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FEDERAL DEPOSIT INSURANCE  
CORPORATION

BALANCING SELF-INTEREST  
AGAINST THE PUBLIC INTEREST.

an address by

William M. Isaac, Chairman  
Federal Deposit Insurance Corporation

Winter Commencement Exercises,  
Miami University  
Oxford, Ohio

December 21, 1984

This is a very special occasion for me and my family. I have been privileged to receive some awards, but none more meaningful than an honorary degree from Miami University.

The Miami tradition runs strong in our family. My uncle and sister attended, my brother and his wife graduated in 1961 and my wife and I graduated in 1966. They and other family members are here today, as are my parents, Charles and Ruth Isaac, to whom I dedicate this day and honor.

Their story is the story of America. Born to immigrants who arrived in small Ohio towns just before the turn of the century, they worked, saved and sacrificed so that their children and grandchildren might know a better life.

Beyond respect for family, they imparted some important values. First, be true to yourself; no amount of money or power will compensate for vanished self-esteem. Second, with sufficient determination and a touch of good fortune, an individual can attain virtually any goal in our society. Finally, our nation has brought unprecedented wealth and freedom to millions of people, and those of us who are able have a responsibility to give something back.

#### Our Economic System

Every society must confront and solve the fundamental problem of how to allocate its resources. Throughout history, various systems have been created for this purpose. In the United States, we place primary reliance on a system of markets and prices.

Our country's economic system is the envy of the world. Few nations boast an economy as dynamic as our own. New opportunities are being created every year. Take, for example, the growth of high technology. Twenty years ago, jobs in computer and other high-tech areas were so rare that their numbers were not even counted. Today, these fields account for several million jobs.

Another hallmark of the American economy is its remarkable capacity for growth. Since I graduated from Miami, we have been able to absorb 60 million people into the workforce. Many have been women and minorities. Although problems of unequal pay and other forms of discrimination persist, the past two decades have produced a social revolution and an explosion of economic opportunities for women and minorities.

The cornerstone of our economy is the opportunity of the individual to choose his or her own line of work and change jobs with relative freedom, limited only by pulsations in the market and one's own training and ability. Most of us cannot imagine what it would be like to live in a society in which job choices are dictated by some political authority.

Each morning a hundred million Americans get up, go to work, and do the best they can for themselves. Those of you graduating today will soon be joining the rest of us who are trying to do our best at work every day. As you make this transition, it would be unrealistic and foolish to advise you not to vigorously pursue your self-interest. The pursuit of self-interest makes our economic system work. At the same time, I urge you not to become so absorbed in the attainment of your financial objectives that you lose sight of larger concerns.

Our economic system, despite its myriad strengths, clearly is not perfect. Many do not share in the high standard of living produced by the system. I firmly believe that after you enter the workforce you have a duty to seek to improve our economy and society. Those of us who came of age in the 1960s -- a period of great unrest and conflict -- had imparted to us a sense of social obligation. It is that sense of obligation which needs to be maintained.

Capitalist theory has always stressed the notion of Adam Smith's "invisible hand" -- that people pursuing their own interests could also serve the public good by increasing society's productive capacity. What frequently is ignored is that Smith assumed that high moral values would temper self-interest. As one student of Smith wrote: "His vision was that an acquisitive economy would make possible a humane community."

Many of you, though sympathetic to Smith's vision, are probably wondering how you can make a difference. As an initial step, I would suggest that you not view the economic system as some monolithic force, which acts upon people rather than being shaped by their actions. The system is the sum of its parts. Though you cannot control the behavior of others, you can control your own actions. In your role as an economic actor you have the ability to show character and charity.

#### Role of Government

One way we can make a difference is through our use of government. Government is a tool through which we can accomplish much of what the market, alone, cannot. If we use government properly, we can help ensure that the elderly, the handicapped and the disadvantaged are protected against economic hardship; that the national defense is maintained; that unhealthy concentrations of economic and political power are avoided; and that people are protected against discrimination.

Because government is potentially so powerful, it must be used with care and in moderation. Americans have traditionally feared concentrations of power -- whether in the hands of governments, businesses or individuals -- because they threaten

the freedom we value so dearly. Stalin's Russia and Hitler's Germany present extreme, but vivid, examples of the consequences when the people lose control over their government.

We are fortunate that our government in no way resembles those extremes or the oppressive force described by George Orwell in his novel about the year we have now nearly completed. Though this is not Orwell's 1984, we cannot single-mindedly pursue our own interests and assume that freedom will always be preserved.

We are greatly aided in our efforts to maintain an open and free society by the existence of institutions that serve as a countervailing force to the power of government. Our free press, for example, provides a potent check against abuses. Over the long run, this balancing of power helps to ensure that we have an open government that works toward society's objectives, including the preservation of individual freedom.

Closely related to the impact government may have on individual freedom is the restraint it can place on the smooth functioning of our economic system. Due to the nature of our government, special interests have been able to obtain favorable legislation, often to the detriment of society's overall interests and often on the pretense of advancing some socially desirable goal.

#### Government's Role in Banking

In my job as Chairman of the Federal Deposit Insurance Corporation, I have witnessed the powerful hand of government help, as well as hinder, the achievement of our social and economic objectives. During the 1930s and at various times in our history prior to that, banking panics brought our economy to a virtual standstill and produced severe hardship. One of the most important reforms during the Depression years was the creation of the FDIC. The deposit insurance system has been successful beyond all expectations. Bank runs have largely been eliminated, our financial system is safe and secure and small depositors have a federal guarantee that their life savings will be protected.

Though I hope a cause-and-effect relationship does not exist, the period during which I have been Chairman of the FDIC has been particularly tumultuous. Since the beginning of 1981 we have handled 177 bank failures, plus the near failure of Continental Illinois. These banks held assets exceeding \$27 billion, excluding Continental, compared to only \$9 billion in 568 bank failures during the FDIC's first 47 years.

Despite this severe test, public confidence has remained high and the deposit insurance system has grown stronger. The FDIC insurance fund has climbed by over 50% since the beginning of 1981, from \$11 billion to over \$17 billion.

I do not believe it is an exaggeration to claim that if there had not been an FDIC during the past four years, the financial system would lie in ruin. The performance of the FDIC and its highly dedicated and skilled staff is one of the finest examples of how thoughtful government intervention can greatly benefit the working of our economic system.

There is, unfortunately, a darker side to the government's intervention in our financial system. Ten thousand banks, about one-third of the industry, failed from 1929 through 1933. The public demanded strong measures to bring order to the chaos, and it was by no means clear at that time that federal deposit insurance would be sufficient.

Deposit interest rate ceilings, branching restraints, restrictive chartering policies and tight limits on product diversification were put in place to limit risk-taking and competition. No matter how well intended, restrictions of this sort have imposed enormous costs on the American public. The financial system is less efficient, less responsive and more vulnerable than otherwise would have been the case.

As technology has improved in recent years and consumers and businesses have sought more sophisticated and convenient financial services, these restraints have become harder to tolerate. But reform does not come easily. Powerful vested interests have a stake in even the most outdated and useless regulation.

Deposit interest rate ceilings, for example, limited the return the public could receive on its deposits, reduced the national savings rate, misallocated resources and arbitrarily redistributed income. Nevertheless, financial executives had grown comfortable with the protection rate ceilings offered, and it was not until money market funds threatened to replace banks and thrifts as our nation's primary deposit-taking institutions that these ceilings began to be dismantled.

Special-interest groups are currently waging a fierce battle on a number of fronts to restrain competition. Securities firms are fighting to keep banks off their turf, insurance companies are resisting bank entry into their business and real estate firms are trying to block bank inroads. That there is more than a little hypocrisy involved in these efforts is evident from the fact that major firms in each industry are rapidly expanding their banking operations. Meanwhile, the banking industry finds itself locked in internecine warfare over the prohibition against interstate banking.

Seldom are special-interest groups so bold as to confess that their objective is to insulate themselves from competition; they instead wrap themselves in the mantle of some public interest argument. This is neither the time nor the place for a point-by-point refutation of their contentions. Suffice it to say that I find them seriously lacking.

Our reliance on a free-market economy has generated unprecedented wealth and freedom. Those who would impose restrictions on the functioning of the marketplace should be required to bear a clear burden of proof that the restraints are essential and that less intrusive alternatives are not available.

Abolition of the many legal barriers to competition in financial markets will strengthen the financial-services industry and will result in enormous benefits to the American public. Deposit interest rate deregulation, for example, has arrested the erosion of market share at banks and thrifts and has produced tens of billions of dollars in additional interest income for consumers and smaller businesses. Extending deregulation to securities, insurance, real estate and other financial fields will yield similar results. If accompanied by limited government intervention, such as an improved system of deposit insurance, strengthened supervision of banks and thrifts, more effective antitrust enforcement and other targeted safeguards, any legitimate public interest can be fully protected.

#### Conclusion

The need for -- and the difficulty in obtaining -- change in our system of government is not confined to banking. One need only to look at the federal tax code and the budget deficits for other conspicuous examples. There are too many groups for whom self-interest takes precedence over society's general well-being for meaningful change to come easily. Because we are a free and diverse society, there are also honest differences among well-meaning people.

If there is one message that I want to convey today, it is to urge you to recognize when the pursuit of self-interest benefits society and when it does not. We have a lot to be thankful for, not the least of which is the fact that we live in a country that strives to treat its citizens fairly, and where we have the freedom to lead our lives as we see fit. The pursuit of self-interest makes our economic system great. Our willingness to do what is right for others -- even if it occasionally means sacrificing short-term personal gain for the benefit of future generations -- makes our country great.

Thank you once again for this honor, and best wishes in all of your future endeavors.

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