CHAPTER 28

F I N A N C I A L A N D F I S C A L P R O B L E M S

PRICE LEVEL READJUSTMENT

As has been indicated repeatedly in this volume, the general level of prices in Palestine is now badly "out of line" with prices prevailing in the United States and the United Kingdom.

	Wholesale Prices			Cost of Living		
	Palestine	U.K.	U.S.	Palestine	U.K.	U.S.
1939	100	100	100	100	100	100
1944	319	161	135	242	126	126

Price levels in continental Europe and in the Middle East are generally even more badly out of line with prices prevailing in the U.S. and the U.K. than are Palestine's prices.

Cost-of-Living Indices in Middle East Countries

	Palestine	Cyprus	Lebanon	Egypt	Iraq	Iran
Prewar	100	100	100	100	100	100
September 1944	249	230	560	288	377	798

Source: General Bulletin. Due to various defects in the construction of the indices and to the local character of markets, these indices are valid only in broad outline.

The fact that other Middle East -- and European -- countries have an even more inflated price level than that of Palestine, however, hardly affects the profound price readjustment that Palestine must make. Palestine's agricultural exports must compete in United Kingdom and western European markets; it does not help sales in London or Stockholm that prices are high in Bagdad or Teheran. Palestine's diversified manufactures will have to compete in Middle East markets (including Palestine itself) with products from the United States and the United Kingdom, not with the products of Egypt or the Lebanon.

Inflation and temporarily acute supply shortages have weakened the competitive position of many countries formerly important in Middle East trade -- Czechoslovakia, Austria, Italy, Germany, and Japan. The withdrawal of these competitors affords temporary shelter to Palestinian manufacturers. It means that the readjustment of the