

Lessons suggested by Ed's friend with years of experience in the Federal reserve.

1. It is a mistake to put an avowed libertarian in charge of bank regulation. I believe that this point needs no further discussion.
2. On a somewhat trickier issue, I think we should relearn that the main job of the Fed is "to take away the punch bowl just when the party is getting good." To me, this was gospel through most of my career, but it seemed that in the 1990s and early this decade, an alternative guideline took hold. This new version goes something like this: "A lot of creative thinking takes place when people have a drink or two under their belts, and it would be a shame to cut off that creativity prematurely. Anyway, if things get out of hand, the resulting mess can be cleaned up in the morning." Now we know just how far out of hand things can get, and it is better to do something—anything, really—before market participants start breaking the furniture.
3. I think we can dispense with the slogan the Gipper offered: "Government is not the solution. Government is the problem." Maybe some of those statues should be taken down too and the buildings renamed.
4. We know that economists will continue to do and say silly things, but we should know now to totally ignore the learned publications that say bubbles cannot arise in the stock market, the housing market, or the commodity market because, after all, market participants are rational people looking out for their own best interests.
5. We should probably conclude at this point that two remaining investment banks are two too many. For many years, they have fostered a culture of pathological greed and have been involved in numerous instances of market mischief. Enough, already.
6. Financial instruments that are more than one step removed from the locality in which the loan or investment was made are a danger to the investor and ultimately a threat to the commonwealth. They probably should be banned or relegated to casinos where everyone can recognize more clearly the risks involved.