

Chapter 5

Religious Norms, Human Capital, and Money Lending in Jewish European History

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The ambitiousness of our agenda deserves emphasis: we are proposing the hypothesis that widespread and/or persistent human behavior can be explained by a generalized calculus of utility-maximizing behavior, without introducing the qualification “tastes remaining the same” ... It is possible almost at random to throw examples of phenomena that presently defy explanation by this hypothesis: Why do we have inflation? Why are there few Jews in farming? Why are societies with polygynous families so rare in the modern era? Why aren't blood banks responsible for the quality of their product?... Our lamented friend Reuben Kessel offered an attractive explanation: since Jews have been persecuted so often and forced to flee to other countries, they have not invested in immobile land, but in mobile human capital---business skills, education, etc.---that would automatically go with them. Of course, someone might counter with the more basic query: but why are they Jews and not Christians or Moslems?

---George J. Stigler and Gary S. Becker (1977)

1. Introduction

Circa 1100, money lending was *the* occupation par excellence of the Jews in England, France, and Germany, and one of the main professions of the Jews in Spain, Italy, and other locations in Europe. Their prominence grew in the following centuries and extended to banking and finance. The prominent international banking dynasty of the Rothschilds founded in the second half of the eighteenth century by the German banker Mayer Amschel Rothschild can be viewed as the heir of the Jewish money lenders extending credit in hundreds of villages and urban centers in medieval Europe.¹

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A common view states that the usury ban on Christians segregated European Jewry into money lending. A similar view contends that the Jews were forced to become money lenders because they were banned from farming as they were not permitted to own land.² As we argue in this chapter, the historical evidence contradicts both these views.

We present an alternative argument that is consistent with the main features that mark the history of the Jews: the Jews in medieval Europe voluntarily selected themselves into money lending as they had the three key assets for being successful players in credit markets.³ First, they were highly educated because they were endowed with a “literate” religion. In a medieval Europe populated of illiterate people, the Jews had a comparative advantage in writing and reading contracts, business letters, and account books using a common alphabet despite the different local languages. Second, they had a uniform code of law, the Talmud, and a set of institutions (rabbinic courts, Responsa) that fostered contract enforcement, networking, and arbitrage across distant locations. Third, the Jews had accumulated wealth as urban dwellers engaged in crafts and trade in the Muslim Near East. When they migrated to Europe in the early Middle Ages, they had the capital to become the key players in money lending, and, later, in banking and finance.

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² See Roth (1960, p. 229) for a summary of both arguments.

³ For a detailed description of our argument, an extended overview of the history of the Jews, and a comprehensive bibliography, see Botticini and Eckstein (2005, 2007, and forthcoming).

To illustrate our argument, we survey the history of the Jews from the first to the fifteenth century. This journey over two millennia will reveal that first- and second-century rabbinical Judaism, which centered the religion on reading the Torah and educating the children, played a pivotal role in shaping the history of the Jews in the subsequent centuries.

2. Jewish History, ca. 1-1492: An Overview

What are the distinctive features that mark the history of the Jewish people from the destruction of the Second Temple in Jerusalem in 70 C.E. to their expulsion from Spain in 1492? We consider three sub-periods, each marked by an “historical accident” (i.e., an exogenous event): the destruction of the Jerusalem Temple by the Roman army during the Great Jewish Revolt in 66-73 C.E., the vast urbanization during the establishment of one of the largest empires in pre-modern history concomitant with the rise of Islam in the early seventh century, and the Mongol invasions ravaging the Middle and Near East in the 1250s. These exogenous events interacted with the internal dynamics of the Jewish religion to determine the unique demographic and economic traits that characterize the history of the Jews before 1500.

The six centuries elapsing from the days of Jesus to the days of Mohammed are punctuated by three key facts. World Jewry decreased by more than 4 million---from roughly 5.5 million in the early first century to 1.2-1.5 million in the early seventh century. War-related massacres and general population decline account for nearly 50% of this drop.

In the first century, the largest Jewish community (nearly 2.5 million) dwelled in the Land of Israel. There were important communities in Babylonia and Egypt, each hosting about one million Jews, as well as in Syria and Asia Minor. Many Jews also lived in Europe under Roman rule. Six centuries later, the center of Jewish life had moved to Babylonia, where more

than 80% of world Jewry lived at the onset of Islam. In contrast, the Jewish population in the Land of Israel, Egypt, Syria, Asia Minor, and western Europe had almost disappeared.

In these six centuries, farming was the occupation of the vast majority of the world's population regardless of religious affiliation. Most Jews were farmers, like everybody else.

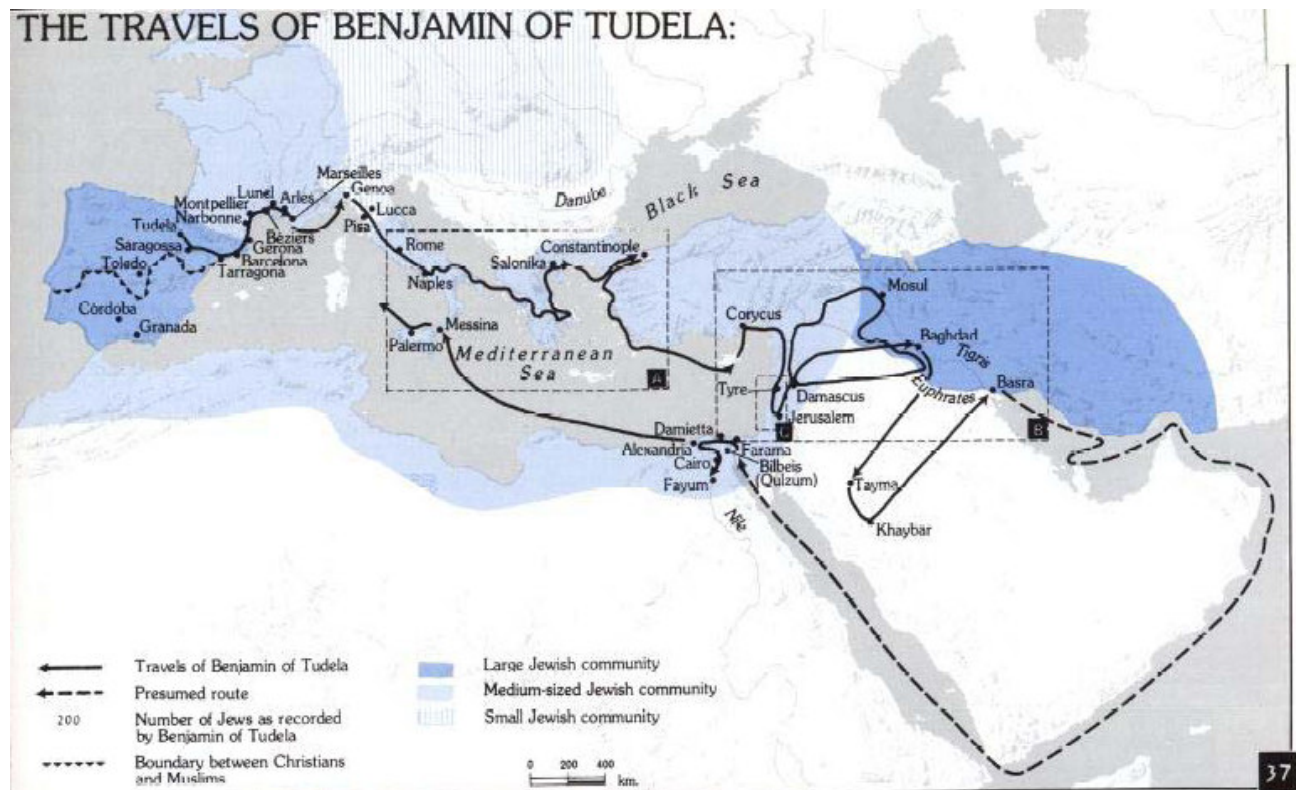
Mohammed entered the center stage of history in the early seventh century by founding the new religion of Islam. After his death in 632, Muslim religious leaders aspired to make Islam a world power and a universal religion. At the height of its territorial expansion in the eighth century, the Muslim Empire embraced a vast territory stretching from Spain in the West to India in the East, with a common language (Arabic) and a uniform set of institutions and laws based on the principles written in the Qur'an. The ascent of the Muslim Empire brought a spectacular urbanization, which vastly increased the demand for skilled occupations in the newly established cities and towns of the Near East, and also greatly fostered trade and commerce over a vast area.

How did these events affect world Jewry? The so-called golden age of Jewish history (ca. 800-1200) is marked by three main features. From 750 to 900 *almost all* the Jews in Iraq and Persia, who amounted to 80% of world Jewry, left agriculture, moved to the cities and towns of the newly established Muslim Empire, and entered myriad skilled occupations.

Once abandoned agriculture as their main occupation, many Iraqi and Persian Jews voluntarily migrated, first within the lands of the Muslim Empire (e.g., Egypt, the Maghreb, Syria, and Spain), and then from the ninth century to western Europe, generating a worldwide Diaspora of small urban communities and creating an economic and intellectual link between the Muslim Near East and the Christian West. By the time (ca. 1165-1173) the Jewish traveler Benjamin of Tudela ventured on his long journey from Spain to Asia, the Jewish Diaspora had

reached its zenith and the selection of world Jewry into urban skilled occupations was irreversible.

The Jewish population slightly grew from 1-1.2 million in the mid-seventh century to 1.2-1.5 million in the mid-twelfth century. As Map 1 taken from Benjamin of Tudela's travel itinerary shows, ca. 1170 world Jewry was scattered across three economic and intellectually independent centers: (i) Iraq, Persia, and the Arabian Peninsula under Muslim rule, hosting about 80% of world Jewry, (ii) Muslim and Christian Spain, and (iii) Christian France, England, and Germany. Similarly, tiny Jewish communities were to be found in myriad locations all over Italy, Austria, Bohemia, Poland, Hungary, Greece, the Balkans, Asia Minor, Syria, Lebanon, the Land of Israel, North Africa, all the way to central Asia, China, and India.



The golden age of Jewish history is manifest in the intellectual fervor that characterized these centuries (e.g., Rashi, Maimonides). It also witnessed the gradual shift of the Jewish religious center from the Babylonian academies to the ones in Spain, France, and Germany.

The Mongols first arrived in the Near East in 1220, but their major invasions of Persia and Iraq started in the mid-1250s. In 1256, under the leadership of Hulagu Khan they invaded and ravaged Iraq and Persia, demolished Baghdad in 1258, ended the Abbasid rule and opened a new era, with the economy in the Near and Middle East returning to a subsistence-farming and nomadic-pastoral stage. Iraqi, Persian, Syrian, and Egyptian Jewry shrank a lot, yet it remained mainly an urban population.

Most Jews now lived in Christian Europe. The Jews in Spain and North Africa remained engaged in a wide variety of urban occupations. In contrast, the Jews in France, Germany, England, and Italy became increasingly specialized in money lending. While the Jews in the Middle and Near East were facing the consequences of the Mongol invasions, European Jewry met with increasing restrictions and persecutions, which culminated with the mass expulsions of the Jews from most western European countries from 1290 to 1496. These events mark the end of the golden age in Jewish history.

From a population of farmers in the Middle and Near East in the days of Jesus, by the end of the millennium the Jews had become a small population of urban dwellers scattered in myriad locations from the Near East to western Europe, mainly engaged in crafts and trade. This occupational selection reached its zenith in medieval Europe, where the Jews became identified with one occupation: money lending. How did this happen? We show that the selection of the Jews in the most skilled and profitable profession was set in motion centuries earlier when Judaism underwent a unique transformation.

3. Shift of the Religious Norm: The People of the Book

Before 70 C.E., the Jerusalem Temple and the Written Torah were the two pillars of Judaism.⁴ While temple service and ritual sacrifices performed by an elite of high priests were a common feature of all religions, Judaism was the only monotheistic faith based on a written text.

Many cults populated the ancient world, including the Land of Israel. The two main Jewish sects were the Sadducees, who included the priests in the Temple, and the Pharisees, with teachers in their ranks. To fulfil their goal of making the study of the Torah universal, during the first century B.C.E. the Pharisees promoted the establishment of free secondary schools. A century later, they issued a religious ordinance requiring *each* Jewish father to send his six- or seven-year-old sons to the primary school to learn reading the Torah in Hebrew. In the first millennium, no cult, except Judaism, had a norm requiring fathers to educate their sons.

After the destruction of the Temple in 70 C.E., the Jewish religion permanently lost one of its two pillars and entered a unique trajectory. With the disappearance of the competing sects, the Pharisees, the new religious leaders, replaced temple service and ritual sacrifices with the study of the Torah in the synagogue, the new focal institution of Judaism.⁵ Its core function was to provide *religious instruction* to both children and adults. To be a devoted Jew became identified with reading the Torah and sending the children to school to learn reading the Torah.

⁴ The Written Torah consists of the Five Books of Moses (the Pentateuch), compiled sometimes at the end of the 7th century B.C.E. In the following centuries, sages and scholars discussed, and issued rulings, regarding the Written Torah. This body of oral tradition is called the Oral Torah.

⁵ The Zealots, the main instigators of the war against the Romans, were massacred, whereas the fall of the Temple deprived the Sadducees of their main source of wealth and power.

In the subsequent century, the rabbis and scholars in the academies now located in the Galilee interpreted the Torah, discussed religious norms as well as social and economic matters pertaining to daily life, and organized the body of Oral Law accumulated through the centuries. Circa 200 C.E., Rabbi Judah HaNasi completed their work by redacting the six volumes of the Mishna, which with its subsequent development, the Talmud, became the canon of law for the whole world Jewry. Also, under its leadership, illiterate people became considered outcast.

The transformation of Judaism should be viewed as a change in religious norms and preferences that was not motivated by economic incentives. The destruction of the Temple, an exogenous event, ended the competition between Sadducees and Pharisees. The latter were not merchants, who intended to make the Jewish people a population of educated and wealthy merchants. Rather, their goal was ensuring that all Jews could read the Torah in order to know and to obey all the laws of their religion.

The emphasis on reading the Torah in Hebrew, when the spoken languages were Aramaic, Greek, or Latin, is a further indication that the prospect of economic gains did not inspire the Pharisees to make primary instruction in Hebrew universal among the Jews. Finally, the Land of Israel and Babylonia were not urban or commercial economies. Most of the Jewish population consisted of illiterate farmers for whom investing in their children's religious education was a sacrifice with no economic returns.

What were the demographic and economic consequences of this change in the religious norm within Judaism? In Botticini and Eckstein (2007), we present an economic model that describes the choices regarding religious affiliation and children's education in a world populated by Jewish and non-Jewish farmers, like the one at the beginning of the first millennium. The model delivers two main implications. First, given heterogeneity in people's

religious preferences and attachment to the religion, children's cognitive and non-cognitive skills, costs of education, and earnings, some Jewish farmers invest in their children's religious education, whereas others do not. Second, some Jewish farmers, who find it too costly to obey the norm requiring to send the sons to school, convert to other religions. Over time, Judaism cannot survive in subsistence farming economies because of this process of conversions.

We show that these implications are consistent with what happened to the Jewish people in the five centuries following the destruction of the Jerusalem Temple.

4. Jews in the Talmud Era: The Chosen Few

Was the religious norm requiring each Jewish father to send his six- or seven-year old sons to the primary school to learn reading the Torah, immediately implemented? Did all the Jews become literate in a matter of a few years? The answer is certainly no.

However, an impressive amount of information from the Jerusalem and Babylonian Talmud, the early Gaonic Responsa (the written replies of the Babylonian scholars to the questions sent from the Jewish communities worldwide), and the archeological findings on synagogues, show that during the Talmud era (third to sixth centuries), the Jews in the Land of Israel and Babylonia started obeying the religious norm. A larger and larger proportion of Jewish farmers sent their sons to the primary schools located inside, or next to, the synagogues built in myriad locations. Words such as 'teachers' salaries, duties of teachers, pupils, length of the school day, schools, books, and education tax' filled pages and pages of debates and rulings contained in both Talmud. No other ancient civilization had a similar body of discussions related to zillions of practical matters for the communal organization of a primary education system.

Some Jews, though, decided not to obey the religious norm, did not send their sons to school, and became outcast (the so-called *ammei ha-aretz* mentioned in the Talmud).

As for conversions, a variety of literary and archeological sources document that many Jewish farmers in the Land of Israel, Egypt, Babylonia, Asia Minor, and western Europe converted to Christianity during the Talmud era. By embracing Christianity, those who converted still maintained the same core belief in the existence of one God and the pillar of the Torah. However, they switched to a less demanding religious norm: in order to be good Christians, they had to have faith and believe in God. They no longer needed to struggle with their meager incomes to send their sons to learn reading the Torah in the synagogue and they no longer suffered the ostracism of the Jewish community for not educating their children.

This wave of voluntary conversions during the Talmud period can account for the additional drop of 2 million in Jewish population numbers (roughly 50% of the Jewish population decrease between the first and the early seventh century) mentioned earlier. Coupled with war-related massacres and general population decline, this process of voluntary conversions brought almost to disappearance the Jewish populations of the Land of Israel, Egypt, Asia Minor, and western Europe by 600 C.E. The only Jewish community that survived, although it was also negatively affected by a wave of conversions to Christianity, was the one in Babylonia, which became the new religious and economic center of world Jewry at the onset of Islam.

Despite sending the children to school to learn reading the Torah was a sacrifice with no economic returns in the agrarian economies in which they lived, a proportion of Jewish farmers did not convert, decided to obey the norm of their religion, and invested in their children's education. Over time, what happened to these educated Jewish farmers?

5. Farmers to Merchants, ca. 750-900

The establishment of the Muslim Empire during the seventh and eighth centuries and the concomitant vast urbanization in the Near East acted as a catalyst for the massive transition of the Jews from farming to crafts and trade.

In nearly 150 years, from 750 to 900, the Jews voluntarily ceased being a rural population of farmers, as they had been for centuries, and became an urban population of craftsmen, traders, moneylenders, court bankers, physicians, and scholars in Babylonia and Persia under Muslim rule. The literacy of the Jewish people due to their unique religious norm, coupled with a set of contract-enforcing institutions (e.g., Talmud, rabbinical courts, and Responsa)---an internal development within Judaism---gave the Jews a comparative advantage to become an urban population engaged in crafts and trade, when the spectacular urbanization in the newly established empire---an exogenous event---created a huge demand for skilled occupations.

Any argument based on restrictions would fail to explain the occupational transition of the Jews. The Jews in Iraq and Persia could buy, own, and sell land. They could be farmers and some of them kept being farmers in the Muslim Empire. The Jews could enter any occupation they wished and, in fact, one finds them holding more than 450 urban occupations in the thousands of Cairo Geniza documents, which illustrate the economic and social life of the Jewish communities in the Muslim Near and Middle East.⁶

Similarly, it cannot be that the Jews left agriculture and became craftsmen and merchants in the Muslim Empire because as members of a religious minority, they preferred to live close to each other in the cities and to be engaged in urban occupations in order to preserve their religious identity that would otherwise disappear in a rural environment, as Max Weber and Simon

⁶ Goitein (1967-1988).

Kuznets maintained. The Jews protected their religious identity for centuries as farmers in the Land of Israel and Babylonia. They could keep practicing their religion as farmers in the Galilee and Mesopotamia, like other religious minorities (e.g., Samaritans and Christians) did.

6. The Golden Age of the Jewish Diaspora, ca. 800-1250: Push or Pull?

Once set in motion, the occupational and residential selection of the Jews never reverted but, rather, grew. From then on, the Jews remained a select group of highly educated individuals in search of opportunities to obtain an economic return on their investment in education.

The ability to read religious texts in Hebrew, as required by Judaism, enabled the Jews to read any other document written in Hebrew (e.g., business letters, contracts, loans, and account books) even when the local spoken language differed. The ability to read, and to write in, Hebrew also helped Jewish craftsmen, merchants, and moneylenders learn other languages, which heightened mobility and trading opportunities. This fostered the network externality among Jewish merchants described by Avner Greif (2006) for the Maghribi traders in the Mediterranean in the high Middle Ages. Literacy was a prerequisite for implementing community sanctions and accessing the Jewish court system.

After leaving the rural villages of Iraq and Persia and moving to the urban centers in the newly established Muslim Empire during the eighth and ninth centuries, the subsequent steps of the Jewish Diaspora were their voluntary migrations within the vast territory of the Muslim Empire stretching from Spain to Persia from the eighth to the eleventh century, and then to western Christian Europe from the ninth to the thirteenth century.

Economic motives, not persecutions or expulsions, were the main lever of the Jewish Diaspora in the early Middle Ages. The main insight of our argument is that Judaism with its

costly religious norm (fathers must educate their sons) can survive in the long run only if the Jews can find occupations that generate high returns to their investment in education. Their migrations within the Muslim Empire and to Europe in search of business opportunities are an important historical development that supports this argument. Especially in Europe, in the early stages these migrations started with local rulers inviting one or more Jewish families to settle in their towns as they considered Jewish craftsmen, traders, money lenders, tax collectors, court bankers, and royal treasurers essential for the economic development of their urban centers.

7. Money Lending in Medieval Europe: Selection or Segregation?

Already during the tenth and eleventh centuries, money lending was *the* occupation par excellence of the Jews in France and Germany, and one of the main professions of the Jews in Spain, Italy, and other locations in western Europe. Why?

7.1 Restrictions on Jewish Economic Activities

An old thesis going back to the Jewish historian Cecil Roth maintains that Jews in medieval Europe became segregated in money lending because the prohibition of owning land led them to forsake farming, become an urban population, and acquire a monopoly in money lending. Even though recent historiography has debunked this argument, the argument nonetheless has become so well rooted in the literature that it is the most common explanation, still taught in schools and popular outside academic circles.

This theory, though, has pitfalls. Many early medieval charters show that kings and local rulers were keen on attracting foreign craftsmen, traders, brokers, minters, and money lenders, and, therefore, invited the Jews to settle in their towns and countries for the many skills they

would bring to the development of prosperous commercial economies.⁷ The Jews, who migrated from the Muslim Near East to Europe from the ninth century on, were not farmers, who then became money lenders; they were urban dwellers specialized in skilled occupations, including money lending, in their original locations prior to migrating to Europe.

The early medieval charters also indicate that the Jews were granted the right to freely move within a country's geographical boundaries, to trade in goods as they wished, and to engage in money lending. But the most remarkable fact is that the Jews---whether in Narbonne in 899 or Gironne in 922, in Trier in 919 or Worms in 1090, in Barcelona in 1053 or Toledo in 1222, or in early medieval England, were permitted to acquire and to own land if they wished. Not only were Jews legally permitted to own land, they could acquire significant amounts especially in Italy, southern Spain, southern and east-central France, and Germany, possessed fields, gardens, and vineyards, and owned, transferred, and mortgaged land holdings. They preferred to hire tenants, sharecroppers, and wage laborers to work their lands. For themselves they *chose* the most skilled and profitable occupations, and foremost money lending.

7.2 Restrictions on Non-Jewish Economic Activities

Another popular view contends that prohibitions acted the other way around, that is, restrictions on the economic activities of *non-Jews* banned them from some occupations and the Jews would simply fill these jobs. We show that this view is untenable by describing the timing of the key events in the table below.

⁷ The charters were bilateral contracts between Jews and local rulers that regulated many economic, social, and religious aspects of the lives of the Jewish communities in Europe.

Time	Location	
325	Roman Empire	Church prohibits clergy from charging interests on loans
500-1100	Europe	Church extends usury ban to the laity --- <i>ban not enforced</i>
650-1250	Muslim Empire	Qur'an prohibits Moslems from charging interest on loans
750 – 900	Iraq and Persia	Jews left farming, moved to urban centers, and entered nearly 450 occupations (crafts, trade, money lending)
850-1250	Europe	Jews migrated from the Near East to Europe as urban dwellers specialized in crafts, trade, and money lending
From 950	Europe	Jews became prominent in money lending. Jewish scholars (e.g., Rashi and Rabbenu Tam) issued many rulings to regulate money lending
1175-1350	Europe	Church strictly enforces usury ban on Christians

Let us first consider the large Jewish community in the Muslim Empire during the eighth and ninth centuries, given that the transition of the Jews from farming to crafts, trade, and money lending started and reached its full-fledge stage there. Some scholars contend that the Islamic ban on usury, excluding Muslims from lending money at interest, created opportunities for Jews to become moneylenders. This argument faces two challenges.

Money lending is just one of the many skilled occupations that one can group into the category of “trade.” It involves trading (money) between lenders and borrowers. It requires education and skills, it likely bears more risk, but typically earns more income. The ban on Muslims may explain why *within* the occupations belonging to the category of “trade,” the Jews further specialized in money lending. It cannot explain why they left farming and became urban

dwellers selected into crafts, trade, and money lending. Moreover, as mentioned earlier, the documents of the Cairo Geniza documents show that the Jews in Iraq, Persia, Egypt and the Maghreb were engaged in more than 450 urban occupations, money lending being just one of them. Thus the usury ban on Muslims did not lead the Jews to exclusively become money lenders in the Muslim Empire.

We then consider western Europe in the Middle Ages. A common argument is that the Catholic Church adopted the scholastic principle with roots in the Old Testament that everything that accrued to the capital constituted usury, and, therefore, it prohibited Christians from charging interest on loans.⁸ This ban would leave the whole credit market open to the Jews. When looking at the timing of usury prohibitions on Christians in the table above, this argument fails to account for the selection of the Jews into money lending.

Recall that the Jews left farming and entered handicrafts, trade, and money lending in the eighth- and ninth-century Muslim Near East. From there, they migrated to Europe where they arrived as a selected group of urban dwellers already specialized in skilled occupations, including money lending. Responsa and rulings of several leading rabbis and scholars, such as R. Meshullam b. Kalonymus, R. Gershom, the famous Rashi, whose works became the authoritative source of law for the Ashkenazi communities all over Europe, or his prominent grandson, Rabbenu Tam, or R. Yitzhak Bar Asher of Speyer, discussed and regulated lending money at interest. The fact that eminent Jewish scholars during the tenth, eleventh, and twelfth centuries devoted a lot of discussions and rulings to money lending indicates that by then, French and German Jewry were heavily involved in money lending.

⁸ Roth (1960, p. 229).

What about the timing of the usury ban on Christians? In the Council of Nicaea in 325, the Church prohibited the taking of interest by the clergy---a rule that was extended to the laity in subsequent centuries.⁹ Until the early twelfth century, though, the Church's attitude was more to reprimand than to explicitly prohibit lending at interest. The anti-usury movement gained momentum starting from 1175 and reached its zenith in 1313 when Pope Clement V made the ban on usury absolute and declared all secular legislation in its favor, null and void. Therefore, it is impossible that usury restrictions enforced on Christians during the thirteenth and fourteenth centuries prompted the Jews in the Muslim Near East four centuries earlier to abandon farming and to enter money lending. The usury ban on Christians was enforced too late (at least two centuries after money lending had become the leading profession of the Jews in Europe) to explain the selection of European Jews into the most skilled and profitable occupation.

7.3 Physical Versus Portable Human Capital

The view that persecuted minorities prefer to invest in human capital, which is easily portable, than in physical capital subject to expropriation, is as popular as the explanations based on restrictions.¹⁰ The corollary to this argument is that by not investing in land, the Jews ceased being farmers, and by investing in human capital, they ended up in money lending. This theory, which has no problems from the point of view of internal consistency, is problematic when one considers the key facts of Jewish history.

The zenith of the transition of the Jews from farming to crafts, trade, and money lending occurred in eighth- and ninth-century Iraq and Persia, where the Jewish minority enjoyed

⁹ Reed and Bekar (2000).

¹⁰ Brenner and Kiefer (1981).

significant security of life and was not exposed to sudden expulsions or forced conversions. Moreover, when small groups of Jewish migrants arrived from the Muslim Near East to Christian Europe, they were a literate population of skilled artisans, able traders and money lenders, and highly educated scholars and doctors. Their investment in education occurred in the Land of Israel and Babylonia during the Talmud era as the outcome of the implementation of the religious norm requiring fathers to educate their sons---centuries *before* their migrations.

7.4 The Religious Lever of Jewish Money Lending

Based on the historical information and the economic theory we presented in the earlier sections, we advance an alternative explanation that is consistent with the key features that mark the history of the Jews: the Jews in medieval Europe voluntarily selected themselves into money lending as they had the three key assets for being successful players in credit markets.

First, the Jews were highly educated because they were endowed with a “literate” religion. As the outcome of the pivotal change prompted by the Pharisaic religious leaders in the Land of Israel during the first and second centuries C.E., Jewish fathers were required to send their sons to the synagogue or the primary school to learn reading the Torah in Hebrew. This investment in religious literacy had spillover effects on their general literacy, as well as on basic arithmetic skills which they learned in the primary schools, as the Cairo Geniza documents show. Centuries later, in a medieval Europe populated of illiterate people, the Jews had a comparative advantage in writing and reading contracts, business letters, and account books using a common alphabet despite the different local languages. They also had arithmetic skills that enabled them to calculate interest rates and exchanges rates. Money lending requires more education and skills than farming but earns a higher income than farming and other occupations. In the absence of

restrictions, highly educated Jews would rather being engaged in money lending than in less profitable occupations.

Second, the scholars in the academies in the Galilee and Babylonia endowed the Jewish people with a uniform code of law (the Talmud) and a set of institutions (rabbinical courts, Responsa) that fostered contract enforcement, networking, and arbitrage opportunities across the myriad distant locations where they lived.

Third, the Jews had accumulated wealth as urban dwellers engaged in crafts and trade in the Muslim Near East. When they migrated to Europe, they had the capital to become money lenders, and later, prominent bankers and financiers. This process of capital accumulation and intergenerational transmission of wealth was favored by the inheritance laws laid down in the Mishna and the Talmud, according to which wealth passed from fathers to sons without being dispersed in tiny and rigid portions across many members of the extended family, as it happened instead among Moslems.¹¹

The history of the Jews in medieval England is perhaps one of the most stunning examples that epitomizes and illustrates our argument. They first arrived in England in 1066 as a highly literate and prominent group of traders and money lenders, allegedly upon invitation of William the Conqueror, who brought them from Rouen in France. Soon after their arrival, they became specialized in money lending. That the business was very lucrative is shown by the fact that when the most prominent money lender, Aaron of Lincoln, died in 1186, he was probably the wealthiest person in England in liquid assets. His outstanding credits amounted to £15,000,

¹¹ Kuran (2003) argues that Islamic inheritance laws were one of the main reasons for the lack of modernization in Muslim countries in pre-modern and modern times as they hindered the growth of the corporation and of big business partnerships.

or the equivalent to three-fourths of royal income in a normal year. Overall, despite being a tiny proportion of the population, Anglo-Jewry contributed to nearly one-fifth of the revenues of the English crown during the thirteenth century. They helped finance several undertakings of the monarchy, including the Crusades, as well as the building of cathedrals and abbeys.

Money lending earned high returns but also bore high risks. The high standards of living reached by the Jews through lending money at interest did not protect them from sudden outbreaks of violence. Their profession and the wealth they accumulated may have actually paved the way for episodes of violence, such as the notorious massacre of York in 1190, when during a riot sparked by citizens who owed money to the agent of Aaron of Lincoln, almost all 150 Jews of York killed themselves rather than facing the mob.

Neither religious bans nor legal restrictions prevented Aaron of Lincoln and his co-religionaries from owning land and from being farmers if they wished. But they clearly preferred the more profitable occupation of money lenders. The end of the history of the Jews in medieval England makes any theory that argues that they became prominent in money lending because they were prohibited from owning land inconsistent with the key historical facts.

Shortly after his coronation, King Edward I, partly to implement the Church's laws reiterated at the 1274 Council of Lyons against Christians and Jews practicing usury, partly to address internal political affairs, in 1275 issued the *Statutum de Judaismo*, in which he forbade Anglo Jewry from lending money at interest. The most astonishing feature of the statute is that the king granted permission to the Jews to engage in trade and handicrafts, and even to take farms for a period not exceeding ten to fifteen years.

Apparently, the Jews refused to, or failed to, engage in farming, handicrafts, or trade. Acknowledging the failure of his policy, on the 18th of July of 1290 Edward a decree to the

effect that all Jews should leave England before All Saints' Day of that year. Some scholars argued that there was no need for the decree of expulsion and that the community of a few thousands Jews residing in England preferred to leave the country and to migrate to France, Italy, Germany, and Spain rather than giving up money lending and becoming farmers or craftsmen.

Who replaced the Jewish money lenders? During the late thirteenth century and the first half of the fourteenth century, exactly at the time when the Church was strictly enforcing the usury ban on Christians, the English crown replaced the Jews with the Italian banking houses. When in the early 1340s King Edward III defaulted on the huge loans he owed to the two Tuscan banking houses of the Bardi and Peruzzi, it was an English merchant, William de la Pole who emerged as the crown's principal source of loans. Medieval England attracted a variety of other Christian money lenders (e.g., the Lombards), who lent to the rich and the poor despite the Church's ban.

When and how did the Jews officially return to England? The story of the return of the Jews to England in the mid-seventeenth century resembles what had happened centuries earlier, when the Jews migrated from the Muslim Near East to western Europe and became prominent in trade and money lending. Around 1656, the Protestant Oliver Cromwell, who saw the important role of the Amsterdam based Jewish community for the booming international trade, accepted the request advanced by Rabbi Menasseh ben Isarel, one of their leaders, to re-admit the Jews in London under the promise of economic and religious freedom. With flourishing links to the East and West Indies and to the New World, Cromwell believed that the Jews in London could make the city a commercial center as Amsterdam was. At the same time, the Jewish traders and stockbrokers in Amsterdam forecasted that England under the Cromwell Protectorate had the potential of becoming the new leading center of international trade and finance, as it became.

To sum up, in early medieval Europe, the Jews were not subject to any economic restriction, as the charters clearly show. Whether in Spain, France, England, Italy, or Germany, they voluntarily entered the urban and skilled occupations in high demand in the blossoming urban centers. Money lending was just the top skilled profession that they chose to obtain high returns to their investment in education---a long-lasting gift of their unique religion.

8. Epilogue: The Legacy of Judaism

This journey over two millennia has revealed that first- and second-century rabbinical Judaism, which centered the religion on reading the Torah and educating the children, played a pivotal role in shaping the history of the Jews in the subsequent centuries.

The life of David Ricardo, one of the pioneers of the discipline of economics and the father of the theory of comparative advantages---epitomizes the history of European Jews and the paramount role of the Jewish religion in determining their economic success.

Born in London in 1772, Ricardo descended from a Jewish family, who had moved to London after spending some years in Amsterdam, one of the leading centers of international trade and finance during the seventeenth and eighteenth centuries. His father was a stockbroker, who had made a fortune on the London Stock Exchange. After attending school in London and for a brief period in Amsterdam, when he was 14, Ricardo joined his father's business. The business connections he made when working with his father and his personal skills won him the support of an eminent banking house. He did so well that in a few years he acquired a fortune. By the time he retired from the Exchange at the age of 43, his fortune was estimated at the astonishing value of about £600,000 of his time. While later he became a Unitarian as he married Priscilla Anne Wilkinson, a woman of Quaker faith, Ricardo was raised like many Jewish

children and young adults in modern Europe including Ricardo's famous contemporary, Mayer Amschel Rothschild, the founder of the international finance dynasty: he received religious instruction in the Torah and the Talmud while undertaking practical training in the most profitable profession of the time---finance.

The selection into urban, skilled, and profitable occupations with high returns to education remained a permanent mark of the Jewish people, as documented by the striking statistics collected by Simon Kuznets, who showed that between 95% and 99% of the Jewish labor force in eastern Europe, the Soviet Union, the United States, and Canada in the 1930s (nearly 87% of world Jewry) held urban skilled occupations, especially in trade, banking, finance, law, and the medical profession.

The prominence of the Jews in finance as well as in high-tech industries, in science and medicine as well as in the university profession, or the disproportionate number of Nobel Laureates are the visible signs of a success story whose roots can be traced to a pivotal change in the Jewish religion occurred many centuries ago. Judaism, permanently intertwined with education and human capital, became the lever of Jewish economic and intellectual prominence.

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