

Rationally Speaking #257: “Price gouging” in emergencies (Raymond Niles / Amihai Glazer)

Julia: Welcome to Rationally Speaking, the podcast where we explore the borderlands between reason and nonsense. I’m your host, Julia Galef, and today’s episode features two conversations I had with two different economists, Raymond Niles and Amihai Glazer. And what I’m trying to do with these interviews is investigate an issue that’s bugged me for years.

Basically, every time there’s an emergency like a hurricane, or a pandemic (for example), there are some goods that are suddenly in high demand, like water bottles or hand sanitizer, and the prices of those goods skyrocket and people get angry and call it price gouging. And then some economists write op-eds explaining that actually “price gouging” is good, letting prices rise during an emergency is good because if don’t let prices rise then we’ll just have shortages of these essential goods, and the people who need them most won’t be able to get them.

Now, I more or less agree with these op-eds. But there are a few things that have always bugged me about them. A few hesitations I have about that economic logic. For example, these op-eds are generally written as if it’s best for everyone to let prices rise. And that seems pretty true for middle class or upper class people — but it’s less obviously true, to me, for poor people who will have the most trouble affording the sky high prices. So that’s one hesitation that we discuss a lot throughout the episode.

And before I introduce my first guest, I just wanted to note that I recorded these interviews last year, so there are a few references to, like, “When we get a vaccine for Covid” that you might notice. But the economic arguments are timeless.

The first guest is Raymond Niles who is a senior research fellow at the American Institute for Economic Research, and formerly worked on Wall Street as a research analyst and partner of a hedge fund. I reached out to Ray because he has been one of the most proactive defenders of letting prices rise during emergencies. And last spring when the prices of masks and hand sanitizer were skyrocketing, he circulated a petition among economists urging politicians not to ban “price gouging.”

So here is my conversation with Ray Niles.

[musical interlude]

Ray Niles: I think the first thing is just to explain why prices rise during an emergency. I think it's important to maybe step back and just spend a minute or two, not... I don't want to just give a lecture in economics since I teach it, but I think it's important to realize that prices in the market that we observe is the result of the interaction of supply and demand. So, what it reflects on the supply side

is the cost of manufacturing, the items, that's the main determinant. But the other side is how much people are demanding the goods?

I'll give you a personal example. When Hurricane Katrina hit the United States, and this was in the early 2000s, and it's pretty famous for flooding, destroying New Orleans. A terrible tragedy, right? Caused the waters to go over the levies and it flooded the city, but a lot of people forget that it actually passed through Florida before it hit New Orleans.

I'm from South Florida; that's where my parents live. I happened to be flying down to Florida to visit them: pre-arranged flight. It turned out I was flying in just a few days after the hurricane hit, and it wasn't just Hurricane Katrina; there were several other hurricanes that happened all crisscross the state. It was a real disaster.

I land and I get a cab and it's blackness everywhere — except I would see these little lights in different neighborhoods that are on. And it was dead quiet everywhere, except for this one sound of these portable generators. Every maybe fifth house, eighth house, had a portable generator.

I get to my dad's and luckily he had a generator. He just was lucky. He was driving past a Home Depot and he got literally the last generator for sale. The price of the generator was \$300, but think about what happened in the hurricane. My dad never bought a generator before, but all of his neighbors who weren't able to get generators, they wanted generators. Demand has increased.

Now, if we think of, in economics, I would draw on a board a supply and demand diagram. The demand part of it would shift to the right and what that does, when you look at a supply and demand diagram, the market must clear at a higher price. Basically, new people have entered the market. They're bidding with each other for the fixed supply of generators. They're going to bid up the price of generators.

If you ask one of those neighbors, "Would you rather get no generator, none, at the legal price of \$300 because the shelves are cleared out? Or would you rather be able to buy a generator and actually get a generator and not let your food rot, be able to turn on your lights, but you're going to have to pay \$600 for that generator?" he would say, "Yes, I'd prefer the latter."

But the law against price gouging makes it illegal for that person to exercise that choice, so this is how-

Julia: Sorry —

Ray Niles: Yeah, go ahead.

Julia: Well, it seems to me that the choice that people actually have is not, "Pay a higher price for this important good, like the generator, or get nothing at all."

It seems to me that the choice, in practice, is more nuanced. It's, "Pay a higher price, or — if we have laws against price gouging in an emergency — experience shortages."

Which doesn't mean "guaranteed no generator." It means you have to drive around looking for one. You have to wait in long lines. You have to keep checking Amazon. And you run a significant risk of not being able to find the product that you need.

But it's not like you're *guaranteed* to not get one. Because if it were like that, it would be a pretty easy choice, right?

Ray Niles: No, you're exactly correct. But let's face it, I know when the pandemic hit, to use an expression, you could not get a mask for love or for money. They just weren't available. Basically, if you're first... Like my dad happened to drive past that Home Depot, if you're lucky... So, the people who get the goods are the lucky ones.

Or the connected ones. Maybe you have a friend who has access to the supply closet at the local hospital, which may also be not just lucky, but the corrupt ones. Right? Maybe it gets stolen. Or maybe you have to go to a black market, and that's a totally different animal, which means you going to have to pay super high prices because the whole transaction is illegal.

Julia: Or, just to add one more option to that list, you could also be a dedicated one. You could be someone who's willing to spend the 10 hours looking around at different stores before you get lucky.

So those are all different ways to pay for your generator.

Ray Niles: Exactly. So, they can allocate through time, through force, stealing, through corruption, through a lottery system, through political connections. What economists would say is "Non-price allocation of goods are always less efficient." They're always less efficient, and it creates what economists call a dead weight loss.

What do we mean by that? Well, what it means is that, ultimately, there's less goods getting produced and into the hands of people, so there's less goods getting produced, and the people who get it are not the ones who value it the most, who basically can benefit the most from those goods. For example, let's say, since the pandemics coming and so I think, "Oh my gosh! I better get masks. Boy, they're really cheap! They're only a dollar a mask. I'm going to buy a box of 200. I'm going to buy 10 boxes of 20 masks each and I'm just

going to store them in my closet," and they sit in my closet. That's why hoarding is a side effect of price controls.

Meanwhile, I have 200 masks sitting in my closet, there's another person who's next in line. That person sees an empty shelf and they don't get any masks at all. That's not efficient. What would be far more efficient is if the price rose to a market price. You can call it the gouging price, but that's just a market price. Let's say the masks sell for five bucks, and that person who would've bought 200 buys 10 masks. And the next person's able to get masks, and people don't hoard, because the masks are available at that price. There's not an actual shortage at a market price.

Julia: So I'm not disputing the efficiency of allocation of goods under the free market.

But our society very often chooses policies that are less than maximally efficient, because there are other things that we value, like equality. And where I was going with my earlier line of questions is: I was wondering whether price controls in emergencies are sacrificing some efficiency in exchange for something else — like equality?

Because it seems very plausible to me that there are some subsets of society, especially poorer people, who might legitimately prefer facing the shortages and the long lines and running the risk of not being able to get the generator or the hand sanitizer or whatever. They might prefer that over facing the skyrocketing prices that they just can't afford.

Ray Niles: But there's a larger issue. I don't think you can take this in isolation. I think you have to ask a broader question, which is, "Are markets good for us, for people in general?" Markets, meaning free markets. Is it better to have market prices in general? That's really the issue. You can't pick and choose and say, "Well, I just want this one government control over these goods because I have lots of time on my hands and I can hunt around," or, "I have a friend who works in the supply closet at the hospital," whatever.

But now that I've given this authority to the government, they're not going to use it on any other goods that matter to me. Maybe I'm looking for an apartment in New York, but it's not available because of rent control. Or maybe they put price controls on cars; I can't find a car to buy. Or they put price controls on steak, meat, and, boy, I can't find any meat in the stores, or toilet paper.

I would say that it is in one's self-interest, when one looks more broadly, that it's in one's self-interest to have market prices in general. And you can't pick and choose government interventions in the market.

Julia: Don't we currently pick and...?

Ray Niles: What's that?

Julia: We currently have a substantially capitalist economy. But then there are a bunch of these exceptions, including the price gouging laws. So aren't we currently picking and choosing?

Ray Niles: Yeah. And it's having disastrous results. People can't get generators in hurricanes; people can't get masks. And it's pitting one person against another. So, a majority of the people are hurt by these laws. The fact that some people might benefit doesn't make it right. It's not right to say that, "I'm lucky enough to get the masks, but most people can't get them. That's okay." I think morally that's a problematic viewpoint.

Julia: Okay. The main thing that I was interested in was just whether you do actually agree that some possibly significant minority of people would be better off having price gouging laws? And that the argument is just that as a whole, overall, we're better off not having those laws?

Ray Niles: No, I just don't think so. I think that when you give government that power, they're going to use it and they're going to use it in unpredictable ways and it will hurt, ultimately, everyone. You have to have a long view of what's in your self-interest. And just the fact that in this immediate situation, "I'd benefit in the long run" — any person will lose if government has the ability to set prices, because they're going to do it on things that matter to you, and you won't be able to get the goods that you want, so I don't think they're good. I don't think they're good.

Now, let me give you an example. If we talk about restrictions on prices more broadly, not just anti-price gouging laws. Because anti-price gouging laws are a form of price controls. It's where the government sets the prices. But it does create in a sense winners and losers.

A good example would be rent control, where the government sets rents on apartments. Now, it turns out if you're lucky enough to be in a rent-controlled apartment, it seems like you benefit. And you do. You might benefit for a while, but you're just lucky in the sense that you benefit. For example, many of these apartment buildings, they were abandoned by their owners because they couldn't afford to operate them. When the rents were set by the city, they couldn't afford to literally maintain them, so literally there are hundreds of thousands of New Yorkers who've lost their homes because of rent control and, in the beginning, they probably thought it was a great deal. "I'm paying a low rent; isn't a great deal?" - until your apartment just goes away.

Or, for example, let's say you're in a really tiny apartment. You've lived in there for 20 years; your rent is way below market and you have children and you want to move to a bigger apartment. But it turns out there's a shortage of apartments because landlords haven't been building enough new apartments

because of the controls on rents. Suddenly you're trapped in this tiny apartment.

I think one has to have a very short-term myopic view of their self-interest to really advocate these laws. I would just say, I take a broader view. It's a broad principle in economics: you think of the general welfare over the long haul for everyone. That's how an economist approaches thinking about issues.

Julia: So it sounds like your case against these anti-price gouging laws in emergencies is actually just part of a much bigger case against any kind of government intervention in the free market. Which... that's a much stronger claim to be making. And probably going to be a lot more challenging to persuade people of, compared to the more specific and narrow claim that anti-price gouging laws in emergencies are bad.

Ray Niles: Well, that's true today. I'd say you're right, but that wasn't always true. Different times in history, there was a lot more support for markets in general and some dramatic examples of it. This is my job. This is why I'm out here trying to change people's minds. I mean, yeah, you're probably right, that's why we have the laws in 39 states. I would just have to agree with you.

But Canada doesn't have a federal or a national anti-price gouging law. They didn't even have shortages during the pandemic, of goods, because they don't have an anti-price gouging the law at the national level over there. It's not universal. It's not universal.

Julia: I did want to talk about the comparison between the US and Canada, because I saw you wrote an interesting piece on it. Is there any actual data on either prices of essential goods in Canada versus the US during emergencies, or data on shortages of essential goods in Canada versus US?

Ray Niles: Well, the data that I used was anecdotal. When COVID hit, my students all went all over the world. I was just curious; I asked them could they get essential goods that they needed to deal with COVID, such as hand sanitizer and masks, and I was very surprised that several students of mine who are in Canada, they did not experience shortages.

In terms of data at an academic level of analysis, I haven't done it. I don't even know that the data exists. That remains as an academic paper.

But it turns out that Canada also doesn't have any national law against price gouging. In fact, there's a quote, which I use in my article that I wrote on this, and this is from a lawyer who advises businesses. Here's what he said about Canada. He said, "A price surge as a result of natural market forces is not something that is regulated by Canadian competition laws or otherwise. Canada's competition laws generally don't interfere with the free market."

It was interesting that when looking at whether or not there were shortages of goods in Canada, there was another quote from a reporter at the National Post in Canada, and he said that "Canada will have enough food to eat, but it will be more expensive."

Julia: I've seen articles from both the US and Canada about temporary food shortages. I've also seen articles from both the US and Canada about rising prices of particular foods like meat. So, you could be right that the US has more shortages, and it could be the case that that's the fault of us having stronger anti price-gouging laws — but I think I'd want to see some numbers on that.

Can I ask you about a couple alternate models of responding to sudden spikes in demand during an emergency? Like, instead of the anti-price gouging laws.

Ray Niles: Sure.

Julia: What about rationing? Suppose stores keep the prices low — I know you don't like this, but I just want to hear what the objections are — suppose stores keep prices low. But they also limit people to, "You can only buy one bottle of hand sanitizer per visit," or something like that, "Two rolls of toilet paper."

How is that, as a compromise between keeping things affordable for people who don't have much money and keeping things available?

Ray Niles: Well, it's not a good solution, because it creates no incentive to increase production would be the main reason. The fact is, for example, with the pandemic, we need more masks; we need more hand sanitizer. The only way you're going to get an increase in production is if prices rise. Like I said, if you're already producing a certain quantity, you have to now divert resources that were used in other directions and bring it into the factories, meaning you're going to have to pay more for labor, more for raw materials. That whole mechanism goes away. So all you've done is you've said, "We're not going to increase our production and we're just now going to allocate it according to rationing." So that's the first problem.

Now think about this for a second and think about it with the pandemic. If production of masks doesn't increase, people are going to die. People will die. If someone gets infected with COVID because they didn't have a mask, that's a death. If someone got infected because they didn't have hand sanitizer, that's a death. So, production needs to increase, would be the first thing.

The second thing is that... the problem with rationing is that it doesn't go to the highest value use. For example, let's say I have two elderly parents living with me and I know I must do everything I can to protect them from getting COVID. As we know, it kills older people way more than it does younger

people. I'll pay anything for a mask. But let's say, I'm only allocated, for whatever reason, I only can get one mask a week or something. And the mask starts to wear out, or it breaks, or I lose it. I can't get a mask for love or for money, and my parents might die as a result of that. So the masks aren't going to those who need it or value it the most, which is indicated by those who can pay the higher prices.

Julia: Isn't it a combination of how much you want or need the product, combined with how much money you have? How much you can afford to pay for the thing?

Someone with a billion dollars isn't going to blink at spending \$70 for a mask, whereas someone with \$100 in their bank account might be like, "Oh, I do have an elderly parent staying with me, but \$70 is so much. And so even though it's really important to me, I just can't justify spending that much money."

It's a combination of those two things, right?

Ray Niles: But let's be realists here, we're talking about very low value items here. If masks, say, were a dollar, now they're five bucks and someone can't afford that? I mean honestly, almost everyone but... I mean, even a homeless person could probably afford that. Just beg for an hour and he can get the money for a mask. Everyone could get it who wants to get it at these kind of price levels. There's no doubt about it. You don't have to be a billionaire to buy a \$5 mask.

Julia: So you're saying that in general, or most of the time, the important goods during the emergency are low-priced enough that there's almost no-one who can't actually afford them at the market price?

Ray Niles: Well, I'm saying in this particular case, with a pandemic, that's true. We're talking low cost, low value items that would be cheap even at higher prices, like masks, hand sanitizer. We're talking about things like that. So that's the main thing. It's just not an issue.

But the second thing I would say is... But if we ration it, we can guarantee that some people who really need the mask for their health, for whatever reason, aren't going to get it. We can pretty much be guaranteed about that. And so the supply doesn't increase, and it's getting allocated also by a non-market process, which means it's a political process. There's no way a politician can't hold in his or her mind the knowledge of who should get — who needs it more. There's no way. So it's going to be an inferior allocation of goods compared to what it would be with the market.

Even if the market... Say in the market, there's one person you could point to who wasn't able to get the mask because he didn't have five bucks in his pocket. Even given that, you're going to have way more people hurt through a

rationing system because it's an arbitrary allocation of the goods. The market is a much, much, much better way. All that knowledge of who really needs it gets reflected in the prices. And people, all they have to do is they just have to plop down the money and get the product if they really need it. That's all they have to do. Whereas in a rationing system, what do I have to do, call up my congressmen to get the mask? It's not going to be a better system. It never is.

Julia: Never?

Ray Niles: Never.

Julia: Well, I appreciate you bearing with me through this back and forth.

I think there's this fundamental crux that we're definitely not going to resolve in this conversation — where it seems to me that there's some trade-off between equity and efficiency. And that you can value one at a different rate than the other. And setting policies is about deciding how much we want to trade off equity against efficiency.

And it sounds like you don't really think that trade-off exists.

Ray Niles: I would say I don't think it's a moral trade-off. I believe in property rights, I think if someone owns something it's theirs, it's their property. I don't think other people have the right to tell them what price they can sell it at.

So, I think people... we have to respect the right of property. And it's also the efficient outcome, and it's also the outcome where people in general benefit from that type of system. When we get away from it, when we will allow situations where the government can set prices, for whatever reason — and whatever scheme you want, whether it's rationing, whether it's a subsidy, all these things, — you get an economically less efficient outcome. People are worse off as a result of it.

But there's another thing is that you open the door to non-objective government power, non-objective uses of government power. Now that the government could set the prices for this, good, why don't they also set it for the other good? Now that they could put subsidies for this good, why don't they do subsidies for the other good? And then it becomes this political battle where everyone's battling each other to get the government to favor their industry, their product...

It's also why I don't think I buy into this equity... It's just like, "Well, you like that, I'm going to define it this way. And you like efficiency, I'm going to define it this way, so I'm going to put.." I don't buy that trade-off.

Julia: Got it. Okay. Well, that's helpful. We're definitely not going to solve our disagreement over that very fundamental moral, and theoretical, and empirical question.

Ray Niles: Yeah.

Julia: But at least we have identified this is why we have somewhat different intuitions about this particular question. That's fine. We don't have to solve it. And I greatly appreciate your patience.

Ray Niles: No, this is a great discussion. It's great to really dig in on these issues, so I've very much enjoyed it.

Julia: Wonderful. Me too.

[interlude]

Julia: That was Raymond Niles, economist and senior fellow of the American Institute for Economic Research.

My next interview is with Amihai Glazer, who is a professor of economics at the University of California Irvine, where he specializes in political economy. He's co-authored several books including *Why Government Succeeds and Why It Fails* and *Price Theory and Applications*.

Julia: So Ami, just to remind you of the context for this conversation... There's this standard series of things that occur whenever there's an emergency, like a blizzard or hurricane or a pandemic like COVID. Where first certain goods are suddenly very important, like snow shovels or water or hand sanitizer. And then the public gets angry about so-called price gouging when sellers raise the price of these important goods. And then some economists write op-eds saying basically:

“Hey everyone, you're confused. Price gouging is actually a good thing. It keeps these essential goods available for people who really need them. Because first it means that people who don't need the goods as badly will be less inclined to buy them because the prices are high. And that leaves them for people who really do need them. So we don't have shortages.

And second, the higher prices provide an incentive for companies to produce more of these important goods. So, hey everyone, you should actually be in favor of so-called price gouging.”

That's the basic argument, as it is made by economists every time an emergency happens. And I have a lot of sympathy for it, but I also have a few hesitations about it and I wanted to discuss those with you.

So before I get to my hesitations, what do you think of my summary of the basic econ argument in favor of so-called price gouging? Or do you want to revise it at all?

Ami Glazer: Yeah, no, I agree. There are some additional considerations we may get into later, but yes, I agree with what you said.

Julia: Okay. Well, then I'll just jump into one of my hesitations about that argument.

Basically, my first big hesitation is about how that argument applies to poorer people specifically. Because the economists who write these op-eds always say things like, "Obviously it's better to have the option to buy this essential good for a high price than to risk not being able to get it at all." And maybe that's true for rich or middle-class people, but it's less obvious to me that poorer people are better off facing high prices as opposed to shortages.

So I was wondering what your intuitions are about that, or even better if there's any research on whether in an emergency poor people specifically tend to fare better under price controls versus the free market.

Ami Glazer: So let me give some arguments.

Julia: Great.

Ami Glazer: First, the standard economics argument is rather than having price controls that poor people can't buy some essential goods, better to give them cash. Now that-

Julia: That's never mentioned as an option in these debates. It's always —

Ami Glazer: Yeah?

Julia: Go on.

Ami Glazer: Now, it won't work in an emergency. So if there's a hurricane coming and people need lumber to protect their windows, you can't all of a sudden give them cash. That's hard to do. But for some things you can, so one is to give cash.

Another one is instead of price controls — because price controls ... and I'll say a little more, also help the rich, not just the poor — instead of doing price controls, give vouchers. Which is what we do with food stamps. We don't put price controls on food. We say, "Poor people need to buy food. It's very important." And so we give them vouchers, which reduce the price to the poor of buying food, without subsidizing the rich, and without reducing the incentives of firms to supply food.

Julia: And why can't we do that in emergencies? Is it too quick —

Ami Glazer: Yeah, it depends if we know ahead of time. So if we know, for example... I think it'll work out differently, but if we'll have a vaccine in half a year and we're not controlling the prices, but we want the poor to afford it, we can issue them vouchers now. We have enough time to do it. So rather than control the price, we can give them vouchers. But if it's an emergency, all of a sudden, such as in a hurricane, then we don't have the time to do that.

But then another issue is it's not at all clear that price controls actually help the poor. So let me give the example of the great toilet paper shortage that we had half a year ago.

Julia: Of 2020, yes.

Ami Glazer: Now there, a rich person has an SUV and can go to the store and buy a hundred rolls of toilet paper, put it in the SUV, drive home, have lots of space in the garage or the basement to store it. So the rich will be able to get lots and lots of rolls of toilet paper. They will hoard it.

A poor person who wants it, has to take the bus or has to walk, can buy maybe two rolls, doesn't have where to store it. So because of the price controls, the rich are hoarding it and having lots of toilet paper, which they won't even use and the poor just can't find any of it.

So that's why, if feasible, that's one reason it's better to give vouchers or to give cash rather than to do the price controls.

Julia: So the story you just told about why price controls would make the poor worse off in an emergency, it's very intuitively appealing. I just feel like I could also tell an intuitively appealing story for the other side, that for a poor person, if the market price of toilet paper was \$80 a roll or something, the poor person might say, "I would rather take the bus to lots of different stores and face the very real possibility that I might not be able to find any toilet paper at all, but still have maybe, I don't know, a 20% or a 30% chance of being able to buy toilet paper for \$5 a roll, than be faced with the guarantee of having to spend \$80 a roll for it."

Ami Glazer: Right, but the danger there is that a rich person will hire someone to go to all the stores and find the toilet paper. So someone who's wealthy doesn't just have money to buy the toilet paper, but also has the money to hire other people or storage space, or do lots of other things in order to get the goods. In the gasoline shortage, following the 1973 embargo, some of that happened, people would hire someone else to stand in line to get the gas. The people who are richest may be the ones who do it the most.

So I'd say two things. One, there can be better methods than price controls to help the poor and secondly, price controls can work better on some things rather than on other things. So toilet paper is something that the rich can

hoard. Vaccines you can't hoard, you're not going to get 10 vaccines. So price controls on vaccines may be much more effective than price controls on toilet paper.

Similarly, in a forthcoming tornado, hurricane, people are not going to hoard huge amounts of wood, of lumber, because they won't need it after two days. So their hoarding won't be a big problem. But on other things, the grand examples of the hand sanitizer and the toilet paper and wipes, people can hoard and they can use it for in the future. So they will hoard and so price controls in those cases are less effective.

Julia: What about the solution of price controls plus rationing? Wouldn't that help mitigate the hoarding problem?

Ami Glazer: Let me say one other thing before...

Julia: Mm-hm.

Ami Glazer: There are other problems with price controls — they're difficult to enforce.

So for example, if there are price controls on hand sanitizer, what some firms may do is to bundle the hand sanitizer with some other things and charge a high price for that bundle. And, now I don't remember the details, but I think in Japan, there were price controls, I think on masks on eBay. So people called it something different, like handkerchiefs.

Julia: Nice.

Ami Glazer: And everyone knew that a handkerchief is a mask.

Okay, but now, so we have price controls and we want to limit hoarding, say of toilet paper, and so limit the amount that any one person can buy. That I think does alleviate some of the problem. Still the rich may hire lots of people, or they'll hire people to go to the different stores to get it. So it makes it more difficult to hoard, doesn't eliminate the possibility but if you do have price controls, then rationing or limiting the number of packages someone can buy can be better than without it. With the great toilet paper shortage, that's what many retailers did.

Julia: So in situations where it's not feasible to use vouchers, like in unexpected emergencies, is it your sense that price controls plus rationing is a pretty good solution? Or do you still think that the downsides of the price controls and rationing, the distortionary effects and the possibility for some hoarding — even though it's more difficult — do you still think that those outweigh the benefits to the people who have a hard time affording the market price?

... Was that clear?

Ami Glazer: Oh yes. I have to think about it.

Julia: Oh okay! Yes, good. I approve of thinking about the question!

Ami Glazer: Okay, so we're looking at a situation where-

Julia: Where vouchers aren't an option.

Ami Glazer: ... there's a shortage. Right, so let's assume it's masks and people need masks and there's a ... Okay, so question is, are there even better ways? Let's do masks. What Japan did was ship masks to each household. So there were problems, there's only two masks to each household, regardless of the number of family members, but ship them. I think France did the same. So it's a form of rationing and Taiwan limited the number of masks, Taiwan and Singapore, number of masks that you could buy per week.

Julia: Is it really a form of rationing if people still have the option to buy as many as they want on the free market, but they're just ...

Ami Glazer: Right but at the time, my recollection in France is there was a shortage. There weren't that many masks.

Julia: I see, so in practice ... yeah.

Ami Glazer: So with the government sending it ... Right. But that may be better. Now, we had lots of rationing during World War II, and it depends how long it's done. So the rationing of sugar and gasoline, and there was lots of ... you had a coupon in order to buy it. If it's done for a short period, it may work. If it goes on for a long time, then people will figure out ways of avoiding it.

So for example, if there's a shortage of, let's say toilet paper or masks at retailers, you have a friend, or you bribe the manager to call you when there's a new shipment. So as long as there's some shortage, it'll still be some people get it rather than others. As I said, people will find ways of mislabeling it.

So a short-term price control with rationing will work better, or rationing with price controls will work better in the short run, than it will if we think we'll do it for a long period.

Julia: Right. Would that also apply to ... There's this part of the argument against price controls that I briefly mentioned earlier, that in addition to the problem of hoarding, there's the problem of: We want to incentivize more supply of this important good. And price controls dampen that process, that signal.

But that also seems like something that is less relevant in short-term emergency situations, like a hurricane, or a blizzard or something. It's just less plausible to me that snow shovel companies are going to be able to

quickly ramp up production and get more snow shovels on the shelves within a couple of days when everyone needs them.

So that signal seems like it'd be much weaker in short-term emergencies than it would in general if we're talking about price controls in the economy over the long run. And that therefore it would weaken the overall argument against price controls in emergencies.

Ami Glazer: So, I agree, but we have to worry about expectations.

So suppose that the forecasts are that there'll be a massive snow storm next week. Suppose that retailers expect that there will be price controls.

Julia: Oh, then they won't order as many, I guess.

Ami Glazer: Then they won't order it, they won't stock up.

Julia: Yeah, that's true.

Ami Glazer: So the expectations matter. Now, if something is much more sudden, then firms don't anticipate and the expectation of price controls doesn't matter. But the longer the lag between the emergency and the expectation of price controls, the bigger the problem will be.

Julia: That makes sense. That makes sense. I don't really have any beef with the general point that price controls are distortionary and cause all of these bad effects in the economy in general.

It was more the extrapolation from that general argument to the specific case of emergencies that I felt uncertain about. Because there are these specific features of emergencies that seemed to make the argument less relevant. And I wasn't sure how much less relevant, but it just seemed like we should have more uncertainty when making this anti price control argument in the case of emergencies, than I generally ... We should have more uncertainty about that than I saw evinced in the op-eds that I was reading against price controls in emergencies.

Ami Glazer: Yeah, no, I agree. The arguments for or against price controls for emergencies are not the same as for non-emergencies.

Julia: Right, or there's more nuance that needs to be taken in account or something.

Okay, let's talk about your article in *The Conversation*. You wrote this interesting op-ed back in April titled "Price Controls Don't Work, But Mask Rationing Is The Exception That Proves The Rule," in which you pointed out a nuance in the argument against price controls that was different from the ones I had thought of. Could you explain what you mean about masks being an exception?

Ami Glazer: Okay. So let me say, masks and vaccines.

Julia: And vaccines, yes.

Ami Glazer: Yeah. So for most goods, the standard argument is we want the person who values the good the most to get the good. So we don't want someone to have a five bedroom house when there's only one person living in it, as opposed to having people who have five children and would get greater benefit. So in general, we want the people who would most benefit from the good to be the ones who get it. We can worry about the poor and give more cash or give vouchers, but that's the general argument.

But some goods involve externalities that when I consume the good, it benefits me, but it also benefits others. So masks protect me to some extent, but the big benefit of a mask is it protects you from my breathing on you, and infecting you. Most of us don't take that sufficiently into account.

And even less so do we take it into account when the people that we may infect are total strangers. So I go to the supermarket, I may infect others. I don't even know who they are, I'll never see them again. I'll never hear whether they got infected or not. So I don't have sufficient incentive.

The same thing applies to a vaccine. It protects me, but also it reduces the chances of my infecting someone else.

So now, if people who buy masks and vaccines are the ones who get the most personal benefit from it, they may not be the people who would most benefit the country as a whole from consuming it. The people who buy masks, or it may turn out get vaccines, are the ones who are most worried about their own health. They're probably people who don't go out much. They don't go out to bars. They don't go out to restaurants. They go in and out of the supermarket very quickly. Even without a mask, even without a vaccine, they're unlikely to infect many others.

So we may want to give masks and vaccines, not to people at highest risk, but to people who are at the greatest danger of infecting others.

Julia: Right, right.

Ami Glazer: Maybe we should give out vaccines and masks in bars. The young people are unlikely to get very ill, but they're infecting lots of other people and the market doesn't work well when dealing with externalities. So some form of price controls, of rationing, of random allocation can work better for these goods than having just people pay whatever the price is and decide on their own.

Julia: Would it be possible... I was just thinking of what to do about the problem that it's not feasible to use vouchers in short-term, unexpected emergencies. Would it be feasible to offer people a promise of a future refund? Like to say, "Buy your masks or hand sanitizer or whatever now," or snowplows or whatever, "And then you can fill out this form, showing that your income is below whatever, and we'll send you a refund check a few weeks later," or something. Do we ever do that?

Ami Glazer: The problem for the poor is often they are liquidity constrained, they don't have enough cash so they can't afford it.

But what you say suggests some modifications. So let's say food stamps and current regulations are that food stamps can be used for particular foods. But one can imagine the government saying food stamps can be used to buy masks or to buy lumber. So in an emergency, our existing methods of helping the poor can be extended for up to other goods.

Julia: Oh, yeah. That's a great idea. Do we do that? Or have we done that?

Ami Glazer: I haven't seen mention of it, but with billions of people in the world, some people are very clever. I assume something like that has been done. But I haven't seen mention of it. Certainly not in the US.

But one can plan beforehand, so one can think of food stamps and plan beforehand. There will be emergencies, and this is how we will handle it. Because part of the problem, some goods ... So if we do food stamps, then supermarkets can handle them — but Home Depot can't, because they don't deal with food. So instituting a system now that in case of an emergency —

Julia: — would make us flexible, yeah.

Ami Glazer: — food stamps can be used at Home Depot.

Julia: Yeah. I mean, that's a great idea and a great point. And I think now I'm ... I started this whole exploration of the price gouging debate in part because I was just irritated at these op-eds that I felt were not nuanced enough.

I don't really have a problem with the logic of the arguments they're laying out. I think now I just wish they would, in addition to pointing out the importance of allowing prices to move as a signal and so on, if they would also say, "And here's what we should be doing to make sure that the high prices aren't hurting people who don't have much cash and can't afford to buy these things. Here's some solutions we could use."

That would make me feel much better about the op-eds in general. And maybe that's true of other readers as well.

Ami Glazer: I agree.

[musical interlude]

Julia: That was Amihai Glazer, professor of economics at University of California Irvine. And I'll link to Ami's article in the *The Conversation* which we were just discussing a few minutes ago, about the positive externalities of masks and vaccines. I'll also link to Raymond Niles' article and petition against the bans on price gouging.

And before I wrap up I just want to emphasize that the various economic arguments that we discussed today, such as about how letting prices rise incentivizes production of these essential goods, or about how rich people will be more able to hoard scarce goods because they can pay people to go around buying up the goods for them — those arguments make sense, I just would feel better if we had more evidence to go with the theories. Like, how big are these effects? And how do they stack up against the number of people who can't afford the essential goods at the market price?

And I wish we had more empirical evidence specifically about short term emergencies, not about price controls in general in the economy. As Ami acknowledged, emergencies are a special case and the logic is different. I wasn't able to easily find much evidence about that, and my guests didn't offhand have suggestions. But the studies it may well exist and I just failed to find it, so if you know of any such studies please do send them my way.

Okay, that's all for this episode of Rationally Speaking. I hope you'll join me next time for more explorations on the borderlands between reason and nonsense.