won, tails you lost—for every case like that, there were 50 banks where nobody was watching very closely, and so the guys running these banks decide to lend a lot of money to their brothers-in-law or to pay a really big dividend or to sponsor the mother of all golf tournaments. How do we control for that kind of behavior? How do we set and establish norms that reduce those kinds of inherent risks? I don’t know the answer to that question either, but what these five examples all have in common is that they raise really important issues. These are questions that you almost cannot begin to talk about within a neoclassical paradigm, and yet it seems to me that the kinds of considerations that might or might not be important for the types of behaviors we consider standard are almost dominant here.

A final observation: if the Federal Reserve Act were being legislated today, there would be no consideration of having 12 regional banks. But one of the virtues of having 12 regional Federal Reserve banks has been that over time it has been possible for some of the banks to develop distinctive research perspectives and to become centers of thought of a particular kind. My own view that the monetarist St. Louis Fed has said much that was new and much that was true, and that something close to that impact could be said of the Minneapolis Fed acting as a center of rational expectations in economics. I have no doubt that they have made an enormous contribution to the quality of the policy debate and the range of the perspectives that are open for consideration by the economics profession and in the setting of monetary policy. I humbly submit that the Boston Fed, having made an excellent start with this conference, consider adopting a distinctive thrust around behavioral economics through what they do in their research department.

Contributors

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