

Inflation and cheap people

When I was a kid, old and middle-aged people had a reputation for being cheap. They still do. Now that I am middle-aged myself, I am one of the cheap ones and I think I know why. It's not because I have more expenses or less income. Instead, it's because of inflation.

Inflation is the percentage increase in the average price level. Over the last 106 years, the average inflation rate has been 3 percent. That's low enough that most people don't notice that the prices of most goods are increasing over

time. But if enough time passes, the slow increases in prices can have noticeable effects. Prices have doubled since 1990. This means that fifty cents in 1990 had the same purchasing power as a dollar does today.

People become cheap with time because they keep the 1990 prices in their heads. A middle-aged person might think: "I know what a babysitter should

be paid. In 1990, I earned \$4 an hour babysitting." Or they might think: "I know what I should pay a neighborhood kid to mow my lawn. It is \$5 an hour, which is what I earned in 1990 when I mowed lawns." In both cases, the middle-aged people believe they should pay about half of what they really should be paying in 2021. The middle-aged people never noticed the price changes each year. But, because prices increased in almost every year, at least a little bit, the cumulative impact was enough that us older people have prices in our heads that are out of touch with the current times.

Of course, the problem gets worse as we get older. Older people have prices in their heads from even further back. The steady inflation that we've seen makes these old prices even more unrealistic. Thirty-two cents in 1980 has the same purchasing power as a dollar from today. So, people with 1980 prices in their heads believe goods and services should cost about $\frac{1}{3}$ of what they actually cost today.

In the late 1970s and early 1980s, our country experienced

high inflation rates that exceeded 10 percent for three consecutive years. Because of these high inflation rates, if people are remembering prices from the 1970s or 1960s, their prices are even more unrealistic in today's world. Fifteen cents in 1970 had the same purchasing power as a dollar has today. Eleven cents in 1960 has the same purchasing power as today's dollar. It's no wonder us older people are cheap. If I have a 1970s price in my head, that price is about $\frac{1}{7}$ of what it should be in 2021.

Of course, knowing a problem is the first step to solving it. Because I look at numbers and calculate inflation rates, I know inflation is always with us even if I do not notice it by looking at actual prices. I find myself using a rule of thumb. I have a lot of prices in my head from 1990, so when I think about how much something should cost today, I remember the 1990 price and then I double it. Undoubtedly, I am a bit less cheap because of my rule of thumb. Although people who know me probably still think I am cheap. My rule of thumb hasn't changed my image, just softened it a bit.

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