

“Price-Gouging” is Necessary, and Noble

This article by Thomas Sowell from 2004 remains strikingly wise, lucid and elegant, so much so that I always remember it when reading of “price-gouging” accusations.

Sowell is not an Austrian economist yet hits on the importance of prices. As a student of the Austrian School, I’d add that prices are a signal of scarcity, and it is their change that is needed to change the allocation of resources. Higher prices not only promote the more careful use of a scarce resource, they encourage an increase in supply when possible. Wrote Sowell,

Those who got to the hotel first would fill up the rooms and those who got there later would be out of luck — and perhaps out of doors or out of the community. At higher prices, a family that might have rented one room for the parents and another for the children will now double up in just one room because of the ‘exorbitant’ prices. That leaves another room for someone else.

Someone whose home was damaged, but not destroyed, may decide to stay home and make do in less than ideal conditions, rather than pay the higher prices at the local hotel. That too will leave another room for someone whose home was damaged worse or destroyed.

The same applies to gasoline, water or other resources that become suddenly limited after a disaster. People unable to afford filling up two vehicles will make do with one, leaving more gasoline for others willing to pay for it. If someone is asking \$40 or even \$100 for a case of water, someone willing to pay that will not use the water for purposes less valuable than the money. Note that I didn’t phrase it “that will not waste the water.” I eschew calling it “waste” since it’s a subjective word, for what one person deems “waste” may be a perfectly appropriate use for another. At a significantly high price, the buyer will be unlikely to use two bottles of water to wash hands when half of one would do, and he would take great care not to damage any bottles or forget them somewhere. Or perhaps the person is of such great wealth, and knowing others would sell him a case of water for \$100 or \$200, he doesn’t need to be as sparing as others would be.

What’s forgotten with “price-gouging” accusations is what the buyer receives. As Frédéric Bastiat taught, the difference between a good economist and a bad economist is that the

latter considers only what is seen, not what is unseen. Accusations of “price-gouging” see only that the buyer pays a higher price, ignoring what the seller receives. Someone who happened to have a dozen cases of water saved in his garage, and sells them all for \$40 each, now has \$480 to spend on other resources which are also suddenly scarce — food, gasoline or a hotel room. Why should a homeowner or store owner be penalized when he had the good sense to save water for future use or sale, and the resource has suddenly become much more valuable? Should a farmer be penalized for happening to own land underneath which a rich oil deposit is found?

Moreover, what a seller wants for a case of water shows how valuable it is for *himself*. If government forces him to sell it for no more than the “normal” price, or a price only a little higher “as established by law,” then he would be apt to use it for a purpose less valuable than what another person was willing to pay. And that, because and only because of government’s force, would most certainly be a waste.