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Freedom's Fair-Weather Friends **by Sheldon Richman**

In the wake of Hurricane Katrina, some members of Congress are talking about passing a national law against price gouging. One problem should stand in their way: there is no objective definition of “gouging.” Whatever the law says will therefore be arbitrary and unfair.

The 20 states that forbid gouging limit price increases after an emergency to 10–25 percent. Did the legislators consult some occult power?

When politicians get suspicious *because* the law of supply and demand works as the textbooks predict, we may wonder whether they are pandering for votes. Do they really believe they know what the price of gasoline should be?

At any given time, supply and demand, as perceived by sellers and buyers, determine the prices of gasoline and other goods. Under the threat of Hurricane Katrina, the supply of gasoline suddenly dropped (or was expected to) and the demand suddenly increased (or was expected to). Anyone who knows anything about economics knows that the price could go in only one direction: up.

The question is, Who should determine how high prices go, the politicians or the millions of participants in the marketplace? If the politicians do it, we can expect consequences even they might dislike.

In a world of scarcity each good must have some price. Of course, everybody would like all prices to be lower, except for the price he charges for his goods or labor. The price system works to balance supply and demand, ensuring that no buyers or sellers are frustrated in their attempts to obtain or sell the product. When the gasoline supply suddenly shrinks and demand stays the same or increases, the only way for the market to clear is for the price to rise. When politicians interfere, the smaller supply disappears quickly, leaving some people with none at all. While regulators can control the money price, they cannot control the real cost of buying gas. Time spent waiting in line or looking for an open gas station are part of the cost, but that time will increase whenever the money price is held below the market price. Anguish over whether gas will be available when needed is also part of the cost, but that will also increase.

Thus, despite even good intentions, harmful unintended consequences must follow from price controls.

Free pricing, on the other hand, also has unintended consequences — beneficial ones. Higher prices attract additional supplies of gasoline (unless environmental rules interfere), as sellers cash in on new profit opportunities. As supply increases, prices come back down. At the same time, higher prices prompt buyers to economize more severely by prioritizing their needs. This ensures that there is more gas to go around. Both effects hasten the return of normal conditions.

The envious may despise people's earning profits during disasters, but the benefits of the market process cannot be denied. Further, laws that prevent extraordinary profits during disasters discourage entrepreneurs from *preparing* for supply interruptions.

We can see the benefits of free pricing in the most extreme example. As people jammed the interstate to get out of Houston when Hurricane Rita approached, officials complained of gouging. Nevertheless, only rising prices could ensure that the maximum number of motorists would obtain gasoline. Is it better to have some gasoline at \$5 a gallon or none at \$3?

There's a moral dimension to this issue as well. Gasoline is owned by *individuals*. Are they to lose their right to set the terms of sale because of a hurricane? If rights can be washed away by the weather, all freedom is in peril.

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