetary and Banking System,” 465

was also the currency agent for the Palestine Currency Board – but the Ottoman Bank had the benefits of incumbency, as it had been the official bank of the previous Ottoman administration, and the largest bank, in terms of cash deposits, before the arrival of the Mandate; the Banco di Roma came a distant third in this race.<sup>52</sup> A vicious competition ensued between all three banks, in 1929-30, to corner the “Arab market,” and the main way in which this was attempted was by offering lower rates on loans and higher rates on deposits than those charged and offered by the other two rivals. In this game Barclays Bank was often able to come out ahead, as its quasi-official status allowed it to charge lower rates on loans than the Ottoman Bank could get away with. The Ottoman Bank’s manager in Jerusalem complained, in July 1929, to his superiors in London about Barclays’ rate-cutting and customer-stealing tactics thus:

“In view of their [Barclays] opening shortly in Nablus they are making special efforts to attract clients who are known to have business relations in that town. Messers [ ] and [ ] – (letter names the clients here, but the names have been blacked out) -- have again been approached *and have been offered terms which are better than ours (6 .1/8% compared to ours at 7%)*. These are good clients whom [we] are very loath to part with. *They are one of the most important firms in the town* in their line of business and their transactions with us are always regular and satisfactory.”<sup>53</sup>

The Ottoman Bank manager in London took umbrage at this race-to-the-bottom conducted by Barclays and sent a letter – the piquant title of which was “On the subject of the attempt by your Jerusalem office to attract the clients of our Jerusalem office” – to his Barclays counterpart in August 1929, asking him to rein in his Palestine branch offices’ business practices,

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<sup>52</sup> There were in all six foreign commercial banks operating in Palestine in 1930: Barclays Bank; the Ottoman bank; the Anglo-Palestine Bank; the Banco di Roma (which was forced to close at the end of the decade, at the beginning of the Second World War); the Holland Bank; and the Polish Guardian Bank. Of these, the Holland Bank and Polish Guardian Bank had only Jewish customers, and the Anglo-Palestine Bank – which, although registered as a foreign bank, was the financial arm of the Jewish Agency – also served mainly the Jewish population of Palestine, though it did have a few Arab customers. That left Barclays Bank, the Ottoman Bank, and the Banco di Roma to fight it out for Arab customers. In 1930 there were also 30 local banks registered under the Companies Ordinance (1929). Apart from the Arab Bank, which was established in July of that year, all the rest of these were small Jewish banks catering solely to Jewish customers. Hakim and el-Husayni, “Monetary and Banking System,” 465, 467

<sup>53</sup> Letter from Ottoman Bank Jerusalem to Ottoman Bank London, No.136: “Reference to our No. 834 of 5/1/1929.” 1 July 1929. The Barclays Bank Archives [henceforth, BBA] 11/113[Emphasis added]

and adding that “I think that such attempts would not meet with your approval.”<sup>54</sup> But Barclays’ local manager in Jerusalem, APS Clark, was unrepentant, and explained himself thus:

“We are endeavouring to attract and secure customers of undoubted standing by offering attractive rates... *We fully realize the desirability of increasing our business and of securing as large a clientele as possible, composed of such customers whose situations are not likely to be affected by the periodic changes in local conditions [...]* They [the Arab clients that Barclays had managed to win over from the Ottoman Bank] rather unwisely informed our competitors that they were closing their account with them, whereupon the Ottoman Bank complained to us that we were stealing their clients by cutting rates since they were charging these people 7% and we offered them 6.5%... [but] It should not be overlooked that that the Ottoman Bank is a competing concern which has done its utmost in the past to harm us, and it is doubtless on record at the Colonial Office what steps they took to try and take away from us the Government business.”<sup>55</sup>

Clark went on to explain the reason for the lower rates offered by Barclays on loans, and, in so doing, offered further proof of the booming economic situation in Palestine at the time:

“With regard to the subject of rates in general, as a result of the accumulation of funds in Banks, there is a general tendency for rates to come down, and whilst no open policy of cutting rates is declared, *the general attitude is for Banks to compete for business by offering better terms.*”<sup>56</sup>

But it was not just the major banks that were in this febrile competition for new customers; all sorts of people seemed to want to open a bank in Palestine in the late 20s and early 30s, as, for example, did one Frederick O’Connor, a retired British army colonel, who wrote to the Treasury urging approval for his own plans for a “Pan-Arab Bank” – to be run by himself and an Arab, Mr. Naufal – and explaining his reasons thus:

“The Arab element in Palestine and TransJordan are anxious to establish an Arab Banking Institution in the country in order to foster and develop Arab finance, industry, commerce, and agriculture. The Arab leaders themselves are quite able to produce all the capital necessary for such an undertaking, but they realise that they lack the necessary experience and organization and would prefer that the

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<sup>54</sup>Letter from Brown, Manager, Ottoman Bank, Jerusalem to John Caulcott, General Manager, Barclays Bank, London. 13 August 1929. BBA 11/113

<sup>55</sup> Letter from Clark, Barclays Bank, Jerusalem to Caulcott, Barclays Bank, London, October 11 1929. BBA 11/113

<sup>56</sup> Ibid

bank should be under British control [... ] The rank and file are behind the scheme morally and financially and subscriptions are offered from all classes of Arabs. *There are several millions of pounds hoarded by the people which would subsequently be deposited in this new bank...*<sup>57</sup>

Given this general impression – as to there being “several millions of pounds” hoarded by the Arabs of Palestine – and given the fevered competition for new Arab customers among the major banks, it seemed reasonable to think, in 1929 and 1930, that conditions in the country were especially ripe for a bank that could cater specifically to the financial needs of the Arab population.

It was perhaps, then, a matter of happy coincidence and good timing for Shoman that he arrived back in Palestine, after having been away for some twenty years, at exactly this moment when the Arabs were newly wealthy, newly flush with cash, and now looking for a bank they could trust. While it does not seem to have been much easier for Shoman to raise the required capital in Jerusalem than it had been in New York, he eventually managed to cobble together enough, with some capital coming from his father in law, Ahmed Hilmi Pasha, and some token amounts from a few other investors, and the vast bulk from his own savings.<sup>58</sup> The Arab Bank was formally established on July 14 1930 and duly registered under the Companies Ordinance (No. 18) of 1929 with a total share capital of P£105,000.<sup>59</sup>

From the earliest days of the Bank’s operations, Shoman used the rhetoric and logic of economic nationalism to entice customers to bank with him; but this proved a harder sell than he would have liked, for the Arabs of Palestine, when they wanted to open bank accounts, put their politics aside and turned to Barclays, or Ottoman bank, or the Banco di Roma, where they could

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<sup>57</sup> Letter from Lieutenant Colonel Sir Frederick O’Connor to Sir Laurie Hammond, “Proposed Formation of Anglo-Arab Bank,” 6 March 1933. The British National Archives [henceforth, NA] CO 733/348/7 (Emphasis added)

<sup>58</sup> Government of Palestine, *Memorandum of Association of the Arab Bank Ltd. Under the Companies Ordinances No. 18 1929*, 6 May 1929. ISA 179/325 and Shoman, *al Muhami* (translation)

<sup>59</sup> *Ibid*

get better deals – as these banks were, as described earlier, wooing the Arabs by offering the lowest possible rates on loans and highest possible returns on deposits – and where they felt their money would be safest. As Michel Karkar, the son of a gold merchant from Lydda, explained, when asked why his father had chosen the Ottoman Bank when he had opened his first bank account in 1936: “He trusted the Ottoman Bank because it was a British bank but it was less official than Barclays Bank. The Arab Bank had only just started so he didn’t know what to make of it.”<sup>60</sup>

Perhaps unsurprisingly, thus, during the first few months of its operation the Arab Bank had no customers at all. But then Shoman decided to go about, as he had done some twenty years ago as an itinerant peddler in America, door to door, every day, day after day, calling on Arab merchants and traders in the Old City, and expounding to them, until it must have become quite tiresome for them, about the virtues of a national Arab banking project. The following paragraph from his memoirs gives a vivid sense of his marketing strategy in those early days:

“Throughout the month he had paid regular visits to merchants and businessmen in their shops and offices. He tried to explain to them the beliefs and ideals that had led to the establishment of an Arab Bank in Palestine. He also tried to foster in them a growing awareness of the close links binding politics to economics. He visited store after store, shop after shop, office after office, undaunted and unwearying. With unremitting patience he expounded his basic argument over and over again in an endless succession of similar settings. The Arabs, he said, must gather strength by creating their own national institutions, for they would be their best buttress against the encroaching power of Zionism, the Mandate, and colonialism. Instead of hoping to injure foreign banks by the naïve and primitive

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<sup>60</sup> Oral interview with Michel Karkar, 8 – 12 May 2010, Ramallah, Palestinian Territories. While there is no way to estimate how many Arab customers Barclays, Ottoman and Banco di Roma had at the time, from the correspondence quoted earlier it is clear that all of them considered it a matter of priority to woo Arab customers. Unfortunately no official figures exist before March 1936 on the numbers and amounts of bank deposits in Palestine, but one source provides the following estimates for total deposits held by banks in Palestine before 1936: 1931: £P5 million; 1933: £P7 million; 1934: £P12.5 million; 1935: £P16 million. Hakim and el-Husayni, “Monetary and Banking System,” 472. But there is no way of knowing what percentage of these estimated deposits were made by Arabs; nor is there any way of knowing which banks they used.

practice of hiding their money at home or locking it up in private safes, *Arabs had to learn that it was necessary to compete with those other banks...*<sup>61</sup>

It is difficult to gauge if Shoman's door-to-door salesmanship was immediately successful, as we do not have the annual reports for the first three years of the bank's operation. However, the balance sheet at the end of its fourth year (Dec 1935), suggests that he had achieved some modest success by then in building up business for his bank and luring people away from his competition. At year's end 1935, the bank reported total deposits of P£340,927 and a net profit of P£20,023.<sup>62</sup> More creditably, the bank managed to keep its head above water, and even to declare a modest profit of P£16,802, at the end of 1936, despite the disruptions caused that year by the Arab general strike, the beginning of the Arab Revolt, and, not least, Shoman's own months-long imprisonment by the British authorities, for his alleged role in funding the revolutionaries during the revolt.<sup>63</sup>

Thus, the bank had done reasonably well for itself during its first six years of operation (1930-1936) despite a difficult first few months. The launching of the subsidiary bank, the Arab Agricultural Bank, in 1933 – as described earlier in this chapter – proved to be a shrewd move, as it was warmly welcomed in the Arab press and by Arab politicians, and must have done the main bank's business some good. Shoman certainly received a lot of press attention for it in '33 and '34, whereas he had been completely ignored before. His efforts during the Arab revolt – he helped supply people with foodstuffs during the strikes of 1936, and the Arab Bank served as a channel for funds sent from Iraq to the revolutionary fighters – must also have helped, in some

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<sup>61</sup> Arab Bank Ltd., *The Indomitable Arab: The Life and Times of Abdul Hameed Shoman (1890-1974) Founder of the Arab Bank* (London, Third World Centre for Research and Publishing, 1984), 142 (Emphasis added).

<sup>62</sup> Arab Bank Ltd., Balance Sheet As Of December 31, 1935, Audited by Saba & Co., Auditors (Jerusalem, January 26, 1937). CZA S90/2003/1

<sup>63</sup> For effects of the strikes and the revolt on the Arab Bank's activities in 1936, and for Shoman's own account of his arrest and subsequent incarceration at Acre prison in 1936, see the following chapters in Shoman, *al Muhami: "al Thowra"* 198-203 and "fi Sijin," 209-224(translation)

way, bolster his nationalist credentials; his own arrest towards the end of 1936 could not have hurt either.<sup>64</sup>

Shoman's optimism in 1937, then, in announcing a new branch in Nablus and a putative move across the river Jordan to Amman, seems to have been justifiable. But a closer look at the bank's balance sheets in 1935 and 1936 suggest that the future was likely to be less rosy than Shoman's optimism would suggest, unless a radical change was made to the Bank's lending policies, for it had too many debtors vis-a-vis depositors on its books. From the table below, which is based on the numbers reported in the Arab Bank's original balance sheets for those years, the ominous-sounding entries – "advances to customers," "bills for collection and guarantee," "liabilities of customers for guarantees" – when combined, indicate that the ratio of debts to deposits in 1935 was 129% - meaning, the bank actually lent more than it had on deposit. In 1936, this ratio had improved only marginally, to a still financially-unsound 84%.<sup>65</sup>

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<sup>64</sup> Shoman, *al Muhami*, 206-7 and 209-224 (translation)

<sup>65</sup> Arab Bank Ltd., Balance Sheet As Of December 31, 1936, Audited by Saba & Co., Auditors (Jerusalem, January 26, 1937). CZA S90/2003/1



As of Dec 31, 1935:			
Current Deposits	£174,184	Debtor Current Accounts	£147,363
Fixed Deposits	£117,360	Bills for collection and guarantee	£291,751
Other Deposits	£31,076		
Savings Accounts	£18,307		
Total deposits	£340,927	Total debts/amounts due	£439,114
<b>Ratio of debts to deposits in 1935</b>		<b>129%</b>	
As of Dec 31, 1936:			
Current Deposits	£165,346	Advances to customers	£106,132
Fixed Deposits	£96,516	Bills for collection and guarantee	£159,240
Other Deposits	£39,337	Liabilities of customers for guarantees	£11,190
Savings Accounts	£27,748		
Total deposits	£328,947	Total debts/amounts due	£276,562
<b>Ratio of debts to deposits in 1936</b>		<b>84%</b>	
Source: Arab Bank Ltd. Balance Sheets Year End 1935 and 1936, Central Zionist Archives CZA S90/2003/1			

**Figure 2: The Arab Bank’s balance sheets, 1935 and 1936**

While it is difficult to gauge how the Arab Bank fared compared to its three main competitors individually, the table below gives us some sense of the numbers at the end of 1936: the six foreign banks together held 77% of the total cash deposits of the country and 59% of total debts. Meanwhile the local banks, of which the Arab Bank was just one of 70, held only 22% of the total cash deposits but 40% of the debts.<sup>66</sup> If we add to the table the numbers taken from the Arab Bank’s balance sheet for 1936 (column 3 in the table) it appears that the Arab Bank commanded only 2% of the country’s total cash deposits that year, but 3% of total debt.<sup>67</sup>

<sup>66</sup> Hakim and el-Husayni, “Monetary and Banking System,” 465-8

<sup>67</sup> It must be noted that the two sets of 1936 numbers aren’t equivalent, as the Arab Bank used the December year-end reporting system, and thus, its 1936 balance sheet reflected the disruptions caused by the Arab revolt and strikes later in 1936, whereas the numbers for the total foreign and local banks in the first two columns are based on March year-end reporting, and do not reflect any of the disruptions. To adjust for this discrepancy, I have also included the Arab Bank’s numbers for year end 1935 in column 4.

	Total	(1) Foreign Banks (1936)		(2) Local Banks (1936)		(3) Arab Bank (1936)		(4) Arab Bank (1935)	
	Amount (£P)	Amount (£P)	% of total	Amount (£P)	% of total	Amount (£P)	% of total	Amount (£P)	% of total
Total deposits	£14,132,489	£11,015,803	78%	£3,116,686	22%	£328,947	2%	£340,927	2%
Total advances and loans	£9,486,368	£5,608,250	59%	£3,878,118	41%	£276,562	3%	£439,114	5%

Sources: Columns (1) and (2): Hakim and El-Husayni, "Monetary and Banking System," 468; Column (3): Arab Bank Ltd Balance Sheets 1935 and 1936: CZA S90/2003/1

**Figure 3: Deposits and loans at end of 1936: Foreign v local banks v Arab Bank in Palestine**

It is easy to understand why the Arab Bank had so many debts on its books: just as Barclays had attempted to win clients in Nablus by offering lower interest rates on loans, so had the Arab Bank tried to win customers, not by offering lower interest rates – it couldn't afford to do that – but by offering smaller-denominated shorter-term loans, and thereby capturing a segment of the market in which neither Barclays nor Ottoman had any interest.<sup>68</sup> Easy credit on easy terms to anyone who needed it became the byword of the business policy of the bank, and this was especially so in the case of the Agricultural Bank, which had, of course, been established for that very purpose. Ahmed Hilmi Pasha, the chairman of both banks, was especially fond of granting loans to his fellow dignitaries of the Palestinian political scene, apparently because he felt that “if the dignitaries of the community were enabled to save face by improving their financial position they would, in gratitude, be all the readier to take a stand against the enemies of the country.”<sup>69</sup>

This policy of granting loans to anyone who wanted them had, as we have seen, allowed the bank to grow modestly during the first six years of its operation. But when, in early 1937,

<sup>68</sup> Hakim and el-Husayni explain this succinctly: “The foreign banks are more important as institutions for receiving deposits than as sources for credit[...]This situation is explained by the greater confidence they command in deposit business, in comparison with local banks, and the greater precautions they take in credit extension.” Hakim and el-Husayni, “Moetary and Banking System,” 468

<sup>69</sup> Shoman, *al Muhami*, 186-7 (translation). This explains why, some years later, so many of these “dignitaries of the community” are on the list of names of people who launched law-suits against the Bank.

Shoman began to harbor grander ambitions about expanding to Amman and other cities in the Arab world outside Palestine – so that it might become “A Bank for All Arabs”, as he put it – he realized that all this would require capital, and bigger profit margins from the existing branches, and concluded that he needed to radically overhaul the bank’s business model, and stop lending indiscriminately.

His memoirs contain this interesting description of how he came to this decision (and how he managed to put a nationalistic spin on what was essentially a solution to a problem in the bank’s business model):

“Despite his move toward further expansion he was concerned about several aspects of the Bank’s financial position. On the one hand huge debts were owed the Bank, and on the other, the slenderest of cash deposits were being lodged in it – an extremely worrying combination of factors. The more he thought about it, the more he was convinced that urgent action was required to remedy this weakness....

There was one activity which, by itself, did neither the Bank nor the country any good. This was the simple process of extending loans. The Bank was not founded to do this...Far more important was its prime purpose of bolstering the Arab economy in Palestine and assisting in the strengthening of the national economies in all the Arab countries[...].

He was as anxious as anyone else that the great figures in the community should be persuaded to support the Arab Bank until it should become a strong and prosperous institution, but at the same time they had to appreciate that the Bank could not hope to achieve this condition if they were permitted to borrow huge sums from it indefinitely.”<sup>70</sup>

Thus, Shoman arrived at that fateful decision, implemented after a sleepless night, in mid-1937, to “...take it upon himself, quite regardless of any repercussions that might follow, to insist that all outstanding debts to the Bank should be discharged.”<sup>71</sup>

The following month the bank’s managers sent letters out to all the banks’ debtors – al-Farouqi, the Nusseibehs, the Mustakims, et al – calling in all debts that were still on the bank’s

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<sup>70</sup> Ibid. 186-7

<sup>71</sup> Ibid. 186-7

books and threatening action if these were to remain unpaid. In doing so, Shoman felt himself entirely justified, both as a businessman and as a nationalist, and he remained entirely sanguine about the future prospects of his bank, and of his own standing in society. He seemed completely caught off-guard by the reaction of the recipients of those letters, who felt, as did al-Farouqi, that “the behavior of the Bank is of a revengeful spirit;” nor did he appear to have predicted the furious pre-emptive litigation that was soon to follow.

### **3. The Tip**

The British officials of the Mandate government, sitting in their offices in Jerusalem, had strictly limited-view back-row seats to the drama that unfolded in the district courts of Palestine between 1938 and the 1944 following al-Farouqi’s decision to sue the Arab Agricultural Bank, and that was perhaps fitting, for if one word could characterize the Mandate officials’ interactions with the banking sector in Palestine, it would be: limited.

They were limited, on one hand, by what they felt was their moral duty to solve the ills that beset the sector: indebted farmers, out-of-control banks, unscrupulous money-lenders, a poor savings culture. On the other hand, they were limited by the peculiar commitments of the Mandate, which required them to make attempts, which they did feebly, at balancing the demands of the Arabs versus those of the Jews so as not to be seen to be favoring one over the other. Superseding both of these, however, was the limit placed by the all-important imperative from London to make the Mandate “pay for itself” and thus, by the imperative to do whatever they did as cheaply and efficiently as possible.<sup>72</sup>

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<sup>72</sup> Owen describes the Palestinian economy during the Mandate as : “[...]a single economy which was created and run by the British as though it was an ordinary colony with[...] a colonial pattern of revenue and expenditure with

It was this imperative that guided every action taken by the Mandate authorities in the banking and credit sector of Palestine. When, for example, they passed a series of laws aimed at breaking the power of the money-lenders over rural farmers; or when they encouraged Barclays and Ottoman and the Anglo-Palestine banks to band together to establish agricultural credit-cooperatives; or when they themselves put up a financial guarantee, against established government practice, to back an agricultural mortgage bank; or when they remitted taxes after a particularly bad harvest; they were doing, in each instance, what they felt was their moral duty, but they were also, really, as a Barclays official noted in this (probably unintentionally) frank internal bank memorandum, looking for ways to prevent future strains on the governmental budget:

“It was the Government’s wish that the Arab agriculturalist should be assisted on a community basis with a view to encouraging thrift and freeing him as far as possible from recourse to the usurer. In the past his impoverished condition had constituted a *major problem for the Government* since in times of bad crops it had *been necessary for Government to remit taxes and to grant unrecoverable loans* for the provision of seed in order to keep the Arab on the land, as *otherwise he would resort to banditry and constitute a menace to public security. Moreover such conditions tended to drive him to the towns when work there was available which development Government was most anxious to discourage.* Government felt that an effective remedy would probably be found in providing the fellah with seasonal credit on reasonable terms ....”<sup>73</sup>

These limits in their position notwithstanding, the officials of the Mandate government attempted, from very early on in their time in Palestine, to legislate away what they saw as the problems of the banking and agricultural credit sectors. Thus, they passed, in swift succession: the Credit Banks Ordinance (1921), which sought to create, control, and partly finance a number of agricultural credit-cooperative societies; the Companies Ordinance (1929), which sought to

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particular emphasis on administration and security and very little on government-sponsored development or on welfare services.” Owen, *Economic Development in Mandatory Palestine*, 14

<sup>73</sup> BBA 11/565: Barclays Bank, *Memorandum on Advances to Native Cultivators, Palestine*. 11 Sep 1944 (emphases added)

establish basic minimum capital requirements for all companies registered under Palestine law; the Banking (Amendment and Further Provisions) Ordinances (1936 and 1937), which sought to regulate and control the banks, and to stem the further proliferation of small banks all over the country; and the Usurious Loans Ordinance (1934) which set the highest legal rate of interest in the country at 9%, and sought to break the power of the money-lenders.<sup>74</sup> Despite the good intentions with which these were passed, however, each of these had unintended consequences on the banking sector in Palestine, and for the stories told here.

The Credit Banks Ordinance of 1929 aimed at encouraging the establishment of credit-granting institutions focused on the agricultural sector which would, as the British thinking went, solve the problem of Arab peasant indebtedness by helping the peasants break free from the evil grip, as it was regarded by the British, of the local money-lenders. Such thinking eventually led to the creation in 1935 of an Agricultural Mortgage Bank which was to provide short and long term credit directly to Arab and Jewish farmers at low rates of interest. The bank was the pet project of William Johnson, the Treasurer of the Mandate government, who envisioned it as a bank funded entirely by local money – a committee comprising all the major commercial banks operating in Palestine at the time, with a major portion of the seed capital reserved for the Arab banks – that would somehow miraculously solve the problem of rural indebtedness in Palestine while also soothing the tempers of the restive Arabs (who were by then, as evidenced by the riots of 1929, furious at British policies towards Jewish immigration and land purchase in Palestine), all of which it would do without costing the British government anything.

This last point was essential to Johnson's superiors in London, who approved the project on the strict condition that the Mandate government would not itself contribute funds to the

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<sup>74</sup> Hakim and el-Husayni, "Monetary and Banking System," 460-1, 498. Government of Palestine, Survey of Palestine, Vol. I., 365 and Vol II. 553,560

scheme, as that would collide against the injunction to run things as cheaply as possible and to be involved as little as possible in costly ventures. Johnson had thus no choice but to secure all the necessary funds from external sources, for which he applied, in early 1934, to all the commercial banks operating at the time in Palestine.<sup>75</sup> Barclays Bank, the Ottoman Bank, and the Anglo-Palestine Bank all agreed to participate in the scheme, but Johnson was especially anxious to get Arab institutions on board, as Arab public, not to mention financial, support for the project was considered crucial to its success. A portion of the bank's seed capital – originally optimistically set at P£75,000 and later revised down to P£50,000 – was thus set aside for Arab capital, and it was decided that an Arab would even be offered a directorship position on the bank's board in return for financial backing of any amount, even for as little as P£25,000.<sup>76</sup> So anxious, in fact, was Johnson on this point of Arab participation that he decided to exclude the Jewish Agency from the funding negotiations, despite that Agency's announced interest in the project, in case that might alienate the Arab businessmen whom he was hoping to attract.<sup>77</sup> In early 1934, Johnson and other officials in the Mandate government set about to actively woo these Arab businessmen, chief among them Ahmed Hilmi Pasha and Abdul Hameed Shoman, both of whom Johnson went to see personally several times in pursuit of their money and interest.<sup>78</sup>

However well-intentioned it may have been, and however energetic Johnson's efforts in its service, the idea of the Agricultural Mortgage Bank was, like so many other British projects in Palestine, poorly received by the Arabs of Palestine. Some viewed it as just another instance of

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<sup>75</sup> Although Johnson did eventually manage to get approval from London for the Mandate government to advance P£150,000 to the Agricultural Mortgage Bank's guarantee fund; this sum was not considered part of the seed capital of the bank but it was an important component of its foundational capital, without which the commercial banks would not have participated in the scheme.

<sup>76</sup> Roza I. M. El-Eini, "The Agricultural Mortgage Bank in Palestine: The Controversy Over Its Establishment," *Middle Eastern Studies*, Vol. 33, No. 4 (Oct., 1997), 759-60

<sup>77</sup> *Ibid.*, 759-60

<sup>78</sup> *Ibid.*, 759-60

the ongoing underhanded attempts by the British to help the Jews take over all the choice agricultural land in Palestine, a view which was not illogical, as it was felt that that the proposed bank, by offering short term loans at cheap rates, would only increase the incidence of Arab rural indebtedness and thus in turn the likelihood of Arab default, and related distress sales of Arab lands to Jews. Others, even more damagingly to the prospects for the bank's success, viewed it as a direct threat to Arab business interests and yet another example of British meddling in the Palestinian economy to the detriment of the Arab businessmen. Shoman and Hilmi Pasha, especially, viewed the proposed bank as a direct threat to their own bank, the Arab Agricultural Bank, which they had only just established and which was still struggling to stand on its feet. In this view they were also not illogical, as theirs was the only other bank in Palestine at the time that also offered short and long term credit to Arab farmers at low interest rates, and they felt that the Agricultural Mortgage Bank would be able to steal their customers by offering cheaper rates of credit than they could, which it could afford as it had the financial backing of government as well as its deep-pocketed owners, the commercial banks of Palestine.<sup>79</sup>

The fact that one of the contributing banks was the Anglo-Palestine bank, which was a Jewish bank and the main investment arm of the Jewish Agency in Palestine, did not help matters much, as Shoman was, at least publicly, a staunch anti-Zionist who balked at the idea of participating in any venture with the Jews. Unsurprisingly, thus, despite Johnson's repeated efforts to woo both Shoman and Hilmi Pasha, and other Arab businessmen, into joining the bank and investing in its seed capital, he was roundly refused by all, and the bank was eventually

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<sup>79</sup> The joint owners of the Agricultural Mortgage Bank were: Barclays Bank; the Ottoman Bank; the Anglo-Palestine Bank; Prudential Assurance; Guardian Assurance; and the Palestine Corporation. The Mandate government provided an advance of P£150,000, which was earmarked specifically for the bank's guarantee fund, so that the participating entities would themselves not have to contribute to guaranteeing loans. "The Agricultural Mortgage Bank" NA FO 371/104804 and Amos Nadan, *The Palestinian Peasant Economy Under the Mandate*, (Harvard CMES 2006) 219-221



established without any Arab financing, and was a much damper creature than the one that had initially been envisioned by Johnson and his cronies.<sup>80</sup>

The idea of the Agricultural Mortgage Bank managed to annoy the Jewish community as well, as this mordant editorial in the main Jewish English newspaper in Palestine indicates:

“...and now we suddenly learn that Government has returned to the agricultural bank scheme which, while criticized as impractical when it was intended to serve the Jews, has now become practical and acceptable when intended to be a general agricultural bank, the word “general” having in Palestine a meaning which is clear enough.”<sup>81</sup>

Despite the lukewarm reception accorded it by both the Arab and Jewish communities in Palestine, Johnson nevertheless managed to establish his bank in 1935 – just two years after Shoman and Hilmi Pasha had established their own agricultural bank – but it was, from the start, a flawed institution: between 1936 and 1938 it gave out only six hundred loans totaling P£425,000, and these were poorly distributed, with only half going to Arabs, most of whom were citrus growers and not the poorest farmers for whom the bank had originally been intended.<sup>82</sup> As one contemporary economist observed in 1938: “It has done nothing whatsoever for the grain-growing peasant and it has already spent all its funds” while another noted, also in 1938, that “So far, the long-term loans advanced by this institution have been insignificant.”<sup>83</sup>

The other efforts of the Mandate authorities in the banking and credit spheres of Palestine had similarly poor results: the Companies Ordinance of 1929, and, particularly, the Banking Ordinances of 1936 and 1937, were resented by Shoman and his fellow Arab businessmen, who felt that these were deliberately intended to make it harder for Arabs to own and run businesses in Palestine as the minimum capital and other formal requirements stipulated in them were so

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<sup>80</sup> El-Eini, 759-60

<sup>81</sup> *Palestine Post*, “The Projected Agricultural Bank,” 31 August 1933. CZA S90/2003/4

<sup>82</sup> Hakim and el-Husayni, “Monetary and Banking System,” 501 and Nadan, *Palestinian Peasant Economy*, 221

<sup>83</sup> Nadan, *Palestinian Peasant Economy*, 220 and Hakim and el-Husayni, “Monetary and Banking System,” 459

complicated, and set the bar so high, as to make it impossible for all but the wealthiest of local entrepreneurs to be able to meet them.<sup>84</sup> Although the British presented these ordinances as measures that would protect the public from unscrupulous banks which loaned out sums at preposterously high rates to anyone who applied for them, the Arabs themselves, and especially the men, such as Shoman, who owned banks, took great offence to all these ordinances and rules and regulations.<sup>85</sup>

Arab misgivings as to British intentions in the banking and credit sphere ran deep: when Shoman had first attempted to register his bank under the Companies Ordinance of 1929, he had been turned down by the Mandate Administration's Companies Registrar for not having the requisite minimum capital which had been set as the new minimum required for all banks in Palestine; though he did eventually succeed in raising the requisite capital and registering his bank, this run-in with the Mandate bureaucracy early in his banking career seemed to have soured his views on British officialdom for good. Some years later, when he attempted once again to obtain a license from the British authorities in Transjordan to open a branch of his bank in Amman, he ran into complications with rules and regulations again, which he bitterly explained in his memoirs as follows:

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<sup>84</sup> The Mandate government promulgated the first "Banking Ordinance" in 1921; this defined the meaning of "bank" and "banking business" and provided that "no banking business should be transacted, except by a company registered under the provisions of the Companies Ordinance." In March 1936, the Mandate government enacted a new "Banking (Amendment and Further) Ordinance" which was rather more ambitious than its predecessor as it: "(a) prohibited the opening of new banks without a license from the High Commissioner; (b) provided for the appointment of an Examiner of Banks; and (c) required all companies carrying on banking business to submit a monthly statement of assets and liabilities and a half-yearly analysis of advances and bills discounted." The Mandate officials were not content to stop there, however, for the following year, in 1937, they enacted further measures to control the banks in Palestine: the Banking (Amendment and Further Provisions) Ordinance of 1937 provided that "no banking business could be transacted, except by a company having a minimum subscribed capital of P£50,000 of which not less than P£25,000 was to be paid up in cash." Existing companies, such as the Arab Bank and the Arab Agricultural Bank, were given two years in which to raise the necessary capital. Government of Palestine, *A Survey of Palestine: Prepared in December 1945 and January 1946 for the Information of the Anglo-American Committee of Inquiry* (Palestine, 1946) Vol II., 553-4

<sup>85</sup> "On the need for Banking Ordinance in Palestine to limit proliferation of small banks which attract customers by offering low rates of interest," December 1932. NA CO 733/227/23

“The *real reasons* for the colonial authorities’ opposition to his plans was that Amman had one bank only, the Ottoman Bank, set up originally to serve the needs of the British army in the Mandate. It held an obvious monopoly and the Jordanian government was obliged to use it for lack of any alternative. *The founding of an Arab Bank to compete with this British-controlled Ottoman Bank must be displeasing the authorities.*”<sup>86</sup>

Shoman’s suspicions, as to the real reason for the Mandate government’s bureaucratic delay giving him permission to open a branch in Amman, were not unjustified, for the British officials in Palestine, as evident from the archival records of their correspondence with each other, took care never to forget that their main priority in Palestine, as in every other colony, was to promote and protect British interests, which included, in no small part, British commercial interests. An example that lends credence to Shoman’s suspicions can be found from the correspondence files of the municipal corporation of the Arab Palestinian city of Hebron in 1935: the local municipal council of that city had passed a resolution to transfer its funds from the Anglo-Palestine Bank in Jerusalem to the Arab Bank, which had just opened a new branch in Hebron, in order to support a local Arab-owned business. The council wrote to the British district commissioner to report its decision; the commissioner wasted no time in stepping in to squash the idea, and ordered, in a firmly worded letter, that the funds be transferred instead to Barclays Bank, which was soon to open its own branch in the same city. In the letter he reminded the municipal council that:

“It is understood that Barclays Bank is opening a branch in Hebron within the coming six months or so...[and] you are aware of the government’s preference that municipal corporations should bank wherever possible with Barclays.”<sup>87</sup>

That the district commissioner could actively step in to advance Barclay’s Bank’s interests over those of the Arab Bank – or for that matter, those of the Jewish-owned Anglo-

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<sup>86</sup> Shoman, *al Muhami*, 189-190 (Emphasis added; translation)

<sup>87</sup> District Commissioner to Municipal Council Hebron, July 1935. ISA 210/292

Palestine Bank – would have come as no surprise to people like Shoman and Hilmi Pasha, who were convinced, by the mid-1930s, that all British interests and actions in Palestine, particularly in the financial and banking sector, were inimical to their own.<sup>88</sup>

Thus, despite the possibly well-intentioned aims of such bodies as the “Committee to Regulate Banking in Palestine,” which was created in 1934 with a view to “Establish banking in Palestine on social principles so as to afford protection to the banking profession and safeguard the financial reputation and credit of the country;” and despite the stated goals of the banking ordinances which were promulgated one after the other to “stop the recent mushroom growth of so-called banks in the country which are nothing but groups of money lenders cloaking themselves under the title of bank,” the Mandate authorities never succeeded in convincing the local Arabs themselves, whose economic lives these were all supposed to better, that all these laws and regulations and ordinances and policies were anything other than thinly veiled legislative attempts to promote the interests of British commercial entities over their own.<sup>89</sup>

British officials proved even less successful at improving the financial condition of impoverished Arab farmers than they were at conciliating Arab businessmen such as Shoman and Hilmi Pasha. The Usurious Loans Ordinance of 1934, which prohibited interest rates higher than 9% on all loans in Palestine, and which was promulgated by the Mandate authorities in order to “protect the honest agricultural debtor against unfair imprisonment and to give him the same remedies as were open to debtors among other classes of the community in case of bankruptcy” and to “weaken the position in law of the unscrupulous usurer,” did much to drive the money-lenders underground, but hardly helped improve the position of the Arab farmers

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<sup>88</sup> For a fuller, and rather more colorful, account of Shoman’s reactions to British efforts to regulate banking in Palestine, see Shoman, *al Muhami*, 143-149

<sup>89</sup> Colonial Office, Correspondence Committee for the Control of Banking in Palestine, 1934. NA CO 733/264/10

themselves, who continued to grow ever more impoverished and indebted and landless as the decade wore on, and who had even fewer options for short and long term credit than they had had before the ordinance had been passed.<sup>90</sup> But the Ordinance certainly was useful, as we have seen earlier in this chapter, to some Arabs, who used it for a purpose entirely different from the one for which it had been intended: to get out of, or to delay, paying back their debts. For it was this very same “Usurious Loans Ordinance of 1934,” intended for the impoverished farmers of Palestine, that al-Farouqi, Yousef Musleh al-Hanoun, and others used as the convenient hook on which to hang their pre-emptive lawsuits against the banks.

### **Conclusion: Always Borrowers**

A British official, C.F. Strickland, of the Indian Civil Service, arrived in Palestine in 1930 at the invitation of the Mandate government to conduct a study on the conditions of rural agriculture and credit in Palestine, and to give his views on the prospects for the establishment of agricultural cooperatives in Arab villages. Strickland took a dim view of the banking habits of the Arab peasantry, who, he felt, were not yet ready for agricultural cooperatives or for organized debt altogether. He counseled the government against participating in, or at least putting any capital into, any such schemes; in a private letter to a fellow British official he wrote: “People do not realize how unsuited the small and illiterate man is to deal with a large, remote, and commercial institution;” and in his final report, prepared for the Mandate government, he stated that “the Arab peasant is “always a borrower.”<sup>91</sup>

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<sup>90</sup> Usurious Loans Ordinance (1934), Government of Palestine, *Survey of Palestine*, Vol I., 365. For a discussion as to the reasons for the failure of the Usurious Loans Ordinance to break the power of the moneylenders, or to have any real effect on the rural credit market in Palestine see Nadan, *Palestinian Peasant Economy*, 240-251

<sup>91</sup> El-Eini, “Agricultural Mortgage Bank,” 754

Strickland was referring to uneducated and impoverished Arab peasants and not to urban land-owners like al-Farouqi, or business men like the cinema owner Nabeel al-Mustakim, or to citrus-traders like Nusseibeh, or even to ordinary members of the urban middle-classes like Mrs. el-Ghussein, the doctor's wife. But his description nevertheless fits the Arab Palestinians who have featured in the first section of this chapter, for they were all, in some senses, "always borrowers." But contrary to the usual picture of the hapless Arab Palestinian borrower – trapped by his own financial immoderacy, or by the usurious banks or money-lenders to which he was beholden; trying but failing for years to pay his debts – the people who make up the pages of this story were borrowers who deliberately chose to remain "always borrowers," if that meant that they could get out of paying back the principal they owed; or of delaying sales of property attached as mortgage; or of reducing their interest payments.

They were happy to remain "always borrowers" because they had arrived at the shrewd calculation that the banks, despite the superiority of their political and economic position compared to that of the individual Arabs who sued them, would eventually succumb and settle their dispute out of court, rather than risk the far more costly, and damaging to their reputation, process of challenging claims in court. The Arabs who launched lawsuits against the banks were always assiduous about notifying the local Arabic language press about their cases for they knew that the bank managers – not just publicity-minded locals like Shoman and Hilmi Pasha, who happened to have side careers in politics and who valued their high standing in society, but also the profit-conscious English managers of Barclays and Ottoman – would rather settle out of court than risk losing business, and already-scarce Arab customers, as a result of the negative publicity engendered by such lawsuits. Al-Farouqi was a particularly prolific writer of editorials, and, as he warned, in one of his letters to his lawyers, that: "in case a judgment is given against us I shall

not only pursue it in High Courts, but shall publish it *with means that I know*.” Such threats must have sounded ominous to any publicity-minded bank manager, and the alacrity with which the Arab Bank’s representatives approached al-Farouqi’s lawyers to settle out of court, despite having won a favorable judgment by the court, suggests as much.

When al-Farouqi wrote to his lawyers, about the Arab Agricultural Bank, declaring that “we wish to get rid of this useless bank by any means, certainly lawful ones” it is unclear what exactly he meant: did he just want to get a court-sanctioned delay in his repayment schedule; or be granted some reduction in the interest charged; or settle out of court with the bank; or get out of paying the entire debt, principle and interest, altogether? Or did he really just want to destroy the bank? We will never know, as the records, as noted earlier, are incomplete, but the Arab Agricultural Bank did not, in fact, survive the debt-dodging efforts of its litigious customers, and al-Farouqi seems, at least in this regard, to have got what he wished for: for, in the early 1940s, Shoman decided to shut down the Agricultural Bank, which had struggled to make a profit since it has been established some ten years before, and folded its operations into the larger, and more commercially successful, Arab Bank.

Through the war years – when the Palestinian economy enjoyed, once again, as it had done in the post first world war period, a brief prosperity – the banks and the government officials and the Arab Palestinians continued this dance of trying to get the better of, or to control, the behavior of the others in the pyramid: the banks tried to remain profitable by gaining customers on one hand, while reducing the liabilities on the other by chasing debtors with threatened lawsuits; the government officials tried to control both the banks and the local population by passing a series of laws and ordinances and creating institutions, all of which seemed to have little or no effect on the people they were aimed at serving; and the people

themselves, the Arabs of Palestine, remained “always borrowers,” for by doing so, and by taking the banks to court, they knew they could get out of paying sums they did not want to pay to institutions they did not particularly wish to support. They may have remained at the bottom of the pyramid, but by being “always borrowers,” they sometimes managed to get the better of the banks and the officials who sat above them.



## CHAPTER 3

### The Case of the Frozen Bank Accounts of 1948

On June 12, 1948, not yet a month after the termination of the British Mandate for Palestine, the new government of the new state of Israel ordered all commercial banks operating within its territory to “freeze the accounts of all their Arab customers and to stop all transactions on all Arab accounts.”<sup>1</sup> The Israeli government gave the banks one month to comply with this order and threatened to revoke the licenses of all banks found to be in non-compliance. By the end of December 1948, every bank operating in what had become Israel had obeyed the order, and thus, barely six months after the creation of the state of Israel, all Arab Palestinians, almost all of whom were already homeless and scattered in refugee camps throughout the Arab world, had lost access to the money and valuables which they had deposited in their banks for safe-keeping.

This chapter will describe why and how it came to be that the two major international banks, Ottoman Bank and Barclays, which had continued to operate in what became Israel after the termination of the Mandate, obeyed the orders of the new Israeli government to freeze the accounts of the very same Arab Palestinian customers whose business they had courted so assiduously in the previous decades.<sup>2</sup> This happened, as the chapter will argue, for several reasons: first, because the Israeli government acted promptly to make good on its threat to revoke the banking license of any bank found to be in non-compliance with its order, and because both banks, like banks everywhere, were more concerned with their ability to continue operating and

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<sup>1</sup> Barclays Bank DCO Board Meeting Minutes, 24 June 1948, Barclays Bank Archives (Henceforth, BBA) 38/508 – 38/529

<sup>2</sup> For a description of the competition between Barclays and Ottoman banks for Arab Palestinian customers during the latter decades of the Mandate for Palestine, see Chapter 2.

earning revenues than with the rights of individual customers. The anxiety about losing their trading and banking licenses was compounded by the fear, felt especially by individual branch managers, of violent reprisals on the part of Israeli militias in the event of their non-compliance; this fear was particularly acute in the early months after the termination of the Mandate, when the few bank branch managers who remained in the country found themselves responsible for safeguarding their branches from the depredations of both Israeli and Arab militias without armed guards of their own. These managers felt particularly helpless in the immediate aftermath of the termination of the Mandate, and they acted in what they thought, initially, was in the best interests of their own personal, and their employees', safety.

Second, and more importantly, the Arab Palestinian customers in question had no sovereign state of their own to protect their assets against the actions of the banks and the orders of the Israeli government; nor was there any sovereign state to which they could turn to request a counter-order to be issued to the banks to *not* freeze their accounts. For, upon the termination of the Mandate for Palestine in 1948, the Palestinians had been rendered stateless overnight; many of them were homeless; and the vast majority of them were by then also refugees.

Third, the Israeli government passed, in early December 1948, a set of regulations which came to be called the Emergency Regulations on the Property of Absentees. These regulations rendered the Israeli government's prior "freeze order" legal under Israeli law, and both Barclays and Ottoman banks' managers, despite their personal reservations, felt that their banks were obliged to comply once the order had been sanctified by law. This was because banks are required, under international banking law, to obey the sovereign laws of any country in which they operate, regardless of whether these laws infringe on the individual rights of their customers.

Moreover, the Israeli government went to great pains, at least initially – when it was still plausible to make the claim – to assure both banks’ managers that this “freezing” of Arab Palestinian accounts was merely a temporary war-time measure, and that there was no question of permanent confiscation. The banks were further reassured by the Israelis’ pointing to British war-time regulations governing the confiscation of assets of “enemy aliens,” which, as the Israelis claimed, provided the precedent for their regulations on the property of Arabs. The British war-time regulations had been in effect in Palestine during the recently concluded world war, and it was on the strength of these that the Mandate government had frozen the bank accounts and properties of all German, Austrian, Italian (and other Axis countries’) citizens who happened to be in Palestine at the time.

Then, in February 1949, the Israeli government went one step further and issued a new order requiring both banks to transfer all “frozen” Palestinian sums formally over to the account of a newly created entity, the Custodian of Absentee Property. By the spring of 1949, the banks were relieved to be able to do so, as it allowed them to get the Arab “frozen balances” off their books. This transfer of funds over to the Israeli Custodian completed, as we shall see, the dispossession of the Palestinians.

**1. “The situation is too fantastic to be believed possible”: conditions on the ground for the banks (November 1947 – May 1948)**

The news of the Israeli freeze order first reached the headquarters of Barclays Bank in London via a circuitous route. The bank’s general manager first mentioned it to other members of the governing board during one of their regular monthly meeting on June 24th 1948, but there was not much substance in what he said, and thus not much alarm raised, as all he had heard at

that point was a rumor, relayed not by his own branch managers in Palestine but from the Bank of England, which had got it from the Foreign Office, which had in turn got it via a secret cable from their representative in Haifa, that the Israeli government had ordered Barclays' Haifa branch to "pay over [to the Israeli government] any sums reserved for Arab customers."<sup>3</sup> The general manager went on to note that "the FO cable was dated 12 June and we have received cables from Palestine as late as 17 June from both Haifa and Tel Aviv which made no mention of [these] instructions."<sup>4</sup> As the board had not yet received any direct confirmation of this order from the bank's own branches on the ground, and as Palestine, or what was left of it, was still engulfed in fighting between Jewish and Arab forces, with no clear outcome as yet, the Chairman of the board, deciding to err on the side of caution, instructed the general manager to cable Haifa branch to "take no action without our authority."<sup>5</sup>

Barclays' employees in Palestine had no difficulty in obeying this instruction to "take no action," as, for the past six months, since November 1947, when the UN General Assembly had ratified the partition plan for Palestine, they had had their hands full dealing with the daily horrors wrought by the war.<sup>6</sup> By February that year all Barclays' branches had been operating on a skeleton staff – many of the Arab employees having fled for their lives, whereabouts unknown; and almost all British staff having been evacuated early that month to Cyprus – and those who

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<sup>3</sup> Barclays Bank DCO, Board Meeting Minutes, 24 June 1948. BBA 38/S08 -S29

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Fighting between Arab and Jewish forces in Palestine had intensified almost immediately after the UN ratified the partition plan for Palestine on November 29, 1947. Britain announced its intention to withdraw from the Mandate in January 1948. Several historians have described in detail the situation on the ground in Palestine between November 1947 and May 1948; see, for instance, Ilan Papppe, *A History of Modern Palestine: One Land, Two Peoples* (New York: Cambridge University Press, 2004), 126-141 and Benny Morris, *Righteous Victims* ( ) 189-214.

remained had little communication with London, cable and telephone services having long broken down.<sup>7</sup>

The little news that did trickle out, via the letters sent by Barclays' employees in Palestine to their supervisors in London, was dispiriting: in January 1948 alone, an employee of Barclays' Jerusalem branch had been killed and another seriously injured in a bomb attack; armed bandits had held up the Nazareth branch and escaped with £P1,500 in cash; a bomb had exploded on the upper floor of the Jaffa branch; and armed "Jewish thugs" had held up the Tel Aviv branch, stealing £P15,000 in cash.<sup>8</sup> February 1948 was not much better, with yet another bombing, this time outside the Haifa branch and another armed hold up by "30 armed Jewish men" of the Tel Aviv branch. For the next few months the news continued on in the same vein: in March two employees of the Haifa branch were injured on their way to work; in April the Jewish "Stern gang" militia raided the Tel Aviv branch, yet again, and took the branch's entire cash holding of £P195,400, forcing the branch to close; customers leaving the Jerusalem Allenby Street branch were robbed at gunpoint; and, again in Jerusalem, one employee was killed and two injured.<sup>9</sup> The situation on the ground, as described by the branch manager in Jerusalem to his head office in London, was, by as early as January 1948, desperate:

"It is possibly very difficult for you to envisage conditions in Palestine today as the situation is too fantastic to be believed possible under a British

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<sup>7</sup> Barclays' head office in London had no idea, for instance, as of early June 1948, if their Gaza and Nablus branches were still functioning, as evident from letters sent by J. S. Crossley, Chairman, Barclays Bank DCO, London, to Ghannoum (Nablus), Merguerian (Jerusalem), Stokes (Haifa) and others on June 1 1948 to ascertain the situation on the ground vis-à-vis those branches. BBA 80/3661. Also Barclays Bank DCO Board Meeting Minutes, 13 May 1948 BBA 38/S08-38/S29

<sup>8</sup> All details gleaned from correspondence from local branch managers to Barclays' headquarters December 1947 – May 1948 and from Barclays Bank DCO Board Meeting minutes, December 1947 – June 1948. BBA 38/S08-38/S29. Facts of the Jewish Stern gang's raid on Barclays' Tel Aviv branch in April 1948 have been drawn from: Letter from DCO, Lydda to Chief Secretary, Government of Palestine, 27 April 1948, ISA 157/477

<sup>9</sup> Barclays Bank DCO Board Meeting minutes, December 1947 – June 1948. BBA 38/S08-38/S29

Administration. There is no real security in the greater part of the country [...] mob rule [...] already prevails in many parts[...] The real danger today in the small Arab towns is the influx of bands of armed villages who are out to loot banks, and when this does occur it is useless to expect assistance from the local authorities. I believe the time will surely come when all our outlying offices will be forced to close because it will be too dangerous for the staff to emerge from their houses[...] This I think will be the ultimate fate of Jerusalem branch and most probably Jaffa branch and possibly Haifa branch.”<sup>10</sup>

In addition to providing an unusual perspective on the general panic and uncertainty that had gripped the country in the wake of Britain’s official confirmation of its intention to abandon the Mandate, the correspondence between Barclays’ employees in Palestine and their supervisors in London also reveals the series of difficult decisions the bank’s local branch managers had to take, often without any clear guidance from London, between January and May. They had to decide if they were to remain open at all, in light of the degenerating security conditions; they had to determine how they were to continue operating, and with what staff, after the evacuation of all British families to Cyprus in February (one enterprising branch manager decided to hire only “bachelors” for the positions that were being evacuated, so as to avoid losing further employees to the excuse of “safety for wives and children”); they had to take ad-hoc security measures, after the abrupt withdrawal of the British police apparatus, to protect their branches and their cash holdings from the constant attacks of looters and marauders; they had to nevertheless keep enough cash on hand to be able to satisfy the demands of their customers, whose panic-stricken withdrawals caused dangerous “runs” on the bank’s overall cash position; and, most pertinently for this story, they had to decide, once it became increasingly likely that

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<sup>10</sup> A.P.S. Clark, Jerusalem branch, to J.S. Crosseley, Chairman, Barclays Bank DCO, London, 8 January 1948. BBA 80/3661

the country was going to be divided into “Arab” and “Jewish” parts, whether – and how – to separate Arab from Jewish employees, and Arab from Jewish accounts.<sup>11</sup>

The last of these problems was particularly acute at the bank’s Jerusalem and Haifa branches, which had both Arab and Jewish employees and customers. After much anxious deliberation between the Jerusalem branch and London head office, it was finally decided that a new branch would be opened in Jewish-controlled western Jerusalem, and that all the original Jerusalem branch’s Jewish staff and Jewish accounts would be relocated there. This task was completed, at considerable difficulty and cost to the bank and tremendous danger to its Arab employees, in February 1948.<sup>12</sup> The new branch’s manager reported, in a letter to London describing the opening of the new western Jerusalem branch, that:

“Serious difficulty was encountered in the maintaining of connections with Allenby Square. Since the Staff remaining there could not be expected to take the risk of coming out to the Jewish area, I undertook the contact myself, in order to prevent paralysis of the bank’s work in Jerusalem. [...] Mr. Dajani in particular showed remarkable devotion to the Bank’s interests. Twice nearly every day he would come out to meet us at the border of the Jewish area and sometimes into the area, for which I know he was threatened from the Arab side. It is no exaggeration to say that without him nothing could have been accomplished during the intervening month of January.”<sup>13</sup>

Fuad Dajani, who had been singled out for such praise in this letter for his “remarkable devotion to the bank’s interests,” was killed just a few weeks later on his way to work, his death

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<sup>11</sup> All details of the difficulties faced by Barclays’ staff on the ground in this paragraph have been gleaned from correspondence from local branch managers to Barclays Bank DCO, London December 1947 – May 1948, BBA 80/3661

<sup>12</sup> Letter from C. Hyman, Barclays Jerusalem to Barclays London Head Office, 9 Feb 1948. BBA 11/578. Barclays’ main Jerusalem branch was located on Allenby Street, and was thus referred to as “Allenby Street branch.”

<sup>13</sup> Letter from C. Hyman, Barclays Jerusalem, to London Head Office, 9 Feb 1948. BBA 11/578

meriting only a perfunctory mention, in parentheses – “In Jerusalem one member of staff (Fuad Dajani) has been killed” – during Barclays’ next board meeting.<sup>14</sup>

Barclays was not, of course, the only bank in Palestine adversely affected by the war. Two of the Arab Bank’s employees were killed in the fighting, several of its branches were damaged, and, as reported by a local newspaper in early March 1948, its main branch in Jerusalem “was subjected to a severe and prolonged run by panic stricken customers withdrawing their funds from Palestine.”<sup>15</sup> In April there had been so many withdrawals from its Jerusalem branch – (£P700,000 in April 1948, compared to £P80,000 in the same month the previous year) – that the Arab Bank’s manager felt compelled to withdraw the full reserve amount which his bank kept on deposit at Barclays Bank.<sup>16</sup> By mid-April, however, even Barclays’ cash reserves had run low, and it was unable to “let [the Arab Bank] have more than £P50,000” out of this account. On May 3, Abdul Majeed Shoman, the son of the bank’s founder and manager of the Jerusalem branch, went himself to Barclays’ Allenby branch to meet with the manager – who happened to be a friend of his father’s – and to try to convince him of the urgency with which the Arab Bank wished to fully draw down its account. But he was refused; he went back to Barclays three times the following week, and was refused each time; Barclays simply did not enough have the cash on hand to pay out its customers. (Barclays did not restrict

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<sup>14</sup> Barclays Bank DCO Board Meeting minutes, 22 April 1948, BBA 38/S08-38/S09

<sup>15</sup> *Palestine Post*, “Arab Bank’s 1948 Report,” 13 March 49. The Central Zionist Archives [henceforth, CZA] S90/2003/4

<sup>16</sup> The Arab Bank had opened a current account with Barclays Bank on Feb14 1939. As of April 15 the balance on this account was £P 582,931. Barclays had functioned, during the Mandate era, as the central bank for the country, and most other commercial banks in Palestine had kept their reserves on account with Barclays. Judgment 1950.A. No. 5068 In the High Court of Justice, Queen’s Bench Division, Royal Courts of Justice. *Arab Bank v Barclays Bank (DC&O)*, 11 November 1952, 7 [Henceforth, *Arab Bank v Barclays Bank*, High Court, 1952]. NA FO 371/104456



its cash refusals to institutional large-holdings clients; by early May, even individual customers with small balances wishing to withdraw cash were turned away).<sup>17</sup>

The chairman of the Arab Bank had decided, meanwhile, by April 1948, to close the branches located in areas worst affected by the fighting. The Arab Bank's Haifa branch was duly closed, and moved to Beirut, on 24th April; on May 3rd the Jaffa branch was moved to Nablus, and shortly thereafter, the Arab Bank's storied Jerusalem "first" branch shuttered its doors forever; its employees fled, carrying with them all the bank's ledgers, safes, and other vital property, to a temporary location within the walls of the Old City, and then, on July 1st 1948, to Amman.<sup>18</sup> The Arab Bank would not return to Jerusalem for another forty years.

The Ottoman Bank, Barclays' oldest and keenest competitor in Palestine, did not have an easy time of the war either.<sup>19</sup> A bomb had exploded on the roof of the bank's Jaffa branch on April 26th and the employees, already reeling from the vicious fighting that had raged around Jaffa all month and from the persistent rumors of Jewish massacres of Arabs in neighboring villages, fled for their lives.<sup>20</sup> No one reported to work the following day and the branch was forced to close; it continued to suffer bombings and heavy looting in the weeks that followed,

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<sup>17</sup> As evidenced by the testimony provided by Mrs. Barakat, in Civil Case 123/52, Judgment by the Court of First Instance, Jerusalem, Jordan in *Bahia Haj Suleiman Barakat v Barclays Bank (DC&O)*, 3. [Henceforth, *Barakat v Barclays Civil Case No. 123/52, 1952*] (Translation from Arabic). From private archives of A. F. and R. Shehadeh Law Firm, Ramallah, Palestinian Territories [henceforth, Shehadeh papers]

<sup>18</sup> Judgment 1950. A No 3068 In the Supreme Court of Judicature, Court of Appeal, Royal Courts of Justice, *Arab Bank Ltd v. Barclays Bank DC&O*, 21 May 1953, 3. [Henceforth *Arab Bank v Barclays Bank*, Supreme Court Appeal, 1953]. Shehadeh papers

<sup>19</sup> For more on the competition between Barclays, Ottoman and the Arab Bank for Arab customers in Palestine, see Chapter 2

<sup>20</sup> Dimiti Thcimenoglou, Witness statement, *Jabaji v Ottoman Bank, Jordanian Jerusalem Court of First Instance, 21 October 1953*. [Henceforth, *Jabaji v. Ottoman Bank, Jordan, 1953*]. (Translation from Arabic). Shehadeh papers. Although its Jaffa branch remained closed after this bombing on April 26<sup>th</sup> 1948, the Ottoman Bank's Haifa and Jerusalem branches continued to function, despite the fighting around them, through May 1948.

and did not re-open until October 1948.<sup>21</sup> A letter written in early May by an employee of the Jaffa branch poignantly indicated his resolute sense of duty towards the bank despite his failing ability to fulfill it given the perilous conditions in the city:

“All our staff have left [...] All the messengers and night-watchmen have left [...] The town has suffered an intense bombardment since Sunday and continual attacks day and night. The bank was bombed on Monday at 11 o’clock for two hours [...] and on Tuesday from 1.30 until 4 o’clock. The roof of the bank has caved above the entrance. The town is almost completely empty because of the panic. The bombs have fallen everywhere and there are several dents. The bombs have fallen close to my house and at the side of the French hospital and the Catholic Church and in the Rue Feissal near the post. The staff have had to be evacuated from Jaffa [...] their nerves are in pieces. I will do everything I can to remain up to the last minute but I fear that if I am alone I will not be able to save my life. All my family [...] have left and I am absolutely alone [...] I shall be, if I leave Jaffa, either in Ramallah, Amman, Marjeyoun, Beirut, or Damascus. If I leave Palestine I will let you know. I regret not to be able to do more for the bank.”<sup>22</sup>

Between November 1947 and May 1948, thus, the operations of all three banks in Palestine were greatly hampered by the fighting between Arabs and Jews, and by the chaos caused by the abrupt decision by the British to abandon the Mandate. But in this the banks were no more or less aggrieved than any other commercial institution which had continued to operate in the country; this was, to use the present-day euphemism, the “collateral damage” of war. But from May 14th on, all three banks were dragged in to become leading actors in the drama their own right. Barclays’ Allenby Street branch was attacked that very morning by “irregular Jewish forces,” which had forced their way into the building by blowing a hole through one of the walls in the Municipality Building adjoining the branch, and then mounted machine guns on the roof

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<sup>21</sup> Ottoman Bank, “Note on Deposits Held by our branches in Palestine on Behalf of Arab Clients,” 18 July 1949. NA FO 371/75390. The Jewish Irgun militia had also looted the Jaffa branch in December 1947. Interview with Michel Karkar, 8 and 12 May 2010, Ramallah, Palestinian Territories.

<sup>22</sup> Iskander al-Jillad (transcribed “Alexander Gelat” in some of the Ottoman Bank’s correspondence) to Ottoman Bank, Alexandria, 1 May 1948. Shehadeh papers. (Translation from Arabic)

over the entrance of the branch to prevent anyone else from entering.<sup>23</sup> The next day the building was taken over by regular Israeli forces, which used the building as an important fortified post from which to command the road leading to the Jaffa gate on one side and the New Gate on the other.

From then on, events progressed rapidly: the provisional Jewish government, acting via David Ben Gurion, the first Israeli Prime Minister, issued the Israeli “Proclamation of Independence” on the afternoon of May 14, 1948.<sup>24</sup> Fighting between Jewish and Arab militias intensified, with scattered troops from Transjordan, Lebanon, Syria, Iraq and Egypt joining the fray.<sup>25</sup> This, along with fresh rumors of massacres perpetrated by Jewish militias in Arab villages, spurred thousands of Arab Palestinians to flee their homes in terror to what they thought would be temporary refuge elsewhere; those who could sought shelter with friends and families in nearby towns and villages, but the vast majority joined the hundreds who had already fled, in earlier months, to the miserable crowded refugee camps in neighboring Arab countries. By the time of the first ceasefire, called on June 11th, the demarcation between “Arab-controlled” and “Jewish-controlled” swathes of erstwhile Palestine became more or less entrenched, and almost three quarters of erstwhile Palestine’s Arab population had become refugees.<sup>26</sup>

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<sup>23</sup> *Arab Bank v Barclays Bank*, High Court, 1952, 3. NA FO 371/104456

<sup>24</sup> The Jewish Agency and the Zionist Council had established a proto-Jewish government in Palestine some months before the official termination of the Mandate. By April 1948 there was a provisional government, *Minhelet Ha'am*, and a provisional parliament, *Moezet Ha'am*; the Israeli “Proclamation of Independence” was issued by these two organizations and officially read out by David Ben Gurion on May 14, 1948. However, as noted above, the United Kingdom did not grant official “de jure” recognition to the Israeli state or its government until 27 April 1950, and reserved only “de facto” recognition to Israel’s military occupation of Jerusalem.

<sup>25</sup> Ilan Pappe, *A History of Modern Palestine: One Land, Two Peoples* (New York: Cambridge University Press, 2004), 133-135

<sup>26</sup> Pappe, *Modern Palestine*, 134, 139

When the dust settled briefly, during the first ceasefire period in early June, the Arab Bank was – on account of its chairman’s prescient April decision to shutter the Jaffa, Haifa and Jerusalem branches and relocate them – spared the trouble of suddenly finding itself operating in two enemy jurisdictions at the same time.<sup>27</sup> Barclays, however, was not. In large part due to the determination of its board in London, even in May, that its Palestinian branches should continue to remain open, regardless of the situation on the ground – as “we should not necessarily sacrifice our large and important business there” and “we should look to carry on and hope that the position would eventually settle down” – Barclays had branches still operating concurrently on both sides of the dividing line.<sup>28</sup>

So did the Ottoman Bank. The Nablus and Gaza branches of both banks, for instance, were located in areas which now came under Jordanian and Egyptian control, while the Jaffa, Haifa, Acre, and Nazareth branches fell under Israeli control. In Jerusalem, the situation was rendered still more complicated by the fact that the city was, in effect, divided, from May 14th on, between Israeli and Jordanian sides.<sup>29</sup> Both Barclays and Ottoman banks had branches on either side of that divide; Barclays’ Allenby branch, which has already featured in this story, was located, as it happened, right on the dividing line, on the road that came to be called “no man’s land.”

## **2. “The Arab accounts are twice blocked”: UK Treasury currency regulations (Feb 22 1948) and Israeli Government “freeze order” (June 12 1948)**

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<sup>27</sup> There was a ceasefire between 11 June and 9 July, and again on 18 July 1948

<sup>28</sup> Barclays Bank DCO Board Meeting Minutes, 9 October 1947. BBA 38/S08 -S29

<sup>29</sup> The United Nations and the United Kingdom did not, however, recognize either Israeli or Jordanian control over Jerusalem, as it was to have been a shared “international city” under the original UN Partition Plan.

While no conclusive documentary evidence survives, it would appear that the Israeli government issued its first order to the banks to “stop all transactions on Arab accounts” early in June, around the time of the first ceasefire of June 11. The UK Foreign Office had received the “secret cable” about it from “their representative in Haifa” on June 12th, but at that point, as mentioned earlier, none of the banks’ local employees had sent any word about it to London.<sup>30</sup> In early June the Israeli state was just barely a month old, and had not yet received any form of official recognition from the United Kingdom (where both Barclays Bank and Ottoman Bank were domiciled); moreover, the fighting between Arab and Jewish sides was still raging, at times literally, outside both banks’ branches windows.<sup>31</sup> It is hardly surprising, then, that the local staff at both banks took no immediate action to obey the Israeli orders, and continued, instead, to work according to the regulations they had always followed up to that point: those of the Mandatory government of Palestine. As the Ottoman Bank’s Haifa branch manager reported in June 1948 – “We continued to conduct business of the Branch in accordance with Government of Palestine regulations” – this, despite the fact that there was no longer, by then, a Government of Palestine.

This strict compliance, on the part of the banks, with “Government of Palestine regulations” made the financial and monetary situation for their Arab customers even more difficult, all through that “catastrophic” “nakba” winter and spring, than it would otherwise have been.<sup>32</sup> We have already seen how several bank branches were forced to close during those months, either temporarily or permanently, on account of the fighting, thus making it impossible

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<sup>30</sup> Barclays Bank DCO, Board Meeting Minutes, 24 June 1948. BBA 38/S08 -S29

<sup>31</sup> The United Kingdom did not grant official “de jure” recognition to the Israeli state or its government until 27 April 1950, and reserved only “de facto” recognition to Israel’s military occupation of Jerusalem.

<sup>32</sup> The term “al-Nakba,” which came to be used by the Arab Palestinians to describe the events of November 1947-May 1948, is customarily translated into English as “the catastrophe.”

for their customers, even if they had been willing to brave the streets, to come to bank branches to withdraw their funds. We have also seen how the banks, because of their tight liquidity situation, had begun to refuse cash withdrawals to even the most important and strategic of their customers (such as the Arab Bank, in the case of Barclays). Then, on February 22 1948, the currency situation in Palestine was rendered even more complicated by the British Treasury's sudden announcement, without any prior notice or explanation, that it would "exclude Palestine from the sterling area and henceforth suspend the free convertibility of Palestinian pounds into pounds sterling."<sup>33</sup> It also stated that the Palestine Currency Board would no longer, "after May 14 1948, continue to issue Palestinian pounds," so that the "termination of the Mandate for Palestine would be accompanied with the end of Palestinian currency as legal tender."<sup>34</sup> The British Treasury made no further announcements about what currency might replace the Palestinian pound, which had been the only legal tender in Palestine since 1922, or what body might replace the Palestine Currency Board, which had been responsible for issuing Palestinian pounds, also since 1922.<sup>35</sup>

Like so many other aspects of Britain's withdrawal from the Mandate, these Treasury decisions appear to have been, at best, unintentionally ill-conceived, and, at worst, deliberately malign. Rees Williams, the then British Under-Secretary of State for the Colonies, himself declared, two days after the Treasury's announcement, that "The withdrawal of the British administration [is taking place] without handing over to a responsible authority any of the

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<sup>33</sup> *Report of Dr. Servoise on Status of the Question of Unfreezing of Assets*, 16 January 1950, United Nations Conciliation Committee for Palestine [Henceforth, *Servoise Report*, Jan 1950, UNCCP], 2. The Israeli State Archives (henceforth, ISA) 1780/21 לז

<sup>34</sup> *Ibid.*

<sup>35</sup> For a detailed discussion of the end of the Palestinian pound and the Palestinian Currency Board, see Chapter 5.

assets, property, or liabilities of the mandatory government.”<sup>36</sup> One contemporary observer suggested that:

“This move was part and parcel of Britain’s policy of leaving the administrative organs of Palestine to chaos [...] It is interesting to speculate what would have happened, had it occurred to someone to sue the [Palestine Currency] Board for a refusal to issue currency in Palestine [...] Meanwhile the State of Israel having been established in the middle of May, the man on the street was not in the least aware that there prevailed one of the most peculiar situations on record in the monetary history of any country.”<sup>37</sup>

The Treasury’s announcement was bitterly criticized by both Jewish and Arab sides in Palestine. The Anglo-Palestinian Bank, which was the main bank of the Jewish community (and soon to morph into the central bank of the new Israeli state), sent letters to the Chief Secretary of the Mandate Administration complaining that the measure had “greatly restricting the working capital for all banks.”<sup>38</sup> The Jerusalem chapter of the Arab Chamber of Commerce also protested to the Chief Secretary, a week after the Treasury’s announcement, that:

“Palestine was included in the sterling area by a unilateral decision taken by HMG, a decision necessitated by war, and the country adjusted its economy accordingly. Its exclusion at this juncture, when the country is in turmoil[...] comes as a setback, difficult to overcome [...] It is the period immediately following the [HMG’s withdrawal from Palestine] which is a matter of concern. The economic situation created by the measure adopted is likely to become critical unless steps are taken now to avoid dislocation in the immediate future. It is understood that that further releases from the blocked accounts will be negotiated with the United Nations Palestine Commission or with the Joint Economic Board when that body is established but neither of these bodies would be representative of Arab needs or interests.”<sup>39</sup>

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<sup>36</sup> Ilan Pappé, *Britain and the Arab Israeli Conflict 1948-51* (New York: St Martin’s Press, 1988), 9. Pappé notes that: “The decision to expel Palestine without warning from the sterling area, and to freeze over a million pounds’ worth of Palestinian accounts in London, thus harming both Jewish and Arab communities [...] were taken as a result of a process of [British] “gut reaction” to the end of the Mandate.”

<sup>37</sup> R.D. Ottensooser, *The Palestine Pound and the Israel Pound: Transition from a Colonial to an Independent Currency* (Geneve: Librairie E. Droz, 1955), 108-9.

<sup>38</sup> Letter from Anglo-Palestine Bank to Chief Secretary, Government of Palestine, 5 March 1948. ISA 5846/62n

<sup>39</sup> Letter from Federation of the Arab Chambers of Commerce in Palestine, Jerusalem, to the Chief Secretary, Palestine Government, 29 February 1948. ISA 323/3n

The British Treasury was unmoved, however, by these local objections to its decisions, which were implemented with immediate effect after February 22nd and duly obeyed by all the banks in Palestine. This had immediate consequences for the Palestinian economy: first, it resulted in the complete “blocking” of all of Palestine’s previously accumulated foreign exchange balances, amounting to several millions of pounds, which had been accruing to the Palestine Currency Board’s balance sheet in London. Second, it caused a panicked run on the banks as ordinary people, both Jews and Arabs, rushed to withdraw their Palestinian pounds and convert them into gold or any into other security they could manage, as they feared, correctly, that the Palestinian currency would soon become obsolete. Third, it effectively rendered the Palestinian pound unconvertible into any other currency by March 1948.

This last, in particular, was of drastic consequence for the thousands of Arab Palestinian refugees who were by then fleeing to other countries, as it meant that they were neither able to exchange their Palestinian pounds into pounds sterling (or any other local Arab currency) before they left, nor could they withdraw sums from their accounts in other currencies once they arrived.<sup>40</sup> The local director of Barclays’ Jaffa branch, fearing the problems this would create for his clients, had privately urged them in February to “open new accounts with Barclays in London, or with any other bank outside Palestine as soon as possible;” but, for all but the wealthiest and most mobile of Palestinian banking customers, this was impossible to manage.<sup>41</sup> The Ottoman Bank’s managing director confirmed his counterpart’s fears in June, when he

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<sup>40</sup> Although it ceased to be legal tender after May 14 1948, the Palestinian pound continued to circulate in Israel (and in Transjordan) for several more months, and redemption centers were established in Haifa and Amman, via the Anglo-Palestine Bank and Barclays Bank, so that people could exchange their Palestinian pounds for Israeli or Jordanian currency. But after February 22 1948, the Palestinian pound was no longer freely convertible into any other currency outside Israel or Transjordan.

<sup>41</sup> Interview with Michel Karkar, Ramallah, Palestinian Territories. 8-10 May 2010. Mr. Karkar told me that his own father, who had had an account with Ottoman Bank in Jaffa had not received this advice, but had heard it, after the fact, from friends who had had accounts with Barclays.



reported that the “Arab clients of the [Jaffa] branch, now refugees in Lebanon and Jordan, have been asking the Bank to pay them their balances in Amman and elsewhere. But these requests are refused in accordance with Government of Palestine regulations and the clients are told that the Branch is closed for the time being and will reopen when practicable.”<sup>42</sup>

It was into this already unhappy and chaotic monetary situation that that the Israeli “freeze order” intruded in early June 1948. As noted previously, the banks did not initially pay it much heed; Barclays’ board having instructed its branches to “take no action,” while the Ottoman Bank’s Jerusalem branch manager openly defied it, as he returned to Jerusalem – with the help of an armed escort provided by the Israeli Haganah – in early June, collected all the bank’s ledgers, took them back with him to Amman, re-established the Jerusalem branch there, and “began to pay all Arab depositors who wished to withdraw their funds.”<sup>43</sup> Even into early July, Barclays’ Chairman, none the wiser, was able to express the feeble opinion that “it is impossible to say what the attitude of any successor government might be.”<sup>44</sup> But, within a few days, that impossibility was resolved, as the state of Israel made very clear to the banks what its attitude would be.

On July 8th, Barclays’ Tel Aviv branch reported to London that “the State of Israel has placed restrictions on all transactions on Arab accounts [...] and threaten[s] to revoke our trading license if we do not comply.”<sup>45</sup> That same day, the Ottoman Bank’s Haifa manager reported that he had “received a letter from the Israeli authorities informing him that no payments from or on

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<sup>42</sup> Ottoman Bank, “Confidential Memorandum: Note on deposits held by our branches in Palestine on behalf of Arab clients,” 8 July 1949. (Emphasis added) NA FO 371/75390

<sup>43</sup> Ibid., Ottoman Bank.

<sup>44</sup> Barclays Bank DCO Board Meeting Minute, 8 July 1948, BBA 38/508-38/529

<sup>45</sup> Barclays Bank DCO, Board Meeting Minutes, 8 July 1948, BBA 38/508 -529

behalf of an Arab account should be made.”<sup>46</sup> A few weeks later, the Israeli government put an end to the Ottoman Bank’s practice of paying out its Jerusalem branch customers via the Amman branch “by cancelling the authority of the Bank to act as Authorised Dealers [and giving] as reasons for the action that the Bank had contravened the spirit of their regulations in paying Arab depositors and particularly in transferring the books of the Jerusalem branch to Amman.”<sup>47</sup>

The Ottoman Bank’s management was furious, and protested the Israeli action on the ground that the bank’s Jerusalem branch was in Jordanian territory, but the Israeli government remained unmoved, and the bank’s license to trade in foreign currency, without which it could not pay out Jerusalem customers in Amman – on account of the British Treasury’s “blocking” of Palestinian pounds – was rescinded. The bank then tried another, more conciliatory, route: “We have submitted to the Israeli Authorities applications for authority to pay Arabs who are suffering great hardship.”<sup>48</sup> But the Israeli government remained obdurate: “The reply is always to the effect that payment to individuals in Enemy Territory cannot be authorized.”<sup>49</sup>

On 25 November 1948 the Ottoman Bank’s head office decided not to fight the matter further, and issued instructions to all “Regional Managers to cease payments to Arab depositors.”<sup>50</sup> From that moment on, none of the bank’s Arab Palestinian customers were able to withdraw any portion of their cash deposits, or contents of safety deposit boxes, from any location within or without Israel. Nor were they able, on account of the British “blocking,” to

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<sup>46</sup> Ottoman Bank, “Confidential Memorandum: Note on deposits held by our branches in Palestine on behalf of Arab clients,” 8 July 1949. NA FO 371/75390

<sup>47</sup> Ottoman Bank, “Confidential Memorandum: Note on deposits held by our branches in Palestine on behalf of Arab clients,” 8 July 1949. NA FO 371/75390

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

convert the Palestinian pounds which they might have been able to smuggle physically out of the country into any other currency. Reflecting on this situation later, an official of the United Nations commented that:

“The bank accounts of Palestinian Arabs are, in a sense, *twice blocked*: [They] are unable to make use of their bank accounts blocked in Israel, and if they could do so, they would be unable to convert their Palestine pounds freely into pounds sterling.”<sup>51</sup>

### 3. “Yes, the Law Permits This”: The legalization of financial dispossession (Dec 1948)

Barclays Bank was not spared the Israeli government’s direct methods either. As a Bank of England official noted:

“Barclays have much the same story to tell [as the Ottoman Bank] except that they feel a bit sore that the Ottoman Bank were able to pay out some of the Arab balances from Amman. As Macdona of Barclays explained to me, they had *no wish* to freeze these balances but were *forced to obey the de facto authority*, and he added they had *no choice to do anything else with an Israeli soldier with a sten gun sitting in their office!*”<sup>52</sup>

The reference to “an Israeli soldier with a sten gun” was no joke. On 14 December 1948, Israeli troops entered Barclays’ Allenby branch and ordered the manager, Mr. Clark, to open the branch’s strong room, which Barclays’ board had deemed should remain shut until peace was established. The ostensible reason for this order was so as to enable the bank’s Jewish customers to access the contents of their safe deposit boxes, but, as noted earlier, Barclays had already removed all Jewish customers’ accounts and safe deposit boxes to its new “western” branch in

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<sup>51</sup> *Servoise Report*, Jan 1950, UNCCP, 2 (Emphasis added) ISA 1780/21 לז.

<sup>52</sup> Letter from Loombe, Bank of England, to Chadwick, Foreign Office, in folder titled *Bank of England Views on Frozen Arab Bank Balances in Israel*. 19 July 1949 (All emphases in original). NA FO 371/75390

February. So Clark protested, and refused, but the Israeli soldiers insisted – “with their guns” – and Clark acquiesced. The Israeli government’s real motivation in ordering the opening of the strong room was, as Clark explained in a letter to his supervisors, to confiscate all the contents of the safe deposit boxes belonging to the branch’s Arab customers:

“While the strong room was open, the Bank was served by the Authorities with a notice to open all the boxes of *customers outside Israel*. In spite of our protests the boxes were forced open and the contents removed [...] The subsequent explanation given by the Authorities was *that they had acted under a law of the Israeli Government not yet promulgated*. We protested strongly and asked for a written declaration that all the contents of the boxes be returned.”<sup>53</sup>

Despite the indignation expressed in Clark’s letter, the combined effects of the “sten gun” and the bank’s desire to “follow the orders of the de-facto authority” – even if this authority was acting under laws “not yet promulgated” – led Barclays’ board to conclude, soon after the Allenby Square incident, that “we would have no option but to comply with such demands if they were given the force of law.”<sup>54</sup>

Barclays’ board initially clung to the hope that there could be no law which justified the actions of the Israeli soldiers in seizing the Arabs’ safe deposit boxes. Just as the Ottoman Bank’s management had done in November, Barclays’ board also “protested strongly” to the Israeli government, and “asked for a written declaration that all the contents of the boxes would be returned.”<sup>55</sup> But, in fact, on December 2 1948, just two weeks before the Allenby branch incident, the Israeli minister of finance, Eliezer Kaplan, had issued a set of “Emergency Regulations on the Property of Absentees.”<sup>56</sup> These “emergency regulations” stipulated, among

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<sup>53</sup> Barclays Bank DCO, Board Meeting Minutes, 23 Dec 1948. (Emphasis added). BBA 38/508 -529

<sup>54</sup> Ibid. (Emphasis added)

<sup>55</sup> Barclays, Ibid. (Emphasis added)

<sup>56</sup> State of Israel, “Emergency Regulations on Property of Absentees” (Absentee Property Act), 5709/1948. Issued by E. Kaplan on December 2 1948. Published (in Hebrew) on 12 December 1948 in the *Official Gazette* number 37,

other things, that the property of all “absentees” – defined as “any person who owned property in Israel and who, on or after 29 Nov 1947, had gone outside Israel” – would be “vested in a Custodian of Absentee Property” and that “every right an absentee had in any property shall pass automatically to the Custodian at the time of the vesting of the property; and the status of the Custodian shall be the same as was that of the owner of the property.”<sup>57</sup> Kaplan went on to issue a statement on December 14th – the very same day on which the soldiers confiscated the Arab safety deposit boxes at Barclays’ Allenby branch – stipulating that, by “property,” these emergency regulations “included movable and immovable property, money, rights in property, whether in possession or in action, and goodwill.”<sup>58</sup>

These emergency regulations were issued some six months after the first Israeli “freeze order” had gone out, in June, to the banks; as noted in the previous section, the Ottoman Bank had already lost its Authorized Dealership license in July, as punishment for not having complied with it. The Israeli government’s confiscation of Arab bank accounts, thus, had begun long before it attempted to legitimate this confiscation by law.<sup>59</sup> But it was the law which allowed the

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supplement 2. Distributed in English via UNCCP A/AC.25/W/10 2 May 1949. According to this Act, “absentees” could be both physical persons and a “body of persons” and could be (1) any person who is the owner, beneficiary or occupier of property situated within the area to which the Act applies *and* (2) who on 29 November 1947

- (i) was a citizen or subject of the Lebanon, Egypt, Syria, Saudi Arabia, Transjordan, Iraq or Yemen, *or*
- (ii) was in any of these countries or in any part of Palestine that is not Israel or Israel-held territory, *or*
- (iii) was a Palestinian citizen and has left his normal place of residence and has not been given a certificate exempting him from the status of “absentee”.

<sup>57</sup> Ibid. Emphasis added. These emergency regulations formed the basis for the “Absentees’ Property Law” which the Israeli Knesset passed on March 14 1950, and which formalized the confiscations outlined here.

<sup>58</sup> Ibid

<sup>59</sup> Although it largely overlooks the episode of the frozen bank accounts, there exists a substantial body of scholarship on the legal mechanisms through which Israel institutionalized its claims to formerly Palestinian owned *lands*. For a discussion of the Israeli government’s claim that its emergency regulations were grounded in British war-time regulations, see Jeremy Forman and Alexandre Kedar, “From Arab Land to ‘Israel Lands’: the legal dispossession of the Palestinians displaced by Israel in the wake of 1948,” *Environment and Planning D: Society and Space*, volume 22 (2004). For a description of the gradual and ad hoc manner in which the Israeli government

confiscation to continue smoothly on to completion, as the banks – as we have seen – were always scrupulous about following government regulations, whichever the government and whatever the regulation.

When it became clear, thus, that these emergency regulations were to be given immediate “force of law” in Israel (although they would not be formally enacted by the Israeli parliament into law until March 1950), both Barclays and Ottoman banks felt that they had no choice but to acquiesce in them, despite their misgivings. As the Ottoman Bank’s Israel country manager, a Mr. Denham, later testified: “It was no longer possible for me to avoid the [Israeli order] as if I had attempted to do so the bank would have lost its license to carry on business and I might have been put in prison.”<sup>60</sup>

Besides, the banks’ anxieties about the rights of their Arab customers were soothed by the Israeli government’s assurances that this freezing was purely a temporary move – “a necessary security measure that a state at war has to undertake for its protection [and which] will be abolished as soon as peaceful conditions have been reestablished.”<sup>61</sup> In the meantime, until these “peaceful conditions” were established, the banks were told that the funds would not be confiscated but merely “frozen,” thereby remaining untouched. As the Israeli delegate to the UNCCP, Walter Eytan, stated in a letter:

“The Government of Israel declares that it has *no intention of confiscating* blocked Arab accounts in Israeli banks and that these funds will be available to

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legalized its appropriation of Arab land, as well as for the British and Indian subcontinent precedents for these regulations, see Michael Fischbach, *Records of Dispossession: Palestinian refugee property and the Arab-Israeli conflict* (New York: Columbia University Press, 2003), 14-23

<sup>60</sup> Mr. Denham’s Statement, *Jabaji v. Ottoman Bank, Jordan, 1953*, 8. (Emphasis added; translation from Arabic). NA FO 371/104454 9

<sup>61</sup> UNCCP, 4<sup>th</sup> Progress Report, *Statement of Israeli Delegation*. 15 September 1949, Geneva. ISA 17112/1371

the proper owners on the conclusion of peace, subject to such general currency regulations as may be operative at the time.”<sup>62</sup>

To further reassure the banks, Israeli officials explained that the precedent for these emergency regulations could be traced directly back to British Mandate war-time laws about the regulation of enemy property. The Mandate Government had indeed created an office, titled the “Custodian for Enemy Property,” under the British Trading with the Enemy Law of 1939, which had confiscated lands belonging to citizens of Germany, German allies and satellites, and German-occupied territories during the war.<sup>63</sup> The Mandate Government had been scrupulous about returning these lands to their owners at the end of the war, a fact which Barclays’ lawyers noted pointedly in their correspondence to the Bank’s board.<sup>64</sup>

In addition to the legitimacy conferred upon the Israeli freeze order, in the eyes of the banks’ management, by the legal status given by the Israeli government to these “emergency regulations;” by their apparent British legal antecedents; and by the Israelis’ assurances that “freezing” did not mean confiscation, there were two other considerations, more practical than legal, which led to Barclays’ eventual submission to the Israeli government’s will: the threat of further violence – the “sten gun” effect – and the cost, learned from the negative example of the Ottoman Bank’s cancelled foreign exchange license, of non-compliance. For, like its rival, Barclays, too, wished, above all, to be able to continue operating in Israel, and “to not,” as the board had expressed in May, “sacrifice our large and important business there.”<sup>65</sup> But in order to do so, the bank had to keep its banking licenses and privileges intact, and it had seen what had

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<sup>62</sup> Letter from Walter Eytan, Israeli representative to Mark Ethridge, Chairman of PCC, Lausanne, 6 May 1949. (Emphasis added) ISA 17112/1373

<sup>63</sup> Fischbach, *Records of Dispossession*, 22

<sup>64</sup> Barclays Bank DCO Board Meeting Minutes, 23 January 1949. BBA 38/508 -529

<sup>65</sup> Barclays Bank DCO Board Meeting Minutes, 9 October 1947, BBA 38/508 -529

happened when the Ottoman Bank had tried to defy the Israeli government. Deciding not to take any further chances which might adversely affect the bank's business in Israel, Barclays' board stopped protesting the Israeli actions, and, from the end of December on, allowed all its Arab accounts, both cash deposits and articles in safety deposit boxes, to be deemed "frozen" and vested, in accordance with the Israeli government's emergency regulations, with the newly created Israeli Office of the Custodian of Absentee Property.

Within a year, it had become clear that the Israeli government meant not to freeze the Arab accounts until peace was established, as had initially been promised, but to fully take them over, and to spend the money as it saw fit. In November 1950, the banks were issued a new order from the Israeli Custodian "to deliver to him by cheque all the monies held in these accounts."<sup>66</sup> In this, too, the banks acquiesced, this time without a murmur. As Barclays' local director in Jerusalem explained in a letter to the General Managers in London:

"The Custodian [mentioned] that the Government had now decided to make use of the credit balances of all absentees held in the various banks. He told me that the money was intended for the development of absentee properties both urban and agricultural. You will appreciate that the funds are vested in the Custodian and that consequently he is *fully entitled to withdraw them when he thinks fit*."<sup>67</sup>

A handwritten note next to this last line, perhaps written by one of Barclays' lawyers, noted, simply: "Yes, the law permits this."<sup>68</sup>

In February 1951, the Custodian withdrew a large amount from the Arab Bank's "frozen" account at Barclays, and explained to the local director that "the reason for this substantial withdrawal of funds was to finance an irrigation scheme."<sup>69</sup>

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<sup>66</sup> Letter from Local Director, Jerusalem, to General Managers, London, 13 November 1950. BBA 11/595

<sup>67</sup> Ibid. Emphasis added.

<sup>68</sup> Ibid.



Barclays, for its part, handed over the money promptly and without protest – “Mr. Porat [the Israeli Custodian] thanked me for having a let him have the cheque for the balance of the Arab Bank account so promptly” – and the board seemed even somewhat relieved at this new development, for it meant that the Arab accounts were no longer, from that point on, on the bank’s books.<sup>70</sup> As a hand-written, unsigned note, added to the previously-quoted letter, suggests:

“My first reaction is that with regard to Absentee creditors, it would not be a bad thing in some ways to get rid of them so that our figures could reflect a true current position...”<sup>71</sup>

The Israeli government, which had once cancelled banks’ licenses without notice as punishment for non-compliance with its orders, knew, too, how to reward amenability: Barclays was promised that “insofar as the absentees’ balances which the Custodian was withdrawing represented old connections of ours, we should have a share in whatever future banking business arose out of them.”<sup>72</sup>

#### **4. Estimated number of bank accounts frozen; estimated amounts frozen; and some thoughts about contextualizing these**

It is difficult to establish how much money (and how many bank accounts) was frozen by the Israeli emergency regulations and later paid over to the Israeli Custodian of Absentee Property. It is harder still to establish the total value of the contents of the safety deposit boxes

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<sup>69</sup> Letter from Local Director, Jerusalem, to General Managers, London, 22 February 1951. BBA 11/595

<sup>70</sup> Ibid.

<sup>71</sup> Letter from Local Director, Jerusalem, to General Managers, London, 13 November 1950. BBA 11/595

<sup>72</sup> Letter from Local Director, Jerusalem, to General Managers, London, 22 February 1951. BBA 11/595

which were also confiscated and taken over by the Israeli government. It is also a tricky business to attempt to estimate the present value of both these sums.

The first two difficulties arise because the banks and the Israeli government were so reticent about disclosing the actual amounts frozen: even in its private archives, Barclays maintains no records of the names of account holders and amounts frozen. Matters are further complicated by the fact that the Israeli government acted haphazardly between June and December 1948, seizing some safety deposit boxes but not others, freezing accounts at some bank branches but allowing others to pay out their customers. As we have seen, it was not till December 1948, after the legal fig-leaf provided by the emergency regulations, that Arab accounts were frozen systematically, and it is only then that the banks' balance sheets began to include line items for "frozen Arab balances." However, by November the following year, all these "frozen Arab balances" were transferred to the Israeli Custodian (as discussed earlier), and from that point on they vanish from the banks' books, and thus from the archival record.

Moreover, the estimates provided by the banks up to December 1948, even in their own confidential internal correspondence, are inconsistent. The matter is further complicated by the abortive "release scheme" brokered by the UN in 1953, through which the Israeli government was supposed to have released £1 million of the total amount blocked in £150 increments to refugees. This plan, as we will see in the following chapter, failed, with the Israeli government paying only a fraction of the total it was supposed to have paid, but the scheme contributed to further inconsistencies in reporting of the total amount actually blocked.<sup>73</sup>

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<sup>73</sup> Sami Hadawi, *Palestinian Rights and Losses in 1948: A Comprehensive Study* (London: Saqi, 1988), 102

The Israeli State Archives contain no records on the amount and numbers of Arab bank accounts frozen and later confiscated). Perhaps these records exist somewhere, but they are not available at the ISA to the general public.<sup>74</sup> The Palestinians, unfortunately, have no official archives of their own, and the information from the Palestinian side on the subject is limited to what could be gathered from the archives of the Shehadeh Law firm (as cited in this chapter), as well as from interviews with Palestinians who lived through that era. The absence of Palestinian archives, on one hand, and the scant availability of relevant materials at the Israeli and Barclays (and other banks') archives on the other, partly explain why the story of the frozen bank accounts has received such little attention in scholarship thus far.

Despite these difficulties, an estimate of the total amount frozen can be arrived at from United Nations documents, particularly from reports written by the United Nations Conciliation Committee for Palestine, which was established by the United Nations General Assembly in December 1948 with a view to solving the "Palestine problem." These numbers, however, also vary greatly. One of the first of the committee's reports on the subject, published in January 1949, estimated that the total amount frozen was between "£P4 and £P5 million" belonging to 10,000 account holders, but a later report put it as high as "£10 million belonging to 20,000-30,000 accounts."<sup>75</sup>

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<sup>74</sup> The ISA files marked "Custodian for Absentee Property" (in Hebrew: Apotropos shel Niksei ha- Nifkadim) make no mention of the frozen bank accounts. What information I could find at the ISA, on the matter, was in files marked "UNCCP."

<sup>75</sup> Dr. Seroise estimated in January 1949, in his lengthy first report for the UNCCP titled "Status of the Question of Unfreezing of Assets," that the total amount frozen was between £4 – £5 million, corresponding to 10,000 accounts. But even then he noted that "Considerable discrepancies exist regarding the amounts." *Seroise Report*, Jan 1950, UNCCP, 7-8. ISA 1780/21 נל. The higher £P 10 million/20- 30,000 accounts number was cited in the 6<sup>th</sup> progress report of the UNCCP, May 1950. ISA 1780/21 נל.

The Israeli government was reluctant to confirm the exact amount frozen, even to the UNCCP. Israeli representatives at UNCCP meetings were instructed to “refrain from using any figure, but to indulge in generalities with regard to overall sum;” and the Israeli government maintained officially only that the “£5 million overall figure is greatly exaggerated to the extent of being twice as great as the actual amount frozen.”<sup>76</sup> In private, however, Israeli officials seemed to have thought, in fact, that the UNCCP estimates were too low: David Horowitz, chief Israeli negotiator at the Anglo-Israeli financial negotiations, revealed, during a private conversation with a British Foreign Office official in October 1949, that “frozen Arab bank balances amounted to more than £5 million,” while a telegram sent in May 1951 from an (unnamed) Israeli official in Jerusalem to the Israeli consulate in Washington stated plainly that “Custodian’s confidential information present figure £4.5 million.”<sup>77</sup>

Feeling that the numbers put forth by both the UNCCP and the Israeli government were “glaringly low and inaccurate,” the League of Arab States commissioned its own report, prepared by a committee of experts, which was published in 1956. This put the total value blocked at Barclays and Ottoman banks at “over £6 million, whereas deposits at other foreign banks were estimated at about £500,000.”<sup>78</sup> While the Barclays and Ottoman bank numbers quoted by this report seem higher than those quoted by the banks themselves, the estimate for deposits “blocked at other banks” is useful, as no other contemporary study included those amounts in their analysis.

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<sup>76</sup> Letter from Harry Zinder to members of Israeli delegation, UNCCP, 6 March 1953. ISA 90/1737

<sup>77</sup> Letter from British Legation, Beirut, to Foreign Office, October 24 1949. NA FO 371/75391. Telegram from “Kalkalit” to “Memisrael Washington,” 25 May 1951. ISA 1780/2137

<sup>78</sup> Hadawi, *Palestinian Rights and Losses*, 128-130

Sami Hadawi, a Palestinian academic who had himself worked for the UNCCP, estimated in 1988 that the true number of frozen Arab bank deposits was £12.5 million (though his estimate does include the value of articles in safe deposit boxes).<sup>79</sup> Hadawi based this number on the fact that, according to Government of Palestine reports, total Arab bank deposits (in all banks in Palestine) in 1945 amounted to approximately £P18.5 million.<sup>80</sup> He allows for some natural growth in Arab bank deposits till 1948, and then a 50% withdrawal during the turmoil between November '47 and May '48 (although this 50% withdrawal estimate seems generous, given the difficulties of access to banks and cash withdrawals in 1948, as described earlier in this paper). He thus arrives at a total number of Arab bank deposits of approximately £P9.5 million as of May 1948; from this he subtracts the roughly £4 million deposited at the Arab Bank (as the Arab Bank never obeyed the Israeli freeze order), to arrive at a final cash deposits number of £P5.5 million. To this he adds an estimate for the “financial instruments and liquid wealth” (mainly gold and jewelry) stored by the Arabs in bank safety deposit boxes, to arrive at a final £12.5 million number.<sup>81</sup> However, this estimate seems inaccurate, as it does not include the Arab Bank reserve accounts at Barclays and the Anglo-Palestine Bank, both of which were frozen; nor can his estimate for the cash value of articles kept in safety deposit boxes have any basis in reality, as neither Ottoman nor Barclays ever revealed the monetary value of these articles, not even to the UNCCP.

Given these wide discrepancies and inaccuracies, it would seem safest to go by the numbers reported by the banks themselves in their own internal correspondence, for, even though these numbers were inconsistent, they were still estimates provided by bank employees

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<sup>79</sup> Ibid, 156

<sup>80</sup> Ibid, 155

<sup>81</sup> Ibid, 156

for their supervisors; there was no intended wider audience, and thus no reason to inflate or deflate the amounts. Going by the internal correspondence files of the banks, thus, the total amount frozen at Barclays seems to have been approximately £P3.5 million, and at the Ottoman Bank approximately £P1.6 million (neither figure includes estimates for the contents of safety deposit boxes. (See figure 4 below for breakdown of amounts frozen by branch at the Ottoman Bank).

The combined estimate for both Ottoman and Barclays would thus be about £P5 million, which is in line with the UNCCP and Government of Israel estimates mentioned above. But this £P5 million number does not include the amounts frozen at any other bank; it excludes, for one, the Anglo-Palestine Bank, which was an important bank during the Mandate era and certainly had some Arab customers, both individual and businesses, even though it was primarily a Zionist bank. We know, for instance, from the documents it filed in its lawsuit against Barclays Bank, that the Arab Bank had £P500,000 in a current account at the Anglo-Palestine Bank.<sup>82</sup> We also know, from the Arab League report quoted earlier, that “an additional £P500,000 was blocked “at banks other than Barclays and Ottoman.”<sup>83</sup> Putting these two sums together, we might estimate that a further £P1 million was blocked at other banks, including the Anglo-Palestine Bank. That brings the total cash blocked to roughly £P6 million. (For a summary of my estimates, and comparison with other estimates quoted here, please see figure 5 below).

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<sup>82</sup> *Arab Bank v Barclays Bank*, High Court, 1952.7. NA FO 371/104456 . Dr. Seroise’s report also confirms that the Arab Bank had a blocked account at the Anglo-Palestine Bank. *Seroise Report*, Jan 1950, UNCCP. ISA 1780/21 ٧.

<sup>83</sup> *Ibid*, 130.

	Amounts in £P <sup>1</sup>
Jaffa branch	£912,000
Haifa branch	£230,000
Tel Aviv branch	£1,500
Jerusalem branch <sup>2</sup>	£427,000
<i>Total</i>	<i>£1,570,500</i>

Source: Ottoman Bank, "Note on deposits held by our branches in Palestine on behalf of Arab clients," NA FO 371/75390

1) These amounts include only cash deposits of customers, not contents of safe deposit boxes

2) The Jerusalem deposit number is approximate, as the branch manager paid out some customers in Amman before Nov 25

**Figure 4: Ottoman Bank's numbers for total Arab frozen accounts, as of November 1948**

	Amounts in £P <sup>1</sup>	No. of accounts
My estimate:		
<i>Ottoman Bank</i> <sup>2</sup>	£1,570,500	1,927
<i>Barclays Bank</i> <sup>2</sup>	£3,500,000	?
<i>Combined Anglo-Palestine Bank &amp; other smaller banks</i> <sup>3</sup>	£1,000,000	?
Total estimated blocked	<i>£6,070,500</i>	
Other estimates:		
<i>UNCCP</i> <sup>4</sup>	£4,500,000	10,000-30,000
<i>Michael Fishbach</i> <sup>5</sup>	£3,218,775	6,246
<i>Sami Hadawi</i> <sup>6</sup>	£12,500,000	?
<i>Israel government</i> <sup>7</sup>	£4,500,000	?

1) All estimates count only cash deposits and exclude contents of safe deposit boxes, except for Hadawi estimate

2) As reported by Barclays and Ottoman internal correspondence, NA FO 371/75390 & BBA Board Minutes various

3) Documents filed by Arab Bank in Arab Bank v Barclays Bank (1953); and Arab League Report (1956)

4) UNCCP estimate does not include amounts frozen at any other bank other than Barclays and Ottoman

5) Fischbach takes UNCCP's estimate, but excludes the £582,931 belonging to Arab Bank at Barclays Bank

6) Hadawi, Palestinian Rights and Losses, 156

7) Telegram from "Kalkalit" to "MemIsrael Washington," May 25 1951. ISA 1780/21 גל

**Figure 5: Estimate for total Arab frozen bank deposits as of November 1948**

Although no GDP figures are available for the Palestinian economy in 1948 –  
macroeconomic data collecting was another casualty of the political ruptures and violence of

1947-8 – a contextualization of the “frozen” £P6 million might be obtained from the wholesale price index, and from the figures given below (Figure 6) for Palestinian imports and exports in the years prior to the disruptions caused by the termination of the Mandate. These numbers, taken from the Arab Bank’s annual report for the year 1946, indicate that the frozen Arab accounts – not counting, to remain consistent with the figures arrived at above, the cash value of articles deposited for safekeeping with the three major banks – were worth 43% of total Palestinian exports in 1945, and 21% of total exports in 1946. These numbers, thus, provide some measure of the scale of the loss that the “freezing” – which soon become outright confiscation – represented not just to individual Palestinians, but to the Palestinian economy as a whole.

	Palestine		Syria+Lebanon		Egypt		Iraq	
	1945	1946	1945	1946	1945	1946	1945	1946
Cost of living index number	259	275	623	544	294	289	377	405
Wholesale price index number	336	335	961	874	533	316	487	454
	£P	£P	£SL	£SL	£E	£E	ID	ID
Currency in Circulation (in millions)	48	43	392	345	124	139	41	41
Deposits with Banks (in millions)	82	95	290	312	235	197	20	20
Total Imports (in £ millions)	30	70	422	136	53	74	19	23.5
Total Exports (in £ millions)	14	28	135	46	40	55	11.5	11.2

Source: Arab Bank Ltd. *17th Annual Report of the Board of Directors For the Year 1946* (21.2.1947) [CZA S90/2003/4]

**Figure 6: Palestinian trade and price indices, 1945 and 1946**

The trickier problem of estimating what £P6 million would be worth in today’s terms might be tackled with the help of some general formulae used by economists and historians to calculate the present value of historic sums. Since the Palestinian pound was tied to the British pound sterling at a 1:1 ratio, the following estimates – arrived at using five different calculators, as indicated in the table (Figure 7) below – suggest that £P6 million pounds in 1948 would be



equivalent to (averaging the different estimates provided by different calculators) very approximately, about half a billion pounds in 2011 terms (the mean figure for the estimates below is £436 million).<sup>84</sup>

Method used	Historic value (1948)	Present value (2011)
Retail price index	£6,000,000	£179,000,000
GDP deflator	£6,000,000	£169,000,000
Average earnings	£6,000,000	£481,000,000
Per capita GDP	£6,000,000	£595,000,000
Share of GDP	£6,000,000	£756,000,000

Source: [www.measuringworth.com/ukcompare](http://www.measuringworth.com/ukcompare)

**Figure 7: Five ways to calculate the present value (2011 terms) of P£6 million in 1948:**

Regardless of the accuracy of these present value calculators; and regardless of the uncertainty as to the exact amount frozen, it seems fair to conclude that the freezing of the Arab Palestinian accounts by both Barclays and Ottoman Banks in 1948 constituted a devastating blow, not only to the individuals whose bank accounts were frozen, but also to the Arab Palestinian economy as a whole.

## Conclusion

Dwarfed as it was by the grave difficulties that afflicted the Palestinians in 1948 – the loss of homes, livelihoods, lives; entire cities and villages emptied of their Arab populations; businesses, hotels, hospitals, publishing firms, newspaper offices, destroyed or abandoned – it is

<sup>84</sup> Lawrence H. Officer and Samuel H. Williamson, "Five Ways to Compute the Relative Value of a UK Pound Amount, 1270 to Present," MeasuringWorth, 2013.  
[http://www.measuringworth.com/ukcompare/result.php?year\\_source=1948&amount=6000000&year\\_result=2013](http://www.measuringworth.com/ukcompare/result.php?year_source=1948&amount=6000000&year_result=2013)

not surprising that the “freezing” of some £6 million pounds (in 1948 terms) of cash and another million or so in jewelry and other valuables has received such little attention from historians of the region. The story, however, deserves to be told, not only to record the loss, but also because it illustrates the broad argument of this dissertation, that of the particular vulnerability of stateless people to economic and monetary dispossession.

This chapter has focused on the actions and motivations of the two major international banks in the wake of the Israeli freeze order of June 1948; and has argued that the Palestinians could be so easily dispossessed of their financial assets because they had no state of their own to protect them from the actions of the Israeli government. The banks, having no other state’s jurisdiction in which to operate, were left with no choice but to obey, scrupulously to the letter of the law, the orders of the Israeli state. This is because banks are not individuals with moral considerations, but businesses which need to comply, if they are to preserve their licenses and profits, with the laws of the new country in which they found themselves operating. The legalization of the “freeze order” in December 1949, upon the passage of the Israeli Emergency Regulations, provided an important turning point for the banks’ role in the story, for it was from that moment on that they stopped protesting, even half-heartedly, the Israeli government’s orders regarding the accounts of their customers.

The matter progressed, over the course of 1949, from what had initially been presented as a temporary “freezing” of Arab accounts, to what was, clearly, by the spring of 1950, a permanent transfer of all Arab accounts to the Israeli Custodian of Absentee Property. By the end of that year, both Ottoman and Barclays had paid all the Arab accounts over to the Israeli authorities, who spent them – as “permitted by law” – as and when they pleased. After December

1950, the Arab Palestinian bank balances vanished from the banks' books; they ceased to be considered "frozen accounts;" and from that moment on, the dispossession was complete.

The story, however, did not end there; for although the banks thought that they had rid themselves of the problem by transferring all the funds over to the Israelis, they continued to be embroiled in the saga of the "frozen Arab balances," much to their dismay, for almost another decade. This was because their Arab Palestinian customers, not content to be silent victims, fought for their rights, and their assets, as best they could. The following two chapters take up their tale.

## CHAPTER 4

### The Arab Palestinians React

Writing to a colleague in the Foreign Office in May 1949 to explain the “problem of the Arab balances frozen in British banks,” an official of the British Legation in Amman described the matter thus:

“As you know, these sums represent the life savings of many hundreds of thousands of Arabs who had confided them to British banks for safekeeping.[...] When they [the Arabs] discover that the directors of Barclays and the Ottoman propose to let the Jews “get away with it” there will be the strongest reaction against British banking as a whole [...]. It could be argued that this would be little more than the banks concerned deserve, as they gave no warning to their Arab clients (who were entirely ignorant of such things) of the obvious course of events, and certainly leaned over backwards in the early days when the Israeli status was obscure, in doing nothing that might in any way irritate the Jewish authorities. [...] I would emphasize again that the ordinary Arab depositor has not yet even contemplated the possibility that his assets should be permanently lost as long as they are in Barclays or the Ottoman [and when he does] the shock will be terrific. The villains will be the British, we shall be accused of supporting the Jewish “thieving” from the refugees...”<sup>1</sup>

The letter writer’s dire prognostications proved accurate on all points: he was right in supposing that the banks had given no prior warning to their clients about what was to happen – nor, in fact, were they informed after the fact; he was right in suggesting that the “ordinary Arab depositors” had not realized that their funds could be confiscated permanently, and had not even contemplated the possibility that that might happen; and he was right in predicting that, once they had realized what had happened, the Arabs would have the “strongest possible reaction against British banking as a whole” and that their response would first be “terrific shock,” and then fury: against the banks, the British, and the Israelis.

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<sup>1</sup> Letter from Pirie-Gordon, British Legation, Amman, to B.A.B. Burrows, Eastern Department, Foreign Office, 14 June 1949. NA FO 371/75390

This chapter describes the Arab Palestinian reaction to the freezing of their bank accounts, and suggests that their protracted, years-long efforts for the restitution of their bank accounts, despite having no state of their own to turn to for help, presents a striking and noteworthy example of a people's economic agency in the absence of political sovereignty.

### **1. “The strongest reaction against British banking as a whole”: Initial Arab responses to the freezing of funds, 1948-1951**

The initial shock was indeed terrific. In October 1948, a ragged fourteen year old Arab boy, wearing tattered shorts and not much else, staggered into the Ottoman Bank's branch in Jerusalem and begged to see the branch manager, a Mr. Whitfield.<sup>2</sup> The boy had an extraordinary story to tell: his family, along with the other sixty thousand Arab residents of the towns of Lydda and Ramle, had been evicted from their homes by Israeli Defence Forces troops on a hot night in July, stripped of all their belongings, and made to walk east towards the Jordanian-controlled West Bank.<sup>3</sup> During that long hot march, which most families were compelled to undertake without food, water, and the barest of provisions, Michel's family was attacked by a group of Israeli soldiers, and the boy's father, Dimitri Karkar – who was a well-known money-changer and gold merchant, and was likely to have been known to have been carrying a lot of money and jewelry on him – was robbed and killed. The boy, Michel, saw his father die before his eyes. The

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<sup>2</sup> Oral interview with Michel Karkar, 8 – 12 May 2010, Ramallah, Palestinian Territories. The following account is entirely Mr. Karkar's version of events. His story, though not well known in Palestine, inspired the film, *Salt of this Sea* (Milh Hadha al-Bahr) Dir: Annemarie Jacir (France: 2008).

<sup>3</sup> For a detailed account of the IDF's expulsion and the subsequent forced march of all Arab residents from the town of Lydda, see Spiro Munayyer, “The Fall of Lydda,” *Journal of Palestine Studies* Vol. 27, No. 4 (Summer 1998), 80-98. For more on the IDF's expulsion of Arabs from Ramle and Lydda, see Ilan Pappé, *The Ethnic Cleansing of Palestine*, (Oxford: Oneworld Publications, 2006), 166- 169; Nur Masalha, *Expulsion of the Palestinians* (Institute for Palestine Studies, 1992), 191; and Benny Morris, *Righteous Victims: A History of the Zionist-Arab conflict, 1881-1999* (New York: Knopf, 1999), 257.

family managed to make their way to Ramallah, but by early October the little money they had managed to hide had run out, and the family was hungry and desperate. The boy, who was the oldest son and had often accompanied his father during his trips to the Ottoman Bank in Jaffa, knew that his father had £P700 saved on account at the bank. He thus resolved to go to the nearest branch, notwithstanding the dangerous conditions of the streets, to withdraw his father's savings.

When he arrived at the bank and shared his story with Whitfeld, the branch manager, and asked to be allowed to withdraw his father's money, he was told that he could not, as his father's account had been frozen – “mujammid” in Arabic, was the word used – which word Michel, as he remembers it now, heard over and over again without comprehending. At first he begged and pleaded with the manager; then he cried; finally he shouted and kicked and screamed. In the end, the branch manager called security, and had the boy thrown out.

This happened when Michel Karkar was a child of fourteen. That he remembers the story, down to its littlest detail – the date; what he was wearing; the name of the bank manager; the amount of money in his father's account; the fact that the manager's own brother had died in the King David bombing, and was thus sympathetic to the boy's plight – some sixty years later is testament not only to Michel's astonishing memory but also to the great trauma the incident caused in his life.

Stories like Michel's are, unfortunately, common among the Arab Palestinians of the time. There was, for example, the case of Theodore Sarrouf.<sup>4</sup> Theodore was an entrepreneur from Jaffa, and a dashing man, given to wearing pricey suits. He had established, in 1927, the first

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<sup>4</sup> Oral interview with Samer Sarrouf, 10 June 2010, Ramallah, Palestinian Territories. Samer is Theodore's son.

Arab advertising agency in Palestine, called “Sarrouf’s Advertising Services.” In April 1948 Theodore had fled to Beirut, like so many other Jaffa Palestinians, with “£P200 in his pocket.” He had kept an account with Barclays in Jaffa, and when his emergency funds ran out, he went to Barclays’ branch in Beirut to withdraw more funds. He was met by the manager there and told he could not do so as his account in Jaffa had been frozen. The experience scarred Sarrouf for life: a proud, once-wealthy man, he was reduced to borrowing money from friends and relatives in Beirut to survive. Although he did eventually manage to rebuild his life, after he died his children discovered, to their amazement, that “he had opened twenty eight different bank accounts in Beirut, each with a small sum in it, because he never trusted banks again.”<sup>5</sup>

The Israeli government had maintained, at least officially, that the freeze order and subsequent confiscation applied only to the accounts of “absentees,” that is, of Arab Palestinians who had “left their homes on or after November 29 1947.”<sup>6</sup> But as is evident from the following story, the banks had, in fact, frozen the accounts of *all* Arab customers, regardless of whether they had stayed or left. Perhaps this was because it was impossible, in December 1948, for the banks’ employees to know with any degree of certainty who had stayed and who had not; perhaps it was because, in their haste to obey the Israeli government and avoid losing their licenses and falling foul of the “sten gun,” the banks’ employees hadn’t the time to check; or perhaps the Israeli government had insisted, behind the scenes, that every Arab account must be frozen, absentee or not. At any rate, whatever the reason, all Arab accounts, including those

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<sup>5</sup> Oral interview with Samer Sarrouf, 10 June 2010, Ramallah, Palestinian Territories.

<sup>6</sup> State of Israel, “Emergency Regulations on Property of Absentees” (Absentees Property Act), 5709/1948.

belonging to people like Yusuf Odeh, who had never left his village, were frozen, as Odeh discovered, to his dismay and rage, in December 1948.<sup>7</sup>

Yusuf Odeh was a merchant and tradesman who lived in the village of Tarshiha in northern Palestine. His business had flourished during the second world war, and he had opened an account with Barclays in Akka (Acre) in the early '40s. Tarshiha was one of the last Arab villages to fall to Jewish troops in 1948; it had remained unoccupied until late October, and many of its villagers, Yusuf Odeh included, had remained, sheltering inside the village church, instead of fleeing to Lebanon.<sup>8</sup> After the village was occupied by the Israeli Defence Forces in late October, some of its Arab residents were allowed to remain – unlike the Arabs of other neighbouring villages in the Galilee region, who were all forced to leave – but all those who remained were placed under Israeli military rule and denied permission to leave the village.<sup>9</sup> It was not until December 1948 that Yusuf Odeh was able to persuade the military governor to allow him to go to Haifa to visit Barclays to withdraw the funds he desperately needed to purchase goods for his family and store. But when he, after much wrangling with the Israeli military authorities, finally managed to arrive at the bank's branch in Haifa, he was told that his account was frozen, and that the bank could do nothing.

Yusuf had chosen to bank with Barclays because he had known and respected the then Acre branch manager, Abdallah Morqos. He was also an enthusiastic Anglophile: his father had

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<sup>7</sup> Oral interview with Safwat Odeh, 14 May 2010, Tarshiha, Israel. Safwat is Yusuf Odeh's son, and the following account is his version of events. All quotes and information are from Safwat Odeh.

<sup>8</sup> Yusuf Odeh had himself hidden in the village church. For more on the occupation of Tarshiha in October 1948, see Pappé, *Ethnic Cleansing*, 177-8.

<sup>9</sup> The reasons for this clemency on the part of the Israeli troops are shrouded in mystery and the subject of much scholarly (and not-so-scholarly) speculation ever since, as their orders were clearly to evict the town and to "transport," to use the language of the IDF, all Arab residents to Lebanon. For the Tarshiha eviction order, see Pappé, *Ethnic Cleansing*, 181-182. Many of the present-day residents of the village told me that the Muslim residents were made to leave while the Christians were allowed to stay.



been drafted by the Ottoman army and made to fight, against his will, in Gallipoli; he had witnessed massacres perpetrated by the Turks in Bulgaria and Armenia; had finally managed to escape the army and somehow return to Tarshiha by foot; and had “cheered when the British came to Palestine, because we had suffered so much under the Turks.” He had thus raised his son, Yusuf, to be grateful for the British presence in Palestine, and to speak English fluently. Yusuf was also, on his own accord, a devout believer in “modern finance.” But this freezing of his funds shattered his faith in all that: the bank manager; the British; and, above all, the banks. From December 1948 on, until he died, Yusuf Odeh refused to open another bank account, maintaining only that that “my pocket is safer than any bank,” and that “banks are thieves.”<sup>10</sup>

When the British official, writing from Amman, had predicted that “there will be the strongest reaction against British banking as a whole,” he was right. As these stories illustrate, the Arab Palestinians felt not only the shock and trauma of having had their “life savings” confiscated, but also a deep bitterness at having been betrayed by the very institutions in which they had placed their trust. For these were people who had chosen British banks over the Arab Bank and other local alternatives; they had, as Michel Karkar explained about his father, “chosen Ottoman Bank over the Arab Bank *because it was a British bank.*”<sup>11</sup> As another customer put it, in his anguished letter to the Ottoman Bank’s manager in October 1951: “We have been made the victims inspite [sic] of the fact that our only sin was that we laid our *full confidence* in you.”<sup>12</sup>

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<sup>10</sup> Oral interview with Safwat Odeh, 14 May 2010, Tarshiha, Israel.

<sup>11</sup> Oral interview with Michel Karkar, 8 – 12 May 2010, Ramallah, Palestinian Territories.

<sup>12</sup> Letter from Ahmed Shaker Hammami, Beirut, to Ottoman Bank, London, 22 October 1951 [All errors in original] NA FO 371/9175

The freezing of their funds not only shattered the faith of these people in their banks, but also converted them from once-faithful clients to openly suspicious antagonists. As Haj Deeb Hamdan, another customer of the Ottoman Bank, wrote, in an emotional letter to the bank in November 1951:

“I left the balance with you because I had been a client of your bank for about 30 years and had great confidence in your institution. I must say that the circumstances which caused the freezing of Arab balances in your Jaffa branch force me to believe that you had a hand in it. Your Jaffa branch was closed about twenty days before the end of the Mandate and in that way many like me were prevented from drawing their balances in time. Following that I tried to withdraw my balances from other branches but was refused, whereas if I had had this balance in the Arab Bank I would have been able to cash it all without difficulty. In fact, the freezing of Arab balances by Israel took place some time after the establishment of Israel, and your Jaffa branch actually froze our balances *voluntarily in expectation of the Israeli order* which did not come until about two months later.”<sup>13</sup>

Another British diplomat, writing from Beirut in September 1951, neatly summarized why the Arab customers of Barclays and Ottoman banks should have felt so betrayed by Britain and her banks:

“A refugee can point out that he had entrusted his money to a British bank in the days of the Mandate, because he relied on the faith of HMG to keep it safe for him, and now he has found that HMG has handed it over to Israel without his consent and, as far as he can see, without any justification at all. If he had been warned before the mandate ended that this was to be done, he would have moved his money, and in any case before recognizing Israel as a state, HMG could have stipulated that the Palestinian accounts be freed.”<sup>14</sup>

It might have provided some bitter consolation, to Michel Karkar, Theodore Sarrouf, Yusuf Odeh and the thousands of others like them, to know that those of their compatriots who had chosen to bank instead with the Arab Bank had not suffered the same fate. For the Arab

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<sup>13</sup> Letter from Haj Deeb Hamdan, Beirut, to Manager, Ottoman Bank, London, 5 November 1951 [All errors in original; emphasis added]. NA FO 371/91725

<sup>14</sup> Letter from Knight, UK Delegation, Beirut, to Evans, Foreign Office, 25 September 1951. NA FO 371/91725

Bank had refused, from the outset, to obey the Israeli freeze orders, and the bank's publicity materials made much of the fact that it was the "only bank in Palestine" to have paid out every single Arab Palestinian depositor.<sup>15</sup>

But this was something of an empty boast, for the Arab Bank, unlike Barclays and the Ottoman, no longer had any branches in territory controlled by Israel after June 1948, and had thus never come under Israeli jurisdiction. It was also an untruthful claim, as the Arab Bank had not, in fact, paid out "every single Arab Palestinian depositor;" it only paid those who could physically come to its branches in Beirut, Amman, and elsewhere in the Arab world. But there was a small percentage of its customers who remained in what became Israel – people like Abu Ghassan Jadaoun of Tarshiha, and the Makhoul family of Haifa – and who were unable, after December 1948, to go to any of the Arab Bank's branches as they lived under strict Israeli military rule and were not permitted to leave. The Arab Bank refused to make arrangements to transfer the cash balances of these customers to Israel – knowing, perhaps, that these would be confiscated immediately by the Israeli authorities – and so the assets of these customers were also, in effect, frozen in 1948, and would remain so for another forty-odd years, until the Arab Bank was allowed back in to the Palestinian Territories under the Oslo Accords in 1994.<sup>16</sup> The

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<sup>15</sup> Contemporary local newspapers seemed to have accepted the Arab Bank's line; a Lebanese English daily reported, for instance, that "The Arab Bank branches [...] in Amman, Beirut, and everywhere have honored every account which was held in Palestine branches by a refugee." *Daily Star*, "Arabs may win bank deposits from British," May 24, 1954. Shehadeh papers.

<sup>16</sup> The Arab Bank had, in fact, operated in the West Bank throughout the period of Jordanian occupation between 1948 and 1967. It was expelled by the Israeli authorities in 1967, after Israel occupied the West Bank and Gaza. The Arab Bank finally returned again to the West Bank in 1994, under the Oslo process. But by then, many of its erstwhile pre-1948 "Arab Israeli" customers had died, leaving their accounts still unclaimed at the Arab Bank. A small group of these pre-1948 Arab Israeli customers sued the Arab Bank in the early 2000s for full restitution of their funds plus accumulated interest from 1948. This group included members of the Makhoul family of Haifa as well as three other families from Um al Fahm, Nazareth, and Taybeh. The facts of the case are, however, murky and difficult to establish, as the lawsuits were all settled out of court, and the Arab Bank's lawyers were reluctant to discuss the matter in any detail with me. The Arab Bank does possess a register with the names of all its 1948 customers, but this was also not made available to me. The facts noted here are all from Usama Saadi, the Arab

names of these “pre-1948 Palestinian” (as the Arab Palestinians who remained in Israel after 1948 came to be called) customers of the Arab Bank must, therefore, also be added to the list of all the Arab Palestinians whose bank accounts were frozen in 1948.

## **2. Who were the Arab Palestinian account holders?**

At the end of 1944, the Arab population of Palestine was estimated by the Mandate Authorities to be 1,179,000.<sup>17</sup> Allowing for an average annual growth rate of 3% (based on the annual Arab growth rate from 1942 to 1943), the total Arab population at the end of 1948 would likely have been approximately 1.3 million (this includes all Arabs, i.e., also those who became refugees during that year).

As discussed previously, estimates for the total number of frozen bank accounts vary greatly, and cannot be used with any degree of certainty: the UNCCP thought the number was between 20,000 and 30,000, though other estimates range from as low as 6,246 to as high as 50,000.<sup>18</sup> In addition, all these estimates tended to combine individual with corporate accounts, making it even harder to know how many individual Arab Palestinians’ accounts were actually frozen. But regardless of the actual number, it would seem fair to conclude, given the upper and lower ends of these estimates, that the number of people whose bank accounts were frozen

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Bank’s lawyer in Jerusalem. Oral Interview with Usama Saadi, Lawyer, Arab Bank, 10 June 2010, Ramallah, Palestinian Territories.

<sup>17</sup> Government of Palestine, *A Survey of Palestine*: Prepared in December 1945 and January 1946 for the Information of the Anglo-American Committee of Inquiry (Palestine, 1946) Vol. I, 143

<sup>18</sup> For the UNCCP estimate, see *6<sup>th</sup> Progress report of the UNCCP*, May 1950. ISA 1780/21 נג. For the League of Arab States estimate, see Hadawi, *Palestinian Rights and Losses*, 130. For the £P6,246 estimate, see Fischbach, *Records of Dispossession*, 199

constituted less than 5% of the total Arab population of Palestine in 1948. (See figure 8 below for population estimates).

Actual Arab population of Palestine in 1944 <sup>1</sup>	1,179,000
<i>Annual growth rate of Arab population</i> <sup>1</sup>	3%
Estimated Arab population of Palestine in 1948	1,320,480
Estimated number of frozen Arab bank accounts <sup>2</sup>	10,000 - 50,000
<i>Frozen accounts as % of 1948 population</i>	1% - 4%
1) Government of Palestine, <i>Survey of Palestine</i> , 1946	
2) Low end: Servoise Report, Jan 1950, UNCCP; High end: League of Arab States, 1956	

**Figure 8: Estimate for number of frozen accounts as percentage of total Arab Palestinian population as of November 1948**

The Arabs whose accounts were frozen thus comprised only a minority of the Arab population of Palestine. But they were an important and economically vital segment of that population, for they were the people who believed in banks, and in the project of modernity, and economic growth and stability, which banks represented. These were the people whose appetite for banking had grown throughout the 20s and 30s, and for whose patronage and pounds Barclays, Ottoman, and the Arab Bank had competed so vigorously against each other – “to corner the Arab market” – during the previous decade.<sup>19</sup>

This is not to suggest that the Arab account holders were all businessmen and capitalists; a glance through the legal depositions filed by some of them later (as discussed in the next chapter) reveals that they hailed from varied class and income backgrounds.<sup>20</sup> Some of them

<sup>19</sup> For a discussion of the growth in demand for banking by Arab Palestinians from the late 1920s on, and a description of the competition between Barclays, Ottoman and the Arab Bank to “corner the Arab market,” please see Chapter 2.

<sup>20</sup> Please see Appendix II for a list of names and account details for the Arab customers who eventually filed lawsuits against Barclays or Ottoman Banks.

were members of the powerful and prominent landed families of Palestine – the Rashidis, the Khalidis, the Nashashibis – whose accounts held large sums of money (some as large at £P40,000). Many, if not most, were from the ordinary middle classes, descendants of the families which had flocked to, and then prospered and proliferated, in the cities of Palestine since the early decades of the century. They were doctors, lawyers, school teachers, housewives, journalists, petty merchants, office workers, and people like the individuals whose stories have been mentioned above: Dimitri Karkar, a money-changer; Theodore Sarrouf, an advertising entrepreneur, Yusuf Odeh, a tradesman and shop-keeper. But many of the frozen bank accounts also contained very modest sums – some as low as £P10 – and belonged to people who were illiterate, as suggested by their depositions signed by fingerprints. Their ranks included people like the unfortunate “maid Hilweh” who worked as a servant at the American Colony hostel in Jerusalem and who had opened an account with Barclays in January 1948 upon on the urging of her employers, who feared the “precarious position of the Colony in the fight between the Jews and the Arabs.”<sup>21</sup> Hilweh, dutifully obeying her employers, had deposited at the bank her entire meager life’s savings, which were frozen and confiscated by the Israeli government some five months later.

There can be no easy generalizations, thus, given the wide range of their socio-economic backgrounds, about the Arabs whose accounts were frozen. But we can conclude that they were united initially by their faith in banks – especially British banks – and then by their hatred and mistrust for them. The British official writing from Amman had been right to predict that the confiscation of accounts would cause the “strongest possible reaction against British banking.” But it was more than that; more than a reaction against just British banking, there was a reaction

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<sup>21</sup> Emergency Meeting Minutes, American Colony Council, 19 November 1948. American Colony Archives in Jerusalem [henceforth, ACAJ] 2/14

against banking as a whole. Thus, among the many unquantifiable consequences of this episode must also be included the fact that Palestine lost, for a generation or more, the trust of ordinary people in the banking system without which a national economy cannot save or invest and, so, cannot grow.

**3. “Your action is neither human nor legal”: The letter-writing campaign to the banks, 1948-1951**

Despite this loss of faith in the banks, the Arab Palestinians did not take their fate lying down. As the British official writing from Amman had predicted, they could not initially comprehend that the freezing could be permanent, and therefore thought it could be undone with some effort on their parts. Accordingly, they contrived to do everything that was in their power to do. This was not, however, very much. For by December 1948, when the Israeli government legalized the freezing of Arab accounts through its emergency regulations, the Arab Palestinians were a defeated, demoralized and physically disunited lot, scattered throughout the world, with no government of their own to appeal to, and no other sovereign authority to which they could turn for the protection of their rights. The United Nations, though it had created the “Conciliation Committee for Palestine” in December 1948 specifically to attend to “the Palestinian problem,” had its hands full dealing with the humanitarian aspects of the refugee crisis, and devoted few resources to the frozen funds issue (the UNCCP’s fruitless efforts towards an eventual resolution of the problem are discussed in a later section of this chapter).

As noted in the previous section, the Arab population of Palestine in early 1948 was approximately 1.3 million; of these, some 800,000 were officially registered as refugees by the United Nations by December 1948; approximately 150,000 remained in territory that came under

Israeli control; and the remaining roughly 300,000 were unaccounted for: either dead, disappeared, or, at best, dispersed throughout the world.<sup>22</sup> Those who ended up in Arab countries were more often than not placed in miserable refugee camps; given no passports, no citizenship rights in their new countries, and no national authority of their own. The few who had managed to remain in territory now under Israeli control had to concentrate on fighting for their survival. They were not allowed to become citizens of the new Israeli state (having been explicitly excluded by Israel's Law of Return and Citizenship Law, both of which clearly defined citizenship as being reserved only for those who could claim and prove Jewish identity) and were placed under collective military rule and governed by the Israeli Defense Forces, which operated in a murky space unregulated by political guidelines.<sup>23</sup> Under this military rule, which was not lifted till 1966, they lived under constant threat of arbitrary detention, expulsion, relocation, and, in many cases, outright massacre.<sup>24</sup> Israeli politicians, whenever the matter of their rights came up, described them variously as "the fifth column," "the Arab problem" or, as one official of the Israeli interior ministry saw fit to describe it, as the "cancer in the state's body."

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<sup>22</sup> It is difficult to establish precise population numbers for Palestine in 1948. The 1.3 million number for the total Arab population of Palestine in early 1948 is my own estimate (see previous section), though some scholars, such as Michael Fischbach, suggest that it was closer to 1.4 million, while others, such as Benny Morris, put it at as low as 900,000. The number for total Arab Palestinian refugees is also in some dispute: Ilan Pappé puts it at 800,000; Walid Khalidi estimates that it was "conservatively between 714,150 to 744,150;" Michael Fischbach cites a number of 726,000, while Benny Morris is lower still, at 700,000. (See Pappé, *Ethnic Cleansing*, xiii; Morris, *Righteous Victims*, 259; Khalidi, *All That Remains*, 582; and Fischbach, *Records of Dispossession*, 1). The number of Arabs who remained in Israel is usually cited as 156,000 and is less subject to variation, but this, too, is likely too low, as it is the official Israeli estimate, which does not include the many hundreds, if not thousands, of Arabs who returned on foot to their homes across the Lebanese, Syrian, and Jordanian borders after November 1948. The Israeli government deemed these people "infiltrators" and refused to count them as Arabs who had remained within Israel.

<sup>23</sup> Many scholars have explored the Israeli state's legal and actual treatment of Arabs who remained in Israel after 1948. The information contained in this paragraph is from Reinhard Wiemer, "Zionism and the Arabs after the establishment of the State of Israel: A study of Zionist conceptions for Arabs in the Jewish state," in *Palestinians Over the Green Line*, ed. Alexander Schölch (London: Ithaca Press, 1983) 34-35.

<sup>24</sup> For a detailed description of the ways in which the Israeli army dealt with "the Arab minority" which remained in Israel after May 1948, see Pappé, *Ethnic Cleansing*, 179-198, and Morris, *Righteous Victims*, 273-299.



Nevertheless, despite the fact that they had no government or authority to appeal to, the Arab Palestinians began an earnest campaign to fight for their own rights and to regain possession of their financial and monetary assets. They concentrated their efforts, at first, on a letter writing campaign directed at the banks. Their letters initially took a crisp businesslike tone, stressing the facts of the matter, and their own rights in it. George Abdelnour, a wealthy citrus grove owner and trader from Jaffa, wrote, for instance, to Barclays in June 1949 as follows:

“We can see no grounds for your refusal to pay clients’ accounts after 15.4.48 when the Ottoman Bank paid its Jerusalem accounts in Amman after that date. In this connection we would mention that the position in Jerusalem and Jaffa was similar, ie, both occupied by Jews. [...]

“You have stopped payments at a time when the Jewish authorities in Palestine were not established and recognized as a state by the British or other Governments, at least in so far as Jaffa area is concerned. [...]

“In our opinion, your refusal to meet the accounts of your clients is due to pressure and threats brought by the Jews and the absence of corresponding measures from the Arabs. By your unjustified action in refusing payments at that time, you have created a condition of things of which the Jews can now take advantage with a semblance of legality. [...]”<sup>25</sup>

To this, Barclays’ response was a model of bankerly evasion:

“We have to advise you that we are still unable to release any funds from your account at our Jaffa branch without the permission of the Israeli authorities.

“We are naturally desirous of meeting the demands of all customers who have funds lying to their credit with our Jaffa branch. However, that branch is within the jurisdiction of the Israeli authorities and all transfer of funds to points outside Israel are subject to such directions as the Israeli government may give us.

“We regret, therefore, that we can only wait upon events.”<sup>26</sup>

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<sup>25</sup> Letter from George Abdelnour, Broumana, Lebanon, to Assistant General Manager, Barclays, London, 29 June 1949. NA FO 371/75391

<sup>26</sup> Letter from Assistant General Manager, Barclays, London, to George Abdelnour, Lebanon, 13 July 1949. NA FO 371/75391

George Abdelnour was not, however, content to “wait upon events” as told. He continued to write repeatedly to the bank, his letters growing more emotional with time. There was this letter, for example, sent early in August:

“[...] We regret to note that you are evading the points raised in our letter... Whatever jurisdiction the Israeli Authorities may have now acquired over your branch, they certainly had no jurisdiction whatsoever either at the time your branch closed its doors or at the time we claimed payment of the balances of our accounts. In the circumstances, we cannot accept your explanations and must maintain our points of view and demand the settlement of our accounts. *Your action is neither human nor legal...*”<sup>27</sup>

It is not clear how Barclays’ responded, if at all, to George Abdelnour’s letters, but it is likely that any further correspondence it issued followed, in tone and content, the example of the letters sent to other customers in the same predicament. There was the following note, for instance, which Barclays sent to an elderly Palestinian widow, a Mrs. Bahia Barakat, who had fled from Jaffa to Cyprus.<sup>28</sup> As some of Barclays’ original Jerusalem-branch employees had also been relocated to Cyprus, Mrs. Barakat had first approached them directly, and tried to plead personally for help accessing her blocked Jaffa account.<sup>29</sup> When that failed, she sent letters to Barclays’ head office in London, from which the response, issued after several months’ delay, was brief and circumspect: “Our Jaffa branch regret to inform you that they have declined your application to transfer the balance of your account to Cyprus”.<sup>30</sup> No further explanation or apology was offered.

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<sup>27</sup> Letter from George Abdelnour, Broumana, Lebanon, to Assistant General Manager, Barclays, London, 2 August 1949. (Emphasis added). NA FO 371/75391

<sup>28</sup> *Barakat v Barclays Civil Case No. 123/52, 1952*, 1. (Translation from Arabic). NA FO 371/104454

<sup>29</sup> *Ibid.*, 4

<sup>30</sup> Letter from Barclays Bank, Palestinian Local Head Office, Nicosia, to Mrs. Bahia Haj Suleiman Barakat, Famagusta. 31 July 1951. Shehadeh papers.

The Ottoman Bank, in communicating with its customers, hewed closely to Barclays' formula. Writing in April 1949, to a Dr. Wehbe Jabaji of Jaffa, who had fled first to Lebanon and then to Jordan, and who had tried, for months, to contact the bank to ask why he could not access his funds in either Beirut or Amman, the bank had only this to say:

“We have received your letter regarding your account with our Jaffa Bank. We have to advise you that the Israeli authorities will not permit our Branch to communicate any information regarding the accounts of persons or files now located in the Lebanon, and for this reason we regret that we are unable to obtain for you an extract of your current account as requested.”<sup>31</sup>

As the months wore on, and as the conditions for the Arab Palestinian refugees worsened – by January 1949 the Israeli government had passed a law making it illegal for any Arabs “who had left on or after November 1947” to return to their homes; the refugee camps were teeming – their need for cash grew desperate, and their letters matched situation to tone. The following note, written by hand, was sent to the Ottoman Bank by a Haj Deeb Hamdan in November 1951:

“This is the third time that I write to you in request of my frozen Palestinian account with you. You have only promised me to wait, but waiting for such a long time and in my present condition has been very difficult. [...]

“The consequences of this whole thing has [sic] been almost disastrous to my private life. I am an old man of 65 years and have a very large family which I have to support in a country which is not mine and where I am neither known or know anybody. I have no capital whatsoever, and I am unable to seek employment because of my age. I have therefore been forced to put my sons for employment in order that we may all live, and in this way deprived them of their education which they have been pursuing for many years. [...] My smaller children are now in school age but I cannot put them to school because of lack of funds. You can well appreciate the crime which has been deliberately perpetrated against us with the express aim of making us unable to educate our sons to grow up to be useful to their parents and to their society.”<sup>32</sup>

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<sup>31</sup> Letter from Manager, Ottoman Bank, London to Dr. Wehbe Jabaji, Beirut, 14 April 1949. Shehadeh papers.

<sup>32</sup> Letter from Haj Deeb Hamdan, Beirut, to Manager, Ottoman Bank, London, 5 November 1951, NA FO 71/91725

The forced withdrawing of children from schools and colleges so that they might earn money for their destitute families was a common theme of many of the letters sent by the customers to their banks. As another customer of the Ottoman Bank, Ahmed Shaker Hammami, wrote to the bank's manager in October 1951:

“Due to the fact that my account with you is still frozen with no hint of the date of its release, I have been forced lately to take my eldest son out of his University and send him to be employed in Saudi Arabia so that he may be able to help me in my hard life. My oldest son was studying engineering [...] You can well appreciate how great is the loss to him and to his parents of taking him out of his studies, because of the sad force of circumstances [...]

“Besides my son, I have also been forced to put two of my daughters for employment with a lady tailor, and all this so that we may be able to live decently.

I do not know if you can really grasp the gravity of the crime committed against us. You have not only destroyed my own future, but by your action, you are now destroying the future of my sons whom I have been educating for fifteen years [...]

“You have by your action destroyed everything, and thereby helping the originators of this crime who had just these objects in mind.”<sup>33</sup>

These letters provide a vivid sense of the distress and desperation felt by the Arab Palestinians whose accounts had been frozen. They also demonstrate how earnestly they tried, despite their uncertain and straitened – and, in many cases, homeless – circumstances, to contact and persuade the banks to release their funds. The letters further suggest, given the degree of surprise and shock expressed in them, that the banks had made no effort, either before or after the fact, to formally notify their customers of the freezing of their accounts, preferring instead to address the matter only if contacted first by the customers themselves. Moreover, the wording of the banks' responses, redolent as they are of official prevarication, indicate that the banks were careful, from the very beginning, to absolve themselves of all responsibility for the matter, and to

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<sup>33</sup> Letter from Ahmed Shaker Hammami, Beirut, to Ottoman Bank, London, 22 October 1951. [all errors in original] NA FO 371/91725

lay full culpability, as well as power of resolution, on the Israeli government. Finally, the letters reveal how the banks dealt with their customers: with perfunctory politeness, unmarked by any expression of compassion for their desperate situations.

#### **4. “We have no *locus standi* to interfere”: Appeals to British government for help, and British responses, 1949 - 1951**

When the banks proved unresponsive, the Arab Palestinians turned to the next authority they could think of to appeal to for help: the British government. Haj Deeb Hamdan wrote, variously and often, to the British Foreign Office, the Bank of England, and to the “UK Minister of State for Foreign Affairs.” In each of his letters he stressed the hardships of his situation, so that his addresses would “get an idea about my losses and suffering as a result of the inhuman action of the freezing my credit balance at the said British bank.” But he was also careful to lavish praise upon the British government, and to express a cheery confidence in its abilities to solve his problem: “Your brilliant past with the Arabs and your understanding of them and their problems make us all optimistic with the future with you.”<sup>34</sup>

Another aggrieved customer of the Ottoman Bank, Ahmed Shaker Hammami, wrote in similar vein to the British Secretary of State; his letters, too, began with hope – “that you will appreciate the difficulties which we have been undergoing during the last three years as a result of the inhuman action of freezing our personal monies” – and ended with faith: “The Arab

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<sup>34</sup> Letter from Haj Deeb Hamdan to Minister of State for Foreign Affairs, 5 November 1951 [all errors in original] NA FO 371/91725

refugees feel sure that an earnest interference with your Excellency will help greatly to release these accounts. For your successful efforts you can be sure to receive true and well-meant thanks and prayers from all the refugees.”<sup>35</sup>

While Haj Deeb Hamdan and Ahmed Shaker Hammami had tried a mixture of optimism and obsequiousness in their letters, George Abdelnour took a more direct approach in his: writing to the Foreign Office in August 1949, he suggested that the British “interfere with the Israeli representatives for the release of these (frozen) funds before the reopening of the Haifa pipeline.”<sup>36</sup> (Abdelnour was referring to the difficult negotiations the British were then trying to pull off, with the Israelis, the Iraqis, and the Iraqi Petroleum Company, for the possible reopening of the Haifa refinery, which was to be supplied by Iraqi oil via pipeline from Kirkuk).<sup>37</sup> Nasib Bulus, Secretary of the Arab Refugee Congress at Lausanne, also requested that the British government put “direct economic pressure on the Israelis to release the funds.”<sup>38</sup>

But to all these tactics the British government’s response was a steadfast refusal to get involved in a problem in which, as an official of the Foreign Office put it, “we have no *locus standi* to interfere.”<sup>39</sup> This “no *locus standi*” argument, was, interestingly enough, frequently invoked by British officials when trying to explain their reluctance to get involved in any efforts to resolve the various thorny difficulties arising from their own government’s decision to

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<sup>35</sup> Letter from Ahmed Shaker Hammami, Beirut, to HMG Secretary of State for Foreign Affairs, 22 October 1951. NA FO 371/91725

<sup>36</sup> Letter from George Abdelnour to Sir William Strang, Permanent Secretary, Ministry of Foreign Affairs, 25 August 1949. NA FO 371/75391

<sup>37</sup> For more on the negotiations in Lausanne for the possible resumption of petroleum deliveries from Iraq to Haifa, see UNCCP, *Note on the Resumption of Oil Pumping Near Haifa (IPC) and the Reopening of the Refinery (CRL)*, 18 August 1949, A/AC.25/W/22 and Pappé, *Britain and the Arab-Israeli Conflict*, 41-2.

<sup>38</sup> Brinson, Foreign Office, Covering note on file titled “Mr. Pirie-Gordon’s views on blocked Arab balances in Israeli banks,” 14 July 1949. NA FO 371/75390

<sup>39</sup> *Ibid.*

terminate the Mandate for Palestine; in refusing to participate in the United Nations' Conciliation Committee for Palestine, for example, Ernest Bevin had declared, simply, that "Britain has no locus standi to serve on the Commission."<sup>40</sup> As for the question of "bringing economic pressure to bear on the Israelis and having to justify it," as an official of the Foreign Office put it: "I can think of nothing more undesirable at this particular moment; it looks to me as if, for the moment at least, the banks must stand the racket."<sup>41</sup>

By mid-1949, however, rumors about the proposed negotiations between the British Treasury and the Israeli government to release to the Israelis some portion of the previously "blocked" Palestinian sterling balances (which had been blocked, as mentioned in a previous section, by an order of the UK Treasury in February 1922) outraged the refugees and provided them with new ammunition with which to try to prod the British government into action on their behalf.<sup>42</sup> Until then, they had appealed for British help on two grounds: that both Barclays and Ottoman were British banks, and that the British, in having so abruptly abandoned the Mandate, were responsible for the mess they had left behind. Now they had a new track, for they were genuinely appalled that the British could be contemplating releasing several million pounds to the Israeli government when the Israeli government itself continued to refuse to release their six million pounds.

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<sup>40</sup> Pappé, *Britain and the Arab-Israeli Conflict*, 120

<sup>41</sup> Brinson, Foreign Office, Covering note on file titled "Mr. Pirie-Gordon's views on blocked Arab balances in Israeli banks," 14 July 1949. NA FO 371/75390

<sup>42</sup> The "blocked Palestinian sterling balances" comprised the surplus balances of the erstwhile Palestine Currency Board and the unspent balances of certain Government of Palestine Bond issues. These balances had been "blocked," by an order of the British Treasury, as of February 22 1948 (see Section I of this chapter). In May 1949, the British government embarked upon two parallel negotiations with the Israeli government and the Jordanian government to release these "blocked Palestinian sterling balances" and to deal with other financial matters arising out of the termination of the Mandate for Palestine. These parallel negotiations eventually culminated in two agreements: the Anglo-Israeli Financial Agreement of March 1950, and the Anglo-Jordanian Financial Agreement of 1952. These negotiations and consequent agreements are further discussed in Chapter 5. In this chapter we only note that the Palestinian refugees, from very early on, had asked the British government to condition any release of blocked sterling to the Israeli Government to the release, by Israel, of their frozen bank accounts.

If their previous letters had been coy, the Arab Palestinians now began to openly demand that the British refuse any release of blocked sterling to the Israelis until the Israelis agreed to first release their own frozen accounts. George Abdelnour wrote again to Barclays in June 1949, demanding that the bank “approach the British government to take up the question of the frozen assets in the course of the impending Anglo-Jewish financial negotiations.”<sup>43</sup> The local Arabic press got wind of the story and had a field day eviscerating the British for it; *al Difaa*’, a Jerusalem-based paper, ran the following editorial in June 1949 with the screaming headline “Millionaires But Penniless!”:

“This is surely a new British benevolence on the Arabs of Palestine! [...] Britain, who withholds money from [the Arab Palestinians] is releasing to the Jews millions of the funds blocked by it on the grounds that they have an international recognized status [...] Meanwhile tens and millions of pounds were left at Barclays and Ottoman banks, both of which are British [...] and the Arabs, who had millions [...] now depend for their living on contributions they get through humble begging...”<sup>44</sup>

The news of the proposed Anglo-Israeli negotiations galvanized Arab Palestinians who had thus far been silent on the issue, and by the end of 1949, British diplomats stationed in Amman and Beirut were being pestered daily by refugees. Writing home to complain about the “local agitation amongst Palestinian refugees about the vexed problem of the frozen Arab balances,” one diplomat in Amman grumbled that:

“[The frozen funds issue] has recently become an item in the published aims of the “National” refugee committees which are continually springing up and dying again in Jordan and Lebanon. The unfreezing of these funds appeared prominently in the programme of the refugee committee led by Toufiq Touqan [...] it is (also) one of the life-forces of another committee, with Mustapha Taher as its secretary, which mainly represents the Palestinian landlords resident in Jordan. The fact that Arab money entrusted to a British bank should be handed over to the Israelis, or in any way be

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<sup>43</sup> Letter from George Abdelnour to Barclays Bank, 29 June 1949, NA FO 371/75391

<sup>44</sup> *al Difaa*’, “Millions but Penniless!” No. 4049, 24 June 1949 (Translation from Arabic)



subject to their control, particularly when Israel is so dependent upon sterling balances for her economy, is almost impossible to explain away to an Arab.<sup>45</sup>

Another British diplomat responded resignedly that: “I think we should be prepared with *as convincing an explanation as we can work out*. Even if we decide against issuing an exposition of international law at the moment we should be ready with our answers in case the agitation should suddenly take on a more serious mien.”<sup>46</sup> Yet another British official, writing from Beirut, simply confessed that “I find it difficult to know what to answer when thus tackled on the subject by a refugee.”<sup>47</sup>

Not all high level British officials were unmoved by this sort of bad press; some were genuinely sympathetic to the plight of the Palestinians and felt that Britain should intervene to do something to help them get their money back – Brigadier Glubb had, for one, taken to writing frequently to the Foreign Office to suggest that the unfreezing of Arab funds should form part of the Anglo-Israeli financial negotiations – while others, particularly British officials stationed on the ground in the various capitals of the Middle East, fretted more about the damage being done to Britain’s reputation and strategic interests in the region because of its unwillingness to get involved.<sup>48</sup> An official noted, in writing from Beirut to ask his superiors in London for advice as to what to say “as I find myself in some difficulty when approached by Palestinians about it”:

“The blocking of these balances has, of course, done much harm to HMG’s reputation among the better educated, who probably have an influence out of proportion to their numbers among the mass of refugees. If former professional and well-to-do families are to starve while HMG – unjustly in

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<sup>45</sup> Letter from British Legation, Amman to G. W. Furlonge, Eastern Department, Foreign Office, 10 March 1951. NA FO 371/91725

<sup>46</sup> Letter from British Legation, Amman, to Eastern Department, Foreign Office, 10 March 1951. NA FO 371/91725

<sup>47</sup> Letter from H.F. Knight, British Legation, Beirut, to Evans, Foreign Office, 25 September 1951. NA FO 371/91725

<sup>48</sup> Letter from Brigadier Glubb to Foreign Office, 8 May 1949. NA FO 371/75223

their view – has in its hands the money they had confidently entrusted to HMG long ago, this will more than ever expose the refugees to subversive influences.”<sup>49</sup>

Despite this pressure from the Arab Palestinians and from its own diplomats on the ground, the British government, at its highest levels, refused to change its policy on the matter. Both Treasury and Bank of England were resolutely opposed to the idea of linking the release of sterling balances to Israel to the Arab frozen funds issue; as the British official who had been appointed to head Britain’s delegation to the Anglo-Israeli talks said:

“I should certainly deprecate the idea of linking the unblocking of Arab balances with the release of sterling securities [...] I think it would be most unwise to try to establish any connection between sterling securities which we have blocked for technical reasons of exchange control and Arab assets in which we have no direct interest and which Israel has blocked because they are the property of enemy nationals [...]”<sup>50</sup>

The Anglo-Israeli financial negotiations culminated, after almost a year of talks, in the Anglo-Israeli Financial Agreement, signed in March 1950. The agreement was of much satisfaction to both parties. The British were able, through it, to rid themselves of all the troublesome liabilities and assets that had lingered on in the Treasury’s books after the winding up of the Mandate administration, while the Israelis had secured the Treasury’s promise to release to it £14MM of blocked sterling balances over a period of two years.<sup>51</sup> On April 27 1950, Anglo-Israel relations received a further boost by Britain’s granting of *de jure* recognition to Israel (though it reserved only *de facto* recognition to Israeli control over parts of Jerusalem). The matter of the frozen Arab bank accounts was not raised by the British as a pre-condition for either of these two agreements, which were hailed as diplomatic triumphs for Israel.

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<sup>49</sup> Letter from UK Delegation Advisory Commission, UNRWAPR, Beirut, to Foreign Office, 25 September 1951. NA FO

<sup>50</sup> Letter from Knox Helm, British Legation Tel Aviv, to G.W. Furlonge, Eastern Dept., Foreign Office, 22 March 1951. NA FO 371/91725

<sup>51</sup> See Chapter 5 for more on the Anglo-Israeli Financial Agreement of March 1950.

In early 1951, when Israel received from the UK Treasury the first release of several million pounds from the previously “blocked” sterling balances, it continued to refuse to release the over six million pounds of Arabs’ bank balances. At the highest levels of the British government it was held that, although this was “a nasty business,” and a “vexed problem,” there was nothing that Britain could do, for – still that same old reason–

*“This is essentially a matter of Israel internal policy and we have no locus standi to interfere. [...] For your own information we are anxious that this problem of the blocked Arab balances should be solved as soon as possible, not only for the sake of the refugees themselves but also to redeem the good name of British banking in the Arab world. But the only practical way in which it can be solved is by the earnest efforts of the Arabs themselves. We can advise, but are in no position to champion their cause actively.”*<sup>52</sup>

The British government thus continued to abstain, well into latter half of 1951, from making any official comments on the frozen Arab bank accounts, and the response to the increasingly desperate letters from people like Hamdani, Hammami and Abdelnour, was simply: “There is nothing to add to our previous reply.”<sup>53</sup>

##### **5. “The Arabs should make their claims to the Israelis direct”: Palestinian appeals to the Israeli government, and official Israeli responses, 1949 - 1951**

A dignitary at the British Foreign Office, writing to a colleague about the problem of the frozen funds, had suggested that the “Arabs should make their claims direct to the Israelis” before going on to reflect that “the only practical way in which [the frozen funds problem] can

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<sup>52</sup> Letter from Eastern Department, Foreign Office to British Legation, Beirut, 28 October 1949. [Emphases added] NA FO 371/75391

<sup>53</sup> Eastern Department, Foreign Office to British Legation, Beirut, 8 November 1951

be solved is by the earnest efforts of the Arabs themselves.”<sup>54</sup> His suggestions – despite their implicit condescension, and explicit disregarding of the fact that all Arab Palestinians were considered by the Israeli government to be its implacable enemies, which is why it had confiscated their bank accounts in the first place – were taken to heart by some Arab Palestinians who, when their efforts to enlist first the banks and then the British government in their aid had failed, turned, in desperation, to the “Israelis direct.”

In November 1948, two Arab Palestinians, Khaled Khabbazeh and Mustafa Ouaida, joint owners of “Khabbazeh and Ouaida,” a textile wholesale outfit in Haifa, sent letters, written in careful if erratic English, to the Israeli Custodian of Absentee Property and to David Ben Gurion, the Israeli prime minister. After a few paragraphs describing how they had established their firm in Haifa in 1935 and the difficulties they had endured during the “troubles which took place in the country,” the merchants explained why they were writing:

“But we have decided to remain in spite of everything, in order to save our interests and maintain our commercial relations established since years in the country. We are well known merchants in the city of Haifa.

“[...] We deposited our money with our Bankers Messrs. Ottoman Bank, Haifa.[...] In the meantime, an order was given to blockade all the Arabs accounts in local banks and *this order was applied to our account too*. [...] Moreover, we have some goods in our warehouse at Haifa. These goods were seized also. We applied to the Custodian of Arabs’ Properties asking for the release of the said goods in order to put them into the market now, at the proper time, being of woolen materials, *but the reply was orally for the “NO.”*

“We have the honour to submit with due respect that we should not suffer these restrictions, because our partnership was incorporated in Israel (at that time Palestine) and continue to carry on business in the country. It is our desire to cooperate with all bodies working for the welfare and benefit of it. We shall therefore be obliged if you will direct:

(a) The release of our money in the Ottoman Bank, Haifa

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<sup>54</sup> Letter from Eastern Department, Foreign Office to British Legation, Beirut, 28 October 1949. NA FO 371/75391

- (b) The release of our goods warehoused. As if the same continue to be warehoused it will be damaged and now is the proper time to put it in the market and the market is in bad need of such goods.
- (c) The permission to us to collect the rents due to us in respect of the houses we hold at Haifa (Abbas Street No. 37 and 40 and Daniel 7).<sup>55</sup>

The archival record does not, unfortunately, establish whether the merchants' plea was ever answered favorably, but the letter does prove that some Arab Palestinians did try to "make their claims direct to the Israelis," and that the answer they received was, emphatically, "NO." It also proves, beyond doubt, that the Israeli freeze order was (as noted in an earlier section) applied not just to those Arabs who had fled their homes and thus become "absentees" under the Israeli emergency regulations of December 1948, but also to those, like the merchants Khabbaze and Ouaida, who had very much remained, and whose accounts and goods had been confiscated before their eyes. The letter is also an important piece of evidence as it underlines how abruptly the businesses and economic lives of ordinary Arab Palestinians were brought to a halt by the actions of the new Israeli state, to which they nevertheless tried to declare allegiance, in order that their businesses might not be destroyed.

Wadie Khoury was another Palestinian entrepreneur who attempted to make his claim "directly" with the Israelis. Wadie had been a prosperous citrus and timber merchant in Jaffa, and scion of a proud family; his father, Andoni, had, together with his Jewish partners, established one of the first publicly-listed companies in Palestine in 1923.<sup>56</sup> The firm's business was primarily in timber import and export, but by the end of the second world war it also had a

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<sup>55</sup> Letter from Khabbaze and Ouaida to Mr. David Ben Gurion, Prime Minister and to The Custodian of Absentee Properties, Government of Israel, 2 November 1948 (In English, all errors in originals; spelling of names as they appear in original). ISA 17039/22 ٤٦

<sup>56</sup> All details about Wadie Khoury's life are as told to me by his sons, Toni and Zahi Khoury. Oral interview with Toni Khoury, 15 June 2010, Amman, Jordan. Oral interview with Zahi Khoury, 25 May and 5 June, 2010, Ramallah Palestinian Territories.

profitable line in the citrus trade, as it provided packaging materials for the export of Jaffa oranges to Europe. Wadie was a man at ease with the world of banks, as he had himself been the manager of the Jaffa branch of the Banco de Roma before it had been shut down by the British during the war; after that he concentrated on running the family's business, and by 1946 he was one of the Arab members of the Palestinian Citrus Marketing Board.

When, in early 1948, Wadie fled from Jaffa to Beirut like so many other Jaffa Palestinians, he took only some money with him, thinking he would return before long. Both his personal and business bank accounts were with the Ottoman Bank; both were frozen by December that year. Like Theodore Sarrouf, he found himself stranded and penniless in Beirut, and, like Theodore, that once-wealthy and proud businessman was forced to borrow from friends to survive. But unlike Theodore, Wadie did not give up without a fight; he wrote, instead to the Israeli government, and specifically to Moshe Sharrett, the first Israeli foreign minister, requesting the release of his bank accounts and properties in Jaffa. He was careful to emphasize in his repeated letters to Sharrett his desire to return to the country, and, just as the merchants Khabbazeh and Ouaida had done in their letters, to stress his wish to continue to do business as before. From his letters, too, we can gauge the devastating impact on Arab Palestinian businesses of the Israeli government's actions.

Once again, we do not know how, and if, Moshe Sharrett responded to Wadie Khoury's letters. But the Israeli government's reaction can be guessed at by its official statements on the matter: as we have seen, the Israelis initially assured the banks that the blocking of Arab accounts was purely a "temporary security measure" which would be abolished "as soon as

peaceful conditions have been established.”<sup>57</sup> In October 1949, an Israeli official had told the British that “The [Arab balances] were of little value to Israel save as a possible bargaining counter, and he would be *ready to unfreeze them* if anyone could show him how Israel might gain thereby either financial or political advantage.”<sup>58</sup>

But, by the end of 1950, all the Arab balances had not only not been unfrozen but (as described previously) they had been confiscated outright, transferred from the banks’ books to the Israeli Custodian’s account, and spent as the Israeli government saw fit. And as those supposedly longed-for “peaceful conditions” seemed to recede, with time, ever farther into the distance, the Israeli government hardened its position on this, as on all other, matters. In December 1952, the Israeli ambassador to the UN, Abba Eban, declared, in response to requests made by the UNCCP to the Israelis to release some part of the blocked accounts to the most destitute of refugees on humanitarian grounds, that: “It is not usual for governments to arrange the flow of foreign currency into countries which are doing everything possible to strangle their economy by boycott and which even sometimes maintain a claim of the existence of the state of war.”<sup>59</sup>

David Horowitz, the chief Israeli representative at the Anglo-Israeli negotiations (and former head of the Anglo-Palestine Bank), when asked about the matter by British officials, reiterated the idea that “any talk of humanitarian grounds was illogical from Israel’s point of view, since Israel was still technically at war with the Arab governments” and “any saving on expenditure on refugees by these [Arab] states would mean a corresponding increase on their

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<sup>57</sup> UNCCP, 4<sup>th</sup> Progress Report, *Statement of Israeli Delegation*. 15 September 1949, Geneva. ISA 17112/13ג

<sup>58</sup> Letter from British Legation, Beirut, to Foreign Office, October 24 1949. NA FO 371/75391

<sup>59</sup> Statement by Abba Eban, Israeli Ambassador to the UN, “*Blueprint for Peace*”, 1 Dec 1952. ISA 90/17 זח

expenditure on arms.”<sup>60</sup> On another occasion he declared that “any concessions before a final peace settlement with the Arab states was reached would certainly be interpreted by the Arab states as a sign of weakness on the part of Israel” and repeated the official Israeli refrain that “the essential prerequisite of a final solution of the problem must be a general peace settlement.”<sup>61</sup> Israeli delegates at UNCCP meetings also suggested that “any unfreezing [of Arab bank balances] would meet with opposition both from public opinion and in the Knesset.”<sup>62</sup>

But behind all this diplomatic grandstanding there was another, more practical, reason for Israel’s refusal to release any portion of the frozen Arab bank balances, which had nothing to do with the Arab Palestinians, the Arab states, or even the Arab-Israeli war: as Horowitz admitted in private to his British counterparts, Israel was, by early 1951, “desperately in need of sterling,” which it wished to use to feed, house and clothe the thousands of Jewish refugees who had been flocking to the new state since 1948 from Europe, the Arab world, and elsewhere.<sup>63</sup> There was already a shortage of foreign exchange due to Britain’s blocking, since February 1948, of Palestinian (and then Israeli) sterling balances, and Israel had long spent the original Arab balances. Even though Israeli officials breezily claimed that the Arabs’ money was of “little value save as a bargaining counter,” and even though they stuck stoutly to the premise that the money would be paid back to the Arabs the moment the Arabs themselves were willing to make peace, the reality was, in fact, that the state of Israel was far more grasping than it wished to appear.

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<sup>60</sup> Foreign Office Meeting Note, *Arab Blocked Balances in Israel*, meeting between Foreign Office officials and David Horowitz, Director General Finance, Israel. 15 Feb 1950 NA FO 371/82560

<sup>61</sup> Letter from Brinson, Foreign Office, to Joseph Palmer, US Embassy in the UK, 9 September 1950. NA FO 371/82560

<sup>62</sup> UNCCP, *Servoise Report*, Jan 1950, 9. ISA 1780/21 גל.

<sup>63</sup> Letter from Brinson, Foreign Office, to Joseph Palmer, US Embassy in the UK, 9 September 1950. NA FO 371/82560



## CHAPTER 5

### The Lawsuits

In the course of his strained correspondence with Barclays during the summer of 1949, George Abdelnour, a formerly prosperous Arab Palestinian citrus-trader-turned-refugee from Jaffa, had held out the threat of legal action against the bank, maintaining, however, that “we wish, if possible, to avoid resorting to legal proceedings.”<sup>1</sup> Commenting on this “nasty business” that same summer, an official of the British Foreign Office predicted that the problem of the frozen Arab bank accounts would, despite Abdelnour’s wish, “give rise to prolonged international litigation, while our banking interests in these parts would suffer a setback from which it would take many years to recover.”<sup>2</sup>

As it turned out, Abdelnour, along with several hundred of his Arab Palestinian compatriots, would prove the gloomy British official right: for, in the mid-1950s, after appealing for years without success to the banks, the British, the UN, and even the Israelis, for help, the Arab Palestinians finally took matters into their own hands by turning to the courts, and by using the law – the very instrument which the Israeli state had employed against them to legitimize its confiscation of their assets – to fight to regain control of those same assets, and to assert their economic and financial rights.

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<sup>1</sup> Letter from George Abdelnour, Broumana, Lebanon, to Assistant General Manager, Barclays, London, 2 August 1949. NA FO 371/75391 (Emphasis added).

<sup>2</sup> Letter from Pirie-Gordon, British Legation, Amman, to B.A.B. Burrows, Eastern Department, Foreign Office, 14 June 1949. NA FO 371/75390

In so doing, the Arab Palestinians showed that they were not passive victims, who might have been content to bemoan their fate while awaiting intervention from other, more powerful, quarters. On the contrary, despite their very real economic and political powerlessness after 1948, they emerged as a people who were determined to fight for their rights, whatever the odds, and, strikingly, also, a people who turned to the law – despite having no state, and no sovereign institutions or courts of their own to rely on – for the protection and assertion of these rights. This turning to the law, and exercising what can be described as a kind of “legal agency,” is described in some detail in the narrative which follows.

In addition to suggesting that the Palestinians proved to be powerful agents in reversing the story of dispossession which began in the previous chapter, this chapter will make two further claims: one, that the Arab Palestinians demonstrated a sophisticated understanding of themselves as economic actors with inalienable rights to ownership of their own material assets, regardless of the political situation around them; and two, that they also revealed a nuanced, and ultimately quite canny, perception of the motivations and anxieties of the management of large international banks. It was this understanding, and that perception, which enabled and encouraged them, despite the obstacles, to keep fighting for what they knew was rightfully theirs.

### **1. The Palestinians threaten legal action, 1949-50**

At the vanguard of this new legal line of attack was Abdul Hameed Shoman, the chairman and founder of the Arab Bank. Shoman, a venerable Palestinian entrepreneur (whose life story has been described in the second chapter), had been on carefully cordial terms with his counterparts at Barclays’ Palestinian branches during the Mandate years. Despite their

competition for Arab customers, the two banks had enjoyed a mutually symbiotic relationship in the 1940s, as the Arab Bank was Barclays' most important institutional Arab customer in Palestine, while Barclays was, for the Arab Bank, its banker of last resort, with whom it had kept, since 1939, a current account in which it maintained its reserve funds.<sup>3</sup> Moreover, many of Barclays' Arab employees in Jerusalem and Jaffa were contemporaries and friends of the Arab Banks' employees, and there were even family ties between the staff members of both banks.<sup>4</sup> But this friendliness between the two banks curdled directly upon Barclays' decision to bend to the Israeli government's will on the matter of the Arab bank accounts.

In April 1948, the Arab Bank, besieged all that month by its own panicked cash-seeking customers, had run low on its reserves, and had accordingly attempted to withdraw money from its account at Barclays, where it had approximately P£670,000 on balance.<sup>5</sup> But Barclays was also, by mid-April, desperately short of cash, and allowed the Arab Bank to withdraw only a small portion of its total balance, leaving approximately P£582,000 still on its books. Towards the end of April Abdul Hameed Shoman requested repeatedly, in writing and in person, to be allowed to make a full withdrawal of this balance, but Barclays continued to refuse on the grounds that it had not enough cash on hand. On five consecutive days in the week before the end of the Mandate, Shoman personally went to Barclays' Jerusalem branch, braving the fighting and chaos on the streets, to try to withdraw the full balance and to whisk it off, in an armored car,

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<sup>3</sup> *Arab Bank v Barclays*, High Court, 1952, 7-8. NA FO 371/104456

<sup>4</sup> *Ibid.*, 11

<sup>5</sup> All information in this paragraph has been gleaned from the various witness statements recorded during *Arab Bank v Barclays*, High Court, 1952. In particular I have drawn from the statements of Mr. Abdul Hameed Shoman (Chairman, Arab Bank); Abdul Majeed Shoman (Deputy Managing Director, Arab Bank); Mr Khateeb (Deputy Manager, Jerusalem branch, Arab Bank); Mr. Peters (Accountant General, Barclays Bank); Mr. Merguerian (Barclays Bank) and Mr. Sahakian (cashier, Jerusalem branch, Barclays Bank)

to Amman. On each of these occasions he was rebuffed, and told that Barclays' Jerusalem branch was closing, and that there was nothing anyone at the branch could do.

In June 1948, as we have seen, Israel issued its freeze order to the banks, and by July Barclays had duly "frozen" the full balance of the Arab Bank's account. In early September 1948 Shoman's son, Abdul Majeed, wrote to his erstwhile friend, Mr. Clark, Barclays' Jerusalem branch manager, explaining that he was "addressing this letter to you personally hoping that you will kindly help me and the Arab Bank in a matter of importance to us [...] We will deem it a great favour if you will kindly request your Nicosia branch to affect this transfer to the debit of our account with your Jerusalem branch."<sup>6</sup> But to this "personal" request Barclays' response was a perfect prototype of the letters it would later send to its individual Arab Palestinian customers when they wrote to ask about their accounts:

"As you may be aware Jerusalem branch Allenby Square is closed and for the present comes under the control of the Jewish authorities. Any transaction, therefore, affecting that branch must receive *their* prior approval [...] I feel that the best thing is to leave matters as they are for the time being."<sup>7</sup>

In early October 1948, with Barclays continuing to refuse to release the Arab Bank's account, and the Arab Bank's own cash position dwindling, rendering it difficult for it to agree to "leave matters as they are for the time being," Shoman senior sent the following bitter note to Barclays' Chairman in London:

"I had full confidence in you up to the last minute of the Mandate in Palestine, which fact could be ascertained by you from your own books. When all the local banks in Palestine were drawing very heavily on you and withdrawing their cash deposits, the Arab Bank kept their cash surplus with you. During the last days of the Mandate, your Jerusalem branch requested

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<sup>6</sup> Ibid

<sup>7</sup> Ibid

us on several occasions to provide them with cash to meet the drawings of their customers, the Palestine Government and the British Army, and we were very glad indeed to comply always with their requests.”<sup>8</sup>

To this Barclays’ response constituted, as before, a stout denial of its own culpability:

“The Jewish authorities who are in de facto control of the area in which our branch is situated will not permit transfer or payment of balances outside territory occupied by them, without their prior authority. Being therefore constrained by *force majeure* we are unable without such prior authority to pay your balance as requested by you.”<sup>9</sup>

In mid-December 1948 Barclays’ chairman reported to his board that “the Arab Bank had again strongly pressed their claim for the repayment of their balances with Allenby Square and threatened legal action unless the money was paid within fifteen days of 20<sup>th</sup> December.”<sup>10</sup> But Barclays continued to refuse the Arab Bank’s claim, forswearing all responsibility – “we replied again stressing our inability to comply with their request without the consent of the de facto Government” – and there the matter stood for the next few months. But on October 9 1950, Abdul Hameed Shoman, having finally run out of patience, made good on his threat of legal action by issuing a writ against Barclays in the King’s Bench Division of the (British) High Court, demanding full payment of the balance of the Arab Bank’s current account.<sup>11</sup>

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<sup>8</sup> Letter from Abdul Hameed Shoman, Chairman, Arab Bank, to Chairman of the Board, Barclays Bank. 2 October 1948. *Arab Bank v Barclays*, High Court, 1952, 11. . NA FO 371/104456

<sup>9</sup> Letter from Chairman of the Board, Barclays Bank to Abdul Hameed Shoman, Chairman, Arab Bank, October 1948. *Arab Bank v Barclays*, High Court, 1952, 11. . NA FO 371/104456

<sup>10</sup> Barclays Bank DCO, Board Meeting Minutes, 23 Dec 1948. BBA 38/508 -529

<sup>11</sup> Barclays Bank DCO, Board Meeting Minutes, 12 Oct 1950. BBA 38/507 -530

## 2. The first law suit: Arab Bank v Barclays Bank, 1951-1954

The legal proceedings began in January 1951. Just a few weeks later, in mid-February, the Israeli Custodian of Absentee Properties, a Mr. Porat, visited Barclays' local (Israel) director and demanded (as noted in the previous chapter) that Barclays "hand over the full balance of the Arab Bank's account" to him.<sup>12</sup> This Barclays' local director did without complaint or protest – garnering thanks from Porat "for having arranged to let him have the cheque for the Arab Bank account so promptly" – though he observed wryly, in his letter to his supervisors in London, that the timing of the Israeli demand could not have been incidental:<sup>13</sup>

"[The Israeli custodian] told me quite categorically, *though I must say I find it difficult to believe*, that the demand made on us for the withdrawal of the balance of the Arab Bank account was *not in any way connected with the law suit in London* and that the decision to draw this money had been made some considerable time ago and prior to his hearing about the pending law suit. He told me that the reason for this substantial withdrawal of funds was to finance an irrigation scheme to improve certain absentee groves"<sup>14</sup>

It is clear from the above that Barclays' managers realized, from the timing of its "demand to withdraw the full balance of the Arab Bank account," that the Israeli government intended to spend the Arab balances before these could be tied up in any legal proceedings in London. But it is also clear, from Barclays' internal correspondence files, that its management did nothing to stop, delay, or even question the Israelis. This is because Barclays' managers continued to cling, as before, to the perceived legality of Israel's actions, as attested by the handwritten notes they jotted on the margins of their local director's letter: "The Custodian is

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<sup>12</sup> Letter from Barclays Local Israel Director, Jerusalem to General Manager, Barclays, London, 22 Feb 1951, BBA 11/595

<sup>13</sup> Ibid

<sup>14</sup> Ibid(Emphases added)

fully entitled to withdraw [the Arab balances] when he thinks fit,” and “yes, the law permits this.”<sup>15</sup>

Although Barclays’ managers acquiesced quietly in Israel’s demand to “make use of the credit balances of all absentees,” they did not take the Arab Bank’s legal action lightly, nor were they unaware of the dangerous precedent the case might set. They sought the advice of the bank’s lawyers, who suggested that Barclays should be “indemnified by Israel *before* we pay out any absentee creditor balances, as obviously, if the case were to go against us in London it would be a precedent for all our absentee creditors and if we had to pay out in London we would naturally wish to be recouped from funds at present standing to the credit of various accounts in Israel.”<sup>16</sup> But the Israeli government refused to indemnify Barclays against any future legal actions – declaring that “under no circumstances could any finding in an English Court of Law affect the position in Israel” – and once again, Barclays’ managers submitted without protest to the Israeli government’s will.<sup>17</sup>

Nevertheless, Barclays’ managers evidently took the Arab Bank’s writ seriously, and – an indication of the importance they accorded the matter – hired Sir Hartley Shawcross to lead their defense team in the trial. Shawcross was, at the time, perhaps the most celebrated lawyer in Britain, having served as the country’s Attorney General from 1945 to 1951, and, more famously, as the United Kingdom’s chief prosecutor at the Nuremburg trials in 1945, during which he had memorably pronounced that: “There comes a point when a man must refuse to

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<sup>15</sup> Letter from Barclays Local Israel Director, Jerusalem to General Manager, Barclays, London, 13 Nov 1950, BBA 11/595

<sup>16</sup> Ibid

<sup>17</sup> Ibid

answer to his leader if he is also to answer to his own conscience.”<sup>18</sup> For a time, before he lost his taste for politics, Shawcross was a real celebrity in Britain: admired for his good looks; gossiped about because of his many successive marriages; and rumored to have been the likely future prime minister after Attlee. He was, in the early-to-mid-1950s, “seldom out of the news,” though, curiously, his time spent on Barclays’ payroll during those years, representing the bank during its lengthy and various legal battles with the Arab Palestinians, is a little-known segment of his otherwise well-scrutinized career.

The Arab Bank’s case against Barclays was heard in the High Court of Justice in London in October 1952. Shawcross, assisted by a team of Barclays’ internal lawyers, had drawn up a defense based on Barclays’ argument, which it had stuck to in all its correspondence during the last four years with its Arab Palestinian clients, that it was obliged to obey the laws of the state of Israel so long as it operated in Israeli territory.<sup>19</sup> The Arab Bank’s main argument was that Barclays’ Allenby branch, where its account had been kept, was not in Israeli territory, as it was located in the “no man’s land” which demarcated the division between Israeli and Jordanian controlled Jerusalem. Thus, Israeli laws did not apply, and Barclays was not in its rights to refuse to release the Arab Bank’s account by claiming Israeli laws would not permit it. The Arab Bank’s lawyers further argued that their bank, as a customer of Barclays, was entitled to access and withdraw money from its account regardless of the political situation on the ground, as was the right of every banking customer bank, even at times of war.<sup>20</sup>

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<sup>18</sup> *Economist*, “Sir Hartley Shawcross Obituary,” 17 July 2003

<sup>19</sup> *Arab Bank v Barclays*, High Court, 1952, 14-15. NA FO 371/104456

<sup>20</sup> *Arab Bank v Barclays Bank*, Supreme Court of Appeal, 21 May 1953, 4-5. Shehadeh Papers



The high court eventually issued its judgment on November 11 1952, the lengthy decision revealing that the court's judges had essentially toed Barclays' line on all points: they agreed that Barclays had acted correctly in obeying the Israeli freeze order, as Israeli law was, at the time the order was issued, "the law of the place of performance," which banks are required to obey.<sup>21</sup> They further opined that, as Britain had extended *de jure* recognition to Israel, Barclays was bound, as a British bank, to obey Israel's orders; and finally, they ruled that as "trading with the enemy during wartime was illegal" under British law, the Israeli emergency law, which was based on British Mandate law, could not have been considered illegal by either Barclays or the court.<sup>22</sup>

The Arab Bank appealed the high court's decision, taking the case next to the Supreme Court of Appeal, and then finally to the House of Lords, the highest court in the British judicial system. But at each stage the British courts upheld the original high court's decision – and Barclays' contention – that it had done no wrong. While at the lower court level the case had delved into various complicated technicalities, at the higher courts it was decided on the simple point that banks are required, in times of war, to obey regulations against trading with the enemy. The Arab Bank's arguments that the definition of the word "enemy," as applied by Israel to all Arab Palestinian individuals and businesses, could not be considered legal, fell on deaf ears. As one of the Supreme Court judges put it:

"The *law of Israel* treats the contract to pay an enemy alien as illegal [...] Thus the payment was suspended, and in due course, under *the Israel law*,

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<sup>21</sup> *Arab Bank v Barclays*, High Court, 1952, 15. NA FO 371/104456

<sup>22</sup> Summary of arguments made by Justice Parker in *Arab Bank v Barclays*, High Court, 1952, 15-19. NA FO 371/104456

the amount was collected by the Custodian appointed in accordance with the *law of that country*.”<sup>23</sup>

The repeated references, in this sentence, to the “*law of Israel*,” made it clear, to the Arab Bank and to all who were watching – and there were indeed many watching, for the case had generated a great deal of interest, and went on to become an important precedent in legal banking history for cases relating to the “special relationship between banker and customer during times of war” – that the essential point, for the British judicial system, was that Israeli laws had to be obeyed, regardless of the content of those laws.<sup>24</sup> The principle of state sovereignty was, thus, as far as the British courts were concerned, paramount, and overrode any concerns about the individual rights of the Arab Palestinians to their assets.

From April 1948 on, the Arab Bank’s chairman, Abdul Hameed Shoman, had been trying tirelessly to get Barclays to release his bank’s funds. Like so many other Arab Palestinians, he had appealed first to the bank itself; then to the British; then to the Israelis; and then to the UN. Finally he had resorted to the law. But the law, too, at least as interpreted by the British judges, turned him away. On the 4<sup>th</sup> May 1954, almost exactly six years after he had personally visited Barclays’ Jerusalem branch five times in a row, braving the fighting around him, to request the full withdrawal of the Arab Bank’s account, the British courts gave him their final answer: the House of Lords dismissed the Arab Bank’s appeal, pronouncing, as it did so, that: “[we] reach this conclusion with some regret, for this appeal is a hard case, but that is not the fault of the

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<sup>23</sup> *Arab Bank v Barclays Bank*, Supreme Court of Appeal, 21 May 1953, 12-13. Shehadeh Papers

<sup>24</sup> The case generated a fair share of debate and discussion in contemporary legal journals; see, for instance, J Milnes Holden, “Relationship of Banker and Customer,” *The Modern Law Review*, Vol. 17, No.5 (Sep 1954), 467-471 and R.Y. Jennings, “Contract -Effect of War on Banking Account,” *The Cambridge Law Journal*, Vol.12 No. 2 (Nov 1954) 178-181. Holden notes in the introduction to his article that the case “is an important case in banking law.”

Courts of this country: it is one of the results of war.”<sup>25</sup> Adding insult to injury, the court also ordered the Arab Bank to pay Barclays’ full legal costs going back to the initiation of its first action in 1951.<sup>26</sup>

### **3. Two young Palestinian lawyers take matters into their own hands**

As the Arab Bank’s case against Barclays wound its way slowly through Britain’s judicial system, it was watched closely, not only by members of the legal and banking professions in London, where the case had generated a frisson of interest, but also by many in the Arab world. In particular, two young Arab Palestinian lawyers, Aziz and Fu’ad Shehadeh, avidly followed the proceedings from afar.

The two lawyers, who were brothers, had been raised in Jerusalem and trained by British judges in the Mandate-era Jerusalem law school, and were thus well-versed in both Ottoman and British common law.<sup>27</sup> They had started their legal practice in Jaffa, establishing their own firm in 1935. In April 1948, at the height of the fighting, they had fled from Jaffa, like so many other Arab residents of that town, leaving all their possessions, including their precious legal files and

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<sup>25</sup> *Arab Bank v Barclays Bank*, Supreme Court of Appeal, 21 May 1953, 14. Shehadeh Papers

<sup>26</sup> *Ibid*

<sup>27</sup> The information in this section, unless otherwise cited, comes from my conversations with Fu’ad Shehadeh, held over the course of two years from 2010-2012 in Ramallah, Palestinian Territories. It would be no exaggeration to state that this dissertation could not have been written without his help. He allowed me to look through the Shehadeh Law Firm’s voluminous private archives, which have never before been accessible to any scholar, and his assistant Mohammad kindly helped me track down the original documents pertaining to the legal cases cited in this section. Aziz Shehadeh, Fu’ad’s elder brother, was the senior partner and founder of the Shehadeh Law Firm in Jaffa. Some details about Aziz Shehadeh’s life can be gleaned from the haunting memoir written by his son, Raja Shehadeh, *Strangers in the House* (New York: Penguin, 2002). But there is only the briefest mention (pages 23-24) in that book about Aziz’s role in launching, and eventually winning, the lawsuits against Barclays and Ottoman banks in the early 50s, which cemented his and his brother’s reputations as the best lawyers in Jordan at the time.

briefs, to seek what they thought would be only temporary refuge in Ramallah (which was by then under Jordanian control). The younger brother, Fu'ad, was badly injured during his panicked last drive from Jaffa – the family car, riddled with bullet holes, testament to his ordeal – and spent months fighting for his life in hospital. In Ramallah the brothers felt themselves not only wounded, but also destitute and defeated. Nevertheless, once they realized that Israel was never going to allow them to return to Jaffa, they picked up the pieces of their lives and re-established their practice in Ramallah, and, at the time of the Arab Bank's case against Barclays in 1952, were both rising young lawyers, making a new name for themselves in Jordanian legal circles.

When the British High Court ruled against the Arab Bank in November 1952, the Shehadeh brothers studied the judgment closely and realized that the crux of the matter lay in the British court's decision that Barclays, as a bank operating in Israel, was bound to obey Israeli law, as the repeated references in the High Court's judgment to the "*law of Israel*" made clear. Although the Arab Bank's chairman was determined to appeal the British High Court's decision – and would waste the next two years doing so – the Shehadehs suspected that the Arab Bank would never win its case in any judicial system which recognized Israel as a sovereign entity, because, as the British High court's ruling indicated, the principle of sovereignty, and the requirement that any bank obey a sovereign entity's laws if it wishes to operate in its territory, would always trump the claim of individual rights.

The Shehadehs realized, in short, that the problem lay not with Barclays – because, as Barclays' famous lawyer, Sir Hartley Shawcross had persuasively argued, the bank did what all banks were supposed to do – but with Israel. And the only way in which the Arab Palestinians could hope to find a court to agree with them in the matter of their frozen bank accounts, was,

the Shehadehs felt, to find a judicial system which would not recognize Israel, and thus not accept the validity of Israeli laws.

The solution seemed, to the brothers, obvious: Jordan, in 1952, was still officially at war with Israel (although an armistice agreement had been signed) and had not granted it official recognition. In the Jordanian judicial system, then, the validity of Israeli laws would likely not be accepted. And so, it was to the Jordanian courts, Aziz and Fuad Shehadeh felt, that the Arab Palestinians must turn.

#### **4. The second lawsuit: Barakat v Barclays (April 1953)**

And thus, in late 1952, shortly after the British High Court had issued its judgment against the Arab Bank, Aziz and Fu'ad Shehadeh set about looking for Arab Palestinians whose accounts had been frozen at Barclays or Ottoman banks and who would be willing to launch individual lawsuits against these banks in a Jordanian court. The lawyers were resolved to fight the banks *gratis*; all they required was willing plaintiffs. The first person to volunteer for the position was the unlikeliest of candidates: an elderly Palestinian widow from Jaffa, Mrs. Bahia Barakat.

Mrs. Barakat had fled to Cyprus during the summer of 1947, and had tried for three years (as mentioned in the previous chapter) to persuade Barclays to release her bank account.<sup>28</sup> At first she had attempted to personally meet the bank's employees who had been evacuated to Cyprus; when those proved elusive she wrote directly, and repeatedly, to Barclays' head office in

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<sup>28</sup> *Barakat v Barclays, Civil Case No. 123/52, 1952, 1.* (Translation from Arabic). Shehadeh papers

London. Barclays finally responded in July 1951, but only to say that: “Our Jaffa branch regret to inform you that they have declined your application to transfer the balance of your account to Cyprus”.<sup>29</sup> In December 1952, thus, when Aziz and Fu’ad Shehadeh put out feelers among the Arab Palestinians they knew in Jerusalem and Ramallah, Mrs. Barakat, who had by then moved to Jerusalem, was glad to respond to their call. And so, the first and historic legal action filed by an Arab Palestinian against Barclays Bank was launched in the name of this unassuming widow from Jaffa.

Mrs. Barakat filed her action against Barclays in Jordanian Jerusalem’s “Court of First Instance” in April 1953 “for the sum of JD 6,298.500 fils with interest which represents the balance standing on her current account.”<sup>30</sup> The case was brought to trial in June 1953. The proceedings generated a great deal of public interest, garnering breathless front page coverage from the local papers – one noting that the “the courtroom was crowded because of the importance of the case” – and even the attention of the New York Times’ correspondent, who summarized the matter thus:<sup>31</sup>

“A test case in which a refugee woman is suing Barclays bank for full recovery of her account opens tomorrow in the District Court here. The basis of the plaintiff’s cause is that the actions taken by Israel [...] were done by a legally unrecognized body, thus the bank is responsible.”<sup>32</sup>

Barclays’ management took Mrs. Barakat’s case as seriously as it had done the Arab Bank’s lawsuit, noting, in its internal correspondence, that the “repercussions on the Bank’s interests in the Middle East of an adverse decision in the Jordan courts would be very

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<sup>29</sup> Letter from Barclays Bank, Palestinian Local Head Office, Nicosia, to Mrs. Bahia Haj Suleiman Barakat, Famagusta. 31 July 1951. Shehadeh papers.

<sup>30</sup> *Barakat v Barclays, Civil Case No. 123/52, 1952, 2* (Translation from Arabic) Shehadeh papers

<sup>31</sup> For examples of coverage in the local press, see *al Difaa*’ “Case Against Barclays Bank,” June 1953 and *The Daily Star*, “Frozen Deposit Ruling – Arab Refugee Case Brighter,” 24 May 1954

<sup>32</sup> *New York Times*, “Arab Woman Sues Barclays Bank,” 7 April 1953

serious”<sup>33</sup>The bank decided to fly out Sir Hartley Shawcross himself to Jerusalem to conduct its defense, though the British Ambassador in Amman deprecated this decision, remarking that: “hearings in Jordanian courts are conducted in Arabic only. A British lawyer would probably be at a disadvantage and any powerful oratory on his part would be lost in translation [...] A good local lawyer pleading here might be able to make considerable capital out of Sir Hartley Shawcross’ name while avoiding any offence to nationalist feeling which his actual presence might cause.”<sup>34</sup>

Shawcross himself wrote to the Foreign Office “urgently wanting to know the names of one or two of the best practicing barristers in Amman (or in the Jordan part of Jerusalem) who would carry weight with the court.”<sup>35</sup> This, however, was not so easily done, for, as a Foreign Office official explained, “our representative there comments that there is some feeling locally against the Bank on account of the non-payments in respect of Palestine refugees and he cannot therefore be sure that *any well-known lawyer would be willing* to appear for the bank.”<sup>36</sup> Eventually Barclays did manage to hire one local lawyer, Afif Khoury, but he was hardly one of the “best practicing barristers” in Jordan, and it is worth noting that the bank, which had enjoyed such an easy legal victory in London, had to scramble now, in Jerusalem, to find even one competent local lawyer willing to represent it.

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<sup>33</sup> Letter from J.F. Cade, General Manager, Barclays to Under Secretary of State, Foreign Office, 10 March 1952 NA FO 371/104454

<sup>34</sup> Letter from J.C.B. Richmond, British Embassy, Amman, to G.H. Baker, Levant Department, Foreign office, 7 Oct 1953 NA FO 371/104455

<sup>35</sup> Foreign Office Minute, G.G. Fitzmaurice, Eastern Department July 1953. NA FO 371/104454

<sup>36</sup> Letter from G.G. Fitzmaurice, Foreign Office, Eastern Department, to Sir Hartley Shawcross, 14 July 1953. NA FO 371/104454 (Emphasis added)

Even more noteworthy is the fact that Shawcross, who had made such a name for himself at Nuremberg and who had served, until the previous year, as Britain's Attorney General, found himself at such poor advantage in Jerusalem: he was handicapped because he spoke no Arabic – as the British Ambassador had warned, the legal proceedings were conducted entirely in the local language – and because his celebrity and glamour, which had exerted such a powerful fascination over the judges in London, meant nothing to his audience in Jerusalem.

Nevertheless, Shawcross soldiered on, laying out a defense for Barclays which concentrated, at first, on challenging the jurisdiction of the Jerusalem court to try the case. This objection the court rejected summarily, on the grounds that Barclays was “a Foreign Company registered in Jerusalem under the Companies’ Ordinance of 1921 and its registration was published on 18<sup>th</sup> February 1926 [...] and as the place of registration of the Company is Jerusalem, the Court of First Instance has Jurisdiction in this action.”<sup>37</sup>

This pithy ruling of the court on the jurisdiction question seems remarkable in retrospect, given the continued disputed status, six decades on, of Jerusalem (Israel continues to militarily occupy, and claim sovereignty over, the entire city, although the United Nations – and, of course, the Palestinians – do not accept this claim over the parts of the city now known as “east Jerusalem.”) It would be unthinkable, for instance, to imagine that a Palestinian today might appeal to a Jordanian court for the resolution of a dispute arising in Jerusalem or Jaffa, but this is

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<sup>37</sup> *Judgment in the Court of First Instance, Jerusalem, Jordan. Motion No. 61/52 in the Application of Barclays Bank (DC&O) v Bahiya Barakat*, 4 August 1953. (Translation from Arabic) Shehadeh papers. While it is beyond the scope of this chapter to enter into a discussion of legal history, it is noted that the jurisdiction question raised by Barclays and decided by the Jordanian court created an interesting precedent, as it concerned a British bank being tried in a Jordanian court – and therefore, by Jordanian law – for actions committed by it in Israeli territory operating under Israeli law. The disputed status of Jerusalem, and thus the legal environment in which Barclays’ Jerusalem branch was operating, was key to the Court’s decision. Simply put, the Jordanian court did not recognize Israeli sovereignty (and thus, Israeli law) over Jerusalem, and nor, at the time, did the United Kingdom or the United Nations.



exactly what happened in the first ruling in *Barakat v Barclays* in 1953, although, at the time, the Court's decision on the jurisdiction question passed almost without notice, as the bulk of the legal hearings, and the press' attention, focused instead on Barclays' next line of defense, which Shawcross argued as he had done in London: that the bank, as all banks, was required to obey the laws of the country in which it operated. Shawcross was careful to admit that Jordan had not granted Israel *de jure* recognition, but, he argued, that as Israel did "*de facto* exist," Barclays, as a bank operating in Israeli-controlled territory, had no choice but to obey its laws.<sup>38</sup>

The Shehadeh brothers concentrated, for their part, on describing to the Court how Mrs. Barakat had tried in vain to get Barclays to release her account – “orally and in writing for three years” – painting, as they did so, a poignant picture of an elderly Arab refugee widow's dogged persistence in the face of unfeeling British bankers.<sup>39</sup>

For all Shawcross' translated eloquence, it was, in the end, a rout. The Jordanian Court of First Instance issued its judgment on June 25 1953, upholding Mrs. Barakat's complaint and ordering Barclays to release the full balance of her account, and to pay 9% interest on that balance accrued since the date of her first written request to the bank for withdrawal of her account.<sup>40</sup> The reasoning behind the court's judgment was almost exactly the inverse of the British High Court and Supreme Court's rulings, which had argued that Barclays had to obey Israeli law while operating in Israeli territory. The Jordanian court's ruling also focused on Israeli law, though it came to the opposite conclusion about Barclays' duty to obey it. It ended its judgment with the following argument, which is worth quoting at length for the clarity it sheds on the reasoning behind its decision to uphold Mrs. Barakat's claim:

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<sup>38</sup> *Barakat v Barclays Civil Case No. 123/52, 1952, 5-6* (Translation from Arabic) Shehadeh papers

<sup>39</sup> *Ibid*, 6-7

<sup>40</sup> *Ibid*, 20

“The Government of His Majesty King Hussein neither recognizes the Jewish authorities nor the legality of its laws and, in particular, do not approve of those laws which are manipulated to confiscate the property of Arabs.

What applied generally to the Jewish legislation applies more particularly to the application of those laws in those places which were not included in the Jewish zone by the United Nations in the Partition Plan of 1947, and one of those is Jaffa.

Even if, for the sake of argument, we go as far as to recognize Israel’s de-facto Government in some parts of Palestine (those included in its zone by the Partition Plan) we consider those Authorities, according to International Law, occupying forces, and as long as they maintain this position the final decision lies with the Administration to say whether they exist de-facto or not. We are mindful as everyone else in this country, that the successful ministries who have come to power in this country since 1948 have always stressed the demand for the manipulation of the Resolutions of the UN and more particularly, the Partition Plan of 1947. ..

*We feel that we should emphasize that as long as Jordan does not consent to the Jewish occupation of Jaffa, and as a state of war has not ceased to exist, we cannot take Judicial notice or in any other manner allow the application of the laws promulgated by those Authorities for the town of Jaffa.*

For all these reasons we find that the laws we have to apply are the local laws which were in force at the termination of the Mandate and which are still in force [...].”<sup>41</sup>

Barclays’ management, which had for years, as we have seen, treated the “Arab blocked accounts in Israel” as a trifling matter in which it had no real interest, and which had reacted to the distress expressed by its refugee customers with bureaucratic indifference, now responded to the Jerusalem court’s verdict with alarm bordering on hysteria. Senior officials of the bank, including its chairman, rushed off to see Foreign Office dignitaries, whom they begged to “take

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<sup>41</sup> *Barakat v Barclays Barclays Civil Case No. 123/52, 1952, 5-6* (Translation from Arabic) Shehadeh papers (Emphasis added)

up a strong line with the Jordan government.”<sup>42</sup> Hartley Shawcross himself called on high-placed friends in the British diplomatic firmament, asking them to pressure the Jordanian government, which, as he put it, “should be made to understand that such a course of action, if adopted, might reflect on Jordan and that other countries, including Israel, might try to set aside Jordan laws in similar fashion.”<sup>43</sup> Shawcross went so far as to claim that the verdict “undermined the main economic and financial principle relied on by concerns operating in foreign countries,” while Barclays’ General Manager sent the following letter to the Foreign Office:<sup>44</sup>

“If we were forced by a decision of the Jordan courts to pay off these debts notwithstanding the prohibitions in Israel, we should in effect have to do so out of the Bank’s own pocket. Over and above the very heavy losses which we would suffer as a result, the consequences would extend far beyond our own immediate interests and would strike at the foundations of overseas banking [...] with results which could not but be injurious to the strength and prestige of British banking overseas and the interests of their overseas customers”<sup>45</sup>

Barclays’ managers hoped that they could persuade the British government to pressure the Jordanian government to, in turn, pressure the Jordanian Court of Appeal – to which they planned to take their case next – into reversing the first court’s verdict. If such British pressure were not forthcoming, Barclays feared, as Cade (Barclays’ general manager) confessed, that it

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<sup>42</sup> Confidential meeting note, Foreign Office, “Barclays Bank and Blocked Arab Balances” 22 July 1953, NA FO 371/104454

<sup>43</sup> Ibid

<sup>44</sup> Ibid

<sup>45</sup> Letter from Cade, General Manager, Barclays Bank to G.H. Baker, Foreign Office, 29 July 1953. NA FO 371/104454

would have “far-reaching consequences for us, as the case would then be used as a precedent by all other Arab refugees who had blocked balances with Barclays or Ottoman.”<sup>46</sup>

##### **5. “Far reaching consequences”: The Arab Palestinians sue Barclays and Ottoman banks, 1953-54**

Cade’s fears of “far-reaching consequences for the bank” were not, as it turned out, misplaced: in June 1953, exactly one week after the Jordanian court had issued its ruling in favor of Mrs. Barakat, the lawyers Aziz and Fu’ad Shehadeh filed another case against Barclays, this time on behalf of their friend and fellow lawyer, Hassan Hawwa, who sued for the release of his account at Barclays’ Nablus branch. As Barclays’ managers scrambled to deal with this new development, the proverbial floodgates opened, and, as they had feared, the bank was suddenly faced with a slew of lawsuits filed by Arab Palestinians in courts all over Jordan. Commenting on the matter in a letter to his colleagues, one Barclays’ manager grumbled that “there can be no doubt that the ring-leader of the litigation campaign against us in Jordan is Aziz Shehadeh.”<sup>47</sup>

He was right: far from resting on their laurels in the wake of the Barakat decision, the “ringleaders of the litigation campaign” had been busy rounding up all the Palestinians they could find whose accounts had been frozen and who would be willing to sue the bank. They did not have to search for long, for there were many Palestinians ready and eager to endure the trouble and expense of legal action in order to fight to free their accounts. And so, during the summer of 1953, just weeks after the Barakat verdict had been announced, Barclays found itself

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<sup>46</sup> Ibid.

<sup>47</sup> Letter titled “Arab Balances”, Unsigned and undated. BBA 29/582

on the receiving end of legal actions filed against it in Jordanian courts by George Taweel (who sued the Haifa branch); Sheikh Mohamed el Hadi el Yashrouti (Acre branch); Mohamad Tayser Akkad (Haifa branch); Kamal Abu Zeid (Jerusalem branch); Naseeb Boulos Habib (also Jerusalem branch); and scores of others.

It is difficult to know exactly how many legal actions were filed against Barclays by Arab Palestinians that summer, because none, apart from the Barakat case, actually went to trial, and there are thus no surviving court documents, only scraps of archival evidence, which are both piecemeal and epistolary.<sup>48</sup> But the table (Figure 9) below, compiled from those limited sources, constitutes a *partial* list of all the Arab Palestinians who took legal action against Barclays between 1953 and 1954. As will be evident from the table, the cases were filed from various locations and for amounts ranging from as little as £10 to as large as £50,000, which gives some sense of the diversity of income (and, thus, background) of the people whose accounts had been frozen. The list includes both individual and business customers of the bank, reminding us that it was not just ordinary Arab Palestinians, but also Arab Palestinian businesses, whose economic affairs were so abruptly ruptured by the Israeli freeze order of June 1948.

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<sup>48</sup> Barclays' archives provide no systematic information on these lawsuits; the names listed here have been pieced together from Barclays' internal correspondence and board meeting minutes. At the Shehadeh law firm's archives the evidence is also scanty, again most likely because none of the cases, apart from *Barakat v Barclays*, actually went to trial.

<b>Name of Plaintiff</b>	<b>Year</b>	<b>Details and Amounts</b>
Arab Bank	1952	£583,000
Bahiya Barakat	1953	£6298/Jaffa
Hassan Habib Hawa	1953	JD 533/Acre
Heirs of George Taweel	1953	JD 13,000/Haifa
Sheikh Mohamed el Hadi el Yashrouti	1953	JD 40,321/ Acre
Heirs of Mohamad Tayser Akkad	1954	JD100,612/Haifa
Sudki Numan Alami	1954	JD 20
Mikhail Bakou and Adma Fares Abad	1954	JD 17 + 45 golden sovereigns
Kamel Abu Zeid	1955	£7,549
Yusef Odeh Thalji	1955	£161
Estate of Naseeb Boulos Habib	1955	£85
Mohamed Ibrahim Bawab	1955	£4,555
Adel Kashef	1955	£1,980
Ibrahim Mitri Nassar	1955	£574
Arshak Toroz Dadorian	1955	£455
Ghattas Abdallah Sibaneh	1955	£272
Muti and Abdel Rahim Sinouno	1955	£313
Renno and Abu Zeid Co	1955	£30,113
Lily and heirs of Bishara Aleko	1954	£3,592
Dr. Tannous Kawar	1954	£519
Dr. Saad Musallam	1955	£5,520
Palestine Educational Company	1955	£621
Arabia Insurance Company	1955	£1,802

Source: Barclays Bank Archives, Shehadeh Law Archives, and British National Archives

**Figure 9: Partial list of lawsuits filed by Arab Palestinians against Barclays Bank in 1953-4**

As Barclays’ managers reeled from this litigious onslaught, their counterparts at the Ottoman Bank watched on with anxiety, fearing that they, too, would suffer the same fate. The Amman director of the Ottoman Bank approached the British Embassy for advice that summer, noting that he was “very alarmed about the possible repercussions for us.”<sup>49</sup> He was right to have

<sup>49</sup> Letter from A.R. Walmsley, British Consulate General, Jerusalem, to M.T. Walker, British Embassy, Amman, 6 October 1952. NA FO/371/98500

been alarmed, as the Ottoman Bank, too, found itself on the receiving end of a lawsuit, filed in October 1953 by a Dr. Wehbe Jabaji.

Dr. Jabaji, like the Arab Palestinians who had sued Barclays, was an ordinary middle-class person from Jaffa who had become a refugee in Jordan. Like Mrs. Barakat, he had repeatedly written to the Ottoman Bank since June 1948 requesting the release of his account; like Mrs. Barakat, he had been continually rebuffed by the bank. And thus, when the Shehadehs – who felt that lawsuits against both Barclays and Ottoman banks were required to ensure the release of all blocked Palestinian accounts – went looking for Ottoman bank customers, they found, in Dr. Jabaji, as willing a participant in the action as Mrs. Barakat had been.

The doctor duly filed a writ against the Ottoman Bank in early October 1953, and the ensuing case received much attention in the local press, not only because he was the first Palestinian to launch a lawsuit against the Ottoman Bank, but also because he sued the bank not just for the release of his current account but also for the contents of his safety deposit box, which contained “jewelry valued at JD 1,200 and 10 bearer bonds valued at JD 100.”<sup>50</sup>

The Ottoman Bank took Dr. Jabaji’s action against it seriously, and hired the London law firm of Allen and Overy. The senior-most partner of that firm worked with a team of three prominent Jordanian lawyers – for the Ottoman Bank had had better luck than Barclays in finding local lawyers willing to work with it – to device the Bank’s defense.<sup>51</sup> This constituted arguing, as Shawcross had done during his defense for Barclays, that the Jordanian court had no

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<sup>50</sup> Judgment in Civil Case No. 248/1952 at the Jerusalem Court of First Instance in *Dr. Wehbe Jabaji v Ottoman Bank*, 21 October 1953 [Henceforth, *Jabaji v. Ottoman Bank*, Jerusalem, Jordan, 1953]. (Translation from Arabic). Shehadeh papers.

<sup>51</sup> Letter from Allen & Overy, London, to Under-Secretary of State, Foreign Office, 12 May 1953. NA FO 371/104454. The local lawyers who were engaged by the Ottoman Bank were Hanna Atallah, Fuad Atallah and Rafik Salah.

jurisdiction to try the case, and that the Ottoman Bank was obliged to follow Israeli law. In remarking later on the matter to a Foreign Office official, the Ottoman Bank's lawyer, in a bizarre – and, given the ragged adversities of Dr. Jabaji's refugee existence, tasteless – transposing of culpability, blamed Dr. Jabaji himself for the situation, complaining that:

“The difficulty in which the Bank is now placed is that although it would, of course, be quite willing to pay Dr. Jabaji the balance which stood to his credit before the end of the Mandate, *Dr. Jabaji has made it impossible for them to do so* by ceasing to reside in that part of Palestine which is now Israel, as a result of which his property has been blocked by virtue of law subsequently passed by the Israeli government.”<sup>52</sup>

The hearings began in late October 1953, in the same court in Jerusalem which had heard the Barakat case. But whereas during the Barakat proceedings the atmosphere in the court had been, as Barclays' managers' themselves acknowledged, scrupulously neutral, Dr. Jabaji's case played out against a backdrop of heightened local tension and anger against Israel occasioned by the horrific “Qibya incident,” in which Israeli troops, commanded by Ariel Sharon, attacked the village of Qibya and massacred sixty-nine Arab Palestinians, two-thirds of whom were women and children.<sup>53</sup>

The massacre had occurred just a week before the Jabaji hearing, and had aroused, as the British ambassador in Amman noted, “such violent anti-Israel feelings throughout the country” that he feared the Ottoman Bank would have no chance of success. “Public opinion,” he wrote, “is so unanimous on this point, that neither the Judges nor the government can be indifferent to

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<sup>52</sup> Ibid. Emphasis added

<sup>53</sup> The Israeli troops also saw fit to destroy dozens of houses, a school, and a mosque in the town. For more on the Qibya massacres, see Nur Masalha, *The Politics of Denial*, 206 and Pappé, *Ethnic Cleansing*, 258. Barclays' country director, Mr. Dyson had written to his bosses, describing the proceedings in *Barakat v Barclays* thus: “The (Jordanian) judges seemed anxious to appreciate fully our point of view and our case was given a fair hearing.” Dyson, Barclays Israel, to Cade, General Manager, Barclays London. 2 Nov 1953. NA FO 371/104454



it.”<sup>54</sup> Another British diplomat, attending the court sessions, reported back to London that “It was an unfortunate day for the hearing, as the demonstrations were being held in the town on that day and xenophobic feeling was running high.”<sup>55</sup>

The British diplomats were right to have been concerned for the Ottoman Bank’s chances, for the Jerusalem Court of First Instance, when issuing its judgment on October 21, became more strident than it had been during *Barakat v Barclays*. It stated that the Ottoman Bank had been “negligent in its duties towards its customers” on various counts: for having closed “on 26.4.48 and for not having remained open at least till the end of the Mandate on 14.5.48;” for not having “safeguarded and assured the rights” of its customers after it had closed; and for “leaving its registers, knowing that it would render customers’ assets liable to danger from the enemy.”<sup>56</sup>

On the question of whether the bank had been obliged to obey Israeli laws, the court once again disagreed with the bank, and expressed this disagreement in far stronger terms than it had in the earlier case. The decision revolved, as it had done in *Barakat v Barclays* (and also, in fact, in *Arab Bank v Barclays* in London) on whether Israel was a legitimate state, and the court ruled, in no uncertain terms, that it was not. The judgment concluded as follows (quoted at length to give a sense of the tone and language employed):

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<sup>54</sup> Letter from G.W. Furlonge, British Ambassador, Amman, to Sir Hartley Shawcross, 21 Dec 1953. NA FO371/104456

<sup>55</sup> Letter from British Embassy, Amman, to Levant Department, Foreign Office, London, 28 October 1953. NA FO 371/104455

<sup>56</sup> *Jabaji v. Ottoman Bank*, Jerusalem, Jordan, 1953.12-13. (Translation from Arabic). Shehadeh papers. Though the court did also note that: “We take this opportunity to place on record the good which was done by the Defendant when it saved the registers and documents of its branch in Jerusalem in July 1948 despite the presence of the Jewish authorities; by doing so the Defendant has saved one million and a half pounds for its Arab clients living in this country; also the Defendant has done a lot of good for its Haifa clients who left it and continued transferring their accounts from Haifa to Amman by way of Cyprus up to 30.6.1948.”

“From the established definition of public international law, we find there *must be a State and that such State must be recognized* and as long as the Jews in the occupied part of Palestine are not recognized in this Country as a State therefore no comparison is possible and the question of the firing line between us and the Jews does not arise. [...]

The Defendant’s allegation that he is prevented by pressure from handing over to the plaintiff his current account and deposits, which pressure is described by the Defendant as a freezing which must be obeyed in Jaffa, *is not acceptable and is illegal, because the pressure and freezing proceed from an authority which is illegal and not recognized by the government of this country.*

We cannot take into consideration what was done in the London courts or any other Courts outside this country in respect of this illegal authority in the occupied part of Palestine because we find that at least the Government of the United Kingdom has recognized the situation now existing in the occupied part, while Jordan and the other Arab states have not recognized the said illegal situation.

We consider that what the tyrannical authority in the occupied part of Palestine has done is a travesty of humanitarian principles and cannot be described as legal.”<sup>57</sup>

The Court concluded its trenchant statement by ordering the Ottoman Bank to release the full balance of Dr. Jabaji’s account, along with all the articles (jewelry and bonds) he had stored in the bank’s safety deposit locker; it also ordered the bank to reimburse all Dr. Jabaji’s court and legal costs.<sup>58</sup> As the British ambassador, who had been watching from the sidelines, remarked, “The Court’s ruling could hardly have been more unsatisfactory for the Bank.”<sup>59</sup>

Despite receiving this “unsatisfactory” judgment in Jordan’s Jerusalem (first) court, Barclays’ managers were determined to appeal their verdict in the Court of Appeal in Amman. But they did not hold out much hope for success there, as the bank’s own general manager

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<sup>57</sup> *Ibid* 16-17

<sup>58</sup> *Ibid* 16-17

<sup>59</sup> Letter from British Embassy, Amman, to Foreign Office, London, 28 October 1953. NA FO 371/104455

admitted that: “we have considerable doubt as to whether we are likely to be given justice, unless we should find, which is unlikely, that the atmosphere at Amman is more favourable to us than what we experienced in Jerusalem.”<sup>60</sup> The Ottoman Bank, too, decided to appeal, although the bank’s Chaiman, Lord Latymer, acknowledged privately that “the chances of securing a reversal of the Court’s decision after this last hearing are small indeed.”<sup>61</sup>

The Jordanian Court of Appeal did indeed uphold, as the banks’ managers had feared it would, the Jerusalem court’s initial verdicts. But both banks – as if determined to mimic the steps taken by the Arab Bank’s chairman in London in his own quest for justice against Barclays – then appealed to the highest court in Jordan, the Court of Cassation in Amman. Going into this final appeal, Cade, Barclays’ general manager, confessed that “the position is most serious,” while Lord Latymer, the Ottoman Bank’s chairman, said that “the prospects are most disturbing.”<sup>62</sup>

On May 23 1954, the Jordanian Court of Cassation announced its final verdict on *Barakat v Barclays*, issuing a lengthy judgment just weeks after the British House of Lords had dismissed the Arab Bank’s own last appeal in London. In a tidy reversal of the British courts’ rulings, the Court of Cassation upheld the Jerusalem (first) court’s verdict on all counts vis-à-vis both banks, and ordered both to release the full balances and contents of safe deposit boxes of their Arab Palestinian customers, and to reimburse all their legal costs, plus interest accrued on

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<sup>60</sup> General Manager Cade’s Report to the Board on Arab Balances, Barclays Board Meeting Minutes, 17 December 1953. BBA 38/S10- 38/S31

<sup>61</sup> Letter from Ottoman Bank to Foreign Office, 24 Nov 1953. NA FO 371/104455

<sup>62</sup> Letter from Cade, General Manager, Barclays Bank, to Baker, Under-Secretary of State, Foreign Office. 20 November 1953; letter from R Allan, Levant Department to Baker, Foreign Office, titled “Ottoman Bank in Jordan.” 24 Nov 1953. Both NA FO 371/104454

their balances since May 1948.<sup>63</sup> In a frank acknowledgment of the obvious reason for the opposite outcomes of the London and Amman cases, the Court stated:

“We wish to say that the legal position of the Court of England in [*Arab Bank v Barclays*] should be distinguished from the circumstances under which our Courts have to decide this case. *There the British government awarded recognition to Israel while in our country the position is just the opposite.* Our government does not recognize Israel in any manner and we have consequently to conclude that this ground cannot be accepted and we therefore dismiss it.”<sup>64</sup>

And so, in June 1954, almost six years to the day after the Israeli government had first ordered the banks to freeze their accounts, the Arab Palestinians received from the Jordanian ruling some hope, the first they had experienced in all that time, that their money might be returned to them. The atmosphere in the court was jubilant upon the final pronouncement; the news splashed across the front pages of various local and regional Arabic newspapers the following day.<sup>65</sup>

The banks, meanwhile, now found themselves in the “position of considerable delicacy,” as one British official put it, of having been ordered by one country to block the Arabs’ accounts and by another to release them.<sup>66</sup> Even more difficult, and financially damaging, was the fact that both banks – which had had long ago transferred the Arab Palestinian balances to the Israeli Custodian of Absentee property – were now, as Barclays’ general manager fretted, “in serious

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<sup>63</sup> *Barakat v Barclays*, Court of Cassation, Amman, Jordan. June 1954. (Translation from Arabic). Shehadeh papers.

<sup>64</sup> *Ibid.*

<sup>65</sup> See for instance, the front pages of *ad-Difaa*’ (an Arabic daily, now Jordanian, originally Palestinian; published from Jerusalem) and *The Daily Star* (a Lebanese English newspaper) on 24 May 1954. [Shehadeh papers]

<sup>66</sup> Letter from R. Allen, Foreign Office to Lord Latymer, Chairman Ottoman Bank, 5 Nov 1953. NA FO 371/104455

danger of having to pay the *same amount twice*: once before to the Government of Israel and now again to the original Arab depositor; in effect we shall have to pay [...] over £8 million.”<sup>67</sup>

For Barclays the situation was rendered all the more galling by the realization that all the time and expense which it had expended in defending against the Arab Bank’s action in London had been in vain, for, as Barclays’ chairman noted bitterly to the bank’s board in April 1954: “While Mr. Cade (Barclays’ general manager) was in Amman he was told by the Chairman of the Arab Bank that, although they had lost the case in the English Courts, they were now preparing to take action against us in the Jordan courts.”<sup>68</sup>

The Arab Bank’s chairman, Abdul Hameed Shoman, proving as good as his word, wasted no time in lodging a new action against Barclays in a Jordanian court in July 1954, and in dashing off a cable, directly he had done so, to Barclays’ board to clarify that he was suing not only for the initial amount of the Arab Bank’s balances blocked in Jerusalem and Jaffa since 1948, but also for 9% interest accrued on those balances, plus “JD 183 in damages as a result of non-payment of above mentioned sums prior to devaluation of sterling.”<sup>69</sup>

Barclays’ managers wearily added this new action to the long list of other legal actions already lodged against the bank by Arab Palestinians in various Jordanian courts. The mood at both banks, by July 1954, was resigned: the Ottoman Bank announced that “its board had decided in principle not to resist any further claims received from their Arab creditors,” while Barclays’ general manager wrote to his board complaining that:

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<sup>67</sup> Barclays Bank DC&O, “*Aide Memoire: Blocked Arab Balances in Israel*,” 8 Feb 1954, BBA 296/

<sup>68</sup> Barclays Bank DC&O Board Meeting Minutes, 22 April 1954, BBA 38/S10-38/S31

<sup>69</sup> Barclays Bank DC&O Board Meeting Minutes, 8 July 1954, BBA 38/S10-38/S31

“It appears obvious that it is the intention of Jordan to ensure that payment of the Arab balances shall be obtained by *any* Arab owners who care to take legal action against the Banks in Jordan courts [...] It is clear that we will now be compelled to pay in terms of the judgment and possibly also will have to pay *any other Arab depositors* as and when they make their claims.”<sup>70</sup>

Barclays’ chairman convened a special meeting of the board in July during which he announced that “the wisest course would be to accept the view of our lawyers and pay up.”<sup>71</sup> The board duly “agreed to the payment of the amount due, in accordance with the decision of the Jordan courts.”<sup>72</sup> Cementing the general impression of defeat, the chairman ended the special meeting with an odd expression of “sympathy with the General Manager and senior members of the staff who had been most closely concerned with this particular matter and who had done such fine work in protecting the interests of the Bank as far as it was humanly possible to do so.”<sup>73</sup>

## **6. “Something Tangible to Show for the Gesture”: Barclays and Ottoman approach the Israelis, 1954**

The recipients of this official expression of sympathy, the bank’s managers, who had for so long been content to placidly acquiesce in the Israeli government’s dictates – and to remain above the fray when approached for help by their Arab Palestinian customers – found themselves, in the aftermath of the Jordanian Court of Cassation’s rulings, newly emotional about the problem of the “Arab bank balances.”

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<sup>70</sup> Barclays Bank DC&O, “*Aide Memoire: Blocked Arab Balances in Israel*,” 8 Feb 1954. BBA 296/18 (Emphases original).

<sup>71</sup> Barclays Bank DC&O Board Meeting Minutes, 8 July 1954, BBA 38/S10-38/S31

<sup>72</sup> *Ibid.*

<sup>73</sup> *Ibid.*

This emotion constituted neither pity nor compassion for their long-suffering Arab customers, but, instead, a simmering resentment towards the various parties which had embroiled them in this saga: the “ring leaders of the litigation campaign,” Aziz and Fuad Shehadeh, and all their Palestinian litigants; the Jordanian courts, which had come, they were convinced, to a “judgment on political rather than legal or equitable grounds;” the British Foreign Office officials, whom, they felt, had done nothing to help them; and the Israelis, who had placed them “for purely political grounds” in this “position of serious embarrassment” in the first place.<sup>74</sup> Long after the final Jordanian court’s ruling, the bank’s managers continued to feel that they themselves had little culpability in the matter and were unfairly being made to pay the price for a problem that “is essentially a political one, and, that is in our view primarily not the affair of the Banks but of the Governments concerned.”<sup>75</sup>

Barclays’ managers were especially annoyed at the timing of the Barakat decision, for they had been pursuing, since the early 1950s, an aggressive campaign of expansion in the Middle East and Africa, which had been much hampered by the bad publicity generated by the lawsuits. In March 1954 they were forced to shelve their plans to open a branch in Ramallah – “which has the air of being quite a prosperous centre and as a large number of the town’s natives have emigrated to America, and there might be some dollar exchange business arising out of their remittances home to their families” – for the plan was deemed “out of the question until we know the outcome of the litigation in Jordan.”<sup>76</sup> At the best of times all banks abhor any hint of impropriety when it comes to their handling and safekeeping of customers’ accounts, but, during

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<sup>74</sup> Confidential Meeting Notes, UK Treasury, 27 October 1953. Meeting attended by officials from Barclays, the Foreign Office, the UK Treasury and the Bank of England. NA FO 371/104454 and Barclays Bank DC&O Board Minutes, 17 Dec 1953, BBA 38/S10-38/S31

<sup>75</sup> Barclays Bank DC&O, “Confidential Memo: Blocked Arab Balances in Israel” [undated]. BBA 296/18

<sup>76</sup> Letter from Ghannoum, Barclays Bank Nablus, to Cade, Barclays Bank DC&O. 30 March 1954. BBA 11/758

the summer of 1954, Barclays' managers felt particularly aggrieved by the bad publicity generated by the Barakat and Jabaji cases. And of bad publicity there was plenty, for the cases continued to receive detailed coverage in the Arabic press, which had taken to gleefully presenting the matter as a case of David fighting Goliath, and to contrasting the mighty British banks' callous treatment of their hapless Arab Palestinian customers against the customers' own doughty resistance.<sup>77</sup>

The impact of this negative publicity on their business prospects in the region, when added to the serious financial implications of the ruling – which, as noted earlier, meant that both banks would have to effectively “pay twice” the full amount of the Arab balances, plus 9% interest accrued on each account since 1948, plus adjustments to reflect the devaluation of the British pound in 1949 – resulted in a real sense of crisis at both banks in the wake of the final Jabaji verdict. This was reflected not only in comments made during board meeting minutes and in internal correspondence files but also in the urgency with which Barclays' and Ottoman's managers renewed their demands, during high level meetings with British officials, for British intervention.

But the British government was, as it had always been when it came to this particular problem, reluctant to get its hands dirty. The Foreign Office continued to maintain that “as the matter is *sub judice* in the Jordan Courts, the possibilities of official intervention are limited.”<sup>78</sup>

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<sup>77</sup> *ad-Difaa*, a Jordanian (originally Palestinian) newspaper, often accorded the lawsuits front page coverage between June 1952 and June 1954; see, for instance, front pages of 8-9 June 1952; 31 June 1952; and 21 October 1953. For another local newspaper's coverage, see front page of *al-Awdah*, 12 Feb 1953. *The Daily Star*, an English language newspaper published in Beirut, also covered the story in detail, see for instance “Frozen Deposit Ruling – Arab Refugee Case Brighter,” 24 May 1954. [All press clippings from Shehadeh papers]

<sup>78</sup> Letter from P.S. Falla, Foreign Office, to P.M. Crosthwaite, UK Delegation to United Nations, 21 August 1953, NA FO 371/104454



Echoing this sentiment, another Foreign office official explained, in a letter to the Ottoman Bank's chairman, that:

“We have given the Jordan government, informally, our view of the serious consequences which might follow from these legal actions. As you will understand, the position is very delicate since the question is *sub judice* in the Jordan courts [...] we have considered whether it would be advisable to raise this matter with the Jordanian financial delegation now in London, but decided that it would be inappropriate and impolitic, since it is a judicial matter and the Jordan PM himself has been informed of our views.”<sup>79</sup>

Frustrated by the Foreign Office's delicacy of feeling about pressuring the Jordanian government into reversing the Court of Cassation's decision, the banks approached both the Bank of England and the Chancellor of the Exchequer for help. But these authorities, too, though sympathetic to the banks' dilemma, agreed to do nothing more than meeting with the Jordanian Ambassador in London to “request favorable outcome in court;” and, once the Court of Cassation had already issued its final judgment in June, these pallid thrusts of British diplomatic pressure upon the Jordanian government seemed, to the banks' managers, futile.<sup>80</sup>

Finally taking matters into their own hands, the banks resolved to appeal directly to the Israelis – which, incidentally was exactly what a condescending Foreign Office official had suggested, some years ago, that the Arab Palestinians do – and formed a joint delegation, consisting of two high-level officials of each bank, which flew to Israel in August 1954.<sup>81</sup>

In Israel, the delegation members went to great lengths to explain to their hosts the legal, financial and strategic difficulties in which the Jordanian ruling had placed the banks. But the Israeli government proved as unbending on the matter as it had always been, insisting that its

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<sup>79</sup> Letter from R. Allen, Foreign Office to Lord Latymer, Chairman Ottoman Bank, 5 Nov 1953. NA FO 371/104455

<sup>80</sup> Barclays Bank DC&O Board Meeting Minutes, 25 March 1954, BBA 38/S10-38/S31

<sup>81</sup> Barclays Bank DC&O Board Meeting Minutes, 12 August 1954, BBA 38/S10-38/S31

hands were tied by public opinion, and that “[government of Israel] could not successfully convince Jewish opinion either abroad or locally of the wisdom of the policy of releasing Arab balances back to their rightful owners, even if they felt constrained to follow this policy.”<sup>82</sup> After further deliberation, however, the Israeli officials coyly suggested that “they would be prepared to release the balances and would feel satisfied that they could justify this policy *if they had something tangible to show for this gesture.*”<sup>83</sup>

Clutching at this suggestion, like the proverbial drowning men at straws, and guessing correctly at the “something tangible” which the Israeli government had in mind, the bank-delegation members immediately offered “to provide a sterling loan [...] to the Government of Israel to the extent of the Arab blocked balances, but strictly only for the purposes of repaying these balances.”<sup>84</sup> But the Israelis, ever conscious of their advantage, held out for more, insisting that “they did not wish to and had very good reasons for not wanting to repay the outstanding balances and that, as things were at present in Israel, the Government of Israel could not put forward a proposal like that to their people unless there was a quid pro quo in the form of *at least an additional £2.5 million in sterling offered to them in the form of a loan.*”<sup>85</sup>

The bank managers, who had shown themselves, from the very beginning of this saga, so pliant to all the Israeli government’s bidding, remained true, in the end, to this same inclination. The joint delegation flew back to London and tamely requested permission from their respective boards to extend the Israeli government a loan for the full amount of the Arab balances plus an additional £2.5 million. Explaining their reasons for recommending this course of action,

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<sup>82</sup> Barclays Bank DC&O, “Confidential Memo: Blocked Arab Balances in Israel” [undated]. BBA 296/18

<sup>83</sup> Ibid (Emphasis added)

<sup>84</sup> Ibid

<sup>85</sup> Barclays Bank DC&O Board Meeting Minutes, 11 Feb 1954, BBA 38/S10-38/S31

Barclays' delegates stated to their board that "We feel satisfied that the offer of a further loan of £2.5 million, bringing the total of the sterling loan to the Israel government to a maximum of say £5.5 million, would be regarded by Israel as a *sufficient incentive*."<sup>86</sup>

The delegates based their supposition on the common knowledge that the Israeli government was, at the time, desperately short of foreign exchange and much desirous of sterling, so much so that it had approached the British Treasury earlier that very year seeking permission to float, in the British capital markets, an Israel government "development bond;" the Israeli ambassador to the United Kingdom even calling personally on the Secretary of State in July to request his support in the matter.<sup>87</sup> Although there were many, both in the Treasury and at the Foreign Office, who felt that ceding to Israel on this request might induce it to release the Arab frozen accounts, the Treasury had ultimately refused to grant permission on the grounds that: "Since we have always refused to allow non-Commonwealth governments access to the United Kingdom capital market, it would be extremely difficult to make an exception in the case of Israel, and it is our policy to give the Commonwealth the prior claim to the capital resources of this country."<sup>88</sup>

So the Israelis remained in need of foreign exchange, and, as the bank-delegates argued to their boards, a sterling loan from Barclays and Ottoman would likely be welcomed as the "sufficient incentive" they had in mind for agreeing to release the Arab accounts. Both banks' boards, easily convinced of the logic of this recommendation, promptly approved the granting of an approximately £4 million loan to the Israeli government. But the banks made one last-ditch

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<sup>86</sup> Barclays Bank DC&O, "*Confidential Memo: Blocked Arab Balances in Israel*" [undated]. BBA 296/18 (Emphasis added)

<sup>87</sup> Foreign Office Minute, "*Visit of Israeli Ambassador to FO and Treasury*," 21 July 1954. NA FO 371/11116

<sup>88</sup> J.W.Brewis, Foreign Office Minute: "*Blocked Arab Balances*," July 1954. NA FO 371/11116

effort to enlist the British government in their aid, first with a request to the British Treasury to underwrite some portion of the proposed loan to Israel, and, when this was refused outright, for help in the form of a British government guarantee for the proposed loan. This, too, Treasury officials balked at, enumerating in a frank memo their reasons for doing so:

“1) It is wrong in principle to give way to what in effect is blackmail by Jordan.

2) If loan were granted to Israel it would make it difficult to refuse claims for similar treatment by various other countries

3) Even if loan were granted to Israel and the Arab balances were repaid this would still leave the legal precedent in Jordan in a most unsatisfactory situation

4) The granting of a sterling loan to Israel would be resented in Arab countries and might lead to them becoming even more truculent towards Israel and to harbour a grievance against the UK which itself would be bad for British trade with Arab countries

5) That in effect what the proposal involves is asking the British tax payer to put up money for Israel in order to save the banks losing £2.5 million

6) It would in any event be a most difficult proposition to justify to Parliament.”<sup>89</sup>

The Bank of England officials whom Barclays also approached for help were no less discouraging than their counterparts at Treasury, disapproving even the notion of a bank loan to Israel on the grounds that it was “outrageous that Barclays should pay the Israelis £3.5 million on what might prove to be a perpetual loan, when the only bar to the release of accounts was created by Israelis themselves [...] and seeing no reason why the Israelis should be given sterling to meet their liabilities.”<sup>90</sup>

And so, in August 1954, Ottoman and Barclays banks found themselves stuck in more or less the same position in which their Arab Palestinian customers had been trapped for the past six

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<sup>89</sup> Barclays Bank DC&O, Confidential Meeting Notes, “Meeting at Treasury attended by deputies from Barclays, Ottoman Bank, and Foreign Office.” [undated] BBA 296/18

<sup>90</sup> UK Treasury, Meeting Notes, “Arab Blocked Balances in Israel.” 27 October 1953. NA FO 371/104454

years: between Israeli obduracy and British refusal to help. But the banks, both still under Jordanian court orders to pay their Palestinian customers, and both still reeling from the unflattering stories about them in the Arab press, felt unable, under the circumstances, to fight the situation any longer. Left without a choice, or, rather, forced to decide between two bad choices, the banks opted for the “least bad” option, and, thus decided to issue the loan, as demanded, to the Israeli government without any British government guarantees attached, insisting in return only that the “Israeli government make an early public announcement of the unconditional release of all Arab balances.”<sup>91</sup>

Yet another high-level delegation comprising members of both banks was speedily dispatched, in August, to Israel, where the details and terms of the loan agreement were hammered out, with the banks attempting all haste and the Israelis ensuring maximum delay. As one of Barclays’ delegates reported home ruefully: “The discussions were not easy and it has not been possible to get the Government of Israel to put into effect the simple blank release of all the balances on the lines we had suggested.”<sup>92</sup> But the banks did eventually manage to get the Israelis to agree, after having wrangled with them for some five weeks, to an “unconditional release of all Arab blocked balances and articles in safe-deposit lockers” in return for “a sterling loan of £4 million, of which £3 million would be earmarked to pay Arab balances and repayable in installments over ten years and £1 million would be for the free use of the Israeli government and repayable over 7 years.”<sup>93</sup> The total loan, it was agreed, would be jointly provided by Barclays and Ottoman banks, and the interest would be fixed at the very low rate of 4% per annum, payable half-yearly by the Government of Israel, and exempt from all taxes and

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<sup>91</sup> Barclays Bank DC&O, Board Meeting Minutes, 22 July 1954. BBA 38/510 – 38/531

<sup>92</sup> Barclays Bank DC&O, Board Meeting Minutes, 14 October 1954. BBA 38/510 – 38/531

<sup>93</sup> Barclays Bank DC&O, Board Meeting Minutes, 12 August 1954. BBA 38/510 – 38/531

deductions. The Israelis, in return, were to make a public announcement of the agreement “by the end of the month.”<sup>94</sup>

At the conclusion of the negotiations the banks’ delegates stressed, as they had done throughout the talks, “the necessity for an *early* announcement by Israel [of this agreement] and a simple procedure ensuring *early* release of blocked balances without necessity for any negotiations or complicated arrangements for payment;” the twice repeated word – “early” – suggesting the key characteristic, as far as the banks were concerned, of the scheme.<sup>95</sup>

The Israelis, having got what they wanted – that “tangible something” in the form of £4 million low-interest loan – were happy to agree.

#### **7. “The banks are taking a strong line with the Israelis”: The new negotiated release scheme, 1954**

The relief and optimism with which Ottoman and Barclays’ boards greeted the news of the successful negotiations in Israel was, however, short-lived, curdling soon into dismayed impatience when, well into September, there was still no sign of the promised “early announcement” from the Israelis.<sup>96</sup>

When contacted by irate bank delegates, the Israeli negotiators demurred and explained that, despite the agreement concluded in principle between the banks and themselves in August,

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<sup>94</sup> Letter from R.D. Smith, Barclays Bank to Levi Eshkol, Minister of Finance, Israel, 16 August 1954. BBA 29/582

<sup>95</sup> Ibid. (Emphases added)

<sup>96</sup> Barclays Bank DC&O, Board Meeting Minutes, 23 September 1954. BBA 38/510 – 38/531

objections had now been raised, at the highest levels of the Israeli government, to the idea of the “simple and unqualified block release” (on which the banks had insisted), as the Israelis were now “not prepared, for political reasons,” to release “certain of the Arab Palestinian accounts, such as the one belonging to the Mufti of Jerusalem.”<sup>97</sup>

A second, and even thornier, problem was raised by the Israelis with regard to the exact amounts of money to be released, for, as it turned out, the Israelis had discovered that their records of the Arab balances did not match those of the banks. This, as the Israeli negotiators explained obliquely, was because “payments have been made by the Custodian of *certain local liabilities* of the Arab account holders.”<sup>98</sup> This innocuous phrase, “certain local liabilities,” brought to light, for the first time in six years, the practice quietly followed by the Israeli Custodian of Absentee Property, ever since it had obtained control of the Arab Palestinian bank accounts, of paying off mortgages held by the Arab Palestinians from the balances of their own frozen current accounts (if there were sufficient funds to do so).<sup>99</sup> By discharging the liability thus, the Custodian’s office could then claim the Israeli state “owned” the property which had been mortgaged; it could then sell that property, claiming that it was in its legal rights to do so as the proper owner; this sale, then, could not be challenged later by either the banks, which anyway knew nothing of the practice till it came to light now, or by any other Israeli authorities. The question of obtaining the consent of the actual account holders and property owners, the Arab Palestinians, was, of course, never considered.

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<sup>97</sup> Barclays Bank DC&O, “Memorandum on Arab Balances: Visit to Israel 23<sup>rd</sup>-27<sup>th</sup> September 1954,” BBA 296/15. The Mufti of Jerusalem, Haj Amin al Husseini, was considered by the Israeli government to be one its most implacable foes.

<sup>98</sup> Ibid. (Emphasis added)

<sup>99</sup> For a more detailed discussion of what happened in 1948 to the liabilities owed by the Arab Palestinians to the banks, see Chapter 5.

This sleight-of-hand method of property ownership and sale was, though both Barclays and Ottoman banks seemed, at least officially, to have been oblivious to it, commonly used by the Israeli authorities to take over and sell houses belonging to Arab Palestinian refugees after 1948. This was how the Israeli Custodian disposed, for instance, of Tawfiq Habash's house in Jerusalem.<sup>100</sup> Habash was, in 1948, a thriving Arab Palestinian entrepreneur, who had worked his way up from humble beginnings by dint of hard work and some very good luck.<sup>101</sup> He had founded, in 1920, the Habash Commercial Press, which was the first Arab-owned printing press in Jerusalem. Having grown prosperous in the '30s, and aspiring to the finer things in life, Habash had purchased a large beautiful house in the elegant Talbiyah neighborhood in Jerusalem, financing part of his purchase with a mortgage from Barclays.

In May 1948, the neighborhood in which the house was located fell under Israeli control, and, like so many of their fellow Arab Jerusalemites, Habash and his family, who had been sheltering in Jericho during the worst of the fighting, found themselves declared "absentees" overnight and disbarred, by the Israeli authorities, from returning home. Habash's current account at Barclays was frozen in June 1948 (along with all the other Arab Palestinian bank accounts) as was his outstanding liability, the mortgage on his Talbiyah home. At some point between June 1948 and September 1954, the Israeli Custodian paid off this mortgage with the money remaining in Habash's current account – Barclays has no records as to when this was

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<sup>100</sup> All details in this paragraph as recounted to me by Issa Habash, Tawfiq Habash's son. Oral interview with Issa Habash, 21 May 2010, Jerusalem.

<sup>101</sup> In 1914, when a mere 16 year old boy just out of school, Tawfiq had been drafted by the Ottoman authorities in Jerusalem, who had taken note of his language abilities, to operate a printing press which the Ottoman army had requisitioned from the Franciscan church. Tawfiq proved skilled at the job, and continued to work in the printing business after the war was over and the British had come to Palestine. The boy eventually saved enough money – 60 Egyptian pounds – to buy his own "rickety" printing press in 1920, when he was only 22. This eventually grew into the "Habash Commercial Press," which had moved into smart offices on Jerusalem's Mamilla street by the late 1930s.



done, as, after 1950 all assets and liabilities relating to the Arab Palestinians were transferred (as described in the previous chapter) to the Israeli Custodian – thus releasing the house from mortgage, and, of course, emptying Habash’s current account. The Israeli Custodian then sold the house to the highest Jewish bidder, while Habash’s current account remained “frozen,” reflecting the depleted balance.<sup>102</sup>

Habash’s case was far from exceptional, for, as Barclays’ correspondence files from the mid-1950s suggest, there were scores of other Arab Palestinians whose houses, if they had been purchased via mortgages from either Barclays or Ottoman banks, had been thus disposed of by the Israeli government. This is precisely what happened to Omar Khalil Kayello’s house in Haifa, after Kayello had become a refugee in Syria. Barclays wrote to Kayello in October 1953, explaining the matter thus:

“[...] we were advised by our people in Israel that the Custodian of Absentee Property had *settled your debt* with our Haifa branch in September 1952, and the charge over the properties in favour of our branch was *duly cancelled*. The properties are *therefore at the disposal* of the custodian who, it is assumed, would in the event of a peace settlement either return the properties to you against payment of the amount disbursed by him to pay off our mortgage and any other claims or alternatively, if the properties were sold would account to you for the balance of the proceeds of the sale after deduction of the amount paid in respect of our mortgage and any other claims [...]”<sup>103</sup>

The conspicuous differences between the balances on Habash’s and Kayello’s – and other Arab Palestinians unfortunate enough, like them, to have both mortgages and current accounts with Barclays or Ottoman banks – accounts in June 1948 (i.e., the balance recorded in Barclays’

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<sup>102</sup> After 1954, when the matter first came to light, Habash spent years corresponding with Barclays about his house, but he was unable, for all his trying, to get it back. He could not even manage permission to visit it, as it lay in the western Jerusalem neighborhood of Talbiyeh, under Israeli control. He also lost his new printing press’ offices on Mamilla Road. He grew steadily obsessed with the idea of getting his house and printing press back and died, as his son puts it, in the grips of that obsession, which never came to fruition.

<sup>103</sup> Letter from Barclays Bank DC&O, London, to Omar Khalil Kayello, Latakia, Syria, 6 October 1953. BBA 11/758 (Emphases added)

ledgers) and the balances which remained in September 1954 (i.e., the depleted balance, after payment of mortgage, reported by the Israelis) was just one of many discrepancies which held up, in September 1954, the proposed “release scheme” negotiated between the banks and the Israeli government. As the Israelis put it: “The balances held by the Custodian do not in all cases now agree with the balances shown by the Bank’s books.” The problem was, unfortunately for all parties involved, far knottier than that mild description would suggest.

Having taken stock of these various difficulties, the Israelis delayed the proposed “release announcement” in early September 1954 to insist on new wording which would allow them to withhold the accounts of certain *personae non gratae*, such as the Haj Amin al Husseini, from the general release scheme; and which would allow them to release only the depleted balances of 1954, and not the original balances of 1948. They also proposed a new round of “direct negotiations with the representatives of the (Arab) depositors,” and suggested “that the money might be paid direct by the Israel government to the depositors rather than by the banks.”<sup>104</sup> For the banks, these changes were insupportable, for they knew, from the rate at which new lawsuits were being launched against them every day in the Jordanian courts, that the Arab Palestinians had sensed victory and would not rest – and would certainly not be willing to withdraw their suits – until they were able to secure the release of all the frozen accounts, and all the money in those accounts, without any reservations or changes. Additionally, the banks suspected, perhaps not incorrectly, that this last-minute desire for “direct negotiations with the Arab Palestinians” was not entirely genuine but rather a ploy, on the part of the Israelis, to delay and possibly sabotage the proceedings altogether.

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<sup>104</sup> Letter from UK Treasury to UK Delegation, New York 25 September 1954. NA FO 371/11116

An official of the British Treasury, commenting on the latest Israeli diversions, summarized the impasse thus: “The Israelis, in their anxiety to gain any political kudos which may be going, have recently shown a tendency to insist upon formalities which might well wreck the scheme from Barclays’ point of view, since, owing to the progress of the various law suits in Jordan, the matter is now of great urgency to them.” But the official also noted that: “The banks are taking a strong line with them and saying that unless some public announcement is made by 28<sup>th</sup> September they will regard the whole deal as off.”<sup>105</sup>

This was true; the banks did indeed, at long last, and for the first time in this saga, “take a strong line with the Israelis” upon hearing of their latest objections to the release scheme, which they thought they had ironed out in August. The Ottoman Bank, fed up, declared on September 21<sup>st</sup> that “unless announcement of the release is made by September 27, we will pull out of the loan scheme and settle all outstanding cases in Jordan on our own.”<sup>106</sup> That same day Barclays’ lead delegate sent, “with utmost urgency,” the following telegram to David Horowitz, the chief Israeli negotiator (and also, by then, Governor of the Bank Leumi, the Israeli central bank):

“Since I saw you in London two weeks ago there have been certain developments as result of which the position in Jordan has reached a *crisis* which can only be resolved *by an immediate announcement of release scheme*. In these circumstances I have been directed to proceed to Israel with instructions to see your government and to tell them that unless announcement is made to bank’s satisfaction not later than 28th September *the bank’s offer is withdrawn*.”<sup>107</sup>

The “crisis” in Jordan to which this telegram referred, and which was behind Ottoman and Barclays’ newly-minted impatience with the Israeli government, was the latest round of

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<sup>105</sup> Ibid.

<sup>106</sup> Ibid

<sup>107</sup> Telegram from R.D. Smith to David Horowitz. 21 September 1954. BBA 29/582 (Emphases added)

lawsuits launched by Arab Palestinian plaintiffs against both banks in August and September, all of which were due to come up for hearing in October. As Barclays' general manager explained, in another cable marked "urgent," this time sent to the bank's own Jerusalem director:

"The position has now become *most serious* as we both [i.e. Barclays and Ottoman] now have a very large number of lawsuits against us, some of which have already been decided adversely in the court of first instance, and many others are due for hearing in the very early days of October.

Some of these latter contain a claim for interest at 9% back to 1948 *which means an addition of nearly 60% to the capital amount*. There is *serious risk* of the cases being decided with interest against the Banks back to 1948, and this is a risk which we do not wish to incur as if it is decided in one case it will constitute *a precedent for the whole of the blocked balances*.

It is therefore essential that some simple and satisfactory announcement on the lines of the draft announcement attached to our letter of 16 August should be made not later than Sep 27<sup>th</sup>, as otherwise in order to avoid the risk of paying interest back to 1948 the banks may have to offer settlement of outstanding cases and this would have *serious effect* on value and effect of proposed arrangement for releases.[...]

We cannot insist too strongly again that it is an essential part of the arrangements that an *early announcement* shall be made substantially on the lines of our own original draft and providing for payment to be made by the banks on the lines set out in our letter of 16<sup>th</sup> August. Please seek an immediate interview with the Israeli government and convey our views to them with the strongest possible emphasis [...] Understand that the matter is of the *most serious* importance."<sup>108</sup>

This cable is interesting not only because it reveals, via tone and language – the word "serious" repeating four times; "risk" thrice – the degree to which Barclays felt itself at crisis, by late September 1954, on account of the lawsuits in Jordan, but also because it makes plain the reason behind Barclays' (and Ottoman's) continued preference for the loan-scheme to Israel over a settlement, via court-awarded damages, with the Arab Palestinians directly. Simply put, the former option would cost the banks less than the latter, as the Jordanian courts had ordered the

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<sup>108</sup> Cable from R.D. Smith Barclays London to W. Sparrows, Local Director, Barclays Jerusalem [undated]. BBA 29/582 (Emphases added)

banks to pay the Arab Palestinians not only the full amount of the blocked balances but also the interest accrued on those balances, at 9%, going back all the way to 1948. The only risk associated with granting a £4 million loan to the Israelis was that of Israeli default (for the loan carried no British government guarantee, as mentioned earlier, although the banks had tried to get one), but this risk the banks still considered less expensive than the certainty of having to pay “an addition of nearly 60% to the [original] capital amount,” which they would have had to do if they were to pay the Arab Palestinians as per the Jordanian court orders.<sup>109</sup>

No wonder, then, that both Barclays and Ottoman urgently pushed the Israelis to release the frozen funds as per their September agreement, in return for the £4 million loan. Barclays’ board, deciding that telegrams, no matter how strongly worded, could not properly convey the urgency of the situation to the Israelis, sent yet another high-level delegation to Tel Aviv on September 23rd to deliver personally the message that “if an announcement on lines satisfactory to us is not made by 27<sup>th</sup> September we shall have to withdraw from the arrangement which we had agreed to both loans to the Government of Israel.”<sup>110</sup> Not putting too fine a point on it, Barclays’ chairman also instructed his delegates to mention to their interlocutors that “failure to reach agreement would involve our ultimate withdrawal from Israel.”<sup>111</sup>

It was the first time, in all these years, that either bank had stood up to the Israeli government and threatened it with real economic consequences for its actions. The Israelis initially clung to their two objections: insisting that they could not allow a blanket release to all Arab Palestinian individuals, for that would mean releasing the accounts of people like Haj Amin

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<sup>109</sup> Ibid

<sup>110</sup> Barclays Bank DC&O, Board Meeting Minutes, 23 September 1954. BBA 38/510 – 38/531

<sup>111</sup> Ibid1

Husseini, whom they considered enemies of state; and that they could not release the amounts reflected in the banks' original 1948 ledgers, as some of the accounts had been depleted by the payment of liabilities; but, as before, they offered the banks a way out of the impasse, agreeing to put aside their objections for, in return, what they had previously called "something tangible for the gesture." This time, too, they were not shy about specifying what that "something tangible" could be: an additional £1 million, earmarked for the Palestine Electric Corporation (which was, despite its name, Israel's cash-strapped electricity utility).<sup>112</sup>

The banks, now desperate, did what they had to do: they agreed to provide the Israelis an additional £1 million loan on the same terms as the previous two loans (for £3 million and £1 million respectively, at 4% per annum, payable over 10 years) to which they had already assented. In return, the Israelis agreed to "make a public announcement of their intention to release all Arab Palestinian accounts on 27 Sep 1954."<sup>113</sup> They further agreed to work with the UNCCP to device procedural arrangements which would ensure "speedy and efficient releases."<sup>114</sup> They also authorized both Barclays and Ottoman to "pay immediately any balances which are the subject of litigation in Jordan."<sup>115</sup> And, finally, they agreed to put aside their last minute objections – to a blank release of all Arab accounts, and to releasing the original 1948 balances – which had threatened to derail the deal the previous week.

These last objections were eventually resolved "on terms reasonably satisfactory to the banks," though not, it must be noted, on terms most advantageous to the Arab Palestinians

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<sup>112</sup> *Memorandum of Agreement between Government of Israel and Barclays Bank*, 26 September 1954. BBA 296/13

<sup>113</sup> Barclays Bank DC&O, "Memorandum on Arab Balances: Visit to Israel 23<sup>rd</sup>-27<sup>th</sup> September 1954," BBA 296/15.

<sup>114</sup> *Ibid.*

<sup>115</sup> *Ibid.*

themselves: the Israelis were allowed to withhold, for whatever reasons they saw fit, no more than 10% of the total estimated amount to be released. If it turned out that the banks were forced, in any instance, by any act of litigation, to pay the full amount claimed by account holders, “the differences are to be carried to a suspense account which will be paid by Government of Israel either 1) upon change of policy by Government of Israel 2) on the conclusion of a peace treaty with the Arab states 3) or on expiration of 10 years, whichever first occurs.”<sup>116</sup>

And so the matter came to an end. As agreed, the Israeli government released the following statement on September 27<sup>th</sup>, 1954:

“In continuation of its discussions with the Palestine Conciliation Commission and in pursuance of its undertaking of Sep 1952 the Government of Israel has agreed to proceed with the release to absentee or refugee owners of the outstanding balances of their accounts with banks in Israel together with articles deposited for safe custody and the contents of safe deposit lockers at present vested in the Custodian of Absentee Property. As previously these balances will be paid on the basis of £1 sterling being equal to one pound Israel [...]

The new arrangements for the release of outstanding balances have been made possible by special long term facilities as regards the provision of foreign exchange offered to the Government of Israel by the banks concerned.

The Government of Israel is now in consultation with the Palestine Conciliation Commission regarding the procedures to be adopted for implementation of the scheme. It has informed the Commission of its readiness to consider the necessary procedural adjustments including such as may be proposed by the representatives of the depositors themselves designed to secure a speedy and efficient release to those entitled to benefit from the scheme.”<sup>117</sup>

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<sup>116</sup> Ibid.

<sup>117</sup> “Announcement agreed between the Israel Government and representatives of Barclays Bank DC&O: To be Released in New York on 27 September at 1700 hours.” BBA 29/582

This text, with a few minor changes, was released simultaneously in Jordan, Israel, and New York in late September 1954, and with its publication, the saga of the “frozen Arab bank accounts” slowly ground, six years and three months after it had begun, to a halt. The Israeli government, by getting “something tangible,” in the form of three low-interest long-term loans amounting to £5 million from Barclays and Ottoman banks, agreed, in the end, to “the gesture” which enabled some ten thousand Arab Palestinians (or more, or less; as noted in the previous chapter, the numbers are difficult to establish) to get, after six years of striving and hardship and fighting for their rights, their money and financial assets back.

**8. “We are content to settle matters finally in a friendly way”: The frozen accounts are released, 1954-5**

After the release scheme was announced in September 1954, the Israeli government authorized both Barclays and Ottoman banks to “immediately pay any balances which were the subject of litigation in Jordan.”<sup>118</sup> This both banks hurriedly went about doing, settling out of court, one by one, with each of their Arab Palestinian litigants.

And so: on 25<sup>th</sup> November 1954, Barclays announced that it had settled amicably with the Arab Bank, its first and largest litigant. Abdul Hameed Shoman, the Arab Bank’s chairman, sent Barclays’ board a cable, strikingly different in tone from the ones he had sent on previous occasions, stating that “we are content to settle matters finally in a friendly way.”<sup>119</sup> He then

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<sup>118</sup> Barclays Bank DC&O, Board Meeting Minutes, 14 October 1954. BBA 38/510 – 38/531

<sup>119</sup> Cable from Arab Bank, Amman, to Barclays and Ottoman Banks, London. 27 October 1954. BBA 296/15



proceeded, showing, as he done before, that he was as good as his word, to withdraw the Arab Bank's lawsuit against Barclays in the Jordanian courts, "renouncing all present and future claims with reference to these balances, including interest."<sup>120</sup> Barclays, in return, not only released the Arab Bank's balance in full but also "decided not to call on the Arab Bank to pay the costs awarded to us by the judgments delivered in our favour [in London]."<sup>121</sup>

In arriving at this decision, Barclays' board noted that it had "taken into account the settlement of the Arab Bank case against Jordan on a basis satisfactory to us, the waiving of their claim against us for interest and" – this last clause a testament to the speed with which the recently fraught relations between the two banks had been restored, by the simple act of releasing the frozen account, to their prior cordiality – "the fact that [the Arab bank] has opened an account at Greenchurch Street with us, with the £500,000 which has been paid to them with reference to their released balances."<sup>122</sup>

After dealing with all their litigants, who agreed, as the Arab Bank had done, to withdraw the lawsuits they had filed in Jordanian courts in return for the full release of their accounts, Ottoman and Barclays finally turned their energies to the laborious process of releasing all the remaining "frozen" accounts to their rightful Arab Palestinian owners. The correspondence files of both banks in the mid-1950s provide some hints as to the minutiae of this process, and, in some instances, also reveal the names of the account holders involved.<sup>123</sup> The following two tables (figures 10 and 11) have been compiled from those files, and provide a *partial* list of the

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<sup>120</sup> Ibid.

<sup>121</sup> Barclays Bank DC&O, Board Meeting Minutes, 25 November 1954. BBA 38/510 – 38/531

<sup>122</sup> Ibid.

<sup>123</sup> See files titled "1954 Release Scheme" in BBA 296/15

names of the account holders, and amounts released, from Barclays and Ottoman banks respectively in 1954-55.<sup>124</sup>

<u>Name of account holder</u>	<u>Amount</u>	<u>Name of account holder (contd)</u>	<u>Amount</u>
Abdul Latif Abdin	£896	Kamal Tarazi	£3,275
Adel Kashef	£1,980	Kamel Abu Zeid	£7,549
Aisser Chedid	£12,936	MB Tayyan	£2,394
Akram Kamal	£982	Miss Saida Tawil	£120
<b>Arab Bank Ltd</b>	£491,612	Mohamed Ahmed el Hadi Yashrouti	£31,016
Arabia Insurance Co	£1,802	Mohamed Ibrahim Bawab	£4,555
Aref Khalil Abou Hweig	£7,000	Moussa Tawil	£120
Arshak Toroz Dadorian	£455	Musa Nasir	£1,005
Dr. Saad Musallam	£5,520	Muti and Abdel Rahim Sinouno	£313
Dr. Tannous Kawar	£519	Naji Akkad	£6,314
Estate of Naseeb Boulos Habib	£85	Nicolas and Mrs Isabel Abou Khader	£2,185
Fayez Abou Hweig	£12,020	Nicolas Ktely	£1,499
Ghaleb el Amary	£500	NS Hanhan and Jabra Elfar	£22,272
Ghannam Salem Ghannam	£1,145	Palestine Educational Company	£621
Ghattas Abdallah Sibaneh	£272	Raphael Abdel Nur Karaa	£117
Hajjeh Jamileh Hannoun	£5,257	Renno and Abu Zeid Co	£30,113
Hassan Habib Hawa	£566	Sabih Fahoum	£7,867
Heirs of Bishara Aleko	£3,592	Sharif & Alami Co	£5,320
Heirs of George Taweel	£10,909	Sudki Bey Numan Alami	£20,634
Heirs of MT Akkad	£100,609	Suleiman Hashem Abu Khadra	£4,500
Heirs of Raja Kubain	£3,643	Suleiman Hashem Abu Khadra	£5,500
I H Aghabi	?	Tewfik Saleem Azzam	£775
Ibrahim Mitri Nassar	£574	Violet Hakim	£1,344
		Yusef Odeh Thalji	£161

Source: Barclays Bank Archives; British National Archives

**Figure 10: Partial list of Arab Palestinians who received their "frozen" balances back from Barclays Bank**

<sup>124</sup> There were between 6,000 – 10,000 Arab Palestinian bank accounts frozen in all, and thus, these two tables comprise a very partial list of the total.

<u>Name of account holder</u>	<u>Amount</u>	<u>Name of account holder (contd)</u>	<u>Amount</u>
Abdul Zubeideh	£1,000	Khaled Zakijha	£11,081
Ahmad Shaker Hammami	£5,530	Masad el Khour	£1,402
Ahmed Said el Ajoue	£539	Michel Tayan	£5,285
Arab Bank Ltd	£6,273	Mrs F G Rodenko	£3,731
Elie Aractingi	£2,066	Mustafa Ahmed Arafat	£2,687
G Rodenko	£3,775	Nafiseh A Hammami	£2,514
Haj Deeb Hamdan	£9,508	Rashid Saleh	£1,870
Haj Husni Sharabati	£1,718	Shawkat el Shami	£3,500
Hassan Saleh Attieh	£2,649	Shehadeh Attalah	£10,092
Heirs of George Taweel	£3,328	Shehadeh Attalah & Co	£2,479
Heirs of Jean Damiani	£40,198	Shukri Rizak	£8,132
Jubrail and Mikhail Touma	£1,417	Wehbe Jabaji	£6,028

Source: Barclays Bank Archives; British National Archives

**Figure 11: Partial list of Arab Palestinians who received their "frozen" balances back from Ottoman Bank**

Although his name is not listed in the tables above, George Abdelnour, who was the very first Arab Palestinian to have threatened legal action against Barclays in 1949, was, fittingly, also among the first to get his money back, receiving not only the full balance of his account but also, “in view of our pleasant relations with you in the past, an *ex-gratia* payment [...] representing interest on your account from 1<sup>st</sup> October 1948 to March 1953.”<sup>125</sup>

Michel Karkar, who had, as a boy in shorts, cried and screamed at the Ottoman Bank’s offices in Jerusalem, is not on the list either, but he, too, received, as a young man in his twenties, the complete balances of his deceased father’s and uncle’s bank accounts back. These he used to educate his younger brother, and to send him to America, where he – on the strength

<sup>125</sup> Letter from Barclays to George Abdelnour, 17 June 1955. BBA 296/15

of the education which Michel himself had never been able to afford – became a successful businessman. Reflecting on his own lack of education and traumatic teenage years, Michel expresses no bitterness; saying simply only that “we suffered a lot after 1948, but got back our money because of the Shehadeh brothers; we owe them everything.”<sup>126</sup>

### **9. “He died angry and sad”: An evaluation of the 1954 release scheme**

It is tempting to end the story here, on this moment of triumph for the Arab Palestinians, who, having lost so much else since 1948, nevertheless managed to wrest, against the odds, this one victory.

But, for all the gladness and relief which attended their victory in court and the release of their long-frozen bank balances, this moment of triumph was, perhaps inevitably, eventually tarnished: not only by the hardships which continued to afflict the Arab Palestinians through the 50s and the 60s – the Israeli army, fresh from perpetrating the Qibya massacre in 1954, committed another such outrage in Kfar Qassim in October 1956; the refugees continued to be denied the right to return to their homes; while those who had remained in Israel continued, throughout the decade, to be evicted from their lands; to see their holy sites desecrated; their homes and businesses destroyed; their political claims demonized or silenced – but also by the fact that so

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<sup>126</sup> Oral interview with Michel Karkar, 8 – 12 May 2010, Ramallah, Palestinian Territories.

few of the Arab Palestinian bank account holders did, in fact, get their money back through the 1954 release scheme.<sup>127</sup>

In March 1964, almost ten years after the scheme had first been announced, Barclays revealed, in its internal correspondence, that it had only paid out a total of £1,970,389 to its Arab Palestinian customers, while the Ottoman Bank had paid out only £814,861.<sup>128</sup> This amounted to a combined payout of *less than 50%* of the total £6 million which had originally been frozen in 1948.<sup>129</sup> (See Figure 12 below).

As of 31 March 1964:	
Total amount released by Ottoman Bank	£1,970,389
Total amount released by Barclays Bank	£814,861
Total amount released by both banks	£2,785,250
Total amount frozen in 1948	£6,070,500
<i>% released ten years after release scheme announced</i>	<i>46%</i>
Source: Barclays Bank Archives 296/15	

**Figure 12: Percentage of total "frozen" Arab bank accounts released as of 3.31.1964**

This low payout rate was due to many reasons. The first was that the UNCCP, in orchestrating the release scheme of 1954, and leery of fraud and other wrong-doing, made the paperwork inordinately complicated, while the banks, already burnt by the experience of having

<sup>127</sup> For a dispiriting but detailed account of the privations – massacres, rape, land dispossession, evictions, arrests, deportations, desecration of holy sites – endured, in the 1950s and 1960s, by the Arab Palestinians who remained in Israel, see Pappé, *Ethnic Cleansing*, 187-224

<sup>128</sup> Barclays Bank DC&O, “Summary of Position as at 31 March 1964 Arising out of (1) Memorandum of Agreement between Government of Israel and Barclays Bank DC&O dated September 27 1954 and (2) Letter of Subsidiary Agreement from Ottoman Bank dated 5 April 1955.” BBA 196/15

<sup>129</sup> See Chapter 3, figure 2 for an explanation of the £6 million estimated total amount frozen.

had so many lawsuits filed against them, were especially careful about how, and to whom, they released the funds. This caution slowed the process considerably.

An additional complication was caused by the fact that the Arab Palestinians were, in 1954, scattered throughout the world and not easily reachable: many were languishing in refugee camps in Jordan, Syria, Lebanon and Gaza; many were living in these and other neighboring Arab countries but not registered as refugees; still others had sought refuge in the United States, Europe, and elsewhere. Consequently, the process of locating customers and then getting them to complete the requisite paperwork was far from simple.

Then, once the customers had been located and the paperwork completed, the procedure for transferring the money was both difficult and delicate: first the account had to be released by Israel, in Israeli lira, to either an Ottoman or a Barclays branch in Israel; then, from those branches the amount had to be transferred to whichever intermediary bank (in places where Barclays and Ottoman had no branches) had agreed to carry out the actual payment to the customer.<sup>130</sup> In the process of this transfer the balance had to be converted from Israeli lira to pound sterling and then finally into whichever local currency the ultimate payout was to be made: if the account holder was in, say, Lebanon, the payout would have to be carried out by the Banque du Syrie et du Liban in dinars. As the “released” balances had to go through multiple currency conversions before they reached the account holders, disputes often arose between the banks and their customers about the actual amounts released. Such was the case with Mohamed

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<sup>130</sup> Barclays Bank DC&O, Note to the Chief Accountant, “*Israel 1954 Release Scheme.*” BBA 296/15

Taysir Akkad, whose protracted claims against Barclays took years to resolve because the two parties could not agree on the actual amount to be released.<sup>131</sup>

Then there were problems with publicity: despite joint efforts by the banks and UNCCP to announce the release scheme widely, many Arab Palestinians seemed to have remained unaware of it; Theodore Sarrouf was just of many who died in the 1960s without ever having heard about it.<sup>132</sup> Death posed another grim obstacle: Barclays recorded at least six cases in Lebanon of accounts having been released, upon the submission by the account holders of all necessary paperwork, but the money remaining unclaimed well into the 1960s.<sup>133</sup> The bank concluded that the account holders must have died, and that their next-of-kin either did not know about the scheme, or did not wish to, for whatever reason, claim their money. The bank had little idea, in such complicated instances, as to how to “dispose of the sums,” feebly reflecting only that “we should not return them to Israel or we could be held to have acted contrary to the terms of our agreement” and “the only alternative is to credit them to a Suspense account”<sup>134</sup>

Another problem was caused by the fact that some Arab Palestinian account holders refused outright, even though they were aware of the scheme, to claim their money. As Barclays admitted in an internal memo in April 1960, “Several beneficiaries have refused to accept the payments [...] but the information we have before us does not explain why.”<sup>135</sup> Although the bank officials were baffled by it, it is not difficult to guess at the reason behind this refusal, for

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<sup>131</sup> Memorandum to General Managers, “Legal Actions in Jordan: Heirs of Mohamad Taser Akkad.” 15 July 1954. BBA 29/583

<sup>132</sup> Oral interview with Theodore’s son, Samer Sarrouf, 10 June 2010, Ramallah, Palestinian Territories.

<sup>133</sup> Barclays Bank DC&O, Note to the Chief Accountant, “*Israel 1954 Release Scheme.*” 26 April 1960. BBA 296/15

<sup>134</sup> *Ibid.*

<sup>135</sup> Barclays Bank DC&O, Internal Memorandum to Mr. R.H. Oakley, “*Israel 1954 Release Scheme.*” 27 April 1960. BBA 296/15

the very idea of settling any financial claims arising out of the tragedy of the “nakba” of 1948 was, and continues to be, for many Arab Palestinians, bitterly distasteful. Even though the banks and the UNCCP, in formulating the requisite documentation for the release scheme, were careful to avoid any mention of Israel – so as not to repeat the mistakes of the doomed “partial” release scheme of 1952 – the arrangement still seemed, to some Palestinians, too unsavory for the whiff it carried of profiting personally from national trauma.<sup>136</sup>

There was yet another reason, perhaps most salient of all, for the low eventual payout of the scheme: a specific group of Arab Palestinians was simply left out. These were the unfortunate “infiltrators” – as the Israeli government saw fit to deem them – who were refugees, like all the others, who had fled their homes before May 1948 but who, unlike the others, had somehow managed to return, at some point after May 1948, to Israel.<sup>137</sup> These intrepid returning refugees had, in many cases, braved the hazardous journey across Lebanese, Syrian, or Jordanian borders on foot, risking their lives – for the Israeli army had orders to shoot them on sight – in order to return to their villages, or to neighboring villages, or to join family members elsewhere within Israel.<sup>138</sup>

The Israeli government, having already placed the approximately 150,000 Arab Palestinians who had remained within Israel’s border under military rule, regarded these

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<sup>136</sup> I am grateful to Professor Salim Tamari for pointing this out to me as an explanatory factor for the 1954 release scheme’s muted success.

<sup>137</sup> These “infiltrators,” or returnees, were a distinct subset of the category of Arab Palestinians who came to be known, after 1948, as “internally displaced Palestinians” (IDPs, as termed by the UN) – or, as the Israeli government preferred to call them, “present absentees.” The “internally displaced Palestinians” were all those who had fled their homes and become refugees in 1948 but had not actually crossed Israeli borders, as defined by the 1949 armistice agreements. These people, estimated to have numbered approximately 46,000 in 1950, were considered by the Israeli government to be “absentees” like all the other Arab Palestinian refugees, and, although that they had remained within Israel, their bank accounts and other financial and material assets were confiscated under the same Absentee Property legislation of 1950.

<sup>138</sup> Pappé, *Ethnic Cleansing*, 189



“infiltrators,” who numbered in the hundreds, as a “dangerous fifth column” which posed a dire threat to the Jewish state’s identity, security, and demographic balance; Moshe Dayan, the Israeli army chief in the mid-50s, maintained that they were “motivated by a sea of hatred and desire for revenge;” and they were treated accordingly: not only were they shot at sight if spotted crossing borders, but anyone caught harboring them was also brutally punished, by deportation, eviction or outright arrest.<sup>139</sup>

The “infiltrators” who managed, despite these perilous conditions, to remain in Israel, were considered “illegals” by the Israeli military administration which oversaw every aspect of life for the Arab Palestinians in Israel until the mid-60s. They were never counted in any of the censuses which the Israeli army frequently conducted on the Arab Palestinian population; nor were they issued the crucial papers and identity cards which were the lifeblood – for any movement, leave alone economic activity, was out of the question without them – of all Arab Palestinians in Israel. They remained “infiltrators” for years, suspended in this uncertain legal status, as stateless as the refugees who remained outside the borders of Israel but, in many ways, worse off than them.

Those among them who were doubly unfortunate to have had bank accounts “frozen” in 1948 were left out from the 1954 release scheme, as the banks simply did not know what to make of them, and as the Israeli government refused to acknowledge their presence, leave alone authorize the release of their accounts. It is difficult to know how many “infiltrators” were among the total Arab Palestinian frozen account holders, as the banks’ archives contain no specific information on them, but it is clear, from a brief survey of the mainly Arab villages in

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<sup>139</sup> Ibid. 189, and Hillel Cohen, *Good Arabs: The Israeli Security Agencies and the Israeli Arabs, 1948-1967* (Berkeley: University of California Press, 2010), 65-71

the northern Galilee region of Israel (where many of the “infiltrators” returned) that there were many.

Among them was one Abu Ghassan Jadaoun, from the village of Tarshiha, who had kept a current account with Barclays, and who, having fled to Lebanon in April 1948, returned, on foot, to his village in January 1949.<sup>140</sup> Because he was (considered by the Israelis to be) an “infiltrator,” he was never issued an identity card, and was unable to ever leave Tarshiha to go to Haifa to petition Barclays in person for the release of his account. Nor was he able to participate, though he tried in various ways to do so, in the 1954 release scheme, as he could find no way to file the requisite paperwork. He died in the 1970s, having never received his bank balance back; as one of his friends put it: “he died angry and sad.”<sup>141</sup>

Thus, though it was doubtless a victory for the Arab Palestinians to have secured the eventual release, at least in principle, of *all* the frozen bank accounts – an achievement which deserves, as it has been here, to be recorded and remembered – it must also be remembered that many Arab Palestinians simply could not, or would not, be part of the scheme, and that there were many, too many, left out.

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<sup>140</sup> Oral interview with Safwat Odeh, 14 May 2010, Tarshiha, Israel.

<sup>141</sup> Ibid.

## Conclusion

Ahmed Shaker Hammami, a Palestinian refugee from Jaffa, writing in 1951 to the Ottoman Bank to plead for the release of his account, had complained that “We have been made the victims inspite of the fact that our only sin was that we laid our full confidence in you.”<sup>142</sup> But, in fact, after six years of appealing in vain first to the banks, then to the British, then even to the Israelis, and finally to the UN for help, the Arab Palestinians, by taking matters at last into their own hands, and by turning to the courts to fight for their rights, had shown themselves to be no passive victims in this story.

The victory they won in the Jordanian courts against the banks, and the resulting pressure on the banks’ business interests, was the sole reason why, as the preceding narrative has shown, the banks were finally persuaded to slough off their passive indifference to the matter and to cajole the Israelis into releasing the accounts. Without the threat of these lawsuits, it is likely that the “frozen” Arab accounts would have remained frozen till the present day, awaiting, as the Israeli government had specified from the beginning, “the conclusion of peace.”<sup>143</sup>

In the previous chapter it was argued that the Arab Palestinians’ bank accounts were so easily confiscated because the account holders were stateless, and because banking law requires banks to obey the laws of the sovereign states in whose territory they operate, while according no special protections to the financial assets of stateless people. The chapter also showed how the Arab Palestinians, after May 1948, having become not only stateless but also, in one fell swoop,

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<sup>142</sup> Letter from Ahmed Shaker Hammami, Beirut, to Ottoman Bank, London, 22 October 1951. [all errors in original] NA FO 371/91725

<sup>143</sup> Letter from Walter Eytan, Israeli representative to Mark Ethridge, Chairman of PCC, Lausanne, 6 May 1949. ISA 17112/137λ

the sworn “enemies,” collectively, of the new sovereign Israeli state, were particularly vulnerable to the sort of “legalized” dispossessions enabled by the Israeli Absentee Property legislation.

This present chapter reiterates that argument, by showing how easily the banks were able to defend themselves, in British courts, on the grounds that they were obliged to obey Israeli law, no matter what the content of that law, and no matter how unjust its implications for the rights and assets of their own customers. The chapter thus highlights, as do all the previous chapters of this dissertation, the particular and continued vulnerability of the Arab Palestinians, because of their statelessness and lack of political sovereignty, to economic and financial dispossession.

But there is a second, and no less important, claim made here: that, despite their statelessness, and their consequent vulnerability, and their very real lack of political and economic power, the Arab Palestinians were not mere passive victims who quietly accepted the confiscation of their bank accounts in 1948. Like their compatriots whose stories have been recounted in previous chapters – like the humble pensioners, Menni and Mansour, who sued the Ottoman Bank for damages in the 1920s; like Sheikh Taji al-Farouqi, who sued the Arab Bank repeatedly in the 30s – the Arab Palestinians of 1948, too – George Abdelnour and Mrs. Barakat and Dr. Jabaji and Michel Karkar and all the others, led by the Shehadeh brothers – also sought recourse in the law for the assertion and reinstatement of their financial and economic rights.

This was no small feat, for, unlike their predecessors – Menni, Mansour, al Farouqi et al – they could no longer access the superficially benevolent legal institutions of the Ottoman and Mandate administrations. Moreover, all the political and judicial structures to which they had been accustomed for decades had been dismantled, almost overnight, and replaced with the openly hostile institutions of a new state which made no secret of its intentions to control and

curtail all aspects of Arab Palestinian life, and which made little pretense – unlike its Ottoman and British precursors – of existing to serve Palestinian needs. Nevertheless, despite these obstacles, and despite the indifference of the banks, the British, and various other entities, to their suffering, they were still able to find legal avenues through which to fight for, and ultimately win, their rights.

In this there was an element of luck, for, if it had not been for the fortunate fact of Jordan's not having officially recognized Israel as yet – and particularly of not having recognized Israeli sovereignty over Jerusalem – it is doubtful if the Arab Palestinians would have prevailed even in the Jordanian courts, and without that victory in court, as the preceding narrative has shown, it is likely that their accounts would have remained frozen indefinitely, and at least until the present day.

Still, the Palestinians were hardly fortune's favored children in this or any other story, and they did not passively wait for luck to find them. This is evident in the determination and perseverance with which they filed lawsuit after lawsuit against the banks between 1953 and 1954, until the banks finally, caving under the accumulated pressure of all the lawsuits, gave in and went to the Israelis. In thus persevering, the Palestinians demonstrated not only their awareness of themselves as economic actors with inalienable rights to ownership of their own material assets, regardless of the political situation around them – and, in passing, their understanding of how even the most complicated legal situation could be brought around to their advantage – but also a shrewd comprehension of the motivations and anxieties of the management of large international banks, and the vital importance placed by these managers on good public-relations and a “good name” for their banks.

The Palestinians were not, thus, as Ahmed Shaker Hammami had complained, mere “victims” in this story. They were the agents who brought about their own eventual deliverance, by dint of perseverance; some luck; and a realistic understanding of the motivations of banks. And they were the ones who orchestrated what was, in the end, that rarest of rare things in Palestinian history: a happy ending for all parties concerned: the Israelis, cash-strapped and desperate as they were for foreign exchange, obtained, in return for agreeing to release the accounts, a low-interest long-term sterling loan of £5 million exempted from the UK Treasury’s usual block against sterling balances in Israel. The banks got an end to the negative publicity under which their business interests in the Middle East had been suffering. Even the UNCCP found that it could at last be useful, busying itself with the procedures and mechanisms for the release scheme, and thus fulfilling some of its original purpose. And as for the Arab Palestinians, who had lost every battle since 1947, and so much else after 1948: they won this once, and got their money back.<sup>144</sup>

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<sup>144</sup> Although not all the Arab Palestinians got their money back, as noted in the previous section.

## CONCLUSION

### The American Colony's Ledgers

The lush, flower-filled “Palm House garden” of the American Colony Hotel in Jerusalem provides, for those who are lucky enough to sit in it, a fragrant respite from the enervating heat, dust and politics of the city in which it is located; the hauteur of the beautiful Ottoman-era wrought-iron gates discouraging, perhaps, even those tiresome elements, along with all other unwanted interlopers, from entering. The hotel and its verdant grounds are located on Nablus Road in east Jerusalem, in the heart of the portion of the city claimed by the Palestinians as their capital. Because of its location – across the street from St George’s Cathedral, and steps away from the Damascus Gate, which opens into the walled Old City of Jerusalem – it has witnessed, like all other buildings in its vicinity, its share of the “action.”

But the American Colony Hotel’s relevance to the story here lies not in its picturesque grounds, nor even in its historic location near the contested holy sites of Jerusalem, but in the fact that it is one of the few private commercial institutions in east Jerusalem to have continuously existed, since the late 19<sup>th</sup> century to the present day, in the same spot and in more or less the same form. From humble beginnings in the 1880s, when it was merely a pilgrim’s refuge in the Holy Land, to its gleaming international-“boutique”-five-star-swimming-pool-gym-and-sauna incarnation today, it has changed cosmetically – and dramatically so – but remains, at heart, what it always was: a guesthouse for foreign visitors to Jerusalem. And, luckily for those interested in the economic history of Palestine, it has preserved, despite those dramatic cosmetic

transformations, all its cash-books and accounting ledgers, going back to the early 1900s.<sup>1</sup> From this financial detritus, a narrative might be constructed of Palestinian economic life in the 20<sup>th</sup> century as experienced by a commercial institution which managed, despite all the political turbulence and violent transitions of the century, to survive, and to keep operating, till the present day.

The preceding chapters of this dissertation have shown how ordinary Arab Palestinians were continually vulnerable, throughout the course of the 20<sup>th</sup> century, to being dispossessed of their financial assets. This was because, it was argued, they had no state of their own, and thus, no sovereign banking institutions or laws which could protect them from the actions of hostile actors. This vulnerability to dispossession, and that inability to seek recourse and protection from state institutions, resulted, in turn, in a deeply-felt suspicion and antipathy on the part of Palestinians towards banks. Thus, it has been suggested, the economic behavior of ordinary Palestinians was shaped, over the course of the 20<sup>th</sup> century, by the very fact of their statelessness.

In order to test the accuracy of this claim it would be useful to be able to consider a counterfactual: how might the Palestinians have fared if they had had a state, and sovereign state institutions, to protect them from these dispossessions?<sup>2</sup> What might Palestinian businesses and civil society have achieved, if there had been a sovereign legal environment in which to operate?

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<sup>1</sup> I am indebted to Paul Vester and Frank Spencer Nairn, Chairman and Board Member, respectively, of the American Colony Hotel's Governing Board, for allowing me to look at these private archives, to which no researcher has ever before had access. The documents referred to in this chapter (cash-books, accounting ledgers, board meeting minutes) were part of the late Mrs. Valentine Vester's library, and are not yet available to the public - for the family which owns the hotel wishes to preserve its privacy - though the less personal and sensitive materials will eventually be sent to the Library of Congress, which houses some other materials, and a large photographic collection, from the Colony. All documents mentioned here have been cited according to their original American Colony filing numbers. I'm also grateful to Rachel Lev for her help with sorting through these documents.

<sup>2</sup> I am grateful to Professor Charles Maier for suggesting these counterfactual questions.



And what would a Palestinian economy look like, if there had ever been a sovereign Palestinian state?

While it is impossible to answer these speculations with any degree of certainty, the puzzle of the American Colony Hotel's continued thriving existence in the heart of Arab east Jerusalem provides one possible response. The following few pages attempt to explain why and how this hotel was able to survive, and even, at times, to flourish, during the wars and political transitions that devastated Palestine in the 20<sup>th</sup> century, when neighboring Arab Palestinian institutions – many of which were in the same line of business, catering, in some way or the other, to Jerusalem's tourist traffic – were unable to do so.

The story that emerges from the cash books, accounting ledgers, and correspondence files of the American Colony provides a simple answer: the Colony was able to survive because its financial assets and bank accounts were never, unlike those of its less fortunate Arab Palestinian neighbors, confiscated, frozen, or otherwise interfered with by any of the successive ruling regimes in Jerusalem. This was because the people who founded the American Colony never became stateless, unlike the Arab Palestinians, for, despite having settled in Ottoman Jerusalem since the 1880s, they and their descendants retained their original American (or, as the case may be, British or Scandinavian) passports and citizenship.<sup>3</sup> They could thus always seek protection, in any emergency, from their own governments, and they could always, when times were tough, return “home” to their original countries, even though their ties to those original countries were,

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<sup>3</sup> Although several of the “Colonists” who were originally citizens of Germany and Austria (and other countries which became enemies of the British during the second world war) were allowed by the Mandate government to take on Palestinian citizenship during the second world war, and were issued special Palestinian passports. This was the case of Frederick Vester, a German who had immigrated to Palestine and joined the Colony in the late 1890s. In 1904 he married Bertha Spafford, a daughter of the original “American Colony” Spafford family. Frederick Vester settled in Jerusalem, in the American Colony, and never returned to Germany. During the second world war he was, however, technically an enemy citizen of the Mandate Government, and was not allowed to leave the Colony until, upon the appeals of prominent American Colonists, he was issued a Palestinian passport in August 1940. ACAJ 2/21

in most cases, tenuous. Moreover, despite the fact that successive generations of colonists were born and raised in Jerusalem, they remained, in identity and behavior, distinctly American and European, and not Arab – never intermarrying, for instance, with the locals, and never, despite their business ventures and charity work with Palestinian Arabs, speaking Arabic – and thus, they were always considered by the successive regimes which came to power in Palestine (the British, the Jordanian, the Israeli) to be Americans. And so, they, and their assets, were left alone.

As the following brief narrative of the American Colony’s history will suggest, this fact of their “Americanness” is why the “colonists,” as they came to be known, were able to survive, and why the hotel they built continues to exist till the present day in the exact same spot where it was established in the 1900s, while the businesses and homes of their Arab Palestinian neighbors have all but vanished.

The “American Colony” got its start when a group of American Christian travelers, consisting primarily of members of a wealthy Chicago family, the Spaffords, sailed from America to the Holy Land in 1881 in order to make a pilgrimage. Arriving in Ottoman Jerusalem after a traumatic crossing during which many members of the original family died, the surviving few swore never to cross the seas again, and resolved instead to settle permanently in the Holy Land and, in order to give thanks for having been spared, to commit themselves to a life of charity. In order to do so, they purchased the palace of an Ottoman pasha in Jerusalem and

turned it into their new home.<sup>4</sup> This palace became the headquarters of the “American Colony in Jerusalem.”

By the turn of the century the community living within the walls of this palace had expanded into a thriving expatriate enclave comprising, alongside the original Americans, an esoteric group of Scandinavians, Germans and other assorted European protestants. These “colonists,” as they called themselves, launched modest ventures – a pig here, a cow there; some carpentry; a butchery; a smithy – to pay for the charity work which remained the central mission of the community. From the earliest days its business was conducted primarily with Arab Palestinians, as evidenced by a letter written by a member of the Colony, John Whiting, in 1906, to a fellow American, requesting “an advance of capital for the purpose of investing in real estate near Ramleh in partnership with a native gentleman for raising apricots.”<sup>5</sup>

But these modest ventures did not bring in enough money, particularly during the inflationary run-up to the first world war. The colonists then hit upon the idea of renting out spare rooms in their property to visiting Christian pilgrims. From modest pilgrims to proper fee-paying tourists it was a quick and clever business move – Baron Ustinov (grandfather of the actor Peter Ustinov) was one of the first, in 1902, of the latter category – and it was thus that the American Colony’s famous “Hostel” was born.

The colonists suffered during the first world war from the same economic hardships which afflicted all commercial enterprises in Ottoman Palestine.<sup>6</sup> In April 1915, John Whiting,

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<sup>4</sup> According to the American Colony’s records, the palace was initially built for “a pasha and his four wives,” but the “pasha” was not named.

<sup>5</sup> John D Whiting to Henry Bowman, December 1906. American Colony Archives in Jerusalem (henceforth, ACAJ) 2/40

<sup>6</sup> See Chapter 1 for a description of the war-time economic situation in the Ottoman Syrian provinces.

writing to a friend in America, described the banking conditions in the country thus: “Businesses all over have been practically paralysed ...all banks here have practically suspended businesses, so that checks are not negotiable.”<sup>7</sup> Nevertheless, the colonists did what they could to survive the war, and then the transition to British military rule in 1917, and then again the official establishment of the Mandate for Palestine in 1922. They had a ring-side view of much of this history: a Swedish photographer who was a member of the colony had been summoned by the British to photograph the Ottoman surrender to General Allenby in December 1917, while the white flag used by the Ottoman governor to conduct this surrender had been fashioned, at least as local lore would have it, from a bed-sheet taken from the Colony’s makeshift, war-time hospital.

Judging by the cash ledgers kept by them in the early 1920s, the colonists managed the transition from Ottoman rule to British Mandate relatively smoothly, though a telling sign of the currency complications engendered by that transition can be found in the confused denominations in which they listed their transactions: from 1923 to 1926, they sometimes used “PE” (Egyptian pounds) and sometimes “PT” (presumably, “piaster tariff,” according to Egyptian usage); in 1927 they listed, perhaps to be on the safe side, and to avoid the conversion troubles experienced by people like Menni and Mansour (whose stories were discussed in the first chapter) all prices in both Egyptian and Palestinian pounds; and it was not till November 1927 that they felt safe switching to only “PP” (Palestinian pounds).<sup>8</sup>

During the early years of the Mandate, the Colony seemed to have prospered, for its cash ledgers teem with purchases, from modest (two horses for £P7 in June 1921; two mules for £P10 the following month) to extravagant (a plot of land and a house bought from the wealthy Arab

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<sup>7</sup> John D Whiting to Henry Bowman, April 26 1915. ACAJ 2/40

<sup>8</sup> Cash Ledgers, 1923-1926; Daily Expenses Ledgers, 1923-26; Cash Ledgers, 1927. ACAJ 2/7, 2/8, 2/9

Nashashibi family in July 1918, for £P564; another house shortly thereafter, for another £P500, from another prominent Arab family).<sup>9</sup> In 1932 the Colony's activities were sufficiently commercialized as to require that it be incorporated officially as a Palestinian company under the Companies Ordinance Act of 1929, which was the same piece of new Mandate legislation which had caused Abdul Hameed Shoman, the founder of the Arab Bank, so much trouble that year (as described in the second chapter, Shoman was convinced that this Ordinance was inimical to his bank's interests). From then on the Colony was managed as a proper business by a "council of members" who were chosen from among the community; this council was chaired by an American woman, Mrs. Bertha Spafford Vester, a daughter of the original American family that had founded the colony.

By the mid-1930s the American Colony had branched out from hostelry into other tourist-related trades, and its 1933 balance sheet lists, along with the hostel, a "general provisions store," a "tourist souvenir" shop, and a "photography store" among its assets. In this branching out the colonists were not alone, for, judging by the Arab Chamber of Commerce's brochure in 1937, the colonists had plenty of local competitors: there was the "Fast Hotel," for instance, located just steps away from the Colony in the Armenian Quarter of the Old City of Jerusalem, which boasted of "strictly first class service; open all the year; 100 beds."<sup>10</sup> Then there were the "Mediterranean Hotel" and the "Citadel Hotel," both owned by a Mr. Morqos. At the high-end of the range, outside the Old City's Jaffa Gate, there was the sumptuous King David Hotel, built by a joint Arab Palestinian, Jewish and Egyptian venture called the Palestine Hotel Company, while on the cheaper end there were "Darouti's Hotel," the "Raghadan Hotel," the "Villa Samiramis,"

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<sup>9</sup> Land Transfer Deed, July 20 1918: Abd al Rahman al Nashashibi to John D. Whiting, ACAJ 5/1

<sup>10</sup> Advertisement on the inside cover of the Arab Chamber of Commerce, Jerusalem Brochure, April 1937. Private copy.

and the “Villa Rosemary,” all Arab-owned establishments which advertised themselves as “first class” hotels, offering “charming views” and “hot and cold baths.”<sup>11</sup>

The hostel business was not the only line of trade in which the American Colony had to face stiff competition from locals; Eric Matson, the Swedish photographer who had been summoned by the British to photograph the Ottoman surrender in 1917, complained in 1939, in a letter to a fellow colonist, that: “[...] photographic stores have sprung up everywhere and all undersell, without exception, at a small profit or even no profit in hopes of selling stock in hand.”<sup>12</sup> As for the Colony’s tourist store which peddled souvenirs, the council noted, anxiously, in an April 1945 meeting, that “so many similar stores have sprung up since the war that not only is there no opportunity of large business, but also there does not exist the fine merchandise, notably antiques, that had made the American Colony stores outstanding.”<sup>13</sup>

The prosperity and relative calm of the early Mandate years were, however, short-lived, for, by the late 1930s, the delayed effects of the global depression had caught up with the Palestinian economy. These, when coupled with the “Troubles” – as Mandate officials put it – brought on by the Arab boycott in 1935 and the Arab revolt of 1936-39, led to a gradual darkening of mood for all those living in Palestine. This darker mood pervades the Colony’s annual “council meeting minutes” of October 1938:

“The Company has suffered a loss during the past year but in the circumstances in which we have been placed, we feel that there is encouragement in the fact that this loss is not greater. Few tourists have visited Palestine during the past year [...] The continued tension has

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<sup>11</sup> All these from advertisements placed in the Jerusalem Arab Chamber of Commerce’s brochure (April 1937), as well as in the “Palestine and TransJordan Directory, 1946-7,” also published by the Arab Chamber of Commerce.

<sup>12</sup> Letter from Eric Matson to Horatio Vester, [undated, 1939]. ACAJ 2/14

<sup>13</sup> The American Colony of Jerusalem, *Minutes of the Council*, April 1945, ACAJ 2/14

increased cost of living and the expenses have risen without a proportionate increase in revenue.”<sup>14</sup>

About a year later, in November 1939, matters were still worse, and the council recorded that:

“It was by far the worst business year the company has passed through; fewer tourists than ever visited Palestine this year [... ] The political situation sent up the cost of food considerably and at times it was difficult to get. We have fewer boarders [...] The number of tourists have decreased yearly to almost vanishing point and mail orders have been severely curtailed.”<sup>15</sup>

Although the second world war brought another brief period of prosperity from which the Colony benefitted, the mood in Palestine darkened once again after the war, and turned to despair by mid-1947. All through that fateful year, the council members held emergency meetings to discuss the “precarious conditions in the country.” In January they noted that “British Airways have canceled all their reservations and there is no outlook for any business under the circumstances.”<sup>16</sup> In February they “debated upon the present crisis and the situation caused by the Government deciding to evacuate from Palestine all non-essential British men and practically all women and children, which has resulted in the Colony Hostel being completely empty.”<sup>17</sup>

But the real crisis came, as it did for all of Arab Palestine, on May 14 1948. On the morning of that day, which was the official date of the termination of the Mandate, and the day on which the Israeli state declared its independence, the secretary of the council, John Whiting, made a panicked last minute dash to Barclays – which had been the Colony’s bank since the early 1900s – to deposit a sum of £P642 which had been entrusted to him by an elderly colonist,

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<sup>14</sup> The American Colony of Jerusalem, *Minutes of the Council*, October 1938, ACAJ 2/14

<sup>15</sup> The American Colony of Jerusalem, *Minutes of the Council*, November 28 1939. ACAJ 2/14

<sup>16</sup> The American Colony of Jerusalem, *Minutes of the 45<sup>th</sup> Meeting of the Council*, January 13 1948. ACAJ 2/14

<sup>17</sup> The American Colony of Jerusalem, *Minutes of the 48<sup>th</sup> Meeting of the Council*, November 17 1948. ACAJ 2/14

a Miss Wambold. Despite the precarious situation on the ground, and despite the fact that “all Government departments had ceased to exist,” Whiting felt that Miss Wambold’s money, which constituted her life’s savings, would be safer in the bank. Accordingly, he took an ill-advised trip to Barclays’ Allenby Street branch on foot, with the cash in hand. He survived to tell the following tale, though Miss Wambold’s money, as the following quote reveals, did not:

“Realising that Barclays might close at any minute, [I along with] John Franji made [my] way to the Bank. Just below Notre Dame de France [we] were met with a fusillade of bullets and took refuge in Dr T Canaan’s house. [...] Realising the risk to life it was to carry large sums about, the bulky bundles of one pound very old notes were given to Dr. Canaan and he locked it in his safe and gave a receipt for it, stating that it was Miss Wambold’s estate and could be handed to Mr. Hanna Atallah if necessary. Dr. Canaan made it clear that he could not be responsible in a case of force majeure. All this happened on the morning of May 14 1948.

At the moment Dr. Canaan’s house seemed to be in a very secure zone. On the morning of the 17th May, [I] was shot in the leg and ordered to be kept very quiet. It was not till some time later that [I] learned that Dr. Canaan had to flee his house which was burned and that he lost everything.

Every effort was made by Dr. Canaan and [me], through the UNO and the Red Cross, to see if the built in safe at Canaan’s house was still intact, but, to no purpose. The Jews have ever since occupied the district. [I] wish to put the matter on record and to show that [I] took [my] life in hand to bank the money, the only safe way of preserving it. I express my profound sorrow for the turn of events beyond my control”<sup>18</sup>

This story about poor Miss Wambold’s money, which vanished, on May 14 1948, like the money belonging to so many Arab Palestinians, indicates that the financial assets of the “colonists” were no more or less safe than those belonging to their Arab neighbors, such as Dr. Canaan. War, in Palestine, as anywhere else, was an equal-opportunity destroyer. But, as the preceding chapters have argued, the Palestinians’ assets were in fact at far greater risk, not

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<sup>18</sup> The American Colony of Jerusalem, *Minutes of the 48<sup>th</sup> (Emergency) Meeting of the Council*, November 17 1948. ACAJ 2/14



because of predictable war-time depredations, but because of the Israeli government's decision, taken in June 1948, to freeze and then confiscate their bank accounts.

This is where the American Colony's story diverges from that of its neighboring Arab Palestinian institutions: when the Israeli government ordered the banks to freeze the accounts of all Arab Palestinians, the American Colony's account with Barclays was left untouched.<sup>19</sup> Soon after, Mrs. Vester, the Colony's chairwoman, who was in New York waiting out the war (like many other Colonists, and, for that matter, like some wealthy Arab Palestinians), was permitted by the Israeli authorities to transfer all the money from the Colony's account at Barclays, Jerusalem, to an account in a New York bank under her name.<sup>20</sup> This despite the Israeli government's strict currency controls prohibiting all foreign exchange from leaving the country. Mrs. Vester also managed, seemingly without having gone to too much trouble, to get all the money converted from Palestinian pounds into US dollars "at a much better rate than the official one during the British Mandate administration."<sup>21</sup> None of the laws and regulations which had "legalized" the confiscation of Arab Palestinian bank accounts applied, thus, to the American Colony.

In April 1949, when Jordan and Israel finally signed an armistice agreement which divided Jerusalem between the two sides, the famous Green Line (which separated Israeli from Jordanian Jerusalem) meandered right outside the Colony's gates and left the Colony just on the

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<sup>19</sup> As indicated by the minutes of the emergency meeting on November 19 1948. The American Colony of Jerusalem, *Minutes of the 49<sup>th</sup> (Emergency) Meeting of the Council*, November 19 1948. ACAJ 2/14

<sup>20</sup> The American Colony of Jerusalem, *Minutes of the 48<sup>th</sup> (Emergency) Meeting of the Council*, November 17 1948. ACAJ 2/14.

<sup>21</sup> Ibid

inside of the “Jordanian” side of Jerusalem.<sup>22</sup> From that moment on, the new Israeli state considered the American Colony to be in “enemy territory,” but its money was already safe.

The Colony did not emerge unscathed from the fighting that had engulfed Jerusalem for almost two years. Its property was badly damaged; bullet and shrapnel holes marred its once-beautiful façades; the glass windows were shattered; the roof was punctured and leaking, and its ranks were badly depleted, as most of Colonists had long left for America, and almost all the Arab staff had fled the country. The few who remained struggled to make ends meet with what they had. Morale was low; there was no question of tourism; and the only real sources of income, as reported by a despairing council meeting minute note towards the end of 1948, were the Colony’s pigs.<sup>23</sup> Nevertheless, just as they had managed the transition from Ottoman to Mandate, the Colonists were once again able to manage the transition from “Mandate” to “Jordan” relatively easily.

By June 1949, they had re-registered the American Colony Hotel as a Jordanian company, with brand new memoranda and articles of association, as required under Jordanian law. The share capital of the company was reconstituted and re-registered in Jordanian dinars – yet another currency transition – and, most pertinently to this story – all their original capital was allowed by the Jordanian authorities to be transferred back in to (Jordanian) Jerusalem, via the

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<sup>22</sup> This “armistice line” held from April 1949 until June 1967; Israel captured all of Jordanian Jerusalem during the 1967 war.

<sup>23</sup> The American Colony of Jerusalem, *Minutes of the 49<sup>th</sup> (Emergency) Meeting of the Council*, November 19 1948. ACAJ 2/14

American account which Mrs. Vester had set up, into the Colonists new Jordanian bankers: the Ottoman Bank.<sup>24</sup>

The American Colony was thus able to do what no Arab Palestinian individual or institution – even if it had been registered under the same Mandate Laws, and operating in the same location, and using the same bank – could do in 1948: survive the transition with all its banking assets intact. This is because both Israeli and Jordanian authorities looked the other way, and, relaxing their foreign currency controls and regulations prohibiting all “trading with the enemy,” allowed the Colony to transfer its money out of Israeli-controlled Jerusalem and then back in to Jordanian-controlled Jerusalem. While the Arab Palestinians who had, like the American Colonists, found themselves on the Jordanian side of the divide in 1949, were only able to get their money back after a decade’s worth of legal wrangling and complicated diplomacy, the American Colony was, by April 1949, up and running as before. This can only be explained by the fact that it was neither Arab, to the Israelis, nor Jewish, to the Jordanians. It was its own thing, protected, in the eyes of the ruling powers, by its “Americanness”

That this “Americanness” was something that the colonists themselves felt that they could look use to their advantage, in times of difficulty, became clear during yet another war which soon engulfed the region: the Suez Crisis of 1953. During this “crisis,” the colonists openly decided that they would “seek American protection were it to become necessary in an emergency,” although some among them feared that “the American authorities might find that they had no right to intervene on behalf of a Jordanian Company, which is what we are.”<sup>25</sup>

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<sup>24</sup> This complicated procedure whereby the American Colony’s account from Barclays, (west/Israeli controlled) Jerusalem was transferred, via Barclays UK to the Ottoman Bank in (east/Jordanian controlled) Jerusalem was described in an undated letter from Ed Whiting to Horatio Vester. ACAJ 2/37

<sup>25</sup> The American Colony of Jerusalem, *Minutes of the Council Meeting*, May 24, 1952. ACAJ 2/16

Fortunately for the colony, the Americans leaned on the British-Israeli-French alliance to pull back their troops from Egypt, and the Suez crisis was resolved within a few months without any fighting in Jerusalem.

From that moment on, the Colony made the most of its Jordanian incarnation. The hotel reopened for business very soon after its new registration, and, in 1961, the Colonists received a lucrative license from the Jordanian State Tourism Department to operate a separate “tourist office” in the Old City of Jerusalem.<sup>26</sup> They also applied for, and received, a generous loan of JD1,000 from the Jordanian Industrial Development Bank in 1966, with which they planned to build a new wing for the hotel, where business was now flourishing.<sup>27</sup> Things were going so well that in April 1967 the council confidently announced that:

“The financial year 1966 has proved successful. Increasing costs were counterbalanced by a larger income. The building of the new wing of the hotel has commenced and additional capital will have to be raised. For this purpose, the Directors have mortgaged the main building to the Ottoman bank who advanced JD25,000 to the American Colony Hotel Ltd. as and when the money is required for the building...”<sup>28</sup>

But this cheerful optimism evaporated, along with the financing for the hotel’s new wing, just two months later, when, over the course of six bloody and consequential days in June 1967, Israel captured east Jerusalem, the West Bank, Gaza, the Sinai, and the Golan Heights from the Jordanians, the Egyptians, and the Syrians. Once again, the economic lives of Arab Palestinians were completely upended, almost overnight, by war, and once again their financial assets were threatened by the actions of a new hostile regime: the Israelis established a special military

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<sup>26</sup> The American Colony of Jerusalem, *Minutes of the Council Meeting*, November 13 1961. ACAJ 2/16

<sup>27</sup> The Americ

an Colony of Jerusalem, *Minutes of the Council Meeting*, May 27 1966. ACAJ 2/16

<sup>28</sup> The American Colony of Jerusalem, *Minutes of the Council Meeting*, April 30 1967. ACAJ 2/16

administration to rule over the territories it occupied during the war, and wasted no time in issuing a maze of military orders designed to control and subdue the Arab Palestinian population living there.<sup>29</sup> Most significant of these, for this story, was Military Order Number 7, which decreed the forced closure of all Arab and foreign banks and lending institutions in the West Bank and Gaza, as well as the freezing of all Arab accounts in these banks – an echo of the frozen funds episode of 1948 which has occupied so much space in these pages – and the transfer over to the Bank of Israel of all such frozen accounts.<sup>30</sup>

Although the Ottoman Bank was officially exempted from the Israeli-ordered bank closure, it nevertheless closed its branch in occupied east Jerusalem soon after the June war, possibly, as one observer speculated, “out of concern for its relations with the Arab world.”<sup>31</sup> This meant that the Ottoman Bank’s promised loan to the American Colony for the hotel’s long-planned new wing was abruptly cancelled. In addition, the Colony’s accounts with both Ottoman and Arab Bank were frozen, as were the accounts of all Arab Palestinian customers.<sup>32</sup> The American Colonists thus suffered, as they had done in 1948, and as did all the Arab Palestinians who now found themselves living in the “occupied territories,” from the grim financial repercussions of the 1967 war. But, finding themselves in a zone of Israeli military occupation;

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<sup>29</sup> For a comprehensive discussion of the military laws issued by the Israeli government in the West Bank and Gaza after the 1967 occupation, see Raja Shehadeh, *Occupiers Law. Israel and the West Bank* (Washington, DC: Institute for Palestine Studies, 1985); also Emma Playfair, *International Law and the Administration of Occupied Territories: Two Decades of Israeli Occupation of the West Bank and Gaza Strip* (Oxford: Clarendon Press, 1992)

<sup>30</sup> Oral interview with Fuad Shehadeh, Ramallah, Palestinian Territories, 20<sup>th</sup> and 30<sup>th</sup> April, 2010. See also Rana Bahu, Eric Melloul and William Walsh, *Banking Law Reform in the Palestinian Territories*, ICPRI Law & Development Program, Commercial Law Reports, Number 3 (London, Oakland and Jerusalem: Israel/Palestine Center for Research and Information, 1995). 6-7: “Military Order No. 255 later amended Military Order 7 by changing Article 1 to provide that banks could only be opened or closed pursuant to “security provisions.” The Ottoman Bank was specifically exempted by Military Order No. 7 from the closure of the other banks. All the other banks, with the exception of ANZ Grindlays, were Arab institutions.”

<sup>31</sup> *Ibid*, 6.

<sup>32</sup> American Colony Hotels Ltd, *Notes to the Financial Statement*, December 31 1967. ACAJ 6/15

surrounded, once again, by soldiers; and forced, yet again, to navigate an abrupt political transition like all their Arab Palestinian neighbors, the Colonists reacted as they had done before: with remarkable alacrity and adaptability: on July 2 1967, not yet a month after the war, the Colony's governing council met to re-appoint Barclays – which had continued to operate in Israel in the intervening years between 1948 and 1967– as the Colony's bank.<sup>33</sup> Although the Israeli military government had by then issued numerous orders prohibiting the transfer of foreign currency into the occupied territories, and a specific ban on all bank transfers from Jordan and Egypt, these laws proved yet again to apply selectively only to the Arabs of east Jerusalem (and the West Bank and Gaza) and not to the American Colonists, who were allowed to transfer their accounts out from the closed Ottoman Bank and Arab Bank into their new-old account with Barclays.<sup>34</sup>

The Colonists managed other aspects of the transition in 1967 just as smoothly. By September 1967, when it was not yet clear if – and for how long – the Israeli occupation of Jerusalem would continue, the Colonists had already applied for a loan from the Israeli Ministry of Tourism of “IL25,000 to complete the new kitchen and for IL20,000 to defray the cost of war damages.” As for the problem of the cancelled Ottoman Bank loan for the new wing, that too was resolved without much fuss, for, by the following year, the Colony had managed to raise the large sum of IL1,125,000 from Israeli Tourist Industry Development Corporation, arranged via

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<sup>33</sup> The American Colony of Jerusalem, *Minutes of the Council Meeting*, July 2 1967. ACAJ 2/16

<sup>34</sup> American Colony Hotels Ltd, *Notes to the Financial Statement*, December 31 1967. ACAJ 6/15. For military orders prohibiting transfers of funds into the Occupied Territories, and the specific injunctions against bank transfers from Egypt and Jordan, see Rana Bahu et al, *Banking Law Reform*, 7

the Bank Hapoalim (an Israeli bank), “for the building of 54 new bedrooms, a new kitchen, and a swimming pool.”<sup>35</sup>

Nor did the abrupt enforced currency transition, from Jordanian dinars to Israeli Lira, appear to have caused the Colony much trouble, for a note on the year end 1967 balance sheet reports simply that: “Until June 5 1967 the books of the company were in JD (Jordanian dinars. On that date they were converted to Israeli currency at the rate of IL 8.40 to the JD.”<sup>36</sup> By the following year, Horatio Vester, the Colony’s young director, had been authorized to “take all steps necessary under Administrative and Legal Provisions 1968 to legalise position of the company in Israel and *to protect its assets*.”<sup>37</sup>

In this endeavor, once again, as in 1948, the American Colony was treated differently by the Israeli authorities from its Arab Palestinian neighbors: all Arab companies in east Jerusalem, if they wished to continue operating under the Israeli occupation, were required to “amalgamate” with an Israeli company, so that all assets and liabilities of all companies in former Jordanian controlled Jerusalem (and the West Bank) would be fully owned by Israeli entities.<sup>38</sup> For the American Colony, this requirement was waived, for, as its director wrote to a family member in August 1969: “...all the business about amalgamation with an Israeli company has been dropped, and we now find ourselves registered as an Israeli company by the mere act of the Minister of Justice and the Registrar of Companies.”<sup>39</sup> On January 27 1969, the American Colony was duly registered – the paperwork filed by its newly-appointed Israeli lawyers, Horowitz & Co. – under

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<sup>35</sup> The American Colony of Jerusalem, *Report of the Directors*, Year End Dec 31 1968. ACAJ 2/16

<sup>36</sup> The American Colony of Jerusalem, *Report of the Directors*, Year End 1967. ACAJ 2/16

<sup>37</sup> Letter from Horatio Vester to his lawyers, Horowitz & Co. August 21 1968. ACAJ 5/20 and The American Colony of Jerusalem, *Minutes of the Council Meeting*, Sep 3 1968. ACAJ 2/16 (Emphasis added).

<sup>38</sup> The American Colony of Jerusalem, *Report of the Directors*, Year End 1967. April 30 1968. ACAJ 2/16

<sup>39</sup> Letter from Horatio Vester to Ed Whiting, August 14 1969. ACAJ 2/37

the Israeli Companies Ordinance, with a share capital of IL 588,000.<sup>40</sup> Thus begun its latest incarnation as an Israeli hotel.

The Colony's business suffered for a while because of the June war; as one foreign visitor put it: "east Jerusalem was a very unhappy place during the early months of Israeli occupation [...] we were staying next door [to the Colony] at the Anglican Cathedral, and the only sound after dark was the constant playing of a Tom Jones record - the one with 'Why, Oh Why, Delilah?' - perhaps by poor Palestinians trying to keep their spirits up."<sup>41</sup> But, despite the melancholic political situation, the hotel's business perked up quickly, and, just as it had done after the rupture of 1948, it was soon thriving again. The director's report for the year end 1967 noted:

"When the war came on June 5 1967, the hotel was empty. The buildings suffered considerable war damage, most of which has not been repaired. The business of the hotel picked up rapidly and has continued to improve, and the prospects for the future seem favourable [...]"<sup>42</sup>

Once again, the Colony seamlessly changed not only its bankers, its lawyers, and the currency in which it did business, but also its very legal identity: first a British Mandate Company; then a Jordanian Company; and finally, in 1968, an Israeli Company, which it continues to be, on paper, till today. And yet again, it not only managed to survive the transition, but survived it well, and continued to thrive till today. The director, looking to the future in 1967, might not have been able to imagine what the hotel would look like in 2013: boasting the finest facilities in Jerusalem, a five star rank, and a guest list which is the envy of all the other swank

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<sup>40</sup> Letter from Horowitz & Co. to Haft and Haft. ACAJ 5/20

<sup>41</sup> Letter from Roger Owen to me, May 6 2010

<sup>42</sup> The American Colony of Jerusalem, *Report of the Directors, Year End 1967*. Dec 31 1968. ACAJ 2/16



hotels in town: the Clintons stay there; so does Jimmy Carter; Christiane Amanpour; and Bono; but the best and most consistent paying guest of all is Tony Blair, who has taken over a full wing of the hotel – the same house that the Colonists had bought from the Nashashibi family in 1930 – and turned it into the permanent Jerusalem headquarters of his “Middle East Quartet” since 2007.

The American Colony’s Arab Palestinian neighbors and competitors have not fared so well. The “Fast Hotel,” which promised “first class hotel” and “a hundred beds,” in the 1930s is no more; the “Mediterranean Hotel,” the “Citadel,” “Darouti’s Hotel,” the “Raghadan Hotel,” the “Villa Samiramis,” and the “Villa Rosemary,” have all disappeared. The King David survives, but it is now no longer a joint Arab-Jewish venture, but instead a fully Israeli-owned company. The old Arab Palestinian hotel proprietors of east Jerusalem are still there, but most of them run decrepit peeling-paint outfits, drab shells of their past. None of them have been able to thrive the way the American Colony has, in all its incarnations; most of them have not survived 1967.

The American Colony has been able to do so, at least in part, it has been argued here, because of the special consideration it received from the British, the Jordanians, and the Israelis. This special consideration was owed to the fact that it was viewed as being, as its name suggested, “American” – and not Arab – and thus, it was never considered a threat by any of the regimes which ruled over the Palestinians since the turn of the century. And yet, it runs more or less the same business as many other Arab outfits in the neighborhood, and it has long been in the same game of trying to cash in on Jerusalem’s perpetual tourist traffic. It receives no real special treatment from the ruling regimes, other than the fact that it is left alone, and its bank accounts are not touched. That it has survived, and thrived, for so long, with its Palm House flowers blooming, always, even off-season, offers us a sort of answer to the question: what might have been.

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