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Building Economic Resilience: A Comparative Study of Ethnic Financing Institutions in Jewish, Japanese, and Korean American Communities

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by

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Abstract

Ethnic financing institutions are a crucial source of venture capital for many immigrant entrepreneurs in the United States. This study focuses on three particular institutions: *Kye*, the Korean rotating credit association, *tanomoshi*, the Japanese rotating credit association, and *gemach,* the Hebrew free loan society. The paper will explore how these institutions developed as alternative economic systems which provided solutions to market imperfections experienced by ethnic groups. This allowed individuals to start businesses, invest in education, secure housing, and improve overall economic and social well being. There is discussion of the immigration histories and characteristics of these three groups, as well as the economic landscape upon arrival, and how it played a role in occupational tendencies and limiting economic opportunity. It will highlight the importance of social capital and cohesive ethnic networks, as well as the cultural history and values that underpinned the formation of these institutions, which have been culturally transmitted from home country to the United States. It also calls to attention the dynamic nature of ethnic culture, which is constantly changing and adaptable to new economic and social conditions, and discusses the evolution and subsequent decline of such institutions. Through an analysis of the Jewish, Japanese, and Korean immigrant communities, the paper provides an overview of the historical, economic, social, and cultural factors that shaped the emergence and evolution of these ethnic institutions.

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1. Introduction

The United States has always prided itself as a nation of immigrants, from its original inhabitants who crossed the land bridge from Asia to North America thousands of years ago, to the countless immigrant groups today who leave their home countries to pursue the American dream. While the meaning and feasibility of the American dream has changed over time, the goal of establishing a better life for oneself and their family has fueled the various waves of immigration to the United States throughout the country's history. The purpose of this study is to better understand the cultures and practices of three immigrant groups that experienced rapid economic advancement upon entry to America: The mass migration of Eastern European and German Jews during the period 1881 to 1924, Japanese immigration to the West Coast from 1890 to 1908, and Korean immigration since the Immigration and Nationality Act of 1965.

Such economic success was predicated on the ability to bypass the conventional assimilation path characterized by low-wage labor, and instead move quickly into commerce and self-employment. Thus, one of the main questions that will be addressed is how first-generation immigrants in each respective period financed their business ventures in America. To start a business and maintain it, a certain level of venture capital is necessary, and it becomes even more difficult for immigrants who come to the United States with very little, lack a credit history or perhaps even an official immigration status. Therefore, the process of securing start-up capital was a key component in one's ability to achieve economic success. For Jewish immigrants, Hebrew free loan societies played a significant role in securing venture capital for business development. Japanese and Korean immigrants employed variations of the rotating credit association (RCA) for venture capital accumulation, a practice which has been used by many ethnic communities worldwide. From an economic perspective, I will be utilizing the traditional institutionalist theory framework of analysis to the capital accumulation techniques of the three aforementioned ethnic groups upon immigration. This entails a multifaceted understanding of the historical, cultural, and economic factors which influence the behavior and performance of ethnic institutions. This will result in a better, more full understanding of their relative successes in economic and social growth.

2. Literature Review

2.1 Institutional Economics

The Institutionalist tradition puts forward compelling arguments challenging the very framework Neoclassical economics is built upon. Norwegian-American economist and sociologist Thorstein Veblen was as close as one would consider to being the founder of institutional economics, given the loosely bounded nature of the school. A well-known critic of capitalism himself, Veblen inspired many dissident economists in their critique of capitalism, eventually leading to the general formation of institutional thought. One of the most influential of these individuals was American economist John R. Commons, a major contributor to the political economic tradition in the early 20th century, at a time when reformist prescriptions had a significant effect on public policy, rivaling the orthodox economics. Aligning with the institutional emphasis on the understanding of economic issues in their greater social context, Commons saw economics as one facet of an interrelated web of social sciences. The basis of Institutional thought lies upon the foundation that market arrangements are socially embedded, and are dependent on supportive (social, legal, financial) structures for their effective operation (Stilwell 2012, 209). In contrast to Neoclassical thought, institutional economists have an evolutionary rather than a mechanistic view of the economy, using Veblen's theoretical framework of ceremonial-instrumental value judgements rather than the neoclassical assumption of a dynamic equilibrium, as a point of reference. Instead of looking at forces that drive equilibration, they study the interactions between social values, technology, and economic institutions that influence the evolution of economic society (Stilwell 2012, 210).

Sometimes referred to as an "economic sociology", the tradition prides itself on studying economic issues in their real-world context, embracing the economy's unquestionable relationship with social and political matters. Thus, institutional economics adapts historicism to economics by teaching that there are no permanent economic truths or static equilibria that can apply for all situations. As Stilwell states in “Political Economy: The Contest of Economic Ideas”, “It can be seen as exploring the very things that neoclassical economists take as given in their models - for example, consumers’ tastes, the state of technology, and the ownership of economic resources” (Stilwell 2012, 209).

By studying the historical context of each individual country, Institutionalism sought to understand the patterns of capitalist development that largely differs across economic institutions around the world. Therefore, unlike Marxist and neoclassical theory, there is no unified theory or general explanation that can explain capitalism’s structure and functioning as an economic system (Stilwell 2012, 210). It would be much more realistic to look at the diverse economic experiences of the various capitalist structures by country.

2.1.1 What are institutions?:

The term “institution” is frequently used across the social sciences but lacks a well-defined meaning. That is why before going any further, it is important to establish what institutional economists have considered to be “institutions” throughout time.

Veblen explained institutions as:

> An institution is of the nature of a usage which has become axiomatic and indispensable by habituation and general acceptance. Its physiological counterpart would presumably be any one of those habitual addictions that are now attracting the attention of the experts in sobriety (Veblen 1997, 101).

Institutions become firmly rooted in society, as traditions that people come to accept. Veblen compares this to the concept of habitual addiction, where society becomes addicted to institutions in the same way addictions to substances or behaviors come about. As such, people depend on institutions, and any change or removal to these habits will be difficult to overcome. Commons observed institutions to be "The processes by which collective action evolves to constrain, liberate, and expand individual action" (Commons 1970, 35). Society is a "complex social organization", that without an institutionalized set of rules and regulations, would result in instability and dysfunction of the economy. Institutional constraints limit the power of individuals and firms who would otherwise resort to private violence which negatively affects private efficiency and human rights. Wesley C. Mitchell and Walton Hamilton shared similar perceptions of the institution, as "highly standardized social habits … embedded in the habits of a group or the customs of a people" (Neale 1987, 1178). More recent contributions to the discipline have included more simplified definitions. Institutions may be defined as a "set of socially prescribed patterns of correlated behavior" (Bush 1987, 1076). Sets of institutions reside within an institutional system, and society is made up of sets of these institutional systems.
It is clear that there is no one definition for the concept of institutions, however the underlying premise of the ways in which the term has been used, is that "Most of what people do is governed by the institutions of their society" (Neale 1987, 1178).

2.2 Assimilation Theory and the Segmented Assimilation Approach

The assimilation theory and segmented-labor market approach are two of the main theoretical perspectives surrounding the ways in which immigrants achieve economic and social mobility and how they are constrained. It is important to introduce both of these two theoretical frameworks, as the paper will be utilizing the segmented assimilation approach in its analysis of ethnic business and institutions.

2.2.1 Assimilation Theory

The assimilation perspective dates back to the Chicago School in the 1920's, with more recent representations in the work of sociologists like Milton Gordon, Richard Alba, and Victor Nee. The theory is based on the sequential path of particular immigrant groups, from "initial economic hardship and discrimination", to "eventual socioeconomic mobility arising from increasing knowledge of American culture and acceptance by the host society" (Portes and Manning 1986, 47). It assumes that assimilation and acculturation is a necessary part of the process of achieving socioeconomic mobility for immigrant groups and their following generations. Therefore, a devolution of one's previous ethnic identity is expected, to give up their "backwards" way of life and embody new characteristics that allows them equal access and makes themselves more acceptable to the "opportunity structure" of the host society (Portes and Manning 1986, 48). Much of the literature surrounding the study of immigrant groups is written from the assimilation perspective.

2.2.2 Segmented Assimilation

The segmented assimilation approach critiques the prior perspective, arguing that there is no one single assimilation path for subsequent generations of immigrant groups. The approach asks the important question of why some immigrant groups experience downwards socioeconomic mobility in subsequent generations, while others experience socioeconomic prosperity. Sociologists have put forward various frameworks and theories in an attempt to categorize the different types of immigrant flows and their distinct processes of adaptation. The segmented assimilation approach observes the various sectors of American society that a particular immigrant group assimilates into, and identifies distinct *modes of incorporation* that are chosen. The following four modes of incorporation were proposed by Alejandro Portes and Robert D. Manning in their study titled, *The Immigrant Enclave: Theory and Empirical Examples*, and will be used in this paper as a comparison and point of reference when assessing immigrant paths. The ethnic enclave, the middleman minority, primary sector immigration, and the political refugee. These diverging assimilation paths represent the experiences from different immigrant groups, who face different sets of obstacles in assimilation, ranging from class, economic status, and race to geographical location and educational opportunity.

2.2.2.1 Ethnic Enclave

Portes and Manning explain ethnic enclaves as highly concentrated spatially identifiable areas where a certain ethnic group is socially and economically distinct from the greater society. Enclaves are located in physically concentrated geographic locations, where work, education, healthcare, recreation and any other service is within proximity. In a fully developed enclave economy, one could live their entire life within the confines of the community. Within the enclave is a social mechanism that fosters strong community reciprocity and solidarity, where one's success is supported by the community, with the expectation that they will give back as well (Portes and Manning 1986, 62). At times, this has proven to be a very successful way for new immigrants to advance economically, even with limited knowledge of the country's language and culture (Portes and Manning 1986, 64). Members of the community only learn the most important aspects of the new culture required for economic advancement. Aside from that, there is a close adherence to original language, religion, and values.

2.2.2.2 Middleman Minorities

Middleman minorities consist of small groups of immigrants that inject themselves as "commercial intermediaries" in a particular country/region, and often differ in nationality, culture, and race, to the population they cater to (Portes and Manning 1986, 50). The concept of middleman minorities is a similar mode of incorporation to the ethnic enclave. However, there are several structural differences between the two. Middleman minorities are exclusively commercial, as mediators of commercial and financial transactions between the superordinate and subordinate classes. Unlike enclave businesses that often have problematic relationships to the established native ones, middleman groups fill positions that are more complementary or subordinate to the local "owning class" (Portes and Manning 1986, 63). An example of the middleman minority are Jewish, Korean, and other Asian-American merchants found in the inner-city. They occupy economic niches that are often feared by others, such as corner stores and laundromats. By nature, the middleman minorities are dispersed amongst populations, and cannot necessarily be traced back to established areas.

2.2.2.3 Primary Sector Immigration

Primary sector immigration has also been a successful form of integration. Without a supporting ethnic community, immigrants must quickly become fluent in the new language and culture, following the traditional customs of career mobility and promotion laid out by the host country (Portes and Manning 1986, 64). Unlike other modes of incorporation where immigrants pick up on the local language and culture of the surrounding area, primary sector immigrant professionals may experience an erosion of past culture and less of an attachment to any particular community (Portes and Manning 1986, 64).

2.2.2.4 Political Refugee

While the existence of political refugees does not itself create a distinct adaptation path, it is important to differentiate their experience from that of purely economic immigrants. Political refugees come from a wide variety of backgrounds, having immigrated primarily from Communist-controlled countries to the United States. First was after the occupation of Eastern Europe by Soviet forces, there was also the arrival of Fidel Castro in Cuba, and also those who came in the wake of the Vietnam War (Portes and Manning 1986, 50). Refugees have been observed to enter many different lines of work, from low-wage secondary labor to the creation of multi-million dollar enterprises. Similarly, they have been observed in many different modes of incorporation, including the three modes previously mentioned.

2.3 Social Capital

The concept of social capital will be used in this paper as an important facet of the cultural approach to analyzing ethnic groups and their institutions. Social capital, as we most commonly refer to today, is the ability to obtain resources through membership in various social networks or larger social structures (Portes and Landolt 532). Economist Michael Woolcock explains the concept of social capital, as one's family, friends, and associates, who collectively form an important asset. These are people that can be utilized during a difficult situation, appreciated for its intrinsic value, and/or exploited for practical benefits (Woolcock 2001, 3). Social capital can manifest itself in various ways, such as securing a competitive job through personal connection with a senior, helping your child with their homework, or simply experiencing the fulfillment of engaging with friends, contributing to community projects, or participating in religious events. However, when some individuals have such connections and others don't, it often leads to nepotism, discrimination, and even corruption, on both individual and institutional levels.

At the same time, the absence of social capital has its own implications. When considering social capital with respect to inequality, Woolcock elaborates that communities who are "endowed with a rich stock of social networks and civic associations will be in a stronger position to confront poverty and vulnerability, resolve disputes, and/or take advantage of new opportunities" (Woolcock 2001, 3). As such, a characteristic of those who are impoverished, is the lack of membership, or even exclusion from specific social networks and institutions. These are connections which could have been leveraged to secure quality employment and adequate housing, effectively acting as an "informal insurance mechanism" which provides direct and indirect financial support (Woolcock 2001, 4).

There is a common inclination to conflate the ability to secure resources through social networks with the resources themselves. Under this assumption, the presence of social capital is connected to positive outcomes, while negative outcomes indicate an absence of social capital. In reality, one's ability to secure resources through social connections in no way assures a positive outcome. Furthermore, when considering the unequal distribution of wealth and resources in society, some groups may have strong trust and solidarity within but will still experience limited access to quality resources (Portes and Landolt 2000, 532).

Prior to the 1990s, the dominant development theories had limited perspective on the significance of social relationships in economic development. Social relationships were seen as a hindrance to development, as well as a tool used by corporate and political elites as a primary mechanism of capitalist exploitation (Woolcock 18). There was a focus on the strategic decisions of rational individuals acting under time, budgetary, and legal constraints, where groups primarily existed to minimize transaction costs of exchange, emerging in the optimal size and combination given undistorted market signals (Woolcock 19). This neoclassical and exclusively economic approach to development has led to growing income disparities and has been insufficient in explaining the success in development for some groups, and the failures for others. Ultimately, such theories failed to acknowledge the potential of mutually beneficial relationships between workers and owners, and the variation in developmental progress achieved by emerging groups. Social capital literature has proven to be an integral part of the investigation into institutions and communities in development.

2.4 Rotating Credit Associations, Loan Associations

This paper will look into two ethnic financing institutions which have proven to be essential for businesses financing in a number of ethnic groups: (1) the rotating credit association and (2) the loan association.

2.4.1 The Rotating Savings and Credit Associations (ROSCA)

The rotating savings and credit association (term is interchangeable with rotating credit association), is a cooperative informal financial system found in communities across the world. While its exact functions and practices vary from place to place, all roscas share a common purpose of providing goods or benefits that are missing or under-provided in the community. Roscas have three interrelated functions, the first, acting as an economic institution, through the saving, credit, and insurance functions it provides. The second, as a social institution, serving as a social meeting place, a source of social aid, and a method of bolstering savings when saving is otherwise difficult. Finally, the third function is as a cultural institution, as each rosca is designed to be specifically tailored to the needs of the culture it resides in (Sandsør 2010).

2.4.1.1 How Roscas Work

So how do roscas work? Each cycle (can be weekly/monthly/yearly), members pool their money into a common fund, and after a predetermined period, they receive a lump sum when it is their turn in the rotation (Ashe and Wilson 2019, 5). A variety of factors, such as geographic distance, income levels, timing of income, workday demands, bus schedules, and availability of meeting space, are considered when deciding when, where, and how often to meet, as well as the value of the contribution For example, imagine there are four participants who meet once a month for four months, and each contribute one hundred dollars to the pot at each meeting. After the first month, the pot will be at four hundred dollars, and that money goes to one of the participants each month, until all participants have contributed and received four hundred dollars. This marks the end of the rotation, and the group can decide to continue the rotation or stop it there. Figure 1 below illustrates this practice. The internal structure of roscas makes it so that reciprocity is a key element in functioning properly. There is a mutual understanding that everyone must contribute to the pot throughout the entire rotation to receive the full payout (Sandsør 2010).

Figure 1

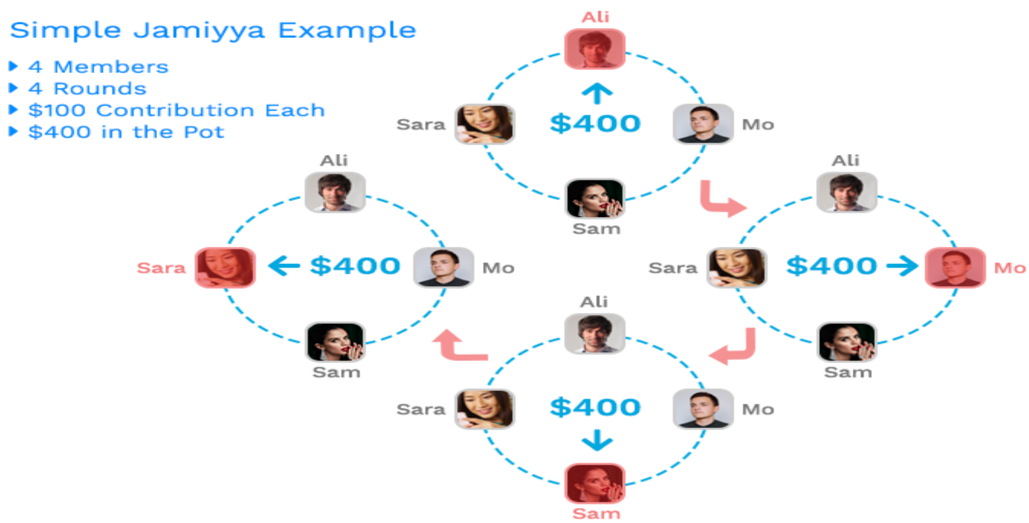


Figure 1. Example of a functioning rotating savings and credit association. *Lateefapp.com*, Apr. 2023, https://lateefapp.com.

A successful RoSCA requires a close-knit community. There is a high level of mutual accountability that each member must hold themselves to. Members need to trust that payouts will arrive on time, and in the correct amount. To lessen the risk posed by new members, organizers create rules for entry. Oftentimes, new members must be relatives or coworkers with existing members. They will also have to "build" their credit, as the last ones to receive their payouts for the first couple of payment cycles (Ashe and Wilson 2019, 6). Members who bring in new members may even be responsible for the payments of the sponsored member for a trial period. Though there are no legal repercussions if a member fails to make their payment, community is valued highly, so the worry of social disapproval and the resulting loss of social standing is often more than enough of a deterrent. Furthermore, access to these groups is based largely on local connections, as well as one's existing reputation in the community (Ashe and Wilson 2019, 6).

2.4.1.2 *Roscas as an Economic Institution*

The way roscas serve as an economic institution is straightforward. Participants are looking for a way to save in a consistent manner, they want to borrow money at a reasonable cost, and they want to be able to use roscas as a form of insurance which covers unexpected costs. When participants reach their turn in the rotation, they are given the opportunity to save additional money that they would have otherwise not had access to. However, once participants have received the pot, they are now indebted to the other members for the remainder of the rotation (Sandsør 2010). While earlier recipients may benefit from the larger payout in relation to pot contributions, later recipients benefit from the element of insurance that waiting provides. At the same time, the flexibility of roscas to change the orders of the rotation when participants experience unforeseen circumstances, also acts as a form of insurance. Of course, changing the order requires cooperation with the member next in line and the member experiencing the unexpected income loss. However, as discussed, such a situation will likely not be a problem, as roscas are built upon a strong foundation of social and cultural ties, which allows the institution to function properly (Sandsør 2010).

In many cases, households rely on the incomes of several family members, and income streams are often unpredictable from month to month. So, in many ways having this financial buffer can be life changing: it gives families a regular, more predictable form of income, and allows for unforeseen expenses such as health care, car repairs, rent, or illness, to be less of a financial burden. When household income within RoSCA groups begins to grow and become more stable, members start to contribute more, and with longer durations of payouts measured. These larger payouts allow members to achieve longer-term goals, such as opening a business, paying for their children's education, or building equity through a down payment on a home (Ashe and Wilson 2019, 5).

2.4.1.3 *Roscas as a Social and Cultural Institution*

On top of the economic aspects of roscas, there are also social and cultural benefits to participation. At the most fundamental level, for many people, it is difficult to save alone. Roscas provide a savings structure, forcing individuals to contribute regularly even when they feel like procrastinating. Roscas can also create tight social and cultural circles, where meetings can act as a financial gathering, a social event, and/or an opportunity to celebrate ethnic festivals (Ashe and Wilson 2019, 6). Members can eat, drink, network, and discuss financial goals. They may provide assistance and advice to other peers who are starting or purchasing a business or go into business together with other members. It provides a sense of community and expands the participants' network of connections. Oftentimes, roscas will collect additional funds on top of the pot contributions made each meeting. This acts as an emergency fund which can be distributed to any member in need. There is a collective understanding among participants that each individual is willing to offer this social aid.

3. The Institutional Approach to Ethnic Business Development

3.1 *Culturalism vs. Contextualism vs. Orthodox Economics*

Before going deeper into the institutional approach with regard to ethnic business development, it is important to review the contributions of existing literature which pulls from various approaches of analysis. Later in this chapter, I will then introduce the institutional approach, the method of analysis I will be employing in hopes of providing a comprehensive overview of Jewish, Japanese, and Korean capital accumulation practices upon immigration to the United States.

3.1.1 The Orthodox Explanation (Economic Efficiency)

On the topic of racial and ethnic makeup in the labor market, the orthodox economics explanation is based on the concept that in an efficient market, in the long run, it is impossible for racial discrimination to remain, because of its negative effects on profits. Discrimination is thus a short-term phenomenon, "arising from the tradeoff between profit and the utility derived from employers exercising the taste for discrimination" (Naylor 1994, 178). Others have used statistical discrimination models as an explanation, where race is used as a screening device: Pay gaps between White and Black represent the risk averse tendencies of White employers favoring White employees who have a less dispersed distribution of abilities, resulting in lower demand for Blacks and lower wages. This phenomenon carries over to ethnic small-business, where suppliers of start-up capital will have similar risk-averse tendencies when considering lending to different ethnic groups (Ibrahim and Galt 2003, 1110). However, there is no doubt that long-term market discrimination persists to this day. Many ethnic minorities will have legitimate structural barriers to entry in the primary labor market, and discrimination plays a big role.

Human capital determinants such as schooling, education, and other traits that determine productivity, have also been cited in orthodox economics when addressing the ethnic success and failure question. However, time and time again, it has been proven that human capital determinants alone do not explain the differences in economic success between ethnic groups (Ibrahim and Galt 2003, 1110). It is a historical approach that fails to acknowledge the varying class backgrounds and socio-economic environments that exist among the larger ethnic group.

3.1.2 The Cultural Approach

When observing the differing tendencies of various ethnic groups in business practices, culture is often used as an explanation for a group's success or failure. With this understanding, there are certain value systems, religions, and methods of social organization which foster more entrepreneurial spirit (Ibrahim and Galt 2003, 1108). The economic success of Asians are often attributed to positive orientations towards hard work and education, while the lack of success for groups like Mexican-Americans may be explained by a culture that discourages financial planning and delayed gratification. The Jewish success in businesses has often been linked to Jewish religious teachings, similar to the connection of Irish political activity in America and previous political experience in Ireland (Tenenbaum 1989, 212). In essence, cultural analysis correlates ethnic success and failure to ethnic values, where groups that arrive with values conducive to success have an easier time economically progressing than the groups who do not value the capitalist mentality.

Culturalists also view communities that experience success as a result of the social capital (see 2.3) generated by social institutions, networks, and cultural norms, which can come in the form of employees, local customers, and sources of financing. These close-knit social networks facilitate the hiring of workers, securing of venture capital, and the exchange of information which is all built on the foundation of mutual trust within members of the community. Many of these ethnic businesses are found in ethnic enclaves (see 2.2.2.1), where the goods transacted are primarily consumed by co-ethnics, and also in middleman minority businesses (see 2.2.2.2), catering to niche markets, often in undesirable locations that require low start-up costs (Portes and Manning 1986).

3.1.3 The Contextual Approach

In contrast to the cultural interpretation which places heavy emphasis on the concept of ethnic group behavior being based on cultural traits brought from their country of origin, the contextual approach explains ethnic group behavior as a result of immigrants' responses to their new societies (Tenenbaum 1989, 211). This takes into account the existing economic and political structures upon immigrant arrival, and the opportunities and/or limitations it provides. The idea of ethnicity has much less to do with one's cultural background from their country of origin, than the ethnicity that emerges given the structural conditions which exist at any given point in time (Yancey, Ericksen, and Juliani 1976, 392). These structural conditions which influence ethnic and community behavior can be found in the relationship between the ethnic community and the larger society, where there are identifiable constraints of occupation, residence, and institutional affiliation. To understand the occupational tendencies of immigrants, it is important to consider not just the different educational and occupational skills of immigrants, but also the specific working opportunities which were available in their circumstance. Similarity in occupation brings about similarities in lifestyle, class interests, work relationships, and residential areas, which all facilitate the development of ethnic communities and group consciousness. As Yancey, Ericksen, and Juliani hypothesize, “It is basically a manifestation of the way populations are organized in terms of interaction patterns, institutions, personal values, attitudes, lifestyles and presumed consciousness of kind” (Yancey, Ericksen, and Juliani 1976, 400). Therefore, it would be incorrect to identify common heritage as the key feature of ethnicity. The typical behaviors and characteristics that are often linked to historical ethnic tendencies considered to be constant and inherited from the past, are largely influenced by the circumstances in which ethnic groups are situated, and are the result of an ongoing process that continues to progress.

3.2 The Institutional Approach

The three aforementioned approaches were somewhat accurate in their identification of cultural, historical, and economic actors that influence behavior within ethnic groups. However, they fall short of explaining the full picture, each putting forward only partial explanations based on their one focus of study. The traditional institutional school offers a more comprehensive, integrated study, as an evolutionary, path-dependent approach which understands that the study of any organization can only be understood within the context of its particular socioeconomic system. It seeks to assemble the cultural, contextual, and economic factors together, to tell the entire story. Instead of the pre-established, static conditions which culturalists and orthodox economists tend to emphasize, the institutional approach opts for a more dynamic, ever-changing understanding of economic and socio-cultural influences (Ibrahim and Galt 2003, 1115). The traditions, organizations, and other formal and informal institutions which shape the behavior of individuals are as Ibrahim and Galt explains, “in a permanent process of variation that changes institutions themselves, and therefore, the conditions under which individuals act”.

An ethnic group's need to survive, as well as the structure of opportunity provided upon arrival is just as important to consider as their existing culture brought to America.

So how will the institutional approach bring together the cultural, contextual, and economic analysis? There is certainly value to be found in each of these perspectives. For example, it would be wrong to assume that cultural values or human capital determinants, alone, explain the economic differences between ethnic groups. However, what the following chapters will show is that it is still important to consider the prior levels of educational and occupational attainment of immigrants as well as the cultural histories of ethnic loan institutions first developed in the country of origin. Discrimination will also prove to be an important factor, as well as different ethnic group's reasons for immigrating in the first place. Economic opportunity at the time of arrival is also important to consider, with the understanding that opportunities for occupational advancement vary based on the state of the greater economy. Ultimately, it must be kept in mind that there is no one explanation for an immigrant group's overall success. In this essay, I will utilize these cultural, contextual, and economic frameworks to investigate the development of two particular ethnic institutions: (1) the loan society and (2) the rotating credit association.

4. Historical

4.1 Jewish Immigration 1881-1924

The first Jewish community was established in 1654 in the Dutch colony of New Amsterdam, located where New York City is today. They were Sephardic Jews fleeing the Portuguese Inquisition that had taken over the Dutch colony in Brazil (Chiswick 2009, 6). Later in the American colonial period, small numbers of Sephardic and German Jews began to inhabit east coast seaport cities. Jewish immigrants were often shopkeepers, merchants, and shippers in these seaport cities. There were very few that were farmers or laborers, as many Jewish immigrants at the time possessed literacy and numeracy, which allowed them to have higher paying occupations (Chiswick 2009, 7).

The second wave of Jewish immigration (1840-1870) closely preceded the mass migration period of 1881-1924 and was composed mainly of German-speaking Jews from Central Europe. The immigration was prompted by political and economic tensions related to the restructuring of economies and industrial recessions in Central Europe (Chiswick 2009, 7). Just as they had done in Europe, the German Jews mostly operated in retail trade, and many became peddlers or opened small retail establishments upon arrival to the United States (Chiswick 2009, 8). In fact, some of the most well-known department stores, such as Bloomingdales, Saks, and Nieman-Marcus, were founded by German Jewish merchants.

The third wave was a mass migration of Jews who immigrated from Eastern Europe and the Russian Empire from 1881 to 1924, after the easing of US immigration restrictions from these regions. Increasingly discriminatory policies as well as a growing population forced geographical and occupational changes for Eastern European Jewish communities. As jobs shifted from trade and personal services toward crafts and industrial factory employment, Jews made the decision to migrate from rural to urban areas, from depressed to industrialized areas, or to migrate abroad, the most popular landing spot being the United States. They make up a significant portion of the American Jewish population today. Table 1 maps the estimated American Jewish population from 1818, at 3,000 people to 1910, where over two million Jews were estimated to be residing in the United States. Within the larger mass migration of European peoples in this period, Jewish immigrants represented just over 2 million of the 23 million that had moved to the United States (Gartner 1986, 54). Of the roughly 2 million Jews living in the United States by 1914, 1.4 million resided in New York City. Of those 1.4 million Jews, 450,000 resided in the two square miles that make up Manhattan's Lower East Side (Gartner 1986, 56). Unlike the earlier population of Colonial Jews who tended to stay in eastern seaports, and the German Jewish immigrants that dispersed themselves in all sorts of towns and cities, the Eastern European and Russian Empire Jews were concentrated in major industrial cities (Chiswick 2009, 9).

Table 1:

The Jewish population was estimated—

In 1818 by Mordecai M. Noah at	3,000
In 1824 by Solomon Etting at	6,000
In 1826 by Isaac C. Harby at	6,000
In 1840 by the American Almanac at	15,000
In 1848 by M. A. Berk at	50,000
In 1880 by Wm. B. Hackenburg at	230,257
In 1888 by Isaac Markens at	400,000
In 1897 by David Sulzberger at	937,800
In 1905 by "The Jewish Encyclopedia" at	1,508,435
In 1907 by "The American Jewish Year Book" at	1,777,185
In 1910 by "The American Jewish Year Book" at	2,044,762

Table 1. US Census and American Jewish Yearbook estimate of the number of Jews living in the United States 1818-1910. “JEWISH STATISTICS.” 1911. *The American Jewish Yearbook* 12:277-280. https://www.jstor.org/stable/23600640.

Like the two waves of Jewish immigrants that came before, self-employment remained the most common occupation for Eastern European and Russian Empire Jewish immigrants. They went into light manufacturing and retail trade as the main industrial sectors (Chiswick 2009, 4). Prior to their arrival in the United States, over 60% of Jewish immigrants who arrived from 1899-1914 worked in manufacturing jobs, a characteristic of the Jewish occupational structure in Eastern Europe, which is reflective of the disproportionate concentration of American Jewish immigrants in the clothing industry (Kahan 1978, 237). More than half of the Jewish immigrant workers in textiles and clothing in the United States had previous working experience in the field. During this period, most of the Jewish immigrants in clothing industry jobs were working for Jewish entrepreneurs. The entrepreneurs benefited from the savings of not having to give on-the-job training, and the immigrants benefited from a stable income and the co-ethnic community that came with such employment. New Jewish immigrants with a lack of English proficiency were able to secure relatively solid employment and begin saving and learning the necessary skills for their own self-employment endeavors.

It is also interesting to mention the Industrial Removal Office (IRO), a program lasting from 1900 until the 1920’s, that was meant to relocate primarily young, Jewish immigrants experiencing economic difficulties and poor living conditions. As Jewish immigration continued to concentrate in particular neighborhoods, Jewish individuals and households began to look to the greater United States as potential relocation opportunities. Overcrowding, crime, and poor health conditions became a large issue in areas such as the Lower East Side, which prompted various Jewish service organizations such as B'nai B'rith, United Hebrew Charities, and the Baron De Hirsch fund, to create the Industrial Removal Office to address some of these issues (Abramitzky, Boustan, and Connor 2020, 7). Over the course of the program, over 39,000 households were relocated, 79% being men, who mostly moved alone, at an average age of 28. IRO participants were dispersed throughout more than 1,000 different locations in the United States, from small communities like Gary, Indiana and Cedar Rapids, Iowa, to larger cities like Cleveland, St. Louis, and Chicago. Prior to relocation, IRO participants were earning 18% less than comparison households. However, in just a decade after removal, IRO participants gained 23% more in occupation-based earnings than comparison households (Abramitzky, Boustan, and Connor 2020, 18).

Discrimination also played a role in the life of American Jews in the Gilded Age and Progressive Era, as they were perceived as "bizarre and unkempt", just like the influx of other immigrants at the time (Higham 1957, 14). Jews were limited and discriminated against in housing, employment, access to private higher education, and places of leisure and socializing. There was residential segregation of Eastern European Jews in concentrated ghetto areas, as well as discrimination in summer resorts, clubs, and private schools. By the early twenties, strong nationalism stemming from the First World War began to criticize Jews for maintaining a seclusive solidarity, instead of becoming "America First". The strong ambition and success of Jews in climbing the economic ladder pushed the wrong buttons for many native Americans in middle class society, who feared this inundation (Higham 1957, 19).

4.2 Japanese Immigration 1890-1908

The Meiji Restoration in 1868 marked a period of rapid urbanization and industrialization in Japan. However, this also brought about high levels of social disruption and agricultural decline, as farmers were forced to leave their land and workers were left jobless by foreign competition (Modell 1971, 165). As a result, many Japanese saw the booming U.S. economy as the place to be, and thus immigration began in the West Coast. Figure 2 paints a picture of total Japanese immigration in this period. Early immigrants came illegally as contract laborers, however by the 1880s, emigration legislations began to ease and gave way to 300,000 Japanese men and women up until the "Gentlemen's Agreement" of 1908 (Modell 1971, 165). Amidst growing tensions between Japanese immigrants and Americans, this informal agreement between the Japanese and United States governments denied emigration passports to Japanese laborers, while still allowing wives, children, and parents of current immigrants to enter the United States. In exchange, President Theodore Roosevelt forced San Francisco schools to repeal its Japanese American school segregation order (165). Table 3 shows the differences in Japanese arriving before and after the Gentlemen's Agreement, where the percentage of relatives in America upon arrival, the percentage of those who intended upon arrival to stay in America permanently, and the percentage of students, effectively doubled, post-agreement. One statistic which did not change, was the three quarters of the migrant group whose fathers worked as either farm proprietors or laborers in Japan. Such a concentration likely influenced the Japanese entry into farm labor and ownership, as 40% of all Japanese in California were working as farm laborers by 1911, though the chronic labor shortages in the field likely played a role as well (Jiobu 1988, 357). By 1910 the population of Japanese in Los Angeles began to expand rapidly. By 1920, 65% of all Japanese in the United States resided in California, 28% of which resided in L.A. Just ten years later, the rates jumped to 70% and 35%, respectively (Nishi 1958, 39). Japanese immigration was halted in 1924 by the Johnson-Reed Act due to rising anti-Japanese sentiment, going directly against the Gentleman's Agreement which upset many Japanese.

Figure 2: Immigration from Japan, 1860-2008

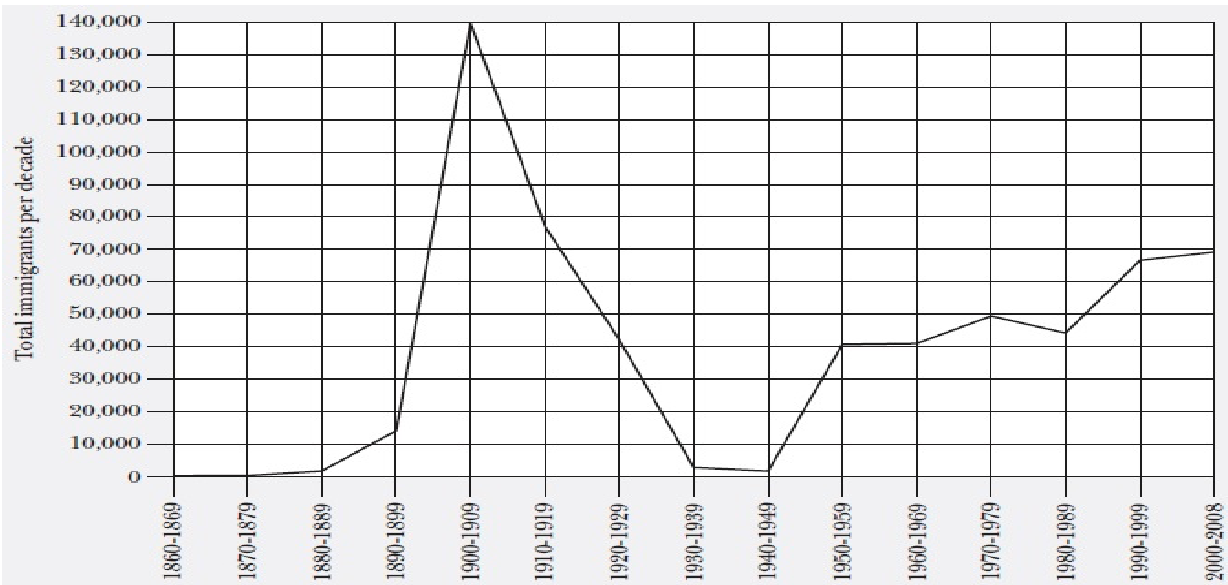


Figure 2. *Yearbook of Immigration Statistics 2008*. 2008. Washington D.C.: Department of Homeland Security. https://www.dhs.gov/immigration-statistics/yearbook/2008.

Table 3: Characteristics of Japanese, by arrival before or after Gentlemen's Agreement.

	Arrived before Agreement (to 1907)	Arrived after Agreement (1909 or later)
Median age on arrival	19.0	17.5
Socioeconomic level of parents in Japan		
Low	6%	11%
Medium	53	57
High	41	32
Father's occupation in Japan		
Farm proprietor	49%	45%
Farm laborer	25	27
Nonagricultural	26	28
Student in Japan		
Yes	29%	60%
No	71	40
Relatives in U.S. at arrival		
Yes	41%	80%
No	59	20
Parents in U.S. at arrival		
Yes	5%	58%
No	95	42
Intended upon arrival to stay in U.S. permanently		
Yes	15%	36%
No	85	64
Number of cases:	336	348

Table 3. John Modell, Tradition and Opportunity: The Japanese Immigrant in America (Pacific Historical Review, 1971), 166, Table I.

Visible in Table 2, many of the Japanese immigrants who originally came as a cheap form of agricultural labor, soon shifted from this wage labor to independent ownership and small-scale farming. This reduced the supply of laborers and increased competition for domestic growers in the fresh-produce market. As a result, more state legislature was passed closing other "legal loopholes" to Japanese farming, such as the "Alien Land Law" which restricted land ownership by foreigners (Yagasaki 1987, 184). In turn, Japanese-operated farms decreased from 361,276 acres in 1920, to 191,427 acres in 1930 (Nishi 1958, 39). Among all *issei*, self-employed farmers experienced the most discrimination by the host society. Aside from these discriminatory land laws, they also lost much of their farmland during the forced evacuation and internment during

World War II. Self-employed farming *issei* also reported the highest incidence of white hostility, likely because farming put them in direct competition with majority interest groups, a prime target for white racism (Woodrum, Rhodes, and Feagin 1980, 1249).

Table 2: Japanese household occupational distributions for first jobs (pre and post WWII internment eras).

Occupational Category	First Jobs	Main Job 1932-41	Main Job 1946-52
Professional and technical	1.6	3.4	2.5
Proprietors, managers, officials	3.5	30.2	13.6
Farm owners, managers, tenants	3.5	36.8	19.5
Clerical and sales	5.1	3.5	2.1
Crafts	0.6	3.3	3.7
Operatives	6.7	2.4	7.8
Private household, service	20.8	6.5	19.8
Farm labor	37.4	5.0	18.8
Nonfarm labor	20.8	8.9	12.2
	100.0	100.0	100.0
	(1,031)	(1,018)	(939)

Table 2. Eric Woodrum, Colbert Rhodes, Joe R. Feagin, Japanese American Economic Behavior: Its Types, Determinants, and Consequences (Social Forces, 1980), 1238, Table I.

As the Japanese population in America continued to grow in the early 20th century, the rise of Japanese children (under 17) began to grow exponentially, from 33% to 86% by 1908 (Modell 1971, 168). 84% of those arriving as minors after the Gentlemen's Agreement were helped by relatives. This presence of family contributed greatly to the growing ethnic economy, as new arrivals were immediately greeted by an ethnic community independent of the surrounding society. Of the new arrivals who had either parents or siblings present, they used help from family to find their first job 65% of the time (Modell 1971, 169). The social cohesion of the Japanese community very much so helped the first-generation escape the status of wage labor in agriculture, as they looked to group and family resources to assist in economic development.

It is interesting to note that immigrants who identified with traditional Japanese religions like Buddhism and Shinto became self-employed farmers 37% of the time, compared to only 19.3% of Christians (Woodrum, Rhodes, and Feagin 1980, 1240). There was also an overrepresentation of *issei* Christians that became nonfarm proprietors or entered managerial and official occupations. This was likely the case because the traditional *issei* preferred to maintain their religious affiliations in the "relative isolation" allowed by agricultural professions, while some hypothesize that through Christianity, Christian *issei* had a preliminary introduction to American culture which allowed for a more seamless entry into economic relations with the white community (Woodrum, Rhodes, and Feagin 1980, 1240).

Following these land restrictions and other discriminatory practices, Japanese entry into urban enterprise accelerated. By 1909, Japanese entrepreneurs owned almost 3,000 small shops in several Western cities. 40% of Japanese men in Los Angeles were self-employed and operated businesses such as dry-cleaning, fisheries, and produce stands (selling Japanese farm production) (Portes and Manning 1986, 54). By 1920, 28% of all Japanese Americans resided in L.A. county, and by 1930, the number jumped again to 36%. 47% of hotels and 25% of grocery stores in Seattle were Japanese owned by 1919 (Light 1972, 10). In spite of this, the prominence of Japanese in produce farming and wholesaling remained strong, and Japanese Americans came to dominate intensive labor agriculture in California (Jiobu 1988, 357). For example, in the Sacramento area, Japanese farmers grew 80% of tomatoes supplied to canneries, 78% of spinach, and 61% of asparagus. Prior to World War II, Japanese farmers were producing over 90% of snap beans, strawberries, and celery, and 50% of artichokes, cauliflower, cucumbers, and tomatoes.

This accounted for 30% to 40% of all truck crops, within a Japanese population that never topped 2.1% through 1940. Japanese farm ownership could persist because the land laws did not apply to *nisei*, the American born second generation Japanese. Through loopholes, there were instances of *nisei* owning the farms of relatives and close friends who could not otherwise own land. Japanese wholesalers purchased crops grown by Japanese farmers, to be sold by Japanese retailers, which built a strong vertical integration among co-ethnics, and served to benefit both parties. Farmers could trust that there would always be a wholesale outlet available for their highly perishable crops, and wholesalers could trust that the farmers would deliver quality product on time and in full, in the absence of any binding legal contracts. Wholesalers and retailers often had to bargain with each other when certain crops were in oversupply, in shortage, or of bad quality. All parties benefited from the additional trust that came with ethnic ties, and the common subculture of Japanese customs, traditions, and practices. On the flip side, those with reputations as an untrustworthy business partner could be quickly blacklisted and shamed by the community. Alongside the rise of farming, contract gardening became another large business for Japanese Americans in rich white neighborhoods. These gardeners purchased from Japanese greenhouse and supply stores, used Japanese trash haulers to collect garden trash, and parked at Japanese-owned gas stations in convenient locations where they all met up at the end of the day to socialize. The Japanese in non farming pursuits also benefited from their co-ethnic's prominence in agriculture, as supply and equipment stores, feed stores, restaurants, hotels, and financial institutions owned by Japanese all relied on agriculture for part of their existence. It is interesting to note that even while *nisei* (second generation) had levels of educational attainment equal to that of whites, it did not help them at all in finding employment in the white economy. Likely a result of discrimination, *Nisei* were unlikely to be hired in many white collar professions, and instead remained within Japanese American communities working blue collar jobs (Jiobu 1988, 363). Ultimately, the Japanese pursuit of self-employment in commerce was not solely a cultural inclination towards entrepreneurship but was also a practical response to a discriminatory opportunity structure that provided limited options for non-menial wage or salary labor.

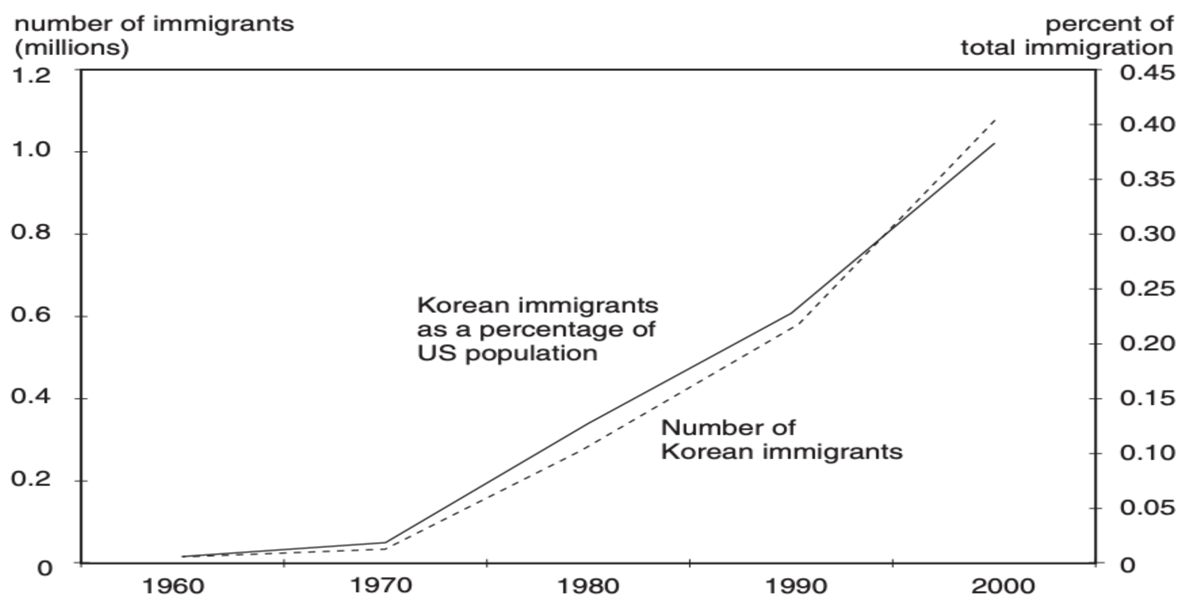
In the spring of 1942, emergency orders approved by the president called for the removal of all persons of Japanese ancestry on the West Coast. In the span of 4.5 months, the forced resettlement was completed, as other minority groups herded to take over the vacant Japanese farms, homes and businesses. Relocation centers were in undeveloped drylands and swampland regions, without any economic or geographical significance (Nishi 1958, 41). There were zero reported cases of anti-American acts by any Japanese person in any of the internment camps throughout its entire existence. Evacuees were given the option of returning to the West Coast or resettling elsewhere, and through hard work and resilience, 90% of the displaced were able to secure permanent housing within one year of release. Unfortunately, only 25% were able to repossess their own homes (Nishi 1958, 43).

4.3 Korean Immigration (Post-1965)

Prior to 1965, there was a relatively small amount of Korean migration to the United States. First during the turn of the 20th century, when the first treaty on immigration between the United States and Korea was signed in 1882, Korean laborers were brought to Hawaii to break strikes by Japanese plantation workers. In the following years more than 7,000 Koreans migrated to Hawaii, though many left plantation work shortly after their arrival (Noland 2003, 62). The second wave of immigration took place in the years following the Korean War, where students came to the United States for graduate education. Parallel to this movement was a period where American couples began adopting Korean babies. Roughly 100,000 adoptees became Americans between 1955 and 1998 (Noland 2003, 63).

The third and most concentrated wave of Korean immigration was a result of the 1965 Hart-Celler Act, which opened the door for immigration from non-European countries. Figure 3 shows the numerical rise in Korean immigrants, as well as by percentage of the U.S. population.

Figure 3: Korean immigrants living in the United States, 1960-2000



Source: Marcus Noland, The Impact of Korean Immigration in the US Economy (The Korean Diaspora in the World Economy, 2003) 65, Figure 4.1.

Korean immigrants from this period make up most of the Korean American community today. High unemployment rates, political insecurity, and military dictatorship were all contributing factors to why so many Koreans immigrated to the United States during this period.

Unlike prior Korean migration to the United States, many were college-educated and brought their families with them (Noland 2003, 63). Some Koreans arrived as highly trained professionals and went directly into fields such as the expanding US healthcare network. However, difficulties with the English language as well as restricted access to American corporate careers made it difficult for many qualified Koreans to find appropriate employment, so many shifted to small business ownership in large cities (Kim and Naughton 1993, 183). Some went into the import/export industry with Korean manufacturers, while others worked in storefront businesses such as local groceries, liquor stores, and dry cleaners. These businesses required limited interaction, and thus minimized the effects of language barriers. Ultimately, earnings from small business ownership far exceeded that of non-professional immigrants in the secondary labor market. Koreans soon became one of the highest achieving immigrant groups in terms of economic success, experiencing a jump from $5.5 million in gross receipts from Korean owned businesses in 1977, to $2.6 billion in 1982, just five years later. By the end of the 1980's, Korean Americans had achieved the highest business-ownership rate among all racial and ethnic groups in the United States (Kim and Naughton 1993, 184). By 1990, Korean American self-employment reached 17%, compared to 9.7% of the general population (US Bureau of the Census 1993).

It is important to note, however, that part of the economic achievement experienced by post-1965 Korean immigrants was a result of the economic opportunities in the United States during the 1970s and 1980s, a time of general prosperity for the greater society. There were evolving demographic and consumption patterns, which allowed opportunities for economic achievement. For example, Koreans were able to capitalize on the growing consumer demand for cosmetic and apparel items during the 1970s, which opened a range of commercial roles as wholesale dealers importing goods from Korea, to the retailers and peddlers selling to American consumers (Kim and Naughton 1993, 186). This interdependence between Korean producers, suppliers, and retailers made for a very strong vertical integration of Koreans in various businesses. For example, in a survey conducted among Korean business owners in Chicago and Los Angeles, 63% of respondents in Chicago and 71% from L.A. had one or more Korean suppliers (Yoon 1997, 147). This bond of ethnicity with Korean suppliers was helpful for those who felt uncomfortable working with American suppliers because of language and cultural barriers. Oftentimes retailers received benefits from Korean suppliers such as extended credit terms, lower prices, and information about new arrivals of popular items. Another example of opportune timing can be observed in the Korean entry into urban retail store businesses around the same time, such as grocery stores and dry cleaners. Much of this success can be attributed to the out-migration of white populations and the reluctance of white businesses to start businesses in areas of growing minority populations, which opened the space to Korean small-business owners. Both instances represent the Korean American in middle minority business (Kim and Naughton 1993, 187).

While Korean business owners achieved relatively high income levels at higher rates than the greater United States (43% at an annual income of over $50,000, versus only 16.8% of U.S. households), they also faced a number of drawbacks (Min 1990, 439). Concentration in these labor intensive small businesses requires extremely long working hours, as surveys of Los Angeles Korean entrepreneurs revealed an average of 60 hour work week, with 72% working six or seven days a week. This makes Korean business owners susceptible to chronic fatigue, and depression. Among the four main Asian groups, Koreans consistently scored highest on the depression scale. The prominence of Korean businesses in low-income, high-crime areas also opens Korean entrepreneurs to risk of robberies, shoplifting and vandalism. Koreans in business areas such as grocery, liquor, fish retail, and dry cleaning, all rely on white suppliers who have been observed to discriminate in terms of quality of merchandise, price, and speed of delivery (Min 1990, 443).

As the community continued to grow, a support network of businesses began to emerge and cater to the population. Aside from the general commitment to education and professional development which many first-generation Korean immigrants brought with them, equally as necessary was the access to proper financing and training to open a business. Rotating credit associations were a big part of the economic success experienced by the first generation of Korean Americans who faced several structural constraints such as racial discrimination, prejudice, and exclusion in established American society. Language and cultural barriers, the lack of a collateral asset and credit history, as well as an unfamiliarity with financial institutions, also contributed to this problem.

4.4 Conclusion

Chapter 4 took a historical approach in its investigation of the immigration trends, structural barriers, occupational tendencies, as well as educational and work histories of the Jewish, Japanese, and Koreans, during their respective periods of immigration. It provides the necessary context to better understand the background of each immigrant group, as well as their subsequent successes. To various degrees, all three of these groups faced political and economic instability in their home countries, motivating them to move to the United States for better opportunities. Jewish, Japanese, and Koreans were all concentrated in their own specific regions of the United States, which shaped the conditions they encountered. Based on their time of arrival, each group chose occupations based on limitations provided by the current economic landscape, their previous work and educational experience, and the confines of the ethnic community. The approach taken explains the emergence of self-employment within each group, and paints the picture for Chapter 5 which will discuss the ethnic financing institutions which allowed these immigrants access to start-up capital, which was crucial to opening and maintaining a small-business.

5. Ethnic Money-lending Institutions

5.1 Disclaimer:

The historical and social contexts in which various immigrant groups arrive to a foreign land, has a strong influence on their occupational choices and viability and chances for economic growth (Portes and Martinez 2019, 4). Therefore, while it is important to examine the successes of Japanese, Jewish, and Korean immigrants in achieving rapid economic advancement, it is equally important to acknowledge that this claim may not be generalizable to all immigrant groups. For example, there are different types of ethnic firms, as well as different modes of incorporation (see literature review) which immigrants find themselves in. This is why it is important to approach the analysis of ethnically unique behaviors with a cultural framework, which looks at the cultural traits brought from the country of origin, as well as a contextual framework, investigating immigrants' responses to their new society (Tenenbaum 1989, 211). Approaching the analysis with an exclusively cultural interpretation has led to harmful beliefs such as the "culture of poverty" trope, stating that certain ethnic groups achieve higher levels of economic success than others, because of "superior group traits not possessed by the others" (Darity Jr. et al. 37). They view the persistent poverty of certain ethnic groups as an intergenerational cycle of self-sabotage that is perpetuated by behaviors like an indifference toward educational attainment, saving, asset building, or keeping a job. On the other hand, an exclusively contextual interpretation ignores the deep cultural histories of immigrant groups which may provide valuable insights into the decisions made in America. There is a balance between values and structure that must be found to fully understand American ethnicity, which includes an acknowledgement that the structure of opportunity in America upon arrival is just as important of a factor as a group's cultural heritage.

5.2 *Intro*

Japanese immigrants arrived in the United States during the late 19th and early 20th centuries, primarily as laborers in the agriculture and fishing industries. In contrast, Jewish immigrants arrived earlier, in the late 19th century, and established successful businesses in industries such as textiles and finance. Korean immigrants arrived in waves, with the first wave arriving after the Korean War in the 1950s, and the second wave arriving in the 1980s and 1990s, primarily as highly skilled professionals. Chapter 4 provided the necessary historical context to introduce Chapter 5, which will be exploring the exceptional economic success experienced among many Jewish, Japanese, and Korean immigrants. Despite coming from entirely different cultural and social backgrounds, these three groups were all able to overcome their own set of challenges and "make it" in America.

More specifically, this chapter will investigate the Hebrew free loan society (*gemach)*, and the rotating credit association (*tanomoshi* & *kye)*, the two different types of ethnic money-lending institutions which allowed these three groups access to start-up capital. There will be discussion of both the economic and social benefits of these institutions, its cultural history, and the economic conditions which prompted a reemergence in the United States.

5.3 *Gemach: The Hebrew Free Loan Society*

As discussed earlier in the paper, financing was and still is a crucial component of business development for immigrants seeking to pursue their business ventures. However, small business owners in the early 20th century could not use banks as a source of venture capital, as the vast majority of banks did not operate personal loan departments. They instead had to rely on friends, family, savings, and community programs to fund their ventures. In the case of the American Jewish, Hebrew Free Loan Societies, or *gemach* in Hebrew, were brought from Europe to America beginning in the 1880s. Unlike variations of the rotating credit association which have been practiced by numerous ethnic groups throughout time, the model of the free loan society was ethnically unique to the Jewish. Hebrew free loan societies were organizations originally based upon biblical and Talmudic concepts of providing the Jewish poor with interest-free loans. Hundreds of free loan associations were created by Eastern European Jews in Jewish communities across the United States, from larger cities to small towns. A primary goal of these organizations was to provide start-up venture capital for entrepreneurial purposes. As stated by the president of the New York Hebrew Free Loan Society,

> We loan money for the purpose of some sort of business only, which may be expected to assist the borrower in his self-support; but we do not loan money to be directly eaten up. . . . Were it not for our rules never to disclose the names of borrowers, we could point out people who, on money borrowed from us, started business for themselves and are self supporting today; some even wealthy (Tenenbaum 1986, 69).

While there were other services for social and emergency support, Hebrew free loan societies had a primary purpose in assisting Jewish individuals in business.

The term *gemach,* in Hebrew, is a contraction of the Hebrew term *gemilus chessed*, meaning "acts of loving kindness". Hebrew Free Loan Societies were considered to be a "public money *gemach"*, operated by trustees using contributed funds, as opposed to "private *gemachs*" managed by one or more individuals using their own funds (Shai 2008, 2). There are also other non-money *gemach* which have evolved to include free loans of ritual objects, household items, clothing, equipment, services, and advice.

The money *gemach* is said to fulfill the Biblical imperative, "You shall lend money to my people" (Exodus 22:25), and the Biblical injunction, "You shall not give him your money for interest, nor may you give him your food for increase" (Leviticus 25:37). The concept of charitable loans were also mentioned in the Talmud, expressing how loaning is better than giving charity, as there is no shame in the act of borrowing. The text reads, "He who lends is greater than he who performs charity, and he who puts in capital for partnership is greater than all" (Shabbat 63a). The Sepharic Jewish philosopher Maimonides wrote in the Mishneh Torah, a code of Rabbinic Jewish religious law, stating:

> There are eight degrees in the giving of charity, one superior to the other. A high degree than which there is no higher, is that of one who takes hold Israelite who has become impoverished and gives him a gift or a loan or goes into partnership with him or finds work for order to strengthen his hand so that he be spared the necessity of appealing for help (Hilkhot Matnot Aniyim, X, 7).

Charitable lending has strong historical and cultural significance in Judaism, originating in the Bible, then taught by Talmudic and medieval scholars.

The first mentions of Hebrew free loan societies were found in Jewish communities of Europe, however not much is known about its origin or early history. Some believe that development began in response to *montes pietatis*, European religious banks established in Italy in the mid-fifteenth century, with the purpose of providing low-interest loans to businessmen and the poor practicing the Catholic faith (Tenenbaum 1989, 219). By the early nineteenth century, free loan associations could be found in most Jewish communities across Europe.

Once arriving in America, Eastern European Jews brought their free loan societies to the communities they established throughout the United States. Leaders of the major free loan societies.

Within the American Jewish community, the responsibility of loans and credit needs fell on informal ethnic banking systems, which quickly became an issue when the third influx of Jews immigrated from Russia and Eastern Europe. Unlicensed lenders lent money at exorbitant interest rates, regularly observed at 400% or more, while the vast majority of banks did not issue personal loans at the time (Tenenbaum 1989, 222). Because there was a disproportionate amount of Jews who owned businesses, participated in mercantile trade, and otherwise engaged in business for profit, there was an especially strong need for capital at a reasonable price. This is what led American Jews to adapt the free loan model which had originally been established to provide the poor with charitable loans, to the practice of lending to borrowers in peddling and trade. In 1909, 70% of loans distributed by the Cleveland HFLS went to peddlers and storekeepers. Similarly, two-thirds of people borrowing from the Pittsburgh HFLS had requested funds for business purposes. In a 1910 sample of New York Hebrew Free Loan Society borrowers, 30% were peddlers, stand keepers, merchants, and dealers, and roughly 50% were in manufacturing and mechanical professions.

Earlier on, Hebrew free loan societies were financed primarily through annual membership dues (Tenenbaum 1989, 214). While fees varied according to size, membership was often categorized in different levels, based on the annual fees paid. Fundraising events such as raffles and picnics were also utilized to supplement these payments, and in periods of significantly high demand and low financing, some organizations even borrowed from banks and individuals. There were also upper-class Jewish contributors who made occasional large sum donations. By the 1910's-20's, the primary source of financing shifted from membership dues to annual stipends from Jewish federations, which are umbrella organizations that coordinated fund-raising and distributed funds to local organizations (Tenenbaum 1989, 215).

In order to receive a loan approval, applicants had to provide several names of endorsers who would be responsible for the loan in the instance that the borrower defaulted. The borrower would receive the funds once the endorsers were properly vetted and approved, and would be able to apply for more credit upon final payment of their initial loan. This process allowed many HFLS to maintain an annual default rate of under one percent (Tenenbaum 1989, 215). It is important to note that the vast majority of organizations used religion as a prerequisite for approval. Non-Jews were observed to have created remedial loan societies which charged interest, as they were not able to benefit from the low risk that comes with a co-ethnic institution. By 1927, there were more than 500 loan institutions in communities throughout the United States, distributing millions of dollars in loans each year (Tenenbaum 1986, 68).

The entrance of banks into the small loan market largely inhibited Hebrew Free Loan Societies from operating effectively. Loan demands continued to decrease throughout the 1940s, as this shifting landscape made banks far less stringent with the types of security they required for loans, and with more resources, Jewish businessmen could borrow much larger sums. Ultimately, Hebrew Free Loan Societies were a short lived but necessary service that provided the necessary venture capital for Jewish businesses in a time where banks did not. As put by

Tenenbaum in her study of Jewish Loan Societies in the United States, “Jewish entrepreneurs outgrew this ethnic institution precisely because it had accomplished its goal of facilitating business expansion” (Tenenbaum 1986, 76). A similar phenomenon can be observed in the rotating credit associations of Asian-American origins, where the importance and effectiveness of ethnic loan societies for business development declines, as banks and other alternative sources of venture capital become more widely available, credit histories mature, and subsequent generations are born.

Today, Hebrew Free Loan Societies have pivoted from funding businesspeople to funding students and the elderly. Some associations have created programs to fund Jewish institutions, college students, and homeowners with interest-free loans. Others have focused on providing assistance to the elderly.

5.4 *Tanomoshi: The Japanese Rotating Credit Association*

For immigrants who sought to transition from laborer to business owner, a lack of financial machinery was one of the fundamental problems in establishing an economic base. The methods used to address this financing problem vary from one group to another, as each immigrant group faced their own set of hardships in entering and assimilating into American society. For the first generation of Japanese, often referred to as *issei*, mutual-aid organizations and rotating credit associations called *tanomoshi* (roughly translating to “mutual aid organization") proved to be very effective.

Like many other immigrant groups, sending remittances to family back home was a primary goal for Japanese living in the United States. Most Japanese did not intend on migrating permanently to the United States, hoping to ultimately return to Japan. According to the Foreign

Ministry of Japan, by the end of the 1920's, about ¾ of all money sent back to Japan, by Japanese living internationally, came from Japanese in the United States (Yagasaki 1987). However, as a result, not a lot of the money earned by Japanese in the United States went to the local communities or was invested in further development. It was difficult for Japanese to increase their credit ratings because of this perpetual flow of money withdrawn from American banks and sent back to Japan. Ultimately, this exacerbated the working capital issue.

In the late 19th century, Japanese foreign exchange banks were introduced to address the rise in foreign trade due to the increase in Japanese silk exports to the United States. These institutions were meant to lend out good financial backing to the raw silk industry, but mainly ended up handling deposits and remittances of Japanese immigrants. As foreign exchange banks, these institutions rarely extended loans to Japanese small business owners and farmers, aside from special loan programs, which did not sufficiently cover the number of Japanese seeking loans in agriculture and small scale business. California Japanese were also unable to rely on loans from local Japanese-owned banks which began to pop up during the turn of the 20th century. Originally meant to service the growing need for Japanese financial institutions on the West Coast, it ended up being a short-lived phenomenon, hit hard by the nationwide recession of 1907. These bankruptcies caused permanent damage to depositors and the credit histories of entire Japanese communities (Yagasaki 1987). In the absence of a reliable money lending service, the widely employed practice of rotating credit associations was brought to the United States by Japanese immigrants.

In Japan, *tanomoshi* played a large role in everyday finance in premodern and post-Meiji Restoration. The *tanomoshi* originated from Buddhist traditions, coming to Japan from India, China, and Korea, and was formally established by the Muromachi period (1338-1467) (Dekle and Hamada 2000, 78). In Buddhist teachings, *tanomoshi* means a “trustworthy community”. Robert Dekle and Koichi Hamada put forward a list of elements within the traditional system of the *tanomoshi* contract:

> 1. Initiators or originators of the *tanomoshi* were called “parents”;
> 2. The initiator gathered a few to more than 10 people who constituted the member of the *tanomoshi*;
> 3. Members agreed on the terms of the operation;
> 4. Members regularly attended the meeting of the *tanomoshi* and had to make a contribution of a certain amount of money;
> 5. The money collected was paid out as a “pot” to a person determined by chance drawing or by bidding;
> 6. If a member obtained the money in the pot by chance drawing, he or she could not participate in any additional drawing. However, members who won the pot were required to give contributions at each subsequent meeting;
> 7. After every member won the pot, the *tanomoshi* would dissolve
>
> (Dekle and Hamada 2000, 79).

In the Tokugawa (Edo) period of financial stability starting in 1603, *tanomoshi* were organized by temples and were converted into more gambling adjacent organizations. Any person who won the pot could take the funds and leave, without having to contribute afterward (Dekle and Hamada 2000, 79). The central and local governments held *tanomoshi* style raffles to raise revenues. During the Kyo-ho Era (1716-1736) reforms, the function of *tanomoshi* shifted to social welfare purposes, when poverty of farmers increased greatly. Funds were given to members who had poor harvests, allowing the most in need to draw from the pot first. By the Meiji Restoration (1868), banks, credit unions, and other savings systems were brought from Western countries, however most ordinary people still preferred to use *Tanomoshi.* Farmers and craftsmen created *tanomoshi* to advance their trade, as did villagers for the purpose of social gathering and friendship. Throughout the pre-WWII era, *tanomoshi* were the principal source of financing for small and medium sized firms in the local sectors of the Japanese economy (Dekle and Hamada 1999, 77).

In California, Japanese rotating credit associations, called *tanomoshi* by Japanese in the United States, acted to fill this gap in available credit for Japanese Americans, and was most actively utilized by small businessmen in urban centers. Members of *tanomoshi* were often from the same prefecture in Japan, living in the same area in the United States, and were employed in the same trade. It was especially crucial in the early 20th century when there was a sizable depression in business and bank loans were very difficult to secure (Yagasaki 1987). In a 1980 study using survey data of the roughly 18,000 surviving *issei* who had immigrated to the United States by 1924, about 40% of the sample reported participation in rotating credit associations. Among those participants, close to 81% were exclusively ethnic organizations (Woodrum, Rhodes, and Feagin 1980, 1237). In another study of foreign-born Japanese sampled in California, roughly half of those surveyed reported to have participated in “some form of economic combination involving the pool of money”, and among those half, 90% had taken part in a *tanomoshi* (Light 1972, 28).

Tanomoshi were one of the few ways for small businessmen to secure venture capital for business opportunities. Various estimates suggest that by 1922, there were at least 400 *tanomoshi* in Los Angeles alone that required monthly installments of $35-100, amassing more than $500,000 in this period (Yagasaki 1987, 190). In some counties, *tanomoshi* even began to receive legal backing, which protected participants from malfeasance in this otherwise informal ethnic financial system. For those who could afford to delay the collection of their share, *tanomoshi* functioned as a sort of savings account which allowed them to receive interest from members who bid higher to utilize funds in earlier turns (though interest often came in the form of gifts exchanged during social gatherings). In fact, those with enough wealth often joined multiple *tanomoshi* to reap such rewards (Yagasaki 1987, 195). Even after World War II and the period of

Japanese internment, *tanomoshi* were revived, serving as both a social circle and an economic institution. These informal gatherings served to stabilize the group, through cooperation and friendship of participants with common occupational tendencies and provincial base. For *nisei*, the American-born offspring of *issei*, the impersonal credit unions and loan associations were preferred, with *tanomoshi* being used mainly for its social benefits.

5.4 Kye: The Korean Rotating Credit Association

During the 1970s and 1980s, Korean immigrants were one of the most entrepreneurial groups among the United States' immigrant population. As mentioned in Chapter 4, rotating credit associations were a big part of the economic success experienced by the first generation of Korean-Americans who faced a number of structural constraints such as racial discrimination, prejudice, and exclusion in established American society. In addition, money brought from Korea was extremely limited by the Korean government, as immigrants were only allowed to bring over a maximum of $3,000 until the rule changed in 1984. Language and cultural barriers, the lack of a collateral asset and credit history, as well as an unfamiliarity with financial institutions, also contributed to the need for Korean rotating credit associations, commonly known as *"kyes"* (the word itself meaning "contract" or "bond").

Similar to the Japanese *tanomoshi* which was first practiced in middle-class Japan, the Korean *kye* was first developed in Korea, where some theories date the practice back to eight to ten centuries ago. *Kyes* were found in every Korean village in the form of a mutual aid society, for the purpose of providing resources such as rice, oil lamps, or grains, in the event that a parent in one of the participants' households passes away. After industrialization and urbanization in Korea, money rotating credit associations emerged in Korean cities, which provided access to venture capital, and operated similarly to the *kyes* found in the United States. However, today, friendship *kyes* are now most popular in Korean urban areas, which are primarily meant to maintain emotional bonds with close friends. Some may support members who are facing events that cause a significant financial burden, and some may just collect contributions for future use on travel or vacations (Oh 2007, 626). The practice is based on beliefs found in Korean Confucianism, which places value on reliable interpersonal relationships, upward economic mobility, and authority in organizations. *Kyes* allowed Koreans to rely on each other for financial assistance, as well as a key resource for information, labor, and emotional support.

In the United States, first-generation Korean immigrants were primarily focused on establishing an economic base for their families. By setting up small businesses, they were able to bypass some of the personal and structural barriers of the U.S. labor market, such as language problems, low transferable job credentials, and discrimination (Oh 2007, 627). *Kyes* were utilized as a source of start-up capital, expansion, and/or cash flow for many of these businesses, in a situation where funding through traditional banks and other financial institutions were not readily available. In fact, *kyes* were so widespread in Los Angeles' Korean American communities, that Korean banks created savings plans mimicking the organization of *kyes*, in order to compete with them (Light, Kwuon, and Zhong 1990, 40). In the Light et. al. study of *kyes* in Los Angeles, a participation study was conducted with members of the Korean American Garment Industry Association (KAGIA). It was found that between 11% and 36% of Korean manufacturers used *kye* funds for business capitalization. Respondents who specified the exact percentage of start-up capital they had obtained through *kyes*, had a mean contribution to total equity of 62.1% (40.6% from concluded *kyes* and 21.5% from continuing *kyes*) (Light, Kwuon, and Zhong 1990, 46).

The study also raises the point that *kyes* can function as both a method of saving and obtaining credit. Individuals may choose to invest money into their business that was saved from a completed *kye,* or they may invest an unpaid loan from an ongoing *kye* for start-up equity. There is no debate of the usefulness of Korean *kyes* in entrepreneurship, which allowed far more Korean-Americans to finance their businesses than what would have been possible without them.

It is important to note that none of this would be possible without the social trust that comes with the rotating credit association, and the social capital benefits that come with it. As understood by Light et. al., The Korean immigrant community brought with them a strong level of social trust that allowed them to continue using *kyes* as a powerful financial tool. Participation in *kyes* or similar ethnic businesses fosters stronger social bonds, as individuals rely on each other for support. The success of *kyes* relies on this social solidarity that is not found in traditional “bureaucratized financial institutions” which are believed to disconnect the population from each other. This phenomenon is exemplified well in Professor Joong-Hwan Oh’s study on Korean-Owned Nail Salon Workers’ Rotating Credit Associations in the greater NY-NJ area. In the results of the survey-based study, Oh concludes that *kye* membership in these nail salons led to both economic benefit and social support for some of its participants. He stresses that the mutual trust that comes with *kye* membership has a large effect on perceived social support of participants, and goes so far as to say that the main role of many small-scale *kyes* are to offer emotional support to participating members (Oh 2007, 631). Immigrating to a new country can be a traumatic process that causes significant psychological and emotional changes. Upon arrival there can be a sizable culture shock, which may result in feelings of emotional stress and isolation, especially for immigrant females who often experience more “acculturation stress” than males (Oh 2007, 631). Korean female immigrants in particular, are often forced to fill multiple roles. On top of working long hours to supplement the earnings of their husbands, they must also be caretakers for their children and perform all of the housework after returning home from work. This leaves little time for participation in ethnic churches or organizations, which is why *kyes* can be important for the socialization aspect of life. It allows female workers to create effective relationships, as an outlet to discuss personal problems, ask for help or advice, and to secure emotional confidence (Oh 2007, 632).

For the Korean-Americans, *kyes* act as both an economic function and social support function. In some instances, participants will make economic transactions as a method of maintaining and strengthening existing social relationships with members, and at other times, participants will utilize these embedded social relations/networks as a way to achieve successful economic action.

6. Conclusion

Small business has been the primary driver of economic success for many immigrant and ethnic groups in the United States, including but not limited to the Jewish, Japanese, and Korean Americans. Because immigrant entrepreneurship played such an important role in the social and economic development of ethnic groups, securing access to start-up venture capital was crucial for success. In the United States, ethnic immigrant groups have developed many different types of lending organizations. These ethnic institutions were designed to meet the culturally specific needs of their communities, who immigrated to the United States under various social and economic conditions. They represent an alternative economic institution, which provides a solution to the market imperfections experienced by individuals within the ethnic group. By providing access to capital, these ethnic institutions can allow individuals to start businesses, invest in education, secure housing, or engage in other activities which can improve economic well-being.

I began the analysis portion of my paper with an overview of the immigration histories of the Jewish, Japanese, and Koreans. There was mention of human capital determinants such as educational and employment backgrounds from the country of origin, which may have influenced occupational tendencies in the United States. Eastern European Jews, who immigrated to America with little money or physical assets, brought with them their skill endowment in manufacturing jobs. In regards to Japanese immigration, sons from farm families made up about three quarters of the total migrant population, which is consistent with the prominence of Japanese farm laborers in the early stages of immigration and the significant portion of Japanese farm owners later on. Many Korean immigrants who arrived post-1965 arrived with a college education and/or experience in business, which allowed for a relatively seamless shift to small business ownership. However, all three groups faced the effects of language barriers as well as discrimination from the general population, limiting their areas of economic opportunity. The first jobs of many were in menial, wage labor, and it was not until the shift was made to self-employment and business ownership that real economic mobility was observed.

The paper continues to introduce both Hebrew Loan Societies and rotating credit associations in the case of Japanese and Koreans, as pre-migratory cultural practices that provided the necessary start-up capital for these ethnic entrepreneurs. The accessibility of credit was so major because it was the key to escaping wage labor and entering small business ownership, which allowed for a much more rapid economic advancement than the traditional immigrant path. However, available credit was difficult to come by. For the Jewish and Japanese, at the time of arrival, most financial institutions did not grant personal loans for small businesses. Before the emergence of the Hebrew free loan society, loan sharks lent money at absurd rates. Preceding the *tanomoshi* were Japanese foreign exchange banks and locally owned Japanese banks who rarely extended loans to Japanese small business owners. Most Korean immigrants did not have a credit history to access traditional loans, relying instead on personal savings and loans from kin or friends. These contextual factors created the need for such institutions.

Immigrants were able to combine their small amounts of money in rotating credit associations, to create sums large enough to finance small businesses. On top of the economic benefits of having access to venture capital that is otherwise inaccessible, the small businesses financed by ethnic lending institutions like the rotating credit associations and free loan societies compensate for these limited economic resources through the social benefits generated by such cohesive ethnic networks. These social benefits are often defined as "social capital", which in essence, is an individual's network of connections. In fact, the existence of these ethnic institutions relies solely on social capital, as there are little to no legal constraints on participants. Once in the circle of trust, participants benefit from the social capital of friendships, emotional support, and financial advice, coming from co-ethnics who have gone through similar experiences. Within these ethnic circles, strong vertical integration was established among co-ethnics working in similar or parallel fields. Successful American Jewish entrepreneurs hired new arrivals of Jewish immigrants, and provided them the necessary training for their own ventures into self-employment. Japanese farming wholesalers purchased crops grown by Japanese farmers, to be sold by Japanese retailers. Korean American importers purchased goods from Korean wholesalers to be sold by Korean American retailers and peddlers. All of this would not have been possible without the strong ethnic ties of trust and solidarity.

Also discussed is the significance of the historical cultural values which shaped the formation of these institutions which have been culturally transmitted from home country to the United States. Hebrew free loan societies, or *gemach*, are based on the Biblical and Talmudic principles of providing interest-free loans, and have been observed in Jewish communities in Europe as early as the fifteenth century. *Tanomoshi* originated from Buddhist traditions and was established in Japan in the 14th century. While its purposes and functions have shifted throughout the years, the Buddhist teachings of fostering a trustworthy community remains an important value. Korean *kyes* are representative of values of Korean Confucianism, which highlight the importance of social relationships, economic mobility, and organizational authority. Some theorize that *kyes* are between eight to ten centuries old. These institutions are the models which the American versions are built upon, rooted in cultural tradition.

This paper set out to provide an understanding of the historical, economic, social, and cultural significance of the *gemach, tanomoshi,* and *kye*, by use of the institutional approach. The evolution and subsequent decline of such institutions speaks to the dynamic nature of ethnic culture, which is constantly changing and adaptable to new economic and social conditions. While the historical tradition of such institutions provides a framework for transplantation into a new society, the context in which access to capital is needed is just as important to consider.

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