An Economic Analysis of Price Gouging and Natural Disasters

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Is Price Gouging Moral?

The practice of price gouging, in which individuals and businesses drastically increase the cost of goods and services after natural disasters, often creates a natural moral outcry from the public. In the wake of such suffering destruction and desperation, people predictably react with anger and support restrictions on such acts. Anti-price gouging laws exist in 34 U.S. states and 9 Canadian provinces (Zwolinski, 2008, p. 370-371, Baldanza, Boudreau, and Reisler 2020). Price gouging is often defended by right-wing economists on the grounds that it preserves individual innovation, freedom of association, information transmission, and the voluntary nature of economic transactions. But without economic security, these freedoms are mainly cosmetic, particularly in times of natural disaster. In order to have consumer freedom, the lives in which these freedoms are enjoyed must also be made secure and predictable. A system that suddenly asks for more from people who suddenly have fewer means cannot be moral, since it randomly victimizes people through no fault of their own.

Does Price Gouging Function Effectively?

Opponents of price gouging restrictions often contend that restrictions create shortages by blunting the profit motive that motivates private enterprises to start with. The general allegation goes that if price gouging is prohibited, then the allocation of goods and services will suffer. They also claim that by arbitrarily raising the cost of goods and services, price gouging allocates them to people who value them the most. Thus, Steven Horwitz of the conservative Fraser Institute opines, "If the price of a 24-pack [of bottled water] jumps to $30 because...a warehouse was destroyed, what happens? People who want bottled water have some very careful decisions to make. At that price, you will buy just what you need for highly-valued purposes and no more. For example, at $30 a case, you aren't going to buy it and use it to bathe your dog." (Horwitz, 2020).

Allocation according to need, however, cannot be used as a reason for excusing price gouging (Lange, 1937, p. 123-124). The only thing we are told is that the consumer who can pay the most is able to procure it with money, not that their need is particularly pressing (Bae, 2009, p. 81). The individuals who require the goods and services the most would be the poorest victims of natural disasters, since they would logically bear the brunt of the disaster and have the least means with which to weather it (Buccafusco, Hemel, & Talley, 2021, p. 7). As the economist Oskar Lange argued in 1937, for prices to be an objective signal of demand, consumers must prove that they have an equally pressing need for buying the same goods at the same price (Lange, 1937, ibid). In the middle of a natural disaster, this can hardly be dispassionately verified.

Even if such disadvantaged individuals were able to scrape enough money together to pay the new price set by gougers, they would suffer an opportunity cost as a result. In the wake of a natural disaster, there is certainly more than one essential good or service that vulnerable consumers would do well to have. Cobbling together the money to buy one good may prevent the vulnerable consumer from buying the others, even if the purchased good is the most valuable among them. This remains a persistent danger no matter which individual good or service is selected from among the various possibilities.

Another incomplete justification for price gouging is that it keeps the shelves stocked by disincentivizing unnecessary purchases (Zwolinski, 2008, p. 350-351, 362-363, Chakraborti & Roberts, 2020, p. 1). However, nobody can objectively verify who among many victims is the most necessitous, certainly not the management of an atomized business. Whether 100 bottles of hydrogen peroxide are purchased over the course of three days or three weeks, 100 bottles are purchased for use in any case. The fact that shelves are empty does not affect the utility of the product. One alternative is to impose a combination of limits on the quantity of certain goods per customer and a "first come, first serve" standard of sale (Buccafusco, Hemel, and Talley, 2020, p. 28). Together, the scarce amounts available per person and the standard of distribution would ensure that those who require them most rush to arrive first to purchase them, while preventing would-be gougers from hoarding large quantities and hiking the prices.

Safeguards Against Price Gouging

As stated previously, price gouging laws have been widely adopted in high-income North American countries like the United States and Canada, despite the prevalence of free-market economies there. Most of these laws, however, penalize the manager of the store rather than the parent company itself, which often sets the prices, and even these penalties are rarely enforced (Bae, 2009, p. 84-85, 93-94). One dataset of 1,150 price gouging complaints to the California Attorney General revealed that only 50, or 4 percent, were actually pursued legally, and none resulted in prosecution (ibid., p. 84-85). The existing laws currently function, then, as political theater to placate public outcry against price gouging rather than lending an actual helping hand to disaster victims.

Alternatives to Price Gouging

Opponents of price gouging restrictions offer a bleak perspective of a world in which price gouging is sanctioned, but it is not the only solution. For instance, the practice of civil defense, in which governments prepare civilian life to accustom to wartime threats, can be repurposed to replace price gouging as a method of distributing essential goods and services in the wake of disaster (Zwolinski, 2008, p. 362). In some countries, this has already been accomplished.
Israel, for example, boasts a militarized response to such crises. The country has made headlines for having the highest rates of COVID-19 vaccination, immunizing 100 percent of its population by March 9, 2020, compared to 28 percent in the United States and 13 percent in the European Union (Our World in Data, 2020). A similar program is not unfathomable for goods such as food, bottled water, or medicines, which could be stockpiled in or near disaster-prone regions and slated for immediate distribution by authorities in the event of a disaster.

To clarify, such a solution could and should only apply to the most essential of goods for which consumer demand is consistent and objective, such as food or medicine, rather than occasional and subjective, such as ice cubes or shampoo (Snyder, 2009, p. 286).

The basis of such a doctrine is already in place throughout the economy. The peripheral use of the state is already a widely accepted practice in free-market economics, in which publicly-funded infrastructure is used for business activities, police forces are used to protect private property, courts are used to enforce contracts, and antitrust law is used to prevent insurmountable monopolies and preserve competition (Shenfield, 1980).

Hopefully, price gouging will be increasingly replaced in the coming years with more compassionate and effective measures for responding to natural disasters.

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