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The Political Economy of Palestine: The Transformation of Economic Elites after Oslo
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Hajo Rabe: I intend to structure my talk according to four main sections; first, I would like to give you a brief idea of what we can mean by the term elite; secondly, I would like to give you an historical account of the development of economic elites in Palestine; thirdly, I will look at the processes of change after Oslo; and finally, I will say something about the effects of these changes. Please forgive me if I am perhaps vague and general in some of my remarks; I hope that we will have time to clarify some details in the discussion later.

The concept of economic elites is rather a tricky term, because it can be ideologically overloaded with some specific assumptions. I think it would be good to distinguish between two different conceptions of elites in general; on the hand, a wider focus, on the other hand, a narrower focus with certain ideological overtones. If we take a wider approach to economic elites, we can say that very generally they form part of a higher echelon in the economic sphere; however, a wider approach would not put forward any assumptions about the characteristics of these groups. In other words there would be no pre-judgment on the number and size of elites in any given society, nor on the degrees of cohesion and fragmentation or the power they have over each other and the society at large, nor their sources to economic power, nor the processes of recruitment, or the links between economic elites and the political establishment.

A more narrow view has been pronounced by the ‘classical’ elite theorists, including Gaetano Mosca, the Italian writer, and C. Wright Mills. These writers have adopted some fixed assumptions about the characteristics of elites. In a nutshell, these assumptions are that in a given society there will be one dominant elite, although it might be found in different groups; C. Wright Mills for example talks about businessmen, politicians and industrialists. But essentially, there is one dominant elite, relatively cohesive, small, closed in terms of recruitment processes, with a specific interest and with close ties to the political establishment. This clearly has ideological overtones. I would like to start off with a wider focus, treating the assumptions of the classical elite theorists as one possible scenario, but not necessarily an inevitable one.

If you look at the historical development of economic elites in Palestine, I think we can distinguish between two major phases prior to Oslo: the first one would be the time when economic elites emerged, roughly in the middle of the 19th Century, up till 1967 - a long period, but still I will argue that certain parallels and patterns have remained stable in this period; the second phase is after the Six Day War of 1967 up till the signing of the Oslo Accords.

Before 1967, if we go back to the middle of the 19th Century, Palestinian elites, although they were not Palestinian in a nationalist sense, but were here in historic

Palestine, emerged as a result of specific Ottoman policies in Palestine. Their main access to power was derived from their connections to Ottoman rulers in one way or another: first, positions in the bureaucracy, and secondly, strategic positions in the collection of taxes. Especially after 1858 when legal reforms were introduced and land could be owned privately and on paper, land became a major resource to economic and political power. This was the case because the economy was largely agricultural, and control of labor and patronage networks emerged as a result of this.

From this basis, these elites, i.e. the traditional family elites of Palestine, consolidated their power by accumulating assets, getting positions in trade, acquiring better access to educational opportunities, and later, connections to the occupying powers, be it Britain, Jordan or Egypt. To the extent that these occupying powers allowed a certain amount of autonomy within Palestine, it was these traditional family elites that occupied positions of power. Although the policies of the occupying powers varied considerably, there was still a pattern that all of these, except Israel, have followed. They adopted a principle of cooperating with local elites, in order to rule indirectly through these elites. It seems they have all adopted Machiavelli's prescription that the best way of "holding onto those states that one acquires" is to "let them live [...]while levying a tribute, and ensuring that they remain your allies by creating well-disposed ruling elites. Any elite will know that its standing is dependent on [the] friendship and the power of [the prince] and will do anything to keep him as ruler."

The structure of power in this period can be classified as follows; these family elites certainly formed a dominant elite in historic Palestine. They controlled significant amounts of land, economic assets, had social prestige, and contacts with external forces. As a result, and in contrast to later periods, the economic elites constituted at the same time the social and political elites. But we should not simplify things; they did not constitute one cohesive and dominant group, and there were certainly internal power struggles within and between different family elites. In addition, the occupying powers used these struggles to keep the elites fragmented to a certain extent and followed the pattern of divide and rule. These elites remained largely dependent on the occupying powers, which limited them in controlling and dominating Palestinian society. Nevertheless, they remained the most significant stratum before 1967.

After 1967, this pattern changed drastically with the Israeli occupation of the West Bank and Gaza Strip. The occupation triggered a number of processes, and I would argue the first one was the decline of the traditional family elites, the second one, the rise of a new private business elite, the emergence of a middle class in Palestinian society, and the formation of a new political elite. Although I do not want to go into the formation of the political elite too much, it is important to emphasize that there had been a 'decoupling' between economic and political elites under the Israeli occupation.

The net result of occupation were structural changes in the economy and the political sphere in Palestine. First of all, structural integration of the Palestinian economy into the Israeli economy established a long lasting dependency of the Palestinian economy on the Israeli economy. Secondly, land confiscation by the Israeli Government broke to a large extent the supremacy of the landed elite, taking away their main resource to power. In addition, opening the Israeli labor market to Palestinians further undermined traditional forms of labor control and patronage as workers could now exit these networks and seek employment in Israel. In addition to that, specific Israeli policies against the hereto dominant class, especially after 1977 when the Likud Government came to power, broke the supremacy of the traditional elites. The Israelis adopted quite a different strategy to the previous occupying powers by not cooperating to the same degree with these economic elites; they concentrated instead on trying to atomize both the political and economic elites, and thereby control Palestinian society to a larger extent.

One example of this in the political sphere would be the strengthening of the village leagues in the West Bank and the Gaza Strip. There were two further developments that were instrumental in the decoupling of economic and political power. The foundatof universities in the West Bank and the Gaza Strip opened new channels for elite recruitment, and the rise of Palestinian nationalism had quite an effect. All this, had some deep-rooted effects on the structure of economic elites.

Land as an essential power resource was lost and dependent workers could exit patronage networks. So there was a significant shift in the sources to economic power, from land ownership to contacts with the Israeli economy. There was also a gradual shift from agriculture to trade, sub-contracting and production. These processes resulted in the disappearance of a dominant class with disproportionate control over economic assets and political positions in the West Bank and the Gaza Strip. At the same time a new middle class, in relative terms, emerged, as growing numbers of Palestinians went to work in Israel. Figures for 1992 show that 38% of all Palestinian workers were employed in Israel at the time, while the figure for Gazans was as high as 50%. There was also quite a difference in wage: in 1992 the average wage in the Gaza strip was 43.3 shekels a day; in the West Bank 49 shekels a day; and in Israel 86.2 shekels a day.

In addition, new elites, competing with the traditional family elites emerged. In the political sphere, we saw the rise of young activists and leaders of PLO factions, with new social backgrounds, often coming from villages and refugee camps, from lower economic classes. In the economic sphere we found businessmen with links with the Israeli economy. This new economic elite consisted largely of entrepreneurs; Hisham Awartani from the CPRS in Nablus has said that a new generation of business managers emerged during the occupation, forming a vibrant and diverse stratum. They can be classified into three major categories:

Although we do not have exact figures, importers probably constituted the largest segment in the West Bank and Gaza Strip, as these territories became Israel’s second biggest market, with a growing trade deficit, reaching $854,000,000 in 1992 in Israel’s favor.

Subcontractors formed a second new pool of business managers. This is perhaps most visibly exemplified in the textile industry, which started to flourish in the West Bank and the Gaza Strip after 1967. By 1996 there were some 1,533 textile factories, employing between 13,000 and 25,000 people (depending on the economic situation) and generating a considerable part of the Palestinian GDP; up to 25% according to one study (although I am not sure that this figure is reliable).

Finally, the smallest segment comprised of manufacturers, i.e. business managers who had managed to set up complete production processes in the West Bank and the Gaza Strip, such as Hassouneh in Ramallah (construction materials), Haddad in Jenin (agricultural machinery), Masrouji in Jerusalem (pharmaceuticals) and Juneideh in Hebron (foodstuffs). However the industrial sector as a whole was hovering at around 10% of the GDP.

Despite this relative success in the formation of a new elite, this elite never developed into a dominant stratum for a number of reasons. As I have mentioned, dependency on Israel remained very high, with regard to all sorts of issues: licensing, access to goods, and access to markets. In addition, the elite had no significant control over labor as businesses were generally small. A recent study by UNSCO has indicated that about 89% of all businesses employ one to four people, while only 1% employs more than 20. In addition, workers were to a large extent working in Israel, so businesses had little control over labor. Also, this elite did not have much political power. In relative terms, open activism in the national struggle would have meant repercussions by Israel, and politics remained firmly in the hands of PLO affiliated activists.

In addition, the economic elites had no ability or willingness to compete with the PLO factions over the establishment of patronage networks, because significant resources were coming in from sources outside. And of course, this class had a high level of fragmentation and a lack of centralized organization. So there was no elite in the classical sense during the occupation of the West Bank and Gaza.

Although the *Intifada* brought some changes in that respect, it did not really change the structure of the economic arrangement. It propelled the new political elite of the West Bank and Gaza into the center of Palestinian politics, gave rise to a new religious elite within Hamas, further undermined the power of the traditional notables and posed difficulties for business managers. But it did not, in my view, change the structural arrangements.

So, the picture before Oslo was as follows; there was a number of large, diverse and only loosely connected economic elites, without monopolistic control, without significant political power, highly dependent on Israel, and with relatively open recruitment processes.

If we look at the period after Oslo, there have been significant changes in both the structures and actors. On the structural level there were changing Israeli policies towards the West Bank and Gaza, with closures being the main factor. And secondly, the establishment of the Palestinian Authority, which entered the self-rule areas as a relatively powerful economic regulator, also had serious effects.

Closures have caused a serious decline in the Palestinian economy. Between 1992 and 1996, GDP fell by about 14%, while private investment fell by about 60%. Total losses, UNSCO says, amounted to some $6 billion in 1993 and 1996, constituting about twice as much as donors have pledged for the interim period, and five times as much as they had disbursed by the end of 1996.

The impact of closures on the labor force has been that the numbers of Palestinian workers allowed into Israel have sunk dramatically, at one point to as low as 5% of the labor force. As a result, unemployment rose to unprecedented levels; numbers vary, but there is a consensus that it reached between 20% and 30% on average, while in Gaza, under complete closure, we are talking about roughly 50%.

Poverty levels also rose. Dr. Radwan Sha'ban, a researcher at the Palestinian Economic Policy Research Institute, estimates that if we assume a poverty line of $650 annually, then 19% of Palestinians live below the poverty line, with Gaza's proportion of 36.3% being disproportionately high. This has had a weakening effect on the middle class that emerged from the occupation, and led to a process that I am tracing throughout this talk; the polarization of Palestinian society. Clearly the shape of the economic stratification in the West Bank and Gaza Strip has changed from an onion with a relatively large middle class, to a pyramid, with more people sinking down the economic ladder.

Although the PA, international organizations, and donors have taken some measures to counter this, they have been unable to stop it; UNRWA practically faces bankruptcy and the Ministry of Social Affairs' increase in assistance to families cannot match inflation. The PA has inflated the public sector, which by now has grown to some 80,000 employees. The PA has become the major employer in the West Bank and Gaza Strip; some estimates say that in Gaza, 30% of all people employed work for the PA. On the whole the average is around 17%. The PA has now become the man distributor of economic resources and jobs, which is very important, but not sustainable in the long run.

The impact of closures on the business elite was also significant as closures caused the decline of the private business elite, which further contributed to the polarization of the socioeconomic structures of Palestinian society.

Importers have been hit hard; according to UNSCO, imports to the West Bank and Gaza fell by almost 30% between 1992 and 1996, decreasing the volume of both trade and profits for importers. The general economic decline further reduced the purchasing power of Palestinian households. Real net factor income fell by about 78% between '92 and '95, which has reduced the demand for imported goods. Nevertheless, importers have been hit less hard than others, be, also according to UNSCO, "the closures' economic shocks to the productive sector have reinforced the import-biasedness of the West Bank and Gaza Strip economy."

Subcontractors and manufacturers have suffered much more. Virtually all of them had to cope with supply side-shocks as raw materials did not make their way into the self-rule areas, and if they did, only after a considerable delay and with high transportation costs. Equally, once commodities had been produced, access to outside markets was extremely limited. In the textile sector for example, many Israeli companies moved business elsewhere, notably to Egypt and Jordan, because Palestinian partners were increasingly seen as unreliable as the closures interrupted trade and production. Generally, the closures have forced many firms to close completely or to significantly reduce their level of output. In a survey by the DAI of spring 1996, most firms reported declines in monthly sales of around 30-40%.

This has also had an effect on the PA, as it increased pressure to counter these trends by providing jobs in the public sector and to finance emergency relief programs.

With regard to the transformation of economic elites in the West Bank and the Gaza Strip after Oslo, closures have had another significant effect. They have created a serious bottleneck of business opportunities, epitomized by the limited number of trucks that are allowed to enter and leave Gaza. Thus, closures have created a conflict between the private business elite, on the one hand, and the emerging public sector, on the other, because each of them had to struggle for business opportunities and sources of income. In a sense, closures have made economic competition a zero-sum game where one man's gain (in getting his truck through) is another's loss (in having his truck wait).

As a result of this, the PA and the private sector, although neither of them can be seen as monolithic blocks, have entered a struggle with each of them trying to secure for themselves larger pieces of the economic cake. While the private business elite has largely been driven by a primary interest in maintaining previous levels of trade and income, the PA has pushed to establish and expand income-generating activities. The fact that these two competing processes took place within a framework of general economic decline and sinking levels of business opportunities means that the conflict between these two sectors has become more severe. I would say that this is one of the main domestic parameters that has governed the process of economic elite transformation in the post-Oslo period.

Evidence suggests that within this struggle, a new economic elite has emerged, largely within and around the institutions of the emerging proto-state. Various sources have pointed out that the Palestinian leadership, driven by a perceived need to generate its own economic resources, has created a new economic elite and used its political power to gain supremacy in the struggle over economic resources. From the perspective of the PA, this was not done simply to control, damage or suppress the private sector, but in order to become economically independent from Israel and the donors and to be in a better position to realize its political interests without being forced into making political concessions because of economic dependency.

Nevertheless, it seems that some of the actual policies of the PA have reinforced the decline of the private business sector which, according to some scholars, is a key in triggering economic development. While the private business elite has certainly not disappeared from the scene, its significance has been weakened, and it has been superseded by new, powerful actors, who have been in various capacities connected to the institutions of the proto-state. This suggests two significant changes from the earlier period. Firstly, the major source for economical success has changed from contacts with the Israeli economy, to connections with the Palestinian Authority. Secondly, the self-rule areas are witnessing a 're-merging' of economic and political elites.

The new elite that has been emerging should not be seen as a monolithic, cohesive and self-conscious block, as it is in many aspects divided. Large parts of it, however, are united by the fact that they gain economic opportunities through political contacts. In other words, the Palestinian case has turned the Marxist paradigm on its head; in the West Bank and Gaza Strip, it is not your economic position that determines your political influence. Rather, the opposite is true; your political positions and connections determine your economic influence.

The new elite that has emerged can be roughly divided into two categories; first, there is a small and relatively cohesive and closed circle around President Yasser Arafat, with the clear mission of generating revenues for the Authority. This point has been made by several people such as Samir Huleileh, Hisham Awartani and various members of the Palestinian Legislative Council (PLC).This new elite has created various networks of individuals and companies, some of which have been operating outside the sphere of public scrutiny.

Secondly, evidence suggests that there is a larger and much more loosely connected stratum of officials in the proto-state institutions, who have entered commercial activities and partnerships with members of the private sector and, some argue, the security services.

In order to understand how and why these elites have formed, it is necessary to understand the possibilities, and perhaps even more importantly, the constraints the PA has been subject to, since entering the self-rule areas. I will mention just four points:

1. The high degree of dependency on external actors, especially Israel and the donors.
2. The continuing conflict with Israel and the collapsing peace process.
3. The generally deteriorating economy.
4. The high level of fragmentation among the political stratum of Palestinian society.

These factors have fostered the perception among the political elite that independent resources need to be generated in order to face the challenges ahead. Significantly, the focus of the Palestinian leadership has been politics, and not economics. Samir Huleileh for example has said that “in the first phase, our economic planning was completely determined by political reasoning. We had to be professional from a political point of view, not an economic point of view.” Therefore the economic policies of the PA have to be seen in a wider context of political power consolidation.

However, it seems that these policies have not only been a reaction to the unexpected closures, but that these priorities were largely set even before the Oslo II Agreement was signed. According to Huleileh, “the direction of economic activities was more or less determined during the economic negotiations in Paris. We were talking about the system to come, and part of its features were there in the agreement. But not fully. I would say that the features were not in the agreement itself, but in the discussions that took place within the Palestinian leadership before signing the Agreement. The top political level - Arafat, the Executive Committee, and some others - were forced to discuss the directions of our economic policies. The agreement said the following in principle; we would be committed to a free economy, free competition, and an open economy. And we would like to go as fast as we can and as much as we can into free trade agreements with other countries. [However,] the main priority of the leadership, was to get as much money as possible, in order to keep this leadership moving, without being dependent on Israel and donors. That was the priority. If you have a political battle, you have to be independent in your resources. This is how they have legitimized getting as much money as possible - cash, direct, immediate, not long term, not medium term, immediate - in order to sustain this leadership for the coming five years, no matter what the damages in the medium and long term would be.”

In order to generate these resources, specifiindividuals within the PA have used a variety of formal and informal mechanisms, which have been instrumental in the formation of the new economic elite. The exact nature and size of these arrangements is a heavily disputed topic, posing difficulties for the gathering of comprehensive and reliable data. However, a number of sources *are* available and are relatively consistent, but inevitably only an incomplete picture can be drawn. These sources include researchers from the Palestinian Economic Policy Research Institute (MAS) in Ramallah, the Center for Palestine Research and Study (CPRS) in Nablus, members of the PLC, as well as employees and former employees of the PA.

Accordingly, four main mechanisms through which the public sector has interfered with the private economy can be distinguished, although they sometimes overlap.

1. There have been official and state controlled monopolies in the classical sense, meaning that one and only one company or dealer is importing a given commodity, while other importers are frozen out. The prime examples have been petroleum, cigarettes and cement.
2. There have been quasi-monopolies, meaning that certain commodities can be officially imported by anybody, but are *de facto* controlled by certain companies or individuals. Examples are steel, flour in the past, and some forms of paint.

3. There have been PA-controlled, so-called ‘mother companies’, working as conglomerates in economically unrelated fields, sometimes dominating these fields. The major examples in the past have been the Al-Bahr company in Gaza, and the Palestinian Company for Commercial Services in the West Bank.
4. There has been public shareholding in private companies, not always on an official basis and not always according to the wish of these companies. The PLC for example had to conduct a special study to find that Commercial Services has had shares in 29 private companies.

Now, researchers, Council members and some donor countries have criticized these mechanisms for being embedded in a complex network of companies and individuals, connected to each other and the top political leadership, largely through informal arrangements. It seems that the network as a whole has been based on personal contacts and designed to be not transparent, neither to the public nor parts of the political establishment of the PA, especially the PLC. Most of the revenues generated through this system have been transferred to bank accounts outside the control of the Ministry of Finance, the PLC and the community of donor countries. In addition, MC Hatem Abdul Qader has stated, having read the PLC’s special report, that he had been astonished by “the suspicious deals conducted between members of the Palestinian police and security forces and businessmen.”

This further points to the close cooperation between the new political and economic elites, and to the emergence of a new complex within the political and economic spheres. I mentioned C. Wright Mills earlier, who was one of the most prominent elite theorists, and who wrote on American elites in the ‘50s, and who has coined the term ‘the military-industrial complex’ to denote the degree of cooperation between the two spheres. The findings of the PLC’s special committee on public sector intervention into the economy would support the thesis that a ‘security-monopolistic complex’ is emerging in the Palestinian self-rule areas.

However, since evidence is so scarce it is virtually impossible to determine the exact size and significance of this elite. With regard to the three known monopolies, petroleum, cement and cigarettes, evidence would suggest they generate around $300,000,000 in revenues a year. The sources for this are a researcher from Nablus University who has estimated that cement generates about $50,000,000 a year, the Ministry of Economy and Trade, one of whose sources indicate cigarettes generate about $150,000,000 a year, and the Ministry of Finance, which has a document that states about $110,000,000 of revenues generated by petroleum are transferred to bank accounts outside the Ministry. This comes to about $300,000,000 a year, which seems significant, given that the PA draft budget for 1997 amounted to $1.7 billion; if you compare it to the private sector, Al-Juneideh Company for example, one of the biggest companies in the private sector, claimed a turnover of about $10,000,000.

The same methodological difficulties of course apply to a further stratum of individuals who have used political positions for private economic gains. However, the special PLC report on corruption and embezzlement suggests that the level of such activities is significant, and it cites specific examples with regard to trade in cars, flour and computers. The general counter-argument against these suggestions holds that these are exceptional cases and not the rule; that the level of corruption has been exaggerated by the press, that the number and size of public sector monopolies is marginal, and that they are only of a temporary nature.

No matter who is right on this point, and no matter how many uncertainties prevail, it is clear that the various reports on these informal arrangements have serious and potentially negative effects. For a start, they have shaped popular perception in a way that has damaged the legitimacy of the Authority, both domestically and internationally.

Second, they have further worsened the investment climate in the West Bank and the Gaza Strip.

Third, they might affect the donors' willingness to fund the PA; diplomats and government officials have increasingly criticized the economic policies of the Authority and have indicated that discussions are being held in various European capitals about changing, and even stopping, funding.

There have been some reactions to this by the PA recently although, as far as I can tell, I have not seen any real changes being implemented. The PA has pledged to dismantle the monopolies by the end of 1998, not to establish new ones, to centralize accounting under the Ministry of Finance and to clarify the status of public companies; meaning that they either remain public, and officially transfer revenues, or go private and pay taxes. The reason why the PA has changed its rhetoric and, to some extent, its policies, seems to be partly the possibility of repercussions from donors. Different Council members indicated that they were not responsible for the change, but that it resulted from a fear of the findings being published and passed on to donors.

I will conclude here and briefly sum up; the West Bank and the Gaza Strip under Palestinian self-rule have witnessed a significant transformation in the structure and dynamics of economic elites. This transformation process has been driven by external and internal forces. Externally the Israeli closure policy has been the main factor, with significant effects on the structure of classes and elites in Palestinian society; closures have resulted in serious economic decline and disrupted production, trade and services, while large segments of Palestinian society have been pushed down the economic ladder. More specifically, they have forced large parts of the Palestinian labor force into temporary or permanent unemployment, and have actively contributed to the decline of the Palestinian middle class that had emerged under the Israeli occupation. In addition, they have created a bottleneck of business opportunities and a conflict of interests between actors in the public and private spheres. Within this struggle, the political elite of the self-rule areas has used the proto-state institutions to gain supremacy over the private sector. The PA has thereby further weakened the private business elite, contributing to the process of polarization in the economic stratification of Palestinian society.

In addition, the political elite has created a new economic elite in a largely successful attempt to generate revenues, to reduce economic dependency, and to create a stable political coalition. The combination of economic power, connections to the political leadership and the protection of the coercive institutions of the prostate, has consolidated the power of this new elite and has made it to some extent resistant to calls from various actors to change its policies.

However, increasing pressure by the international press, the PLC and the community of donor countries has changed both the rhetoric and some of the measures of this elite. Examples of this are the pledges made by the PA to dismantle the monopolies by the end of 1998, not to establish new ones, to centralize all accounting under the Ministry of Finance, and to clarify the status of government-controlled companies.

Regardless of whether these commitments will be met, the current picture of economic elites in the West Bank and Gaza Strip can be drawn as follows:

1. There is a relatively small and cohesive elite, with disproportionate power in each, and with close ties to the political establishment. Although this elite does not control the whole economy, it has secured itself a place in the dealing of strategic commodities.
2. There is a new group of business people who have benefited economically from political positions in the emerging proto-state.
3. There are members of the previously private business elite who have entered partnerships with the new economic elites.
4. There are other elements of the private sector who continue to conduct business, independent of the Authority.