

For Release 10:00 a.m.
Eastern Standard Time
March 15, 1972

Remarks of J. L. Robertson
Vice Chairman of the Board of Governors
of the
Federal Reserve System

before the
Independent Bankers Association
of America

Hotel Americana
Bal Harbour, Florida

March 15, 1972

The Credibility Crisis

In searching for a subject for my remarks here, it occurred to me that since, in the formulation of monetary policy, I have been in the front lines longer than anyone else - more than two decades - I should say something about the economy, perhaps pinpointing the mistakes of the past, explaining how we got to where we are, and indicating where we go from here. But the more I thought about it, the more certain I was that that objective was not a good one. At least with respect to where we go from here, the papers are full of prognostications - some by persons whose only qualification would seem to be an academic degree. I think all I need to say to you on that subject is that, at long last, the fallacious and enervating doctrines of "gradualism" and "benign neglect" have been discarded - unfortunately, at the cost of price and wage controls - and that we are now headed in the right direction. Given time, the psychological attitudes of businessmen and consumers will change for the better. The wisdom and steadfastness with which we formulate and adhere to sound monetary and fiscal policies, while awaiting those changes in attitude, will determine not only the extent to which we succeed in reducing both inflation and unemployment, but also the time when we can safely dispense with controls.

Having given up that objective, I turned to another. I thought perhaps the Hunt Commission Report would meet my needs. But the more I read that report, the more inappropriate it seemed, because the good and bad ideas are so intertwined and knotted together that it is almost impossible to unravel them. In this political year, I am sure Congress will not be able to do so. Why should I impose on your time to discuss them now? Besides, few of you have any doubts about my views on any portion of the report. And so, again, I changed objectives.

The other day a play opened in Philadelphia called "The Selling of the President", in which the candidate is portrayed as having been born and raised in Broken Bow, Nebraska, my home town - a town about which bankers have been hearing for as long as I have been making speeches. The play is based on the book, "The Selling of the President 1968", by Joe McGinniss. I read that book and Broken

Bow was never mentioned. Why was it injected into the play? My guess is that the playwright is a banker on the side who is utilizing what he learned at your conventions to get to Broadway - or, perhaps, to enhance the credibility of his play.

Credibility is what I want to talk about today. We have heard a lot about credibility gaps in recent years. But I would put it more strongly. Our society is suffering from a credibility crisis. It affects the political world and the business world. It is a grave problem for our communications media. Our educational institutions and even our family life are touched by the growing lack of trust and confidence.

Some efforts have been made to augment credibility in the business world by enacting legislation. You in the banking business have been touched by this through the Truth in Lending Act, which has been under my wing from its inception. We are now seeing a major governmental effort to get a higher degree of truth in advertising. It must come as a great shock to many of the denizens of Madison Avenue to be confronted with demands that they both explain what they mean and provide proof when they claim that brand X is 20 per cent faster or brand Y lasts 10 per cent longer. Those percentages always remind me of Chinese economic statistics - they sound fine but you seldom know what the base is.

I do not know whether this drive for truth in advertising will ever get to the point where a certain newspaper is asked to prove that it really gives its readers "all the news that's fit to print", or whether a certain magazine will be asked to provide the statistics that will show that it really is "the world's most quoted news weekly". Probably not. One of the strange facets of the tell-the-truth campaign is that it has the enthusiastic support of most of the mass media, as long as it does not apply to them. The media agree that you bankers should be scrupulously honest in informing your customers about your interest charges. At the same time, some of them contend that "freedom of the press" gives anyone who has access to a

printing press or a microphone the right to lie and deceive, even if those lies are part of an effort to incite people to perform illegal acts, such as blowing up banks.

Examples of this curious double standard are not hard to find. One government agency, the Food and Drug Administration, is willing to use the full force of the law to stop an advertiser from exaggerating the effectiveness of its mouthwash in combatting cold germs. But another agency, the Federal Communications Commission, was apparently unwilling to even so much as slap the wrist of a powerful television network for showing its vast audience a baby that (according to the network) was dying of starvation, when the actual cause of death was premature birth and had nothing to do with malnutrition.

The protective mantle of the First Amendment to the Constitution has been draped around such varied activities as peddling pornography, pushing pot, and advocating arson, but it has not been extended to provide protection to those who would stretch the truth in their efforts to sell mouthwash or gasoline. Perhaps it is felt that the mendacity of Madison Avenue is a greater threat to our well being than the intellectual drivel of the pushers of drugs, debauchery, and destruction. But a consequence of our unprecedented tolerance of dissemination of destructive falsehood is the growth of the great credibility crisis that now confronts us.

We find the communications media being used to undermine the credibility of everyone who represents authority, whether it be the government official, the business leader, the police, the school teacher, or the mere parent. In turn, the credibility of the media is called into question, and the public regards with increasing skepticism what they are told by the press and the broadcasters. An ace political correspondent of the Washington Post put it this way:

"The measure of the failure of the newspapers is the open skepticism and even derision with which they are viewed by their customers.

The press has as big a credibility gap as any institution in this society."

A well known liberal academic, with extensive experience in high government positions, Daniel Patrick Moynihan, has voiced deep concern about the degree to which irresponsible behavior on the part of the news media is making it difficult for our government to perform its assigned tasks effectively. In an article published last year, Mr. Moynihan said:

"Hence the conditions are present for a protracted conflict in which the national government keeps losing. This might once have been a matter of little consequence or interest. It is, I believe, no longer such, for it now takes place within the context of what Nathan Glazer has described as an 'assault on the reputation of America...which has already succeeded in reducing this country, in the eyes of many American intellectuals, to outlaw status...' In other words, it is no longer a matter of this or that administration; it is becoming a matter of national morale, of a 'loss of confidence and nerve', some of whose possible consequences...are not pleasant to contemplate."

We can see those consequences emerging already. On the one hand, there is a growth in the number of cynics who believe nothing; on the other, we see an increase in the number of "true believers" who are guided by nothing but their own unshakable convictions. The cynics are bogged down in apathy and indecision. The true believers are fired with fanaticism, not tempered with knowledge. The ability of our people to cooperate to promote the general welfare is vastly diminished, as we find it increasingly difficult to reach agreement on what the general welfare is.

For example, virtually every country in the history of the world, including ours, has always placed high priority on maintaining its ability to defend itself against potential enemies. This priority was well stated by Adam

Smith two hundred years ago when he wrote in The Wealth of Nations: "Defense is much more important than opulence."

When Smith wrote those words, no one enjoyed much opulence in terms of present day standards. It is shocking that in a society that has more motor cars, television sets, air conditioners, etc., etc. per capita than any country in the world, the cry is going up that we cannot afford to spend the money required to provide ourselves with an adequate defense against our potential enemies. We are told that we must reorder our priorities and that national defense must be shoved far down the list. This is not just the cry of some "lunatic fringe". It is a theme that is put forward by serious contenders for high political office. It is supported by influential newspapers and by some of the most influential voices heard on that powerful medium, network television.

I do not question their motives, but I do question their judgment, and I am shocked by some of the methods that they employ to influence public opinion. Let me cite a couple examples of the methodology.

A few months ago one of the best known TV commentators in the country told his vast audience that two-thirds of the regular tax income of this country was spent on the military. He compared this unfavorably with the old state of Prussia, which he said was criticized around the world for spending half of its income on the military. The implication was that the United States is more militaristic than Prussia was in its heyday.

The statistics used by this commentator were incorrect. In the last fiscal year, our expenditures on national defense amounted to a little over 40 per cent of the revenues of the federal government. This year it is estimated that defense expenditures will amount to less than 36 per cent of federal revenue - a far cry from the figure of two-thirds used by the television

commentator. After his figures were challenged, the commentator attempted a lame justification which made little sense. He and his network refused to correct the misleading impression that was given to the estimated fifteen million people who heard the original broadcast. They refused to even acknowledge the fact that a far more valid measure of the relative defense burden carried by different countries is the ratio of defense expenditures to GNP. They have not informed their audience that in the last fiscal year the total defense expenditures of the United States amounted to just a little over 7 per cent of our GNP, the lowest this ratio has been for many years.

The commentator in question makes no bones about the fact that in his judgment the United States spends far too much on defense. He is one of those who wants to see our priorities drastically reordered. He appears to overlook the fact that it will not be Americans who reorder our priorities if we so weaken our defenses that we are unable to protect ourselves from an attack. However, he is entitled to his judgment. What he is not entitled to do, in my opinion, is to use his privileged position as a national television commentator to persuade others of the correctness of his judgment by feeding them false information.

The president of CBS News would appear to agree, because a few years ago he made this statement:

"Anybody in news who is unfair, biased or inaccurate--deliberately or negligently--despoils his journalistic heritage and demeans his profession."

That is a fine statement. Unfortunately, however, it would appear that it is not invariably heeded even in his own organization. You may recall that a year ago CBS broadcast a documentary called "The Selling of the Pentagon", which aroused great controversy. This CBS production has probably been charged with more inaccuracy and bias than any comparable television production

to date. I will cite only one example, not the most important, but one which is indisputable because it involves the use of false statistics.

In introducing the theme of huge Defense Department expenditures on public affairs, CBS noted that about \$30 million a year was budgeted for such expenditures. However, it pointed out that an "unpublished" study by the prestigious Twentieth Century Fund had estimated that such expenditures might be as high as \$190 million. CBS displayed a graph showing that this was more than all three television networks combined spent on their news programs. However, investigation by the critics revealed that at the time the CBS program was aired, the study by the Twentieth Century Fund had been published and that it contained no such figure. On the contrary, it said that no accurate estimate of total Defense Department spending on public affairs could be made. Although one of the papers prepared for the study had included the \$190 million estimate, the Twentieth Century Fund had not wished to lend its prestige to a figure that it did not consider to be reliable. The Twentieth Century Fund dropped it, but CBS did not. Whether this inaccuracy was deliberate or negligent I cannot say, but to borrow the words of the CBS official I just quoted, those responsible for it demean their profession. What is sadder still is that CBS has admitted the facts but has not to this day apologized for the inaccuracy or corrected the misinformation which it disseminated.

However, the most important criticism of this particular TV production centers on the basic veracity of the documentary.

There are those of us who think that if the taxpayer is to be asked to support a defense program that costs around \$80 billion a year, the government has a responsibility to tell him why it is necessary and what is being done with his money. CBS rejected that viewpoint so completely that it made no mention of it whatsoever in its documentary. The basic issue at the heart of this program was never debated. CBS assumed that

expenditures to inform the public about the need for national defense were unnecessary and then went on to show that they were being made, implying that it was showing the public examples of illegitimate and wasteful activities. It seems safe to infer that what the producers wanted to accomplish was not the trimming of a few million dollars from the Defense Department budget to save the taxpayers money. They were clearly after bigger game. If the government could be denied the right to finance an information program to maintain public support for national defense, then those such as the commentator I discussed earlier would find it much easier to win public support for really huge cuts in our national defense. The documentary clearly implied that we no longer needed to be as concerned with national defense as we once were, since we had been living in an era of peaceful coexistence for over a decade. That decade, I might note, included such events as the building of the Berlin Wall, the Cuban missile crisis, the Vietnam War, and the Soviet invasion of Czechoslovakia.

I call these matters to your attention today, rather than discussing with you banking matters or the state of our economy, because I, too, have become impressed with the importance of assigning proper priorities to our national goals. I had the privilege recently of reading the manuscript of a forthcoming book by General Lewis W. Walt, who retired last year from his post as Deputy Commandant of the Marine Corps. General Walt is not only a great soldier, but he is a most articulate and perceptive observer of the current scene.

His book bears an ominous title: "America Faces Defeat". It begins with words that everyone concerned with reordering priorities ought to think about. He says:

"Most living Americans have grown up in the most powerful nation on earth. Under the cover of that strength we have enjoyed an affluence hardly equalled in the history of any

nation. This era ended in 1971. Today, we are a second-class power and we will have to accept that role for at least four years. Perhaps longer, possibly, forever."

He goes on to say:

"The individual citizen has not yet felt the impact of this basic change from strength to weakness, from leadership to compromise. Each of us will feel it as the world market for our goods and services shrinks; as we find ourselves increasingly alone within the community of nations; as we are forced to abandon the noble projects we have devised for the health, education and welfare of every living American.

"Instead, we shall have to learn once again the harsh lessons of weakness, of being trampled upon, and how it is to tighten our belts in privation and gird ourselves for nearly hopeless conflicts. We face, today, either defeat or years of national tragedy."

Those are strong words - too strong, I am sure, for those TV commentators who juggle figures to persuade the public that America is already spending far more than necessary on national defense. I will be surprised if General Walt is invited to discuss his book and its dire warning on the popular TV talk shows. I will be surprised if our leading newspapers and magazines give it any serious attention, but not because it would be disquieting to the American people to hear such warnings. The media spokesmen are constantly telling us that they should not be blamed for conveying so much bad news to the public. They explain that if the news is bad, they have a sacred obligation to report it, and we should not conclude that they like it any more than we do. On that basis, of course, the media would not shrink from alerting the American public to the bad news that General Walt is bringing out in his forthcoming book.

My guess is that General Walt's warning will be largely ignored for the same reason that similar warnings voiced by other distinguished Americans have been ignored in recent years. The explanation lies in these words penned by David Broder of the Washington Post:

"Selectivity is the essence of all contemporary journalism. And selectivity implies criteria. Criteria depend on value judgments, which is a fancy word for opinions, preconceptions and prejudices."

It would be naive to suppose that the criteria for news selection employed by a TV commentator or a newspaper editor who believes that we are already spending far too much on defense would lead him to give prominent attention to the warning of General Walt.

That is why those of us who by chance are aware of such things must avail ourselves of opportunities to discuss them and to inform others. We must not permit our country to be immobilized and rendered defenseless by media manipulation.

Because of the credibility crisis, the average citizen is hard-pressed to know who and what is to be believed. I am prepared to admit that I am no expert on military matters. Perhaps experts such as General Walt who voice these disturbing warnings are wrong. But if we follow their advice and keep our defenses stronger than might really be necessary, what have we lost? Nothing more than a slight retardation in the expansion of what is the highest level of living the world has ever known. If, on the other hand, we follow the advice of those who say that a strong defense is not necessary and it develops that they are wrong, what will we lose? Our lives, our freedom, our country. I have no difficulty in choosing the side on which I would rather err.

I make no apology for appearing before you today to talk about matters that are not related to banking.

We are Americans first and bankers second. When our country is in danger, we ask our sons to interrupt their studies and careers, to shoulder arms and give their lives if necessary to defend us. It behooves all of us who have passed that age and who have risen to positions of leadership in our communities and our profession to take whatever steps we can to insure that our country remains strong; that we not slip into war or - worse - into surrender from weakness.

The likelihood that the national news media will continue to ignore the warnings of experts in this field may create the impression that what I have said to you today is a minority view of doubtful validity. In my view, that would be a false impression, flowing from what Theodore H. White has described as the increasing concentration in fewer hands of the cultural pattern of the United States. Mr. White has said: "You can take a compass with a one-mile radius and put it down at the corner of 5th Avenue and 51st Street in Manhattan and you have control of 95 per cent of the entire opinion-and-influence making in the United States."

That explains, perhaps, why we get the monotonous sameness of opinion from our national news media, much of it very much at odds with the deeply held views of what I believe to be the great majority of American people. There is no acceptance of the idea that those encompassed by Mr. White's circle ought to reflect the views of the people. One of the most prominent TV commentators reacted to such a notion by saying:

"More responsive to the public! What are they talking about?....I'm not about to adjust the work I do according to the waves of popular feeling that may come over the country. No responsible person can do that."

That surely means that the voices of the people must more frequently be heard in contradiction of the waves of feeling that emanate from that tiny group of men in Manhattan that make up, according to Mr. White,

95 per cent of the opinion-and-influence making in the United States.

Let no man be deterred. It has been said that it is easier to find a score of men wise enough to discover the truth than to find one man intrepid enough, in the face of opposition, to stand up for it. Perhaps that one takes his counsel from Daniel De Foe, who said: "He that has truth on his side is a fool, as well as a coward, if he is afraid to own it because of other men's opinions."