A Tale of Two Bros and Two Boroughs: by Pinchas Landau

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PART ONE: Shock and Horror

This article is the product of another article, "How Two Guys Lost God and Found $40 Million," written by Zeke Faux and published online by Bloomberg, at www.bloomberg.com/news/features/2015-10-06/how-two-guys-lost-god-and-found-40-million.

The first and best reason you should read that article is because it is an excellent example of journalistic reporting, which is a distinct rarity nowadays. The more direct reason is that the discussion that follows here rests on the twin stories therein. For the benefit of those who can’t, or can't be bothered, finding and plowing through the original, here is a précis of it.

Two young men, Abe and Meir, products of different ultra-Orthodox groups and their respective educational systems in Brooklyn, each separately dropped out of that scene, abandoned their religious observance and went to college. There they met each other and became firm friends—“bros” in the current jargon. They joined a company that sold credit-card machines to small businesses and retailers, which quickly developed into a financing operation that made small loans to small businesses, at extremely high interest rates.

The nature of this financing operation is the critical element of the story of Abe and Meir and is the key issue in this article, so it's essential to understand it. Author Zeke Faux summarizes it thus (all emphases added, PL):

> Abe and Meir made their money in a field that's now called “merchant cash advance.” **It's a legal way to lend money to small businesses at interest rates higher than Mafia loan sharks once charged.** Completely unregulated, last year (2014, PL) it surpassed the U.S. Small Business Administration as a source of loans for less than $150,000, according to the industry newsletter *DeBanked*, one of the few places with reliable information. The business was developed a decade ago in a boiler room full of ex-Lubavitcher Jewish teenagers in downtown Manhattan. **They figured out how to hook people** such as florists and pizzeria

> owners with promises of fast cash and discovered just how ridiculous the profits could be—**even if it meant driving their borrowers into bankruptcy**.

Later in the article, Faux explains how the lending operation evolved out of the business of selling credit-card machines:

> …once a neighborhood was saturated (with credit-card machines, it was hard to sell more. To make extra money, some of the card-processing companies [made] small, expensive loans to their customers on the side. Banks often reject small businesses as too risky to lend to. The card processors' loans almost always got repaid, though, **because they took a cut of transactions before a borrower even touched the money**. C (the Lubavitcher entrepreneur who started the company which hired Abe and Meir, PL) realized there were lots of businesses that needed money so badly, they'd buy a credit-card machine just to get a loan.
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> …[**The lending company] could charge whatever it wanted**. The standard deal it offered small businesses was to borrow $9,000 and pay back $120 a day for six months, or a total of $14,500, **equivalent to an interest rate of 250% a year**. That's ten times the legal limit in New York….[T]o get around that, merchant cash-advance companies argue they aren't actually charging interest—they're buying the money businesses will make in the future, at a discount. **As long as nobody uses the word "loan," it usually holds up in court**…. [T]he best customers were the most desperate. Often they were immigrants with poor English….

That was the business Abe and Meir got into and in which they quickly advanced. They started making big money and—as often happens in these situations—rapidly became debauched, getting into booze, drugs, and women. Business-wise, the company that employed them was gutted by the crash of 2008, but that proved a blessing in disguise, because they wound up going out on their own. Running their own operation enabled them to make far more money—millions, instead of tens or hundreds of thousands. Eventually, their success attracted offers from major-league financial institutions, including the most major of all, Goldman Sachs.

Meanwhile, Abe and Meir had moved their operation to Puerto Rico for tax reasons, where they bought a mansion and lived in style. The talks with Goldman petered out, but in February 2015, they sold their company to a private equity fund for an estimated $40 million in cash and a further $20 million payment conditional on achieving operational targets. The article leaves them in their Puerto Rican haven, enjoying the local women and food, vaguely looking for a new business project to which to apply their talents.

This is a short and deliberately dry and boring summary of a long, brilliantly-written, colorful and riveting article. My own reaction on reading the article—beyond recognizing its journalistic quality—was one of shock and revulsion. Before trying to analyze both the reaction and its source, I sent the article to some friends and confirmed that they had reacted similarly. Only then did I decide to write this piece.

The issue under consideration here is—why did people react that way? What in this story was so shocking and, even more importantly, what generated such revulsion? In other words, what concerns me is the substance, not the style, or even the story-line. This article is not about journalism or even—other than tangentially—business and finance. It is about mores and morality.

PART TWO: Nice Jewish Boys

To get to grips with the questions just posed, it is essential to distinguish between two separate issues that are intertwined in the narrative. One is specifically Jewish; the other is general or universal. One—the one that dominates the story—is a micro-level tale relating to a couple of individuals; the other, almost buried but nevertheless underpinning the story, is a macro-level issue relating to society as a whole.

The Jewish issue emerges from the story of Abe and Meir, but assumes that while their personal saga may be extraordinary, they are not unique or exceptional in what they did in religious and moral terms. Rather, in that respect, they represent a widespread phenomenon, well-known in both ultra-Orthodox and "regular" Orthodox communities in the United States, Israel, and elsewhere.

This phenomenon is that all too often, when religious and/or Hareidi youngsters (boys and girls) abandon their religious commitments and beliefs, and hence their ritual observances, they also lose their moral underpinnings. In standard Jewish terms, one could say that when they jettison *mitzvot bein adam laMakom*, they also throw out basic concepts of *bein adam leHavero*.

This is by no means always the case, even nowadays—but it is far more prevalent than was the case in the era of secularization, in the nineteenth and twentieth centuries. The mass abandonment of traditional observance in that era was not accompanied by a parallel casting off of Jewish mores and moral behavior. On the contrary—*pace* the Meyer Lanskys, Bugsy Siegels, Lepkes, and other Jewish gangsters—most Jews took their morality with them to socialism and all the other -isms then rampant, or just plain acculturation into Western society; lived by that morality; and endeavored to pass it on to their children. One obvious and outstanding example is the record of philanthropy created by Jews in the countries to which they (or their parents) emigrated and made new lives. Those lives were non-halakhic, increasingly non-observant, but were lived by intensely Jewish values.

In short, the question that the story of Abe and Meir thrusts into the face of Orthodox Jewry of every stripe is plain and painful: Why do products of Orthodox education systems who "lose God" not retain at least some degree of behavioral constraint or, better, moral compass?

Distinct, if almost obscured, but—I shall argue—more important still, is the general or macro issue reflected in the story of Abe and Meir. They were engaged in a very profitable, technically legal, but socially destructive and morally repulsive business. This business was sought by, bought by (in one case), and replicated by (in others) very respectable, mainstream financial firms. What this means—and this is not in the article, which is straight reportage, but I am extracting it as a clear-cut implication—is that the current reality of the American financial system is one in which even the central institutions of the system are engaged in nefarious financial practices, notably loan-sharking. What does this say about this sector—and about society as a whole?

Let's start with the "heroes" of the story and our reaction to their tragedy—for such it is.

What they are doing is revolting, period. Not because they are Jewish, or were ultra-Orthodox, but because their business operation is an affront to universal morality that disgusts normal people, regardless of who is involved. That the perpetrators of these moral crimes are Jewish, and products of an Orthodox education, raises additional issues—maybe parochial ones, but to us as Orthodox Jews, they are critical.

Within the framework of universal morality, in virtually every human society there are modes of behavior that are considered not merely wrong, but beyond the pale. For example, robbery is generally considered wrong and anti-social, but robbing from “your own”—your own family, friends, or neighbors is viewed as much worse, even if the victims happen to be wealthy. Robbing an old widow is disgraceful—but if that person is also your grandmother, then it is disgusting, which is an entirely different reaction, much more emotional, and less cerebral.

In other words, there are several layers of moral turpitude, even within the context of the same technical crime—for example, stealing money. Who you are and who the victim is are major factors from a moral standpoint, even if not from a legal one.

The reason why the story of Abe and Meir evokes strong emotional reactions is because it is so morally disgusting. That disgust stems from the identities of both the perpetrators and, albeit secondarily, their victims—who were, at least in the critical initial stages of the operation, neighbors, even family and friends, certainly co-religionists. None of this served to constrain the perpetrators; on the contrary, their “inside knowledge” of their customers'/ victims' vulnerabilities may even have spurred them on.

Nevertheless, over and above the affront to universal human values, the particularist aspect remains. The perpetrators (Abe and Meir and their anonymous colleagues) were products of religious, ultra-Orthodox, homes and schools. If so, how did they so lose their moral bearings as to be able to rob their customers blind, even to convince themselves that it was all legal—and have no apparent qualms, before, during, or after the proceedings?

What does this say about religious education? More usefully—how can religious education be improved/ honed, to prevent such behavior, or at least make it less likely?

The reforms necessary depend to a great degree on the diagnosis. Is it the case that the implied morality imparted in religious/ultra-Orthodox education is such that once the relationship with God is ruptured, so that ritual “religious” behavior is discontinued, all other aspects of “religious” behavior—including substance abuse, sexual libertarianism, and, critically, other people's money (OPM)—are also rendered irrelevant?

Such an implication assumes that a conscious process is taking place, driven by abstract thought. Such cases do occur—but they are surely quite rare and hence untypical. The story of Abe and Meir, as told in "Two Guys," and the way the world usually works, is simpler, far cruder, much less cerebral. It actually reflects the classic themes of the religious/pietist literature throughout the ages: It is very difficult to stand up to temptation and, once a person starts succumbing, he or she can slide down a steep and slippery slope that takes them to activities and states of being they would once have considered unimaginable and revolting—but now they just must have them.

If this is the story of the decline and fall of two nice Jewish boys—that they became exposed to big money and sucked into making it by doing reprehensible things, which subsequently drew them into many other negative areas—then it makes a lot of sense, but it also becomes quite banal and even loses much of its illicit charm. The moral of the story is now quite clear—kids should avoid being led astray. That's a fine sentiment, but quite useless as a practical prescription. How are kids to be prevented, to be inoculated, from heading down the slippery slope that leads from the status of nice Jewish boys to revolting, anti-social, moral monsters? That is not at all clear.

PART THREE: The Mores that Are No More

Let's now leave Abe and Meir and return to New York City. Here, in Manhattan, several investment institutions, including the most powerful financial institution in the world, Goldman Sachs, had sought to buy their business—and one of them actually did. More importantly, many of these institutions, including Goldman, have already entered, or are in the process of entering the business of “merchant cash advances.”

Although it is the secondary story of the Bloomberg piece, I view this as much the more important of the two stories. Perhaps that's because I consider macro more important than micro, or simply because if Goldman is involved then it becomes a big deal. But I think the real reason why the “Manhattan story”—of legal loan-sharking—is more important than the “Brooklyn story”—of corrupt yeshiva kids—is because understanding what has happened in Manhattan is the key to understanding what happened to Abe and Meir in Brooklyn and, by extension, to understanding many other things happening in neighborhoods and homes near you, near me, everywhere in the Western world.

"Going back to biblical times," Abe told Zeke Faux when asked about his conscience, "there was something dirty about charging for money. But," Abe held up his beer glass to make the point, "a business owner can buy this beer for a dollar, mark it up eight times and sell it to idiots like us, and no-one cares."

This supposed insight is offset by quotations from Abe's brother—about whether "he'd ever seen his brother (Abe) reflect on what he'd done to his borrowers, or on the industry he'd played a small part in creating." Without actually saying it outright, Faux succeeded in implying that Abe's attempt at rationalizing his business activity is phony and distorted. That's as far as the article went in delving into what lies behind and beneath the narrative—which is one of the reasons it's such a good piece.

But I want to go much further. Abe's attempt at justification is not as facile as it might appear at first glance. On the contrary, the argument that money is the same as any other product or commodity—beer, a glass, whatever—is very current today. It is also highly controversial, because if money is just another commodity, then it should indeed be treated the same way. If idiots are prepared to pay many times the “true value” or “fair price” of a glass of beer or a mug of coffee (think Starbucks), then they can pay many times the “fair value” of money, and there's nothing to make a fuss about.

But that is not the case. Not in theory, nor in reality. Not in halakha, nor in any legal system. In halakhic literature, pricing of regular products is subject to constraints covered by a concept called "*ona'ah,*" which might be translated as cheating, or simply over-pricing. But whatever it means, "*ona'ah*" does not apply to money, which is treated entirely separately, under the laws of "*ribit*"—a word connected to multiplying and foreshadowing the concept we call "compound interest"—or "*neshekh.*" The latter means biting, plain and simple, because that is what interest does to the borrower.

Nevertheless, Abe is correct that things have changed since biblical times—and that change is hardly recent. By the period of the Second Temple, it was apparent that a new approach was needed, and it was introduced by Hillel the Elder and amplified by subsequent generations of rabbis. Indeed, it is no exaggeration to say that for the last 2,000 and more years, Jewish jurisprudence has been developing the reluctant recognition that commercial life requires financial instruments based on—at the least—finessing the blanket biblical prohibition on interest (between Jews).

Yet we do not need to have recourse to the vast corpus of intricate halakhic discourse on this topic to identify a widely-recognized distinction between, on the one hand, rates of interest that facilitate the legitimate conduct of normal business and, on the other, rates of interest that undermine and ultimately render impossible the conduct of normal business. This distinction was, until very recently, clear to and accepted by every civilized person, country, and society. Lending at very high rates of interest came to be known as “loan-sharking,” a term that takes the imagery of “*neshekh*” to its logical conclusion.

Furthermore, until very recently—between 25 and 50 years ago—“finance” was a set of distinct businesses or professions conducted by specialized institutions such as banks, insurance companies, etc. To say these financial institutions were all paragons of propriety, or even that they scrupulously observed every word or phrase of every law, would be ludicrously naïve. However, it is fair to say that banks and other institutions operated within a framework of both law and convention that was clear-cut and well-understood.

When there was a breach of the law, legal action could be and was taken, with the result that wrong-doers were punished. That is not an empty phrase: Even very senior executives lost their jobs and were jailed. But, critical as the role of legal sanction was, the role of convention was no less important. Many activities were not proscribed by law, but nonetheless avoided. These were things that were not done—because they were “not done;” they were considered morally unacceptable.

A simple example was a verbal commitment, usually “ratified” by shaking hands, but sometimes not even. Of course, it was by no means unheard-of for someone to renege on a verbal commitment. But what is critical is that *it was not supposed to happen,* so that when it did, the “perpetrator” was expected to—at the least—present a convincing excuse, preferably to make amends in some substantive way.

The sanction against this kind of unwritten breach of conduct could not, by definition, be the resort to civil or criminal proceedings, but was itself exercised in the area of unwritten conduct. The perpetrator had stained his reputation, to a degree commensurate with the perceived severity of his action—and he would suffer the unspoken consequences in terms of the willingness of others to continue to do business with him. In severe cases, or cumulative breaches of convention, the perpetrator's name was sufficiently blackened that he became a pariah, his activity terminated in his home town, state, or country.

To people who entered the field of finance (itself a catch-all phrase for the many formerly disparate areas of financial activity) in the last 30-plus years, the mores encapsulated in the phrase "it isn’t done" sound quaint, in the best case. More typically, they are regarded as relating to behavior that is obsolete, naïve, and pathetically innocent. It is worth asking why.

A common answer is that business, especially finance, has been democratized—meaning that it is no longer the preserve of closed guilds, populated by people of a specific racial, religious, or ethnic background, who developed modes of behavior that suited them, their attitudes, and their era. Today, by contrast, business and finance have opened up, globalized, democratized—they are no longer the preserve of white males of Anglo-Saxon ethnicity, graduates of a select group of schools and colleges. The mores of the WASP elite are no more.

The argument of “democratization,” with the subtext that Western (sub-sub-text Judeo-Christian) values cannot be “imposed” on others, doesn’t stand up to scrutiny. Chinese businessmen and Arab bankers actually have the same need not to be cheated and lied to as do American businessmen and Swiss bankers. That's why every advanced culture in human history produced a legal framework, alongside which was an unwritten tradition of behavioral conventions that collectively defined the societal norms—because without a basis of mutual trust, commerce cannot take place. True, trust won't suffice unless it is buttressed by an effective legal system, so that those claiming injury could have recourse to reasonably competent courts. But litigation needs to be a last resort, used where trust has broken down—not an *a priori* substitute for trust as the basis of day-to-day commercial activity.

Another frequently made claim, in some respects a variation on the same theme, is that no mores can be universal. Therefore only clearly-framed laws and regulations, which can be understood by and made to apply to everyone, can determine what is or is not allowed—and what are the sanctions for transgression of any specific law or regulation. By the same token, *whatever is not proscribed is allowed—and whatever is allowed is acceptable*.

This approach sounds good, because it uses terminology that we have been conditioned to regard as positive: democracy, globalization, universality. Nevertheless, this rationalization for the demise of a previously-accepted set of behavioral mores, as well as for their non-replacement by any alternative set, has proved to be a recipe for disaster—moral, but also financial and economic, as we discovered in 2007–2008 and seem to be rediscovering in 2015–2016.

Let's now return to interest rates. As noted, it proved impossible to live with a total proscription of charging and paying interest. That makes life much more complicated, because it becomes necessary to decide and define when to allow interest and, above all, how much. Once again, the exigencies of reality are much better guides than quantitative laws set in stone. It turns out that all human societies figure out which rates of interest are suitable for their circumstances and which are abnormal and unlivable. The former are mainstreamed, the latter are pushed to the margins of society, or beyond.

In this way, the entities and institutions sanctioned to conduct financial business—whether money-changers in first-century Jerusalem, or people sitting on bancos (benches) in medieval Milan, or the guys in corner-offices in twentieth-century Manhattan—were constrained, usually formally but also informally, from adopting the standards and mores of unsanctioned entities. The constraint could be in the form of usury laws or of informal conventions, but the bottom line was that finance remained the preserve of respectable (or, at least, respectability-seeking) licensed firms, while loan-sharking remained the haunt of unlicensed, unrespectable and illegal operators—the Mafia and their ilk—because, for them, it was too lucrative to pass up.

That very stigma—that loan-sharking is a Mafia business that respectable financial institutions wouldn’t touch—sent a vital message to the general public: Borrowing from loan-shark operations, however persuasive their sales pitch and however great your need, is something to be avoided by decent, law-abiding people. It stinks, and if you participate, then even if you successfully navigate the financial and physical dangers, you emerge morally stained.

What changed?

How did an activity viewed a few decades ago as illegal, repugnant, and dangerous become sufficiently mainstream that, on the one hand, leading legitimate financial institutions have adopted it as a desirable line of business and, on the other, many small businesses now use a source of financing offering terms they would previously have shunned?

The answer, in one sentence, is “the financialization of the economy.” Unfortunately, that is not a phrase or concept that most people recognize or understand—but that does not stop them living their lives by it. Rather than present a detailed analysis of the genesis, development, and mechanics of this concept, let me provide a few simple, concrete examples of its impact. Each example should be prefaced with the introduction “Fifty years ago…”:

- People took a mortgage to buy their home, repaid it over two or three decades, and then lived in their OWN home—they owned all of it.
- Much the same was true for cars, and even for major domestic appliances: Insofar as these were financed by borrowing, the loan was typically for five years (for a car), or a year or two (for an appliance). The loan ended, the car drove on, and the appliance kept right on working.
- Companies that produced goods—industrial firms—had balance sheets in which their own equity typically comprised more than 50 percent, with outside equity, i.e., loans, representing a small component.
- Virtually all middle-class households, as well as most working-class ones, knew how much their income was and tailored their expenses accordingly. No one provided them funding to systematically overspend—nor would they have wanted to do so, had it been offered.
- Regular household expenses were paid in cash. In some communities, the store-keeper kept a record and the slate was wiped clean on a weekly or monthly basis, in cash—or else further purchases were refused.
- More financially sophisticated households had checkbooks, which they kept balanced on an ongoing basis.

It is important to stress—for the benefit of younger readers who knew not that society, and even for older ones who may have forgotten it—that this is not a description of how George Washington's contemporaries lived, nor Lincoln's, nor those of Teddy Roosevelt or even FDR. *This pattern of financial behavior was the accepted norm in the third quarter of the twentieth century.*

Ordinary people did not have much access to credit, other than mortgage loans for their homes—predicated on having a steady job—and maybe to buy major "consumer durables.” People—including upper-middle-class folks who lived in fancy homes and sent their kids to swanky schools, as well as regular Joes who were paid in cash every Friday—were expected to live within their means, whatever those means were. There were no “'payday loans” shops on the main streets of suburbs, nor ads in newspapers or on the subway offering instant cash loans at extremely high interest rates. You had to be in bad shape, socially as well as financially, to have recourse to the very expensive and illegal loans offered by criminals on the fringes of society.

As for small businesses, the mainstream financial system offered them no funding, so that entrepreneurs and proprietors had to use their own resources, or tap family and friends, to get a new business off the ground.

It is easy to see the flaws in this system and even easier to understand why both consumers and businesspeople were relieved to be offered improved access to more credit at better terms. That explains why the number and range of entities seeking to provide credit grew exponentially: Both demand for and supply of credit were potentially huge, seemingly limitless.

But what made it all possible was that the commercial banking system (thanks to “fractional-reserve banking,” q.v.) could effectively create money out of nowhere, with the financial regulatory system and the laws upon which it rested encouraging them. Furthermore—and this is the key to the “financialization” process—over time, the regulatory framework and the legal framework, were gradually relaxed so that more entities were allowed to engage in more kinds of financial activity, using less of their own capital and more “leverage.”

The buzzwords in this process were “deregulation,” “disintermediation,” and, later, “securitization,” the importance and benefit of which were explained and “proven” by a large body of academic research. Over time, most of these “objective academics” were hired and acquired by the financial sector, or appointed to posts in regulatory institutions—joining the revolving door through which people moved to and fro between the private sector, academe, and the public sector.

In tandem with the expansion of the supply of credit came a parallel revolution on the demand side. Attitudes changed, so that the increasing use of credit in more and more areas of consumer and business activity became first tolerated, then accepted, and eventually encouraged. Households and firms that in the past would have been rejected as borrowers by financial institutions were now showered with money and urged to spend it in ways that used to be considered reckless and wrong.

In tandem with the neutralization of government—indeed, its enlistment as a proactive force supporting financialization—has occurred the dilution and ultimate elimination of moral constraints. The general public has been persuaded by its intellectual and political leadership that financialization is a good thing. This brain-washing process has been spurred by tagging to financialization all the desirable labels of our era, such as “democratization,” “equal access,” “efficient,” “growth-generating,” while portraying a negative attitude toward debt as unjustified and obsolete.

But the most powerful factor at work on the demand side has been emotional rather than cerebral. The offer of credit (a much more positive word than “debt”…) to enable the realization of your wants and needs NOW— instant gratification—has been critical at every level. Whether you are a single mother struggling to pay the bills from a meager salary, or the CEO of a giant corporation seeking to gain control of another firm for tens of billions of dollars, the ready availability of credit to achieve your aim and answer your need is irresistible.

Many people, especially those who worked within the system, believe that this process did not merely “happen.” In their view, the rise to prominence of banking and finance—from their traditional ancillary status vis-a-vis the productive sectors of the economy, to a new status as a key sector which is an autonomous source of economic growth—could not have happened without a parallel rise in their political clout. In fact, the deregulation of the financial sectors and the dilution or complete removal of the legal constraints placed on them in the aftermath of the crash of 1929 and the Great Depression, were actually the outcome of a prolonged and sustained lobbying effort by the biggest financial institutions.

The validity of this radical, even subversive, thesis was proven—say its proponents—by the aftermath of the crash, collapse, and crisis of 2007–2009. Although this disaster, or at least its scope and scale, were caused by the abandonment of accepted prudent standards of lending, few of the persons primarily responsible for gutting major institutions and inflicting huge damage to the economy were arraigned, let alone found guilty and punished.

Thus the overall lesson emerging from the series of financial crises and market crashes that have occurred over the last 30 years is that “the system”—the government (of either major party), the Federal Reserve, and other regulatory bodies and the general public—has become a steadily larger part of the problem and is now almost unable to take the lead, or even make a major contribution, in finding solutions.

The problem may be most simply defined as an economy addicted to credit. This is true of all the three main sectors that comprise the economy—government, business, and households. Eight years after the previous crash, the worst of the recent series and the worst since that of 1929–1932, credit is *more* entrenched in all areas of economic life, from the Federal government down to small retail businesses on the high street, and the ordinary households who buy from them.

The epicenter of this financial, economic, social, and moral tsunami is Manhattan. From there, the gospel of greed has spread across the United States, filtering into virtually every part of the American socio-religious mosaic, even the most conservative, traditional, sheltered groups. Even, that is, into the Hareidi ghettoes across the East River in Brooklyn.

The nature of ultra-Orthodox society ensured that the credit revolution, like other social upheavals, would reach it with a considerable delay. But its arrival over the last decade or two is a confirmed fact, attested to by the attention the issue is now receiving in the Hareidi media. A prominent recent example was the cover story of the Hareidi magazine *Mishpacha*, self-styled as a "Jewish Family Weekly," for its 18 *Teves*/December 30 issue: "Why *Frum* Families Fall into Debt," subtitled, "5 Pitfalls and How to Climb Out."

How advanced the process is was glaringly brought home to this writer via a large ad on a public bulletin board in the heart of Hareidi Jerusalem, urging "enough of trying to juggle thousands of *gemach* (free loan funds) loans—get one large bank loan, for a large sum, at reasonable terms, and straighten out your finances." The implications of that ad are so far-reaching that it deserves its own extensive analysis, but in our current context it confirms that the plague has spread throughout the Hareidi world, far beyond relatively sophisticated Brooklyn.

Which brings us back to Abe and Meir, to their original mentor Mr. C., and the other Brooklyn boys who—so Zeke Faux believes—effectively invented “merchant cash advances.” These were not latter-day Jewish gangsters, forging a “Yiddishe Mafia” in the loan-sharking business. Rather, they were smart operators who figured out how to mainstream loan-sharking and make it kosher, to the point where the elite of Wall Street, led by Goldman Sachs, sought to buy them out with a view to scaling up their operation.

Abe, Meir, and their colleagues were being blown by the *zeitgeist* of the credit era, providing money to those prepared to pay absurd prices for it—thereby declaring themselves foolishly innocent or simply desperate and potentially destitute. The business requires the lenders to fleece the borrowers, knowingly and mercilessly stripping their financial flesh like a pack of piranhas—and then moving on to the next victim.

It demands, therefore, the negation of conscience and of pity. It helps, of course, that the victims offer themselves willingly, but the key to success is to override, subsume, and ultimately drown all positive emotions or considerations beneath the overwhelming drive of greed.

As for conscience, that apparently needs a two-stage elimination process. First, get God out of the way. There are many ways of doing this, especially if you identify Him as the patron of the multiply-challenged Hareidi society in which you were nurtured. Reject that society, for whatever reason, and you are out of God's clutches—and ready for the next stage. Once there is no Higher Authority, only human authority remains. But the sources of authority in your society—in the United States and the world in general—are dominated by entities and persons whose actions, and often their words too, declare that greed is good and that the weak and defenseless are there to be taken advantage of.

Ironically, Centrist and Modern Orthodoxy may be even more vulnerable to this process of moral erosion and collapse than Hareidi or Hassidic ultra-Orthodoxy—because the former espouse idealized views of the inherently positive nature of American government and societal structure, whereas the latter never bought into those views. Conversely, Hareidim tend to give no practical weight to moral values other than those they label “Torah,” whereas Modern Orthodox Jews exposed to non-Jewish thought are aware of and embrace universal moral values.

In any event, the challenge facing all streams of Orthodoxy is how to defend itself against this form of moral collapse. The answer is undoubtedly complex and multi-faceted and requires a long-term program. But the first part of the answer is simple, focused, and immediate: Identify the problem and admit its existence. Put it prominently on the agenda.

It is most encouraging to find—as per the above-mentioned *Mishpacha* cover story—that this is beginning to happen. It is also most instructive that the process is a grass-roots one, led by the free (i.e., commercial and non-institutional) Hareidi media, which is largely run by educated Hareidi women.

Mainstream Hareidi media, institutions, and society, which are dominated by a self-appointed, self-perpetuating leadership cadre comprising rabbis (men, obviously) and rich men, does not yet seem to have reached that stage. Maybe they think the problem doesn’t exist, but more likely they think that it doesn’t exist among "*frummer Yidden*." But exist it does, at the household level of "*frum* families falling into debt" and at the corporate level of how "*frum*" people should finance their businesses, including the businesses of yeshivas, seminaries, kollels and other Hareidi institutional businesses. The business context also includes whether "*frum*" people should participate in the finance business, and if so, how.

Finally, the issue of excessive use of and reliance on debt also exists at the “government” level of Haredi society. There are, of course, no data on the cost of the "Hassidic courts,” each with its mini-business empires and not-so-mini bureaucracies that have grown up across the Hareidi world during the past two generations. Needless to say, there are no data as to sources of finance and extent of debt.

However, the laws of finance and their moral underpinnings apply in Brooklyn just as in Manhattan and, ultimately, cannot be escaped in either place. Warren Buffett, one of the gurus of the financialization era whose end is now in sight, has never pretended to dispense moral guidance—rather, plain common sense. His insight, that "only when the tide goes out do you see who was swimming naked," may not be Solomonic, but if it was part of the culture and educational curriculum in Brooklyn and Bnei Brak, maybe Abe and Meir—and their many colleagues—would not be washed up, with their millions, in their sleazy life in Puerto Rico.

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