

# **Hostile Territory: High-tension Religion and the Jewish Peddler**

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**Abstract:** Scholars have long explored the role that reputation plays in the facilitation of exchange. Some attention has also been paid to the way in which religions serve as a proxy for reputation or a mechanism for enforcement of exchange agreements. These reputation and enforcement mechanisms enhance the ability of the members of certain religious groups to perform economic roles where such secular based mechanisms are absent or fail. In this paper, I explore the ways in which hostility towards members of high tension religions makes them uniquely well suited to the economic role of middleman. As illustration, I explore the particular case of the 19th century Jewish peddler in the young United States.

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# I

## Introduction

Throughout the history of exchange, individuals have grappled with the trust issues Akerlof illuminated so eloquently in his paper "The Market for Lemons: Quality, Uncertainty and the Market Mechanism." (Akerlof, 1970) He observed, "Informal written guarantees are preconditions for trade and production. Where these guarantees are indefinite, business will suffer...." Entrepreneurs in the secular world have found a number of ways in which to reduce the transactions costs associated with these issues, to wit: warranties, businesses such as credit bureaus, and car fax, even the lowly private investigator. However, the institution of religion has long served as a valuable way to reduce these very costs. Existing theories examine how religious networks reduce transactions costs by providing mechanisms that strengthen or allow trust, or provide for community-based enforcement of agreements.

This paper adds to this body of research by exploring the contribution hostility makes to economic arrangements involving a despised religious minority. Prior theory, when it has considered hostility at all, has looked upon it as an exogenous force which leads to group solidarity. (Bonacich, 1973) However, while hostility may have arisen initially as an exogenous force, hostility becomes endogenous as groups seek to protect themselves from abuse. As a group cultivates inter-group relations, benefits, sometimes in the form of increased economic opportunity, arise contributing to the desire of such groups to maintain a separation from the majority population. In a type of spiraling feedback loop, this separation supports an increase in exogenous hostility. Beginning with the

background of current theory in section two, I introduce in the third section the idea that hostility toward a religious minority can serve a valuable function in that it enhances the effectiveness of trust networks and provides for an improved enforcement mechanism. Section four illustrates the theory in a case study of Jewish peddlers in the 19th century United States.

## II

### **Existing Theory**

Dan Klein discusses the use of reputation as a means of resolving the asymmetric information problem in society. (Shearmur and Klein, 1997) The reputation mechanism appears to be quite efficient as long as groups are small. In small groups, everyone can know everyone else, and each can know how the others have acted in a variety of past transactions. If an individual has cheated or failed to uphold his end of a bargain, word gets around through an informal network of friends and acquaintances. But as a society grows larger and more diverse, anonymity mutes the effect of social enforcement. Smith proposed that religious groups in big cities, by providing a societal enforcement mechanism, can replace the trust networks inherent in small societies where all community members know each other. (Smith, 1976) Weber expands upon this idea, illustrating the power of religious associations in attaining favored business status (Weber, 1930). Indeed, the idea that religious affiliation can operate as an information signal is well established, and continues to serve in this capacity today (Paxson, 2004). Avner Greif discusses the role reputation plays in enforcement of agreements in his article on 11th century Maghribi traders. (Greif, 1993) He discusses a system by which

merchants form a coalition which serves as an informational conduit and as an enforcement mechanism in an area of commerce where legal systems fail to adequately address any breach of contract. While the group he discusses share religious and familial ties, Greif does not attach importance to these elements.

Because of the reputation aspect and the fear of expulsion from a group, religious affiliation provides for strong trust networks.<sup>1</sup> Strict religions in particular are quite powerful in this regard. Because they demand particular unique behaviors, such as abstinence from certain social activities, unusual and defining dress, restricted eating habits, etc, strict religions are able to ensure that members are truly devoted and dedicated to the group (Iannaccone, 1992, 1994). A member of such a religion who is subsequently expelled for bad behavior loses not only his membership and belief structure, but his entire social network. In essence, he finds himself alone, facing the task of rebuilding his social networks. As such, there is a strong incentive to conform to the social norms of the group.

Because of this tight enforcement mechanism within certain religious groups, these groups find themselves ideally equipped to handle certain tasks. Richman describes the singular role of Hasidic Jews in the diamond industry. (Richman, 2006) Due to the importance of participation in their communities, Ultra-Orthodox Jews are able to fill an economic role which could not easily be satisfied through standard secular market rules. In New York's diamond industry, extremely poor Hasidic Jews transport and exchange millions of dollars worth of diamonds. The business is conducted based on a person's

word of honor and reputation, as opposed to reliance upon complex legal instruments.

However, less extreme illustrations of the importance of religious connections exist. Janet Landa discusses the role of common heritage in business dealings among the middlemen in the Southeast Asia economy. (Landa, 1981; Landa, 1994)

Thomas Sowell conducts an enlightening discussion of middlemen in his latest book, Black Rednecks and White Liberals. (Sowell, 2005) Middlemen minorities may be of any racial or ethnic background, but all have in common that they are despised by the majority group, and are very distinct from it. Resentment against these groups derives from two main sources: 1) their misunderstood economic role in society, 2) race, religion and ethnicity which make them different and distinctive, and, on occasion, convenient scapegoats. Middlemen act as intermediaries between producers and consumers, either in the role of retailers or money-lenders. Retailing includes everything from street peddlers to large merchants with chains of stores. Money-lending includes everything from loan sharks and small neighborhood pawn shop operators to international financiers.

Sowell discusses the importance of the social separation of the middleman minority - middleman minorities around the world have distanced themselves and their progeny from the social involvement with the majority population surrounding them, leading to accusations of being "clannish". Social differences are further compounded by this withdrawal from the greater society, creating additional resentment and suspicion.

However, close ties within the minority group mean that fewer precautions need be taken (greater trust) before making within-group transactions. This gives the minority

middleman an edge where such precautions are especially costly. On the basis of strong social ties and enduring economic relationships, such operations become more practical because cheating is too costly for the individual.

Edna Bonacich's "A Theory of Middleman Minorities" (Bonacich, 1973) is likewise very instructive. Bonacich confirms that hostility plays a role, but instead focuses on the intentions of individuals to return to a homeland, referring to them as "sojourners" in a country where they represent a small minority population. These sojourners have no desire to invest in social capital which might ease relations with the majority population, but instead keep themselves apart with the intention of one day returning to their homeland. Due to their temporary status, sojourners often experience conflict with the majority population as they fail to blend socially and politically, and conduct business in a low-cost manner which alienates them from the business community.

### **III**

#### **The Role of Hostility**

Though Bonacich, Sowell and Landa approach the idea from different perspectives, none fully examines the economic role hostility plays in society. While acknowledging that middlemen tend to be ethnic minorities, and tend to be distrusted, if not despised, by the majority population, they do not completely connect the success of the ethnically homogenous middleman to the existence of hostility in the majority population. All three authors approach hostility as either given, or as a completely exogenous force. On the contrary, I argue hostility may begin as exogenous as the group is shunned by others, but

that the hostility becomes endogenous as a group withdraws further from society of its own accord, perhaps due to fear of harm...but perhaps also in recognition of the potential of economic gain.

High tension religions cultivate distinctiveness. This distinctiveness makes members easily identifiable to other members and tends to solidify the bonds to other members of the group. Iannaccone explores this idea more fully in his paper, "Why Strict Churches are Strong". (Iannaccone, 1994) However, by making their members distinctive, religious groups also invite appreciation of the differences between the members of a group and society at large. Members of the group are exposed and visible to the majority population. Such differences, particularly when the reasons for the differences are not fully understood by non-members, tend to create an atmosphere of separation which can be further intensified by other religious restrictions, such as restrictions on behavior. For example, unusual dress may make a person seem 'different', but if otherwise the person adheres to the majority's social norms, the difference is dismissed as 'eccentricity'. However, if the differently attired and groomed refuse to eat the same foods, or refuse to drink or dance, then the differences become 'peculiar' and worrisome. Once a person is regarded as peculiar, the majority population may guess, often correctly, that more differences exist, making the majority member unable to confidently predict future behavior. This uncertainty elevates the risk level of association and the transactions costs of doing business with the 'peculiar' person.

If such distinction had only costs, and no benefits (either internal or external), then in time one would expect the distinctive traits to die out through a Darwinian-like social selection mechanism. However, if the traits continue, or indeed are cultivated, then there must be hidden benefits that accrue to the trait holders.

Prior theory does a fine job of examining how distinguishing traits can signal membership to others. Iannaccone explores some of the benefits of religious distinctiveness in his landmark paper, "Sacrifice and Stigma: Reducing Free-riding in Cults, Communes and Collectives." (Iannaccone, 1992) In properly recognizing religious activity as communal activity in which an individual's benefit increases with the quality and quantity of other members' religious participation, Iannaccone identifies an interesting opportunity for free-riding to flourish. By requiring distinctive behavior (such as a shaved head and saffron-colored robe), a religion imposes costs on the outside activities of its members. In this manner, a religion can simultaneously increase substitution of religious activity for secular activity, and also increase the utility of all group members. Therefore, group distinctiveness has both group benefits and benefits for the individual. Iannaccone accurately indicates this type of monitoring mechanism operates best in small groups, confirming by empirical observation. This observation mirrors Smith's early reflection on the effectiveness or reputation as the size of society increases. (Smith, 1976) If a large, geographically dispersed group is to maintain a stigmatized identity, there must necessarily be other significant benefits involved, other than the club goods identified by Iannaccone. At the level of the individual, such identifying traits are costly, often alienating the holder from other social networks.



Rational agents would not adopt the signal unless the benefits to sending it outweighed the heavy costs. Indeed then, such signals must be of enormous value.

In estimating the value of this signal, prior theory focuses on the 'within group' benefits. This focus underestimates the true value of the signal. The effects of the signal do not simply remain within the group. Outsiders to the group observe the signal. In the case of religious signals, outsiders may recognize group membership, and apply their stereotypes of the group to the individual members.<sup>ii</sup> Because of the differences and the perceived increase in risk associated with the unknown, members of the majority may take precautions including selective exclusion of the 'different' person, or the withholding of patronage or privilege<sup>iii</sup>. The majority, in seeking to protect other majority members, for example their children, may indulge in the seeds of prejudice. This hostility can express itself through increased prejudice in the form of derisive comments, exclusion or withholding of opportunity, or can culminate in genocide, at the extreme. Certainly, a spectrum will be observed.

Hostility, however, can serve a valuable role in the reinforcement of the within-group trust network. Prior theory discusses the value of the threat of expulsion from a group. This threat is particularly strong within high-tension religions, as membership in such groups generally severs outside social networks. Those born within such a group never have the opportunity to build outside social networks. Hence, the threat of expulsion is effective in that an expelled member must build his social networks anew. However, consider the case of a despised and visible minority. Expulsion from such a group carries

with it the same threat of complete destruction of established networks, but also eliminates or severely threatens the expelled person's ability to form a *new* social network, or to rejoin the majority. In areas where group membership is necessary for survival, expulsion might be the equivalent of the death penalty.

Hostility of the majority towards a minority group can follow expelled members in spite of members' expulsion. Mere disowning by the minority group may not completely erase the membership signal. This is particularly true where the membership signals have become part of the member's identity. For example, consider naming conventions. A person's name can easily communicate religious and ethnic background. Additionally, a religious person who has been expelled from that religion may be hesitant to give up practices which he has followed from a very young age for fear of the ultimate expulsion by God. Outward signals may therefore remain unaltered, leaving him unable to assimilate into the majority culture. Hostility towards the group would force his continued exclusion from the rest of society.

#### IV

### **The Case of the Jewish Peddler**

The effects of hostility may be most easily seen with respect to followers of Judaism. Indeed, hostility towards Jews is legendary, and has surfaced repeatedly over the past few thousand years. Jews have been expelled by societies all over the planet. Yet, at the same time, Jews have been among the most successful middlemen. For this reason, it is instructive to examine the particular case of the 19th century peddler in America.

### **The Economic Function Served by the Jewish Peddler:**

*"The gifts of Nature, though lavish, are diverse; and not every portion of a country or continent is blessed by her with equal advantages and attractions. The deficiency, however, is often remedied by the efforts of men; and – odd as it may sound – in the task of converting the wilderness to a garden and of accommodating seemingly unpromising areas to civilization, a major role must be assigned to the peddler." (Glanz, 1970)*

Because the land mass of the US is quite large and the population widely dispersed, peddling was a critical way of ensuring supplies reached people who needed them. (1975)

The period of growth of peddling coincides with the expansion of the frontier, with settlers pushing further and further West. In the most remote areas, the population was too sparse to permit the establishment of a general store. Peddlers were the only connection these pioneers had to manufactured goods. If it could not be made at home, the peddler was the only recourse. (Glanz, 1970; Sherman, 1965) As for the immigrant, peddling helped these new arrivals acquire capital, and grow a business through hard work (Diner, 1992) – work that previous immigrants, now safely up a couple rungs on the economic ladder, were unwilling to do.

While the number of Jewish peddlers is difficult to ascertain exactly, it is undisputed that Jews made up the preponderance of peddlers during the 19th century. For example, in Easton, Pennsylvania in 1840, 46% of the registered peddlers were Jewish. In 1845, the number was 70%. In Iowa, 100 of 125 Jews peddled. Accurate numbers are difficult to come by. Because peddlers were occupationally transient, they often were unaccounted for in census records. (Diner, 1992) In 1850, the recorded number of peddlers in the

country was 10,699; and in 1860 16,594. Nearly every state had some type of licensing requirement. (Diner, 1992; Glanz, 1970) Some states were so detailed as to vary the fee according to the type of conveyance used (foot, horse, wagon, boat). The variety of licenses, and the expense they represented, caused many to peddle without proper documentation, and so to not be included in the formal count. (Glanz, 1970) Official numbers, therefore, understate the number of people peddling. However, even appreciating the insufficiency of this estimate, the prevalence of Jews in this occupation is truly remarkable when one considers how few Jews there were proportionally, in the U.S. during this period.

While there is some debate as to the exact number of Jews in America at different times, there is general agreement that in 1654 there were 23 in the colonies. The number grew to somewhere between 1000 and 2500 by the year 1800, depending on which source you find most credible. (1958; Fischel and Pinsker, 1992) The total population of the U.S. in 1800, according to census records, was just over 5 million, Jews comprising only approximately .00047% of the population. Though fewer than 3000 Jews lived in the US in 1825, there were approximately 240,000 by 1880 in the US. (Diner, 1992; Friedman, 1942; Glanz, 1970; Grayzel, 1969) The vast majority of Jews entered the US after 1881.<sup>iv</sup>

### **Why Peddling?**

Many Jewish immigrants had been peddlers in the old world where they were restricted in their ability to participate in other areas of business (1942; 1958; Arkin, 1975; Barzel, 1992; Bonacich, 1973; Marcus, 1974a), and so knew the business of peddling. This knowledge made for an easier economic transition in the new world. "Jews opted for

familiar work despite a range of other possibilities in an expanding economy." (Diner, 1992) Economically, concentration in merchant and financing industries follows logically from the treatment Jews experienced in the Old World. Where oppression and seizure of property was a constant worry, Jews chose occupations where capital is more easily relocated when the political or social climate became undesirable. Jews' legal position in the old world had great influence on the types of commerce they would engage in, as many alternative avenues of making a living were closed off. (Harris, 1977; Sombert, 1951) In some cases, Jews were prohibited from owning land.

### **Reception of the Jewish Peddler:**

"Many of the settlers saw a Jew for the first time in the peddler who came to their door." (Grayzel, 1969) The reception, especially in very isolated areas, might be a warm one due to the necessities provided by the peddler. However, peddling was also fraught with peril. One personal account tells of discriminatory enforcement of licensing laws.<sup>v</sup> Jews would be fined, thrown in jail or assaulted for failure to be properly licensed where non-Jews were not. Another tells of how potential customers would ask to which church the peddler belonged. If the peddler was of the same church, he had a sale. "It was poor chance for me, being an Israelite."<sup>vi</sup> In newspapers and contemporary writings, Jewish peddlers were usually portrayed "in the guise of a Shylock," and served as the model for cheats and swindlers. (Glanz, 1970)

### **The Business of Peddling:**

Early peddlers were young men traveling with other young male relatives. (Toll, 1982) They would follow the pioneers into the frontier regions traveling the paths laid by those pioneers: pack mule routes, rivers, wagon train routes and later, railroads, going wherever settlers might be found. (Jones, 1937; Toll, 1982) As they settled one by one, they provided a supply chain. By the 1860's, a Jewish network crossed the country, consisting of family links, with older more established members operating stores or manufacturing enterprises and the younger members reaching out to the dispersed settlers through peddling. (Toll, 1982)

A peddler carried with him anything he thought the pioneer might need, but which could not be easily produced at home: household goods, notions for sewing, fabric, inexpensive jewelry, kitchen equipment, garden tools and agricultural equipment and supplies. (Grayzel, 1969) The peddlers' wares were dependent on the weight and the mode of transportation. Someone peddling on foot could only sell those items he could carry. However, a peddler with a wagon might sell heavier items, such as furniture. (Glanz, 1970) The peddler's stock included items from the peddler's wholesale connection as well as items traded in as payment by customers. (1975)

### **Funding of the Enterprise:**

Peddlers had difficulty obtaining credit from American lenders, so instead turned to fellow Jews for loans and start-up capital. Dun and Bradstreet rated Jews as untrustworthy and noted a "natural tendency of Jews to default on loans."<sup>vii</sup> (Diner, 1992; Harris, 1977; Toll, 1982) At the time, two credit ratings were assigned: "Jewish" and

"American". (Diner, 1992) Jewish merchants and manufacturers were often the source of loans to peddlers, sometimes in the form of cash, sometimes in the form of merchandise, and often interest free. (Diner, 1992; Harris, 1977; Jones, 1937; Marcus, 1974b; Toll, 1982) Typically, these loans forged network connections based on religious ties, and were later perhaps strengthened by forming a familial connection through marriage. These connections made the Jewish population beholden to one another, and inseparably mingled religious, social and economic activity. (Diner, 1992)

### **Transition from Peddler to Merchant:**

*"Peddling represented the bottom step on the Jewish economic structure and an almost universal male Jewish experience in nineteenth-century America. While other American men – native born and immigrant – took to the roads to sell, too, only among Jews was it the premier occupation." (Diner, 1992; Glanz, 1970)*

The newly arrived Jew might take up peddling on foot at first, graduating to a horse, then a horse and wagon. (Diner, 1992; Harris, 1977; Jones, 1937) Once a few settlements transitioned into a village or a town, the peddler who had previously served the individuals might establish the store in town. Such peddlers became merchants only after several hard years of peddling. (Glanz, 1970) This general store then might begin to supply the next peddler who sought to go further into the frontier. With time, the general store might grow with the town, eventually becoming the local department store. (1942; 1975; Glanz, 1970; Grayzel, 1969; Sherman, 1965)

The cooperation between peddlers and storekeepers might seem unusual if one were to consider them direct competitors, but, in fact, they were not. Storekeepers and peddlers

competed on only some levels, as they both supplied some of the same items, but were differentiated by the nature of each one's business. The storekeeper, for example, could provide greater variety, and could sell on credit due to his stationary location and repeated customer interactions. The peddler was forced by limited space to specialize, and could accept only cash or barter payments. (Glanz, 1970) Additionally, the storekeeper, often part of the peddler's extended network, would sell or provide trade credit to the peddler. The peddler would then sell to customers who ordinarily would be unable to shop regularly (if at all) from the store due to distance. General stores would arise only in those areas easily accessible to settlers. In more remote areas, the settlers were served by peddlers. (Glanz, 1970)

Barter payments for the peddler's wares were not uncommon. The peddler would take on goods which he thought he could resell somewhere along his route. The isolated farmer might not know the true market value of the goods which he sought to trade. The peddler, due to his constant interaction in the market, might then be able to re-sell the bartered goods at a considerable profit. At the same time, the peddler in allowing the barter transaction to go forward, also took on the market risk of those products. A change in the market might provide the peddler with a substantial loss, instead of a gain. (Jones, 1937)

Peddlers were mostly single, shopkeepers mostly married. When a peddler got to the point where he could open a general store, he started to consider marriage. (Diner, 1992) An increase in the number of Jews immigrating to the US during this time period, and an



increase in anti-Semitism brought about a reduction in intermarriage. (Fischel and Pinsker, 1992) Further difficulty arose from the fact that the German Jewish immigration was overwhelmingly male, and because of the relatively small Jewish population in America. Once having attained a certain amount of success financially, a peddler-turned-shopkeeper might return to his homeland to find a bride. The successful merchants from America provided great opportunity for young women of the old world. (Toll, 1982) Others found a bride in the family who had originally assisted the peddler with a small loan, or from whom he had purchased supplies. Such family-based networks linked general stores with peddlers and their routes. (1942; Diner, 1992; Toll, 1982)

### **Networks and Connections:**

The connections between peddlers, storekeepers and credit networks relied heavily on religious and family connections. (Diner, 1992) These networks stretched to a variety of other countries. The Diaspora often split families over different continents, allowing for instant international networks for trade. (Sombert, 1951) These connections allowed them to import goods which gentile merchants, not having this international network, could not. (Sombert, 1951)

Peddling might also link one Jewish enclave with another, the peddler often traveling between established (though small) Jewish communities. In one case, a peddler also served as an itinerant rabbi, performing marriages and other special duties for the small pockets of Jews along his route. "No matter how far afield they went, they never strayed widely from Jewish patterns and Jewish networks." (Diner, 1992)

### **The Cultural Distinctiveness of 19th Century Jews:**

"Since the better off and more modernized Jews of Central Europe actually avoided America and moved to cities at home, immigrants to America may have been the least modern and the most traditional Jews." (Diner, 1992) As evidence for his assertion, Diner cites the publication of prayer books for travelers, as well as the numerous accounts in diaries of efforts to observe dietary restrictions while on board ships, and the strong tendency to settle within established Jewish communities in the US. While not well educated in sacred texts, German Jews held closely to Jewish traditions and rituals, speaking Yiddish and, to a lesser extent, German. (1958) Most of these immigrants were not intellectuals; they were young men from small traditional villages and towns. Despite the many obstacles, they continued to try to live according to their beliefs, but often found that doing so was nearly impossible. (1958)

*"Leading such a life [as a peddler] none of us is able to observe the smallest commandment. Thousands of peddlers wander about America...They no longer put on the phylacteries<sup>viii</sup>; they pray neither on working day nor on the Sabbath....Is such a life not slavery rather than liberty?"<sup>ix</sup>*

Maintaining a Jewish lifestyle, according to the traditions and proper observance of the religion, was one of the larger problems facing the Jewish peddler. (Grayzel, 1969) Because of the sparseness of the Jewish population, gathering for prayer, and obtaining the required quota of men, was troublesome.

Personal accounts tell of the emotional difficulty of violating the Sabbath in order to work, and of constantly being told to attend the local Christian church by people encountered. (Marcus, 1974a) Those peddlers who were able to take Saturday off for

religious observance would gather in the nearest towns in order to pray, sometimes gathering at the residence of a known fellow peddler. Being a peddler did not mean losing one's religious obligations, but merely meant being somewhat more creative in its observance. (Diner, 1992) Observance of the Sabbath made a Jew more noticeable. Not only does the observant Jew not operate his business on the Sabbath, but he is constrained from all activity which could be construed as work. This activity would include, for example, the building of a fire to keep warm in the winter, the preparation of elaborate meals, or the handling of money. In some wealthier households, non-Jewish help might be employed to see to these tasks. (Cohen, 1914) Even so, the mere closing of business and the cessation of peddling from Friday evening to Saturday evening was cause for comment in the local newspapers, and served as a reminder of differences. (Diner, 1992)

Conservative Jews of the time might also be distinguished by some of the garments worn. Certain mixtures of fabric are not allowed, and other items must be worn, such as a covering on the head, a small, fringed prayer shawl, etc. Married women are asked to refrain from exposing their hair.

Observance of dietary laws was particularly difficult for the peddler. Proper observance of Jewish dietary law goes far beyond the well known prohibition from eating pork. The law includes certain types of birds and all shellfish; meat must be slaughtered in accordance with Rabbinical law; dairy products cannot come into contact with animal products (for example milk and lard used to bake bread), to cite only a few. Peddlers were know as "egg-eaters" by the Cherokee Indians with whom they traded because eggs

were the only available Kosher food which could be obtained away from an established Jewish community. (1975; Harris, 1977) To maintain observance of these restrictions, a peddler without access to an established Jewish community with properly trained and approved food handlers, was essentially a vegetarian.

In addition to such visible differences, Jews were culturally separated from the majority population by a perceived separation by the Jews themselves. Jews were accustomed to being 'outsiders', and as such conducted themselves as outsiders from the start, as opposed to harboring an expectation of easy assimilation. (Sombert, 1951) This self-protective outlook made the Jewish population look to each other for support and social opportunities, leading to a perception of 'clannish' behavior. Because of these factors, Jews did not socialize with non-Jews. Dietary restrictions, Sabbath observance, etc., only lessened the possibility of social interaction between the two groups.

The German Jews found themselves very cut off from the majority population of the American society, their immigrant status and language differences separating them from the mainstream. However, in addition to language barriers, different religious practices and traditions also cut them off from the older generation of Sephardic Jews who had comprised the prior wave of immigration. Religious rituals in the American Sephardic synagogues were very different from the experience they were used to. (1958)

All of the above restrictions served to make the 19th century German Jew rather distinctive and noticeable among the majority Christian population. These differences

also served to separate the Jew from the Non-Jew socially, as each sought out the company of others like him.

**Prejudice:**

*"There has always been some form of anti-Semitism here, as long as there have been Jews in America." (Friedman, 1942)*

While the Jews who came to the US in colonial time generally found freedom from the depth of persecution they had known in Europe, they were not entirely embraced either. (Steinberg, 2001) Non-Jewish immigrants brought their Old World prejudices with them to America. By the 1860's, anti-Jewish prejudice was much stronger, as many of their fellow citizens refused to allow Jews to fully participate in society. The German Jews were not accepted readily in the majority non-Jewish, established society, partly because they were poor immigrants, partly because they were Jewish. (1942) This explains a natural tendency for individuals to stick with a group of 'their kind', as they were the only ones who might accept them. (1958; Bonacich, 1973)

Much social stratification arises from the fact that earlier immigrants settle and rise up the economic ladder, then look down on the next batch of immigrants. The earlier group considers itself superior to the group that follows. (1958) This tendency is true of all immigrants, Jewish and non-Jewish alike. The prejudice encountered by the German Jews did not arise solely from the gentile population. The earlier arrived Sephardic Jews also found the newcomers to be undesirable. (1942; Grayzel, 1969) "They [the Sephardim] despised the poor Ashkenazim and looked down upon the uncouth and

uneducated small-town German Jews." (1958) The German Jews arrived speaking little or heavily-accented English, wore conspicuously different clothing and seemed overly ambitious or aggressive to the established Jewish population. (1942; Grayzel, 1969) Indeed, the newcomers felt sufficient disdain from their predecessors to go to the trouble of establishing separate synagogues with more familiar ritual observances. (Grayzel, 1969)

During the time period most relevant to this paper, anti-Semitism was clearly on the rise. The Hilton-Seligman Affair, in 1877, was an event in US history which symbolized the shift of public opinion towards Jews by their fellow Americans. This event occurred when a prominent and well-respected Jewish businessman was turned away from a fashionable resort hotel in New York's Sarasota Springs, solely for being Jewish. (Interestingly, he had been a guest at the hotel several times before.) Hilton, a New York politician, and others defended the hotel arguing that receiving Jews as guests was bad for the hotel's business. (Friedman, 1942; Grayzel, 1969)

*"We do not like Jews as a class. There are some very well behaved people among them, but as a rule they make themselves offensive to the kind of people who principally patronize our hotel, and I am satisfied we should be better off without than with their custom." Austin Corbin, President of the Long Island Railroad. (Friedman, 1942)*

Some of the hostility against Jews certainly arises from their success in business.

"Wherever Jews appeared as business competitors, complaints were heard that Christian traders suffered in consequence: their livelihood, we are told, was endangered, the Jews deprived them of their profits, their chances of existence were lessened because their customers went to Jews, and so forth." (Sombert, 1951)

### **Application of the Theory to the Case**

19th century peddlers in the United States were extended credit in the form of goods which they would carry from settlement to settlement trying to sell. Normally such an outlay of credit would require credit checks, and other assurances of trust. Travel times around the country during this period were quite long. Peddlers could be expected to be absent for long periods of time, with little communication. Similar to the agent problem of the Maghribi Trader (Greif, 1993), an unscrupulous, but enterprising, individual could sell those goods as he traveled to a distant part of the country, and settle in a far off land with a large sum of cash obtained from the sale of the merchandise. Enforcement of the contractual obligations would be quite unlikely due to the distances involved. In view of the substantial risks, one would expect few such credit extensions.

Interestingly, such credit was regularly offered to Jewish peddlers. In part, the merchants who extended them credit could do so based on the commonality of shared religious tradition. However, shared traditions do not necessarily inhibit bad behavior when the party to whom trust has been extended is not present within the enforcing community. As Jews, the peddlers were generally tolerated but not embraced. People would trade with them...as this was a necessary function...but would not necessarily socialize with them, or welcome them into their communities. In other words, a Jew who was expelled from his social and business network would find himself without a community. Having no prospect of forming an alternative social and business network, it was therefore highly unlikely that a Jewish peddler would sell all of his goods and take the money to settle in a

new location.<sup>x</sup> Having formed ties to the community in which he was extended credit, he would be far less likely to abandon that community. Once sufficient capital has been saved, the aspiring merchant must retain his business connections to supply his venture into the future, and to provide a source of hungry salesmen willing to expand the new merchant's reach further into the wilderness. While the high-tension nature of the Jewish religion made the peddler unpopular for many purposes, it also made him a perfect candidate for this particular type of employment.

The unique circumstances of the Jewish peddler in 19th century US history allow us to examine the role of hostility with regard to the middleman. These peddlers clearly fit the ethnically homogenous middleman group theory outlined by Janet Landa. Peddlers were predominantly German-Jews. They were traditional in their religious observances, making them easily distinguishable. They stood out within the majority population both because there were so few of them, and because their religious traditions (different manner of dress/grooming habits, dietary restrictions, reluctance to work on Saturdays, etc.) made them visibly different from the majority population. These distinctions served to separate the German Jews culturally, breaking down or inhibiting the establishment of trust networks with the majority group. Lack of trust and increased perception of risk led to prejudice and hostility. This group had no access to standard credit markets. This lack of access inhibited advancement within the mainstream society, and drove Jews to do business with other Jews. Jews were willing to loan to each other based on religious trust networks, and these trust networks were further encouraged by the lack of outside opportunity. These same religious networks served a social service: the provision of



wives. Again, marriage outside of the religious network was difficult due to prejudice and hostility. German Jews were obliged either to return to the Old World to find a wife, or to use the established religious network. These marriages reinforced the networks, changing the nature of the networks from pure business networks to family business networks. Additionally, these family networks extended world-wide. Once family members established themselves in business, these international contacts could be leveraged. Because of hostility, alternative business arrangements (i.e.: contacts with people outside the religious and family networks) were not always feasible. This hostility placed severe limitations on the choice of possible business partners and associates, forcing Jews to work within the established religious networks. It also extinguished or dampened the desire to shed group membership, as the probability of successful assimilation was low and the cost of severing group ties was very high.

The existence of a trust network is insufficient to explain why peddlers during this period were overwhelmingly Jewish. Hostility between Jews and the majority population not only helped to strengthen the trust networks, but also served to strengthen enforcement of contractual obligations. Jews to whom credit was extended would be hesitant to default not only because they would be cast out of their social network, but also because there was no alternative network to fall back upon. This lack of alternative provided an enormous incentive to conform to group expectations. A Jew cast out of his social/business network would not be readily accepted into the majority network. This ostracism was most readily apparent in the credit market, where credit agencies labeled Jews as poor credit risks.

Adding to the hostility was the willingness of the Jew to fill a role which is historically maligned: that of the middleman. Society in general traditionally fails to see the value provided by the middleman, instead seeing only the profits earned by those filling the role. They are not observed as entrepreneurs who lower transactions costs and facilitate exchange, but as parasites that take advantage of others' misfortunes, lack of knowledge, or inability to reach a market. Middlemen make their money from connections rather than from production, a role which always seems to be misunderstood.

## V

### **Conclusion**

The middleman's role in economic development cannot be properly understood if we ignore the special characteristics of the groups from which these individuals are drawn. Trust networks explain much of the success of the ethnically homogenous middleman, allowing for the distinctive business man to leverage contacts with others of similar backgrounds and belief systems and reduce the transactions costs of exchange. The tension or hostility between the middleman group and the majority population enhances these networks, making them more powerful than they might otherwise be. In the words of one Hasidic Jew in the diamond industry who was asked why he didn't default on his agreements, "Where would I go?" (Richman, 2006) Indeed, for the despised minority, there is no alternative network.

An interesting extension of this paper might be to look at the religious conversion data of Jews during this period. The above theory would predict that Jews who were least successful in leveraging Jewish business connections would be most likely to convert or otherwise attempt to assimilate into the majority culture. The opportunity cost of successful Jewish "networkers" would be too high for them to attempt such a financially risky change.

A further examination of hostility over time may yield additional interesting insights. For example, one such study might examine any change in economic roles occupied by members of the Muslim community in the post-9/11 United States, where the distinguishing dress of practitioners can attract negative attention from the majority Christian population. The hostility experienced by the Muslim community in the United States is a relatively recent situation, whereas Jews have long been outcasts in the societies in which they have resided.

If the religious and ethnic differences that divide societies become less mysterious or threatening, what becomes of religio-ethnic middlemen, and how will the market adapt? These questions are particularly relevant in light of the various pockets of ethnic conflict around the world today. Our differences are important, and allow us to make use of our comparative advantages. In some cases it may be possible that the comparative advantage exists solely because of the differences. Conceivably other associations, such as Kiwanis Clubs, Rotary Clubs, Chambers of Commerce, etc., will be left to fill the role of information conduit and enforcement mechanism. As Thomas Sowell observes,

"Middleman minorities do not *happen* to be different. That difference is central to their success...." (Sowell, 2005) Perhaps it is also true that the distinctiveness of the middleman minority is central to the success and well-being of the greater communities in which they reside.

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<sup>i</sup> Though he does not specifically refer to religious affiliation, Michael Hechter examines theories of group solidarity in his book. Hechter, Michael, 1987, *Principles of Group Solidarity*. University of California Press, Berkeley. He touches on the idea of group produced club goods upon which Iannaccone expands in his 1992 paper.

<sup>ii</sup> Outsiders may also incorrectly interpret the signal. In the wake of 9-11, for example, Sikhs have been targets of discrimination and abuse as outsiders mistake them for Muslims.

<sup>iii</sup> Yoram Barzel discussed the money-lending business predominantly occupied by Jews in England of the Middle Ages. Jews were allowed to operate in this arena, and were particularly successful because they were restricted from most other business ventures. Bonacich, Edna, 1973. *A Theory of Middleman Minorities*. *American Sociological Review*, 38(5), 583-594.

<sup>iv</sup> There were three distinctive waves of Jewish immigration: the Sephardic Era (1654-1820), the German era (1820-1880), and the Eastern European Era (beginning in 1880). Diner, Hasia R., 1992, *A Time for Gathering: The Second Migration, 1820-1880*. The Johns Hopkins University Press, Baltimore and London. While the three waves are referred to in terms of approximate origination, it is not the case that all Jewish immigrants during each wave came from the appointed area...but many did, allowing for a simplified reference. 1958, *The Jews: Social Patterns of an American Group*. The Free Press, Glencoe, Illinois. Of the German wave, for example, few of the Jewish Immigrants were actually German. They hailed from Poland, Bohemia, Moravia, Galicia, Alsace, Lithuania, parts of Russian, as well as Germany. Diner, Hasia R., 1992, *A Time for Gathering: The Second Migration, 1820-1880*. The Johns Hopkins University Press, Baltimore and London. The German Jews tended to be single young men 1958, *The Jews:*

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<sup>v</sup> Discriminatory enforcement of licensing laws would have the effect of encouraging larger numbers of Jews than Christians to conform to the law. However, due to the heavy expense of licensing in several states, the number of Jews licensed would remain lower than the number of Jews who peddled. Diner, Hasia R., 1992, A Time for Gathering: The Second Migration, 1820-1880. The Johns Hopkins University Press, Baltimore and London, Glanz, Rudolf, 1970, Studies in Judaica Americana. Ktav Publishing House, Inc., New York.

<sup>vi</sup> Haiman Philip Spitz as quoted in Marcus, Jacob Rader, 1974b, Memoirs of American Jews: 1775-1865, vol. One and Two. Ktav Publishing House, New York.

<sup>vii</sup> The perceived difference in creditworthiness between Jews and Christians may have roots in the fact that many states regularly confiscated the assets of Jews, limiting their ability to repay loans.

<sup>viii</sup> Also known as Tefillin, these are two small leather boxes containing biblical verse which are worn one on the arm, one on the head during prayer. They are most essential for the morning prayers, but are worn throughout the day by many observant Jews.

<sup>ix</sup> From the diary of Abraham Kohn as cited in Sklare. 1958, The Jews: Social Patterns of an American Group. The Free Press, Glencoe, Illinois.

<sup>x</sup> Peddling also takes the form of a repeated game where defection rewards the defector with small gains relative to the larger gains from continued play.