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Price-gouging?

By Richard W. Rahn
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If you bought a home 10 years ago for $100,000 and just sold it for $300,000, have you engaged in price gouging? Most people would say "no," provided there were willing buyers and sellers of both sides of the transaction merely responding to the market at the time.

As a result of hurricanes Katrina and Rita, some politicians have demanded prosecution of "price gougers." In many states, like Florida, "price gouging" is illegal. The Florida statutes say, "It is illegal to charge unconscionable prices for goods or services following a declared state of emergency."

Hmmm, I know what the law means when says burglary or murder are illegal, but an "unconscionable price"?

So I looked in Webster's Dictionary, and found unconscionable is defined as "excessive; extortionate" and gouge is defined as "to extort from or to swindle."

As an economist, I know prices allocate scarce resources (like gasoline) and motivate future production. At some price, the quantity demanded and the quantity producers are willing to supply come together. If that price is high enough to provide producers a profit, they will be motivated to produce more.

Take the following case. Assume a gas station in a small town is to be on an evacuation route from a hurricane. The station owner knows he has 4,000 gallons of gasoline left, or enough to provide 200 motorists with 20 gallons each. He also knows he will not be resupplied for three days because of the hurricane. If he continues charging $3 per gallon on a first-come, first-serve basis, he expects to be out of gas in about five hours and will have sold much of it to people not in an emergency situation. He estimates if he sells it at $10 per gallon, only those really in need will pay such a high price: Many of his local customers, who can get by with little travel in the next three days, will wait until he is resupplied, when he will lower the price to the new market rate.

Some people will argue he is "price gouging" if he sells gas at $10 a gallon, and the government should determine what price he sells it at and to whom. (You could have a latter-day Jimmy Carter from the government standing by to say who gets the limited supply of gasoline based on their race, religion, age, sex, sexual preference or whatever is the preferred group that day, in the name of "fairness.")

The station owner is actually doing his customers a favor by charging a high price because he stays open much longer to sell all his limited gas to those who most in need. Some will argue he has made an "excessive" profit, ignoring he will make less profit because he must wait some time to be resupplied.

Sen. Byron Dorgan, North Dakota Democrat, has called for a "windfall profits" tax on petroleum refiners because, at the moment, they are making "excessive" profits. Mr. Dorgan remains a very slow learner, despite repeated attempts by many economists, congressional staffers and some of his fellow senators to teach him the law of supply and demand.

It is well known that the U.S. refinery capacity has not kept up with product demand, largely because of environmental lobbyists and past low refining-industry profits. Hence the U.S. increasingly depends on foreign gasoline suppliers.

Economists know if you want more of something, you subsidize it, and if you want less of something, you tax it.

Even Mr. Dorgan realizes we need more domestic refining capacity, but if his proposal became law, it would have the opposite effect, and his "solution" was tried at the end of the Carter administration with disastrous results.

Senate Minority Leader Harry Reid, Nevada Democrat, has joined Mr. Dorgan in calling for a "windfall profits tax" on the oil companies, without seeming to realize a primary industry in his state, gambling, relies on an expectation of "windfall profits."Some oil state senator ought to propose having a "windfall profits" tax on all gambling winnings.

Price gouging does occur, most often where the government has given a preferred group a monopoly or special privileges. Those lawyers who made $100,000 per hour as a result of the tobacco suit agreement with the state attorneys general immediately come to mind. Politicians, who promise to improve schools, roads, and public safety and then fail to deliver are engaged in tax price gouging (extortion and swindle).

Both economic theory and several thousand years of historical experience clearly demonstrate uncontrolled prices and markets provide more goods and services to those who really need or desire them far better than attempts at government control.

Remember, even ticket scalpers provide a real service by allowing people who make last-minute decisions to go to the game or the play of their choice if they are willing to pay the price.

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