

Don't Cap Prices in Emergencies

By Donald J. Boudreaux, J.D., Ph.D.

Summary

Proposed legislation to prevent repair firms from raising prices in the aftermath of a natural disaster has a lovely ring to it, appears noble on a superficial level, and might bring in a vote or two. However, the law of unintended consequences proves, once again, that politicians who really want to help should step aside and let the market work.

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These price increases direct repair firms and suppliers to attend first to those who need their services and supplies most urgently. In other words, these price increases perform the vital task of economic triage.

My family and I were lucky. The worst blow that hurricane Isabel dealt to us was to snap the cap from our chimney and fling it harmlessly to the ground.

Because our chimney rises 30 feet in the air, however, I refused to risk my own neck to snap the cap back on. Instead, on the morning after Isabel passed, I called a home-repair firm.

“Sure thing,” I was assured. “The charge will be \$175.”

That price seemed high, so I called other repair firms. Every one quoted prices between \$150 to \$250.

Figuring that the services of such firms were then in unusually high demand, I guessed that these prices would fall in a few weeks. So I waited.

Sure enough, within three weeks of Isabel's visit the prices quoted to snap my chimney cap back on were all around \$50.

This little anecdote contains a big lesson that Governor Mark Warner, Attorney General Jerry Kilgore, and the entire Virginia General Assembly should heed – namely, the market works beautifully in the aftermath of natural disasters. Any legislation, such as that proposed jointly by the Governor and the Attorney General, to prevent firms from raising prices in such circumstances will only worsen the devastation.

To see why, suppose that such legislation were already in place when Isabel struck. When I called the chimney-repair firm on the morning after Isabel, I would have gotten a price quote of \$50. I would have said “Deal! When can I expect you?”

Whatever the answer, it would certainly not have been “we'll be right over!”

One reason for delay in the first few days following a hurricane is that the inconvenience and risk that must be borne by repair firms is abnormally high. Driving on roads strewn with fallen power lines and trees, and that are without working traffic signals, is hazardous. Similarly, working on chimneys (or on trees, roofs, and anything else outdoors) in the immediate wake of a hurricane also involves bearing unusual levels of risk. Without higher pay, it's foolish to expect repair firms to expose their workers to such conditions.

Of course, it seldom takes more than a few days to re-hang power line

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and to clear streets of storm debris. Would I have gotten my chimney cap replaced, say, a week after Isabel's visit? Perhaps. But if so, such quick service when prices are controlled would only prove the folly of such controls.

Price increases that appear in unregulated markets following natural disasters do more than compensate repair firms for extra risks. These price increases direct repair firms and suppliers to attend first to those who need their services and supplies most urgently. In other words, these price increases perform the vital task of economic triage.

Even if no extra risk or inconvenience had afflicted repair workers in Isabel's immediate aftermath, the demand for their services would still have been much higher than normal. Everyone with damage to their homes and property wants repair services. If firms aren't allowed to raise their prices in response to this suddenly higher demand, by what means do these firms decide which repairs to perform immediately and which to postpone?

One means is bribery: homeowners with no scruples about violating the regulation will offer illegal payments in exchange for rapid service. It's foolish to suppose that such bribery won't occur.

However, with prices capped, even lawful ways of selecting whom to service first are flawed and even dangerous. Friendship and family ties will loom large. A repairman with triple the number of normal job calls, each paying the same price, loses nothing by repairing his sister's garden gazebo rather than rushing to repair a stranger's collapsed roof.

First-come, first-served also operates: because I telephoned the repair firm early on the morning after Isabel, I might have gotten someone to replace my chimney cap within a few days, even though the greatest risk to my family was that birds might have built a nest in our uncapped chimney. The homeowner whose chimney had blown off, or whose roof had collapsed, but who contacted the repair firm after I did, would have been serviced after me. One general result of price caps is that many minor instances of damage are repaired before some major and even dangerous instances of damage receive attention.

Fortunately, because the misguided statute proposed by the Governor and Attorney General isn't yet enacted, prices did indeed rise after Isabel blew through. And lucky people like me who suffered only minor damage were led by these high prices to avoid squandering the services of repair firms and suppliers whose skills and inventories were needed much more urgently by others.

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