Thanks to Market Innovation Americans Live Better for Less

Today with the same purchasing power he could furnish his whole kitchen and have enough left over to buy nine high-end electronic items as well.

By adjusting for inflation at the Bureau of Labor Statistics Inflation Calculator, the purchasing power of $750 in 1964 is equivalent to $5,473 today. With that as his budget, today's Christmas shopper could buy:

• a washer and dryer ($450 + $378),

• an electric range ($350),

• a freezer ($315),

• a refrigerator ($400),

• a microwave oven ($76),

• a dishwasher ($297), and

• a blender ($60)

for a total of $2,326, with $3,147 left over.

With that he could then purchase:

a laptop computer ($450),

• a GPS ($139),

• a camera ($200),

• a home theater ($500),

• a plasma HDTV ($700),

• an iPod Touch ($175),

• a Blu-Ray player ($219),

• a 300-CD changer ($210), and

• a Tivo recorder ($300)

totaling $2,893 and still leave him with $250 to spare.

Granted, this mythical shopper could spend more on some items or have a different Christmas list, but the point is well made. Despite ever encroaching government regulations on the private market, increasing price inflation thanks to the Federal Reserve, a dysfunctional Congress, huge deficits, an economy that is struggling, and a European financial system teetering on the edge, the incentives remaining in the marketplace continue to drive entrepreneurs to create and market amazing consumer products, many of which weren't even in existence in 1964.

Not to leave well enough alone, Perry then went back to 1948 and calculated just what percentage food, cars, clothing and household furnishings took out of the average family's budget. In 1948, these items consumed nearly half of that budget. Today they take less than one-sixth.

How is this possible? Putting aside for the moment the negative outside influences that appear to threaten the very existence of the capitalist system, how is it that prices go down so fast that they end up improving the general standard of living?

When capital seeks its best and highest use, it will be rewarded. When products are produced that provide a solution or answer a need, sufficient demand will result in profits flowing to the producer. A fair question, then, is in this apparently never-ending decline in the cost of consumer goods aren't some capitalists ruined? Aren't some mistakes made? Isn't some, perhaps a lot, of capital incorrectly allocated? Or worse, isn't some capital that was profitably employed now found to be unprofitably employed?

Consider where the consumer did his shopping. In 1964 he could have purchased his color TV at Sears and been happy with his purchase. For a hundred years Sears has developed its marketing strategies to meet successfully a changing marketplace. Through its catalog sales and then expansion into retail stores and its acquisitions of and mergers with other companies, it has succeeded. In American history it is an icon.

But where is today's consumer doing his shopping? Not at Sears. It has failed to keep up with the changing retail market of the 21st century. It is now in 10th place behind Walmart, Kroger, Target, Walgreens, The Home Depot, Costco, CVS Caremark, Lowe's, and Best Buy. Its finances are in awful shape and Moody's recently reduced its rating on the company further into junk status while its shares have dropped from $94 a share in February to $45 a share currently.

What happened? The simple answer is the same thing that always happens in a competitive economy. Customers' needs and wants reign supreme and when a company fails to serve, it fails. And Sears is failing.

How many electronics suppliers have failed in the process of bringing the best to the marketplace? How many computer companies have failed in the process of bringing the current crop of laptops to market? The landscape is littered with the shells of companies that succeeded for a while — for a long while, like Sears — and then faded as the market changed.

What the customer today is enjoying is the result of the "creative destruction" that is a natural part of the market economy fighting to maintain and improve its position in the marketplace, at a profit.

The lessons from Perry's shopper example enjoying the fruits of this creative destruction are many, not the least of which is that, despite everything, producers continue to develop remarkable products at lower and lower prices, which increases his shopper's standard of living dramatically. What other system works so well?