Hedonic Adjustments and the Mulligans of Monetary Policy

By The Mogambo Guru

08/02/10 Tampa, Florida – I knew it was going to be “one of those days” when, on the very first fairway, this new guy Bob says that he thought my tee shot had landed over there behind those trees, and how he is surprised to see that my golf ball is now sitting on the fairway, and another twenty yards further towards the hole, too.

Of course, I knew where he was headed with this, and I took charge of the situation by patiently explaining how he was just a stupid layman, while I was the hotshot economist who knows how price increases are “hedonically adjusted” to make things look better, a skill that I apply to my tee shot by adding back the yardage lost to the slice by rectifying the original curved trajectory, thus adding 20 yards to my distance off the tee, and then averaging my distance off-line with the exponentially-weighted average of previous shots on the first tee, a lot of which were on the other side of the fairway, thus placing me, statistically, here, on the fairway, just right of center. Moron.

Well, there was a heated discussion, ending with me yelling, “Alright, then, Mister Moron, then how in the hell do you reconcile the latest government report, which admits to using hedonic adjustments of all kinds to disguise inflation in prices, showing a mere 1.1% year-over-year inflation in consumer prices, with the fact that *The Economist* magazine has ‘All Items’ inflation at a terrifying 13.1%, with ‘Food’ being up the least of all categories – and by a long shot! – at an even more terrifying 5.4%?!?”

Apparently, the use of the interrobang as punctuation, to indicate my complete exasperation and befuddlement, really set ol’ Bob off, and he was, from then on, perfectly agreeable that I was within my rights to apply such logical reasoning to golf, even going so far as to provide myself with a “free lift” out of pesky greenside sand traps by merely “adjusting the market basket” of golf hazards, modeled on another splendid hedonic adjustment that the Fed applies to reduce actual price inflation.

I admit that I was already a bit testy, as the day before I had received the bill with my new, higher health insurance premium. If you want to see real inflation, my health insurance premium is (gulp!) up 13%, and is now $14,280 per year!

But it gets worse! To get that $14,280 a year, I have to first pay 15.3% in self-employment taxes, and then I have to pay income taxes on half of my self-employment income taxes, all of which boils down to me making $17,091 a year just to pay self-employment taxes on the money, income taxes on half the self-employment taxes I already paid, and then pay the insurance premium with what’s left. Wow! You want to talk about inflation?

The average family income is $53,000, and add a couple of kids to the insurance, and you are talking about health insurance consuming 38% of their gross, before-tax, income!

And if you dare use any healthcare services, the first $2,000 of expenses are all yours, too, which will cost $2,394 before taxes, and then another 20% of claims all up to the out-of-pocket maximum. Wow!

Anyway, the point is that the rules of golf are, like monetary policy conducted by the modern Federal Reserve, flexible when you want them to be, and thus when the Fed and the government lie about inflation in prices with statistical hocus-pocus and get away with it, then statistical hocus-pocus it shall be, here as it is in Washington, DC, which rhymes so you know it's true.

Trying to be helpful, I interrupted Bob during his delicate, 5-foot, down-hill, left-to-right putt to save par to tell him, "And let's not forget that John Williams at shadowstats.com calculates price inflation the old-fashioned, honest-to-goodness way, and the last time I looked, he showed that inflation was running north of 6%, which is, besides seemingly correct, a terrifying, horrifying rate of inflation in prices! Gaaahhh!"

I could tell by the way he immediately overreacted and started screaming at me that he did not want to hear any more about inflation in prices, or monetary policy, and in fact he rudely ignored me for the rest of the round.

So you can see why I never got a chance to tell him to buy gold, silver and oil to protect himself from the inflation in prices that will result from the government deficit-spending 10% of GDP and the Federal Reserve creating the money to accomplish the fact.

But since he has such keen, powerful eyes that he can tell precisely where my stupid golf ball went versus where it ended up, and yet cannot understand hedonic adjustments or how we are all screwed by inflation in prices as a result of the Federal Reserve creating so much money, then I trust he will see it for himself.