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### **The History of Pawnshops in Russia: A Documentation**

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# The History of Pawnshops in Russia and Saint Petersburg: A Documentation

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## 0. Introduction

This paper is based on research by Heiko Schrader in cooperation with the ‘Centre of Independent Social Research’, St. Petersburg, on the issue of ‘The Role of Pawnshops in the Life Strategies of Low-Income Households’, financed by Volkswagen Foundation.<sup>1</sup> One aspect of this research is the reconstruction of pawnshop (or in Russian terms: lombard) history.<sup>2</sup> For that reason we studied a number of ancient reports and some recent documents. For the present description we took some information from our field notes. As we have not found any secondary work on this aspect, we think it is useful to make these findings available for the public.

## 1. The Development of the Lombard Market in Russia and Saint Petersburg before the 1917-Revolution

Lombard (or pawnbroking) business in Russia has a two-centuries-old history. It was established in the late XVIII century, became competitive to usurers and was capable to replace many of them.

The government official and manager of a public lombard house, Y. A. Serebryakov (Gorodskie lombardy v Rossii 1907), who promoted the development of municipal lombards, gave a detailed description of lombard business in 1907-Russia, as well as a historical review. This document, which we found in an archive in Saint Petersburg, is

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<sup>1</sup> I would like to thank Hans-Dieter Evers, Bielefeld, bearing responsibility for this project at the University of Bielefeld.

<sup>2</sup> In Russia: *dom lombard* = lombard house, pawnshop. It is related to the historical fact that moneylenders from Lombardia (Italy) went to France to start moneylending. In the report I will use the terms ‘pawnshop’ and ‘lombard house’ synonymously.

worth being summarized here. From the perspective of this author the establishment of public lombard was a social affair for easing the fate of poor strata of the population, both urban and rural. Until 1888 there was only one municipal lombard in Russia, the 'Lombard of the City of Warsaw', which was founded by decree of the Prussian King, dated on July 20, 1796, offering the institution twenty-seven thousand rubles from the state treasury. However, there were also so-called city loan cash departments. In Saint Petersburg for example, such a department was already founded in 1772. Besides, private lombards were established in the two metropolises Saint Petersburg and Moscow and began to operate as joint-stock companies. Later on government loan cash departments started operating there, too. Serebryakov also remarks that 'in some few towns there were private loan cash departments, which were run mostly by Jews' (Gorodskie lombardy v Rossii 1907: 3).

In this report, Serebryakov lively described the hard living conditions of needy urban people. In the province towns properly organized small-loan crediting enterprises were absent, and people were dependent upon private moneylenders. These individuals, as well as private loan cash departments in the larger cities, however, fixed unreasonably high loan interest rates and at the same time did not provide any guarantee to the borrower concerning safety of his/her pledge. Furthermore, they wrongly assessed its value for their own benefits (*ibid.*).

In 1885 the Vologda State Duma (Council) decided to establish a city lombard. This lombard provided loans to the townsmen, proceeding from the minimum sum of two rubles. In the course of the discussion on this issue the argument came up that the main reason for opening this lombard was the situation of the low-income class, which was recognized as extremely desperate in case of unemployment, illness or any temporary misfortune and so far dependant on private usurers. Lacking any valuable things, poor people were compelled to pledge goods of prime necessity - clothes, household utensils, etc. While they received less than half of the market price of the pledged things, they sometimes had to pay an interest up to 60% annually. As a result of these hard loan conditions, they were incapable to redeem their property, which was lost to the usurer (*ibid.*: 4).

Thus, Serebryakov, taking a social - romantic view of city lombards, was sure that these enterprises smoothened the living conditions of poor people. In the context of prosperous usury of moneylenders or private pawnshops, the network of city lombards to be established seemed to be more human, and Serebryakov made an important

difference between municipal lombards and private (joint-stock) lombards that, 'municipal lombards are not commercial enterprises, so that an increase of profitability from their transactions would cause cutting down loan interests' (Gorodskie lombardy v Rossii 1907: 29). Sure, this can be the result if the government's main concern is social, but practice shows us that also government lombards may take profits for the city administration or the government and, furthermore, have not necessarily better loan conditions than private ones.<sup>3</sup>

We want to have a closer look at the Vologda city lombard, which was the initial step for establishing a network of city lombards all over Russia. It is necessary to consider the statutes of Vologda city lombard, because they were later taken for all city lombards in Russia, with some minor differences in Moscow and Saint Petersburg only (Gorodskie lombardy v Rossii 1907: 5).<sup>4</sup> These statutes read as follows: The lombard was set up by the municipal bodies, and the city was authorized to open lombard branches in different parts of the city and to increase the starting capital by donations, by assignments from municipal treasury, as well as by the profits gained from lombard transactions. The lombard offered minimum loans equal to two rubles for a period from 1- 12 months. On expiration of the term a borrower could use another 2 preferential months - the period within which he/she could redeem his/her things. If the things were not redeemed timely or the (fine) interest for the delay was not paid, the pawn was nominated for auction sale by municipal auctioneers. In case of gaining a higher price than loan plus interest, this surplus had to be returned to the borrower (ibid.: 4).

According to the statutes, the Duma elected an administrator by secret vote, who managed the lombard. He was personally responsible for all unfavorable consequences in case of non-performance of his duties (ibid.). Every month the lombard's book keeping was inspected by representatives of the City Duma, and the manager submitted the report which had to be approved by the Duma. Then it was published in the 'Bulletin of Finance, Industry and Trade'. Afterwards the report was submitted to the Minister of Finance and the Minister of Domestic Affairs. The net profit from

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<sup>3</sup> For a further discussion of lombard houses in Saint Petersburg, see Schrader (1999, 2000).

<sup>4</sup> These differences concerned the expansion of transactions and permission to accept property for storage (without giving loans), as well as carrying out sales of pawned property according to the wish of the borrower and a price fixed by him.

transactions conducted by the lombard was added to its fixed capital, to increase the volume of loans.

The establishment of municipal lombards during the years 1888 – 1905 demonstrates the steep growth of municipal lombard business (*ibid.*: 6):

- 1888 — Vologda, Perm.
- 1889 — Kazan, Nizhni Novgorod, Irkutsk, Elets, Tikhvin.
- 1890 — Penza, Stavropol, Archangelsk, Suzdal.
- 1891 — Minsk, Kharkov, Vol'sk, Vyaz'ma, Danilov, Nikolaev, Rybinsk, Staraya Russa.
- 1892 — Vil'no, Krasnoyarsk, Oryel, Saratov, Arzamas, Menzelinsk, Saransk.
- 1893 — Tobolsk, Yaroslavl, Tyumen.
- 1894 — Novgorod, Ufa, Malyj Yaroslavets, Khvalynsk.
- 1895 — Blagoveshchensk, Riga, Tiflis, Petropavlovsk, Sarapoul.
- 1896 — Moscow, Vyatka, Kostroma, Oryenburg, Tver', Kherson, Vytyerga, Yenisejsk, Syzran', Tara, Tchelyabinsk.
- 1897 — Voronezh, Samara, Smolensk, Tomsk, Tula, Bugul'ma, Belgorod, Kungur.
- 1898 — Vladikavkaz, Zarajsk, Oster, Rostov-na-Dony.
- 1899 — Saint Peterburg, Kamenets-Podolsk, Omsk, Tambov, Tchernigov, Batum.
- 1900 — Kishinev, Simbirsk, Belev, Gomel, Novaya Praga.
- 1901 — Radom.
- 1902 — Kel'tsy, Ryl'sk, Tsaritsyn.
- 1903 — Mologa, Zhitomir, Slobodsk, Souvalki.
- 1904 — Warsaw, Kars, Shadrinsk, Lyblin.
- 1905 — Kursk.

The starting capital of municipal lombard mainly originated from the assignments of the municipal budget or from special state bonds. Besides, the author remarks that 18 public lombard houses were opened by the support of private donors.

Serebryakov asserts that mainly the urban poor having been at the private moneylenders' mercy, became clients of municipal lombard houses. With their annual average interest rate of 18 %, which was much lower than these of private ones, these public institutions became very popular among the poor strata of urban population. As a consequence, in such cities where municipal lombards started operating, the private loan cash departments, taking up to 60 % interest p.a., were mostly compelled to close their doors (*ibid.*: 7).

Indeed, the public lombard houses essentially reduced the burden of debt for lombard clients. In addition to precious metal all Russian lombards (except for the Tiflis lombard) accepted various household utensils, clothes, furs, etc. as pledges. In provincial towns one could also pawn peasant produce, such as homespun cloth, canvas, sheepskin, etc. The opening of public lombard houses in provincial towns resulted in a

vast movement of peasants from the countryside to these lombards. Owing to this, some Zemstvos (elective district councils) set up village lombards for pawning bread and grain, harness, canvases, clothes, leather, etc. (ibid.: 8). On the other hand, the authorities agreed that town treasuries received their shares from the constantly growing lombard profits.

According to Serebryakov, the Saint Petersburg City Lombard is an example of successful business management of such an institution. It was opened on April 7, 1899. The dynamics of its credit-financial activity are represented in the following table for the years 1899-1906:

Tab. 1: Balance Sheet of Saint Petersburg City Lombard, 1899-1906

<b>Year</b>	<b>Number of loans provided</b>	<b>Total loan sum per year</b>	<b>Outstanding loans on January 1</b>
1899	106.841	820.981	
1900	289.927	2.026.979	390.071
1901	401.143	2.793.373	868.216
1902	430.345	2.905.300	1.176.940
1903	439.561	3.219.238	1.269.895
1904	477.457	3.505.100	1.527.000
1905	475.752	3.579.540	1.701.527
1906			1.789.394

Source: Gorodskie lombardy v Rossii 1907: 9

The average loan size amounted to around 7 rubles.

When the Saint Petersburg City Lombard (*Sankt-Petersburgskij Gorodskoj Lombard*) opened in 1899, its fixed capital amounted to 1.000.000 rubles, according to the ratification of the Duma. However, by 1902 the insufficiency of such an amount as fixed capital became obvious, and the Duma provided a credit from the City Council resources to the lombard, amounting to 200.000 rubles. Later on it turned out that this credit did not cover the clients' demand in money, and therefore the loan was increased by another 200.000 rubles. When it finally became clear that for successful functioning of the lombard some more means were required, the Duma approved to increase the fixed capital amount to 2.000.000 rubles. In 1903 the demand in money was again insufficient, and the Duma sanctioned another 400.000-rubles credit from the City Council resources (ibid.: 9). Within the period considered here, the Saint Petersburg city

lombard opened four branches, while during the writing of Serebryakov's report, the question was investigated to set up a fifth branch in 1906.

The history of Saint-Petersburg City Lombard exhibits one main limitation of lombard operation, which came particularly visible during the Communist period; this is the restriction of working capital in situations, when the credit demand is much higher than the credit supply. Another obstacle was addressed by Serebryakov, which exists until now. During the first years of activity the Saint-Petersburg City Lombard had to rent office space in private houses, which was extremely unfavorable because of high rent payments and inadequacy of space for the operation of lombard business, because pawnshops need storage capacity.<sup>5</sup>

Rather than limiting his perspective to the role of a pure reporter, Serebryakov actively supported the idea of setting up an imperial network of public pawnshops being organized in the same way (*ibid.*: 28). As a manager of the City Lombard, he submitted a proposal to the Vologda City Council to announce an all-Russian congress of representatives of municipal lombards. The petition was supported by the Duma, and the congress was held in Vologda on 1 July, 1899. However, only nine representatives of municipal lombards from a number of Russian towns participated (*ibid.*). Nevertheless, the results were considerable, and the participants decided to organize such congresses on a regular basis. The next congress was held in Moscow in 1902 with already 17 representatives, and the third congress in Saint Petersburg in 1904 attracted 15 representatives of public lombard houses in Russia. The program of the congress consisted of thirty-seven items. Special attention was paid to the limitation of working capital (*ibid.*: 29).

As it was mentioned above, in addition to municipal lombards, a number of private lombards of the judicial form of a joint-stock company operated in Russia during the late nineteenth and early twentieth century. An example of such lombard house is Saint Petersburg Metropolitan Lombard (*Sankt-Peterburgskij Stolichnyj Lombard*). The company was founded in 1887 and opened its first office in 1888. The report of the

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<sup>5</sup> Therefore, the Duma offered a house in Garden Street, which became the head office. Besides, in Pskov Street the enterprise opened another house (for the branch in Kolomna District) with store-rooms at its own expense. The building occupied four stories along the street and eight stories in the court yard (*ibid.*: 9), which gives us a hint to the size of lombard business. The price for this building amounted to 110-120.000 rubles.

administration summarized the results of a decade operating and was published in 1898, one year before the public Saint-Petersburg City Lombard began to operate. Before Metropolitan Lombard started, already three other lombard houses with together 20 branches were established in Saint Petersburg. In spite of this serious competition, Saint Petersburg Metropolitan Lombard developed most advantageously. Initially the share capital amounted to 500.000 rubles. It was divided in 1.000 shares of 500 rubles each. In 1889 the Minister of Finance sanctioned an increase of stock capital by another two thousand shares of 500 rubles each, all together forming a share capital basis of 1.500.000 rubles in 3.000 shares (*Sankt-Peterburgskij Stolichnyj Lombard* 1898: 7).

The administration of this lombard did not confine its activity within Saint Petersburg. In 1888 it obtained permission from the Minister of Finance for opening lombard branches in other cities of the Russian Empire. Therefore the company bought loan cash departments in Nizhni Novgorod, Kazan, Saratov and Jekaterinburg, which belonged to ‘Petchjonkin & Co’, and transformed them into its own branches, opening on 1<sup>st</sup> of May, 1889 (*ibid.*: 5). Another branch was opened in Saint Petersburg on 9 October 1892, located on Vasiljevskij Island. The following table demonstrates the profitability of the firm’s operation from 1888 to 1898:

Tab. 2: Balance of Payment of Saint Petersburg Metropolitan Lombard (*Sankt-Peterburgskij Stolichnyj Lombard*) in 1888 and 1898

	1888	1898
Stock capital	681 Rbl. 11 Kop.	63.239 Rbl. 69 Kop.
Value of Pawns	1.059.603 Rbl. 0 Kop.	4.991.912 Rbl. 0 Kop.
Profitability	66.101 Rbl. 76 Kop.	637.188 Rbl. 88 Kop.
Expenditure (including interests paid for loan capital and repayment of property) <sup>6</sup>	52.511 Rbl. 15 Kop.	420.293 Rbl. 87 Kop.
Net profit	13.503 Rbl. 15 Kop.	216.895 Rbl. 01 Kop.
Credit	74.000 Rbl. 0 Kop.	2.278.300 Rbl. 0 Kop.

Source: *Sankt-Peterburgskij Stolichnyj Lombard* 1898: 14

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<sup>6</sup> ‘Pechjonkin and Co’ was the former owner of the lombard. It sold it to *Stolichnyj Lombard*. Since the price was not paid immediately, *Stolichnyj Lombard* paid off the debt and interest. Furthermore, it had to pay interest to Saint Petersburg Credit Company.



As is obvious, Saint-Petersburg Metropolitan Lombard was a successful enterprise, although we cannot see from this document, how far its profitability was affected by the establishment of Saint Petersburg City Lombard. However, we can assume that the private lombard houses were severely affected, due to the difference in the interest rates. As a result of this the private pawnshops had to decrease their interest rates in defense of their market shares (Gorodskie lombardy v Rossii 1907: 9). However, before this interference of public competition, the situation in 1898 was considered enthusiastically by the administration of Saint Petersburg Metropolitan Lombard.

“So that to achieve the existing level of our transactions and even overtake our competitors, we had to act energetically and without any special efforts, and we have achieved the result (...) Our main merit in serving our clients is our attentive and courteous attitude towards their demands, as well as some privileges concerning the delay in repayment, even if we incur losses» (Sankt-Peterburgskij Stolichnyj Lombard 1898: 15).

Both documents demonstrate that lombard business in Saint Petersburg was prospering at the turn of the century. Even when public competition had already begun, a lot of new private lombard houses entered the market. For example, the Company “Northern Lombard” (*Severnyj Lombard*), started in 1912. According to the annual report of this company for the year 1914, it had experienced a consistent growth during its three years of operation. Here, however, it is necessary to note that this report was written, when World War I began and Russia was in a crisis situation. There is no doubt that the politico-economic framework affected the credit demand of the population, because unemployment increased, and therefore the turnover of lombard houses. Let us investigate the company results:

Tab. 3: Balance of Payment of Northern Lombard, 1914

<b>Year</b>	<b>Sum of loans</b>	<b>Balance on 1<sup>st</sup> January</b>
1913	2.950.429 Rbl.	
1914	3.004.348 Rbl.	1.306.542 Rbl.
1915		1.346.969 Rbl.

Source: Doklad pravleniya Obschestva Severnyj lombard 1915: 1

The turnover in 1914, however, was much lower than expected.<sup>7</sup> It is difficult to interpret this sudden decrease. However, when we consider the findings of our interviews on contemporary pawnshops in Russia, economic crises do not necessarily result in a positive effect on lombard business. The explanation is very simple. Initially the demand for credit rises considerably during an economic crisis. However, since people are incapable to redeem their pawns, they lose them to the lombard house, which in turn does not find auctioneers or buyers. Consequently, many poor customers have nothing else for pawning, and the lombard can only sell the unredeemed pawns for a very low price or keep money fixed in the unredeemed pawns. We may assume that the same happened during the year 1914. This assumption is supported by the fact that during the first half of 1914 the lombard's working capital was already exhausted, and the Company applied to the government for permission to obtain an additional credit of 1.000.000 rubles (*ibid.*: 2). The Ministry of Finance ratified the petition. However, during the second half of the year, the demand decreased considerably. Perhaps for that reason the administration decided to use the working capital for another purpose: to reconstruct the house at the corner of Vladimirskij Prospect and Grafskij Pereulok (lane), that belonged to the Company, to adapt the building to a lombard's needs (*ibid.*: 4).

The data provided here represent the development of the lombard market in Russia, and Saint Petersburg in particular, at the turn of the century. From the perspective of business administration lombard houses engendered considerable incomes both for private owners and stockholders, as well as for the municipal treasury, both by taxation of the private pawnshops, as well as by the profit share that public institutions paid to the city administration, although these latter lombard houses did not primarily aim at profits. We can conclude that under conditions of relative stability of the economy before World War I the lombard credit institution was popular for lower-income groups and very profitable for the owners of these credit intermediaries, in spite of the fact that

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<sup>7</sup> This is connected with the fact that 'the sum of loans provided in the first half of 1913 (1.535.400 roubles) almost equalled the sum given in the second half of the year (1.415.029 roubles), while in the first half of 1914 the sum of 2.112.454 roubles was loaned, whereas in the second half of 1914 the sum of the given loans decreased to a considerable extent as a result of hard times and equalled only 891.894 roubles' (*Doklad pravleniya Obschestva Severnyj lombard*: 1).

competition from public Lombard houses made the interest rates decrease. Furthermore, where the market was highly competitive like in Saint Petersburg Lombard houses had to adjust their rules and loan conditions. For instance, they had to accept not only gold and jewelry, but household articles, utensils, clothes, etc. as well.

Lombard houses, as well as usurers (*protšentschiks*, moneylenders) were phenomena of pre-revolutionary Russia. Russian novelists took up the issue by describing the lives of poor people. The perception of usurers and lombard houses among the average population was similar. It was connected with the thieves' world, with swindlers, rogues milieu or Jewish usurers. One can assert that average townspeople's perception of Lombard houses painted them black and gloomy, in spite of the fact that they provided short-term financial help for a number of people. Once got there, it meant being captured in poverty 'forever' – being among a class of people of whom one better wanted to set apart. But within this class people regularly pawned and redeemed things, paid interest, re-pawned once again, and so forth. But already the novels emphasize that pawnshops do not serve very poor people.<sup>8</sup>

## 2. Soviet Lombard Houses as an Element of 'Household Service of the Population'

The First World War and the Revolution, followed by the Civil war, interrupted sustainable development of lombard market. The Soviet period was characterized by a planned economy, setting the market out of force. What existed was a second, informal and often criminal, economy, where exchange mainly took place on a barter basis or against foreign currency. This was no politico-economic climate in which Lombard houses could prosper. Consequently, lombard houses – private as well as public ones - began to develop once again under NEP (New Economic Policy, the liberalization of the economy), which started in 1922. Later on, after NEP curtailment, private lombard houses became forbidden, since private initiative in the economy sphere was treated as

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<sup>8</sup> In a conversation with 'Raskolnikov', the prominent figure in Dostoyevskij's 'Crime and Punishment', who killed a female pawnbroker, another agent in the novel mentions that the murderer probably belongs to a higher class, the *intelligenza* or the impoverished aristocracy, since one needs a valuable pawn to obtain a loan. The topic of pawnbroking also appears in the writing of Krestovskij or Tolstoj.

‘bourgeois’, and therefore hostile to the working class, and therefore suppressed by the Soviet state.

A member of the Bolshevik government, Kirillov, was interested in lombard business as such. He tried to collect statistics on the Lombard Houses of Petrograd (which was re-named to Saint Petersburg) and Moscow, considering their business results. He studied Serebryakov’s report and continued his research traditions of pre-revolution times. In his work he emphasized much more explicitly that a public lombard house was highly lucrative and profitable for state treasury, in spite of its social aims.

Gradually the lombard became a Soviet enterprise. Some old clients took up their pre-revolution practice once again, others got information from their neighbors (personal information from interviews). However, lombard houses as such could hardly enter the Soviet system ideology for the following reason. Interest taken by lombard houses for credit received by common citizens for their own things, was stigmatized to be exploitative and associated with the capitalist system. That is why lombard houses were officially recognized as a ‘household service’ rather than a profitable enterprise. They had to be improved, their quality had to be raised, and it was necessary to involve labour teams being engaged in this service in socialist competition – all for the purpose of serving the households. Furthermore, the ideology proclaimed that this service should help the people to get rid of old, unnecessary items, rather than helping them to survive. During this time a number of small-scale lombard houses were set up in different districts of Saint Petersburg under the authority of city administration. Probably due to this ambivalent political attitude, documentation is rather limited for the Stalin and Khrushchev period.

We get again some more information for the 1970s and 1980s, describing the ‘household service for the population’ more detailed.<sup>9</sup> For 1982 36 lombard houses were registered in the Russian Federation, serving the population of regional centers. At that time United City Lombard (*Ob’jedinjonnyj Gorodskoj Lombard*) operated in Leningrad (then the name for Saint Petersburg). It was set up in December 1975, according to the decision of the executive committee of *Lengorsoviet* (Leningrad City Council) under the authority of the Department of Household Service for the Population. Up to its establishment there were five independent lombard houses in the

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<sup>9</sup> Here we refer to the following documents: CBNTI (1976 a, b, c; 1978; 1980a, b; 1981). CBNTI stands for Central Bureau of Scientific and Technical Information.

different parts of the city, which then became united. While formerly these regional lombard houses had their own bank accounts, these were shut down after fusion.

As the Soviet ideology considered lombard services as household services, all innovations that were introduced, only concerned NOT (the system of the scientific organization of work of the personnel), the 'increases of culture of service' and the application of 'means of mechanization of auxiliary operations and mechanization of hard manual labour' (CBNTI 1982: 1-2). According to the Soviet economists, the application of accounting machines, the installing of three monorail roads 'for transportation of things to pantry rooms and back' (CBNTI 1982: 2), as well as the installation of a cargo lift '(6 floors) with 500 kg carriage capacity' (ibid: 2) were the factors that were responsible for the business success of United City Lombard, while the question of poverty, as well as the profits for the government were outside the scope of discussion, both being not in line with the ideology. To provide an example of the discussion within the Socialist framework of a planned economy and the Communist ideology:

"Within the task of the Tenth Five-Year Plan for household services of the population, lombard services were rendered in volume of 6.492 thousand rubles on 22 February, 1980; the total volume of realization amounts to 14.700 thousand rubles (on January 29, 1980)".

The personnel of *Gorodskoj Ob'jedinjonnyj Lombard* successfully fulfilled the plan for 1981. In honor of the 60-th anniversary of the formation of the USSR the advanced Socialist obligations were approached:

- fulfill the annual plan for household service and the volume of realization by 29 December at the expense of better use of working hours, intensification of production, improvement of quality of work and culture of service of the population; to render household services for 30 thousand rubles in excess of year plan, to provide for the total volume of realization amounted to 65 thousand rubles;
- give 60 thousand rubles of accumulated capital in excess of plan at the expense of the enhancement of efficiency and improvement of quality of work, observance of strict economy;
- increase the volume of goods accepted for storage from the clients by 5 % in comparison with the corresponding period of the last year;
- with regards to mechanization of manual labour, development of labour productivity, improvement of culture and quality of service to introduce four typewriters for filling pledge tickets and eight micro-calculators;

- to commit 10 employees to master adjacent professions for the purpose of interchangeability of workers<sup>10</sup>" (CBNTI 1982: 2).

Thus, only that part was reported that was appropriate to the ideology with regards to fulfillment of the goals. From information obtained by biographical interviews, however, we can assert that this lombard, which was celebrated in the report, worked extremely badly. There was a lack of working capital and therefore scarcity in credit supply. The maximum sum, which a client could obtain, amounted to 200 rubles. Due to the high demand, clients waited in long queues, and a credit was only available in case that somebody redeemed a pawn and paid money back to the pawnshop. The conditions deteriorated further until Perestroika. The Jeltsin-Gaidar reforms and a liberalization of the financial market led to an explosion of pawnshop business.

Before we consider in more detail the contemporary lombard landscape in Saint Petersburg, we would like to shortly review the history of lombard houses in Moscow.

### 3. Lombards at Moscow<sup>11</sup>

In 1905 Moscow set up its central lombard in Bolschaja Dmitrovka Street, which is still at work. In 1922 the first by-rules of the Moscow City Lombard (*Mosgorlombard*) were defined. According to these, the Moscow City Soviet established a public joint-stock company, which was allowed to give loans for movable things and store them. Its main clients were lower class people.

The composition of clients of Moscow city lombard, which opened in 1923, was 30% working class people, 36% government employees, 21% unemployed, 5% military, 5% invalids, and 3% others. From 1925 to 1933 three branches operated in Moscow. Given the needs of the working people and an increase of the credit sum and thanks by state loans, the Moscow lombard houses were capable to constantly decrease the interest rates. During the World War II the lombard houses still worked, but the issuing of loans was limited to a maximum extent, because the money (of the state) was needed for defense. In October and November 1941, when Moscow was in a real danger because

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<sup>10</sup> This meant that according to this Five-Year-Plan, every worker had to master some other professions additionally, to be able to replace his absent comrade in case of need.

<sup>11</sup> Here I follow the conference material "Perspectives of Lombard Services Development (*Perspektivi rasvitija uslug lombardov*)" 1998

the German fascist army was close to the capital, the lombard houses could no longer store the items and therefore handed them over to their owners under the obligation that they pay their dues later. Those who could not receive their pawns because they were out of Moscow were given the items after the war. Today the Moscow City Lombard (*Mosgorlombard*) runs eleven branches, three auction halls for selling the items not redeemed and two commission magazines.

Taking a look at post-Communist Russia, the full scale of desolate conditions of the national economy, the inefficiency, mismanagement and corruption of state enterprise during the Communist period became visible, when these enterprises had to survive in the liberalized economy. The 1990-1991 radical-liberal Gaidar reforms caused latent open or hidden unemployment, a hyper inflation, non-payment or delay of wages, and the like, which aggravated a need for short-term cash among the population. On the other hand, this liberalization re-opened opportunities for non-governmental lombard business - a new stage in the development of the lombard market in Russia.

After 1992 private lombard firms mushroomed all over Russia, and a number of these practiced criminal, or at least semi-legal methods to extract profits from the innocent population. In addition to these newly established private lombard houses there were initially a number of large government-run pawnshops with branch offices. Under the new economic conditions most of these state lombard houses were privatized and registered as joint-stock companies.

Nowadays about 100 lombard houses, situated in all administrative units of the city, share the Moscow lombard market. The expected volume of their services for 1998 was about 1 Billion New Rubles (before the August 17, 1998 crisis). Out of these pawnshops only the eleven branches of the Moscow City Lombard are public. The other companies are all commercial, taking different organizational and juridical structures. The whole business involves about 600 employees.

Most private commercial lombard houses have small facilities (50-100 square meters) to run their business, and they only accept items made of precious stone and precious metal. The lombard branches, which belong to the state-owned enterprise, are obliged to accept anything of some market value. Besides jewelry such items include clothes, electric household goods, pieces of art and fur items. To store things like that one has to have larger, specially equipped facilities. This services is popular among low-income people, and it has to be provided for social reasons, although it is not very profitable. State-owned lombard houses keep the market of these services stable. The public

enterprise will require an additional amount of uninhabitable space in four or five districts of the city to open new branches. It intends to have one or two additional branches in every administrative unit. Together with private lombard houses it will meet the requirements of the population in terms of the services mentioned.

In the years to come the activities of the private lombard houses depend on market conditions and the overall economic climate. The economy of the country deeply influences the activity of the lombard houses. In 1991-1993 the inflation rate was excessive. The demand for the lombard services decreased substantially. This can be explained by the fact that the interest rate for issued short-term loans increased by the monthly rate of inflation. The real price for these loans appeared to be very high to the people. Since the inflation stabilized until the August 1998-crisis, the demand for lombard services rose once again, to experience another setback in this crisis.

According to the assessment of the pawnbrokers associations in Russia, the lombard services are among the most profitable in the area of financial services. The average level of profitability of lombard houses is about 40%, with 70% being the maximum and 15% being the minimum. The amortization of the invested money is on average 1.5 - 2 years only.

#### 4. The Lombard Landscape in Contemporary Saint Petersburg

Also in Saint Petersburg only one lombard remained public, the Municipal State Lombard (*Gorodskoj Gosudarstvennij Lombard*). However, it has no other offices than the main office in 8 Linea, which, according to the wish of the former director, should also have been privatized. However, the city administration refused this with the argument, at least one lombard should remain public.

According to the director of this lombard house, Olga Vladimirovna, this organizational change in the lombard market was no smooth affair, but a violent matter.

“You know, in 1990 there was only one city lombard [called] (...) *Ob’jedinjonnyi Lombard*. It had five branches: on Bolschaja Puschkarskaya Ul. 20, (the biggest branch), on 8 Sovjetskaya Ul., on Moika Embankment, on 8<sup>th</sup> Line and another one. We just got separated from OL. Our director just wanted to close our lombard house. He wanted to establish a bank on its premises and to leave a small commercial pawnshop. But we didn’t agree with that, and thus our fight



for disaffiliation with the association began. We applied to the Committee at the Department for State Property, so that to register our statutes. That was the beginning... I was dismissed, as well as everyone from the managerial personnel. I was reinstated in my former office by juridical settlement. No trade union, nobody at all helped me. I was unemployed; I went through many trials and tribulations. During our organizational period the director was intriguing in any way, wrote complaints to the department for struggle with economic crimes. I was summoned everywhere, interrogated, questioned. After we had prepared all the necessary documents for our registration we submitted them to Mr. A. [name changed by the author] for consideration. Next day he told us: You have not given me anything... It'll take too much time to tell you about all this. Afterwards bandits appeared, various pressing actions began... One grouping, another one... Then we were subjected to sharing. And in the end we were 'divided'. Each enterprise pays till now' (personal interview).<sup>12</sup>

After some time it turned out that a number of the new private lombard houses had no sound practices (some were badly managed, other owners disappeared with their customers' property). While a number of firms collapsed, and people's trust in lombard houses experienced a set-back, the market has recovered now and experienced a steady growth during recent years. While in January 1997 there were 736 pawnshops registered all over Russia, the figures jumped up to 928 in January 1998 and 1017 in June 1998 (Source: *Sovremennij Lombard* 1998). Nowadays there are around 1.200 registered pawnshop enterprises in Russia,<sup>13</sup> most of which have become private institutions<sup>14</sup> of different registration forms, many of them joint-stock companies.

As previously before the revolution, there are seasonal ups and downs in the profitability of lombard business. The peak season is in autumn and winter, while in summer the lombard activity is relatively small. This is due to the fact that during summer a large part of the population of the cities uses to live in their summer houses (*dachas*). With regard to this fact, comparable to the agricultural season people have to spend much money for plants and seeds in spring, which directly results in an increase of lombard business. Other peaks are before Russian Christmas and New Year, both

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<sup>12</sup> This interview was made already in May 1998 by Boris Voroschov, then student at the State University of Saint Petersburg, Faculty of Sociology.

<sup>13</sup> Personal information achieved from the Interregional Pawnbrokers Association.

<sup>14</sup> In this article 'private institution' shall include all those institutions, which are not government-owned or owned by the city administration. These shall be called 'public'.

being related to family festivals where much money is needed for consumption purposes.

In Saint Petersburg the 1998 yellow pages outline 45 registered pawnshops, and it may be guessed that there are some more such institutions. Among these 45 pawnshops, 7 branch offices belong to Saint Petersburg City Lombard (*Sankt-Peterburgskij Gorodskoj Lombard*), an OAO or 'open joint-stock company' with around 20% of the shares held by the city administration, 6 branches to the firm *Ob'jedinionnyj Lombard* (United Lombard), an OAO, and 4 branches to the OAO firm *SITMAR*. The other firms have only one or two branches. They are all private, except the only public Municipal State Lombard.

The lombard houses in Saint Petersburg are in the process of developing and prospering and fighting for market shares. According to information of the newspaper Business Petersburg (Gazeta 'Delovoj Peterburg') No. 21 from 25 March 1997 only two lombard houses share 2/3 of the market: Saint Petersburg City Lombard (34%) and United Lombard (30%). Of minor importance are two other companies named 'Sitmar'(7%) and 'Ikstlan' (7%).

In 1997 around one million people in Saint Petersburg used lombard services, and the total volume of the credit provided amounted to 20 billion roubles, that made up around 90 % of total volume of credit to private persons (Gazeta 'Reklama-Shans' 1997, April 7).

The following list provides an overview of the interest rates in the Saint Petersburg lombard market in 1997 (Gazeta 'Delovoj Peterburg' 1997: 22):

Tab. 4: Indicated and Real Interests of Licensed Lombard Houses in Saint Petersburg (on March 1, 1997)

<b>Lombard house</b>	<b>Indicated interest</b>	<b>Real interest per day</b>
SPB City Lombard	0,5 % of loan + 0,2 % of assessment per day	0,78%
Municipal State Lombard	0,9% of loan per day	0,90%
Favorit	0,7% of assessment per day	1,00%
Prominvest	0,7% of the loan per day	0,7%
Ikstlan	from 0,3% per day to 0,5% per day *)	0,57%
Pronto	0,5% of the loan and 0,3% of assessment per day	0,93
Rus' Lombard Service	0,5% of the loan plus 0,2% of assessment per day	0,74-0,76%
Sitmar	18,9% of assessment for one month	0,9%
Soyuz	0,4% of the loan per day *)	0,54-0,73%
Lastoshka	16-18% per month *)	0,57-0,67%
Alert	0,8% of the loan per day	0,8%
Credit	0,35% of the loan per day + 0,15% of the assessment per day	0,56
7 Carat	0,7% of the loan per day + 3,7% of the assessment per month	0,9-1,3%
Central	0,8% of the loan per day	0,8%
Inkas Lombard Service	0,3% of the loan per day *)	0,66-0,73%
PLB Jewellers	0,3% per day	0,44%
A.G.R. Invest	0,5% per day *)	0,62-0,82%
Victoria	0,6% of the loan + 0,1% of the assessment per day	0,75
Lombard Financial Soyuz	15% of the loan p.m. *)	no information
Bim-Len	no information	no information
North	no information	no information
United Lombard	16% of the loan per month	0,53%

\*) information was obtained on the phone only.

Source: Gazeta 'Delovoj Peterburg' 1997: Vol. 21, 25 March

Note: the lombard houses ZAO 'Energija' (the license of which was terminated) and ZAO 'Lombard" Gold Parity' have not been entered in the list.

As one can see, the real daily percentage in the different lombard houses differs tremendously – in March 1997 from 0,44 up to 1,3%, with an average of 0,6%. For a month – a typical loan period, this adds up to 13,2 and 39,0%, respectively, with an average of 18,0%.

The main growth in lombard business (as far as we can speak about that under conditions of permanent crisis in Russia) occurred in spring and summer 1998. As one lombard director mentioned, large-scale lombard houses had a turnover of several millions of dollars per year. However, the continuation of this growth stopped abruptly with the crisis of August 17, 1998. This is opposite to general opinion assuming that every crisis of an economy would have a positive impact on lombard business. Expert opinion among the lombard director, on the contrary, held that economic crises engender unprofitable conditions and a contraction of the lombard market. For sure, people require money in such situations, but many of them cannot redeem their pawns. They loose them and have nothing to offer for the next time, and the lombard cannot sell the item because of lack of money of customers.

Furthermore, the crisis of August 17, 1998, caused heavy losses connected with the inflation spurt that followed – the inflation rate exceeded the interest rates agreed upon in running contracts. Therefore, the value of redemption of the pawn fell below the loan sum plus interest payment, if we calculate the exchange rate to foreign currency. New contracts, on the other hand, had to take this tremendous inflation into consideration, so that the interest rates had to rise ‘up to transcendental heights’ – also as a result of increase in bank loan interest. This in turn resulted in a sharp decrease in demand for credit. The largest lombard houses managed to stand the crisis half a year later. On the one hand, the population gradually got used to these new high interest rate (averaging now 1,2 % per day of the sum of assessment), on the other hand, lombard firms began to diversify their business, opening buy-and-sale or commission shops, accepting new product lines such as automobiles, and even taking real estate as mortgages. According to the directors of Saint Petersburg City Lombard and United Lombard, a final stabilization of the lombard market could be achieved in spring 1999, so that the firms could achieve same favorable results as before the August crisis (personal interviews).

As before, the largest lombard branch networks have Saint Petersburg City Lombard (8 branches) and its main competitor United Lombard (7 branches), together having market shares of around 70%. Saint Petersburg City Lombard has large and sometimes very respectable branches occupying expensive buildings located in prestigious areas

(*Nevskij Prospect, Naberezhnaya reki Mojki*), first of all dealing with jewelry items. United Lombard runs smaller branch offices, takes lower interests and has distributed its branches all over the city (Vyborgskij district, Kouptchino, Kirovskij and, Central districts). While United Lombard only accepts jewelry, it opened buy-and-sale and commission shops for the trade in other items. Generally speaking, one can assert that the management principle of *Ob'jedinionnyj Lombard* is most highly developed with regards to accounting, planning, market research, and the like. The managers use mathematical modeling, try to predict the tendencies of lombard market development, make surveys on the whole market and their customers' satisfaction with their services, in particular, and make franchising for other lombard companies in Russia. We are thankful to the management of this firm, having received a great deal of material for our research.

On the whole, the market shares have not much changed after the crisis. The only exception is the lombard network 'Ikstlan', which practically entirely got devoured by the 'Sitmar' network ('Ikstlan' has continued with one branch only). The small firms together cover a market share of about 15 %.

The Municipal Vasileostrovskij Lombard has a peculiarity concerning its clientele. First of all, it is among those few lombard houses, which accept as a pledge not only jewelry, precious metals and expensive electronics or furs, but low-value consumer utensils, clothes and dress lengths as well. It is quite impossible to receive a relatively big loan for pawning such articles, except for high-quality fur-coats, which are often pawned for more than 10.000 Rbl. An average consumer goods loan amounts to 200 - 250 Rbl. As this lombard has to refinance itself by bank loans, the interest rate is supposedly among the highest in the city. Other lombard houses use to work with shareholders' capital and/or with black money, as one key informant mentioned. Nowadays people have to pay 1,2 % per day, and 1,7 % per day within the preferential month – an additional month before the pledge will be sold by the lombard house. According to the director of this lombard house, it had had its days before privatization. At that time there were 59 employees. Nowadays only 11 employees have been left. Only four of these are concerned with pawning and redeeming procedures, while the rest has other administrative or service functions. The lombard equipment looks very poor: no computers for accounting, sometimes hand-written rules on big boards, often long queues in front of the counters sometimes having to wait for 30 minutes. In general, this lombard practically has not changed since Soviet times. However, despite these obviously not favorable conditions, the Municipal City Lombard has a regular,

steady and long-term clientele. This is due to the fact that the lombard is one of the oldest lombard houses in the city and a public institution (that means in the view of these customers, it is more reliable than private lombard houses), and that it also accepts low-value, and even used items. Moreover, in many cases it is family tradition among the customers to visit this particular lombard.<sup>15</sup> In spite of these long-term customers, the lombard has problems to survive and let some of its space to another shop.

But let us return to the commercial lombard system in Russia. At present there are two competitive all-Russia associations of lombard houses: the ‘Lombard League’ and the ‘Interregional Pawnshop Association’. The League has its head-office in Moscow. It is an independent enterprise with its own staff and requires rather high membership fees. It is engaged in commercial activity. The head-office of the ‘Interregional Association of Lombard houses’ is located in Saint Petersburg. Members are also from all-Russia, including a number of Moscow lombard houses, among these the Moscow City Lombard). The President of the Association is elected for one year. It is presently the director of United Lombard, Nikolai Bobrov, and also the director of Saint Petersburg City Lombard, the other large lombard enterprise in Saint Petersburg, is a member of the board.

Abbreviations:

OAO: (*Otkrytoe akcionernoje obschestvo*): joint-stock company of open type

AOOT: former OAO

OOO: *Obschestvo s ogranichennoj otvetstvennostju*: company with limited liability)

TOO: *Tovarischestvo s ogranichennoj otvetstvennostju*: former company with limited liability

ZAO: *Zacrytoe akcionernoje obschestvo*: joint-stock company of closed type

ZAO PTD: *Proizvodstvenno-torgovaya firma*: production-and-trade firm

ZAO TPF: *Torgovo-promyshlennaya firma* (trade-and-production firm)

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<sup>15</sup> The following quotation demonstrates this: ‘We have known this lombard since pre-war times. Our parents went there, we do, the daughter often drops in...’ (personal interview).

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