Abstract
This paper reexamines the role of the state in financial markets and identifies seven major market failures that provide a potential rationale for government intervention. In practice, government interventions in capital
markets, even in industrial countries, have been pervasive. The paper provides a taxonomy of those interventions with respect to both the objectives they serve and the instruments they employ.

There is a role for the government in financial markets, but the success of government interventions has been mixed. It is important that interventions be well designed. The paper sets out principles of government regulatory interventions and applies them to prudential regulation. It then examines three other areas of intervention—directed credit, financial repression, and competition policy—and identifies circumstances in which some amount of financial repression may actually be beneficial.

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