

Why not price gouging?

Written by Staff

Monday, 12 November 2012 11:28

Every time there's a hurricane the issue of price gouging comes up, and Sandy is no exception. People in New Jersey and New York might be a bit confused because they rarely get hurricanes, but if you live along the Gulf Coast, you've experienced this.

Price gouging is so ingrained in American culture as a cardinal economic sin that the arguments against it rarely go beyond "but it's gouging!" You might get so far as "and that's unfair!" But why?

The gut reaction may be that you're taking advantage of someone's hardship. But we do this all the time. Legal services are expensive, medical services are expensive, car repair is expensive. We routinely allow industries to take advantage of inelastic demands, so why do we care so much when that opportunism is short lived rather than pervasive? We normally don't criminalize being a douchebag and overcharging for goods and services.

The argument in favor of allowing price gouging is that the prices help to make sure goods go where they are most valued. If you're only willing to pay \$4 for a gallon of gas, and your neighbor is willing to pay \$10, maybe he's got a better use for it. Maybe you're saving up, just in case, while he's actually trying to get out of town. Maybe you're both using gas to power a hot water heater, but while you're providing yourself with hot showers, he's trying to bring a little comfort to his two young children, and that's why he's willing to pay more.

Of course the objection here is that high prices don't put goods in the hands of someone who values it more, but rather into the hands of someone who just has more money. The gas station charges a flat rate, not 1% of your weekly income per gallon. Price gouging is recessive, placing a bigger burden on the poor and privileging the already privileged.

But there has to be a way of deciding who gets the limited supply of goods, and the alternative to changing prices is just first-come first-serve. Under that model there will be tons of waste and hoarding. When you hear there's a gas shortage, you rush to the gas station to fill up your car. Nevermind that you're not planning on driving anywhere, you just do it because there's a

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shortage, and a lot of other people do it too, often consuming all the gas in their car while waiting in line to fill up.

We've stopped the rich from getting to exploit their wealth to fill up their cars, but we've also deprioritized people who'd be putting it to good (or better) use.

One scheme that gets used is rationing. Of course, it's hard to set up an organized rationing system in the wake of a natural disaster with only a few days of lead time. License plates ending in odd numbers can buy gas today, plates ending in even numbers get gas tomorrow. The only real effect that has is reducing lines. It doesn't really distribute resources better.

So why not allow a form of limited gouging? Allow goods to be sold at twice their previous price. That will go a long ways to discourage hoarding. Few people will spend an extra \$40 to have a tank full of gas sitting around for a few days. But people getting out of town can afford to drop another \$20 on five gallons in order to get far enough away that prices are back to normal.

People will stop to think just how many slices of bread they plan to eat when a loaf is \$7, instead of instinctively grabbing three "just in case." And if you've ever been late to the grocery store raid, you probably wish they did institute price gouging. At \$7 a loaf there might be some left for you, rather than getting nothing because all the stay at home moms beat the working stiffs to it.

So the next time price gouging happens in your area, maybe stop to think about just what would happen if it were allowed. You might ultimately decide that it's not worth the negatives, but it's hardly a black and white issue. Especially when you consider that raising prices will mean your area gets more goods. If there's a gas shortage, one way to get oil companies to send more your way is to let them charge more for it.

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