Financing the American Corporation: The Changing Menu of Financial Relationships

Charles W. Calomiris & Carlos D. Ramirez

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The history of the financing of the American corporation can be described along many dimensions. One dimension of that history that underlies various measures of historical change in corporate finance is the range of feasible relationships between corporations and intermediaries. Intermediaries (including commercial banks, investment banks, pensions, insurance companies, mutual funds, venture capitalists, and commercial paper dealers) provide alternative mechanisms for reducing `frictions' -- communicating information, controlling the use of funds, and physically transacting with corporations -- all of which arise from a corporation's financing needs. The menu of financial relationship choices available to firms has varied over time. That changing menu has been the driving force behind the history of American corporate finance. Changes in potential relationships have sometimes been dictated by conscious regulatory policy, and sometimes by `induced' private financial innovations. The peculiar fragmentation of financial intermediation in the United States has been a costly feature of American corporate finance history, which is traceable to regulatory distortions that limited particular kinds of relationships. In large part, the history of institutional change and financial innovation in the United States has been the history of attempts to work around costly restrictions on relationships not faced by corporations in most other countries.

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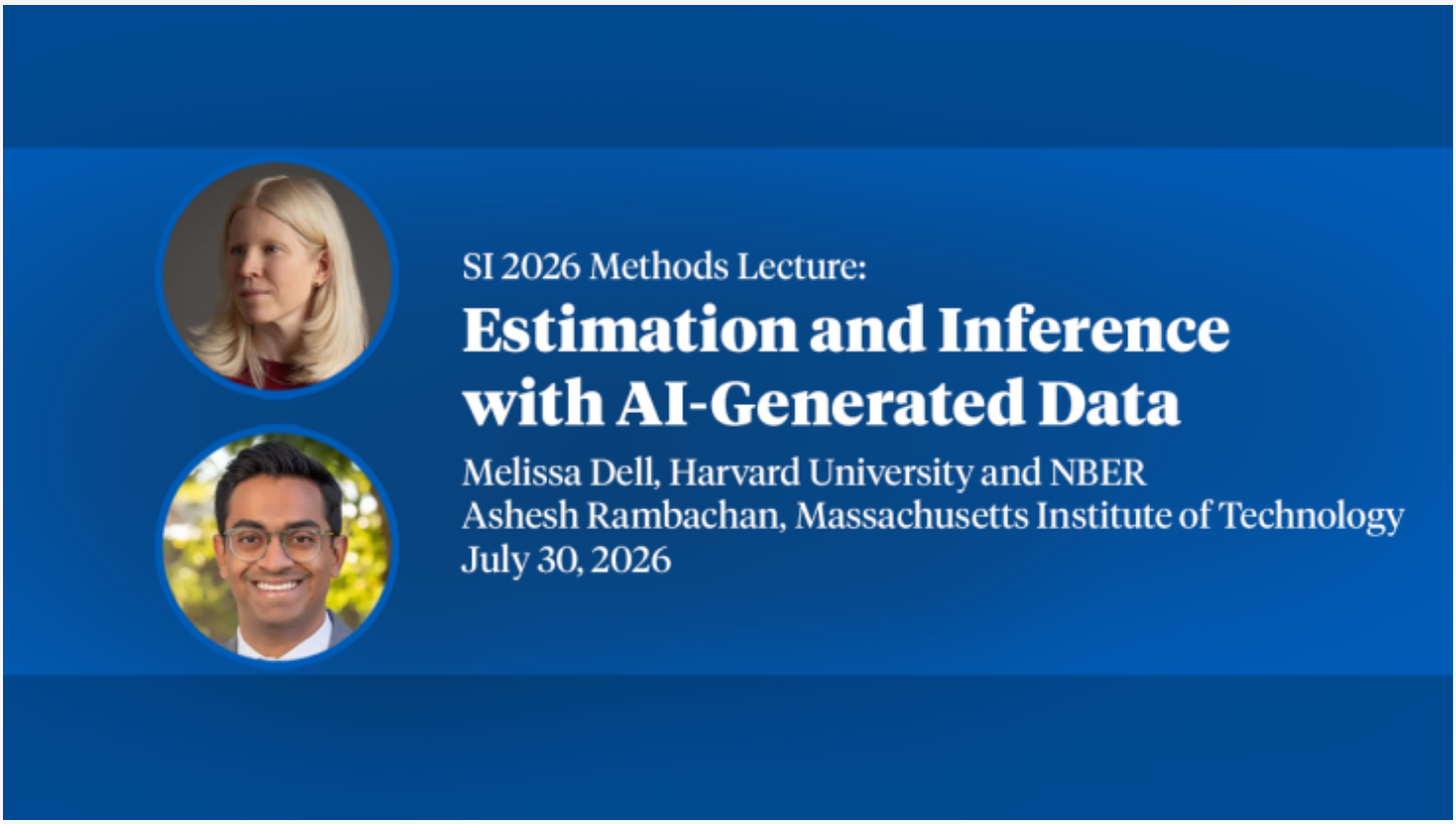


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Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138

617-868-3900
info@nber.org
webaccessibility@nber.org

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