

## Introduction

THIS BOOK IS A JOURNEY BACK IN TIME, EMBARKED UPON IN ORDER TO uncover why the Jews became the people they did. The journey begins in Jerusalem in Judea and in Sepphoris and Tiberias in Galilee during the first and second centuries. It takes us to Babylon in Mesopotamia in the fifth and sixth centuries; to Baghdad, Cairo, Córdoba, and Palermo, the new urban centers of the Middle East and the Mediterranean, in the ninth and tenth centuries; to Tudela in Spain and Mangalore in India in the late twelfth century; and back to Baghdad in the 1250s before ending in Seville in 1492.

The purpose of this passage through 1,500 years of Jewish history is to ask and answer a variety of questions. Why are there so few Jewish farmers? Why are the Jews an urban population of traders, entrepreneurs, bankers, financiers, lawyers, physicians, and scholars? When and why did these occupational and residential patterns become the distinctive features of the Jews? Why did the Jewish population shrink from 5–5.5 million at the time of Jesus to 1–1.2 million in the days of Muhammad? Why did the number of Jews reach its lowest level (less than 1 million) on the eve of the mass expulsion from the Iberian Peninsula in 1492–97? Why have the Jewish people experienced one of the most scattered diasporas in world history, living as a minority in cities and towns around the globe for millennia? When, how, and why did the Jews become “the chosen few”?<sup>1</sup>

Most people think they know the answers to these questions. Asked to explain these phenomena, an Israeli Jew would respond: “We are not farmers because our ancestors in the Middle Ages were prohibited from owning land. We were a diaspora population for almost 2,000 years after the destruction of the Second Temple in Jerusalem.<sup>2</sup> We were persecuted in and expelled from our country and many others. Our numbers dwindled through the centuries because our ancestors were repeatedly massacred.”

A European would argue that in medieval Europe, Christians were banned from lending money at interest, and Jews were excluded from

<sup>1</sup>Some of these questions have also attracted the interest of leading social scientists, including Karl Marx ([1844] 2007), Werner Sombart ([1911] 1913), Max Weber ([1917] 1952), Thorstein Veblen (1919), and Simon Kuznets (1960, 1972).

<sup>2</sup>Chapters 1 and 3 explain the meaning of “First Temple,” “Second Temple,” “Written Torah,” “Oral Torah,” and other main terms used in Judaism.

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membership in craft and merchant guilds. Given these restrictions, over time the Jews became a population of moneylenders, bankers, and financiers. Like the Israeli respondent, the European would argue that persecutions, expulsions, and massacres accounted for the Jews' dispersal and declining number.

An economist would maintain that like other religious and ethnic minorities, the Jews were repeatedly persecuted, reducing their incentive to invest in physical capital (e.g., land). As a result, since mobility had a high value for them, they invested in human capital, which is easily portable and not subject to the risk of expropriation. The Jews' transition into urban and skilled occupations was the outcome of this sequence of events, set in motion by their status as a persecuted religious minority.

The answers from the three groups of people are remarkably similar. They are also consistent with most of the explanations in the literature. But are they correct?

Analyzed from the point of view of an economist, the historical record suggests that none of these long-held views is valid. The true explanation, we suggest, lies elsewhere. As we show in the chapters that follow, these distinctive characteristics of the Jewish people were the outcome of a profound transformation of the Jewish religion after the destruction of the Second Temple in 70 CE.<sup>3</sup> This change shifted the religious leadership within the Jewish community and transformed Judaism from a cult based on ritual sacrifices in the temple to a religion whose main norm required every Jewish man to read and to study the Torah in Hebrew and to send his sons from the age of six or seven to primary school or synagogue to learn to do so.

The implementation of this new religious norm during the Talmud era (third to sixth century), coupled with the development of institutions fostering contract enforcement, determined three major patterns in Jewish history:

- the growth and spread of literacy among the predominantly rural Jewish population, as well as a slow but significant process of conversion out of Judaism, which caused a significant drop in the Jewish population during the first half of the first millennium
- a comparative advantage in urban skilled occupations (e.g., crafts, trade, and moneylending), which literate Jews chose to enter when urbanization and the development of a commercial economy provided them with the opportunity to earn pecuniary returns on their investment in literacy and education

<sup>3</sup>Throughout the book, we use BCE after all dates before the year 1. We use CE only for dates in the first century. Thus, for example, "the tenth century" means "the tenth century CE."

- the voluntary diaspora of the Jews in search of worldwide opportunities in crafts, trade, commerce, moneylending, banking, finance, and medicine

The book is organized as follows.<sup>4</sup> We start our journey in chapter 1 by describing how many Jews there were, where they lived, and how they earned their living from the time of the destruction of the Second Temple to the mass expulsion of the Jews from the Iberian Peninsula. We consider three subperiods, each marked by a “historical accident” (that is, an exogenous event):

- the destruction of the Second Temple by the Roman army during the Great Jewish Revolt in 66–70 CE
- the establishment of the Muslim Empire under the Umayyad and Abbasid caliphates during the seventh and eighth centuries, with the concomitant urbanization and growth of a commercial economy over a vast territory
- the Mongol invasions that ravaged Mesopotamia and Persia and contributed to the demise of the urban and commercial Abbasid Empire during the thirteenth century

These exogenous events interacted with the internal dynamics of the Jewish religion to determine the unique demographic and economic traits of the Jews before 1500.

During the six centuries between the time of Jesus and the time of Muhammad, the number of Jews declined precipitously, from 5–5.5 million in the early first century to 1–1.2 million in the early seventh century. War-related massacres and general population decline account for only about half of this drop. During the first century, the largest Jewish community (about 2.5 million people) dwelled in the Land of Israel (*Eretz Israel* in Hebrew, as mentioned in biblical sources).<sup>5</sup> Six centuries later, the

<sup>4</sup>To avoid repetition, we do not add footnotes with detailed references in this introductory chapter, as we supply them in the chapters that follow.

<sup>5</sup>Geographically speaking, the Land of Israel refers roughly to the area bounded by the Mediterranean Sea, the Jordan River, the Arabian Desert, and the Red Sea. Throughout the book, the term “Land of Israel” does *not* refer to the current State of Israel, which was established in 1948. Rather, it designates the land that, according to the Bible, was promised as an inheritance to the Israelite tribes. Different passages in the Bible refer to a variety of geographical boundaries when referring to *Eretz Israel*. By the end of the Second Temple period (first century BCE–first century CE), the term became fixed and its usage widespread among the Jewish people. The name “Palestine” referring to the same region was originally an adjective derived from Philistia. The Greek historian Herodotus first mentioned it as “the Philistine Syria.” After crushing the Bar Kokhba revolt in 135, the Roman emperor Hadrian applied the term “Syria Palaestina” to the area, with the goal of eradicating the name Judea—the southern region in the Land of Israel. From Byzantine times, Palestine became the name of *Eretz Israel* in non-Jewish languages. See Brawer (2007) for a detailed discussion of the biblical meaning and historical origins of the term “*Eretz Israel*.”

center of Jewish life had moved to Mesopotamia (and, to a lesser extent, Persia), where roughly 75 percent of world Jewry lived. Throughout these six centuries, farming was the occupation of the vast majority of the world population. Like almost everyone else, most Jews earned their living from agriculture, as farmers, sharecroppers, fixed-rent tenants, or wage laborers.

In the two centuries after the death of Muhammad in 632, the Muslim Umayyad and, later, Abbasid caliphs conquered many lands and established a vast empire stretching from the Iberian Peninsula to India, with a common language (Arabic), religion (Islam), laws, and institutions. Concomitant with the ascent of this empire, agricultural productivity grew, new industries developed as the outcome of technological progress in a variety of sectors, local trade and long-distance commerce greatly expanded, and new cities and towns developed in Mesopotamia and Persia and, later, in North Africa, Syria, the Iberian Peninsula, and Sicily. These changes vastly increased the demand for skilled occupations in the newly established urban centers and opened new destinations of trade and commerce from the Iberian Peninsula to India.

How did these events affect world Jewry? Between 750 and 900, almost all the Jews in Mesopotamia and Persia—nearly 75 percent of world Jewry—left agriculture, moved to the cities and towns of the newly established Abbasid Empire, and entered myriad skilled occupations. Having abandoned agriculture as their main occupation, many of these Jews began migrating to Yemen, Syria, Egypt, and the Maghreb. The tide of migrations of Jews in search of business opportunities also reached Christian Europe. Migrations of Jews within and from the lands of the Byzantine Empire, which included southern Italy, may have set the foundations, via Italy, for much of European Jewry. Similarly, Jews from Egypt and the Maghreb settled in the Iberian Peninsula and, later, in Sicily and parts of southern Italy.

By the mid-twelfth century, when the Jewish traveler Benjamin of Tudela ventured on his long journey from the Iberian Peninsula to the Middle East and recorded the Jewish communities he visited or heard of, Jews could be found in almost all locations from Tudela in Spain to Mangalore in India. By then, their transition into urban skilled occupations was complete. Their specialization into these occupations remains their distinctive feature until today.

Beginning in 1219, the Mongols invaded northern Persia and Armenia, bringing devastation. Their conquest of Persia and Mesopotamia continued in the next three decades, causing urban centers and trade to collapse and taking a heavy toll on the population. The final blow to the Abbasid Empire came in 1258 when the Mongol army demolished Baghdad. In the aftermath of the Mongol Conquest, the economy in Mesopotamia and Persia returned to a subsistence farming and nomadic pastoral stage.

Throughout the two centuries following the Mongol shock, the number of Jews fell to its lowest level since the first century. By 1450 more than half of the world's 1 million Jews lived in Christian Europe. During the Middle Ages, the Jews in the Iberian Peninsula, Sicily, and southern Italy remained engaged in a wide variety of urban occupations. In contrast, the Jews in England, France, Germany, and northern and central Italy became specialized in moneylending. While the Jews in the Middle East were facing the consequences of the Mongol invasions, European Jews were facing increasing restrictions and persecutions, which culminated in the mass expulsions of the Jews from England (1290), France (1306, 1321–22, 1394), Spain (1492), Sicily (1492–93), and Portugal (1496–97) and smaller ones in parts of Italy and localities in the Holy Roman Empire.

In chapter 2 we examine the arguments set forth to explain why the Jews became a population of skilled craftsmen, traders, bankers, and physicians and why they created a worldwide urban diaspora. These arguments are grouped into two main categories: ones that highlight exogenous factors (discrimination, restrictions, persecutions, massacres) and ones that emphasize endogenous choices (voluntary self-segregation in order to maintain religious rites, voluntary migration to cities to preserve group identity). By relying on the facts presented in chapter 1, we show that these theories are not consistent with the historical evidence: none of these arguments can explain why the Jews voluntarily left farming or voluntarily became a diaspora population.

We then present our thesis, that in a world populated by illiterate people—as the world of the first millennium was—the ability to read and write contracts, business letters, and account books using a common alphabet gave the Jews a comparative advantage over other people. The Jews also developed a uniform code of law (the Talmud) and a set of institutions (rabbinic courts, the *responsa*) that fostered contract enforcement, networking, and arbitrage across distant locations. High levels of literacy and the existence of contract-enforcement institutions became the levers of the Jewish people.

Why did the Jews become more literate and educated than the rest of the population during the first millennium? In chapter 3 we describe the well-documented shift of the religious norm that transformed the Jews into the People of the Book. During the first millennium BCE, the Temple in Jerusalem and the Written Torah were the two pillars of Judaism. Temple service and ritual sacrifices performed by an elite of high priests were common features of all religions. Judaism was the only monotheistic faith based on a written text.

During the first century BCE, some Jewish scholars and religious leaders promoted the establishment of free secondary schools. A century later, they issued a religious ordinance requiring all Jewish fathers to send

their sons from the age of six or seven to primary school to learn to read and study the Torah in Hebrew. Throughout the first millennium, no people other than the Jews had a norm requiring fathers to educate their sons.

With the destruction of the Second Temple, the Jewish religion permanently lost one of its two pillars (the Temple) and set out on a unique trajectory. Scholars and rabbis, the new religious leaders in the aftermath of the first Jewish-Roman war, replaced temple service and ritual sacrifices with the study of the Torah in the synagogue, the new focal institution of Judaism. Its core function was to provide religious instruction to both children and adults. Being a devout Jew became identified with reading and studying the Torah and sending one's children to school to learn to do so. During the next century, the rabbis and scholars in the academies in the Galilee interpreted the Written 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. In about 200, Rabbi Judah haNasi completed this work by redacting the six volumes of the Mishna, which with its subsequent development, the Talmud, became the canon of law for the whole of world Jewry. Under the leadership of the scholars in the academies, illiterate people came to be considered outcasts.

The implementation of the religious norm centered on reading and studying the Torah generated potential benefits and costs for the Jews living at the time of Rabbi Judah haNasi and his fellow scholars. What are the implications of the implementation of the new religious norm for the behavior of Jews during the first half of the first millennium? To answer this question, in chapter 4 we present an economic theory that describes the choices regarding religious affiliation and the investment in children's literacy and education in a world populated by Jewish and non-Jewish farmers, like the Land of Israel at the beginning of the first millennium. To explain the rationale behind our theory, we put ourselves in the shoes of the Jewish farmers living at that time in order to understand their economic and religious choices under the new religious norm imposed by rabbinic Judaism.

Our theory yields two main implications. First, because individuals differ in religious preferences, skills, costs of education, and earnings, some Jewish farmers invest in their children's religious literacy whereas others do not. Second, Jewish farmers who find it too costly to obey the norms of Judaism, including the costly norm requiring them to send their sons to school, convert to other religions. If the economy remains mainly agrarian, literate people cannot find urban and skilled occupations in which their investment in literacy and education yields positive economic returns. As a result, the Jewish population keeps shrinking and becoming more literate. In the long run, Judaism cannot survive in a subsistence farming economy because of the process of conversions.

In chapter 5 we show that these implications of our theory are consistent with what happened to the Jewish people during the five centuries following the destruction of the Second Temple. It is during the Talmud era that the Jews became the “chosen few”—a small population of literate people.

An impressive body of evidence from both the Talmud and archaeological discoveries indicates that during the Talmudic period, Jews in the Land of Israel and Mesopotamia—the two main centers of Jewish life—began obeying the religious obligation to educate their sons. A larger and larger proportion of Jewish farmers sent their sons to the primary schools located in or near synagogues. Words such as “teacher’s salary,” “duties of teachers,” “pupils,” “length of the school day,” “schools,” “books,” and “education tax” filled pages and pages of debates and rulings contained in the Talmud. No other ancient civilization had a similar body of discussions related to the communal organization of a primary education system. The Jews who decided not to obey the religious norm regarding children’s literacy and education became outcasts within Jewish communities.

As for conversions, a variety of literary and archaeological sources document that many Jewish farmers in the Land of Israel, Mesopotamia, Egypt, Syria, Asia Minor, the Balkans, and western Europe converted to Christianity during the Talmud era. By embracing Christianity, Jews who converted still maintained their core belief in the existence of one God and the pillar of the Written Torah but were no longer obliged to obey the religious laws and tenets of Judaism, including the costly norm requiring fathers to educate their sons. This wave of voluntary conversions during the Talmudic period, together with war-related massacres and general population decline, caused the near disappearance of the Jewish populations of the Land of Israel, Egypt, Syria, Asia Minor, the Balkans, and western Europe by 600. The only Jewish community that survived and almost maintained its size was the one in Mesopotamia, which became the new religious and economic center of world Jewry.

One could argue that if, after the implementation of the religious norm requiring fathers to send their sons to primary school, children became more expensive, some families might have decided to have fewer children in order to be able to obey the religious norm. To the best of our knowledge, there is no historical evidence showing that Jewish households reduced their fertility rates following the transformation of Judaism into a literate religion.

Although sending children to school to learn to read and study the Torah was a sacrifice with no economic returns in the agrarian economies in which the Jews lived, during the Talmud era a proportion of Jewish farmers did not convert, obeyed this norm of their religion, and invested in their children’s literacy. Over time, what happened to the literate Jewish farmers? In chapter 6 we show that they abandoned farming and became small,

urban populations of skilled craftsmen, shopkeepers, traders, money changers, moneylenders, scholars, and physicians. The establishment of the Muslim caliphates during the seventh and eighth centuries, and the concomitant vast urbanization and growth of manufacture and trade in the Middle East, acted as a catalyst for the massive transition of the Jews from farming to crafts and trade.

The literacy of the Jewish people, coupled with a set of contract-enforcement institutions developed during the five centuries after the destruction of the Second Temple, gave the Jews a comparative advantage in occupations such as crafts, trade, and moneylending—occupations that benefited from literacy, contract-enforcement mechanisms, and networking. Once the Jews were engaged in these occupations, they rarely converted, which is consistent with the fact that the Jewish population grew slightly from the seventh to the twelfth century.

In chapter 7 we show that once the Jews became literate, urban, and engaged in skilled occupations, they began migrating within the vast territory under Muslim rule, stretching from the Iberian Peninsula to India during the eighth through the twelfth century, and from the Byzantine Empire to western Europe via Italy and within western Europe in the ninth through the thirteenth century. In early medieval Europe, the revival of trade concomitant with the Commercial Revolution and the growth of an urban and commercial economy paralleled the vast urbanization and the growth of trade that had occurred in the Umayyad and Abbasid caliphates four to five centuries earlier. The Jewish Diaspora during the early Middle Ages was mainly the outcome of literate Jewish craftsmen, shopkeepers, traders, scholars, teachers, physicians, and moneylenders migrating in search of business opportunities to reap returns on their investment in literacy and education.

Already during the twelfth and thirteenth centuries, moneylending was the occupation par excellence of the Jews in England, France, and Germany and one of the main professions of the Jews in the Iberian Peninsula, Italy, and other locations in western Europe. Why? A popular view contends that both their exclusion from craft and merchant guilds and usury bans on Christians segregated European Jews into moneylending during the Middle Ages. In chapter 8 we show that this argument is untenable. Based on the historical information and the economic theory we present in earlier chapters, we advance an alternative explanation that is consistent with the salient features that mark the history of the Jews: the Jews in medieval Europe voluntarily entered and later specialized in moneylending because they had the key assets for being successful players in credit markets: capital, networking, literacy and numeracy, and contract-enforcement institutions.

Given the comparative advantages of the Jews relative to the local populations in high-earning professions, why did the size of the world's Jewish

population reach its nadir by the end of the fifteenth century? Suppose, as a thought experiment, that a negative shock (e.g., a war or a plague) destroys the urban and commercial economy, returning it to a rural and pastoral stage, in which literacy has little value. What would happen to the Jews and Judaism in the long run? Our theory predicts that in a subsistence farming society, some Jews find it too costly to obey the norms of their religion, including the high cost of investing in children's literacy and education, and hence they would convert. Eventually, Judaism might disappear.

In chapter 9 we show that the Mongol invasion of Persia and Mesopotamia, beginning in 1219 and culminating in the razing of Baghdad in 1258, contributed to the demise of the urban and commercial economy of the Abbasid Empire and brought the economies of Mesopotamia and Persia back to an agrarian and pastoral stage for a long period. As a consequence, a certain proportion of Persian, Mesopotamian, and then Egyptian, and Syrian Jewry abandoned Judaism—whose religious norms, especially the one requiring fathers to educate their sons, had once again become a heavy burden with no economic return—and converted to Islam. This process of conversions of Jews in the Middle East and North Africa, as well as episodes of persecutions, massacres, and plagues (e.g., the Black Death of 1348) in these regions and in western Europe, explain why world Jewry reached its lowest level by the end of the fifteenth century.

In chapter 10 we end our voyage back in time by highlighting some puzzles that punctuate Jewish history, from the mass expulsion of the Jews from the Iberian Peninsula in 1492–97 to today. Addressing these puzzles will be the task of our next journey, which we will take in our next book.

In recent years, economists and economic historians have highlighted and analyzed the numerous interactions between cultural values, social norms, and economic outcomes.<sup>6</sup> The issues studied range from explaining the successful performance of the Maghrebi traders in the Mediterranean in the early Middle Ages to elucidating the emergence of the spirit of capitalism in early modern Europe, the spectacular technological change that sparked the Industrial Revolution in eighteenth-century Britain, the economic ascendancy and decline of the Muslim Empire, the increase in female labor force participation in the United States in the twentieth century, the ways in which ethnic fragmentation affects economic behavior, and the two-way interaction between trust and economic performance over time and across countries. To this literature our book adds the insight that the cultural values and social norms that Judaism fostered two

<sup>6</sup> See, e.g., Greif (1989, 1993, 1994, 2006); Mokyr (1990, 2002, 2005, 2008, 2009); Temin (1997); Alesina and La Ferrara (2000, 2002); Kuran (2004, 2010a, 2010b); Fernández, Fogli, and Olivetti (2004); Fernández and Fogli (2006, 2009); Guiso, Sapienza, and Zingales (2006); Botticini and Eckstein (2005, 2007, 2008, 2011); Doepke and Zilibotti (2008); Tabellini (2008, 2010); Mokyr and Voth (2010).

millennia ago shaped the demographic and economic history of the Jewish people through today.

A growing number of scholars have been studying the long-term impact of institutions by illustrating that some contemporary economic patterns have been influenced by institutions that emerged centuries ago.<sup>7</sup> Economic and political institutions, legal systems and codes of law, and contract-enforcement mechanisms have played an important role in shaping the paths of the economic performance of groups that held a prominent role in trade during the Middle Ages, the economic ascendancy of the Atlantic states in western Europe after 1500, the economic setback of the Muslim Middle East after centuries of economic and intellectual splendor, the engines of scientific and technological creativity that led to the Industrial Revolution, the intriguing features of the Israeli kibbutz, and the economic success or failure of various regions of the world throughout history. We contribute to this literature by showing that the transition of the Jews from farming into crafts, trade, finance, and other high-skill occupations has also been the outcome of the availability of contract-enforcement institutions shaped by the unique features of the Jewish religion.

Social scientists have always been fascinated by the study of religion and by the influence religious values and norms may have on human behavior. In the past two decades, economists have become increasingly intrigued by the nexus between religion and economic outcomes.<sup>8</sup> The issues studied span from analyzing the nexus between Protestantism and human capital accumulation in modern Europe to studying the religious foundations of extremism and terrorism, the long-lasting economic legacy of Judaism, the ways in which religions behave as clubs, and the two-way relationship between religious values and economic outcomes in a cross section of countries in the world. We contribute to this growing literature by linking the key features of Judaism to the unique demographic and economic traits that have shaped the history of the Jews in the past two millennia.

<sup>7</sup>See, e.g., Greif (1989, 1993, 1994, 2006); Mokyr (1990, 2002, 2005, 2008, 2009); North (1990); Acemoglu, Johnson, and Robinson (2001, 2002, 2005); Acemoglu and Johnson (2005); Abramitsky (2008, 2011a, 2011b); Tabellini (2008, 2010); Kuran (2010a, 2010b, 2010c); Mokyr and Voth (2010).

<sup>8</sup>See, e.g., B. Chiswick (1988, 2010); Iannaccone (1992, 1998); Iannaccone, Stark, and Finke (1998); C. Chiswick (1999, 2006); Berman (2000, 2009); Carlton and Weiss (2001); Guiso, Sapienza, and Zingales (2003); McCleary and Barro (2003, 2006); Barro and McCleary (2005, 2006); Botticini and Eckstein (2005, 2007, 2008, 2011); Rapoport and Weiss (2007); Becker and Woessmann (2009); Cantoni (2010); Acemoglu, Hassan, and Robinson (2011). See McCleary (2011) for a very recent collection of works on the economics of religion.