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NOTES ON JEWISH ENTREPRENEURSHIP IN TSARIST RUSSIA

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It is incumbent upon an economic historian dealing with a particular area of economic activity to put the activity and the participants of the economic process not only in a historical context but also within categories of a body of economic theory.

Thus, by focusing upon the phenomenon of entrepreneurship of individuals who shared a common religious, cultural or national heritage, in this case the Jewish one, it is still necessary to explain, or argue in which sense their activities can be considered entrepreneurial.

Economists and economic historians have variously described the entrepreneurial function emphasizing different aspects of those functions as risk-taking, innovation, etc. Entrepreneurial activity was described as one which grows out of the ability of certain individuals to deal with disequilibria in the market.¹⁾ Such disequilibria are not necessarily limited to short-term discrepancies between two sets of prices, or consist of unanticipated profit opportunities arising out of the difficulties in discounting the effects of market situations. Entrepreneurial activity arises often as a byproduct of technological change, out of changes in factor prices, etc, and concerns the reallocation of resources, the reorganization of production or distribution, based upon the entrepreneur's perception of change and foresight about its direction. It is therefore, convenient to focus upon the element of economic change as both the cause and the effect of entrepreneurial activity. Economic change can often be quantified, and the effects, attributed to changes of particular factors. Therefore, it is possible to study entrepreneurship within the context of economic

1)*See Theodore W. Schultz: The Value of the Ability to Deal with Disequilibria. Journal of Economic Literature, Vol. XIII #3, Sept., 1975.

change using some of the tools provided by economic growth theory. The Jews constituted within each of the political units a minority of the population and were therefore, acting according to behavioral norms or patterns characteristic of a minority. Jewish entrepreneurship might have had different effects upon the Jewish community -- the "economy of the Jews" -- than upon the community at large.²⁾ The difference owes to the minority position of the Jews and to their discriminations. The vast majority of the Jewish population and also the chief areas of their entrepreneurial activities were located in the so-called "Pale of Settlement", a territory outside of which Jews could not settle in Russia. Thus, only a detailed knowledge of the economy of this region provides the background for an evaluation of the Jewish entrepreneurial activities, and for the economic structure of the Jewish community. But while largely confined to the "Pale of Settlement", Jewish entrepreneurs attempted to break out of the existing discriminatory position of their settlement with increasing strength. Thus, during the latter part of the period entrepreneurial activity undertaken by individual Jews outside the Jewish Pale of Settlement become more frequent and their effect upon the Jewish community weaker.

²⁾ On the conceptual and analytical problems of such treatment see Arcadius Kahan: A Note on Methods of Research on the Economic History of the Jews, in For Max Weinreich on his Seventeenth Birthday; Studies in Jewish Language, Literature and Society. The Hague, Mouton & Co. 1964, and Salo Baron, Arcadius Kahan & Others: Economic History of the Jews. New York 1976.

during the latter part of the period entrepreneurial activity undertaken by individual Jews outside the Jewish Pole of Settlement become more frequent and their effect upon the Jewish community weaker.

A special problem for the study of entrepreneurial activity by Jewish businessmen is the paucity of data which could throw sufficient light on the family and social backgrounds, education, source of capital and scope of activities of a large number of the entrepreneurs which would permit the construction of representative samples for the different categories of Jewish entrepreneurs.³⁾ In the absence of such data a student of Jewish entrepreneurship runs into the danger of generalizing from a very small and often unrepresentative sample and using anecdotes as a substitute for evidence. The availability of biographical material would certainly enhance our ability to categorize Jewish entrepreneurs in terms of observed patterns of entrepreneurial activity whose origins may be either in commerce or banking, in technical expertise pertaining to industry, or in the accumulation of experience and capital leading from craft to larger scale industrial enterprise. Such data could presumably explain their ability to adapt foreign models for their activity and help us to understand the complex motives as well as their attitudes to the different economic and cultural environments within which they operated. Needless to say that the absence of detailed data on most of the entrepreneurs puts severe limitations upon the analysis of their role and activity.

³⁾Published sources and bio-bibliographical dictionaries were biased in their emphasis of data for Jewish scholars rather than businessmen.

Since a discussion of the historical background for Jewish entrepreneurship in Russia is outside the scope of this essay, it is perhaps necessary to point out a few of the changes in the legal and social status of the Jews which had a direct bearing upon the activities of actual or potential entrepreneurs. While the "Pale of Settlement" for Jews in Russia was to a large extent a de jure recognition of the de facto settlement which the Russian Empire inherited as a result of the partitions of Poland, the only exception for Jewish settlement on the "Russian" territories was made with respect to the provinces adjacent to the Black Sea. Those provinces, an object of Russian colonization policies of the eighteenth and nineteenth centuries were opened for Jewish agricultural and urban settlement, while the rest of the Empire remained closed for the resettlement of Jews.⁴⁾ However, until 1850 not all provinces within the Pale of Settlement were treated alike, since until that year the territory of Congress Poland had its own tariff and until about 1860 the legal status of the Jews in the Polish provinces was based upon the legislation of Congress Poland, while in the Lithuanian, Byelorussian and Ukranian province the Imperial legislation prevailed. Given the limited autonomy of the Polish provinces and their attempts to industrialize during the early decades of the nineteenth century, Jewish businessmen were treated perhaps more favorably than in the rest of the "Pale", although this treatment was not expressing a recognition of their rights but a more lenient extension of individual privileges granted by the

⁴⁾ At one point the Russian government considered the opening up of Siberia for Jewish colonization, but quickly changed its mind.

authorities. Within the other provinces of the Pole, the Jewish entrepreneurs suffered the most from disabilities imposed upon the whole Jewish population until about the beginning of the reign of Alexander II (1855). The general liberalization of government policies during the late 1850's and the 1860's has also affected the Jewish entrepreneurial group, providing the merchants of the first guild with permission to conduct their business outside the Pale, at least for part of the year, or for Jews with higher secular education, or especially "useful" skills to practice within or outside the Pale. While there existed a certain dichotomy between the rights granted and the enforcement of such rights which was left to the local administration, the general liberalization trend made possible an increase in the participation of Jews in industrial entrepreneurship and in the acquisition of higher quality skills. However, given the enthusiastic response to the opening up of new economic and educational opportunities, during the 1880's the trend of governmental policies toward the Jews was reversed and caused a number of economic dislocations in the employment structure of the Jewish community. The story is well known and should not be repeated here. Sufficient to say that while during the previous period new economic opportunities had a favorable economic effect and even contributed to a rapid rate of population increase of the Jewish population, the growth of the market in the Pale of Settlement was insufficient to provide employment and incomes for the growing Jewish population. The restrictions on rural settlement and rural trade imposed by the government legislation of the 1880's further aggravated the high intensity of competition in the trade sector and hastened the shift from trade into crafts and industrial employment for the Jewish

population within the Pole of Settlement. It has also intensified the process of spatial migration within the Pale and the urbanization process. Last but not least, it provided additional momentum to the migration abroad, the latter presumably depriving Russian Jewry of a mobile, enterprising element within the population. Thus, both the changes in governmental policies toward the Jews during its more "liberal" and more restrictive periods contributed to processes of employment shifts, changes in regional and demographic distribution of the population, income differentiation and the formation of a Jewish bourgeoisie and a Jewish industrial proletariat. It is important to keep also this background in mind while discussing the problems of Jewish entrepreneurship.

Given the space limitations of this essay, only the following aspects of the problem and experience of Jewish entrepreneurship in Russia will be considered:

- 1) The personal and social background of the entrepreneurs and their attitudes toward the different milieu.
- 2) The origin of capital of the Jewish entrepreneurs.
- 3) The role of Jewish entrepreneurs in the transition from nobility to capitalist enterprises.
- 4) The entrepreneurs in service of governmental policies.
- 5) The entrepreneur's role in fostering vertical integration
 - a) within the economy at large
 - b) within the "Jewish economy"
- 6) The entrepreneurs in the corporate sector and the fostering of competition.

The first two topics will address the problems of recruitment into entrepreneurial activity and the means to carry on such activities, while the other topics will serve to categorize the functions performed by the Jewish entrepreneurs.

The Origin of Capital of the Jewish Entrepreneurs.

One of the "classical" theses about the origin of capital that was at the disposal of Jewish entrepreneurs follows closely the analogy with non-Jewish entrepreneurs in economically backward countries, or at the early stages of industrial entrepreneurship, preceding the development of a banking system. This is the thesis of government contracts and tax-farming. An important role in the subscription to this thesis played the fact that government or army supply contractors as well as alcohol tax-farmers have invested in textile-mills, tanneries or distilleries in order to assure a portion of their supplies or to derive an additional profit. Beginning with the end of the eighteenth century Jewish army contractors in Poland and during the first half of the nineteenth century Jewish alcohol tax-farmers in Russia followed this practice.⁸⁾

However, it would be mistaken to generalize from a very small population. A much more plausible case for the origins of capital is presented, at best, for the first half of the nineteenth century, by the profits derived from foreign trade. The participation of Jewish merchants in the foreign trade, especially along the Western borders was significant and exhibited a tendency to grow. However, there were limitations to this growth imposed by the slowly growing demand of Russia's western neighbors. Therefore, reinvestment in foreign trade had its constraints. At the

⁸⁾ Starting with the famous Shmul Zbytkover in Poland, the forefather of the Bergson family and the famous Ginzburg in Russia, the evidence for the type of origin of capital for industrial entrepreneurship was at hand.

same time it could be observed that a number of merchants engaged in foreign trade were investing in textile factories and tanneries, and included some of their output in the commodities subsequently exported.⁹⁾

If we should assume that only a half of the profits in foreign trade (assumed as 10 percent of the trade turnover) was invested in industry, this would clearly exceed any estimate of growth of capital in Jewish industrial enterprises.¹⁰⁾ Thus, both the direct evidence of capital trans-

fers from foreign trade to industrial entrepreneurship as well as the volume of profits in foreign trade, in addition to the locational proximity of capital accumulation in foreign trade and establishment of in-

⁹⁾The evidence is available from a comparison of the lists of merchants whose foreign trade turnover exceeded 50,000 rubles. Such lists were published yearly by the Ministry of Finance under the title Vid na Vneshneiu Torgovliu zagod. The coincidence of names of Jewish merchants, their location with lists of Jewish industrialists in Volynia and Grodno gubernias suggest the plausibility of the above contention.

¹⁰⁾The estimated five percent of the turnover in foreign trade by Jewish merchants gives us the yearly average over five-year periods in silver rubles; 1830-34 - 430,000 rubles; 1835-39 - 400,000 rubles; 1840-44 - 430,000 rubles; 1845-49 - 502,000 rubles; 1850-54 - 650,000 rubles and for 1855-59 - 1,150,000 rubles. The above estimates were derived from the yearly reports on foreign trade by separating the names of Jewish merchants. Although the above data were not deflated by the price index and the growth during the last five-year period might be less in terms of the purchasing power of money, there is no doubt that the above sums exceed the volume of possible investments in industry.

dustrial enterprises during the first half of the 19th century make foreign trade activity a plausible source for capital used by Jewish entrepreneurs.

Given the socio-economic structure of the Jewish population, internal trade appears to be the most widespread source, if perhaps not the most abundant source of capital for entrepreneurial activities. If one would take into account the fact that entrepreneurial activity was spread out over a large territory, originally perhaps with a low density and often outside of existing nuclei of a future capital-market, the thesis of internal trade as the major source is appealing. Perhaps also the pattern of entrance into industrial entrepreneurship from the commercial or financial side of industrial activity point to the importance of domestic trade as a source of capital. The only major problem is that such reasoning has to be based upon an assumption or upon a testable hypothesis that the rate of return to the capital in industry was higher than in trade. The data on about 350 industrial establishments owned by Jews in the textile centers of Bialystok and Lodz for the period of 1861-1900 seem to lend support to this hypothesis, at least as far as the textile industry in those locations was concerned. The data on the growth of output and of capital in a large portion of those textile enterprises over time imply a rate of return which exceeded the profit rate in trade achieved by Jewish merchants in a number of gubernias as reported in the works by Jan Bloch and Subbotin for the 1880's. If we should also assume that intense competition in trade tended subsequently to lower the profit margins, it would follow that during the later period the rate of return to capital in industry exceeded the one in trade and made a

transfer of capital not only plausible but also economically advantageous where such opportunities existed.

Large scale industrial entrepreneurship, however, required credits of substantial size, not only for the initial capital outlays, but also for the purchase of raw material, for wages, storage, transportation and credit to customers, outlays which are classified as operating capital. Such credits both long and short term could be provided only by banking institutions. During the first half of the 19th century industrial entrepreneurs would typically obtain bank financing by taking in the private bankers as partners in their enterprises. Since most of the private banks owned by Jews were located originally in trade centers rather than in industrial areas, and the banks were apparently engaged in lending to landowners and to the government, etc. extending loans to low risk customers, the instances of financing of industrial entrepreneurs were not numerous. By the mid-century the situation began to change in two directions. On the one hand Jewish bankers in some financial centers became more amenable to the idea of extending at least short-term credit to industrial entrepreneurs, and on the other hand industrialists began to support the idea of establishment of commercial banks in the industrial centers to serve the growing industries. The new banks, established in the 1870's with active participation of Jewish businessmen found their task facilitated by the growing vertical integration of Jewish enterprises, and thus served both the producers and distributors of the manufactured goods. It enabled the new banks to increase greatly the scope of their lending operations without having to expand accordingly their capital. Drawing both upon the balances of the merchants and the industrialists, the banks were able to

increase the velocity of their assets.

To the extent that there was a scarcity of capital in the "Jewish economy", the Jewish banks made a special effort to attract savings from non-Jews, and to borrow from Jewish banks abroad. In both endeavors, they appeared to be quite successful. As the record of the Jewish participation in private banking in Russia, to be discussed later, indicates, the banks were capable of paying high interest and dividends and their connections with the Jewish banks in Germany and later in France, resulted in capital imports and transfers to Russia.¹¹⁾

Our discussion on the origin of capital of the Jewish industrial entrepreneurs would have been incomplete without mentioning the gradual, incremental self-financing by industrialists themselves. The plowing back of profits, typical of small-scale enterprises in general took place on a massive scale among Jewish entrepreneurs. In a large number of cases, especially among the small-scale industrialists the available data permit us to follow this process. Given the relative scarcity of capital, the limitations upon investment opportunities, a high saving ratio, plowing back of the profits appeared to have been a rational, economic decision, followed by many entrepreneurs.

¹¹⁾ The participation of Jewish private banks in Prussia in lending operations on the territory of the Polish provinces annexed by Russia goes back to the 1790's. The establishment of Jewish banks in the Polish provinces was also greatly influenced by the immigration of Jewish bankers or their agents from Prussia. Needless to say that kinship relations between Jewish bankers in Warsaw with such in Berlin and Frankfurt, which were mentioned before, facilitated transfers of loans across national boundaries.

Recruitment into Entrepreneurial Activity

In the absence of biographical data for a representative sample of Jewish entrepreneurs, it is more prudent to discuss certain traits and characteristics of the entrepreneurs for which data are available than to pretend that a collective portrait of entrepreneurs can be presented.

If we would agree with the prevailing view of entrepreneurship as an innovative type of activity, than perhaps we would also have to assume that the self-recruitment into this group was heavily biased toward individuals who possessed character traits or behavior patterns harmonious with the "innovative personality". This is not to say that such individuals had a lower than average risk aversion, but perhaps more accurately that they perceived regularity in phenomena which appeared to the majority as predominantly random. They perceived real opportunities where others could see primarily uncertainty. However, it would be exaggerated to consider entrepreneurs as deviants from prevailing social norms or as conscious rebels against the social order. While emerging at time and places of disequilibria, acting as agents of change their historical role was of restoration of equilibrium, often related to a considerable advancement of their own economic and social status. Within the Jewish milieu entrepreneurs and entrepreneurship were not regarded as undermining the established order, but as forerunners of adjustment processes which, based upon the historical experience, were considered inevitable and processes which had to be internalized, as it so often happened in the past. Entrepreneurs were not judged within the Jewish community on the basis of their economic activity but as individuals in relation to the net benefits that their ac-

tivities provided for the Jewish community at large. Thus, there was no reason to assume a prima facie conflict between the Jewish community and the Jewish entrepreneurs.

There was hardly an area of entrepreneurial activity from which Jewish entrepreneurs were successfully excluded. Apart from the manufacturing industries in the Pale of Settlement, one could have encountered them at the oil wells of Baku, in the gold mines of Siberia, on the fisheries of the Volga or Amur, in the shipping lines on the Dniepr in the forests of Briansk, on railroad construction sites anywhere in European or Asiatic Russia, on cotton plantations in Central Asia, etc. Their mass was concentrated in the Pale, with a much lower density outside. Thus, the ones in the Pale were the most typical, and they differed from the ones operating outside of the Pale by degree only not in kind. They came mostly from the so-called middle strata from a merchant rather than craftsmen background and possessed above average education. The ones who came from a poorer background must have possessed even more talent, discipline, drive and perserverance to overcome some intial disabilities. The acquisitive in-
stance of some made them proverbial. Some of them would seek publicity, some anonimity. Only a minority, the ones who rose from the ranks of craftsmen mostly, gained a reputation within the Jewish milieu as ruthless exploiters. The acquisition of status within the Jewish community followed with a substantial time lag the rise in wealth. The traditional leadership within the community was not eager to share power and influence with the newcomers, the plebeian masses had a traditional distrust of the rich.

Some historians writing about eighteenth and nineteenth century history of the Jews assumed that entrepreneurial activity, or for that matter, an intensive business contact between Jews and Gentiles involving people at a higher level of secular culture created a dilemma for those Jews which they perceived as a choice between assimilation and the traditional Jewish culture. The relatively high percentage of religious conversions and strong assimilationist tendencies among German Jews or Warsaw Jews involved in high finance colored the views of such historians. Broadening of the informational base about Jewish entrepreneurs sheds considerable doubt upon this traditional view. For the majority of first generation Jewish entrepreneurs such a dilemma did not seem to exist. It is true that some of them operated in two distinct worlds, one of intensive business contact with the outside and the other of the organized Jewish communities. But very few of them considered those two worlds mutually exclusive for the following reasons. First, the typical large urban Jewish community with its concerns for education, training, welfare and religious needs was a modern and not medieval institution. Second, the religious and cultural values of their heritage were not considered small change to be exchanged for an approving nod of the Gentile world, but a rich spiritual heritage. Third, the experience of the 1880's taught Jewish entrepreneurs that the acquisition of a Russian cultural veneer will be insufficient to protect them against persecutions and discrimination and that language assimilation alone will not earn them the status in Russian society to which they felt entitled by the criteria of wealth and cultural sophistication. Thus, they opted for a combination of the indigenous culture with their adaptation of elements of European culture

The disapproval of the larger environment was discounted by the satisfaction derived from philanthropic or cultural activity within the Jewish milieu, and the disapproval of the ultra-conservative elements within the Jewish community was countered by their activity in modernizing certain features of Jewish life. Therefore, Jewish entrepreneurs appeared occasionally impervious to slurs and slights suffered from Russian bureaucrats, accepted as inevitable some insults from their competitors but cherished an inner pride in their own accomplishments. Over and above, it was a group of rational men, knowledgeable of the realities of the world, of the marketplace and of their own worth and calling.

Certain behavioral traits which were also prevailing in the traditional society from which they hailed were discernible in their business and personal relations. The reliance upon kinship ties also in their business, the arrangement of the proper homages which would maximize their business opportunities were a part of the behavior of business-oriented groups in many cultures and we find it also among the Jewish entrepreneurs.⁵⁾ The sense of "noblesse oblige" among owners of inherited wealth toward the Jewish community did not weaken with social advancement.⁶⁾

⁵⁾The family and kinship ties within the Warsaw Jewish business elite in the nineteenth century are documented and would make a fascinating study. The same is true about their connection with German-Jewish banking families.

⁶⁾Examples of subscriptions by second generation christianized grandchildren to Jewish philanthropies started by their grandparents were not unusual.

However, the generational change produced some dichotomies between the first generation of Jewish entrepreneurs and their children. Some of their children remained in the businesses and followed successful business careers, some opted for the professions, the arts, some became leading personalities in the revolutionary movements⁷⁾ but most of them moved away from the Jewish milieu.

⁷⁾ The Wissotsky family of tea merchants and entrepreneurs provided the brothers Gots; other families supplied their share of revolutionaries.

The role of Jewish entrepreneurs in the transition from serf to free labor in industry.

The existence of industrial production in the 18th and first half of the 19th century Russia based upon the use of serf-labor is well-known to students of economic history. Not only in metallurgy but also in textiles and food processing industries a large proportion of the employed labor force consisted of serfs. Most of the industrial enterprises used the raw materials produced on the estates and the available labor with a minimum of capital expenditures. Even enterprises established by non-noblemen tried to receive from the state an allotment of serf labor resources at a relatively low price.

It is therefore of considerable interest to find already during the first decades of the 19th century in a number of regions Jewish entrepreneurs who acted originally as administrators of industrial establishment of the gentry or leased such establishments for various periods of time. It might not be an exaggeration to state that one of "the first schools of industrial management" for Jewish entrepreneurs were the gentry-owned industrial establishments. It is in such regions as Volyn, Grodno and Podol'e that we find a heavy concentration of Jewish entrepreneurs engaged in industrial activities in the woolen industry. The data for 1828-1832 show that among non-nobility industrial enterprises in Volyn 93.3 percent belonged to Jewish entrepreneurs and in Podol'e 32 percent. Most of the enterprises belonged to Jewish merchants of the first guild, while, among the burghers-entrepreneurs the participation was relatively smaller, 75% for Volyn and 43.8% for Podol'e.¹¹⁾

¹¹⁾ See Alexander P. Ogloblin: Ocherki Istorii Ukrainskoi Fabriki, Predkapitais-ticheskaia Fabrika. Gosizdat Ukrainy, 1925. pp. 47-49

As leasees of the landlords establishments the Jewish entrepreneurs excelled the often absentee owners by heavier concentration on the financial aspects of the enterprises, by their ability not to rely exclusively upon the demand of the state for military wool cloth, by seeking new markets either in the Ukraine or abroad (even in the Chinese trade), and Jewish entrepreneurs could also utilize some of the skills acquired by Jewish weavers first in the Grodno region already by the end of the 18th century and through the training factory established in Kremenchug in 1809. Thus, we find definite migration patterns for Jewish skilled workers from Grodno and Kremenchug to the Jewish leased or Jewish-owned woolen enterprises already in the first decades of the 19th century. However, the main difference between the landlord owned and the Jewish owned, or for that matter also Ukranian owned enterprises was first the greater flexibility of locations of such enterprises¹²⁾, the recruitment of a free labor force and technological improvement which using more capital were economizing on the costs of labor and decreased the costs of production of woolen cloth, thus making them more competitive in the market, capable of competing with the serf-based landlord factories.¹³⁾

The competition between the two types of woolen industry, the serf based enterprises and the one based upon free labor took place at two levels. On the one hand by competition within the same region and on the

¹²⁾ They could be established not necessarily in the rural areas on estates, but near commercial centers.

¹³⁾ As an example of competitiveness of Jewish produced woolen cloth, we find already in 1817 three partnerships of Jewish suppliers who received government contracts for the output of their enterprises for the sum of 1,280,750 rubles. See A. Yuditski. Yiddishe Burzhuazie un Yiddisher Proletariat in Ershter Helft XIX Jh. Kiev, 1930, p. 23.

other hand in the form of interregional competition. In both types of competition Jewish entrepreneurs were pitted against the serf-based enterprises. Not only were the Jewish woolen mills of Volyn and Podol'e capable to undersell the serf-based enterprises within the regional or even local markets, but the Jewish merchants and textile industrialists of the Bialystok region(of Grodno gubernia) were successfully competing in the Ukrainian market with the serf-based enterprises located in close proximity to those markets. As a result of this competition, already in the late 1850's even before the emancipation of the serfs, there were no serf-based woolen establishments left in operation.

A similar pattern of Jewish entrepreneurship, begun in the first half of the 19th century became discernible in the sugar industry. The Russian sugar industry based upon the domestic production of sugar beets started in the early years of the 19th century and centered in the estates of the large landowners. The provinces of Poland and of the Ukraine witnessed the early expansion of this industry, and the share of the Ukraine rising secularly. As in the case of woolen cloth, the initial entrance of Jewish entrepreneurs in the sugar industry took place in the form of extending loans to nobility owners of sugar mills, or by leases and partnerships with nobility owners. This was the "apprenticeship" period for Jewish entrepreneurs to learn the intricacies of the industry in question. The establishment of their own sugar mills followed and succeeded by paying particular attention to the technical side of the enterprises, to the use of most modern equipment and technology as well as to the expanded supply of the raw material base, by forward contracts with both estates and peasants. The system of forward contracts permitted both the improvement of the

quality of the raw materials as well as the quality of the differentiated products.

While some of the Jewish entrepreneurs possessed prior experience in the area of alcohol-distilleries and could utilize the experience, many entered the field from trade or finance and therefore turned to innovations in the area of distribution rather than production. This type of activity coincided with the expansion phase of the sugar industry and the search for markets and marketing techniques was timely. The Jewish sugar entrepreneurs, contrary to the customs prevailing among the nobility producers, who would sell the output either at the mills, or at the nearby railroad stations, introduced on a large scale a system of forward sugar contracts, negotiated at the exchange in Kiev, and the larger producers began to develop separate sales networks, based upon established warehouses located in the major urban and mercantile centers of Russia, and employing itinerant salesmen working on a commission basis for the particular major sugar companies.¹⁴

Not only did free labor replace serf-labor in the sugar industry of the Ukraine, but the various forms of corvee-type labor which existed during the first decades after the serf-emancipation quickly disappeared following the example of the Jewish entrepreneurs in sugar production. Both technological improvements and higher skill requirements re-

¹⁴) This system was later copied by a number of other industry branches, such as the oil industry, the agricultural implement and the sewing machine industries. It was first developed for the sugar industry by the firm of I. Brodskii and Sons.

quired a free mobile labor force which could adapt itself to the demands of the industry.

The relative success of Jewish entrepreneurship in the sugar industry could be illustrated by the data which are available for the Ukraine on the eve of World War I. About one third of the sugar mills belonged to Jewish owners and produced about 52 percent of the refined sugar. In the corporate sector of the industry, Jews constituted 42.7 percent of the board numbers and 36.5 per cent of the board chairmen.¹⁵⁾

The employment opportunities for Jews created by Jewish entrepreneurs in the sugar industry were substantial, although exact figures are not available. Given the existing severe limitations upon Jewish settlements in the rural areas, especially after the legislation of 1882, and the availability of cheap rural labor for most of the menial occupations in sugar production, one would not expect a high participation rate of Jewish workers in sugar mills. Except for a few cases in which Jewish entrepreneurs acquired land earlier in the century and settled there Jewish families who worked in the sugar mills.¹⁶⁾ Jews were more likely to be employed in jobs requiring higher technical skills and in the offices of the mill administration.¹⁷⁾

¹⁵H. Landau; *Der Onteil fun Yidn in der Russisch-Ukrainisher Tsüker- Industrie in Shriftn for Ekonomik un Statistik* Berlin 1929. Vol. I, pp. 103-04.

¹⁶ The reference is to the settlement of Morgunovka, a sugar mill village acquired in 1848 by the Jewish owner of the sugar mill and used for the settlement of Jewish families who were employed by and for the sugar mill.

¹⁷ Shortly before World War I, there were in the sugar mills of the Ukraine 79 Jewish chemists out of 283, 62 out of 240 overseers of beet plantations, 71 out of 302 bookkeepers, 68 out of 423 deputy directors and 53 out of 341 mill directors, Landau, *Ibid.*

There were a number of industries, in which the distinction between serf and free labor was less significant than the existence of a dual economy. Alongside many small craft-like enterprises, operating with primitive techniques, there existed highly specialized large-scale enterprises. This type of situation existed in such areas as flour milling, leather tanning, tobacco and also in the fisheries and wood-processing.

The industries relied upon the raw material supply of the primary sector, a supply organized and upon a fluctuating demand in markets about which the majority of producers had a very poor knowledge. The intermediaries in the trade did not expand their networks and their role was quite passive, especially in the cases in which they established local monopolies. The supply of capital even when available to the few large enterprises did not trickle down to the smaller producers. Needless to say that the Jews as a mercantile element serving as intermediaries between the villages and the cities had first-hand knowledge of the intricacies of those processing industries starting with the supply of raw materials and ending with the marketing of those goods. It was, however, the change in economic conditions, the new technological possibilities, the growth of a transportation network and increased availability of capital which made it possible for them to utilize the new opportunities, to embark upon entrepreneurial activity.

In order to achieve success the entrepreneurs had to overcome a number of obstacles. The first was in the area of raw material supply. For goods which were produced in small quantities and had to be collected over an

extensive territory it was not easy to rely upon the existing network of trading peasants often labelled as kulaks who possessed a monopoly in the different localities and paid prices to the producers which not always reflected the market conditions, and often did not serve as a sufficient incentive to increase production.

The Jewish entrepreneurs, operating with a larger time horizon, had to break the local monopolies and through their agents entered into competition with the local kulaks. As a rule the primary producers benefited from this new competition between the old and new intermediaries and often responded with an increase of their marketed output. Alongside of the organization of raw materials supply the use of the by-products in the processing of the raw materials often became an important concern of the entrepreneurs. The case of the Azov Sea and Volga fisheries provides a good example of this type of activity of the Jewish entrepreneurs.¹⁸⁾ Until they entered the fisheries industry, only the high priced fish varieties were processed, while a large part of the fish catch would simply be thrown out or used for fish oil. It was their use of the less expensive varieties of fish that increased the value of the catch very substantially. The use of the raw materials for the production of new goods, such as modern ties for the railroads, the broadening of the assortment, the finding of substitutes for previous uses and the decrease of the waste of raw materials created new sources of incomes and profits. The standardization of the products and its preparation to suite the taste of

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For the achievements of Jewish entrepreneurs in the Russian fisheries see, I.M. Bikerma; Rol' Evreev v Rybnom Delc in Ocherki po Voprosam Ekonomicheskoi Deiatel'nosti Evreev v Rossii. St. Petersburg, 1913. Vypusk I., pp. 127-230.

the clients was another area of entrepreneurship. The examples of hundreds of Jewish skilled fish processors and packers (called uborschiki) employed in Astrakham to suit the tastes of the Western Russia and foreign consumers; the employment of thousands of Jewish overseers (brackers) skilled in the production of ties for the railroads and construction materials for the taste of German and British importers were examples of the significance attributed to product improvements. Last, but not least, the opening up of Western European markets for frozen fish from the Amur River in the Far East of Siberia illustrates the ability of entrepreneurs to utilize the latest developments in refrigeration technology, to increase production and to broaden the market for their products.

The entrepreneur in service of governmental policies.

The subordination of economic interests to the interests of the state was a tradition of old standing in Russia, and the use of various social groups for the achievement of government objectives continues there up to this day. Whether the state tried various combinations of incentives, persuasion and force, depended to a large extent upon the degree to which the interests of the state were congruent with the interest of a particular group and upon the urgency behind particular policies or services demanded by the state.

The important role of the contractor, serving the military, the central or local government is well known in the historical literature and does not require special elaboration. The Jewish contractors were not given priority in any kind of contracts, but had to compete in terms of either price or quality. If the various government institutions would have followed the practice of the marketplace, their decisions even including a taste for discrimination, would have followed a middle course in awarding the contracts, but as quasi-monopolists, in fact, institutional decision-makers most probably engaged in discrimination of a broad spectrum. This forced the entrepreneurs among the Jewish contractors to devise means to reduce their costs by comparison with non-Jewish competitors. One of the areas was the organization of a network of subcontractors, and another area was the relative speed of their operations, which tended to diminish the cost of capital.

The real test of the ability of contracting took place not at the stage of commodity supply contracts to the military, in which cases, contractors were even forced to organize their own manufacturing facilities

of goods in which no reliable supply could be obtained, but at the level of large construction projects involving railroad and port facilities. Such projects involved not only hiring of large quantities of labor and procurement of new types of producers goods, but also very substantial capital outlays and organization of credit flows.

The first experience for Jewish entrepreneurs in this new kind of contracting was the construction of the Warsaw-Vienna railroad¹⁹ and involved a consortium of Jewish contractors and financiers of Warsaw. Jewish contractors gained additional experience in the construction of the Moscow-Smolensk and Moscow-Brest Litovsk railroads. This accumulated experience was utilized and epitomized in the entrepreneurial activity of Samuel Poliakov, who built the Kozlov-Voronezh-Rostov line, the Kursk-Kharkov-Azov line, the Oriol-Griazi, the Bender-Galatz lines and participated in the construction of others. The "secret" of Poliakov's success was his ability to obtain credits from Russian and foreign banks, to organize the system of subcontracting and the speed, if not necessarily the quality, of construction and exploitation.²⁰ In a situation of scarce capital and relatively low wages, this was probably an optimal strategy for an entrepreneur.

¹⁹⁾ The first two railroads in Russia the St. Petersburg-Tsarshoselsk R.R. and the Nikolaev R.R. connecting Moscow with St. Petersburg were built directly by the government, supported by ad hoc and chaotic arrangements with contractors. The construction of the 609 verst of the Nikolaev R. R. lasted for almost 9 years (1842-1851).

²⁰⁾ Poliakovs Kursk-Kharkov-Azov line of 763 verst was built within 22 months, which enabled him to receive the Government subsidy paid at the completion of the construction period, to begin exploitation which provided revenues, and to make all necessary adjustments and repairs out of a revenue paying enterprise.

The participation of Jewish entrepreneurs in large-scale construction projects had a number of effects both upon the employment of Jews in the Pale, from among whom the subcontractors were drawn, creating a kind of backward linkage and for the Russian economy for which the participation of foreign capital not only in the sale of railroad bonds, but also in lending operations for construction was important.

The entrepreneurs as promoters of integration and efficiency.

During the early stages of industrial development, the chief function of the industrial entrepreneur, in the Schumpeterian sense, was the creation of new productive capacity by bringing about a combination of production factors in order to increase output of old and new industrial goods. Simultaneously, the entrepreneurs operating in the commodity and financial markets facilitated the growth of the market for goods and factors of production.

At a more advanced stage of industrial development, a new field of entrepreneurial activity opened up, namely, the integration of existing industrial and productive capacities, with the existing social overhead and system of distribution and to achieve out of these combinations higher levels of efficiency. To use the analogy with a railroad system would be to create out of various existing unplanned railroad lines an efficient, unified network.

This field of entrepreneurial activity opened up in Russia during the twentieth century, to be more specific between 1908-1917.²¹⁾ As in other countries of Europe, this process of integration of industrial firms, elements of overhead capital and business services in Russia was taking place with the assistance of the financial institutions, the banks. The case of Jewish entrepreneurship in the area of water transportation provides an interesting example of this new field of entrepreneurial activity.

21) In a certain sense, this process was revived during the period of the NEP and provided some of the efficiency increases which marked the NEP period by comparison with the pre-revolutionary period.

The mass participation of Jewish entrepreneurs and Jewish employees in the fields of overland and water transportation on the territory of the Pole of Settlement was of long-standing and could be explained by their participation in the commodity trade. Thus, already by the middle of the nineteenth century one could find well-organized enterprises in the river transportation on the Vistula, Neman and Dniepr, the most important waterways on the territory of the Pale.²²⁾ The interests of the Jewish entrepreneurs were not limited to the area of the Pale with its meagre resources and expansion possibilities. By 1876, the banking firm of E. Ginzburg founded the "Shipping Company for the Skeksna River" which provided an opening to the Volga river waterway. By the end of the 1870's the entrepreneur Grigorii A. Poliak established his transportation firm in Nizhnyi-Novgorod for the Volga shipping and entered in the 1880's the field of water transportation of oil and oil products on the Volga and Caspian sea. The field of oil tankers and the transfer of oil from the tankers to the railroads attracted the activities of the successful entrepreneurs Dembot and Kagan, who expanded further the Jewish participation in the production, transportation and trade in oil.²³⁾

The entrepreneurial activity of interest to us, however, was not the one of founding of shipping companies, construction of docks and warehouses or even shipbuilding in which Jewish firms were engaged, but the attempts

²²⁾ By the middle of the nineteenth century, E. Fajans established his transportation firm on the Vistula, followed by the firms of Rogozik and Friedman. Margolin has reorganized the water transportation of the Dniepr during the 1880's and 1890's.

²³⁾ Such activities resulted in the expansion of Jewish employment in the trade and production of oil at various levels of their mercantile and technical skills.

to bring order into the poorly coordinated area of water transportation. This later activity coincided with the government's vision of increasing the Russian share in goods transportation at the expense of foreign shipping companies in both internal and foreign trade. However, for the entrepreneurs there were two areas of immediate concern. The first was to gain control over a sufficiently large number of ships in order to modernize the carrying capacity and to redistribute them over the waterways to conform to the demand of the commodity flow. The second task was to improve the structure of insurance rates for the goods in transit. The expectations of the entrepreneurs were that because of the economies achieved in both areas which would, at least in part, be passed on to the users of the services, the total volume of shipments would increase and thus justify the investments in the improvement of the services. Two Jewish entrepreneurs, the brothers Hessen, succeeded with the help of the banks to gain additional control over the shipping on the waterways that connected the Caspian and Baltic seas as well as to control some major insurance companies.²⁴⁾

The practical operation of the Hessen's scheme, was begun in the war period, was interrupted by the revolution and ultimately carried out according to the original blueprint during the NEP, not anymore as a voluntary but as a government-sponsored scheme.

²⁴⁾ Their scheme was supported by the Russian-French Bank of Commerce, the Odessa Merchant Bank and the Union Bank. They gained control over the "Eastern Company", "Caucasus & Mercury" shipping companies and over the insurance firm "Volga", having earlier secured the cooperation of the First and Second Insurance Companies.

Another attempt, albeit unsuccessful, to create an integrated structure of industrial companies, railroad construction, insurance and foreign trade enterprises, using federated banks and interlocking directorates was one by the Poliakovs. The Poliakovs, heirs of the railroad builder and banking entrepreneur S. Poliakov, were probably the first in Russia to attempt the creation of a conglomerate out of their diverse investments and operating firms, to be controlled by their banks. Their scheme, undertaken at the downswing of the business-cycle failed. Although the State Bank helped to prevent the ruin of the Poliakovs' business empire, the Poliakovs were forced to divest themselves of some of their enterprises.²⁵⁾ A more modest, but successful attempt at integration of diverse companies, was carried out later by the Russian entrepreneur Vtorov.

Still another attempt to improve efficiency within an entrepreneurial context was provided by a "Jewish" bank, namely the "Azov-Don Bank". This bank already in the early 1890's began to petition the Ministry of Finance for permission to move its headquarters from Taganrog to St. Petersburg. The chief argument in favor of the move was the correct observation that as a bank heavily involved in grain export financing its business suffered from violent fluctuations. The sharply fluctuating demand and supply of money in the region of its operation and the inefficiencies involved in its correspondent relation with the St. Petersburg banks in its foreign exchange dealings, made its position suboptimal. The Azov-

²⁵It is interesting to note that the majority of the banking community in Russia viewed the Poliakovs' attempt as a case in which "the selfish interests of a business dynasty came into conflict with the proper criteria for banking operations and was therefore, an abject lesson how not to abandon traditional criteria of sound banking". See I. Levin: Aktsionernye Banki. Petrograd 1917, pp. 281.

Don Bank argued that the proximity to the St. Petersburg exchange, which could provide an outlet for its idle funds and its closer connections with foreign bank representatives who could provide short-term credits, needed for its seasonally marked loan operations would improve the efficiency of the banking operations. The petitions of the "Azov-Don Bank" make it clear that the transaction costs of the provincial banks were apparently higher than for the St. Petersburg banks, and subsequent discussions related to liquid assets, discounts of commercial paper and transfer of funds by the provincial banks point to shortcomings in the operation of the banking system. The Azov-Don Bank was able to preserve its degree of specialization and also move its headquarters to St. Petersburg. As far as other provincial bank were concerned, a number of them could not survive the competition of the branches of the St. Petersburg and Moscow banks in the process of concentration of banking in the capitals. The lack of data prevents one from judging the extent to which the subsequent improved access to the St. Petersburg money market alleviated the fluctuations in the volume of credits extended by the Azov-Don Bank to the grain producers in the area of its operation. For the country as a whole, the seasonal fluctuations in the size of the money supply provided by the State Bank in response to the grain harvest, persisted until at least the late 1920's.

Some responses of Jewish entrepreneurship to policies of discrimination.

Given the existence of discriminatory legislation against Jewish business, as a component of general anti-Jewish legislation, Jewish entrepreneurs had to behave in a manner that would have provided them with alliances that could counteract the strict enforcement of the legislation. The only group, toward the end of the nineteenth century, which could enter into an alliance with the Jewish entrepreneurs was the Russian business community. Beginning with the 1880's the incidents of defense by organized Russian business interests of Jewish entrepreneurs were rising. Somehow the Jewish entrepreneurs had to act in a way that Russian businessmen would overcome their taste for discrimination against the Jews and take their side when the Tsarist bureaucracy strengthened its taste for discrimination. A number of cases can be cited for the territory outside the Pale, perhaps the most interesting being the case of Siberia. Of all places, it was in Siberia that Jewish entrepreneurs as individuals and a "Jewish" bank, the "Siberian Bank" gained a great deal of support from the local Russian business community. The Siberian Bank gained its notoriety by being different than the Russian banks operating in Siberia.²⁶⁾ While most of the banks operating in Siberia were concentrating on financing mining industry, the Siberian Commercial Bank branched out into the areas of commodity trade, and in turn, served also the interests of Siberian agriculture. Given the large distances in Siberia and the low population density, the Siberian Bank nevertheless

²⁶⁾ The Siberian Bank was the brainchild of A. Soloveichik, who founded it in 1872 and who was succeeded in the directorship by his son, M. A. Soloveichik, who died in 1916. The bank had its headquarters in Ekaterinburg and later in St. Petersburg.

expanded greatly its branch network serving communities of different sizes and thereby contributed to a more even growth of the Siberian economy. Instead of specializing in a few areas of the economy, the Siberian Bank was acting as a development bank, responding to the needs of various sectors, on a broad front. And, although adversaries have accused the Siberian Bank in attempts to achieve monopoly powers in various regions and branches of the Siberian economy, there is evidence which points to the abandonment of specialization and diversification of its operation to foster the growth of the Siberian economy and to purchase good will from a broad spectrum of the business community. Jewish entrepreneurs have also benefited from the Bank's policies and during the early twentieth century developed a feverish activity in different branches, starting with the primary industries and finishing with housing construction.

A somewhat different response to discrimination was the ready acceptance of the corporate status and structures by the Jewish entrepreneurs. There were three basic reasons for the acceptance of the corporate form by Jewish entrepreneurs. The first was capital scarcity and the hope to attract capital for their ventures. The second was to avoid some of the more blatant forms of discrimination which operated against individual or family firms, but not against corporations. The third was the opportunity to cooperate within corporate firms with non-Jewish associates. While corporations were permitted to discriminate against any "undesirable" group, whether by specifying the exclusion of such group in share ownership or in the administrative bodies of the corporations, one could discern a trend among non-Jewish corporations to lower the discriminatory barriers. Prior to World War I, there remained very few corporations

indeed, which prohibited Jews from owning shares. Most of the corporations trading their shares on the stock exchange eliminated this provision. The prohibition for Jews to participate in the elected bodies (boards of directors) of the corporations was often mitigated by stressing the recruitment of inhabiting the capitals, thus barring the Jews from the Pale but admitting Jewish financiers of the capitals. The developing interlocking directorates between the banks and the industrial enterprises, along the lines of the German model increased the incidence of participation of Jewish experts in the management of non-Jewish corporations and of representatives of firms and institutions in the previously predominant Jewish owned corporations. Thus, the corporate form of business organization was less suitable for the exercise of discrimination than the family owned firm, an additional reason for the Jewish entrepreneurs to prefer to deal with, and within the corporate sector of the Russian economy.

Conclusions.

Jewish industrial entrepreneurs made a significant contribution to the industrial development of Russia primarily in the early stages of industrialization in the area of the Jewish Pole of Settlement. They contributed to the transition of industry from the stage of reliance upon serf-labor to the stage of freely hired labor. By concentration in areas of processing of agricultural raw materials they not only contributed to the growth of commercial agriculture but also to the growth of the consumer goods industries. It was the growth of the consumer goods industries which have created a demand for capital goods (machinery and equipment) and for the subsequent rapid growth of certain branches of machine-building. It was to some extent due to the efforts of Jewish entrepreneurs that the provinces of the Pale became industrialized ahead of other provinces of the Russian empire. It was also due to some extent to the activities of the Jewish entrepreneurs that the industry branches (particularly textiles) developed in the Pale could withstand the competition with other economic regions of the empire. Inside and outside the Pole Jewish entrepreneurs engaged not only in the development of primary production but participated actively in the construction of the substantial overhead capital in Russia. Through their links with the trading and banking sectors, the Jewish entrepreneurs were able to introduce a higher degree of efficiency in their operations and to build an effective network of business relations which economized on scarce resources. Like other industrial entrepreneurs, they have provided employment and contributed to the rising of skill levels of the labor force, while at the same time creating a demand for capital

and providing high returns to capital.

Within the Jewish milieu the role of the Jewish industrial entrepreneurs was even more significant than for the economy at large. On the one hand, they were instrumental in mobilizing the savings of the community and to provide a high rate of return, but the capital resources of the community became insufficient when entrepreneurship developed on a large scale. Borrowing from the outside became necessary and this "import" of capital helped to raise the production output of the community. On the other hand, and most importantly, the Jewish entrepreneurs provided the bulk of employment opportunities for Jewish workers. The spread of industrial employment within the Jewish community took place under conditions of a decline of wages or incomes of skilled labor in the "Jewish economy". It was due to a general decline of income in other branches of employment that Jewish wage earners and self-employed turned to factory labor. There was also a less than enthusiastic response on the part of the Jewish entrepreneurs to employ Jewish factory labor. However, the net result was the growing Jewish factory employment in the Pale of Settlement, an opportunity provided primarily by the Jewish entrepreneurs at a time when employment shifts and discrimination threatened large segments of the Jewish population with outright pauperization, an opportunity that affected the social structure and the degree of mobility of the Jewish population.

Last, but not least, the activities of Jewish entrepreneurs tended to raise the costs of anti-Jewish economic discrimination and perhaps even to a limited extent, tended to improve the economic structure of the Jews in the Russian empire prior to World War I.