

Gouge Is Good

If you've bought anything in the past six weeks, you've seen shortages. In grocery stores, you've see empty shelves. Online, you've seen long waits.

If you know econ 101, there's an obvious explanation: **price-gouging laws**. When supply falls, the market's normal reaction is to raise prices. Government's reaction, however, is to paint the market's normal reaction as vicious exploitation – and order prices to stay flat despite reduced supply. Shortages inevitably result.

While this story has great merit, you don't have to look closely to realize that it's not the full story of shortages. Why not? Because most businesses are neglecting a wide range of strategies to *legally* raise prices. These strategies include:

1. *Stop offering discounts.* This is legally very safe, but the last time I shopped at Giant and Costco.com, many discounts remained. At least at Giant, the discounts were on perishable goods, so this isn't just a leftover from before the crisis. Firms really do continue to sell below full price even when goods are flying off the shelves. Why not just charge full price on every good in short supply?
2. *Offer premium service.* Stores can't legally charge more for the same good. Yet to the best of my knowledge, there is no legal impediment to offering a new good or service at a high price. For example, stores could charge an entry fee or surcharge for shopping right after delivery trucks arrive. (If that's too blatant, they could just arrange for trucks to arrive right before the premium period). Slight variation: Offer pricey preferred customer cards, so high-value customers don't have to pay extra each time they shop. My local bike shop sticks to a first-come-first-served model, so there are long lines for service. They could easily offer "elite" or "platinum" or "preferred" drop-off service for double the price.
3. *Impose (or raise) minimum purchase requirements.* Right now, there is a long wait for Instacart delivery in my area. But you only have to order \$50 to get delivery. Why not a minimum order of \$100? \$200? Amazon, similarly, could limit two-day shipping to high-value orders.
4. *Mandatory tipping.* Most delivery services strongly encourage or even require a tip. Instacart, for example, has a built-in 5% tip. They could easily raise it to 20% – then marginally cut delivery workers' base pay so the company profits.

Why then don't businesses apply these strategies until shortages vanish? The usual story is that they're guarding their reputation. Economically illiterate customers see shortages as forgivable but price increases as vicious. Profit-maximizing firms therefore appease them. If customers feel like Costco is ripping them off during the crisis, Costco suffers in

the long-run from loss of goodwill.

This story, too, has great merit. But again, I doubt it's the full story. Beloved, high-profile companies like Costco might be acting prudently; when your reputation is solid-gold, you really don't want to risk a media scandal. But even a well-known firm like Giant could easily end most discounts without drawing much ire. A newish firm like Instacart that's exploding during this crisis could easily get away with high mandatory tips. New customers won't even realize that anything has changed. And does anyone really expect my bike shop to suffer in the long-run if they offer premium drop-off service?

What then explains the legal and profitable price increases that aren't happening? My preferred explanation is that businesspeople – like most people – consider price increases during an emergency to be dishonorable. And contrary to popular belief, the system generally puts fairly honorable businesspeople in charge. The adage, "That's just not good business" means a lot to the typical person who runs a business. That's why they try to make customers happy even when they know that repeat business is highly unlikely.

During normal times, businesspeople's sense of honor helps the whole economic system run smoothly. In a crisis, however, businesspeople's own misplaced sense of honor prevents them from swiftly alleviating shortages with covert price increases. Yes, price-gouging laws and customer outrage are important factors, too. But if businesspeople felt morally justified in raising prices, they would be *aggressively* hunting for legal and psychological loopholes. Few are.

I love business, and admire businesspeople. They're doing a great job during this emergency. Thank you, business, for keeping us alive while we cower. But businesspeople could do even better if they believed more in themselves. Populists notwithstanding, there is nothing "dishonorable" about raising prices to eliminate shortages. If governments or customers refuse to see this great truth, there is nothing dishonorable about raising prices in less-visible ways. Businesspeople, you do not merely have a right to "gouge." As long as shortages persist, gouging is the right thing to do. Gouge is good!