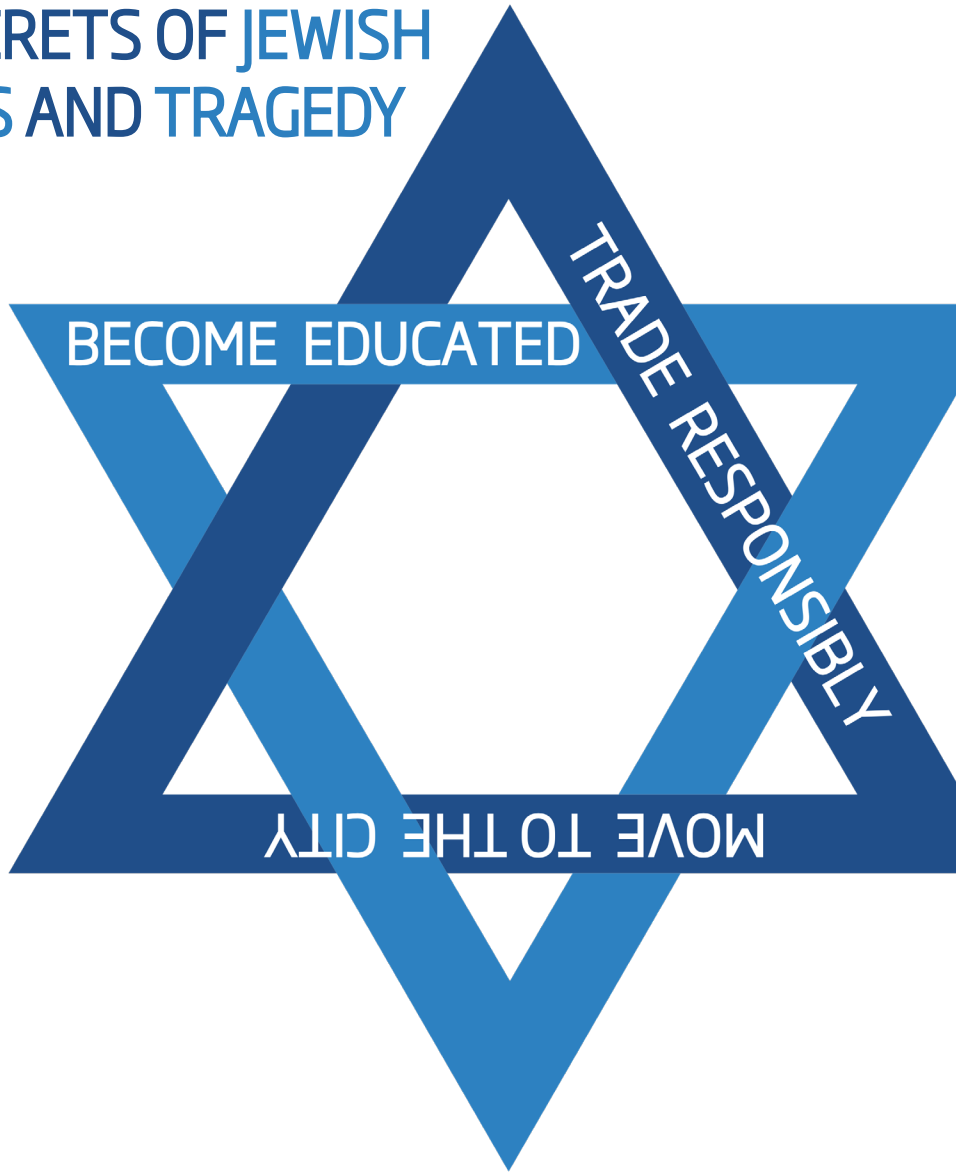


THE SECRETS OF JEWISH SUCCESS AND TRAGEDY





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Become educated, trade responsibly
and move to the city

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Table of Contents

Summary	6
Introduction	8
The Importance of Human Capital as a Lever of Judaism	9
From Ritual Sacrifices to Reading the Torah	9
The Accumulation of Cultural Innovations in Education	11
Education as an End, not a Means	12
From Prenatal Development and Infancy to Early Childhood	14
Jewish Institutions as Platforms that Reduce Transaction Costs	16
The Talmud, Rabbinical Courts, and Responsa	16
Jewish Merchants of the Mediterranean - The Maghribi	18
Diamond Traders in New York	19
The Kosher Food Industry	20
Reaping the Harvest of Human Capital and Institutions: Urban Life	21
With the Jews Came Economic Growth	24
Conclusion	28

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Summary

From antiquity to modern times, the majority of populations have often viewed Jews with suspicion. They were frequently the subject of conspiracies and fabricated plots, which in times of economic and social distress led to accusations, persecution, expulsions, pogroms, and the Holocaust. Two main reasons are behind this. First, Jews lived without their own homeland for nearly two millennia, dispersed in the diaspora across the world, where they always constituted a “foreign minority.” Second, this minority achieved disproportionately high economic and social success. They attained and continue to attain higher levels of education, income, and wealth, and work in profitable sectors, as well as professions requiring high levels of skill.

This text shows that such success can be explained by standard economic factors. First, Jewish culture places a high value on education and investment in human capital. The Jewish God commands parents to send their children to school and Jews were the first community to implement universal schooling more than 1,500 years ago. As a result, the Jewish minority formed islands of literacy in an illiterate world.

Second, Jewish religious institutions enabled cooperation and trade—even in the absence of public institutions. Thanks to the extensive Talmudic literature, rabbinical courts and religious communities, Jewish merchants managed to secure “law and order” (governance) services across different countries.

Both factors stem from the religious specifics of Judaism. They are not the result of a “deliberate conspiracy” but rather the “unintended consequences” of cultural evolution. At the same time, they offer Jews a strong comparative advantage in markets—especially in urban settings and high-skill occupations. Jewish culture, broadly understood, fit remarkably well into a market society based on contractual relationships and an intense division of labor. Research confirms that the presence of Jews in cities historically boosted economic growth. Various rulers even invited Jews into their estates to promote trade and economic development.

Unfortunately, due to the public's weak understanding of market economics and the misinterpretation of trade as a zero-sum game, the relative success of Jews on the free market also became the source of their tragedy. This text aims to explain the historical origins of Jewish success—not through conspiracies or fraud, but through investments in human capital, respect for market institutions and life in urban areas. Understanding the basics of economics is, therefore, an excellent antidote to antisemitism.

Ideally, the public should not approach Jews with suspicion and resentment, but with curiosity and the intent to learn. The result would be a more peaceful and prosperous society.

Introduction

Once again, Jews cannot feel safe in the Western world. Nearly a century after the Holocaust, public threats, the marking of buildings with the Star of David, and even physical assaults on the Jewish community are becoming more frequent.

Historically, this is nothing new. Antisemitism has deep roots dating back to ancient Greece and Rome. It reappeared regularly in the Middle Ages with accusations, persecutions, confiscation of property, forced conversions, and anti-Jewish pogroms. For example, Jews were expelled from France and England in the 13th century. In the following century, they faced accusations and pogroms during the Black Death pandemic. In the 15th century, they were expelled from Spain and Portugal and a century later from various German cities and regions.

One of the sources of this antisemitism has been the public's misunderstanding of the relative economic success of the Jewish minority. Historically, Jews have worked in high-skill professions with higher incomes. This provoked suspicion and envy among parts of the public—and in times of economic hardship, even hatred. In the past, Jews were often used as scapegoats during periods of social, economic, or political unrest. To this day, the relative socioeconomic success of the Jewish minority fuels various conspiracy theories about Jewish control of financial institutions or the entire economic system.

The goal of this text is to highlight the irrationality of these interpretations. Economics as a discipline can explain the sources of Jewish success using standard economic theory. Specifically, there are two culturally conditioned factors of Judaism that matter. The first is high investment in human capital, internalized as a social norm emphasizing education and early childhood care. The second is institutional support for cooperation and trade, which was crucial especially in the past when state-provided legal and enforcement services were not standard. Jewish religious institutions helped reduce transaction costs by fostering ex-ante trust and ensuring ex-post contract enforcement.

These two factors created a predisposition among Jews toward high-skill professions and urban life. In economic theory, these are two key drivers of economic growth and development, which are often recommended as reforms to entire nations. They are generating high value-added jobs and fostering urbanization.

Historically, thanks to the cultural-religious specifics of Judaism, Jews applied these economic principles for millennia. As a result, Jewish communities often achieved notable economic and social success in majority societies.

The Importance of Human Capital as a Lever of Judaism

From Ritual Sacrifices to Reading the Torah

"Make the study of Torah your primary occupation."

- Shammai, 10 BCE

"The number of stories and chronicles was immense. The people of Israel were not great craftsmen, painters, or architects. But written expression was in their national character... it bordered on obsession. Numerically, they probably created the most extensive literature of antiquity, of which the Old Testament is only a small fraction."

- Paul Johnson, A History of the Jews

Most people are aware of the monotheistic nature of Judaism. Yahweh was the first great god, who denied the existence of all other gods and claimed a monopoly over the supernatural realm. Less well known is the second major cultural innovation of Judaism - its emphasis on sacred texts.

Ancient religions and pagan beliefs were centered around rituals, temple worship, and sacrifices to gods. All these practices were originally an important part of Judaism as well. However, over centuries of cultural

evolution, they gradually lost importance and were replaced by the Torah and its study. Jews became the people of the book. These ancient religious changes had lasting consequences for Jewish education. To understand later Jewish success in economic and social life, it is essential to understand the origins¹ of this focus.

The first shift in Jewish religious practice toward scripture occurred in the 6th century BCE, when the Babylonian Empire conquered Jerusalem, destroyed the First Temple, and took the Jews captive. Thus, a faith once tightly linked to the Temple and sacrificial rites had to redirect its rituals to private homes and the reading of holy books. This shift gave rise to the innovation of the synagogue. After King Cyrus of Persia freed the Jews, they returned to Israel and built the Second Temple in Jerusalem. However, the public reading of the Torah—formerly under the exclusive control of high priests—remained a key element of Jewish religious life.

The second leap² in the importance of education in Judaism occurred in the 1st century CE. At that time, several Jewish sects coexisted in Israel, sharing core beliefs but differing in secondary aspects. The dominant group were the Sadducees, members of the local elite—high priests, aristocrats, and merchants—whose power and wealth were tied to the existence of the Temple. They oversaw the worship and rituals occurring in it. Their movement was centered around the temple.

Another major group were the Pharisees, who were more connected to the second pillar of Jewish faith—the Torah. Their religious practice emphasized decentralization (God is present everywhere and can be worshiped outside the Temple) and literacy (worshiping, studying, and preaching God's laws from the Torah was the main mission of Jews). They established and promoted synagogues and stressed the importance of education. One Pharisee, Joshua ben Gamla, issued a religious edict in 63 CE (called a Takkanah) requiring every Jewish father to send his son, aged six or seven, to school to learn Hebrew reading and Torah study.

This religious diversity was interrupted in the latter half of the 1st century by an external factor - the Roman Empire.

1 <https://press.princeton.edu/books/hardcover/9780691144870/the-chosen-few>
<https://www.bu.edu/econ/files/2012/11/dp124.pdf>
<https://www.jstor.org/stable/3874909>

2 <https://press.princeton.edu/books/hardcover/9780691144870/the-chosen-few>

In the year 70 CE, the Romans crushed a Jewish uprising and destroyed the Second Temple. This eliminated the power base of the Sadducees, whose authority was tied to local rituals and offerings. The Pharisees, who had not participated in the revolt, survived the massacres and gained political and religious leadership within the Jewish community. The destruction of the Temple acted as a cultural filter that allowed the Pharisaic, education-based version of Judaism to pass through the “bottleneck” of selection and become the dominant form for all Jews. With subsequent failed rebellions in 132-135 CE, the destruction of the state of Israel, and the global dispersion of Jews, rabbinic Judaism emerged—with education at its core.

The role of the traditional Jewish father, who once saved all year to travel to the Temple and offer an animal sacrifice, transformed into that of a new father who visited the local synagogue, discussed the Torah with the rabbis, and saved money to invest in his children’s education.

The Accumulation of Cultural Innovations in Education

“The education of children is the chief concern among Jews.”

- Flavius Josephus

“In the name of Rabbi Hosea, it was said that in every synagogue there was a basic school.”

- Megillah, Jerusalem Talmud

The cultural shift from temple worship to Torah study unleashed a wave of further cultural mechanisms that expanded literacy among Jews. This is evident, for example, in how the meanings of certain terms gradually changed. The originally derogatory label *am ha-aretz le-mitzvot* was used for Jews who did not observe the norms of ritual purity, but by the 2nd and 3rd centuries CE, it began to describe Jews who were illiterate and failed to teach their children to read. Illiterate Jews became outcasts in their communities and were subject to penalties. They could not vote for local judges, they were not invited to communal celebrations, and fathers of female children were warned against marrying them to sons of illiterate fathers.

A famous 2nd-century rabbi wrote that a man is obliged to thank God each day for three blessings. One of them was that he was not made an *am ha-aretz* (illiterate).

Another clever cultural innovation motivated Jews not to be frugal when investing in education. Jews believed that God predetermined the size of a family's annual budget. However, based on interpretations by religious scholars at the time, this divine budget did not include spending on the Sabbath, religious holidays, and especially children's education. If Jews spent more on these, their total income would grow accordingly.

One of the key educational innovations proved to be the synagogue. Researchers³ have called it the "greatest practical achievement of the Jewish people." In addition to its religious, social, judicial, and community functions, the synagogue also played a role in education and scholarship. Schools for Jews in the diaspora often emerged within synagogues and were funded by local taxes or direct parental fees. In Judaism, anyone can establish and lead a synagogue—one does not need to be a priest, unlike in Christianity.

Historians agree that between the 2nd and 3rd centuries CE, basic education among Jews spread rapidly, and by the 4th century, it had become practically universal for boys. In a recorded dialogue between two Jewish scholars in the second half of the 4th century, one asks, "Is it possible to find someone without basic education?" The reply was, "Yes, in the case of someone who was kidnapped by non-Jews as a child."

Thus, during the early centuries of the Common Era, Judaism became an exclusive club that placed unique demands⁴ on its members—they had to be literate, study sacred texts, and send their children to school.

Education as an End, not a Means

"A Jew, even if he is poor and has ten sons, will send them all to school—not for profit, as Christians do, but to understand the Law of God—and not only his sons, but also his daughters."

- Quote from the 12th century by a student of French scholastic philosopher
Peter Abelard.

Jews became the first literate nation in an illiterate world. For the next 1,500 years, no one else came close to matching their level of educational reach. This gave them a significant comparative advantage in the worlds of commerce and craftsmanship.

3 <https://www.amazon.com/jewish-school-introduction-history-education/dp/B0007D0B1Y>

4 <https://press.princeton.edu/books/hardcover/9780691144870/the-chosen-few>

However, it's important to emphasize that this was not a deliberate plan by the Jews themselves, nor by Yahweh, nor any visionary reformer. It was the right combination of specific cultural variants in a particular historical context—an evolutionary accident. History may have seen multiple religious cults that introduced monotheism, emphasized sacred texts, demanded that children be educated, or were persecuted with their temples destroyed, but it seems that only in the Jews' case did all these factors come together.

The fact that this was not a deliberate plan but rather an accident with unintended consequences is supported by the reality that, for individual Jews, educating children during the first 600 years CE was a pure cost. Literate Jews did not fit into the prevailing economic system, which demanded hours of manual labor. Individual investment in education only brought returns in the afterlife. From the beginning of the Common Era until around the 6th century, the vast majority of Jews worked in agriculture. Education had very little practical utility. Its goal was simply to enable a young boy to stand before his local community and read the Torah in Hebrew at the synagogue, even though their spoken languages were often Greek, Latin, or Aramaic.

Although this emphasis on education and sacred texts brought no tangible returns to individual Jews for centuries, from the standpoint of Jewish cultural survival, it was a crucial feature. Without it, the Jewish people would have dissolved into the surrounding ethnicities, nations, and religions. The existence of sacred texts acted as a kind of common ancestor or cultural DNA, maintaining the continuity of Jewish identity through time. Its inter-generational transmission—replication between minds—was ensured by the imperative to teach children to read and write. Education served as the cultural glue that held Jewish identity together across time and space despite the absence of a shared territory, spoken language, or government.

Historian Nathan Morris put it this way: *"Religion, economics, politics—all these played their part in Jewish history, but we shall never reach the core of the story unless we realize that the school was the greatest single factor in Jewish life, equal in importance to all others combined. In the broadest sense, Judaism owes its survival to the functioning of the Jewish school⁵."*

5 <https://www.amazon.com/jewish-school-introduction-history-education/dp/B0007DOB1Y>

From Prenatal Development and Infancy to Early Childhood

"Jews do not see the birth of a child as an occasion for celebration or an excuse for excessive drinking. The law... commands them to teach [the children] to read and to learn the laws and deeds of their ancestors."

- Flavius Josephus, 96 CE

A wide body of Jewish religious laws, rules, and norms addresses issues related to pregnancy and the care of newborns. Today's research shows that during the Middle Ages, many of these historical Jewish recommendations and prescriptions were significantly more aligned with modern medical knowledge than the prevailing practices of the rest of the population. This brought benefits to Jews not only in the form of lower infant mortality but also in better health and improved cognitive and non-cognitive development of their children⁶.

For example, Talmudic literature requires that pregnant Jewish women be relieved of various duties (especially physical labor) and be granted certain privileges (such as better nutrition). This was not common practice in the Middle Ages, where pregnant women often worked hard, leading to increased rates of premature births and low birth weight. The result was a higher likelihood of infant mortality and poorer cognitive and physical development later in life⁷.

After birth, Jewish customs recommended that the mother and child remain in isolation at home for at least four weeks. Today we know that a baby gains immunity from its mother that is calibrated to microorganisms in the home environment—thus, exposing the infant to unfamiliar environments is risky⁸.

Jewish norms also emphasized the importance of the first milk (colostrum), which is produced immediately after birth and is rich in nutrients and immunity-boosting compounds. The Talmud contains highly specific recommendations, including that a newborn should be placed on the mother's chest immediately after birth—sometimes even before cutting the umbilical cord.

6 <https://academic.oup.com/ej/article-abstract/129/623/2637/5505830>

7 Wiesner, M.E. (2000). *Women and Gender in Early Modern Europe*, Cambridge: Cambridge University Press.

8 https://www.researchgate.net/publication/24139857_Historical_Perspectives_on_Breastfeeding_Two_Essays

By contrast, in the Middle Ages, it was commonly recommended that mothers not breastfeed for the first 20 days, as their milk was considered *"difficult to digest, fatty, and cheesy... because it came from a weakened and sickly body."* It was common to feed newborns diluted warm honey, which was believed to cleanse the digestive system. These practices often led to milk fever in mothers and the loss of the suckling reflex in infants, worsening child development and increasing the risk of death for both infants and mothers⁹.

Talmudic literature consistently and repeatedly emphasizes the importance of breastfeeding, considering it the mother's most important duty, to which all other responsibilities should be secondary. Specifically, the Talmud requires 24 months of breastfeeding, which remains the recommendation¹⁰ of the World Health Organization today. Weaning earlier was seen as dangerous and unhealthy. Meanwhile, in the general population, it was common to start feeding children mushy food at 2-4 months of age, increasing the risk of digestive issues and diseases such as scurvy (vitamin C deficiency) and rickets (vitamin D deficiency). The Talmud recommended hourly breastfeeding during the day and on demand at night, while other parts of society often limited nursing to 2-3 times per day and discouraged long feeding so the baby wouldn't be "too full".

If a Jewish woman could not breastfeed, the family was required to hire a wet nurse, who had to sign a contract obligating her to nurse the child for up to two years. That contract also forbade her from marrying or becoming pregnant during this period. Jewish customs placed great emphasis on ensuring that a child received milk from a single woman throughout the entire nursing period.

In contrast to the broader population of the Middle Ages, it was common for multiple women to breastfeed the same child. This was even encouraged during menstruation, since it was believed that milk during this time was "contaminated with dirty blood". Modern research shows that in the past there was a clear correlation between higher infant mortality rates and the rotation of multiple wet nurses for one child¹¹.

9 <https://academic.oup.com/ej/article-abstract/129/623/2637/5505830>

10 <https://iris.who.int/items/ebebf4fa-b4f7-4cd4-9bde-5b449f76c84a>

11 <https://academic.oup.com/ej/article-abstract/129/623/2637/5505830>

Jewish religious laws even went so far as to allow or require the use of contraception for nursing women. One of the most prominent Jewish scholars of medieval Europe, Rabbenu Tam, wrote in the 12th century: *"A nursing woman must use a form of protection to safeguard the life of her living child, who depends on her for nourishment."*

This Jewish "obsession" with proper and sufficient infant nutrition is confirmed today by many studies to be a key factor in healthy development. We now know that inadequate or inappropriate nutrients in early childhood can lead not only to increased infant mortality, but also to worse long-term health, physical development, and even cognitive ability in adulthood¹².

Both the Torah and the Talmud stress the importance of starting moral and religious education even before school age—often as early as three years old, or from the moment a child begins to speak. For instance, the Talmud recommends: *"When a child begins to speak, his father should converse with him in the Holy Tongue (Hebrew) and teach him the Torah. If a father does not do so, it is as if he buried him."* Decades of modern research have confirmed the strong connection between early exposure to a rich vocabulary and a child's language and cognitive development. This is particularly true for children from disadvantaged socio-economic backgrounds, who suffer from what is now called "language deprivation"¹³.

Jewish Institutions as Platforms that Reduce Transaction Costs

The Talmud, Rabbinical Courts, and Responsa

A high level of human capital alone would not have given Jews a significant competitive advantage in the marketplace. During the Middle Ages, legal and law enforcement institutions were relatively weak, limiting the smooth development of labor division and commerce, especially long-distance trade and trade in valuable goods. These are areas in which Jewish religious institutions helped provide Jews with a distinct edge. Thanks to these

12 <https://www.who.int/data/nutrition/nlis/info/malnutrition-in-children>
https://www.zora.uzh.ch/id/eprint/100551/1/rest_a_00403.pdf

13 https://pubs.asha.org/doi/10.1044/2016_AJSLP-15-0169
<https://www.penguinrandomhouse.com/books/316983/thirty-million-words-by-dana-suskind-md/>

institutions, Jews could more effectively establish rules of trade, ensure compliance, and resolve disputes. This held true across different eras and regions: from Jewish merchants in the Mediterranean (9th–12th centuries)¹⁴ to diamond traders¹⁵ in medieval Holland and modern New York, as well as the kosher food industry¹⁶.

Jewish religion and its institutions thus served as a platform to reduce transaction costs, particularly those related to ex ante trust-building and ex post contract enforcement. The backbone of this “Jewish platform” for providing governance services consisted of three main elements: The Talmud, rabbinical courts and responsa¹⁷.

The Talmud is a vast body of texts, laws, and guidelines. It represents the result of centuries-long cultural evolution and contains practical knowledge on virtually every aspect of daily life—from property rights, damages, and family matters to food practices, child-rearing, and charity. Talmudic literature spans thousands of pages and often takes the form of an initial claim around which legal, religious, and practical discussions unfold, drawing connections to other texts and perspectives. Through this process, the Talmud provided Jewish communities with an emerging set of unified “rules of the game” across many countries and regions.

Rabbinical academies and courts functioned as advisory bodies for Jews, helping them navigate a wide array of practical questions, including legal and commercial matters. They also mediated disputes and resolved conflicts. Whether Jews lived in 7th-century Baghdad, 8th-century Egypt, 11th-century Spain, or 13th-century England, rabbinical courts offered legal and judicial services based on the Talmud as a binding legal code.

To adapt legal rulings to local economic and social realities, Jewish communities relied on a third institution: the responsa. These were scholarly opinions issued by leading rabbinical academies, where the best Jewish scholars discussed and analyzed practical problems, composed responses, and supported their views with arguments. Their conclusions were then distributed to Jewish communities across the diaspora via Jewish merchant networks. A typical responsum included: a ruling, an explanation

14 https://web.stanford.edu/~avner/Greif_228_2005/Greif1993AERCoalition.pdf

15 <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1747-4469.2006.00015.x>

16 <https://www.cato.org/regulation/fall-2013/kosher-certification-model-private-regulation>

17 <https://press.princeton.edu/books/hardcover/9780691144870/the-chosen-few>

of the decision, supporting citations from the Talmud, and rebuttals to all foreseeable objections. These services were not free—those who submitted questions to the academies had to pay for the responsa, which helped finance the academies and their scholars.

Thus, in the Middle Ages, Jews had access to a functioning system of shared rules (Talmud), legal institutions (rabbinical courts) and contextual interpretation (responsa). This created a sufficiently robust infrastructure to support commerce and financial services among Jewish merchants. The following three examples show how different Jewish communities used this “platform of Jewish religion” to facilitate trade and cooperation.

Jewish Merchants of the Mediterranean – The Maghribi

In the 11th century, Jewish Maghribi merchants supplied goods across the major trade routes of the entire Mediterranean. Long-distance trade required close cooperation between merchants and their agents (trade representatives) in various ports. However, such cooperation could not rely on the legal protection of public institutions. Despite this, trade among Jewish merchants thrived.

Economist Avner Greif has shown in several studies¹⁸ how these Jewish merchants addressed the challenge of providing governance and legal security. They created an effective self-regulation system based on multilateral reputation and mutual trust. Greif drew upon original historical documents and manuscripts from the so-called Cairo Geniza, stored in the Ben Ezra Synagogue in Cairo. These Hebrew documents, written by the Maghribi merchants themselves, included contracts, prices, explanatory letters and bookkeeping records. Astonishingly, about 70% of the letters also contained evaluations of other merchants’ and agents’ past, current, or potential behavior. It was, essentially, a paper version of modern digital reputation systems in the sharing economy¹⁹.

The core institution of the Maghribi merchants was the coalition—a network that facilitated information flows strong enough to maintain reputational pressure. This meant that if one merchant or agent betrayed a partner’s

18 [https://web.stanford.edu/~avner/Greif_Papers/1993 Greif AER 1993.pdf](https://web.stanford.edu/~avner/Greif_Papers/1993%20Greif%20AER%201993.pdf)
[https://web.stanford.edu/~avner/Greif_Papers/1989 Greif JEH 1989.pdf](https://web.stanford.edu/~avner/Greif_Papers/1989%20Greif%20JEH%201989.pdf)

19 <https://www.amazon.com/Progress-without-permission-crowdfunding-cryptocurrencies-ebook/dp/B0CW1LPJL9>

trust, all other coalition members would immediately cease doing business with him. This collective response ensured that the short-term gains of fraud were outweighed by the long-term benefits of trustworthiness.

Further research²⁰ on the Maghribi coalition showed the importance of the network's structure. The communication network resembled what's called a "small-world network"—dense connections within trade hubs and sparse links between them. This enabled effective information sharing about merchants' reputations, even with the medieval limitations of letter-based communication.

Diamond Traders in New York

Jews are—and historically have been—disproportionately represented in the diamond trade. In the late 15th century, Jews fleeing from Spain and Portugal established the largest diamond market in Antwerp. The city was later even called the Jerusalem of the West. In the 17th and 18th centuries, Jewish communities expanded diamond trading in Hamburg. When the East India Company managed trade between India and England in the 18th century, it was again primarily Jewish merchants who handled the diamond trade. In the 20th century, Jews owned De Beers, a company that, at one point, controlled virtually the entire global diamond market, and even today controls around 50% of it. Similarly, Jews still make up the majority of workers in the diamond sector in trading hubs like New York and Tel Aviv²¹.

Such a high concentration of Jews in the diamond industry naturally invites conspiracy theories—like the claim that “Jews picked the most lucrative business.” But economic research shows the causality is reversed. It was not that Jews chose diamonds, but that the unique characteristics of the diamond trade effectively “chose” Jews, specifically those embedded in tight-knit religious communities. These communities gave Jews a comparative advantage in dealing with highly valuable goods, traded over long distances, often on credit. Their non-Jewish competitors couldn't match the level of governance and trust enforcement provided by Jewish religious institutions. Public institutions—courts, legislatures, and police—

20 https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=2668&context=law_and_economics

21 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=349040
<https://www.amazon.com/Stateless-Commerce-Persistence-Relational-Exchange/dp/0674972171>
<https://law.bepress.com/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1511&context=alea>

were often not capable of guaranteeing safe and trustworthy operations in the diamond sector. As a result, secure diamond trading outside Jewish communities was nearly impossible.

Economist Barak Richman, in his research²², showed how Jewish institutions enabled smooth cooperation in this highly specialized industry. The trust they generated was referred to by The New York Times as the “real wealth of 47th Street”—the location of the Diamond Dealers Club, the epicenter of the diamond trade in New York. This club acts as a hub where information about the reputation of its 1,800 members is collected and distributed. It also sets rules and resolves disputes among Jewish diamond traders. The club is reinforced by strong pressure from religious communities and Jewish families, which ensure that long-term incentives outweigh short-term temptations. This system means that even a trader approaching retirement would not dare boost his pension by defrauding other partners. Doing so would not only destroy his personal reputation but also bring shame and economic consequences to his family and descendants—a powerful deterrent.

The Kosher Food Industry

Jewish religious law imposes strict regulations on what Jews can and can not eat, and how food must be prepared. No consumer in the world faces greater information asymmetry than a Jewish buyer trying to determine whether a product is truly kosher. Even the most advanced chemical analysis will not help in identifying religious compliance. Historically, Jews living in small communities addressed this problem by exclusively licensing producers. The community would hire, fund, and license a butcher, whose work was overseen directly. However, in the large cities of 19th- and early 20th-century America, this solution proved inefficient. Gradually, a separate industry emerged in the form of private certification agencies, which to this day monitor and certify kosher food on a global scale.

Economist Timothy Lytton has studied²³ how the most reputable certification agencies developed and how they managed to ensure compliance with kosher practices in food production. He attributes their

22 <https://www.amazon.com/Stateless-Commerce-Persistence-Relational-Exchange/dp/0674972171>

23 <https://www.amazon.com/Kosher-Private-Regulation-Industrial-Food/dp/0674072936>

success to a combination of consumer demand, competition between various certification brands, mutual dependency among producers in supply chains, market concentration in the hands of a group of “Big Five” certifiers, and consumer vigilance. Lytton’s main conclusion is that private certification agencies have done a much better job of reducing information asymmetry in kosher food markets than public authorities in the United States, which also attempted to regulate this area.

Interestingly, some aspects of Jewish dietary law—such as the prohibition on pork—likely originated as a response to negative externalities²⁴. Specifically, pigs in 7th- to 8th-century BCE Israel posed sanitation and public health problems. In this context, a divine authority with all-seeing powers had a comparative advantage in enforcing generally beneficial behavioral rules.

Reaping the Harvest of Human Capital and Institutions: Urban Life

“The modern age is a Jewish age... Modernization means everyone becomes urban, mobile, literate, articulate, intellectually demanding, physically fit, and professionally flexible. It’s about cultivating people and symbols, not fields and herds.”

—Yuri Slezkine, *The Jewish Century*, 2004

“In the Middle Ages, the typical moneylender was a Jew, and the typical Jewish profession was moneylending.”

- Roth Cecil, 1961

The two characteristics of Judaism discussed above—investment in human capital and institutions that reduce transaction costs—enabled Jews to find their economic niche in skilled and profitable professions, especially in urban centers.

Literacy and education were essential for success in sophisticated crafts, commerce and finance. These professions required the ability to draft and conclude trade contracts, write informational letters across long distances,

²⁴ https://www.peterleeson.com/Externality_and_Taboo.pdf

construct complex credit agreements, maintain detailed bookkeeping, inventories, and warehouse management, evaluate funding sources, calculate interest, principal, and costs, adjust pricing, work with various currencies of different metals and weights, etc. Historically, educated Jews had a comparative advantage in all these activities over the rest of the illiterate population²⁵.

Jewish literacy began to translate into occupational change in the 7th century CE in the Middle East. Until then, Jews—like most people in the region—worked primarily in agriculture. But over the next two centuries, they underwent a profound and lasting shift from a rural lifestyle with hoes to an urban lifestyle using their minds. This transformation occurred under the Arab Empire, which stretched from northwestern India through Central Asia, Mesopotamia, North Africa, southern Italy, Sicily, and Spain between the 7th and 12th centuries.

This era of Muslim caliphates is often referred to as the Golden Age of Jewry. Numerous large cities emerged, attracting Jews like a magnet. For example, Baghdad had over a million inhabitants at the time. Literate Jews fit into this urban environment like a puzzle piece and worked as wine, livestock, and textile merchants, pearl traders, makers of water clocks, silk, and glass, shipowners, innkeepers, goldsmiths, doctors, bankers and more.

Table: Share of Jews Working in Agriculture vs. Skilled Professions

	400 – 650 AD*		650 – 1250 AD	
Region	Farming	Crafts, trade, moneylending	Farming	Crafts, trade, moneylending
Land of Israel	80-85%	15-20%	20-30%	70-80%
Mesopotamia and Persia	70-80%	20-30%	10-20%	80-90%
North Africa (mainly Egypt)	—	—	10-20%	80-90%
Syria and Lebanon	—	—	10-20%	80-90%
Asia Minor and the Balkans	30-40%	60-70%	10-20%	80-90%
Western Europe	—	—	1-5%	95-99%
Eastern Europe	—	—	1-5%	95-99%

*From: The Chosen Few: How Education Shaped Jewish History, 70-1492; *AD = CE*

After the Mongol invasion and the collapse of the Arab Empire, the center of Jewish life shifted to Europe. There, in the 11th century, the Commercial

²⁵ <https://www.amazon.com/Chosen-Few-Education-Princeton-Economic/dp/0691144877>

Revolution was beginning, cities were growing, and demand for skilled labor was rising. Jews in the diaspora migrated through various European countries, from west to east. Historians argue that this migration was a voluntary strategy by Jews who specialized in high-skilled urban professions, constantly seeking new economic opportunities in emerging cities. This was a form of profitable geographic arbitrage²⁶.

However, Jewish migration was not simple or smooth, due to Europe's political fragmentation. Local rulers had to approve Jewish settlement, typically through a charter—a contract outlining the conditions under which Jews could live in a given region or city. These rulers often saw Jewish presence as an engine for economic growth and a means of integrating their regions into international trade networks.

In addition, Jews generated significant tax revenues. The prominent Czech historian František Palacký wrote that Jews in Bohemia and elsewhere were treated as “property of the royal treasury”, and were managed like bees, from which a prudent caretaker takes honey whenever he sees fit. Indeed, from the Middle Ages until the 18th century, Jews paid far higher taxes than non-Jewish individuals in the majority population.

Cultural historian Tomáš Pěkný listed²⁷ a wide variety of taxes Jews had to pay, including: standard head taxes, local levies, anti-Turkish and coronation taxes, special taxes such as the “Jewish tax,” chamber tax, “tolerance tax,” class tax, taxes on food, textiles, ritual institutions, kosher meat, Sabbath candles, and even on wearing jewelry or fine fabrics. These taxes were levied by royal treasuries, municipal councils, and nobility, often leading to double or triple taxation.

International estimates show the extent of this taxation. In England, between 1239 and 1260, Jews—though only 0.01% of the population—contributed one-sixth to one-fifth of the king's entire revenue. In 13th-century Germany, 25 Jewish communities paid around 20% of all municipal tax income²⁸. In Berlin, just before the Nazis rose to power, Jews made up 5% of the population but paid 30% of municipal taxes²⁹. Rulers often invited Jews into their territories, precisely for these reasons.

26 <https://press.princeton.edu/books/hardcover/9780691144870/the-chosen-few>

27 <https://www.artforum.sk/katalog/33717/historie-zidu-v-cechach-a-na-morave>

28 <https://press.princeton.edu/books/hardcover/9780691144870/the-chosen-few>

29 <https://www.nber.org/papers/w28766>

During the Middle Ages, Jews worked in a wide variety of trades and professions, including tanners, engravers, weavers, makers of scientific instruments, tailors, goldsmiths, glassmakers, polishers, shop and mine owners, physicians, scientists, and merchants dealing in sugar, tobacco, diamonds, livestock, and more. Thanks to their religious institutions, they created long-distance trade networks and became an essential part of international commerce. In the late Middle Ages and early modern period, Jews traded across the globe, linking Europe, Asia and the Americas³⁰. Many Jewish merchants eventually transitioned from trade and credit-based transactions to specialized financial services and banking. The occupational differences between Jews and the majority population remained evident well into the 20th century, at which point the majority of people in many countries were still working in agriculture, while Jews were mostly employed in urban, high-skilled sectors.

With the Jews Came Economic Growth

The relative economic and social success of Jews often provoked suspicion, envy, and, in times of economic hardship, hatred from segments of the majority population. Historically, Jews served as convenient scapegoats, frequently subject to mass expulsions: in the 12th century from England, in the 13th century from France, in the 14th century from various German regions, and in the 15th century from Spain and Portugal.

Today, multiple empirical studies show that these prejudices—rooted in economic ignorance—were not only baseless but also led to harmful consequences for the very communities that expelled Jews. By attacking their Jewish minorities, societies were effectively undermining their own economic growth.

For example, economists Johnson and Koyama (2016)³¹ found that between 1400 and 1850, cities with Jewish communities experienced 30% faster population growth than comparable cities without Jews. In pre-industrial times, population growth is widely used in scholarly literature as a proxy for economic growth³². This growth was particularly strong in the 17th and 18th centuries, when the gradual emancipation

30 <https://yalebooks.yale.edu/book/9780300187496/the-familiarity-of-strangers/>

31 <https://www.sciencedirect.com/science/article/abs/pii/S0304387816300682>

32 https://www.nber.org/system/files/working_papers/w14899/w14899.pdf

of Jews in Europe began to allow their human capital to fully engage in both local and international economic activity.

A similar conclusion was reached in a study on Renaissance Italy³³. Economist Luigi Pascali (2016) demonstrated that the presence of Jews significantly contributed to the emergence and development of Italian financial institutions and banks, which in turn had a positive and lasting impact on economic growth. This impact is still measurable in today's data.

Italian cities and regions that allowed Jews to settle and establish banks in the 16th century now have 11% higher GDP per capita than those that did not. Moreover, roughly 11% of the economic performance gap between northern and southern Italy can be explained by the lower availability of credit in the south—stemming from the absence of Jewish banking institutions during the Renaissance.

The reverse scenario—the economic effects of losing Jewish populations—was examined by renowned economist Daron Acemoglu and colleagues (2010)³⁴. They studied the consequences of the Holocaust in the Soviet Union on long-term economic development and voting behavior. In regions of present-day Russia where Jews were killed more intensively during World War II, the 1990s saw lower GDP per capita, lower average wages, and a greater share of votes for Communist candidates.

The authors attribute this to the fact that, prior to Operation Barbarossa in 1941, Jews in the USSR were far more represented in highly-skilled professions (67%) compared to the general population (15%). Over two-thirds of all doctors in Russia were Jewish. Thus, the Holocaust severely weakened the middle class and intellectual elite in these regions.

Similar findings have emerged from studies of Nazi Germany, where Jews, who made up 0.8% of the population, held 16% of top managerial positions in companies in 1933. Jews were part of the leadership in major firms like Allianz, BMW, Siemens, and Deutsche Bank. Just five years later, their share had dropped to zero. Thanks to digitized archives and new economic research (2021)³⁵, we now know that this antisemitic purge led not only to individual tragedies, but also to measurable economic losses.

33 <https://www.jstor.org/stable/43830337>

34 <https://www.nber.org/papers/w16083>

35 <https://www.journals.uchicago.edu/doi/10.1086/714994>

Specifically, in companies that removed their most competent Jewish managers, revenues fell by 4.1%, dividends by 7.5%, and overall market value dropped by an amount equivalent to 1.8% of German GDP at the time.

Nazi purges in the education system also had similarly negative consequences (2011)³⁶. Before 1933, Jews made up approximately 15% of teachers in Germany. In places where these teachers were forced to leave the profession, students who were of school age during the Nazi regime (1933–1945) later performed worse. They were less likely to pursue university studies, were less successful if they did, and on average completed 0.4 fewer years of education.

The negative effects continued at the university level in the form of weaker academic publication output. Economist Waldinger (2016)³⁷ showed that the dismissal of Jewish professors had a significant and long-lasting negative impact on the number of scientific publications, even decades after World War II. By contrast, the literal bombing of universities and destruction of physical capital had only a small and short-term effect on scholarly productivity. Buildings and classrooms are much easier to replace than high-quality human capital. According to another study (2014), the subsequent flight of Jewish academics to the U.S. had a positive effect on local research³⁸. In the fields in which Jewish academic immigrants worked, the number of patents increased by 31%.

There are also records of the negative economic impact of Jewish expulsion in Czech history. Specifically, during the 18th century period known as “official antisemitism”, the imperial court in Vienna conducted estimates suggesting the economic situation made it feasible to “get rid of the Jews.” However, after the Theresian expulsion in 1744, the naivety of these estimates became clear.

Leaders of Prague’s guilds and merchant associations, who a year earlier had demanded an end to Jewish competition, later voted in a written referendum organized by the Bohemian chamber in favor of allowing Jews to return. According to the „expert opinion of the court estate commission”,

36 https://www.researchgate.net/publication/228251979_The_Long-Term_Direct_and_External_Effects_of_Jewish_Expulsions_in_Nazi_Germany

37 <https://direct.mit.edu/rest/article-abstract/98/5/811/58619/Bombs-Brains-and-Science-The-Role-of-Human-and>

38 https://www.nber.org/system/files/working_papers/w19962/w19962.pdf

Prague's economic life was heavily dependent on the functioning of Jewish trade and financial enterprises. Without them, there was a lack of "money, genius, and frugality."

The commission's report states: *"Prague's merchants are not able to conduct proper trade. If Jewish commerce is expelled from Prague, the city will cease to be Prague and will fare worse than some rural royal towns. The Jews have in Handl und wandl die beste Handgriffe [author's translation: "in trade and commerce, the best skills"]. In countries flourishing through commerce, Jews are tolerated—for example, in the Netherlands, where the entire nation trades and understands it so well that it would not even need the Jews, nor share with them. All the more reason Jews are needed in Bohemia."*

All these studies and historical experiences about the impact of Jews on economic development suggest it is likely no coincidence that the first two countries to fully emancipate Jews and grant them freedom were the Netherlands and England in the 17th and 18th centuries—precisely the two countries where the free market, international trade, and the Industrial Revolution first began to flourish.

Conclusion

People who are familiar with economic principles will not be surprised that the economic and social success of Jews went hand in hand with the economic prosperity of the regions in which they lived. In a market economy, meeting the needs of others is the main way to achieve individual wealth and success. A successful person is, at the same time, a beneficial person. And the Jews were indeed successful.

Unfortunately, knowledge of economic principles has been—and still is—relatively poorly spread among the general population. As a result, the social success of Jews has often also been a source of their later tragedies. A misunderstanding of commerce as a zero-sum game led, especially in difficult times, to the majority population scapegoating the Jewish minority. When there was a bad harvest, when disease spread, or when the economy declined, Jews were blamed, expelled, their property confiscated, or they were victims of pogroms.

The aim of this text was to explain the historical source of Jewish success—which lies not in conspiracy theories about deceit or manipulation, but in investment in human capital, respect for the institutions of a market economy, and urban living. These are patterns of behavior that economists have recommended for entire societies for decades—if not centuries. Therefore, understanding the basics of economics is an excellent antidote to antisemitism.

In an ideal world, the public would approach Jews (or any other minority) not with suspicion or resentment, but with curiosity and the intent to find inspiration. The result would be a more peaceful and prosperous society.

Space for Your Notes:

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