



Distinguished Lecture on Economics in Government: Central Banking and Systemic Risks in Capital Markets

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Abstract

Bagehot's conception of the last resort lending function of the central bank is shared by most economists today. On several occasions, the Federal Reserve has digressed from its overall strategy of monetary control to also undertake a tactical rescue of individual banks and segments of the capital market. On three other occasions, the Federal Reserve has intervened to counter systemic risks to the financial system beyond the arena of commercial banks. The events which prompted these actions were the threat to the commercial paper market triggered by the bankruptcy of the Penn Central Railroad in June 1970, the pressures on broker-dealer firms generated by the collapse of speculation in silver in early 1980, and the near failure of the clearing and settlement systems operated by stock and commodity exchanges which occurred during the stock market crash of 1987. I was a Member of the Board of Governors of the Federal Reserve System during the Penn Central episode, and I shared in the

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