

## THE INVISIBLE INCREASE IN REAL INCOME

*By Richard W. Rahn*  
*April 18, 2015*

*Most people have experienced much greater increases in their real income than they recognize. This unseen real income gain is largely due to spectacular advances in quality and usefulness of most goods and services.*

*Take a look at your smart phone and do an experiment. Look at each app and then try to calculate how much time and cost it would have taken you two decades ago to have acquired the same information – if it was even possible.*

My Cato Institute colleague, Marian L. Tupy, editor of [www.humanprogress.org](http://www.humanprogress.org) has created a web site that presents considerable information on the increase in global liberty and prosperity. Most of the data in the remainder of this article comes from the information that Tupy has put together on the HumanProgress.org web site.

If you visit the web site, you are likely to be astounded as to the amount of progress we have made during the last century, but I will argue that the official data presented understates the gain in real incomes broadly defined.

There has been much discussion about wage stagnation for the bottom 90 percent, and it is true that during the last several years inflation-adjusted wages have not grown at the rate they did in the past for most people in the U.S. and the majority of the other high-income countries.

But it is also true that after adjusting for taxes, which disproportionately fall on those with the highest incomes, and government transfer payments, there has been almost no increase in the degree of income inequality during the last 30 years.

The slowdown in economic growth can almost be totally explained by the growth in government spending, taxes, and particularly regulation – all of which have drained vitality from many economies.

The good news is that many people and businesses around the world continue to create new goods and services at a rapid rate, which makes life both easier and better for most people. The cell phone is example number one. There are now about as many cell phones on the planet as there are people.

Almost every adult now has one – even in developing countries like India. Almost two billion people have smart phones and that number is growing rapidly. In many low-income countries, the cell phone has become the preferred method for paying for goods and services – that is the wallet – and the phone companies have become payment networks. All of this has occurred in just the last twenty or so years.

If you have a smart phone, you have access to all of the world's information in your hand. Colleges used to compete and brag about the number of books in their libraries. Some of the Ivy League schools have spent a couple hundred years collecting millions of volumes at great expense.

Now, with everything on line, the number of books in a college library is almost irrelevant. College accrediting agencies, being backward rather than forward looking, still place some importance on this, now meaningless number.

The PC, the iPad, other tablets, and the smart phone enable almost anyone in the world who is motivated to learn almost anything at little cost. The amount of money spent on education is what goes into the national and global gross domestic product (GDP) numbers.

What is learned – the important measure of “real income, wealth, and well-being” – is largely ignored in the official statistics. As a result of the new technologies, the real cost of education, per unit of knowledge, will decline. The educational establishment and the teachers' unions, of course, will fight any budget cuts, falsely claiming that reduced government spending on education means less learning and knowledge.

Note the photos of the 1913 Ford Model T and the 2013 Ford Fiesta (Ford's current most basic automobile). The Model T cost US\$525 in 1913, while the price of the 2013 Fiesta was \$14,000. The average hourly wage in 1913 was twenty cents, so it took about 2,625 hours of work (more than a year) for the average worker to buy the car.

### **1913 FORD MODEL T vs 2013 FORD FIESTA**



**1913 price: \$525.**  
**1913 avg. hourly wage: \$0.20.**  
**Hours needed: 2,625**



**2013 price: \$14,000.**  
**2013 avg. hourly wage: \$27.92.**  
**Hours needed: 501.**

**REDUCTION: 82 PERCENT**

In 2013, the average hourly wage was \$27.92, so it only took about 501 hours of work, or three months, for the average worker to buy the Fiesta, for a reduction of 82 percent in work hours.

This vast improvement in real income is captured in the GDP statistics. What is largely uncaptured in the official numbers is the astounding improvement in the product: improvements in comfort, safety, convenience, reliability, and costs to operate. In the next few years, people will be able to purchase self-

driving cars. Comparing a very safe, self-driving car with a Model T makes little sense – in that they are not the same product.

In 1900, John D. Rockefeller (1839-1937) was by far the richest man in the world, yet few reading this would probably want to trade places with. He had large homes, but they were not air-conditioned. The first few automobiles were just being experimented with, and so he had to get around by an uncomfortable horse and buggy, or by steam train, or steamboat.

The airplane, radio, and TV had not yet been invented. Medical technology was still primitive, and a severe injury or infection often quickly led to death – antibiotics had not yet been discovered and developed.

The first color TV sets went on sale in 1954 at a price of around \$1,000, when the average hourly wage was \$1.97, equal to 508 hours of work. At an average hourly wage of \$27.92, it takes roughly eight hours of work (\$220) to buy a very large HDTV.

The reduction in real cost is about 98 percent, but the largely unmeasured real income increase is not measured. No matter how much money you had in 1960, you could not buy a 50” HDTV.

The first Apple II was offered for sale in 1978 at a price of \$1,298 (about \$5,000 in today’s dollars) with a maximum of 64KB of memory. At the time, there was a great deal of discussion about why would one even want a personal computer, but by 1990 about 80 percent of households had one.

The sales prices of computers are included in GDP, but the real value (implicit income) comes from the pleasure and usefulness we derive from them. Apple is the most valuable company in the world and now has a market cap of about \$700 billion.

The reason Apple is so valuable is the company is able to sell its iPads, iPhones, etc. at high margins, because these products provide Apple’s customers with so much satisfaction.

The difference in the cost of things you would have bought twenty years ago with the money you now spend on iPads, and iPhones is an unmeasured increase in your perceived real well-being or income.

The un-quantified improvements in goods and services, and all of the new things that we buy in preference to the old things are really an increase in our real “incomes.”

Most people have seen their lives improve much faster than the official statistics would indicate because of the un-measured value to individuals from continued product and service improvement, including all that is new and desirable.



<https://www.caymanfinancialreview.com/2015/04/18/the-invisible-increase-in-real-income/>