**Session:** *Political economy and social issues in historical perspective*

**Migrants, State-Building and Ethnic Networks:**

**Discount Bank, 1936 – 1945 and the formation of Israeli Sephardic elites**

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The increasing dependence of Greece’s economy on the Nazi economy following the 1934 Clearing Agreements pushed Jewish entrepreneurs to emigrate from Greece. At the same time, favorable conditions for entrepreneurship in Mandatory Palestine, including a strong administration under the British Mandate; foreign trade and financial liberalism; low customs; a stable and fixed exchange rate between the Palestine lira and the pound (1:1 with free exchange) and minimal initial capital required to establish a financial institution, attracted Jewish entrepreneurs such as Leon Recanati from Greece to the growing banking sector in British Mandated Palestine.Recanati had early entrepreneurial experience in Thessaloniki, where he managed the Fumaro tobacco factory, and trust-based relations with family members through class endogamy and co-ethnic entrepreneurs who had already immigrated to Eretz Israel during the mid-1920s, all of which helped him to amass the initial capital required to register the Private Discount Bank on April 5, 1935 in Tel Aviv. From its early days, the bank gained the trust of new immigrants from Greece, guaranteeing co-ethnic depositors. Bank officials and clients were both recruited from among these immigrants, and the bank even provided for its officials. Transnational contact with co-ethnic capitalists, mainly from Egypt, provided the bank increasing numbers of large-scale transactions. **(Transparency 1)** Thus, the bank could be considered an ethnic Sephardic bank.

Both Recanati's early experience and the loyalty of his clients - Sephardic Jewish immigrants from his native Greece, who recognized his public status as president of the largest Jewish community in Greece prior to his immigration to Israel – and especially his close ties with the Sephardic banking elite in Palestine and Egypt, helped the new bank survive and even thrive following the crisis caused by the Italian-Abyssinian War of 1936. A large loan Recanati received from Joseph Hachmishvili, a member of the Sephardic Jewish community in Jerusalem and manager of the Tel Aviv branch of Barclays Bank, allowed the bank to restore the confidence of its customers and repay the deposits they needed to cash (and deposit in foreign banks) due to panic for money.

This paper will detail the ethnic characteristics of Discount Bank over the next decade, following the death of its founder Leon Recanati in 1945. Simultaneously, the paper will identify signs of the new multi-ethnic orientation that began in 1946, when Harry Recanati replaced his late father in the bank’s management. As is customary in an ethnic venture, Recanati's eldest son was trained within the bank, and among other positions was a telephone assistant, doing filing in the bank's archives and later moving to the Department of Foreign Trade. This trend would continue into the 1950s, when Harry Recanati’s brothers entered bank management.

Based on private archival documents, including two notebooks in which shareholders were recorded, this paper will analyze the ethnic origin of bank shareholders following capital raising in 1946. Using qualitative and quantitative methods, this paper will contribute to the study of banking by migrants, or for migrants, throughout the state-building phase.

Registered shareholders have been processed into two databases, one of preferred shareholders sorted by ethnic origin and the other of ordinary shareholders by ethnic origin. The analysis has also been divided into two phases according to the type of stock: preferred stocks and regular stocks. The former are the main component of a company's share capital and give their owners priority over other shareholders in payment of a dividend at a predetermined rate, while the latter give their shareholders the right to vote at shareholder meetings.

1. Analyzing all 51 preferred shareholders according to ethnic origin reveals continuing supportive co-ethnic networks during the pre-state phase.

Transparency 1

|  |  |  |
| --- | --- | --- |
| **Network** | **Total value in Lira** | **% of total preferred stocks** |
| Bank founders (officers incl.) | 5710 | 31.1 |
| Diasporic network in Mediterranean basin | 8144 | 44.3 |
| Migrants from Greece-Bulgaria private investors | 2327 | 12.7 |
| Associations of Migrants from the Balkans | 1200 | 6.5 |
| Rural settlements of Greek-Bulgarian migrants | 1003 | 5.5 |
| **Total** | **18,384** | **100** |

The shared ethnic network of shareholders includes migrant entrepreneurs from the “Judeo-Spanish-speaking culture area,” who originated from throughout the broader former Ottoman Macedonia territories/ Greek and Bulgarian territories, including Thessaloniki, Plovdiv, Ruse and even Sofia.

However, these shareholders may be divided into 5 main ethnic networks:

1. The managers of Discount Bank, including its founders.
2. The Diaspora network in France and the southern Mediterranean basin, who transnationally identified themselves as “Mediterranean citizens.” This network included Jewish migrants from the Balkan states, mainly Greece and Bulgaria, who arrived in growing Egyptian cities, mainly Alexandria and Cairo, but also migrants who arrived from France. These Jewish immigrants, graduates of the AIU schools scattered throughout the Balkans, traded across the French-speaking Mediterranean, from France to Egypt and Sudan. Prominent investors were concentrated in Egypt, where they reconnected with their co-ethnic business elites in British territory in Palestine and Egypt between the two world wars. Among these Egyptian businessmen was Ovadia Mercado Salem, born in Salonica (1888), where he was a close friend of Leon Recanati. Following his immigration to Egypt in 1903, he started working as an errand boy at Beinisch jewelry in Mousky, Cairo. Salem worked for Lloyds Bank before forming his Société d'Avances Commerciales S.A.E with Alfred Cohen and Alfred Perez in 1914. Soon, Salem also became principal shareholder in the Chemla Department Stores (formerly Chemla Frères).
3. Sephardic private investors, including veteran entrepreneurs from both Tel Aviv (eg. Mugrabi owners of Cinema Mugrabi and the capitalist Shlush families) and Jerusalem (eg. Menashe ElYashar, agency of the Copt-owned tobacco firm Maspero Frères, Cairo-based cigarette manufacturer); Sephardic industrialists: the Assis factory owned by the Bejerano family, of Bulgarian origin; the manager of Grand Moulins de הטחנות הגדולות של ארץ ישראל בע"מ; Flour and Grain Trading Company Ltd.; Paldorit Cardboard Manufacturing Ltd. by Levi Brothers; and Sephardic professional elites such as Marcel Bakish (of Bulgarian origin), a Zionist activist leading illegal immigration from the Balkans, engineer from Haifa; or the Tel Aviv dentist Eliahu BenForado.
4. Associations of Migrants from the Balkans: Aliyah Co-operative Credit and Savings Association Ltd.; Organization of Migrants from Corfu.
5. Associations for rural settlers: “LaSadeh” Association for Relief of Agricultural Settlers from Greece; cooperative settlements including immigrants from the Balkans in various related groups: kibbutz Ma’abarot; HaKotzer in Kfar Hittim; moshav Zur Moshe. These owners expanded the mainly urban Sephardic network into the new rural institution-supported sector.

To these groups was symbolically added one preferred stock belonging to a nationwide institution, the Jewish Agency for Eretz Israel, which officially provided assistance to recently-arrived migrants deemed “repatriated exiles.”

1. Analyzing all 132 regular shareholders according to ethnic origin reveals that in addition to continuing supportive co-ethnic networks during the pre-state phase, there is a prominent growing share of new actors.
2. The founders of Discount Bank, including its senior staff. The bank's management seems to have provided the following purchasers ordinary shares with the special status of founder:

משה קרסו, הוגה הרעיון לייסד "בנק ספרדי בשביל הלקוחות הספרדים" ויו"ר הדירקטוריון, הרי בנו של מייסד הבנק המנוח ליאון רקנטי, הסוחרים יעקב תג'ר יצחק ארדיטי, יוסף עוזיאל, ברוך פרדו, אברהם אסא, וחיים קרישפין והתעשיינים ליאון בז'רנו ומשה בז'רנו. (שלושת בניו הצעירים של ליאון רקנטי המנוח יעקב, רפאל ודניאל, סווגו כפקידי הבנק, אך לא קבלו מעמד של מייסד. אמם, מתילדה רקנטי, אלמנתו של המייסד ליאון רקנטי, סווגה כ"בעלת בית" - בעלים)

It seems that, similar to foundation stocks, the share capital was issued to managerial members of Discount Bank in exchange for their efforts to establish and promote the bank. These shareholders may be the controlling shareholders of the company even if they do not hold a majority of the capital.

1. Private urban investors of Sephardic origin included prominent figures of the Old Sephardi Yishuv, such as the Rishon LeTzion Rabbi Ben-Zion Hai Uziel; the chief Rabbi of Haifa, הרב נסים בנימין אוחנה; the Mayor of Haifa, Shabetai Levi; Avram ElMaleh, author and journalist; דוד ששון, האפוטרופוס של העיזבון של משפחת ולרו, הבנקאים מירושלים ; Eliahu ElYashar, manager of companies; Sephardic business elites from Tel Aviv and Haifa, including Menashe Mani and Mordechai Hasson, Sephardic managers in Anglo-Palestine Bank Tel-Aviv; Haim Mevorah, the manager of bank Kupat Alia, Tel Aviv; Shlush family members of Tel Aviv; engineers, commercial agents, merchants, officials, lawyers, etc.;
2. The abovementioned Associations of Migrants from the Balkans
3. The abovementioned group of associations for rural settlers was expanded and also included moshav Beit Halevi, as well as kibbutzim Ramat HaShofet, Eyal Hagoshrim and Nahshonim.
4. However, about 15 percent (or 2000 of 13,929 stocks, where each stock = 1 Lira) of regular stocks were now held by the Jewish Agency for Eretz Israel, the nationwide formal institution of the Jewish population and the pre-state government of the Yishuv.

All of these individuals and associations were also partners in the Banim LeGevulam company, established in May 1944 by Leon Recanati under the leadership of Rabbi Uziel. This company aimed to support recently-arrived Sephardic migrants to British-mandated Palestine, not only to be absorbed into the rural settlement sector, but even to attract the old Sephardic urban population to agricultural settlements in the *moshavim*. The prestigious Kadima Club of Sephardic Tel Aviv elites and rural/ agricultural associations for recently-arrived Sephardic migrants, primarily from Greece and Bulgaria (the Ladino cultural area), united together with the Jewish Agency, which provided loans, to assist the abovementioned settlements in absorbing co-ethnic migrants.

Leon Recanati not only renewed internal cohesion among Sephardic elites, but also paved the way to reduce dependency on co-ethnics, and build support for the bank and provide for its financial future, even after his death.

Transparency 2

לעדכן

|  |  |  |
| --- | --- | --- |
| Network | Total value in Lira | % of total ordinary stocks |
| Bank founders (incl. officers) | 4813 | 34.6 |
| Associations | 2050 | 14.7 |
| Private investors of Sephardic origin | 1711 | 12.3 |
| Migrant Organizations | 2010 | 14.4 |
| Rural settlements of Greek migrants | 3345 | 24.0 |
|  |  |  |
| **Total** | **13,929** | **100** |

During this transitional period in the mid-1940s, the findings of the empirical study indicate that senior and preferred segments of the Bank leadership still depended on the transnational Sephardic ethnic network. A decade after its establishment, following the death of its founder and leader Leon Recanati, the bank expanded its ethnic base support, facilitating access to the formal credit sources essential to the socio-economic integration of its co-ethnics.

However, these findings point to the efforts of its senior management, including the younger generation, to expand the ethnic diversity of ordinary/regular stockholders from its diasporic co-ethnic elites and "recently-arrived" Sephardic migrant elites, to also include non-Sephardic indigenous political elites belonging to the pre-state institutional system. It seems that Leon Recanati’s successors became aware that while the bank may have been founded on support from the ethnic networks, it needed to become part of the mainstream in order to grow. Connections to the local cooperative agricultural institutions were made through kibbutzim and moshavim that included immigrants from Greece and Bulgaria. Yet attempts to expand the ethnic base to nationwide political institutions seem to have been successful, as the Jewish Agency became a significant shareholder of regular stocks. This process indicates that both the chairman of the Bank, Moshe Carasso, already a veteran immigrant, and the next generation, represented by Harry Recanati, were more integrated into the Yishuv life by 1946. Consequently, they aspired to decrease reliance on co-ethnics to enlarge ethnic entrepreneur networks. Such mixed embeddedness or use of multi-ethnic networks by immigrant/ethnic entrepreneurs seemed the best way to broaden the opportunity structures for such entrepreneurs and consolidated the establishment of Sephardic entrepreneurial elites in the future state of Israel.

A decade after its founding, in 1946, the bank's management had demonstrated its ability to raise capital from both co-ethnic members through the Mediterranean network, and co-ethnic migrant members nationwide. The former was connected to the entrepreneurial network of founder Recanati, while the latter was connected to the Israeli establishment through co-ethnic immigrants. Both elements defined the Sephardic elites who established the bank and would go on to make it the third largest bank in the newborn State of Israel, and the largest private bank until 1983.

While Leon Recanati the founder created a private bank to finance primarily Sephardic entrepreneurs, Harry Recanati of the younger generation, and later his brothers, broadened the ethnic-based private bank, designing and mobilizing it for the benefit of the national project, without nationalizing it.

This is a familiar strategy of economic governance, suited to what Arie Krempf calls “a regime of market nationalism,” which is different from a liberal market economic regime.