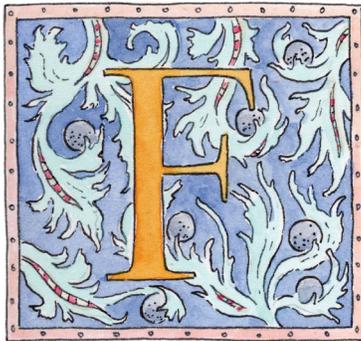


BRET STEPHENS

# What Milton Friedman Got Wrong

*Revisiting the question of Jews and capitalism*



EW PEOPLE have benefited as much from capitalism — that is, from a system defined by private property, profit seeking, open markets, vigorous competition, a light touch from the state, and a broad and secure field for enterprise and innovation — as Jews. Fewer people still have been so conflicted about it.

For every Mark Zuckerberg or Mark Cuban, there's a Naomi Klein or a Noam Chomsky. For every Jewish reader who nods his head in approval of the free-market editorials of the *Wall Street Journal*, more are in tune with the sensibilities of the *New York Times*. For every Jew who sees Milton Friedman as a Jewish intellectual hero, others would cite Susan Sontag or Herbert Marcuse.

How come?

I'm not the first to wonder. Friedman himself explored the question in a 1972 lecture to the Mont Pelerin Society. The great champion

of capitalism alighted on two explanations. First, the only major political movements of 19th- and 20th-century Europe that seemed to offer Jews full equality as individuals were of the Left, particularly the radical Left (except, of course, once the radical Left came to power, at which point it invariably became antisemitic). Second, Jews, especially in America, tended to react to the bigoted idea that they were obsessed with money by trying to prove the opposite.

“To deny that Jews are like the stereotype,” Friedman wrote, they

set out to persuade [themselves], and incidentally the antisemites, that far from being money-grabbing, selfish, and heartless, Jews are really public-spirited, generous, and concerned with ideals rather than material goods. How better to do so than to attack the market with its reliance on monetary values and impersonal transactions and to glorify the political process, to take as an ideal a state run by well-meaning people for the benefit of their fellow men?

Friedman concluded his speech by pointing out a certain hypocrisy of Western Jews who “bask in self-righteous virtue by condemning capitalism while enjoying the luxuries paid for by their capitalist inheritance.” Far better, he thought, for Jews to embrace their reputation as gifted capitalists, along with the qualities that come with it: enterprise, thrift, hard work, personal responsibility, and the ability to contribute to a prosperous society in which one person’s gain need never be another’s loss.



Much as I share many of Friedman’s pro-market views, I think he was fundamentally mistaken.

No doubt the Left, with its secular convictions, was appealing

to Jews who had felt the sting of religious bigotry. But sharing the Left's traditional hostility to Christianity hardly explains why so many Jews also share the anti-capitalist views of multiple papal encyclicals on economic subjects. No doubt, too, the far Left, with its promise of replacing a religious God with a scientific one, was intoxicating for Jewish intellectuals of a sublimated messianic bent. But if Jews are overrepresented among Marxists, it's only because Jews are overrepresented in nearly every field of mental labor.

No doubt, finally, objecting to the inequities of the market or trumpeting the need for higher taxes can be a virtue-signaling tactic aimed at warding off prejudices about Jewish greed or self-interest. But it can also be a perfectly sincere, if not always well-aimed, concern for the common good. And one can easily see how the Bible's injunctions at protecting the marginalized, forgiving debts in the Jubilee, and other principles of compassion might find genuine expression as capitalist-skepticism.

Friedman's core error stemmed from his bizarre reliance on the economic historian Werner Sombart's 1911 book, *The Jews and Modern Capitalism*, which argued that Judaism, at its core, has a pro-capitalist bent. I say "bizarre" because Sombart would go on to become a devout Nazi and a champion of planned economies—calling into question, to say the least, the value of his views regarding Jews or economics. Even so, Friedman approvingly cited Sombart's observation that Judaism "is in reality nothing but a contract between Jehovah and his chosen people....Indeed, there was no community of interest between God and man which could not be expressed in these terms—that man performs some duty enjoined by the Torah and receives from God a quid pro quo."

For Friedman, this is supposed to be evidence that Jewish ambivalence about capitalism is a modern phenomenon and cannot be

rooted in an ancient theological hostility to commerce or wealth. But Sombart's (and Friedman's) reading also reflected a basic misunderstanding of the nature of the relationship between God and the Jews, which is not contractual at all. It's covenantal. The difference? Lord Rabbi Jonathan Sacks put it succinctly in a speech he delivered to the American Enterprise Institute in 2017:

In a contract, you make an exchange, which is to the benefit of the self-interest of each. . . .

A covenant isn't like that. It's more like a marriage than an exchange. In a covenant, two or more parties each respecting the dignity and integrity of the other come together in a bond of loyalty and trust to do together what neither can do alone. A covenant isn't about me. It's about us. . . .

The market is about the creation and distribution of wealth. The state is about the creation and distribution of power. But a covenant is about neither wealth nor power, but about bonds of belonging and of collective responsibility. And to put it as simply as I can, the social contract creates a state but the social covenant creates a society.

A covenant, in other words, has more than legal force. It is holy. It asks us to acknowledge that there are things greater than ourselves. It calls on us to accept that we must sometimes serve those things irrespective of our convenience or our wishes. It obligates us to sacrifice, when necessary, for the sake of a larger whole: a family, a people, a conviction. Not every relationship in life is covenantal, and no society can function well without a strong foundation in contracts based on mutual interest, free will, and a sturdy rule of law. But any society that views relationships in purely contractual terms is destined to crumble.

In its emphasis on self-interest, a “what’s in it for me” society will lead to failed marriages, broken families, the neglect of children and the elderly. It will supply no motive to defend one’s country, protect its environment, honor its traditions, enlist in its military, and die for its cause. Without the covenant that was the Declaration of Independence, there would have been no abolition or civil rights movement. Without the original Covenant, the Jewish people would never have endured for centuries, nor would Israel have come into being or survived into the present.

What does Judaism’s covenantal nature mean in terms of its relationship to capitalism? The answer is paradoxical.

First, by enjoining moral behavior at both the individual and collective level, religious covenants create social trust. Wherever such trust exists—where you can trust a neighbor to look after your child, a stranger to return your wallet, a cop not to abuse his power, and a richer cousin to tend to the misfortunes of a poorer one—prosperity tends to follow.

Second, by establishing a set of values that stand above, and sometimes in contradiction to, the pursuit of self-interest, Judaism also stands in judgment of the aims of self-interest. In this sense, Judaism cannot help but be a critic of any system, including capitalism, in which self-interest is the governing value.

The first point is supported by a vast body of research. Nations such as Norway or Switzerland, which enjoy high levels of social trust (or what academics call social capital), are typically rich; low-trust societies, such as Lebanon or Nigeria, are poor. In his 1995 book *Trust*, Francis Fukuyama explained why:

If people who have to work together in an enterprise trust one another because they are operating according to a common set of ethical norms, doing business costs less. . . . By contrast, people

who do not trust one another will end up cooperating only under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated, and enforced, sometimes by coercive means.

The history of the Jews is a story of the accumulation of social capital, expressed in the Talmudic injunction: “All of Israel is responsible for one another.” There are, of course, notable exceptions to the record, from the Zealots’ coup of the first century to the fight over judicial reform in 2023. But there’s little doubt that Jewish economic success over generations is a function not simply of skills and smarts but also of social trust. The poorest of medieval Jews could trust that the community would help them in their distress; centuries later, Jewish immigrants to America could trust organizations such as B’nai B’rith to help them as they came off the boat. Modern Israel presents a mixed picture in matters of social trust, particularly when it comes to Israeli Arabs, the Haredim, and the country’s elected officials. But as Dan Senor and Saul Singer observed in their 2023 book, *The Genius of Israel*, the Jewish state’s economic achievements are less a mark of good policy, important as that surely is, than they are of a good society—one in which everyday people have a sense of belonging, purpose, and trust. “Israel has flipped the typical model,” they wrote. “Social health and dynamism create economic dynamism.”

Put another way, a society that cares for more than just the maximization of individual self-interest—one that displays a capacity for sacrificing for a common and higher good; one in which people are raised to show up for one another, not simply look out for No. 1; one in which wealth alone does not define success—will produce more ethical and competent citizens, who will, in turn, be better able to compete and succeed in the marketplace. Less clear is whether a

society in which self-interest is the supreme value can endure when circumstances require people (as circumstances inevitably will) to rise above themselves.



Which brings us to the second point: a Jewish critique of capitalism.

To recognize that the critique is possible does not mean Jews ought to be anti-capitalists. The shortcomings of one system must not blind us to the shortcomings, more glaring and severe, of the others. As for Judaism itself, it takes no sides on the broad ideological questions. “One can write a purely socialist economic plan for society using only traditional Torah sources,” Rabbi Yitz Greenberg observed in the first issue of *SAPIR*, before adding, “One could also write a capitalist model citing another set of Torah sources.” The appropriate Jewish approach, he counseled, is to recognize complexity, eschew dogma, and embrace the “covenantal process of gradual adjustment” that is intrinsic to democratic decision-making.

But what being Jewish enjoins is critical thinking and moral thinking. Indeed, it entwines them. Capitalism is an extraordinary system for generating prosperity. But prosperity for what? And prosperity based on what? These are questions that a libertarian-minded thinker might say are irrelevant, or up to each person to decide for himself. Yet that’s obviously inadequate. As far as Judaism is concerned, these questions are relevant to all of us and worth asking so as not to return to the days when “everyone did what was right in his own eyes” (Judges 17:6).

On the eve of the Civil War, the South could claim that it believed in property and market competition every bit as much as the North did. As for slavery, its dehumanization of blacks was part of the business model. In a letter written in 1859 in honor of Thomas

Jefferson, Lincoln (colloquially referring to the Democrats as “the democracy”) summed up the thinking:

The democracy of to-day hold the *liberty* of one man to be absolutely nothing, when in conflict with another man’s right of *property*. Republicans, on the contrary, are for both the *man* and the *dollar*; but in cases of conflict, the man *before* the dollar.

Lincoln’s point was that the economic performance or political popularity of an economic system was not sufficient to be its own justification: It had to have a basis in a moral order that set parameters about permissible and impermissible economic activity. Some of those parameters — such as the fact that all men were “endowed by their Creator with certain unalienable rights” — needed to exist beyond the reach of political debate. They were foundational, untouchable, holy.

The consensus Jewish position, I’d venture, is the same as Lincoln’s. We are not against the dollar. Most of us recognize the myriad ways in which creating and accumulating wealth can be a good unto itself and — through job creation, investment, and philanthropy — can open avenues for doing even greater good.

But we also know there are cases of conflict. The pursuit of wealth can ennoble. It can also debase. Human dignity may be hard to define, but we know it when we see it, especially when we see it violated. Abusive labor practices are one clear violation. So are economic transactions, like prostitution or drug dealing, that are inherently degrading even if they are ostensibly voluntary. Defining exactly where to draw the line isn’t simple and should be resolved democratically: Is selling liquor any better than selling drugs? What about guns or pornography? But there is a line, and we have a moral duty to consider where it lies and raise our voices when we think it has been crossed.

In short, we Jews have a calling to serve as critics—particularly toward any system that insists that we mind our own business. If that spirit of Jewish criticism dismayed Friedman when it came to capitalism, it was that much more dismaying to the champions of other economic systems: the Great Society advocates confronted by the withering critiques of Irving Kristol and Nathan Glazer; the British Bevanites brought down by the vivisection of Keith Joseph; the European Marxists torn to intellectual pieces by André Glucksmann, Alain Finkielkraut, and Bernard-Henri Lévy; the Soviets undone by the courageous dissidence of Natan Sharansky and other Refuseniks. Friedman himself, as the most cogent critic of the postwar Keynesian consensus, also belongs in the pantheon of Jewish skeptics and second-guessers who were unwilling to leave conventional wisdom alone.



I write all this as someone who believes in the virtues of free enterprise and creative destruction, and who decries the unintended consequences of excessive regulation and social engineering via the tax code. And for all its flaws, I'd say about capitalism what Churchill said about democracy: It is the worst economic system “except all those other forms that have been tried from time to time.”

Yet if the free market has one commanding virtue, it is openness: openness not only to new competitors or new ideas but also to vigorous and foundational challenges to its own premises. Those challenges may be viewed as threats to the system. But they can also be seen as a way by which the system remains true to its own principles. In that sense, those ferocious Jewish critics of capitalism decried by Friedman aren't enemies of the system, but rather competitors in a marketplace of ideas that can only serve to make all the players stronger.

This understanding—that the intellectual antagonist, the moral scold, or the not-quite-convinced interlocutor can also be, if often unwillingly, a partner in the cause of discovering truth—strikes me as deeply Jewish. And perhaps it supplies a better answer than Friedman’s as to why Jews, as some of capitalism’s greatest beneficiaries, are so often its fiercest critics: because, as any Jewish mother knows, criticism is also an act of love. \*

*September 12, 2025*

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