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## **New economic theory: I shop, therefore, I'm confused**

*Debra D Bass. McClatchy - Tribune News Service. Washington: Apr 7, 2009.*

### **Abstract (Summary)**

We know that in an ideal world everyone would pay off their credit cards monthly and financial institutions would be satisfied reaping modest profits from user fees and loans to purchase real estate, automobiles and the occasional extravagance. If everyone cuts back sharply, we would be doomed, he admitted. [...] he noted, there are people who don't need to cut back.

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### **Full Text (891 words)**

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Blissful consumerism has been transformed from a joke -- "shopping, that's how I get my cardio" -- to a source of grave trepidation.

Conflicting messages of doom and hope, despair and revitalization are enough to give any credit-card enthusiast a perpetual migraine.

We know that in an ideal world everyone would pay off their credit cards monthly and financial institutions would be satisfied reaping modest profits from user fees and loans to purchase real estate, automobiles and the occasional extravagance. And all would be right with the world.

That system is horrendously out of whack, and we find ourselves in this nutty, topsy-turvy economic climate.

Consumers like us are wondering what we can do to help. Should we pay off our debt and divert more to savings or should we shop and spend our way out of this crunch?

The frustrating answer we get is, "it depends." All because experts disagree on how much debt is too much debt.

If you can afford it, it's not bad debt.

If you can't afford it, it is.

The trick is developing a reasonable understanding of what you can and can't afford. Sadly, as a nation, we're about as good at that as we are at food portion control.

"Debt makes sense," explains James Fisher, an associate professor of marketing at St. Louis University. "It reflects a certain confidence in the economy and confidence in your future earnings."

This means that if you spend money you don't have, you're confident that you'll earn more. That's good.

But what if you spend money you don't have and your earnings stop or drop? Well, he notes, that's bad.

"I don't know what the exact answer is, but I can tell people what's best for them, even if it's not the best for the economy," said Pat Seaman, director of marketing and communications for National Endowment of Financial Education.

She agrees that not all debt is bad, but she preaches the evils of wanton consumerism.

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"An economy propped up by consumer spending propped up by credit is not a sustainable model," Seaman said.

She says that if consumers start spending responsibly, companies will eventually adjust.

And in the meantime, how much lower will stocks fall? How many more companies will fail? How many more jobs will be lost? And what about all the great discounts?

Seaman is stoic. She says we are waking up with a spending hangover and there are bound to be some unpleasant side effects. Step one, however, is admitting that we have a problem.

To that end, the National Endowment of Financial Education has set up an online confessional for your shopping sins at [www.spendster.org](http://www.spendster.org). Did you buy leather boots from your office computer at lunch? Did you order a Snuggie from the Home Shopping Network last night? Or maybe you just spent an extra \$3 on lavender-scented laundry detergent?

"We wanted to have a place for people to acknowledge these things publicly and confront the fact that it's time to change their behavior," Seaman said. By the way, her sin was drinking egregious amounts of diet sodas.

Jack Strauss, the chairman of economics at SLU, put it like this during a phone interview: "Like a lot of social things -- let's say, drinking (alcohol) and eating chocolate -- there are things that are good in the short run, such as going out and having a good time Friday night, but in the long run maybe causes diabetes or make you fat."

Strauss said that we, as a nation of consumers, are alcoholic-chocoholics and fat on excess consumption (OK, he didn't exactly say that, but that's what he meant). But he did say that quitting cold turkey is not a good idea. For one, it rarely works as a treatment for addiction, and it could trigger another binge. Moderation is key.

If everyone cuts back sharply, we would be doomed, he admitted. Besides, he noted, there are people who don't need to cut back. People who have secure jobs and savings accounts and are hopeful about their future should take advantage of the discounts available and continue indulging.

"Being thrifty is good, but if everyone becomes thrifty at one time, it is bad," Strauss said, paraphrasing English economist John Maynard Keynes' much-discussed paradox of thrift.

Everyone agrees that cautious spending is the cure-all to this hangover.

"There really are a lot of parallels to weight loss," Seaman said. "We all know how to lose weight. We all know exactly what to do. But if losing weight were easy, we'd be a size zero."

And we all know how easy that is. (c) 2009, St. Louis Post-Dispatch. Visit the Post-Dispatch on the World Wide Web at <http://www.stltoday.com/>

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