
Median household income is $1.5 million; you just didn?t know it. That?s what the *Wall Street Journal*?s Andy Kessler thinks. I?m not making that up. He dedicated his most recent column to constructing a proof for that thesis. Granted, Kessler doesn?t say it exactly like that. Instead, he works backwards from nominal median household income of $51,640 in 2016 to the equivalent, in his estimate, of a mere $347 in 1973. **But to go from $51,000 to $347 in 44 years, you have to discount the $51,000 by around 12% annually.** If that sounds like a big discount rate, it is. But that?s what Kessler thinks all the technological advances that have occurred since 1973 are worth, despite the fact that the clumsy Bureau of Labor Statistics inflation numbers haven't accounted for them accurately. **However, if we move in the opposite direction, beginning with the nominal median income in 1973 -- $10,500 -- and compounding it for 44 years at 12%, we arrive at around $1.5 million**. This is what a more accurate *?hedonic adjustment?* for technological advances would reflect as the median household?s purchasing power, according to Kessler. For example, smart phones, as Kessler describes them, act as:

> *?Our newspaper deliveryman, librarian, stenographer, secretary, personal shopper, DJ, newscaster, broker, weatherman, fortuneteller?shall I go on? The mythical man of 1973 certainly couldn?t afford $100,000 or more for dozens of workers at his beckoning.?*

And, Kessler asks, how much would we pay for someone to sit in our cars and perform the task of automatic breaking systems? Of course, the answer could well be nothing. We?d simply live with the extra risk as we did from the invention of the automobile until the invention of automatic breaking. And most of us would give up our smart phones for an extra $100,000 or roughly twice the median household income. **If smart phones are really worth what Kessler says they are, this is the test they must pass. I doubt a smart phone would stack up to $100,000 for most people.** Here?s another way to think of hedonic adjustment and whether the middle class is living ?high on the hog,? as Kessler says. In 1973, the average rent was $175 per month or $2100 per year. In other words, rent was around 20% of household income. Today, however, rent is around $1200 per month or $14,400 per year. That?s 28% of $51,000. So we have smart phones and automatic breaking systems on our cars, but do those things make up for rent taking out a bigger piece of our paycheck every month? Kessler doesn?t say. He does say that most hedge fund managers he knows think the CPI is obsolete as a measure of inflation, and prefer the CRB Commodity Index. There?s nothing particularly wrong with using a basket of commodities as an inflation gauge, but it?s hard to know how a commodity index accounts for the technology development that Kessler thinks is so sorely missing from CPI. More importantly, Kessler talks to hedge fund managers and was once one himself, but he doesn't seem to have ever had a conversation with one of the investors Michael Lewis profiled in his book *The Big Short*. As Lewis tells it, Steve Eisman was trained as a stock analyst specializing in banks and other lending companies, and he didn't know much about the bond market. But he arrived at his decision to short• subprime mortgage-backed bonds partly from having observed as an equity analyst of "specialty finance" companies that middle class Americans were experiencing income stagnation and could only maintain their standard of living by borrowing through credit cards and against the value of their homes. Of course, Wall Street and the companies Eisman covered were happy to oblige them in this endeavor. Eisman was a big critic of the banks leading up to the crisis, and shorted many of their stocks in addition to subprime mortgage-backed bonds. But here?s Eisman?s statement in a 2016 NYTimes op-ed column, where he argues against breaking up the banks after their post-crisis reforms, lest that would cause us to avoid the real• problem of income stagnation:

> *?The central economic problem of our time is income inequality, especially the lack of personal income growth for most Americans, which was one of the underlying causes of the financial crisis. In lieu of rising incomes, credit was allowed to be democratized. Living standards were maintained only because increased credit supplemented deteriorating incomes. That helps explain, post-crisis, why United States growth is slow: Without easy credit, consumers cannot increase spending, because their incomes have fallen since 2007.?*

I don?t know what prescient bets the hedge fund managers Andy Kessler speaks to have made. But when he contemplates the fortunes of today?s middle class, Kessler might want to expand the circle of investors with whom he exchanges ideas.