

Irish loan fund societies 1860-1914: A case study in regulatory capture

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This paper is a study of the Loan Fund Board (LFB), a legislatively imposed financial regulator, and loan fund societies in Ireland in the period 1860 to 1914. The paper will argue that the decline, and paradoxically the continued existence, of loan fund societies in the post famine period was caused by both regulatory failure and regulatory capture, which in turn was a product of the lack of institutional reform. It will be argued that the existence of regulatory capture in the LFB system generated a form of debt peonage in Irish society. It will also be argued that the lack of reform led loan funds to adopt practices which undermined their comparative advantages in information creation.

Loan fund societies, paternalistic microfinance institutions that offered credit and savings services, associated with the LFB were a feature of local economies in Ireland in the nineteenth century and were targeted towards lower socio-economic groups in Irish society,. This paper will explore a number of variables related to LFB loan fund activity in the post-famine period. The primary focus will be on the number of loan funds, trends in the composition of loan fund capital, and the amount and number of loans made by loan funds. This paper will illustrate that the LFB system was in decline, but experienced a ‘bubble’ from 1882 to 1895. The objective of this paper is to illustrate how this ‘bubble’ influenced developments in the LFB system. When this ‘bubble’ burst it precipitated an irreversible decline and caused a loss of confidence in the LFB system.

This paper will focus on intrinsic factors that contributed to the decline of the loan funds. The paper will argue that institutional stagnation was a contributory factor in the decline of loan fund dominance in markets for microfinance. The LFB system was regulated by 1843 Loan Fund Act throughout its subsequent existence. The lack of any large scale reform of the legislation governing the LFB system meant that reforms to individual loan funds did not take place, reforms which arguably would have enabled loan funds to become more competitive in the post famine era. This paper will argue that this institutional stagnation created a niche banking institution located in an ever shrinking niche.