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How to build a country? Philanthropy and capitalist methods in the financing of Zionism

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ABSTRACT

In this article, I identify two ideological currents within the Zionist movement, a philanthropic one and a capitalist one. Institutionally, the philanthropic current manifested through Keren Ha-Yesod and the capitalist one through the two Zionist banks, the Jewish Colonial Trust and the Anglo-Palestine Company. Despite the different ideologies and modes of operation associated with these financing institutions, the three of them were in fact tightly connected and at certain junctures dependent on each other for their survival. The economic context in which the financing institutions of Zionism operated determined their relative strength within their relationship, whereas ideology played a secondary role.



KEYWORDS

Zionism; finance;
philanthropy; capitalism;
banking

Introduction

Zalman David Levontin, a Zionist pioneer, one of the founders of Rishon Lezion, and the first manager of the Anglo-Palestine Company, was not a man inclined to subtleties. “The settlement of our land raises many questions [...],” he wrote in 1925, “but there is one question no one is discussing: how does one finance settlements and build a country – by capitalist methods or philanthropy.”¹ The immediate backdrop to Levontin’s question was the establishment of Keren Ha-Yesod as a financing arm of Zionism. Levontin saw its establishment as misguided, contrasting the “philanthropy” of Keren Ha-Yesod with the “capitalist methods” that he supported and represented as the manager of the Anglo-Palestine Company. The motivation for his writing came from his criticism of post-First World War Zionist financing, but tensions between profit-driven market principles and socially oriented ones actually existed within Zionism itself.

The two financing methods had their ideological standard bearers. Capitalist Zionism, as an ideological current, was most pronounced in the writings and stances of Levontin himself, who viewed business principles and Zionist settlement as mutually beneficial. Although he was the most ardent representative of this view, members of prewar “political” Zionism and prominent Zionist leaders such as Louis Brandeis, and at certain junctures, Theodor Herzl, shared similar views.² In contrast, philanthropic Zionism often emphasized the shortcomings of

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private capital in pursuing Zionist goals and the need for public initiatives that would not be constrained by market imperatives. If Levontin presented the clearest articulation of the capitalist Zionist position, Arthur Ruppin, director of the Palestine Office of the Zionist Organization, was equally explicit in presenting the contradictions between private profit and national objectives: “I can say with absolute certainty: those enterprises in Palestine which are most profitable for the businessman are almost the least profitable for our national effort; and on the other hand, many enterprises which are least profitable for the businessman are of high national value.”³

This kind of noncommercial philanthropic Zionism, emphasizing rural agricultural settlement and less preoccupied with business principles, was also evident from the early years of the movement. Alongside Ruppin, other proponents included the successive presidents of the Zionist Organization, Otto Warburg and Chaim Weizmann, as well as leaders from Labor Zionism.⁴

Both strains of thought were institutionalized within the Zionist Organization. Capitalist Zionism was most clearly embodied in the two Zionist banks, established before the First World War: the Jewish Colonial Trust and its subsidiary, the Anglo-Palestine Company (hereinafter: the APC).⁵ Philanthropic Zionism was represented by the Jewish National Fund, founded in 1901, and was joined by Keren Ha-Yesod, which was established in 1920.

I contend in this article that despite the difference in objectives, modes of operation, and sources of funds of the Zionist financing institutions, the ability to choose between philanthropy and capitalist methods was severely limited by economic constraints. By analyzing the relations between the financing institutions of Zionism, whether profit oriented such as the Anglo-Palestine Bank and the Jewish Colonial Trust, or donation-based like Keren Ha-Yesod, I will show that these methods were closely connected and at certain junctures dependent on each other for their survival. Zionist philanthropy and capitalist methods formed a dynamic bond that fluctuated and was heavily influenced by the economic context. Within this bond, ideological positions – such as those of Levontin and Ruppin – proved to be of secondary importance to the more powerful currents of local and global capital, occasionally breeding the curious phenomenon of leaders of one ideological camp advocating for the methods of their opponents. Changes in the economic environment reinforced the use of one method and institution at the expense of the other, regardless of the political affiliations of those involved.

The public and the private

The relationship between the nonprofit public sector and the private sector was not only a practical matter for the Zionist movement but was indeed of interest to later researchers.⁶

During the interwar period, Jewish private capital import was almost 80% of the total Jewish capital import, whereas the remaining 20% was public. But these figures mask the volatility of capital import that can be seen in [Figure 1](#). Whereas in the first half of the 1920s, the share of private capital imports in overall Jewish capital import hovered around 80%, it dipped to almost 50% in 1926 and then gradually rebounded to its peak

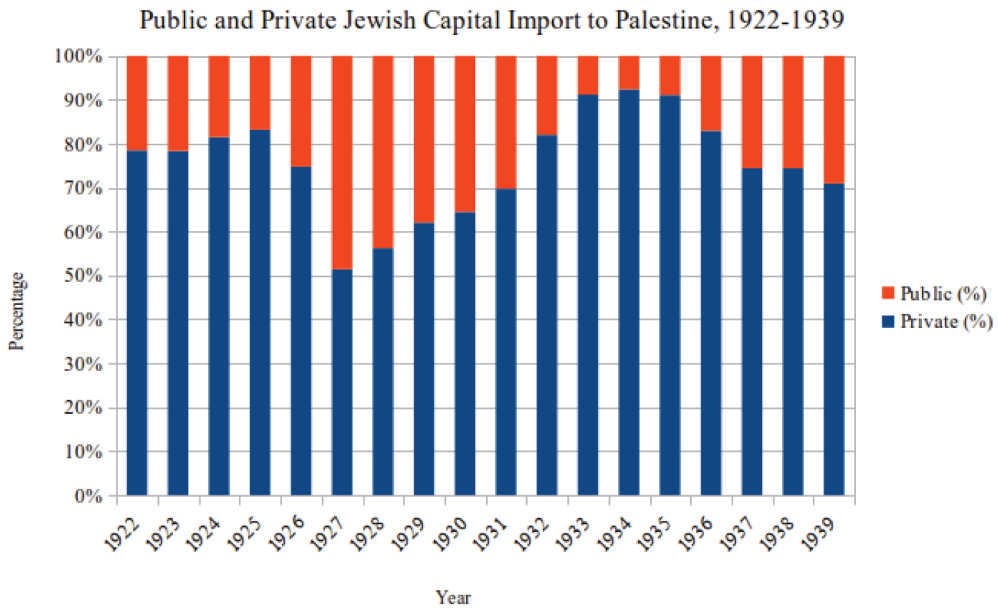


Figure 1. Source: Price figures from Metzger, *The Divided Economy*, 245, Table A.2. Percentages are author's calculations.

in 1934. As we shall see, this volatility had important ramifications for the Zionist financing institutions and the relationship between them.

The Zionist public and private sectors also differed in their functions within the Yishuv's economy. The main Zionist public expenditures were on agricultural settlements (33.4%) and education and culture (26.7%), followed by construction and employment (8.6%) and subsidizing immigration (8.1%).⁷ Disaggregated figures on private sector expenditures are hard to come by. As an approximation, it is useful to look at the credit allocation of the APC, the largest Jewish bank in the country during the years under discussion, which was catering to the private sector and is relevant to our later discussion. Topping the list was the bank's credit to commerce, agriculture (mostly citrus), and industry, which together comprised about 60% of the bank's overall credit.⁸ In other words, the Zionist public sector sustained agricultural settlements and social services, whereas the private sector was invested in commerce, citrus growing, and industry.

Within Zionist discourse, these two sectors were often framed as "national capital" and "private capital." But the definition and extent of national capital were not always consistent and, due to the social prestige of Zionism, it was an identity that private capital also sought to claim for itself. For instance, David Ben-Gurion at one point characterized Edmond James de Rothschild's investments in Zikhron Ya'akov and Binyamina as "national capital,"⁹ and the same claim was made for Baron Maurice de Hirsch's investments through the Palestine Jewish Colonization Association.¹⁰ These blurred boundaries were also evident in writings on the Zionist public sector, where some writers defined national capital as Zionist institutions that were based on donations, did not expect a profit, and were under the control of the Zionist

Organization. There were, however, others willing to include profit driven institutions as well.¹¹

The ambiguity of these terms did not prevent their widespread usage, which indicates that they continued to be useful in distinguishing between the nonprofit public institutions and profit yielding private ones. They also served as a bedrock for ideological positions emphasizing different methods to promote Zionist activity. But the challenges the financing institutions faced required the abandonment of rigid ideological positions. Despite the different opinions on the role of the public and private sectors in promoting Zionist projects, the financing institutions of Zionism acted in unison at crucial junctures and were dependent on each other for their survival.

Zionist finance between capitalist methods and philanthropy

In the first Zionist Congress, which took place in Basel in 1897, an official decision was made to establish a “Jewish Bank,” later named the Jewish Colonial Trust (hereinafter: the JCT). However, the Zionist Organization was unable to raise the capital required by the JCT’s charter, and therefore established a subsidiary, the APC, which required a lower amount of capital. The establishment of the APC, whose first office opened in Jaffa in 1903, facilitated credit to Zionist objectives in Palestine: immigration, capital transfer, land purchase and settlement. The JCT and APC were the first financial institutions of Zionism.

Herzl and other leading Zionists involved in the establishment of the Zionist banks emphasized the banks’ strictly business character and their separation from political meddling. The main reason for their insistence on this distinction was the attempt to gain credibility for the banks and to convince the potential customers and shareholders of their viability as a business venture. The efforts of these early Zionists to gain business standing and respectability for their movement was to a large extent in opposition to the philanthropy of the Jewish barons, such as Rothschild and Hirsch, that dominated Jewish politics during that period.¹²

The two tightly connected banks were the main institutional embodiments of capitalist Zionism, the current within the movement that sought to base Zionist settlement and activity on business principles clearly separated from political interference. Despite the economic difficulties that capitalist Zionism encountered, it remained institutionally central to the Zionist Organization until the First World War and its aftermath. In contrast, the only institution that embodied philanthropic Zionism before the war was the Jewish National Fund, which utilized the donations it received to purchase lands in Palestine.¹³

The war, the Balfour Declaration and the British occupation of Palestine brought about a reshuffling of Zionist politics and finance. On the one hand, the diplomatic achievements of Zionism during the war fostered widespread interest and hopes for the movement. On the other hand, the devastation and destruction of the war, both in Europe and in Palestine, meant that the prospects of private investment were limited. The changed circumstances brought about a decline in the centrality of the Zionist banks and a more central role for philanthropy.

Institutionally, this change manifested in the establishment of Keren Ha-Yesod, officially approved in the 12th Zionist Congress in September 1921. Keren Ha-Yesod

would replace the Zionist banks as the main financial institution of the Zionist movement in Palestine. Neither its funds nor its expenses were to be driven by profit. Keren Ha-Yesod's budget was to be raised from a "voluntary tax" - a de facto contribution - from the Jewish masses. Its expenses were to be divided between land purchases by the Jewish National Fund, education and health services and a little more than half for economic activities. There were no expectations of profit from these expenses, at least not in the short term.¹⁴

The difference between "philanthropy" and "capitalist methods" that Levontin presented is not fully identical to the difference between public and private capital. Whereas the latter is defined primarily according to ownership, the former distinguishes between the motives and expectations of the donors and investors. The three financing institutions under discussion were all under various degrees of ownership and control by the Zionist Organization, but their actions were guided by different principles. Keren Ha-Yesod relied on the good-will of donors who were not expecting a return, and therefore could provide funds to unprofitable but nationally important enterprises. The Zionist banks, on the other hand, had to couple the national objectives with the need to yield a profit.

As the sociologist Dan Lainer-Vos has pointed out, different methods of finance imply different allies and "borders" of the national community.¹⁵ Donating to Keren Ha-Yesod carried no expectation of profit and consequently depended mostly on an affiliation with Zionism's goals and trust in its political leaders. On the other hand, investment in shares of the Zionist banks allowed for other considerations, which although not wholly detached from ideology, were motivated by profit. As we will see, this difference meant that those advocating for capitalist methods of finance had an elitist conception of Zionist politics and sought support from non-Zionist Jewish capitalists. Conversely, the advocates of philanthropic Zionism turned to the Jewish masses and relied on their ideological commitment to the Zionist cause. Despite these differences, the changing fates of both financing methods required cooperation that bridged the ideological differences between advocates of capitalist and philanthropic Zionism.

Capitalist Zionism in the early 1920s

Levontin was the most articulate and committed proponent of capitalist Zionism. His basic premise was that only immigrants who were self-sufficient and could work for themselves should come to Palestine. His views were undoubtedly influenced by his background as a Zionist pioneer (halutz) during the First Aliyah and his position as manager of the APC. Levontin was explicitly against mass politics that relied on world Jewry to finance and contribute to Zionist settlements. According to Levontin, assistance to the settlers should be given as loans, not grants, from money raised through Jewish barons such as the Rothschilds, and should be invested according to business principles.¹⁶

After the war, Levontin advocated for a more central role for the APC. In his view, the bank was supposed to be peopled with professional financiers and representatives of private shareholders, focus on short-term commercial banking in Palestine and raise development funds by issuing securities. Levontin's plans were similar in their outline to those advocated by the Zionist financing committee that was established in 1919. The

committee's members were mostly "champions of capitalism and private enterprise" and stressed the importance of the business viability of Zionist finance.¹⁷ According to Levontin's memoirs, the members of the finance committee were willing to grant "real assistance" to settlements built on a "solid commercial basis." But this was under the condition that the board of directors of the APC included only people with experience and knowledge in financial matters and that issues of settlement would be separated from aid.¹⁸

Despite the various plans of capitalist Zionism, the economic conditions were not conducive to their fulfillment. The devastation of the war, both in Europe and in Palestine, did not bode well for the prospects of widespread private investment in Zionist activity. As previously noted, Levontin was, at that time, the most extreme advocate of business principles and the limited role of public initiative. In this regard, he was clearly out of step with mainstream Zionism, which emphasized the limits of private investment and established Keren Ha-Yesod as a public financing agency of the movement.¹⁹

Levontin, who before and after the war tried to increase the APC's capital, rightly saw the establishment of Keren Ha-Yesod as detrimental to such work and to his overall views on the appropriate way to build Palestine. Despite the changing circumstances, both within the Zionist movement and in the economic context in which it operated, Levontin held on steadfastly to his ideological principles. This consequently led to a growing disconnect between him and the mainstream Zionist leadership.

He found a close collaborator on these issues in Jacobus Kann, a prominent Dutch Jewish banker, one of the founders of the JCT, and a member of the Zionist Executive before the war.²⁰ Following the establishment of Keren Ha-Yesod, Kann invited Levontin and other Zionists to The Hague to discuss the turn of events. Like Levontin, Kann criticized the Zionist Organization for the establishment of Keren Ha-Yesod, which he considered "ill-advised" and of little use. Kann suggested drawing up a separate plan to acquire new capital which "should be entirely handed over to those who are capable of performing what we cannot [i.e., businessmen] and who will have the full confidence of the people who will contribute the money."²¹

Levontin encouraged Kann's efforts to raise capital for the bank, and in a letter to him, elaborated on the ramifications of the different methods of finance. According to Levontin, Zionism would take hold in Palestine only through economic development. The Zionist Organization was not creating viable and self-sustaining settlements but was rather giving out loans that could not be repaid and spending money with no results. Levontin claimed that the country could only be built with large amounts of capital, but that the Zionist Organization, instead of turning to capitalists, had relied on their opponents. He went on to assert that Zionist leaders were propagating "false social doctrines" and demanding higher wages and benefits that were "incompatible with the present economic condition of the country." Levontin was convinced that the actions taken by the Zionist Organization were deterring "private initiative" from coming to Palestine and a change of policy was therefore badly needed.²²

The advocates of capitalist Zionism – Levontin, Kann, and the finance committee – shared the belief that the Zionist banks, and especially the APC, should be the primary vehicles for financing settlements. This required increasing the banks' capital, which could only be done by ensuring that they would operate according to strict business

principles. To do so, all political interference needed to be rejected and the banks would therefore have to be taken out of the Zionist Organization's hands.²³ But as we will see, the Zionist banks faltered in the coming years and needed to rely on philanthropy for their continued existence.

Philanthropic Zionism to the rescue of capitalist methods

Levontin and Kann's efforts to increase the APC's capital, insert a more business friendly management to the Zionist banks and re-center them as the main vehicles for financing Zionism, failed. Except for a large but limited increase in the APC's capital between 1919–1920, its capital at the beginning of the decade was higher than it was at its end.²⁴

Although the efforts to increase APC's capital failed, the Fourth Aliyah – an immigration wave from Eastern Europe that began in 1924 – temporarily improved the bank's position. Many immigrants settled in the cities, especially Tel Aviv and Haifa, which led to increased demand for land and construction accompanied by an increase in speculation. The capital the immigrants brought with them and the uptick of economic activity raised the number of deposits the APC held and thereby allowed it to reduce its debt to the JCT and to extend more credit.²⁵

However, the temporary upswing did not last long. Toward the end of 1925, the signs of an impending crisis began to appear. Unemployment increased, construction and land purchases declined, industrial and manufacturing companies went bankrupt, deposits were withdrawn, credit was curbed and a general decrease in prices was evident. There were various reasons for the crisis: the centrality of the construction sector and the large amounts of credit going to it based on the assumption of future immigration; the worsening economic conditions of the Jews in Poland, which lessened the amount of imported capital; the inability of the Yishuv to absorb the large number of immigrants; and possibly Great Britain's decision to re-peg the sterling to gold in April 1925, which might have had ramifications for the local economy due to its use of the sterling-pegged Egyptian currency.²⁶

Following the crisis, the inability of many debtors to repay the APC and the general credit crunch weighed heavily on the bank. Alongside the consistent failure to increase its capital, the bank's balances showed a large reduction in its liquidity. In July 1925, shortly before the crisis began, the ratio between its liabilities and its liquid means was 33.2%. Six months later it dropped by half and, in October 1927, it reached 13.5%, its lowest point.²⁷

The JCT was in deep trouble as well. One critic wrote that its managers embarked "on hazardous and speculative ventures" and took unnecessary risks.²⁸ It was also hurt by a fraud committed against it. As a result, £200,000 had to be written off the accounts of both banks and since the APC's shares were held by the JCT, £400,000 was expected to be written off the parent bank. It seemed certain that the JCT's balance sheet – to be published in the coming months – would not be approved.²⁹ The institutions of capitalist Zionism were in deep trouble due to changing economic conditions and mismanagement.

Subsequently, the economic crisis and the banks' critical condition were the main concerns of the Fifteenth Zionist Congress that convened in Basel at the beginning of September 1927.³⁰ Two plans, reflecting opposing views on the place of politics in the management of the banks, were discussed at the time. The first, a short-term plan, was

pursued by George Halpern, manager of the JCT. The second, more long-term plan, was advocated by Levontin and Harry Sacher, members of the Palestine Zionist Executive (PZE).

During the Congress, the board of the JCT considered the different plans for the betterment and reorganization of the Zionist banks. Halpern's plan became the focus of intense discussions in the following months. The outline was simple: Keren Ha-Yesod would take over £150,000 worth of bad and doubtful debts from the APC in exchange for £100,000 worth of shares of the Palestine Electric Corporation and £50,000 worth of shares of the General Mortgage Bank of Palestine, the Zionist-owned mortgage bank established in 1921.

The board was divided in regard to the plan. Menahem Ussishkin and Joseph Cowen supported the plan and were joined by Levontin, who, as we will see, would also suggest an additional, even more long-term plan. The manager of Keren Ha-Yesod, Berthold Feiwel, who was called upon to take on bad debts in exchange for good assets, doubted his institution would agree to it. He was joined by Issac Naiditch, one of the founders of Keren Ha-Yesod and a member of the executive of the World Zionist Organization.³¹

Levontin's support of Halpern's plan should be noted. Despite his objections to Keren Ha-Yesod and his criticism of philanthropic Zionism, he had no qualms in utilizing this philanthropy to save his cherished bank. Economic necessity proved more powerful than ideological rigidity. But that is not to say that Levontin simply relinquished his former views. After stepping down from the APC's management in 1924, Levontin was replaced by his deputy, the Dutch born Zionist Eliezer (Siegfried) Hoofien. Levontin would, however, continue to take an active part in the issues concerning Zionist finance. He harshly criticized Halpern and Hoofien's management of the Zionist banks, both on professional and personal grounds, and following the Fifteenth Zionist Congress, he met with Chaim Weizmann in Palestine to present his criticisms of the two men.

The plan Levontin presented to Weizmann was to arrange for a group of Jewish, though not necessarily Zionist, capitalists, to take over the APC and run it in a professional manner. According to him, Weizmann promised to take a more active role in the subject and referred him to Oscar Wasserman, a director of the Deutsche Bank, whom he could consult. Levontin met with Wasserman and though Wasserman agreed with his criticism of the current structure and management of the APC he said that he was unable to serve as a consultant because the Zionist Organization would object to it.³²

The two different but interrelated plans, Halpern's short-term plan to rescue the banks and Levontin's broader and more long-term plan to increase the APC's capital by removing it from Zionist control, became the catalysts for a tug of war between different forces within the Zionist movement. The moment of crisis brought to the fore a reconsideration of Zionist finance for the first time since the early 1920s.

Although Halpern's plan of swapping bad assets for shares held by Keren Ha-Yesod would not solve the banks' problems, which were above all a question of liquidity, it was nonetheless deemed essential. The London Executive, which unanimously supported the plan, acknowledged it would be harmful to Keren Ha-Yesod's ability to receive credit. The Executive therefore decided that if Keren Ha-Yesod encountered problems paying back a loan from its own sources, the APC would repay the debt on its behalf. Feiwel, who

initially had doubts Keren Ha-Yesod could agree to the plan, was convinced of its necessity due to the banks' worsening condition. The London Executive "came to the conclusion that there was no other way of saving the banks."³³

Although the London Executive requested that the matter be dealt with immediately, some of the local Palestinian figures dealing with the subject raised consistent objections. Arthur Hantke, a director of Keren Ha-Yesod, said he preferred that the fund give a donation rather than take on bad assets. Hoofien agreed it would make a bad impression and "will only emphasize the fictitious [sic] character of the exchange of assets." He offered instead that the APC would transfer other assets that were more suited to Keren Ha-Yesod's character in return for preferential shares of the APC. Such a transaction would assume "a business character" and ease the expected criticism toward Keren Ha-Yesod. While the other two options, a swap of assets or a donation, might be cheaper, they were expected to be difficult to pass.³⁴

Hantke's objection was reinforced by the PZE, which stressed that whatever action taken must be part of a broader reorganization plan to reform and strengthen the banks. Their main suggestion was along the lines Levontin had raised. Harry Sacher, a British born attorney who had been recently elected to the PZE, would try to receive the financial support of Jewish capitalists, specifically Pinhas Rutenberg, Edmund de Rothschild, and Bernard Baron. Sacher reported that in an informal meeting with Rutenberg, he made it clear that such assistance could only be given on the "understanding that the Banks could be made independent of Zionist control."³⁵

The broad dividing lines were thus formed. The JCT, represented by Halpern and the London Executive, were mainly concerned with rescuing the banks while retaining Zionist control. Levontin and the PZE wanted, on the other hand, to tie the short-term problem to a long-term solution. Its main feature was removing the banks, especially the APC, from the Zionist Organization's control and raising their capital from non-Zionist Jewish businessmen.

Keren Ha-Yesod's representatives – Feiwei, the manager who sat in London, and Hantke, who was a director sitting in Palestine – were more concerned with the effects on their institution and were less prone to strong stances concerning the banks. Their different locations and proximity to the other locally involved figures may have influenced their opinions. As mentioned, Feiwei, who took part in the Zionist Executive's discussions, adopted the short-term plan due to the worsening condition of the banks.³⁶ Hantke however, raised both legal and moral doubts concerning the proposed swap of assets because it amounted "to a donation in disguise." Since the bad debts that were proposed to be transferred to Keren Ha-Yesod would immediately be written off, asked Hantke, why not offer a donation? He was also more concerned with the APC's condition, whose business was mainly in Palestine, than with the JCT's condition. Together with Sacher and the local directors of the APC, Hantke thought the transaction would be worthwhile only if the entire amount of £150,000 would go the APC.³⁷

What do these differing stances tell us about the relationship between capitalist methods and philanthropy? The uniting factor for all of those involved was concern for the survival of the Zionist banks, and especially the APC. As the largest Jewish bank in the country, the APC's downfall would have had severe adverse ramifications on the Yishuv. More generally, a failure of the Zionist banks would have raised significant doubts about the competence and ability of the Zionist

Organization to support Jewish settlement. These concerns trumped any kind of ideological inclination, be they capitalist or philanthropic. The more significant differences were based on institutional and geographical settings. Those who operated in London and whose social ties were closer to the Zionist Organization's political leadership tended to support Halpern's plan that promised to save the banks while retaining control of them. Those who resided in Palestine were concentrated on the APC's current condition and its future and were therefore more willing to relinquish Zionist control. Social and economic context proved more significant than ideology.

The need for the banks' balance sheets to pass inspection by the authorities at the end of the 1927 loomed large and the back and forth between the PZE and the London Executive went into high gear that December. Sacher and the PZE insisted that clearing the APC's balance sheet and restoring its liquidity should be done simultaneously and therefore maintained that there was no justification to push for the transaction with Keren Ha-Yesod without raising the bank's capital. They proposed that the transaction be conditioned on a scheme for raising new capital for the APC, and that its board give a member of the London Executive powers to negotiate for it, including, if need be, the option of relinquishing Zionist control of the bank in exchange for capital.³⁸

Meanwhile, in London, the Executive and the JCT's board of directors were concerned with the more immediate contingency. The Executive decided that Keren Ha-Yesod would buy £50,000 worth of assets from the JCT in exchange for the same value of General Mortgage Bank shares and £100,000 worth of assets from the APC in exchange for the same value of shares in the Palestine Electric Company.³⁹ Sacher and the PZE expressed anger at the Executive's disregard for their proposals and insisted on their inclusion in the decision-making process. On the other hand, Joseph Cowen, chairman of the JCT's board, stressed the necessity of carrying out the transaction and criticized Sacher for agreeing, in front of Rutenberg, to relinquish Zionist control of the banks.⁴⁰

On December 23, a compromise was reached, demonstrating the dependence of capitalist Zionism on the philanthropy it supposedly opposed. The short-term plan was to be implemented. Keren Ha-Yesod would write a letter to the APC arguing that since the two parties shared the objective of building a national home in Palestine, and to strengthen the bank's position, the fund would take over £100,000 worth of debt owed to the APC in return for shares of the Palestine Electric Corporation and of the General Mortgage Bank of the same value. New capital would be sought through Keren Ha-Yesod and through negotiating with Jewish groups and individuals to participate in the APC. The aim of these negotiations would be to retain Zionist control of the bank but, if not possible, the Executive was willing to relinquish it.⁴¹

The main figure in the negotiations to increase the bank's capital was Rutenberg. In early 1928 he met with representatives of the British Barclays Bank to discuss the possibility of their participation in the APC based on stronger supervision of the business it conducted and the transfer of its control to a Jewish majority outside of the Zionist Organization. The scheme included an arrangement in which ordinary banking business be left to the APC and other banks, and Barclays "would confine itself to a different class of work," probably indicating its role of serving the British government in Palestine. According to Rutenberg the negotiations initially went well. Bernard Baron, and possibly Barclays, Lord Reading, and Lord Mond as well, were willing to take part in increasing

the APC's capital. But the Zionist Executive was unwilling to relinquish its control, and therefore the negotiations eventually failed.⁴²

The refusal of Zionist political leadership to relinquish control of the bank was premised on the relative strength of its philanthropic agency, Keren Ha-Yesod. The year 1927 marked the peak of its annual income since its establishment, a level that was not surpassed later in the interwar period. Conversely, the APC balance sheet showed a decline in assets that same year for the first time since 1921.⁴³ In other words, the primacy of philanthropy within Zionist finance was dependent on the relatively prosperous conditions in the United States, Keren Ha-Yesod's main source of donations, and the lingering consequences of the economic crisis of the Fourth Aliyah. The importance of philanthropic Zionism for the Zionist banks was indicative of the general trend in the 1920s, in which the Zionist movement was central to the development of the Jewish banking system.⁴⁴

Capitalist Zionism to the rescue of philanthropy

The Great Depression and the Fifth Aliyah reversed the situation of the 1920s and reshuffled the balance of power among Zionism's financing institutions.

Between 1921 and 1933, Keren Ha-Yesod received contributions of more than £5,000,000, about half of which came from American Jewry. The Great Depression significantly limited the incoming funds from the United States and from other sources. Keren Ha-Yesod's expenditures were also reduced but some were impossible to eliminate, including education and health services as well as agricultural settlement projects that were not yet completed. Another significant expenditure was the assistance given by Keren Ha-Yesod to public land corporations – the American Zion Commonwealth (Amzic), the Meshek company and the Haifa Bay Development Company – all of which were unable to acquire funds from abroad due to the crisis and therefore were unable to maintain their payments for land purchases. The gap between the incoming funds and expenditures led to an accumulation of many short-term debts, as well as one large one of over £100,000 to Deutsche Bank. These debts became a significant part of the annual budget and consequently reduced new investments to a minimum. At the beginning of 1934, Keren Ha-Yesod and the Jewish Agency's debts amounted to £570,000, of which £200,000 was to be paid until the end of the year.⁴⁵

In February 1934, a consolidation committee was formed to deal with the Jewish Agency's and Keren Ha-Yesod's financial problems. The committee included, among others, Eliezer Hoofien, the manager of the APC; Arthur Hantke of Keren Ha-Yesod; Eliezer Kaplan, one of the leaders of Labor Zionism and the Treasurer of the Jewish Agency; and Yosef Aharonovitch, manager of Bank Ha-Poalim. An additional member, who was unable to attend the meetings but would play a central role, was Israel Sieff, a prominent British Zionist, Managing Director of the British retailer Marks & Spencer and brother-in-law of Harry Sacher.⁴⁶

These individuals represented diverse ideological inclinations and economic interests, from the socialist Zionists Kaplan and Ahronovitch to the liberal capitalists Hoofien and Sieff. Despite their differences, the critical financial problems of Keren Ha-Yesod and the Jewish Agency would unite them in a common endeavor to secure a loan from one of the largest banks in the City of London, the city's financial district.

Kaplan, in a lengthy update letter, informed Sieff of the committee's meetings, laying out Keren Ha-Yesod's problems and possible solutions. Committee members discussed several options for consolidating the loans of the Jewish Agency and Keren Ha-Yesod. The first was a reduction in the amount that will be paid to all of the institutions' creditors (a "haircut") of all debts to creditors, a possibility that would mean a "virtual bankruptcy" of the two institutions and was therefore dismissed. Alternatively, a more moderate haircut to only some of the creditors was also considered. The most plausible candidate for a haircut on debt was the APC, which was in a weaker position than the other creditors and could therefore be pressured. But as the bankers of the Jewish Agency and the most important financial institution in the Yishuv, they were expected to play a major part in any future consolidation plan and it would therefore "be impossible to let them do this whilst at the same time making them the only party to suffer," according to Kaplan.⁴⁷

The only remaining option, according to Kaplan's letter, was to acquire a large loan to pay off much of the outstanding debt and thereby make the institutions more liquid. To raise a loan from the Jewish public both in Palestine and abroad was the first possibility. This suggestion was dismissed for its poor prospects of success, not necessarily due to economic reasons, but rather to political ones. "[M]any groups in Palestine and abroad," Kaplan wrote, "[...] would welcome a failure and do their best to bring it about. It would be futile to close our eyes to this danger."⁴⁸ Another alternative was to acquire the loan from a financial corporation abroad. Aside from the problems surrounding an intra-Jewish loan, an "outside" loan seemed more favorable and feasible due to preliminary talks Sieff had had with various people in the City of London. The committee decided that a loan from one of the City houses was the best option, and this choice consequently made Sieff a central figure in the process.⁴⁹

Kaplan set out the terms of the future loan in detail. The principal debtor would be Keren Ha-Yesod, not the Jewish Agency, and the request would be a loan for no less than 12 years. The amount of £450,000 would be divided between the upcoming liabilities (£265,000), the APC debt (£80,000–90,000), and the Deutsche Bank debt (£100,000). The rate of interest would be determined in negotiations with the annual payments, set between £35,000–40,000. Security for the loan was to be provided by Keren Ha-Yesod and the Jewish Agency through their assets and future assets to be created with the help of the loan. The primary current asset offered was colonists' debts, which were worth over £700,000. This asset was expected to be problematic due to the long period of repayment (over 50 years) and only two percent interest rate, as well as the "financial morality of the debtors and their capacity to repay." Concluding his letter, Kaplan wrote to Sieff that Hoofien, who would play an important role as well, had helped in writing the letter and had assured him that he approved of "the general purport" of it.⁵⁰ Here one can see that Kaplan, a Labor Zionist, needed to ensure his correspondent of the capitalist finance sense of the plan. The role of the APC and Hoofien would prove central to the task of providing a sound business backing.

From that point on, negotiations proceeded quickly. Sieff met with Robert Benson and Sons, a City investment bank. The Bensons advised not to issue a debenture since that would require higher interest rates than the London money market rates and would necessitate gaining the support of a Jewish house such as Rothschild. The preferable alternative was to acquire a loan from Lloyds Bank, one of the biggest banks in the

country. To increase the amount of the loan, the Bensons suggested that the APC participate with a smaller amount but on similar terms.

The issue of control, discussed so often in the context of raising the APC's capital, was now part of the negotiations over the loan for Keren Ha-Yesod. Following discussions with Lloyds, Sieff wrote that they were "particularly interested in the composition of the Board of the Keren Ha-Yesod," as they wanted an international board with people who were well known within the industrial and financial world. They also wanted all of Keren Ha-Yesod's funds to pass through them, but had no interest in administering them, instead being willing "to be guided by the Anglo-Palestine Bank in all these matters."⁵¹

When writing to Kaplan on the meaning of all this, Sieff was explicit:

"The Executives of the Zionist Organisation, the Jewish Agency, and the Keren Ha-Yesod must understand the full implications of the consolidation loan; the main one being that the whole of Zionist effort should be concentrated in collecting for the Keren Ha-Yesod, and that the above Executives, and the parties in the Zionist Movement, be discouraged in every way possible from starting new and independent funds."⁵²

In other words, not only were the Zionist institutions' debts being consolidated, but also their actions. In that way, they were working in unison to serve the debt. Serving the debt thus became the precondition to any further colonization.

The loan, if granted, would not only rehabilitate the trust in the Jewish Agency during harsh economic conditions, but it would also, according to Sieff, be a prelude to "a five or ten year colonization plan of which all of have been dreaming and talking so much." This was dependent on satisfying the London money market "through our correct behavior." The delicacy of the matter required strict confidentiality, since "competitive bankers" or people would want to "wreck the negotiations for some vested or malignant reason" and might try to exert outside pressure to thwart the loan.⁵³ A preliminary declaration by Lloyds of its willingness to grant the loan was sent to Sieff shortly thereafter, accepting the broad outline of the loan.⁵⁴

At the beginning of May 1934, Kaplan arrived in London to close the deal. The remaining major point of contention was the settlers' debts, a substantial part of the assets offered by Keren Ha-Yesod as security. This issue caused some of the tensions between the proponents of capitalist and philanthropic Zionism to reappear. Following his negotiations with Lloyds, Sieff wrote that the contracts with the settlers would need to be changed. Kaplan suggested splitting the loan in two and conditioning only one part on the changing of the settlers' contracts. Hoofien and Sacher opposed this suggestion. Sacher, as will be recalled, was one of the main proponents of capitalist Zionism and a participant in the discussions. The two feared nothing substantial would change once the first installment of the loan was granted. Kaplan, for his part, suspected that Sacher was using the loan to insert changes in the contracts that he had advocated long before, namely shortening the contracts to 30 years and raising the annual payments. It was decided the issue would be settled after meeting with Lloyds. Shortly afterward, Hoofien returned from a meeting with Lloyds' managers with approval that the loan would be granted.⁵⁵

On May 9, Lloyds' board authorized the loan, whose outline was similar to the Zionist consolidation committee's original plan. Lloyds would grant a £450,000 loan, with an additional £50,000 granted by the APC. The rate of interest would be between

four percent and four-and-a-half percent depending on the London market rate. The loan would be repaid within 15 years by equal monthly installments. Keren Ha-Yesod and the Jewish Agency would be forbidden to contract other loans or credits over £12,000 without the consent of Lloyds and the APC. Keren Ha-Yesod's assets, valued at £905,000, would serve as the security for the loan. Included were the settlers' debts (£460,000), loans in the Sharon and Judea (£135,000), the Haifa Bay Development Company shares (£100,000), Amzic and Meshek Land (£135,000), and various other loans and assets. The APC, who according to Lloyds, "have been known to us for many years as good customers of the City Office," were to act as agents on behalf of Lloyds.⁵⁶

The question of institutional control was evident in the agreement as well. When the APC was in trouble several years earlier, the proponents of capitalist Zionism tried unsuccessfully to release the bank from the Zionist Organization's control. Now that Keren Ha-Yesod was in crisis, two Zionist businessmen were added to its board: Israel Sieff, joint manager and vice-chairman of the Marks & Spencer retail company, and Henry Mond also known as Second Baron Melchett, a British financier, industrialist and Conservative politician.

At an earlier stage, it was Levontin who, despite his outspoken capitalist ideology, had supported the rescue of the APC by Keren Ha-Yesod, the philanthropic agency he so bitterly denounced. Now it was the socialist Eliezer Kaplan who was compelled to speak highly of the merits of capitalist methods. In a press conference shortly after the Lloyds loan was acquired, Kaplan said: "With this loan we have paved our way to the international money market. [...] If we will be wise enough to fulfill our commitments [...] to pay each month the installments to the creditors [...] we will find a third large partner in the building of the land. Alongside national and private capital we will be joined by large international capital as well."⁵⁷

Conclusion

In a market economy, one of the most important elements for success in pursuing political goals is the ability to raise funds. The question of the preferred methods to do so has baffled many political movements, and Zionism was no exception. This dilemma was a recurring challenge for Zionist leaders from Herzl onwards.

The question of whether financing methods should be dependent on the prospects of future profits or on the good will of donors was embodied in the different Zionist institutions. As I have argued, despite the important differences between capitalist methods and philanthropy, the different institutions' survival was dependent, at crucial junctures, on alliances that bridged their ideological differences. In light of this conclusion, the question of the relationship between the public sector and the private sector and between national capital and private capital should be reexamined. The research on these issues has until now mostly focused on their differences and has paid less attention to the ways they interacted with each other.

This article illuminates the interdependence of capitalist methods and philanthropy by analyzing the relationship between the major institutions responsible for financing Zionist activities. Tracing such interdependencies can offer a useful lens on some of the questions surrounding the relationship between political power and economic power and between the Labor movement and the private sector during the Mandate period and after. In his autobiography, David Horowitz gives another illuminating example of this, relating directly to the figures and issues discussed in this article. Writing about his time as the Director General of the Israeli Ministry of Finance under Eliezer Kaplan, he wrote that the two of them

would meet once a week with the heads of Bank Leumi [formerly the APC], Sigfried Hoofien and Aharon Barth, to try and work out the State's economic matters. Most of the economic decisions were decided in this group, before they were brought to discussion in the government, who paid little attention to economic questions at the time. It was an economic cabinet, which despite lacking any formal authority, was nonetheless a central element in the design of economic policy in the first years of the State.⁵⁸

The complex interconnections between the financing institutions of Zionism and the people who led them during the interwar period had long-lasting ramifications that lingered on into the early years of the State of Israel. The relations between the financing institutions and the public and private sectors more generally were not only the product of the historical legacy of the pre-state Yishuv, but also of the changing economic environment of the time.

Notes

1. Levontin, *Le-eretz avoteinu*, vol. 3, 124. Unless indicated otherwise, all translations from Hebrew are the author's.
2. On Levontin's views see Gross, "Yozma pratit"; Giladi, *Hazara "le-eretz avoteinu"*; and more recently Schwartz, "Meshek ivri bari." On Brandeis, see Gal, "Brandeis's View." On Herzl, see especially Gross, "Tfisato ha-kalkalit shel Herzl"; and Zilbersheid, "Hazono ha-hevrati-kalkali shel Herzl."
3. Ruppin, *Shloshim shnot*, 154, quoted in Kimmerling, *Zionism and Economy*, 20; and Kimmerling's translation. An earlier book by Ruppin raised the ire of Levontin who heavily criticized it; see the discussion in Schwartz, "Meshek ivri bari," 72–74.
4. On Warburg and Levontin's tense relationship prior to the First World War, see Penslar, *Zionism and Technocracy*, 68–78. Harry Sacher, who as we'll see, was a major proponent of capitalist Zionism, wrote of Weizmann that in contrast to Brandeis, he thought that "only on the basis of much national expenditure could private enterprise build"; Harry Sacher, "Chaim Weizmann," 462–9, 466.
5. The APC changed its name a number of times. Despite being a bank, it was registered as the Anglo-Palestine Company, but in 1931 it changed its name to the Anglo-Palestine Bank. 20 years later it was registered in Israel as Bank Leumi Le-Yisrael. I have used the APC acronym because that was the bank's name during most of the period under discussion, and because of its similarity to the Hebrew term for the bank (Apak).
6. See for instance Metzger, "Economic Structure," 101–19; Metzger, *Hon Leumi*; Kimmerling, *Zionism and Economy*; Frenkel, Shenhav, and Herzog, "The Ideological Wellspring," 43–69; Amit, "Economic and Zionist," 82–102; and Krampf, *Ha-mekorot ha-leumiim*.
7. Gross and Metzger, "Mimun tziburi," 105–71, 142–7.
8. Gross et al., *Bankai le-uma*, 187.
9. Karlinsky, *California Dreaming*, 40–41.
10. Frenkel, Shenhav, and Herzog, "The Ideological Wellspring," 52.
11. For the first view, see Olitzur, *Ha-hon ha-leumi*, 11–13; for the second, see Metzger, *Hon leumi*, 69–76.
12. Gross et al., *Bankai le-uma*, 9–13; and Nakdimon, *Ha-bank*, 37–41.
13. See Olitzur, *Ha-hon ha-leumi* for a survey of the various institutions of "national capital" (i.e., donation-based institutions) and the temporal anomaly of the JNF.
14. Gross et al., *Bankai le-uma*, 129–30. For the background on Keren Ha-Yesod's founding and the struggles surrounding it, see Metzger, *Hon leumi*, 69–137.
15. Lainer-Vos, *Sinews of the Nation*.
16. Gross, "Private and Public Enterprise"; and Schwartz, "Meshek ivri bari."
17. Gross, "Herbert Samuel's," 5–21, 18.
18. Levontin, *Le-eretz avoteinu*, 100; and Gross et al., *Bankai le-uma*, 127–8.

19. For an overview of the discussions on the subject of national capital and its relationship to private capital between the end of the First World War and the establishment of Keren Ha-Yesod, see Metzger, *Hon leumi*, 15–66. On Levontin's views and their place within the broader Zionist discussions, see *ibid.*, 19–20. See also Brandeis's recognition of the limitations of capitalist investments at that moment in *ibid.*, 156–7.
20. On their collaboration prior to the war, see Penslar, *Zionism and Technocracy*, 133–5.
21. Kann, "Weakness in the Zionist Organisation," January 1922, Central Zionist Archive (hereinafter: CZA), A34\66.
22. Levontin to Kann, January 30, 1922, CZA, A34\66.
23. Kann, "Scheme for financing the Anglo Palestine Company," n.d., CZA, A34\66; Levontin, "The Anglo-Palestine Company: Commercial Bank, or Colonising Bank?" April 1924, CZA, L51\325; and Gross et al., *Bankai le-uma*, 129.
24. See the figures and discussion in *ibid.*, 138–40.
25. *Ibid.*, 123–6, 144–5. The classic account of the Fourth Aliyah is Giladi, *Ha-yishuv Be-tekufat*.
26. *Ibid.*, 173–6.
27. "The Anglo Palestine Company LTD., - Report per 30th June 1928," CZA, KH4\3771; see also the yearly liquidity ratios in Gross et al., *Bankai le-uma*, 143, table B-10.
28. H. Razily, "The Jewish Colonial Trust Dilemma," December 9, 1927, CZA, S25\1461.
29. Letter to Kisch, November 10, 1927, CZA, S25\1461.
30. Elam, *Ha-sohnut ha-yehudit*, 107–8; Kisch, *Palestine Diary*, 238–9; and Nakdimon, *Ha-bank*, 200–1.
31. "Jewish Colonial Trust – Minutes of Board Meeting," September 1, 1927, CZA, A34\86.
32. Levontin, *Be-eretz avoteinu*.
33. Letter to Kisch, November 10, 1927, CZA, S25\1461.
34. Hoofien to Board of Directors, November 24, 1927, CZA, KH4\3771.
35. "Minutes of meeting of the PZE held in Jerusalem November 26, 1927," November 27, 1927, CZA, S25\1461; Hoofien to APC Board of Directors, November 28, 1927, CZA, KH4\3771; and *Ibid.*, 31–33.
36. Letter to Kisch, November 10, 1927, CZA, KH4\3771.
37. Minutes of a meeting of local directors of the APC, November 1, 1927, CZA, KH4\3771; and Letter to Board of Directors of the JCT, December 1, 1927, CZA, KH4\3771.
38. Kisch, "Meeting of the P.Z.E., December 6, with regard to the proposed Keren-Ha-yesod-Bank transaction," December 7, 1927, CZA, S25\1461; and Sacher to the Zionist Executive, December 7, 1927, CZA, S25\1461.
39. "A Meeting of the Executive of the Zionist Organisation," November 9, 1927, CZA, S25\1461.
40. Sacher to the Zionist Executive, December 9, 1927, CZA, KH4\3771; and to the Zionist Executive, December 12, 1927, CZA, L9\312.
41. Rosenblith to Kisch, December 28, 1927, CZA, S25\1461; Feiwei (on behalf of KH) to the APC, December 28, 1927, CZA, KH3\3771. The actual transfer of the shares to the APC was carried out only toward the end of the following year, but the APC's position improved somewhat and the urgency subsided; Feiwei to Treasury Department of Keren Ha-Yesod, November 29, 1928, CZA, KH4\3771; and Hoofien, July 23, 1928, CZA, KH4\3771.
42. There was a parallel line of negotiations with Barclays that included Halpern and Hoofien and which was criticized by Sacher and Levontin for being too limited in its scope and possibly interfering with their negotiations; see Sacher to the Zionist Executive, February 8, 1928, CZA, S25\1461; and *Ibid.*, 33–35, 63.
43. On Keren Ha-Yesod, see the figures and discussion in Olitzur, *Ha-hon ha-leumi*, 36–38. On the APC, see Gross et al., *Bankai le-uma*, 140–2.
44. Gross, "Ha-bankaut ha-yehudit," 217–37, 233–4.
45. "Indebtness of Keren Hayesod," March 31, 1934, CZA, L51\948; Henry Montor to Associated Press, CZA, KH4\5937; and Olitzur, *Ha-hon ha-leumi*, 40–41. On the land corporations' crisis, see Doukhan-Landau, "Ha-mashber be-Kehiliat," 173–99.

46. Kaplan to Barth, November 12, 1933, CZA, KH4\5938; Sieff to Kaplan, November 23, 1933, CZA, KH4\5938; and Kaplan to Sieff, March 5, 1934, CZA, KH4\5938.
47. Kaplan to Sieff, March 5, 1934, CZA, KH4\5938.
48. Ibid.
49. Ibid.
50. Ibid.
51. Sieff to Kaplan, April 12, 1934, CZA, KH4\5938.
52. Ibid.
53. Ibid.
54. Lloyds to Sieff, April 14, 1934, CZA, KH4\5938.
55. Kaplan to the managers of the Jewish Agency, May 4, 1934, CZA, KH4\5938; and Hoofien to Israeli, May 4, 1934, CZA, KH4\5938.
56. May 9, 1934, HO/D/Adv/2, Lloyds Banking Group Archives.
57. Kaplan in press conference, January 28, 1935, quoted in Kaplan, *Hazon u-m'a'as*, 143.
58. Horowitz, *Haim ba-moked*, 12.

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