Censoring Pleas for Help

By Dwight R. Lee

Question for thought: Why do people take so many different positions on the role of government in the economy?

Ask people if they favor government censorship and the response will be a nearly unanimous no! Yet if you ask the same people if they favor government price controls, the response will be much more mixed. Ask them if the government should control prices to prevent "price gouging" after natural disasters, and the response will be a nearly unanimous yes!

These responses reflect an unfortunate ignorance of how markets allow us to communicate with one another. Once market prices are recognized as a means of communication, we have another powerful way of understanding why government price controls are a particularly harmful form of censorship. And the harm is greatest in the times of natural disasters because the victims are desperate to communicate their need for help.

The communication permitted by market exchange and the resulting prices creates a remarkable degree of social cooperation. There are no better examples of the benefits of this communication and cooperation than natural disasters. The victims need not only the assistance of people outside the disaster area, but also the cooperation of one another if they are to recover as soon and completely as possible. Unfortunately, when natural disasters strike, governments are most likely to outlaw the price signals that make this cooperation possible—and to do so with the support of public opinion.

After a natural disaster, prices generally increase sharply for labor, construction materials, electric generators, and a host of other products needed for recovery and comfort. The common explanation for these price increases is that unscrupulous suppliers are profiteering at the victims' expense. Suppliers may be profiting, but not at the expense of the victims. Those whose homes are damaged and lives disrupted are victims of the natural disaster, not of those who supply them with needed goods and services afterward. High prices are better explained as the best way for victims to communicate their need for help to those who are most able to provide it. High prices also insure that pleas for help will be met with a quick and effective response.

Sending Lumber to Miami

I heard an interesting example of such a response when I was giving a talk in Ohio in 1992, not long after Hurricane Andrew ripped through southern Florida. I had mentioned the storm and its aftermath to illustrate the importance of price communication, and a gentleman in the audience told a story about his son, a building contractor outside Cleveland who had started building the house he and his wife had dreamed of for years. The foundation had been laid and the lumber was being delivered as Andrew hit Miami. With the news of the disaster, he decided against using the lumber himself and (despite his wife's opposition) shipped it to Miami instead. Why? Because the news he found most compelling came in the form of high prices for lumber, informing him that the demand for his lumber was greater in Miami than in Cleveland.

Was the Cleveland contractor an unscrupulous profiteer? Hardly. He did far more good for the victims of Hurricane Andrew than those who sat around expressing contempt for price "gougers." True, a few people helped the hurricane victims by sending supplies to Miami for free. Certainly these people should be commended. But their help was insignificant compared to the help given by suppliers from all over the country (indeed, the world) who responded to higher prices by providing more of the things Andrew's victims indicated (through higher prices) they most desperately needed.

Those who express contempt for people who sell products to natural-disaster victims at high prices should look closer to home for someone to criticize. Their criticism (born of economic ignorance) and the public opinion they inflame frequently provoke price controls, which muzzle those crying out for help. The Atlanta *Journal-Constitution* pointed out last April that Georgia has a "price gouging" law that forbids suppliers from charging "one penny more than they charged the day before the disaster struck." This law was favorably mentioned, with no hint of irony, in an article reporting that building contractors and construction supplies from several states had poured into Atlanta immediately after it suffered massive tornado damage. Can anyone seriously believe that this help would have poured in from far away if the "price gouging" law had been perfectly enforced, or that the help was not reduced by the enforcement that had occurred? (Penalties for price gouging in Georgia range from one to ten years in prison and fines of $5,000.)

The Electric Shaver

Victims of natural disasters need to communicate with one another also. Market prices are the only practical method. Everyone in the stricken area will value the products being made available, but people will want those products to go to those they believe can put them to the best use. Price controls prevent this from happening by censoring communication among victims.

A friend of mine who lived in Charleston, South Carolina, when Hurricane Hugo hit in 1989 saw firsthand the harm done by this censorship. Electricity was out for several days in my friend's area, and so lots of people were anxious to get gas- powered electric generators. Unfortunately, the local hardware store had only two and was unable to get more because of price controls. But there was another problem with the price controls—one that actually benefited my friend's family, though at great cost to others. Because his father was a good friend of the local hardware-store owner, he got one of the electric generators at the controlled price. The store owner couldn't legally sell the generator to anyone else at a higher price, so why not let his buddy have it? My friend's father was delighted because he could continue to shave with his electric shaver. Unfortunately, grocery stores in town required electricity desperately to prevent thousands of dollars' worth of food from spoiling. Without price controls, one of those stores would have offered a higher price for the generator, effectively communicating (on behalf of customers) that it had a more urgent use for it than my friend's father had. One person would have had to suffer the inconvenience of lathering up to shave, but hundreds of his neighbors would have persuaded him, through a high price for the generator, that their desire for fresh food should take precedence. Of course, without price controls, all the stores and my friend's father (had he still wanted one) would have quickly secured electric generators because they would have been able to communicate with suppliers outside the disaster area.

Natural disasters provide a particularly vivid example of the harm done by price controls. Unfortunately, governments do not need natural disasters to justify undermining social cooperation and destroying wealth by dictating prices. Governments have a long history of imposing price controls on a wide range of goods and services. And they will continue to do so until it becomes widely recognized that such controls are a particularly pernicious form of censorship.

Concluding question: Should government set price ceilings during natural disasters if it impedes the flow of goods, services and resources into the devastated areas?