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Profiting from Misfortune **by Sheldon Richman**

Amid the shrieks of price gouging as hurricanes ravaged the Gulf coast were a few voices of good economic sense. They correctly pointed out that when supplies of vital goods are disrupted, nothing matches the price system for restoring normalcy as quickly as possible. It does so by encouraging conservation and attracting additional supplies. In each case, it is the rising price that causes the badly needed effect.

Unfortunately, impeccable logic does not persuade everyone. Some people simply cannot abide one group of persons “profiting from the misfortune” of others. They are willing to do anything to prevent this — even if it means making everyone miserable by prolonging the hardship the disaster first brought. Thus, in the name of compassion, these misguided do-gooders ask the government to hold prices artificially low, although that is sure to create severe shortages, long lines, interminable waits, and gnawing anxiety. But, hey, it’s for a good cause: thwarting profiteers.

The case for preventing people from profiting from others’ misfortune, alas, proves too much. If we are really to take this seriously, we would have to impose drastic changes on how even a semi-free society works. Why? Because most of us constantly profit from the misfortune of others.

Take doctors, for example. If being prone to medical problems, as most of us are to some extent, is a misfortune, then doctors routinely profit from our misfortune. Should we feel hostility toward them because of this? Should government hold their incomes down to the barest minimum? Some people might like that idea, but the next time you go to the doctor, ask yourself whether you would want to put your health in the hands of a doctor whose income was controlled by government. The top doctors would be likely to refuse to work under such conditions, leaving the field to ones you might not want to trust your life to.

What about farmers? If we don’t eat we die. That sounds like a misfortune. Think of all the money we’d save if we didn’t need to eat. So farmers make their living from this unfortunate necessity. We have to buy their products or else we cease to exist. Talk about duress! Should the

government take measures against farmers on these grounds? If so, that will require major policy changes, since today the government intervenes in the free market to *increase* farmers' incomes.

Clearly, we should be grateful there are people willing to relieve us in time of misfortune. We should be happy they are rewarded enough to encourage them to keep at it. Punishing them would be self-defeating.

Another problem people have with, say, gas stations that raise prices during disasters is that they sell old, cheaper gas at the new, more-expensive price. Let's say that on Monday a station fills its tanks at \$2.20 a gallon and sells the gas for \$2.30. On Tuesday a hurricane hits the Gulf, and refineries cease operation. The gas station operator is then informed that his next shipment of gas will cost \$2.50. Should he be able to sell his remaining gas, which he bought at \$2.20, for a retail price based on his new cost of \$2.50? Lots of people would say no. But why not? "It's not fair," might be the answer. But what is unfair? Prices are not determined by past costs. Bygones are bygones, and all action is aimed at the future. To replace the gas sold today, the station will have to pay the new higher price. That fact will and should influence his conduct, not yesterday's price, which has no relevance today whatsoever. A fair price is one a seller and buyer agree to.

If you have trouble seeing this, ask yourself whether you intend to sell your home for the price you paid rather than the higher price you might be able to get. I think I know the answer.

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