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THE ECONOMICS OF BEING JEWISH

ABSTRACT: In his Capitalism and the Jews, Jerry Z. Muller discusses the relationship between Jews and “usury”; explains how Jews have benefitted from capitalism; argues that most Jews are not on the left; and describes the relationship between Jews and nationalism. In covering this much ground in so compact a book, he naturally leaves out a great deal, such as the importance of ideology in determining Jewish economic savoir faire, and the mystery of why, despite their accomplishments in many fields, Jews are conspicuously underrepresented in the pantheon of great inventors. One possible explanation is that they have been trained to be obedient lest they verge on the heretical, and are thus more likely to become very good at something already invented than to invent it themselves.

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“The Jews,” an anonymous wag is supposed to have said, “are like everyone else, only more so” (Fredriksen 2005). Nothing could be further from the truth. At least for the last two millennia, Jews have been different from most other ethnic groups or religions in some remarkable ways. This has shaped both their outlook and their fate, with lasting effect in the economies in which they lived.

The Jewish role in economic affairs is the main concern of Jerry Z. Muller’s small but thoughtful book *Capitalism and the Jews* (Princeton University Press, 2010). The book consists of four independent essays, each of which is a reflection upon the economic and social history of the Jews. The topic, of course, is hardly new, and has been discussed widely by both Marx ([1844] 1977, 39-62) and Keynes ([1926] 1987), as well as by Werner Sombart ([1911] 1951) in his famous book, *The Jews and Economic Life*. Muller ably surveys and criticizes this literature, and then provides us with his own interesting and informed insights on the matter.

The title of Muller’s book invokes two concepts that he leaves undefined. Who (and what) are “the Jews”? And what, really does one mean by “Capitalism?” Oceans of ink notwithstanding, these definitions are still unresolved and mercifully, Muller wastes no time on resolving them. Assuming that the reader has a more or less established opinion on these definitions, he proceeds to work on the relationship between them.

The first essay deals with the Jewish and gentile philosophical and religious attitudes to credit and usury, and the connections between Jews, capital, and interest in the development of capitalism. Muller surveys the evolving social status of those unpopular but necessary individuals who were on the lending end of credit markets. He argues that precisely because a theologically suspect group was allowed by their

doctrines to engage in money lending, the practice was regarded as abhorrent by the dominant Christian doctrine—turning on its head Sombart’s hypothesis that the triumph of Jewish doctrine on usury was the taproot of capitalism.

The second chapter concerns the question, raised originally by Milton Friedman, of why Jews, who were historically successful in adapting to capitalist modes of production and derived huge benefits from it, were historically opposed to it. The third essay pursues this theme further, and discusses the involvement of Jews in the Marxist movements of Eastern Europe in the twentieth century. A fourth essay is about the way in which Jews dealt with nationalism in nineteenth- and twentieth-century Europe, and how the diasporic community coped in a world in which economic growth and industrial capitalism gave birth to new forms of collective identity and imagined community.

Mercurian Jews

Muller’s Jews are largely Ashkenazi Jews; he has little to say about the Sephardic communities in North Africa and the Middle East (much less about Jews in remote corners such as Yemen and Ethiopia). Even within Europe, the people he is primarily discussing were assimilated bourgeois Jews, who had separated themselves from the orthodox and highly traditional communities while retaining some attenuated version of their religion. Yet even in that subset of world Jewry, the response to capitalism in its various forms was enormously diverse. Some of them thrived in it, selecting arch-bourgeois occupations in commerce, finance, and the professions. Others rebelled against it, either by embracing Marxism or by advocating a “return to the land” in Palestine or elsewhere.

Jews have traditionally been a “service minority”—“Mercurians,” after the Roman god of commerce—as Yuri Slezkine (2004) has memorably referred to them. Muller adopts this image in explaining why Jews were active in commercial and financial activities, which he associates with Capitalism. Service minorities were quantitatively marginal but usually economically successful groups because they occupied niches that the locals left unoccupied. These niches often included occupations we traditionally associate with some form or another of capitalism (such as money lending or trade), but also other services such as medicine, estate management, military procurement, and so on. As such, their economic role in the non-Jewish environment was central, but in the nineteenth century, as non-Jews began to acquire the skills and wherewithal to perform these tasks and overcame their reluctance to engage in credit-market activities, Jews became more dispensable and often fell prey to various combinations of bigotry, greed, and jealousy.

Yet the concept of Mercurians hides a lot of variety. In the non-capitalist shtetls of the Pale of Settlement, Jews were a varied lot: a small-town and village proletariat with more hookers and small-time smugglers than doctors or successful long-distance merchants. Even in late nineteenth-century Warsaw, it is estimated that there were more than four Jewish prisoners and convicts and two Jewish hookers for every Jewish doctor. After migrating to capitalist North America, the descendants of many of these people invested in marketable human capital, although Jews also found their way to bootlegging, organized crime, casinos, and the movie industry, as Muller (90) notes. But others could do no better than to re-create the *Shtetl* as well they could in a puzzled but tolerant environment. Moreover, size matters. In modern Italy, for instance, Jews were a minute

fraction; in the Pale of Settlement and some areas of what had been Poland, their numbers were far more substantial. In Czarist Russia, given their geographic concentration, Jews and Yiddish speakers constituted 11.5 percent of the Pale as a whole, but this masks much larger percentages in some regions, such as 18 percent in the province of Warsaw, 17 percent in the province of Grodno, and 21 percent in the district of Vilna, with over 40 percent in the city of Vilna itself.

These numbers are not quite compatible since in the Russian 1897 Census, Jews could be defined by religious affiliation or by language spoken—and the difference between the two itself was quite significant [Spitzer 2010].)

How did the Jews fit into the economies of their host nations? Muller makes many of the standard points that historians have made about the economic role of Jews in their two millennia of diaspora. They had few moral and no doctrinal qualms about charging market-determined interest rates (“usury”). They had close family ties, which overcame hard issues of trust and informal business norms—the Maghribi traders in medieval Europe and the Mediterranean being an example (Greif 1994). Jews preferred to deal with other Jews under the assumption that they were less likely to display opportunistic behavior when dealing with a co-religionist (although, as Jewish customers of Bernard Madoff discovered, there were often Jewish opportunists as well). In addition to social networks, Jews had formal institutions: A body of law that was accepted by all members of the Jewish community, and rabbinical authorities who could resolve disputes and clarify ambiguities (most notably in the *responsa*).

Being a Jew was not just being a member of a *religion* sharing certain beliefs, rules of behavior, and ritualistic customs. It meant belonging to a community, a group with

shared norms, thus conveying to its members certain advantages of access to a pool of trust, mutual insurance, and information. Indeed, it has been argued that many of the rather restrictive rules of Orthodox Judaism functioned to make it costly to belong to this community, since there were considerable economic benefits to membership (Berman 2000). Muller never makes clear whether the Jews' success in what he regards as Capitalism was due to this community aspect or something deeper that was related to the very nature of Jewish culture and religion.

How Capitalism Preserved Judaism

In this regard it is especially regrettable that Muller makes no reference to the pioneering work of economists, who have in recent years proposed a new and revolutionary view of Jewish economic history (Botticini and Eckstein 2005 and 2007). In this view, the particular economic role of the Jews in the diaspora has little to do with "capitalism" as such. Indeed Jews were already quite specialized in non-capitalist societies such as medieval Islam.

The argument is that in the first centuries of the Christian Era, Judaism increasingly became an intellectual religion, a religion of the book (although the seeds of this development had already been planted long before the destruction of the Second Temple). To be a (male, adult) Jew and participate in the traditional ritual, one had to be literate. Literacy in the first millennium AD was no trivial matter, as education involved serious costs, so it was generally undertaken primarily when the benefits would cover the costs.

In agriculture, such benefits were elusive. Hence, it is argued, Jews specialized in

occupations in which human capital in the form of literacy and other basic general skills conveyed certain advantages, such as commercial and financial activities. This explains why in medieval Europe so many Jews were already physicians, starting with the great Maimonides himself. Farmers, on the other hand, found literacy expensive, and the economic benefits of educating one's sons and being part of a Jewish social network to be low, and thus often converted to Christianity or Islam. In other words, Botticini and Eckstein argue ingeniously, it is not so much that Jews *chose* certain occupations in the service industries, but that those already in those industries chose to retain their Judaism. The mechanisms governing Jewish specialization in these occupations were thus primarily demographic, through the conversion of Jews to other religions where literacy was in low demand. When Jews lived in a prosperous society, the demand for the services of the literate went up, and the number of Jews increased, through natural growth and reduced attrition but as more non-Jews turned to occupational niches previously occupied by Jews, competition increased and Jews had to develop new niches.

Ideology vs. Materialism

This view of Jewish economic history captures the essential truth that historical materialism can only take us so far in explaining economic history. Marxism is not the only school that sees economic structures somehow as primary and beliefs and values as wholly determined by those “deeper” forces; much modern economics still regards culture and beliefs as somehow entirely determined by the economic reality on the ground. Despite his obvious antipathy to Marxist interpretations of economic history and his emphasis on the primacy of ideas, Muller in his final chapter endorses the liberal

historical materialism of Ernest Gellner, in which European nationalism is described as a natural consequence of capitalism and industrialization: essentially, large markets require the standardization of language, which nationalism supplies. The materialism of this chapter squares poorly with the other three, in which ideas and beliefs are at center stage.

Many decades before Gellner, Muller points out, his work was anticipated and applied to Jewish society by the Marxist-Zionist Dov (Ber) Borochoy (1881-1917), who argued that the special material conditions in which the Jewish people found themselves led to the development of unusual political circumstances for the Jews. If, as Borochoy, Gellner, and Muller maintain, capitalism and industrialization led to nationalism, one can see an almost dialectical way in which Jewish diasporic culture enhanced capitalism by allowing communication across linguistic divides prior to capitalist development; but then inevitably the two collided, as nationalist movements created insoluble contradictions between diasporic service minorities and the national dominant majorities.

It would, however, be overly simplistic to rule out an independent role for beliefs. One has to be concerned about autonomous ideological influences that affect economic behavior. In the nineteenth century, Jews embarked on an intellectual movement known as *haskala*, meaning “erudition,” which involved studying secular topics and acquiring professional training while retaining a Jewish religious identity. The origins of this movement are closely intertwined with the eighteenth-century Enlightenment, that is, with the realm of ideas.

Within the most capitalist societies in the world, there were Jews who explicitly rejected *haskala*; hundred of thousands of Jews in modern Israel today (arguably one of the most purely “capitalist” nations on the planet), as well as in *haredi* communities such

as Kiryat Yoel in Monroe, N.Y., have rejected the secular world. Its triumph among the Jews seems anything but assured. Demography, the dynamic invoked by Botticini and Eckstein, may well become the undoing of the secular and liberal Judaism that emerged during the flourishing of industrial capitalism in Europe. Secular Jews tend to intermarry and have low fertility rates, while the ultra-Orthodox preserve the ancient traditions of endogamy and high fertility. As the *haredi* are only willy-nilly involved in the modern economy, they may yet become the face of a reactionary and highly illiberal Judaism through the brute force of numbers.

Historical materialism is attractive, because it provides easy answers to hard questions. Why do we believe in what we do? Ideology and culture can and should be explained, but we must beware of crude models that explain them away by reducing them to epiphenomena of changes in economic structure and living standards. More subtle models exist, and should be employed (e.g., Boyd and Richerson 1985 and 2005). Once a certain culture and a set of values and beliefs have evolved, they often help determine the success or failure of capitalist institutions. Economic outcomes may thus be the result of ideological forces. Indeed, it is becoming increasingly clear that the Industrial Revolution and the origins of modern economic growth in Britain and Western Europe have profound ideological origins (Mokyr 2009; McCloskey 2010). Cultural beliefs, preferences, and values have their own dynamic.

If this complex relationship—in which beliefs follow their own autonomous evolution but adapt to a changing economic environment—describes what happened in Europe in the eighteenth century, it must have been true *a fortiori* about the most ideology-laden minority in European history, the Jews. To be a Jew meant not just

kashrut and hygiene and Sabbath. It meant that one belonged to a “nation” and embraced nationalism *avant la lettre*. It also implied certain beliefs about society, justice, virtues, and the natural world. Without considering about these, Muller’s story remains incomplete.

Where Are the Jewish Inventors?

One of the most serious lacuna in Muller’s book is his failure to recognize the Jewish Economic Paradox: the almost complete absence of Jews from the history of European technology before 1850. Capitalism in Muller’s view is mostly about commerce, credit, and crafts. In such an economy, Jewish moneylenders, manufacturers, and merchants could thrive if the gentiles would only let them. But while this “Smithian economy” of specialization and exchange was the dominant dynamic force in capitalism before the Industrial Revolution, eventually capitalism became increasingly propelled by Schumpeterian creative destruction based on technological innovation.

Technological innovation, of course, was not new in the eighteenth century; both medieval and early modern Europe witnessed major changes in the use of energy, materials, transportation, farming, and weaponry, to name but a few. The pace of innovation, however, accelerated during the Industrial Revolution to the point where a term such as “revolution” seems apt. By 1850, technological innovation had become a central source of economic change. Yet despite their huge head start economically, Jews played an almost imperceptible role in the history of science and technology before and during the early Industrial Revolution. There were a few exceptions to this rule, such as Jacob ben Immanuel (Bonet) Lates, physician to the late fifteenth-century popes and

inventor of an important instrument to measure astronomical altitudes. His obscurity, however, only emphasizes the point. Jews were readmitted into Britain after 1656, and it stands to reason that if more of them had had mechanical interests, more of them would have found their way to Britain where the atmosphere was conducive to inventors in the second half of the eighteenth century—as did many other Continental engineers.

Should we have expected more? Given the high investment in human capital by Jews, their obsession with learning and books, and their devotion to the education of their sons (many of whom mastered high-skill crafts), one might have predicted otherwise. As Muller (87) notes, Judaism prepared Jews for thinking in abstractions, for sharp arguments based on evidence; and a life constrained by daily *mitzvot* imbued one with a discipline that many gentiles lacked. Yet in the annals of the Industrial Revolution, Jews are hard to find. The one exception, in some ways proving the rule, is Benjamin Gompertz (1779–1865), who applied advanced mathematics to life tables used in insurance and thus qualified as an innovator in a wider sense. Other Jews rose to economic prominence, but few of them were inventors. In this new permutation of capitalism, Jews are prominent by their absence.¹

Obedience Impedes Invention

Why should this have been the case? One hypothesis is that Jewish culture was fundamentally backward-looking and conservative. Jewish learning is based on the axiom that the “truth” was revealed to earlier generations, and that whatever innovations are permissible must somehow be consistent with that truth. To be sure, in legal and financial

matters, Jews were often ingenious in reconciling the Torah with new reality, thus innovating within the constraints of the written traditions of Jewish culture. But acts of outright denial and rebellion were rare, and when genuine attempts to “think outside the box” occurred, they often led to clashes with the Jewish community, as (in all likelihood) happened to the 24-year old Spinoza, who was accused of unspecified “abominable heresies” and “monstrous deeds.” Most radical intellectual innovators of Jewish descent, including David Ricardo and Karl Marx, had abandoned their Jewish traditions, as did most of the descendants of the intellectual father of the eighteenth-century *haskala*, Moses Mendelssohn. When Jewish thinkers are hugely innovative, they find it difficult to reconcile the liberal values of the *haskala* with Orthodox Judaism. The Nobel laureate Israeli mathematician and game theorist Robert Aumann, one of the most influential economists of our age, has adopted an aggressive chauvinism that allows him to reconcile his Jewish orthodoxy with his intellectual originality—a case of remarkable intellectual acrobatics.

The hard truth is that despite the high level of human capital formation it implied, traditional Jewish culture was little compatible with technological innovation and thus with industrial capitalism. As Deirdre McCloskey (2010, p. 162) has argued, “quickness of uptake can also be discouraged by learning to read, producing a rote-learning bureaucracy hostile to innovation. In that case the accumulation of human capital can be a bad idea, negative capital. If the sociology and politics are hostile to innovation . . . education can be bad for economic growth.” Inventions and scientific breakthroughs have a character of rebellion against cultural authority and the canon that only they are qualified to interpret. Judaism was deeply intellectual, but it was an intellectualism that

did not encourage disrespect, much less heresy, in any form. Innovation required both. Even in the history of medicine, traditionally a Jewish occupation, Jewish revolutionaries were strikingly absent before 1850: where was the Jewish Paracelsus, the Jewish Vesalius, the Jewish Sydenham, the Jewish Jenner?

This paradox should be bothersome for all scholars, from Werner Sombart to Jerry Muller, who regard Jews and capitalism as compatible and highly complementary. Sombart pictured Jews as “inclined less toward entrepreneurial and creative elements of capitalism than the calculative advantages in trade and finance” (quoted in Muller, 59), but this misses the point. Many of the early entrepreneurs in industrial capitalism had a commercial background, and the distinction between producers and sellers in a world of artisans and craftsmen is elusive. Indeed, a substantial number of British early industrialists came from a commercial background (Crouzet 1985). Why could Jews not make a similar transition? One answer is that the essence of being a Jew, if such a concept can at all be meaningfully defined, required a large amount of obedience and respect for tradition and the wisdom of past generations, which get in the way of the technological apostasies required for creative destruction. While there are some prominent orthodox Jewish scientists, their number has remained smaller than one would expect given the quantities of human capital involved in a Jewish orthodox education. Content and culture mattered.

Jews and Capitalism

Muller’s book is particularly effective in dismantling overly simplistic views of Jews, especially Milton Friedman’s notion that Jews were ungrateful to the free enterprise

system by benefitting from it and then turning against it. Of course, there were many Jews among the Eastern European communists, both in the interwar Soviet state and in the post-1945 Eastern European satellite states. But, Muller argues convincingly, one would expect Jews to be disproportionately represented in these movements, given their high levels of education and their natural anti-Nazi sentiments. Many leading communists, from Trotsky (born Leon Bronstein) down, were of Jewish extraction, but this seemed to have mattered not one whit to most of them. As Muller tells us that the Chief Rabbi of Moscow remarked: “The Trotskys make the revolution; the Bronsteins pay for it.” It turns out that even Lenin had a Jewish grandfather—but it is doubtful that this would have impressed him even if he had known of it (Petrovsky-Shtern 2010).

Most Eastern European Jews were not communists. Most communists were not Jews. Moreover, in the United States, Jews by and large abandoned socialism and committed to a liberal viewpoint that may not have been quite agreeable to libertarian ideologues such as Friedman, but was anything but anti-capitalist.

Nationalism and the Jews

The essay on nationalism in Muller’s book illustrates the paradoxes of historical materialism. Nationalism, too, has deeper and more profound causes than just the growth of industrial, market-oriented society and the growing dependency on fluency in vernacular languages. Its relationship with economic development cannot accurately be described by a one-way causal arrow. It had its own historical trajectory, waxing and waning between an enlightened cosmopolitan and internationalist ideology and a more limited, exclusive, and benighted sense of national identity.

Nationalism, Muller submits, placed Jews in a difficult situation. The reason is obvious. “Nationalism,” Slezkine (2004, 44) writes, “meant that every nation was to become Jewish,” in that it became more exclusive, more obsessed by its real or imagined historical roots, and more self-loving as “a matter of faith.” In this strange new world Jews were in trouble. The new right-wing nationalist anti-Semites portrayed Jews as Bolshevik, as opposed to the old anti-Semites, who portrayed Jews as parasitic capitalists. Some shamelessly combined those incompatible images.

Of the various solutions that were proposed by Jews—among them, cosmopolitan socialism and patriotic loyalty to one’s native country—Zionism proved to be the most viable. While Zionism has proven compatible with a twenty-first century style of high-tech capitalism, it remains to be seen if in the long run it can maintain the enlightened liberal principles on which Israel was founded in 1948. One cannot help but worry.

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ⁱ After 1850, with the dramatic changes in Jewish culture triggered by the *haskala*, the share of Jews among leading scientists and inventors rose steeply. Among the more notable names are those of the physical chemist Fritz Haber, inventor of the Haber-Bosch process, arguably one of the most important inventions of all times; Paul Ehrlich, the originator of modern immunology; aviation pioneer Otto Lilienthal; Theodore von Kármán, the father of supersonic flight; and László Bíró, the inventor of the ballpoint pen. But