‘Price gouging’ in Florida

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by Thomas Sowell

In the wake of the hurricanes in Florida, the state’s attorney general has received thousands of complaints of “price gouging” by stores, hotels, and others charging far higher prices than usual during this emergency.

“Price gouging” is one of those emotionally powerful but economically meaningless expressions that most economists pay no attention to, because it seems too confused to bother with. But a distinguished economist named Joseph Schumpeter once pointed out that it is a mistake to dismiss some ideas as too silly to discuss, because that only allows fallacies to flourish - and their consequences can be very serious.

Charges of “price gouging” usually arise when prices are significantly higher than what people have been used to. Florida’s laws in fact make it illegal to charge much more during an emergency than the average price over some previous 30-day period.

This raises questions that go to the heart of economics: What are prices for? What role do they play in the economy?

Prices are not just arbitrary numbers plucked out of the air. Nor are the price levels that you happen to be used to any more special or “fair” than other prices that are higher or lower.

What do prices do? They not only allow sellers to recover their costs, they force buyers to restrict how much they demand. More generally, prices cause goods and the resources that produce goods to flow in one direction through the economy rather than in a different direction.

How do “price gouging” and laws against it fit into this?

When either supply or demand changes, prices change. When the law prevents this, as with Florida’s anti-price-gouging laws, that reduces the flow of resources to where they would be most in demand. At the same time, price control reduces the need for the consumer to limit his demands on existing goods and resources.

None of this is peculiar to Florida. For centuries, in countries around the world, laws limiting how high prices are allowed to go have led to consumers demanding more than was being supplied, while suppliers supplied less. Thus rent control has consistently led to housing shortages and price controls on food have led to hunger and even starvation.

Among the complaints in Florida is that hotels have raised their prices. One hotel whose rooms normally cost $40 a night now charged $109 a night and another hotel whose rooms likewise normally cost $40 a night now charged $160 a night.
Those who are long on indignation and short on economics may say that these hotels were now “charging all that the traffic will bear.” But they were probably charging all that the traffic would bear when such hotels were charging $40 a night.

The real question is: Why will the traffic bear more now? Obviously because supply and demand have both changed. Since both homes and hotels have been damaged or destroyed by the hurricanes, there are now more people seeking more rooms from fewer hotels.

What if prices were frozen where they were before all this happened?

Those who got to the hotel first would fill up the rooms and those who got there later would be out of luck -- and perhaps out of doors or out of the community. At higher prices, a family that might have rented one room for the parents and another for the children will now double up in just one room because of the “exorbitant” prices. That leaves another room for someone else.

Someone whose home was damaged, but not destroyed, may decide to stay home and make do in less than ideal conditions, rather than pay the higher prices at the local hotel. That too will leave another room for someone whose home was damaged worse or destroyed.

In short, the new prices make as much economic sense under the new conditions as the old prices made under the old conditions.

It is essentially the same story when stores are selling ice, plywood, gasoline, or other things for prices that reflect today’s supply and demand, rather than yesterday’s supply and demand. Price controls will not cause new supplies to be rushed in nearly as fast as higher prices will.

None of this is rocket science. But Justice Oliver Wendell Holmes said, “We need education in the obvious more than investigation of the obscure.”