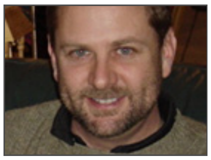

JEFF MCMAHON

SCORCHED EARTH

Retail sales are down because Americans are crazy

A full shopping cart is a sign of mental health. Image by Getty Images via @daylife

Faced with seemingly contradictory financial data–retail sales dropped in May but consumer confidence rose–the stock market plunged and then soared Friday, ending slightly higher on light trading.

This erratic behavior tested the financial press, which tasks itself with finding psychological explanations for financial data. Here is Yian Q. Mui, for example, writing in yesterday's Washington Post:

> The constant barrage of complicated and often contradictory data on the state of the economy has left American consumers dazed and confused and reluctant to spend."

I admire Mui and recognize that her mission is a daunting one: psychoanalyzing the American consumer, a writhing hydra with hundreds of millions of heads. I think it's worth exploring what Mui discovers. The first thing to notice in the sentence above, Mui's lead, is that American consumers analyze economic data in order to decide whether to shop. And whether we shop is, of course, the stuff of financial data.

Through a feat of prescience we analyze the data that analyzes us. It's as if we receive advance reports on whether we're going to shop–and how confident we feel–before we decide whether to shop, and before we feel how we're feeling.

ABOUT ME

Environmental reporting recruited me 25 years ago—on my first day as a reporter for my college newspaper, when I discovered my college was discarding radioactive waste in the regular city trash. Since then I've written hard news for dailies, including the Arizona Republic, and slanty news for alternative weeklies, including Newcity. I've written a column for New Times, stories on the Web for Forecast Earth, essays for PEN International and other magazines. I lived in an idyllic California village nestled among volcanoes and vineyards until my batteries were full of sunshine, and then I returned to my origins on the South Side of Chicago, where hope persists with no illusions about the struggle ahead. I cross the asphalt jungle by bicycle and el, mostly to get to the University of Chicago, where I teach journalism. But what matters more than any of this is a lifelong love for the natural world. We are all born with it, I believe, but some turn away.

This paradox should not surprise anyone–for if we Americans are expert at anything, it is shopping (even with retail sales down 1.2 percent, we spent $362.5 billion in May). Apparently, we develop a kind of sixth sense about it.

Setting aside this accomplishment, we find beneath it a diagnostic premise: *the consumer who does not spend is dazed and confused*. This means the consumer who spends is… what?

Sane and serene.

The behavior of sane Americans, according to this premise, is to spend. It's what we do when all is right with the world. It's what we don't do when we have bees in our bonnet or bats in our belfy.

"We're all schizophrenic," David Wyss, chief economist for Standard & Poor's, tells Mui. "People remain nervous about borrowing money and about spending money, and they darn well ought to."

Wyss brings a new gerund into play: not just spending but *borrowing*. Why the hell aren't Americans borrowing and spending? They must be crazy. Sane Americans would borrow money and spend it.

Last week, the Federal Reserve released a report on consumer credit. Americans owe $2.44 trillion, it said, and indeed, that's $100 billion less than we owed during the closing years of the Bush Administration.

We could be borrowing less because we're insane, but isn't there another possibility? I'm not an economist, or even a financial reporter, but it seems to me that the opposite psychological explanation is equally plausible:

What if Americans shop when we're dazed and confused and *don't shop* when we're sane?

What if consumer confidence is up because Americans rightly perceive the economy improving, and retail sales are down because Americans rightly perceive the folly of spending more money than we have?

We just survived traumatic upheaval caused by profligate spending, fueled by debt, in which we inflated the economy by burdening our heavily mortgaged lives with loads of unnecessary crap: not just ShamWows and Snuggies and the Big Mouth Billy Bass, but also cars, houses, and wars we don't need.

Having experienced that collapse–remember, just two years ago our banks were near failure–perhaps Americans have wised up. Perhaps we've realized we don't need, and could never really afford, all the crap that fills our homes and charge-card accounts.

So we're going to buy less of it.

This sounds sane to me. But I might be crazy. It's a very troubling thought in economic circles because consumer spending makes up about 70 percent of U.S. economic activity.

It's a thought that eventually percolates to the surface of Mui's report in the Washington Post:

"Is it possible that Americans can feel good," Mui asks, "without spending money?"

Faced with a perplexing question, Mui does what any financial reporter would do–she interviews an American consumer. Mui finds Venita Murphy in front of a rack of blue jeans at Macy's.

Sure enough, as she fondles a pair of jeans–which are marked down 40 percent–Venita is busily analyzing economic data:

> Venita Murphy, 52, of Clinton has seen news about the stock markets going up and down and back again. She said she thinks the economy is getting better, particularly in housing prices, but she's not sure. Murphy said she has noticed more people begging for money and the Metro feels more crowded with folks hunting for jobs."

In the end, with the Washington Post as her witness, Venita decides not to buy the jeans. Likewise, Mui informs us, Venita won't be going on any cruises this year.

We have two possible psychological explanations for Venita's behavior. According to Mui and Wyss, Venita's behavior is dazed and confused and schizophrenic.

If she were sane, she'd be sipping a mai tai on the deck of a Carnival cruise ship right now, brimming with pride that she saved 40 percent on her new jeans… giving not the slightest thought to next month's credit card bill.

And that would be the best scenario, in fact, because when Venita begins to act too frugal her doctor could prescribe an anti-psychotic medication–clozapine, say–to get her back on board.

But what if the opposite explanation is correct, and Venita is actually being sane by choosing not to put those jeans, or that cruise, on her credit card?

The American economy would have to shrink or change.

And that's a difficult and unpleasant thought. The president who endorses, or even presides over a shrinking economy is soon working on his presidential library. And Americans accustomed to an economy driven by profligate spending would have to take up another economic activity in its place. Like what? We don't know. So let's go back to the insanity premise.

We're all a bit dazed and confused and schizophrenic right now, and consumer schizophrenia produces investor anxiety. This explains not only the contradictory financial data, but also the market fluctuations. According to the Associated Press:

> Friday's reports follow a trend over the past month showing an uneven recovery, which has added **concern** to a market that is already struggling with **worries** about Europe's economy. The Dow has mostly fallen since late April as investors **worry**…. Analysts say everyday investors are still **nervous** about the market and economy, and are sitting on the sidelines.

These are conditions we can treat, luckily. Clozapine for consumers, clonazepam for investors. That should get things back on track.

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