

# MPRA

Munich Personal RePEc Archive

## **Free economy in a Jewish perspective.**

Calance, Madalina

„Alexandru Ioan Cuza” University of Iasi

1 May 2012

Online at <https://mpra.ub.uni-muenchen.de/41675/>

MPRA Paper No. 41675, posted 08 Jan 2013 17:48 UTC

# FREE ECONOMY IN A JEWISH PERSPECTIVE

*CALANCE Mădălina*

*Ph.D. Student, Faculty of Economics and Business Administration, Doctoral School of Economics, „Alexandru Ioan Cuza” University, Iași, Romania, calancemadalina@yahoo.com*

**Abstract:** *Science and rationality always excluded religion. However, in his last work, *The Fatal Conceit*, the great economist Friedrich von Hayek stated that religion has been one of the enduring pillars of the free market economy, through a consistent heritage of practices and beliefs. By making some analogies to the liberal point of view, this paper analyses the way Jews embraced free economy. The research goal is to establish connections between Jewish and liberal thought, concerning wealth and liberty. We find out that the principles of Judaism are supporting private charity, limited government and laissez-faire capitalism.*

## 1. Introduction

In his last work, *The Fatal Conceit*, Friedrich von Hayek (1989, 6) claims that civilization depends on the existence of the „extended order of human cooperation”. The expression „extended order”, which is understood by many as capitalism, is describing a society based on voluntary exchange in a free market, and projecting the liberal image of private property, limited government, and the Rule of Law. Although he identifies himself as an agnostic, Hayek (1989, 139) supports the idea that religion has been one of the enduring pillars of the extended order, by sustaining moral order and creating a consistent heritage of practices and beliefs.

Today, between religion and economic thought we find a deep chasm. It is a natural result of secularization and modernization. However, there have been times when religion decided the limits of economic behavior, by correlating the will of God with the needs of society. Beyond their mystic side, organized religions have brought great benefits to society. In this context, we try to identify the contribution of Judaism, who is parenting two of the world’s largest religions, Christianity and Islam - a monotheistic religion, which has been preserved for millenniums, adapting its concepts and rules to the requirements of every historical, geographical or economic context.

## 2. The founding principles of Jewish economy

According to Mittelstaedt (2002), the teachings and religious institutions of Judaism, as well as other religious traditions, have affected the nature of economic activity in the marketplace in a variety of ways. Religion affects the object, the manner and circumstances of the trade. In addition to this fact, we consider that the operator’s behavior is significantly influenced. The Jewish economic rules and values were not constructed on economic basis but on the ethic and moral ground of religion. In this regard, two major works represent the foundation of Jewish faith and practice: the Torah- the divine law- revealed to Moses by God, and the Talmud - the interpretation of the law- compiled by the rabbinical wisdom. For better understanding the basis of Jewish economic thinking, we suggest a foray into the history of ideas.

### 2.1 Private property

The central principle of Jewish economic philosophy is the divine origin of wealth (Bainerman, 2006). All wealth belongs to God and the man is the one who manages it. In fact, man himself is a creator, which through decent work and innovation is strengthening, protecting and improving the world. By approaching the aspect of property, ancient Judaism is not considering it as being unbreakable. Even if it has a high regard for private property as an institution governing the relations between human beings, on the relationship between humanity and God, there has been an equal insistence that what we have, we do not unconditionally own (Sacks, 2008). In the Talmud, private property is adjusted and regulated in terms of social considerations; it is justified only for serving the public interest, for the maintaining of social peace and welfare (Bokser, 1951).

However, the Ten Commandments, received by Moses on Mount Sinai, contained the imperatives: „You shall not steal!” and „You shall not covet anything that belongs to your neighbor!” - Words that clearly provide the safeguarding of private property. Rabbi Jonathan Sacks (2008) reveals that, in the Hebrew Bible, one of the great corruptions of power is for a ruler to abuse property rights. Furthermore, by asserting that God seeks the free worship of free human beings, he distinguishes the two of the most powerful defenders of freedom: private property and economic independence.

## **2.2 Limited government**

To illustrate the government's inefficiency and the dangers of concentrated power, rabbi Sacks refers to the famous speech of the prophet Samuel, where he is claiming the dangers of monarchy: „This will be the way of the king who shall reign over you: he will take your sons, and appoint them to him, for his chariots, and to be his horsemen; and they shall run before his chariots; and he will appoint them to him for captains of thousands, and captains of fifties; and [he will set some] to plow his ground, and to reap his harvest, and to make his instruments of war, and the instruments of his chariots. He will take your daughters to be perfumers, and to be cooks, and to be bakers. He will take your fields, and your vineyards, and your olive groves, even the best of them, and give them to his servants. He will take the tenth of your seed, and of your vineyards, and give to his officers, and to his servants. He will take your male servants, and your female servants, and your best young men, and your donkeys, and put them to his work. He will take the tenth of your flocks: and you shall be his servants. You shall cry out in that day because of your king whom you shall have chosen you; and Yahweh will not answer you in that day” (1 Sam 8:11-18).

The warning against the constant temptation of kings to expropriate persons and property for the public good are compared to Friedrich Hayek's warning in *The Road to Serfdom*. The reduction of government to a strict minimum is recommended, since governments tend to monopolize the allocation of resources by planing the economy, a situation that leads to an increasing degree of social oppression. Sauer & Sauer (2007) bring into discussion Judaism's prescriptions for combating the natural evils of government control, as the fact that kings had strictly limited tasks: they were not allowed to involve in people's choices concerning their living or occupation; they were not allowed to impose a confiscatory or discriminatory taxation.

## **2.3 Wealth and Charity**

Regarding issues like charity or income redistribution, a similar situation is encountered. By making a Jewish analysis of wealth and poverty, Rabbi Jonathan Sacks (1985) points out that „poverty is evil because it is no one should impoverish himself to relieve the poverty of others”. He claims that the best charity is helping the poor rise from poverty to independence and work - out of „welfare dependency”. When social responsibility is placed on the government, the empathy for the poor is diminished or replaced by the sufficiency of paying taxes with the lack of citizen's personal involvement. Thereby, the supreme obligation of charity is abolished and the deprived are condemned to a life of subsistence and begging. This is why Judaism is discouraging the precarious social policy of the state and is supporting an active system, of private charity, so that the needy can be helped and brought to normal life standards.

In the 19<sup>th</sup> century, rabbi Israel of Salant makes a remarkable statement: „Another's material needs are my own spiritual needs”. Today's Jewish philanthropy stems from the ancient obligation of charity, as the Jewish law enshrined the obligation of sharing with the poor a tenth of each one's benefit. This fact should not be confused with the current version of income redistribution, since reducing income inequalities are seen as unfair or immoral in Jewish practices (Sauer & Sauer, 2007, p. 4).

By seeking a way to harmonize the divine law with the economic requirements of wealth and progress, the Talmud not only regulates but also offers practical tips for financial success. Wealth is always recommended, a major task to fulfill, while poverty is certainly not a virtue. The rabbis commended the person who possessed „a beautiful home, a beautiful wife, fine furnishings”; these put a person into „a happy frame of mind” (Bokser, 1951, p. 132). Refusing wealth is a sign for a dangerous behavior that can lead to madness, while, paradoxically, a materially fulfilled person is less attached to the material world and more connected to the spiritual world.

## **3. The sinuous road to free market**

In ancient times, the sacred law was the state's law, a sum of moral principles and tough rules to follow, in both, the private and the social life. All sovereignty and all authority were God's. Thereby, far from being in harmony with liberal democracy, traditional Judaism is theocratic (Arkush, 2009). Jewish thought covered a long journey from the „the state equals religion” condition to reform and the liberal view of the individual and society. With the exile, the situation changes radically: (1) the theocratic principles are unable to find a proper background and the rabbinical power is limited; (2) the Jews need to handle the restrictions of the host countries and they are often banished or forced to endure a special tax regime (they certainly were a target for economic discrimination, through interventionism); (3) the understanding of free market benefits is essential for survival.

A condition of integration and emancipation in a foreign environment was the reconciliation of Judaism with liberalism. In the 17<sup>th</sup> century, when Moses Mendelssohn's Enlightenment intended to obtain emancipation without the loss of Jewish specificity, a new philosophy emerged „Be a Jew at home, be just like everyone else outside of your home” - a new attitude that wanted to establish a balance between the universalism and the particularity of the Jews (Eisenberg, 1995). Mendelssohn became the first Jew to argue, publicly, in favor of the right to liberty of conscience and the separation of church and state (Arkush, 2009, p.640) for the reason that genuine religion involves no coercion. Therefore, the human institutions do not have the legitimate authority to make people's rights dependent on their convictions. „In the state of nature, individuals have an absolute right to their own ideas and opinions, one that they not lose with the signing of the social contract and their entrance into civil society. Therefore, society could never acquire the power to connect civic privileges with religious convictions” (Arkush, 2009, p. 640).

In the period after Mendelssohn's death, the Jewish people successfully assimilated the new culture, of reason and individualism. Judaism neglected rituals and forgot about the messianic hopes, by adapting itself to ideas that are more liberal. The free market was a blessing for Jewish business, since the Jews represented an important human capital, because of their high orientation toward education - a religious culture that promoted literacy - and their economic skills in commerce or banking - acquired during the time that the Church restricted usury among Christians.

Sombart (2001) develops the conception of Jews contribution for the extension of modern commerce by describing the kind of commodities in which they traded: „The Jews for a long time practically monopolized the trade in articles of luxury, and to the fashionable world of the aristocratic 17th and 18th centuries this trade was of supreme moment. What sort of commodities, then, did the Jews specialize in? Jewellery, precious stones, pearls and silks. Gold and silver jewellery, because they had always been prominent in the market for precious metals. Pearls and stones, because they were among the first to settle in those lands (especially Brazil) where these are to be found; and silks, because of their ancient connexions with the trading centres of the Orient.

Moreover, Jews were to be found almost entirely, or at least predominantly, in such branches of trade as were concerned with exportation on a large scale. It may with justice be asserted that the Jews were the first to place on the world's markets the staple articles of modern commerce. Side by side with the products of the soil, such as wheat, wool, flax, and, later on, distilled spirits, they dealt throughout the 18th century specially in textiles, the output of a rapidly growing capitalistic industry, and in those colonial products which for the first time became articles of international trade, viz., sugar and tobacco” (Sombart, 2001, p.22).

The author asserts that the history of commerce in modern times was highly influenced by Jewish traders, by the quality - more important than quantity - and the revolutionary character of their commerce. In addition to these ideas, the history professor J.Z Muller (2010) explains that the commercial experience (the knowledge of buying, selling, and calculating advantage) passed through generations and, therefore, has been constantly improved. The affinities for commerce and trade were a natural result of the fact that Jews had been generally excluded from the established economy of land ownership, and from many other fields that were exclusively for Christians. This is how they made a career in securities transaction, by being versatile to the rising currents of market competition, always in searching for new opportunities, niches, products or advertising; spread across the world, they also were active in international relations.

Otherwise, the Nobel Prize winner, Milton Friedman explained the benefits that Jews have derived from the free market systems. Friedman stated: “Wherever there is a monopoly, whether it be private or governmental, there is room for the application of arbitrary criteria in the selection of the beneficiaries of the monopoly – whether these criteria be the color of skin, religion, national origin or what not. Where there is free competition only performance counts. The market is color blind. No one who goes to the market to buy bread knows or cares whether the wheat was grown by a Jew, Catholic, Protestant, Muslim or atheist; by whites or blacks” (1988, par. 10).

The Jewish economist also argued that Jews have clearly succeeded in the competitive, free entry sectors and they were less remarkable in industries and professions that required government permission. We consider a truism the fact that economic systems based on free markets and private property are more productive than centralized ones. The moral, intelligent Jews were able to understand that free enterprise is more proper and productive than any other economic system. By believing in Moses prophecies of prosperity, they embraced this way of life.

Unfortunately, economic emancipation is not an everlasting situation when you are a minority. While the absorption of liberal spirit is definitive in the United States, in the 19<sup>th</sup> and 20<sup>th</sup> century, the European minorities are discriminated and suffer the consequences of anti-Semitism. Malicious reasons existed for the persecution of the Jews: their ethnicity, their religion and practices, their economic achievements. According to Ebeling (2005) Ludwig von Mises, a contemporary of the described situation, believed that all the nationalisms and the rejection were fueled by the envy and the resentment against those who had succeeded in the arena of free market opportunity and happened to be Jewish or of Jewish ancestry. Above the anger of the defeated competitors it was state's interventionism that turned against the Jewish minorities: „If, for instance, members of the minority are alone engaged in a specific branch of business, the government can ruin them by means of customs provisions. In other words, they can raise the price of raw materials and machinery [...] every measure of government interference—taxes, tariffs, freight rates, labor policy, monopoly and price control, foreign exchange regulations—were used against minorities. If you wish to build a house or use the services of an architect from the minority group, then you find yourself beset by difficulties raised by the departments of building, of health, of fire. You will wait longer to receive your telephone, gas, electric, and water connections from the municipal authorities. The department of sanitation will discover some irregularities in your building. If members of your minority group are injured or even killed for political reasons, the police are slow in finding the culprit. Against such obstacles all provisions of minority protection are useless” (Mises, 1941 in Ebeling, 2000, p.13).

After World War I the governments of Central and Eastern Europe used interventionist policies to restrict economic opportunities for the Jewish populations, mostly with acts of violence against the lives and property of Jews (Ebeling, 2005, p. 21). In this way, a flourishing period, of economic prosperity in the spirit of individualism that improved the Jewish community, is ended by social rejection and the abolition of Jewish freedom, which culminated with the Holocaust.

In contemporary times, we find all across the United States of America, the most numerous Jews in the world, a strong community with healthy liberal convictions. Paradoxically, the state of Israel does not have a free market economy. The fact that the government heavily controls most of the land and activities is not well seen by the American Jews. At an anniversary conference of Milton Friedmann in Jerusalem, Kenneth Levy stated: „Economic liberty creates wealth. People are very generous with their wealth. They gave away amazing amounts of money. Jews are philanthropic in the United States. Jews are not philanthropic in Israel”(Wiener, 2012, par. 21). Levy considers Israel a socialistic country, with a socialist mentality, while the philanthropic mindset comes from a free-market society. Believing that Judaism supports free-market economics, he simply stated: „without economic liberty, we would not exist”.

#### **4. Conclusions**

In practice, liberalism is protecting freedom, and freedom is the final goal of the Jewish people from ancient times to present. In fact, no one can better appreciate freedom or the benefits of a free economy, than those who have always encountered difficulties in social integration or the racist government policies. Despite all the attempts of extermination, several aspects led to the preservation of the Jews. Kevin McDonald (2006) identifies some peculiar attributes that enabled not only the strength but also the great influence of the Jews over the societies in which they lived: the ethnocentrism, the intelligence (above the average), the psychological strength and the aggressivity. Furthermore, we definitely mention religion- the only thing common to people who did not share the same country, a unique language or a common history.

However, we invoke the explanatory power of universal history, because, initially, the Jewish people strongly identified with their religion and still, after periods of wandering and mixing through the world, they had religion not only as a binder but also as an advantage in reaching prosperity. Even if, at one point, religion began to lose authority, the moral and ethic values - deeply imprinted in their culture as in their consciousness - were transmitted through generations; their attitudes were transferred from religious ground to secular forms of education, favoring the construction of a powerful ethnic kernel that could not be destroyed, either by genocide. This is why we believe that Judaism, as a moral system, indirectly produced its results over the centuries and has been, through his people, one of the enduring pillars of the „extended order”.

## References

- Arkush, A. (2009) *Theocracy, Liberalism, and Modern Judaism*, The Review of Politics, University of Notre Dame, no. 71, p. 637–658.
- Bainerman, J. (2006) *Jewish economic morality*, The Official Site of the France-Israel Chambre of Commerce, available at <http://www.israelvalley.com/articles/1593-jewish-economic-morality>
- Bokser, Z. (1951) *The Wisdom of the Talmud*. Available at: <http://www.sacred-texts.com/jud/wott/index.htm> .
- Ebeling, R.M (2005) *Ludwig von Mises and The Vienna of His Time* Part II, Austrian Economics Colloquium at New York University on December 6, 2004.
- Ebeling, R.M (2000) *Selected Writings of Ludwig von Mises, Vol. 3: The Political Economy of International Reform and Reconstruction*. Indianapolis: Liberty Fund
- Eisenberg, J. (1995) *Iudaismul*, București: Editura Humanitas.
- Friedman Milton (1988) “Capitalism and the Jews”, The Freeman Ideas on Liberty, vol. 38, no. 10. Available at: <http://www.thefreemanonline.org/columns/capitalism-and-the-jews>
- Hayek, F. A. (1989) *The Fatal Conceit: The Errors of Socialism*, Chicago: University of Chicago Press.
- McDonald, K. *Influența evreilor în lume*. Bacău: Editura Vicovia, 2006 .
- Mittelstaedt, J. D (2002) *Framework for Understanding the Relationships between Religions and Markets*, Journal of Macromarketing ,vol. 22, no.1,p. 6-18.
- Muller, J.Z (2010) *Why Do Jews Succeed?*
- Sauer, C & Sauer, M. (2007) *Jewish Theology and Economic Theory*, Acton Institute, Religion&Liberty, vol. 17, no 1, p.4-6.
- Sacks, J. (1985) *Wealth and Poverty a Jewish Analysis*, The Social Affair Unit, Big Blog Company.
- Sacks J. (2007) *Markets and Morals*, Institute of Economic Affairs. Available at : <http://www.utzedek.org/socialjusticetorah/social-justice-articles/73-rabbi-jonathan-sacks-markets-and-morals.html>
- Sombart,W. (2001) *The Jews and Modern Capitalism* , Ontario: Batoche Books Limited.
- Wiener, R. (2012) *We believe that Judaism supports the free markets*, NJN. Available at: <http://njewishnews.com/article/8615/we-believe-that-judaism-supports-the-free-markets#.T5Ev1S9X0wE>
- *World English Bible*. Available at : <http://www.sacred-texts.com/bib/web/index.htm#contents>