

“In Praise of Price Gouging”

by John Stossel

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Politicians and the media are furious about price increases in the wake of Hurricane Katrina. They want gas stations and water sellers punished.

If you want to score points cracking down on mean, greedy profiteers, pushing anti-"gouging" rules is a very good thing.

But if you're one of the people the law "protects" from "price gouging," you won't fare as well.

Consider this scenario: You are thirsty -- worried that your baby is going to become dehydrated. You find a store that's open, and the storeowner thinks it's immoral to take advantage of your distress, so he won't charge you a dime more than he charged last week. But you can't buy water from him. It's sold out.

You continue on your quest, and finally find that dreaded monster, the price gouger. He offers a bottle of water that cost \$1 last week at an "outrageous" price -- say \$20. You pay it to survive the disaster.

You resent the price gouger. But if he hadn't demanded \$20, he'd have been out of water. It was the price gouger's "exploitation" that saved your child.

It saved her because people look out for their own interests. Before you got to the water seller, other people did. At \$1 a bottle, they stocked up. At \$20 a bottle, they bought more cautiously. By charging \$20, the price gouger makes sure his water goes to those who really need it.

The people the softheaded politicians think are cruelest are doing the most to help. Assuming the demand for bottled water was going to go up, they bought a lot of it, planning to resell it at a steep profit. If they hadn't done that, that water would not have been available for the people who need it the most.

Might the water have been provided by volunteers? Certainly some people help others out of benevolence. But we can't count on benevolence. As Adam Smith wrote, "It is not from the benevolence of the butcher, the brewer or the baker, that we can expect our dinner, but from their regard to their own interest."

Consider the storeowner's perspective: If he's not going to make a big profit, why open up the store at all? Staying in a disaster area is dangerous and means giving

up the opportunity to be with family in order to take care of the needs of strangers. Why take the risk?

Any number of services -- roofing, for example, carpentry, or tree removal -- are in overwhelming demand after a disaster. When the time comes to rebuild New Orleans, it's safe to predict a shortage of local carpenters: The city's own population of carpenters won't be enough.

If this were a totalitarian country, the government might just order a bunch of tradesmen to go to New Orleans. But in a free society, those tradesmen must be persuaded to leave their homes and families, leave their employers and customers, and drive from say, Wisconsin, to take work in New Orleans. If they can't make more money in Louisiana than Wisconsin, why would they make the trip?

Some may be motivated by a desire to be heroic, but we can't expect enough heroes to fill the need, week after week; most will travel there for the same reason most Americans go to work: to make money. Any tradesman who treks to a disaster area must get higher pay than he would get in his hometown, or he won't do the trek. Limit him to what his New Orleans colleagues charged before the storm, and even a would-be hero may say, "the heck with it."

If he charges enough to justify his venture, he's likely to be condemned morally or legally by the very people he's trying to help. But they just don't understand basic economics. Force prices down, and you keep suppliers out. Let the market work, suppliers come -- and competition brings prices as low as the challenges of the disaster allow. Goods that were in short supply become available, even to the poor.

It's the price "gougers" who bring the water, ship the gasoline, fix the roof, and rebuild the cities. The price "gougers" save lives.

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