

# **Assessing Whether What We Know is So**

By

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One of my favorite quotes is, “It ain’t what you don’t know that hurts you so much as the things you know that ain’t so.” I first heard it from a college professor of mine who attributed it Will Rogers. I have also seen the same basic idea attributed to Mark Twain and to one Josh Billings. Many economists will tell you that anything truly wise can be found in *The Wealth of Nations*. I haven’t located the direct quote; but if you think about it, that is the theme of the entire book. Before Adam S Adam

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about 2 hours and 46 minutes of television per day.<sup>3</sup> When you think about it, this shouldn't be a surprise. When I was a kid, we did not have video games, instant messaging, computer games, DVDs, video movies, and the like. Kids may be sitting in front of screens more than they used to, but it is not in front of advertising-supported television shows; and they are not watching more food ads.

Another area where BE has learned that perhaps we “know” things that are not so concerns mortgage lending and the information that consumers get about loans. One of the things we “know” is that more information makes consumers better off. Often, it does, but selective presentation of information can be misleading, and presentation of irrelevant information can be confusing. For example, you might think that when a consumer uses a mortgage broker, it would be useful to know how much the broker is being compensated by the lender for delivering the loan. Indeed, there was a proposal that this third-party compensation should be given particularly prominent placement on HUD mortgage forms. But shopping for a mortgage based on the broker's third-party compensation is like buying a car based on the salesman's bonus rather than the price of the car. My BE colleagues Jan Pappalardo and Jim Lacko tested the proposed disclosure with a group of recent mortgage customers and found that the disclosure confused consumers about the cost of the loan.<sup>4</sup> When asked to choose between two loans, many mistakenly chose the more expensive loan rather than the cheaper loan. Based in part on that research, the HUD proposal was withdrawn and is undergoing reconsideration and further development. When it was withdrawn, OMB instructed HUD to consider the FTC's findings in any future proposals. Drs. Pappalardo and Lacko continue to study how well consumers understand mortgage cost information and mortgage cost disclosures and whether the current disclosure forms can be improved.

One of the things we think we know is so is that identity theft is a significant problem that we need to confront. Of course, we all believe we know this is so. For many people, however, the foundation for their belief might be television commercials for credit cards

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