

## Regulation is not ethics

At a holiday party last month, an acquaintance asked a pointed question about banks. A well-informed person, she was aware of banks' arguments that overregulation was keeping them from making loans, but she was somewhat skeptical of that argument. When told that indeed such was the case, she responded: "Well, how can banks be made to act ethically without regulations?"

It was a brief conversation, but we made two points in response:

1. Banks are not opposed to regulation. What they object to is excessive regulation and regulations that are misdirected or overly broad.
  
2. The vast majority of bankers—based on the many we have known over the years—are ethical. As with any large group, of course, some will fall short of the mark.

It's no stretch to say this person's view is more typical than atypical. She was not someone with an axe to grind. In an article in this issue, ABA President Frank Keating cites a study showing that only 18% of the public have a positive view of banking. He also notes that roughly 80% of the public have a positive view of their bank. Clearly the second point is a strong positive, yet he maintains that it matters if people at large don't like or don't trust the industry, because individual institutions are affected by the perception of the whole. No bank, he says, can afford to be silent in the face of negative, often inaccurate, views of what they do and how they operate. (The article about Keating begins on page 32.)

The question cited above is a good example of a perception that can't go unchallenged. We would like to have also pointed out that ethical behavior, shocking as it may seem, does not result from laws, rules, or regulations. Laws and rules codify what society deems to be inappropriate behavior and usually affixes some penalty to be applied after the fact. But any clever unethical person can get around a rule, or simply ignore it if he thinks it won't be enforced. (And the more the rules, the more likely will that be the case.) The way to encourage ethical behavior is the same no matter what the profession or group: Those in a position of leadership need to be ethical.

"Personal example is without superiority," a wise man said long ago. More recently, we recall an apropos comment made by Federal Reserve Board Governor Elizabeth "Betsy" Duke in a profile we did of her when she was a community bank CEO and incoming ABA chairman. Duke observed that employees watch you all the time. They compare what you say with what you do. And although she didn't say it, we would add that children do the same with their parents, and citizens do the same with government leaders.

Setting a good example works because most people tend to follow. Ultimately, however, each individual—leader or follower—must decide if he or she wishes to do the right thing despite what anyone else may be doing or saying.

That's where the rubber meets the road on ethics—not regulations. •

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