

Inflation, Deflation and “Got You” Prices

By [Washington's Blog](#)

Theme: [History](#)

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Scott Patterson [writes](#) in the Wall Street Journal that we won't get inflation until unemployment is down below 5%:

A rule of thumb is that inflation doesn't become sticky until the unemployment rate dips below 5%...

“I see very little prospect of accelerating inflation” partly because of the employment outlook, said Mark Zandi, chief economist of Moody's Economy.com. “I don't think the risk shifts toward inflation until 2011, or even 2012.”

Because even [Obama](#) and [Larry Summers](#) think that unemployment will probably rise, that argues against inflation happening any time soon.

Renowned economist Dr. Lacy Hunt is calling [15-20 years of deflation](#).

Ellen Brown, Tyler Durden and Mish all [argue](#) that the break down in the securitization markets ensures deflation.

And [James Perty](#), [Phil's Stock World](#), and [Niels Jensen](#) all give their own arguments about why deflation will rule for some time to come.

On the other hand, a lot of very smart people are predicting runaway inflation given the amount of money the feds are printing. For example, Marc Faber is [100% guaranteeing](#) hyperinflation at some point, but thinks it might not happen for years or even decades.

“Got You” Prices

You know from experience that when you're in a national park, movie theater or some other contained place, prices are higher than elsewhere.

Basically, the stores in such places know you can't go somewhere else, so they can charge you what I call “got you” prices. In other words, you're a captive buyer, and they've “got you”.

I've noticed the same thing with health care costs. My family's health care premiums increased 6% last year - on top of the 6% increase the year before.

This is “got you” prices. The health care industry knows that Americans are desperate for health care, and that if they raise prices, people will pay.

I've previously [pointed out](#) that inflation versus deflation is not necessarily an all-or-nothing proposition: we can have inflation in some asset classes and deflation in others.

So my current theory is that we will have deflation for some time in most asset classes, but inflation in the "got you" classes of basic necessities that everyone need - food, energy, and health care.

In a tough economy, companies that can squeeze broke consumers for more money will do so.

See [this](#) for more on the great inflation versus deflation debate.

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