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Economists: Punishing for price gouging after Harvey may backfire

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Gouging has become a major fear in the wake of Hurricane Harvey, with federal and state officials warning of hell to pay for those who jack up prices in the midst of scarcity.

But there's a growing group arguing that letting shop owners set their prices as they see fit, while unpopular, is the correct move from an economic standpoint, and punishing "gougers" may actually backfire at a time of scarcity.

"By holding down the price, it actually discourages entrepreneurs, discourages other companies, discourages people that might have some of the product hoarded to actually bring that product to market," said Ryan Bourne with the Libertarian-leaning Cato Institute.

The low prices also encourage people who might not really need the supplies to stock up and siphon resources away from people who are actually in dire need, Mr. Bourne said.

In contrast, higher prices have the opposite effect and can open up supply by forcing people to conserve, said Mark Perry, an economics professor at the University of Michigan's Flint campus.

He provided an example of a hotel charging \$300 per night for a room rather than \$100, which could lead to a family crowding into one room instead of spreading out, opening up several others.

"It's going to be a mess no matter what, but from an economic standpoint, if you want to speed up the recovery process and minimize pain and suffering, then you're going to want market prices to play a role more than you're going to want artificial price control or price gouging laws that really then have negative and adverse secondary consequences," Mr. Perry said.

With many of the necessities, including food, water and gas, in short supply, top government officials have said they're keeping an eye on shop owners to see how they handle the situation.

The public, also, is on the lookout for offenders.

When a photo went viral earlier this week of a case of water for sale for \$43 at a Best Buy in Texas, the electronics giant had to apologize profusely.

The company said it was an isolated incident and that they don't typically sell water, so someone mistakenly multiplied the cost of one bottle to get to the price for the case.

"We are all deeply sorry that we gave anyone even the momentary impression that we were trying to take advantage of the situation," the company said in a statement.

Public sentiment is decidedly against the gougers.

Garrick Long, who evacuated his apartment near the overflowing Addicks Dam this week, said there's been somewhat of an uptick in gas prices in spots. His local station was charging \$2.35 on Thursday, up from about \$2.05 before the storm.

"I understand supply and demand, but I think there needs to be an extent on it. There needs to be a capped level," he said. "If I see, if it's gas, over \$2.75 or higher, they could go jump off a cliff."

"I get it. I understand you probably can't get gas in. But that doesn't need you need to be charging more for the same exact stuff that was here just a week before," he said.

Texas Attorney General Ken Paxton said Thursday that his office has gotten pictures of people selling cases of water for \$100 and gallons of gas for \$20, and have also dealt with gouging issues tied to food and hotel rooms.

"A lot of things that people need right now that are in crisis, and those are the things we focus on — the things that people need right now and they can't really live without," Mr. Paxton said on Fox News.

The Trump administration has also come out forcefully against the practice.

"Gouging will not be tolerated," White House homeland security adviser Tom Bossert told reporters Thursday. "Anybody that's going to go out and try to take advantage of a disaster victim ought to expect law enforcement to come down on them with a hammer."

Texas Gov. Greg Abbott also said this week that gouging in his state isn't going to be tolerated. "Price gouging is not only reprehensible, it's illegal," Mr. Abbott said.

Violators face fines of up to \$20,000 per offense — and \$250,000 if the victim is 65 or older.

But the Libertarian National Committee pleaded for the government to take a light hand in the crisis, saying cracking down on those raising prices "makes conditions worse and hampers decentralized relief efforts."

And Mr. Perry said that with hundreds of complaints pouring into the government, it could now be up to bureaucrats to lay down what could be murky new rules on what constitutes "gouging."

"If water used to be \$10 and somebody's charging 11, is that price gouging?" he said. "Or what about Minute Maid [Park] where the Houston Astros play? They charge \$10 for a glass of beer. And is that going to be considered price gouging?"

"Where do you draw the line, or how do you determine the price that would be considered excessive or exorbitant?" he said. "That seems exorbitant to me — \$10 for a beer — but it's legal, so that gets into this whole kind of gray area."

Mr. Bossert said when it comes to housing, the government would be working to provide a "fair market value" rental rate that's a bit higher than 100 percent to accommodate supply and demand.