



Real Inflation: The Magic of Hedonics, Geometric weighting, Substitution, and Seasonal adjustments

Posted by [Prof. Goose](#) on July 6, 2005 - 6:40am

I just stumbled on [this piece that seems a nice primer on government manipulation of the CPI numbers](#) and other key economic indices that make up the bases for cost of living/inflation adjustments and the like. Is this a good explanation for those of us not well-versed in the economic side of this? Some snippets:

A caller into a Washington D.C. talk show asked a very pertinent question regarding the business of living. "Have they changed the way they measure the rate of inflation? The CPI report in May was zero percent, excluding food and energy. If you take those things out, that is what is primarily driving up everything. What would be the real inflation rate, if you add back everything they take out?"

The caller was smart enough to know something changed and he was right. In the early 90's the government realized it had a problem with rising entitlement costs for Social Security, Medicare, and government pensions. These entitlement payments were indexed by the inflation rate each year. With inflation on the rise it meant these costs were rising faster, thus making government deficits much worse. In order to bring the government deficits under control, it would be necessary to bring rising entitlement costs down. One way to lower entitlements would be to bring the inflation rates down, which would translate into lower Cost of Living Adjustments (COLA).

Doesn't this sort of manipulation make a crash even more likely, the longer we wait to see that there is an actual problem, doesn't it mean that, when the problem actually arrives, the fall will be worse?

This is exactly what I have been talking about regarding the rationality of politicians of both parties. They will continue to practice inaction like there's no pressing problem, of course, until the real problem hits, then they'll blame each other and we'll be left holding the bag.

Technorati Tags: [peak oil](#), [oil](#)



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](#).