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EAST BAY BUSINESS TIMES

OPINION

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Loud and clear

Price controls won't help hurricane recovery

Benjamin Powell & Art Carden

Governments from the Gulf Coast to California are urging investigations of "price-gouging," but gas, hotel, water, and other price increases after Katrina are not a moral failing by companies. They are an economic necessity.

Price increases mitigate the shortages that occur after natural disasters by redirecting supplies and giving an incentive for individuals to conserve resources. Unfortunately, the stories of shortages and gas lines that fill newspapers after disasters are a product of governments' misguided attempts to prevent gouging.

Since raising prices in the face of sudden scarcity is considered illegal "gouging" in twenty-three states, merchants have a reduced incentive to open stores or ship groceries, water, and emergency supplies to where they are most urgently needed.

Compare this to an alternate scenario in which prices are allowed to move freely, i.e., where "gouging" is legal. People who usually sell food, water, generators, and medicine to areas not hit by Katrina, like the West Coast or Northeast, would instead direct their supplies southward in anticipation of higher prices. Gas stations and stores that close early under anti-gouging laws would remain open and fresh supplies would be shipped in to take advantage of the higher prices.

Perhaps most importantly, people buying emergency supplies will be compelled to only take what they need and be more judicious in their consumption of food, water, gasoline and other suddenly scarce resources. Retiree Neil O'Brian put it clearly in a Los Angeles Times interview: "I think it's terrible. When you start filling the tank for \$50, it makes you think if you can do without some things."

His personal opinion aside, this is exactly the type of conservation that is necessary after Katrina. People think twice about unnecessary driving when gas prices rise dramatically.

In Texas, according to a spokesman for the state attorney general, they were investigating "low-end" motels that doubled prices in response to increased demand from Louisiana refugees. But these higher hotel prices encourage families to rent one room where they might have rented two, leaving more rooms for other hurricane victims. Letting prices increase is the most effective way to encourage people to conserve the resources that have become scarce because of Katrina.

The anti-gouging movement is also dangerous because it creates a large class of arbitrarily defined crimes. Alabama law defines "gouging" as an "unconscionable increase" in prices. After a gas-wasting drive around his neighborhood, Fred Upton, R-Miss., said that his "sense is the supply and demand equation does not fit a 60-cent ... increase" in gas prices.

What does "fit?" A 59-cent increase? 58? Maybe 56 but not 57? Where do we draw the line between a "conscionable" and an "unconscionable" price increase?


Florida attorney general Charlie Crist said, "We will be vigilant for reports of anyone going unconscionably beyond the normal economics of supply and demand, and we will fully investigate any such occurrences."

But the price increases Mr. Crist so despises are the "normal economics of supply and demand." Neither he nor any other government official knows - or can know - the appropriate post-disaster price of gas or any other commodity.

While private charity and good will are important after a disaster, we must also recognize the need to harness individual incentives to promote the common good as well. That means letting prices adjust to reflect the new economic realities that Katrina caused. Pretending that market conditions haven't changed by limiting price increases will only inflict additional shortages on storm victims.

Governments enact anti-gouging ordinances to "protect" disaster victims, but the ordinances only lead to shortages of essential goods and lengthen the amount of time it takes to recover. Katrina was a horrific disaster, but government bungling with market prices can only compound the misery.

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