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Hurricane Price Gouging Is Despicable, Right? Not to Some Economists

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When a devastating hurricane like Irma or Harvey arrives, stories about price gouging inevitably spread quickly. Last week, a one-way coach flight from Miami to Phoenix jumped in price from $547.50 to $3,258.50, prompting immediate outrage. In Houston, a picture of a case of water being sold for $42.96 at Best Buy did the same. (Best Buy apologized and said it was a “big mistake” by a few employees.)

Over all, more than 8,000 complaints of price gouging on items like gas, food and ice were lodged with the Florida attorney general’s office through the weekend.

On its face, the very idea of price gouging, especially during a natural disaster, feels outrageous. Indeed, 34 states have anti-gouging laws meant to protect consumers.

However, in a small slice of the world of economists and businesses, there is a fascinating debate about the topic — with many arguing that price gouging is actually a good thing.

Yes, you heard that correctly.

This is surely heartless, and may offend our sense of decency. But several respected economists from the Milton Friedman school of free-market theory take it seriously. They contend that anti-gouging measures, by effectively enacting price controls during emergencies, remove the incentive for consumers to conserve essential supplies. They also say that the incentive for suppliers to bring goods to dangerous areas — or keep extra stock on-hand before disasters — becomes distorted in ways that hurt people.

“Price caps discourage extraordinary supply efforts that would help bring goods in high demand into the affected area,” Michael Giberson, an instructor with the Center for Energy Commerce in the Rawls College of Business at Texas Tech University, wrote in an opinion piece from several years ago that was widely circulated around parts of Wall Street this weekend. Meanwhile, he suggested, “You discourage conservation of needed goods at exactly the time they are in high demand.”

He added, “In a classic case of unintended consequences, the law harms the very people whom lawmakers intend to help.”

Consider this scenario, as described by Matt Zwolinski, the director of the Center for Ethics, Economics, and Public Policy at the University of San Diego: If a hotel that normally charges $50 per room were allowed to double the price to $100 a night during an emergency, “a family that might have chosen to rent separate rooms for parents and children at $50 per night will be more likely to rent only one room at the higher price, and a family whose home was damaged but

in livable condition might choose to tough it out if the cost of a hotel room is $100 rather than $50.”

The result, he contended in a paper titled “The Ethics of Price Gouging,” is that allowing higher prices “increases the available supply — as a result of consumers’ economizing behavior, more hotel rooms are available to individuals and families who need them most.”

Of course, these arguments may make sense in the most theoretical context, but when it comes to trying to protect the poorest among us, who can’t afford the most basic of goods, they seem like an inhumane affront to our sensibilities.

Still, Tyler Cowen, an economics professor at George Mason University, believes that something even more insidious can happen during national emergencies: a sort of black market, made worse by anti-gouging laws and businesses that fear a viral outcry if they increase prices.

“If the store doesn’t raise prices, attentive customers may buy up the whole stock, resell it during the emergency and price gouge themselves,” he wrote last week. “Or store employees may funnel the scarce goods to their friends and relatives. Don’t think the alternative to corporate price gouging is necessarily a fairer outcome, but that subtle point doesn’t always translate well to social media.”

That may or not be true. But the fact remains that there is a gaping hole in the price-gouging-is-good argument: how to make resources “available to poor individuals and families, many of whom may barely be able to afford normal prices,” said Joe Carter, a senior editor at the Acton Institute, a right-wing think tank.

One idea that has gained currency in this camp would be to create surge-pricing vouchers backed by the government.

“Prior to a natural disaster,” Mr. Carter wrote in a blog post last week, “individuals and families could apply to receive government-provided vouchers that would cover the cost difference between the normal price and the emergency surge price for a specific basket of essential goods and services.”

Businesses would be reimbursed the difference in price by the government by submitting the voucher.

That might seem like a sensible idea at first blush, but it gets complicated quickly: Will the poor and elderly really go through the hurdles of getting vouchers in advance of a storm? That’s hard to believe. More ominously, there could emerge a black market for the vouchers.

Maybe there’s something to be learned in this thought experiment, but national emergencies are the ultimate distortion in daily economic activity and, as appealing as the free-market may be in certain circumstances, it will likely make economic distortions during a disaster worse, not better.