'Gouging' a Misleading Term for Supply and Demand

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Every time a natural disaster occurs or terrible weather settles in, we hear a litany of warnings about price gouging. The recent ice storm precipitated similar alerts. This is understandable — after all, an emergency situation is when most people are least able to afford quickly rising prices for essential goods. However, laws that curtail gouging inevitably hurt the people they're designed to help.

Prices are not arbitrary numbers, set by whim, or by the greed of the seller. In competitive markets, prices measure intersecting supply and demand — in the same sense that the size of your shadow is determined by your height and the position of the sun. When a good becomes more scarce, or more difficult to provide, this constriction of supply naturally causes an increase in price. Similarly, if demand for a good suddenly outstrips its supply, this also causes an increase in price. Emergencies tend to produce both of these phenomena, causing market prices to jump as more people clamor to buy goods that are suddenly in short supply.

Laws outlawing gouging don't actually prevent higher prices — they only alter the type of price customers have to pay. If sellers can't adjust pricetags, increased demand leads to
long lines and shortages, which are a form of price increase that people pay for through
time and effort rather than with dollars. This first-come-first-served scenario means that
people who are quick, well-connected, or lucky get what they want, but latecomers pay the
highest price when nothing is left for them.

There are plenty of people in Missouri who were driving during the 1970s, in the days of
gasoline price controls — which led to corresponding shortages, sales caps, and
interminably long lines at the pump. There was no economic mystery there. Because
gasoline prices were set below market level by legislative fiat, people had no reason to limit
their own purchases. The people who needed gasoline more — those willing to pay a higher
price for it — were less likely to get what they needed. If prices had been allowed to rise to
their natural levels, they would have provided an incentive for many people to buy less.

Prices also act as a signal to producers. When the price of a good suddenly rises, the profit
motive spurs entrepreneurs to produce more. This increased supply is exactly what's
needed in times of crisis. It not only keeps stores adequately stocked, but an expanded
supply helps bring those high prices back down again. The more flexibility prices have to
fluctuate, the sooner supply can meet demand and prices can return to normal. In contrast,
when legislative price caps cause shortages, the unfortunate are left to depend solely on
the good will and charity of others — which, unfortunately, are also often in short supply.

The economist Steven E. Landsburg illustrated this principle in his book "Fair Play," in a
section that gives economic advice to his young daughter: "Cayley, if you are ever in the
position to sell water for $7 a gallon I want you to charge $7 a gallon and not a penny less.
That's not because I want you to make a lot of money. ... It's because it's your social
responsibility to get that water to those who need it most desperately, and if you charge
less than the market will bear then the wrong people will claim the water." Which is worse
during an emergency: expensive water, or no water at all?

The word "gouging" is a misleading, loaded term. Ultimately, real market prices allow people
to plan and prioritize their needs in a rational way. Price gougers ensure that markets
continue to function in times of crisis, curbing careless purchases of crucial goods and
giving businesses a practical incentive to continue fulfilling real demand when it's most
needed. If prices aren't allowed to rise, though, and the "wrong" people buy up all the
necessities, everybody else's needs and priorities are undermined.

In times of crisis, maintaining access to necessary supplies is more important than worrying
about rising costs. Correct market prices ensure that resources are allocated efficiently and
that shortages don't occur. This can't be stressed enough, especially during emergencies.

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