When Price-Gouging Is A Necessary Reality

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Article:

When it comes to gasoline, we Americans have a habit of losing our minds. If we're not panic-buying due to false rumors, we're demanding that government do something, anything, about high prices. We claim a heritage of capitalism and free markets, but somehow that goes out the window when the subject is gasoline.

The latest example of this is the investigation by N.C. Attorney General Roy Cooper into price-gouging by about two dozen gas stations across the state. In the days before Hurricane Ike hit Texas, prices spiked upward due to fears that the storm would knock out refineries and cut gasoline supplies.

Within hours, prices were hovering around $4.20 per gallon, up from about $3.60. The stations under investigation by Cooper's office apparently charged much more, between $5.49 and $5.99 per gallon.

The question is why this is illegal. As a rule, businesses have a right to charge whatever the market will bear. That's called capitalism. If a product's price is too high, consumers will let the business know, either by going elsewhere or doing without. This is particularly true in the highly competitive retail gasoline industry, in which sellers post their prices on big outdoor signs and drivers are assisted in finding the lowest price by media outlets and Web sites like www.greensborogasprices.com.

No doubt the justification for applying anti-price-gouging laws to gasoline is that drivers have few alternatives when there's a general supply disruption. But this is precisely when high prices are needed the most. In a market economy, prices convey information about surpluses and shortages.

Without such information, we're left in the dark and are forced to engage in irrational behavior like the panic-buying that hit the Triad earlier this month. It's true that many stations ran out of gasoline, but it was due more to the panic than to actual supply conditions.

Imagine instead that when you heard rumors of an impending shortage, you went to a gas station and saw a sign informing you that you could buy all you want, but at a cost of $10 per gallon. At that point, your decision of how much to buy would be based on your actual need for gasoline, not your fear that others would buy too much.

If you had an out-of-town business trip that could not be missed, you'd take the hit and fill up. Otherwise, influenced by that hefty price, you'd buy only enough to tide you over. Without the high price, you'd have no incentive to economize on gasoline. During a shortage, that's a problem.

But wait, what if the retailer had already paid a low pre-rumor wholesale price? Wouldn't he be jacking up the price just to benefit from the rumors? Well, so what?

His profiteering would be temporary, and the result would be much more civilized than gas lines and angry drivers. Aren't civility and predictability worth something?

Allowing gasoline retailers to charge what the market will bear wouldn’t have to hurt poor folks. The government could issue vouchers or adjust the Earned Income Tax Credit program.

I will grant that price-gouging is problematic during a true emergency. But we’ve seen how to deal with that. Back in the 1990s, when the federal government was actually effective in dealing with hurricanes and their aftermaths, it stopped most price-gouging by simply stepping in to supply essential commodities like fuel and ice.

Unfortunately, we seem to think that anything involving gasoline is an emergency. But as long as the government isn’t going to step in to sell us gasoline, what we call price-gouging isn’t the problem. It’s the solution.