



Written by [Steve Byas](#) on April 20, 2020

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Price Controls and Hoarding During a Pandemic

In major public emergencies, government makes raising prices a crime, though such laws always end up hurting more than they help.



We often divide the nation into “Red,” or Republican, and “Blue,” or Democratic states, presuming that the former are more likely to uphold the virtues of the free market than those run by demagogic and left-leaning politicians in the latter. But the truth is that when disasters, pandemics, and other events occur, most politicians react in much the same way — and it isn’t pretty.

In my home state of Oklahoma, where no Democrat has carried a single county in the presidential race since 2000, the Republican attorney general, Mike Hunter, announced his response to the rising shortages (brought on by panic buying) of certain items. He said that the state’s “price-gouging” statute is now in effect, with the announcement by President Donald Trump of a national emergency in reaction to the coronavirus. The Oklahoma statute prohibits “an increase of more than 10 percent for the price of goods or services after a declared emergency.” This declaration could be from either the governor or the president.

Hunter, of course, did not make the law — it was enacted several years ago when the Democrats ran the Legislature. But it is Hunter’s job to enforce the law. At the same time, if he understood and believed in the power and the morality of the free market, Hunter could use this time as a teaching opportunity. He could say something like, “As your attorney general, I am required to enforce this law, but the fact is we would be better off to leave the free market to work its magic.”

Instead, Hunter spoke as if the free market itself is the enemy. “Scam artists routinely prey on individuals’ emotions during times of fear and crisis. I encourage Oklahomans to remain calm but cautious during the ongoing coronavirus epidemic. Don’t pay inflated prices for things like hand sanitizer, paper towels or other products and services that are becoming sparse.”

Then, Hunter unsheathed the sword of potential government retribution. “If anyone encounters price gouging, fraudulent charities or other crimes related to deceptive business practices, contact my office where we will not hesitate to prosecute in order to protect our citizens.”

Notice that Hunter placed “price gouging” in with “fraudulent charities” as a “crime.” In effect, Hunter is calling free market pricing a “crime” in Oklahoma and in America, a crime that deserves prosecution



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so as to “protect our citizens.”

What Hunter should have done was advocate the repeal of the law and allow price controls be lifted. Prices are the language of the marketplace. They communicate to buyers and sellers alike that a *new normal* has arrived. In the case of the coronavirus, concerns exacerbated by government impositions have caused an increase in demand for items such as hand sanitizer, surgical masks, and toilet paper. This means that the price should rise. And when the price is not allowed to rise, by these popular but ill-advised laws, a temporary acute shortage is quickly transformed into a chronic shortage.

Price controls are a lie, whether they control prices by keeping them *below* the market price, or *above* the market price. If sellers are ordered to sell below the market price, they will produce less of the product, and may even exit the market completely. In the case of hand sanitizer and toilet paper, buyers are hoarding (meaning there is high demand) because prices are too low to discourage them from stocking up. It is common sense to predict that hoarding will only exacerbate the shortage.

Some respond to the situation by arguing for rationing, as is done in socialist countries such as Venezuela. Rationing produces anger from those who get less than they wanted, but it does not produce any more goods and services. Without an incentive to bring more items to the market, sellers won't. Historical examples are plenty. During the Civil War, for example, the Confederate government imposed price controls on high-priced fruits and vegetables in the Richmond market. Nearby farmers responded by not bringing any fruits and vegetables into the capital city.

Robert Schuettinger and Eamonn Butler wrote an entire book on the dismal history of price controls, entitled *Forty Centuries of Wage and Price Controls*.

From the ancient days of Hammurabi in Babylon, to the Emperor Diocletian in the days of the Roman Empire, to the days of the Civil War, to modern times, wage and price controls have always produced chronic shortages. In their book, Schuettinger and Butler explain, “It appears that the very people who were supposed to benefit from the Hammurabi wage and price restrictions were driven out of the market by those and other statutes.” Government cannot repeal the law of supply and demand any more than it can repeal the law of gravity, or of mathematics. Two plus two cannot become five, instead of four, simply by government edict.

But that is what price controls propose. They are saying an item is worth X amount of dollars, when it is really worth $X + 2$, for example. More people will buy an item if it is priced too cheaply, and fewer people will produce it. In essence, price controls below the market price are telling sellers they should subsidize consumers. Price controls above the market price are saying that consumers should subsidize sellers.

The solution today, during the dark days of the COVID-19 outbreak, as it has been throughout 40 centuries of wage and price controls, is the same: Allow the price to rise to its natural level. When this happens, more suppliers will enter the market, increasing the supply of a good or service.

As Dennis Behreandt wrote in this issue, “The BBC has reported that Japanese electronics giant Sharp is to use a TV factory to make surgical masks amid the coronavirus outbreak.” By switching production from LCD panels to mask production, it is expected that they will be turning out as many as 500,000 masks per day.

What happens when prices are not allowed to rise because of government edict? In the present crisis,



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many in the general population anticipated the government (either at the state, local, or federal level) was going to restrict people's movement to their homes in quarantines. Expecting the need for certain items (such as toilet paper and hand sanitizer), citizens rushed to their local Walmart, Target, Costco, etc., and bought up enough to tide them over during the time they can't leave their homes. Others began to notice the higher-than-usual purchasing of these items, so they logically followed suit.

This scarcity could have been moderated if the stores had been allowed to raise their prices accordingly. This would have done two things: 1) Customers would have purchased less at the higher price; and 2) The stores would have had an incentive to get more of the items on the shelves. More items on the shelves, rather than less or none, would have calmed the fears of most of the population, and would have led quickly to a stabilization of the situation.

Syndicated columnist Veronique de Rugy offered an explanation for what happens if the free enterprise system is allowed to operate without the shackles so often placed upon it by either well-meaning or demagogic governments. "The fact is there's no better means of slowing the rising demand — and especially, reducing excessive hoarding — than allowing the very price hikes that governments are trying to prevent."

Yet, government officials pat themselves on the back and accept the accolades of an appreciative public when they prevent these needed price hikes. They can tell the public that they have saved them from a price increase from a so-called price gouger. Of course, you might not have any hand sanitizer, toilet paper, or other items you need or want, either.

That is their idea of "protecting the public."

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