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Free Buffalo News Alert No. 4

## “Price-Gouging” is a Myth

**By James Ostrowski**

**September 8, 2005**

The price of gas is going up according to the laws of supply and demand. Politicians, however, who are either ignorant of these laws or worse, are exploiting the situation for political gain. They’re doing what politicians often do—they’re being demagogues, manipulating the emotions of the people.

The guilty include: [President George Bush](#), [Governor George Pataki](#), [Attorney General Eliot Spitzer](#), [Sen. Charles E. Schumer](#) and [Sen. Hillary Rodham Clinton](#).

They should be ashamed of themselves, frankly, particularly President Bush who has an MBA and presumably studied some economics.

Here’s a primer on elementary economics for these five Ivy League graduates.

The price system is the means by which information about the scarcity of and the demand for resources—which information is scattered throughout the economy and otherwise not possessed by any one person—is encapsulated in one simple number: the price of a good or service. Prices fluctuate as various buyers and sellers make purchases or sales of certain goods and services and resources or abstain from making them. Prices

tend toward that level which will insure that supply and demand are in balance. At that price, all those who wish to buy will have a supply of the good or service available.

If at a given price, there are too many consumers demanding the good, suppliers will raise prices. If there is too little demand for a good, suppliers will cut prices. The federal government's longstanding policy of inflation, which tends to raise all prices all the time, obscures this fluctuation of prices. Nevertheless, we do not have to look too hard to see many goods and services whose prices decline on occasion.

It is apparent that gas prices are rising because Hurricane Katrina disrupted numerous production facilities in the Gulf area including refineries and pipelines and ports. In anticipation of reduced supplies, gas stations in this area have raised prices. This will reduce demand and tend to insure a steady supply of gas for those who wish to buy it at the higher prices.

It is counterproductive for panicky consumers to rush out and fill up all the family vehicles and all available containers before the price goes up. This tendency, if widespread, will worsen the situation by reducing supplies and further increasing prices and creating even more panic buying. We can all do ourselves a favor by relaxing, buying and using less gas and waiting out this temporary supply crisis.

The only two ways people can help reduce the price of gas are to (1) start producing gas to sell to gas stations, or (2) reduce consumption, which will increase supply and reduce prices below what they would be otherwise.

Those who blame these recent prices increase on greedy businessmen are mistaken. Businesses generally charge as much as they can and consumers generally pay as little as they can. If it is greedy to charge four dollars for gas now, why weren't the gas station owners greedy last month? And why don't these greedy businessmen start selling gas for ten dollars a gallon?

Politicians blathering on about "price-gouging" does nothing to solve the problem of rising prices. If price controls are installed, available supplies of gas will dry up. There will be shortages and lines as there were when similar policies were put into effect in the 1970's. Gas producers will have a lower incentive to get their product to market. Supplies will tend to flow first where there are no price controls. In short, price controls will be a disaster as they always are, always have been and always will be.

The bottom line: the politicians supply us with no gas except the kind that comes out of their mouths.

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For more on the myth of price-gouging, see:

<http://www.mises.org/story/662>

<http://www.lewrockwell.com/ostrowski/ostrowski25.html>

<http://blog.mises.org/blog/archives/004022.asp>

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