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## Bagehot for beginners: the making of lender-of-last-resort operations in the mid-nineteenth century

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### Summary

In this article we develop new tools to survey the development of lending-of-last-resort operations in the mid-nineteenth century. One finding is that free lending and extensive liquidity support against good collateral developed gradually after 1847, and was already a fact of life before Bagehot published *Lombard Street*. Another is that the extension of the Bank of England's lender-of-last-resort function went along with a reduction of its exposure to default risks, in contrast with accounts that have associated lending of last resort with moral hazard. Finally, we provide a new interpretation of the 'high rates' advocated by Bagehot. We suggest they were meant to prevent banks from free-riding on the safety offered by the central bank, and were aimed at forcing them to keep lending during crises so as to maintain a critical degree of liquidity in the money market.

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