Price Gouging Saves Lives in a Hurricane

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*[On October 27, as East Coast residents prepared for Hurricane Sandy, New Jersey Governor Chris Christie* [*threatened "price gougers"*](http://www.courierpostonline.com/article/20121028/NEWS01/310270045/Christie-Price-gouging-will-punished) *with stiff penalties. As David Brown pointed out in Mises Daily on August 17, 2004, shortly after Hurricane Charley hit Florida,* foul weather *is when we need market prices the most. Capitalism needs more foul-weather friends, not fair-weather friends like Christie.]*



In the evening before Hurricane Charley hit central Florida, news anchors Bob Opsahl and Martie Salt of Orlando's Channel 9 complained that we "sure don't need" vendors to take advantage of the coming storm by raising their prices for urgently needed emergency supplies.

In the days since the hurricane hit, many other reporters and public officials have voiced similar sentiments. There are laws against raising prices during a natural disaster. It's called "price gouging." The state's attorney general has assured Floridians that he's going to crack down on such. There's even a hotline you can call if you notice a store charging a higher price for an urgently needed good than you paid before demand for the good suddenly went through the roof. The penalties are stiff: up to $25,000 per day for multiple violations.

But offering goods for sale is per se "taking advantage" of customers. Customers also "take advantage" of sellers. Both sides gain from the trade. In an unhampered market, the self-interest of vendors who supply urgently needed goods meshes beautifully with the self-interest of customers who urgently need these goods. In a market, we have price mechanisms to ensure that when there is any dramatic change in the supply of a good or the demand for a good, economic actors can respond accordingly, taking into account the new information and incentives. If that's rapacity, bring on the rapacity.

Prices are how scarce goods get allocated in markets in accordance with actual conditions. When demand increases, prices go up, all other things being equal. It's not immoral. If orange groves are frozen over (or devastated by Hurricane Charley), leading to fewer oranges going to market, the price of oranges on the market is going to go up as a result of the lower supply. And if demand for a good suddenly lapses or supply of that good suddenly expands, prices will go down. Should lower prices be illegal too?

In the same newscast, Salt and Opsahl reported that a local gas station had run out of gas and that the owner was hoping to receive more gas by midnight. Other central Florida stations have also run out of gas, especially in the days since the hurricane smacked our area. Power outages persist for many homes and businesses, and roads are blocked by trees, power lines, and chunks of roofs, so it is hard to obtain new supplies. Yet it's illegal for sellers of foodstuffs, water, ice, and gas to respond to the shortages and difficulty of restocking by raising their prices.

If we expect customers to be able to get what they need in an emergency, when demand zooms vendors must be allowed and encouraged to increase their prices. Supplies are then more likely to be sustained, and the people who most urgently need a particular good will more likely be able to get it. That is especially important during an emergency. Price gouging saves lives.

What would happen if prices were allowed to go up in defiance of the government?

Well, let's consider ice. Before Charley hit, few in central Florida had stocked up on ice. It had looked like the storm was going to skirt our part of the state; on the day of landfall, however, it veered eastward, thwarting all the meteorological predictions. After Charley cut his swath through central Florida, hundreds of thousands of central Florida residents were unexpectedly deprived of electrical power and therefore of refrigeration. Hence the huge increase in demand for ice.

Let us postulate that a small Orlando drug store has ten bags of ice in stock that, prior to the storm, it had been selling for $4.39 a bag. Of this stock it could normally expect to sell one or two bags a day. In the wake of Hurricane Charley, however, ten local residents show up at the store over the course of a day to buy ice. Most want to buy more than one bag.

So what happens? If the price is kept at $4.39 a bag because the drugstore owner fears the wrath of State Attorney General Charlie Crist and the finger wagging of local news anchors, the first five people who want to buy ice might obtain the entire stock. The first person buys one bag, the second person buys four bags, the third buys two bags, the fourth buys two bags, and the fifth buys one bag. The last five people get no ice. Yet one or more of the last five applicants may need the ice more desperately than any of the first five.

But suppose the store owner is operating in an unhampered market. Realizing that many more people than usual will now demand ice, and also realizing that with supply lines temporarily severed it will be difficult or impossible to bring in new supplies of ice for at least several days, he resorts to the expedient of raising the price to, say, $15.39 a bag.

Now customers will act more economically with respect to the available supply. Now, the person who has $60 in his wallet, and who had been willing to pay $17 to buy four bags of ice, may be willing to pay for only one or two bags of ice (because he needs the balance of his ready cash for other immediate needs). Some of the persons seeking ice may decide that they have a large enough reserve of canned food in their homes that they don't need to worry about preserving the one pound of ground beef in their freezer. They may forgo the purchase of ice altogether, even if they can "afford" it in the sense that they have $20 bills in their wallets. Meanwhile, the stragglers who in the first scenario lacked any opportunity to purchase ice will now be able to.

Note that even if the drug store owner guesses wrong about what the price of his ice should be, under this scenario vendors throughout central Florida would all be competing to find the right price to meet demand and maximize their profits. Thus, if the tenth person who shows up at the drugstore desperately needs ice and barely misses his chance to buy ice at the drugstore in our example, he still has a much better chance to obtain ice down the street at some other place that has a small reserve of ice.

Indeed, under this second scenario—the market scenario—vendors are scrambling to make ice available and to advertise that availability by whatever means available to them given the lack of power. Vendors who would have stayed home until power was generally restored might now go to heroic lengths to keep their stores open and make their surviving stocks available to consumers.

The "problem" of "price gouging" will not be cured by imposing rationing along with price controls, either. Rationing of price-controlled ice would still maintain an artificially low price for ice, so the day after the storm hits there would still be no economic incentive for ice vendors to scramble to keep ice available given limited supplies that cannot be immediately replenished. And while it is true that rationing might prevent the person casually purchasing four bags of ice from obtaining all four of those bags (at least from one store with a particularly diligent clerk), the rationing would also prevent the person who desperately needs four bags of ice from getting it.

Nobody knows the local circumstances and needs of buyers and sellers better than individual buyers and sellers themselves. When allowed to respond to real demand and real supply, prices and profits communicate the information and incentives that people require to meet their needs economically given all the relevant circumstances. There is no substitute for the market. And we should not be surprised that command-and-control intervention in the market cannot duplicate what economic actors accomplish on their own if allowed to act in accordance with their own self-interest and knowledge of their own case.

But we know all this already. We know that people lined up for gas in very long lines during the 1970s because the whole country was being treated as if it had been hit by a hurricane that was never going to go away. We also know that as soon as the price controls on gas were lifted, the long lines disappeared, as if a switch had been thrown restoring power to the whole economy.

One item in very short supply among the finger-wagging newscasters and public officials here in central Florida is an understanding of elementary economics. Maybe FEMA can fly in a few crates of Henry Hazlitt's [*Economics in One Lesson*](http://mises.org/document/6785/Economics-in-One-Lesson) and drop them on Bob and Martie and all the other newscasters and public officials. This could be followed up with a boatload of George Reisman's [*Capitalism: A Treatise on Economics*](http://mises.org/document/1006/Capitalism-A-Treatise-on-Economics), which offers a wonderfully cogent and extensive explanation of prices and the effects of interference with prices. Some vintage [Mises](http://mises.org/document/1164/AntiCapitalistic-Mentality-The) and [Hayek](http://mises.org/document/4015/Individualism-and-Economic-Order) would also be nice. But at least the Hazlitt.

"Price gouging" is nothing more than charging what the market will bear. If that's immoral, then all market adjustment to changing circumstances is "immoral," and markets per se are immoral. But that is not the case. And I don't think a store owner who makes money by satisfying the urgent needs of his customers is immoral either. It is called making a living. And, in the wake of Hurricane Charley, surviving.