

## Inflation and the Average Item

by [Andrew S. Fischer](#)

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The federal government claims (as usual) that inflation was [mild in October](#). Just 0.3% for the month and 3.5% year-over-year. Yet again we will hear so-called financial experts on television and other media parrot the government's inflation figures, as if they had any semblance to reality. [Shadow Government Statistics](#), a far more believable source, shows a 7% year-over-year increase in CPI, and this correlates quite well with (at least my) real-world experience.

The feds' [BLS website](#) shows these price increases for the 12 months ended October 2007 (unadjusted):

Food and beverages:	+4.4% (ludicrous)
Housing:	+3.1% (I thought prices were coming down....)
Apparel:	-1.2% (perhaps)
Transportation:	+5.8% (possibly)
Medical care:	+4.8% (are they kidding?)
Recreation:	+0.5% (unlikely)
Education & communication:	+2.6% (this combo makes no sense)
Other goods & services:	+3.5% (really?)
Energy:	+14.5% (up from a mere 5.3% at 9/30/07)
<b>Overall, 12 mos. ended 10/31/07:</b>	<b>+3.5% (ha ha ha!)</b>

These ridiculously low government inflation figures are easily swallowed by the craven financial media, a gullible public, and deluded Keynesian economists on cable TV. As pointed out by others more knowledgeable than I, the government's numbers are distorted via various means, such as [substitution and hedonic pricing](#).

What really matters, in my opinion, is the *absolute price increase of the average item* of its type over the period of time in question. For example, say last year's *average PC* cost \$600. This year it costs \$660, an increase of 10%. The government may believe that this year's average PC includes double the RAM and a faster hard drive, and this may, in fact, be true. It will thus contend that these enhancements make the new PC 10% better, and exactly offset the \$60 price increase and therefore the average PC (on the market today) had no year-over-year increase, and thus an annual inflation rate of zero.

However, I contend that this is a disingenuous sleight of hand, since in *today's world* you must pay \$60 more for a computer that functions according to *today's standards of what is average*. This perception of "average" is fueled by millions of consumers with individual demands. For the PC, what is of average value today may be vastly different from what it was last year. The same principle applies to cars, cellphones and everything else. If the price of an "average item" of its type has increased, then that becomes the new standard. If the cost of that average item has increased by 10%, then it doesn't matter how much better the new version of "average" has become – its price has inflated by 10%, and should be recorded as such in government calculations.

Manufactured products *always* increase in quality, and older versions eventually become obsolete or wear out, e.g., older vacuum cleaners, flashlights, televisions, cars, coffee makers and computers. A consumer can "make do" with some items, such as stereo speakers, for decades, but since new and improved models appear all the time, the quality of the *average* speaker is always increasing. My half-decent thirty-year-old speakers still work, although they now have a market value of zero. Assuming I paid \$50 thirty years ago, and half-decent speakers (by today's standards) cost \$200 now, in my view the price of speakers has quadrupled. However, the government could claim, with a figurative straight face, that since the new speakers are four times better than the old ones, there has really been a zero increase in price.

This is because new products almost *always* have more value than previous models. They are *supposed to* have more value. This is the very nature of the free marketplace: more, better, cheaper. Only if a 2008 Toyota Corolla (assuming it is the "average" car) costs less than the 2007 model and is *exactly the same* can it be suggested that price *deflation* has taken place. If the 2008 model costs more and is the same as the 2007 model, or has a few new bells and whistles, then price *inflation* has occurred, assuming it is the average car both years. An observer might say "you're paying more, but you're getting more," but I say no – you're paying more for this year's *average car*.

Getting back to real-world inflation, just walk into any supermarket. I don't know about you, but almost everything I buy goes up in price – sometimes dramatically – at least twice a year. This applies especially to anything packaged. Frozen pies are now \$6 each, just a few years ago they were \$3. Prepared cakes such as Entenmann's jump in price by 10 percent every time I look, while their quality goes down. Cereal goes up 5% every couple of months. Soap and deodorant cost almost double what they did a couple of years ago. Apples are \$2.50 a pound and climbing. A decent-sized onion, yam or tomato costs a dollar – and they're just seeds that have been stuck in the dirt and doused with rainwater! A decent loaf of bread is \$3.00; I remember it being 14 cents when I was a kid. Chicken breasts are inching up in price regularly. Beef is almost a luxury item now. Veal? Forget it. The claim that food prices are "volatile" and hence excluded from "core inflation" is asinine. They may fluctuate, but only within the framework of the "ratchet effect" – two notches higher and one back. The trend is always up.

None of the above considers the omnipresent decreases in quality and downsizing in almost every product at the store. The pies have less filling, the cakes have less (or no) chocolate, and that loaf of bread is 14.5 ounces instead of a pound. Factor in these negative quality adjustments and the price increases of the items are a lot higher than the government reports.

Consumers are smart enough to realize that their half-gallons of ice cream are now 1.75 quarts, but they are generally not attuned to the incremental nature of price inflation. They can't make the connection between government spending and the decrease in their purchasing power, of the decrease in the value of their dollars (let alone understand M3 expansion). They just attribute the increase in prices to "greedy corporations" or shrug and say "prices always go up." This is why the government and its banking cartel, the Federal Reserve, love to print money. It keeps the game alive, creates the illusion of prosperity, and more than likely the public will not catch on.

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