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978-0-521-56624-7 - Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England

Naomi R. Lamoreaux

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Insider lending

Banks in early nineteenth-century New England functioned very differently from their modern counterparts. Most significantly, they lent a large proportion of their funds to members of their own boards of directors or to others with close personal connections to the boards. In *Insider Lending*, Naomi R. Lamoreaux explores the workings of this early nineteenth-century banking system – how and how well it functioned and the way it was regarded by contemporaries. She also traces the processes that transformed this banking system based on insider lending into a more impersonal and professional system by the end of the century. In the particular social, economic, and political context of early nineteenth-century New England, Lamoreaux argues, the benefits of insider lending outweighed its costs, and banks were instrumental in financing economic development. As the banking system grew more impersonal, however, banks came to play a more restricted role in economic life. At the root of this change were the new information problems banks faced when they conducted more and more of their business at arm's length. Difficulties in obtaining information about the creditworthiness of borrowers and in conveying information to the public about their own soundness led them to concentrate on providing short-term loans to commercial borrowers and to forsake the important role they had played early on in financing economic development.

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