

01 Price Controls

In a free market the producers try to maximize profits, and the consumers try to minimize costs. Most of us are the consumers, and one effort to minimize costs is to influence politicians so they will set price controls. It works because we consumers have more influence at the polls than the producers, although the producers have more money to give the politicians. So it's a battle and the politician is the middle man.

Price controls are a limitation on the free market for, locally, the social good. I will give many examples of how that backfires for the larger economic system.

Rent Control

Rent control is the law passed in a city to limit the amount of rent that can be charged for certain apartments of apartment buildings. I have no idea how those apartments are chosen, but I'm certain no landlord chooses to do this on their own. The lower rent means that citizens of lower means can find housing. But that's not what happened.

Managers of rent-controlled apartments found themselves with a meager income, typically not enough to cover taxes, mortgage and maintenance. With a money-loser on their hands, they kicked everyone out and boarded up the place and walked away. And the number of apartments went down. Like, 40% down. And the poor, looking for housing, found none. So rather than making housing more affordable, the rent controls limited availability to the point that non-rent-controlled apartment prices went way up, and only the fortunate had a cheap place to live.



And it wasn't the poor who had those places. Many rich people would gather up several of these cheap-rent apartments and use them as offices or places for business people to stay when in town. And the housing for the poor diminished further.

A free housing market maximizes the number of housing units available. Some will be more expensive, because there are always wealthy people who want the nicest houses. But there are always less nice places with lower rent. And some dumps with very low rent. The problem isn't the rental price, it's the number of apartments. Free markets maximize the number of apartments.

Price Floors

A price floor is a minimum price for a commodity. Wheat, for example, has been a target for price floors. Because we must guarantee the production of food in the US, the federal government will guarantee the price of wheat, so that no farmer will need to leave wheat production for some other crop. To keep the price above the floor, the government would buy the surplus. They would store it

for a possible drought in the future, or for sale to another country (or as a gift to another country the US wanted to impress) until all the storage was filled. And then it went into old Navy ships for storage, or was dumped and left to rot.

With high prices for wheat, consumers turned elsewhere for food. They stopped consuming so much wheat, which generated more excess and more dumping. Farmers switched to crops with no price floor, because the possibility of more profits was more alluring than a guaranteed price.

Similar programs exist or existed for almost all grown commodities.

Free markets let the farmer and the consumer find an optimal price that will keep the farmer in business and the consumer fed.

Anti-price-gouging Laws

Natural disasters are setups for price gouging, raising the price on goods and commodities because the disaster has made those things valuable and hard to get. Most local governments make price gouging illegal because it sounds morally wrong and restricts the availability of needed goods from those who need them. Things like bottled water, lumber, generators, gasoline, non-perishable food. But do the laws work?

As you remember from COVID lockdowns, some things are in big demand. Like toilet paper. What happens when the prices are kept low? Hoarding. It didn't keep items on the shelves. They went way faster, because the price held was so low. So some people got lots, the rest got none. Black markets were the result.

When gasoline became scarce in the 1970's an odd sort of hoarding was evoked because the price of gasoline was restricted. The fuel wasn't too expensive, but it seemed to be in short supply. Actually it wasn't. Drivers thought it was hard to find gas, so instead of filling when the tank was less than 20% full, they refilled at 50%. Drivers were hoarding gasoline in their own tanks. They visited gas stations more often, giving the impression that gasoline was in greater demand than it was. Which made them hoard all the more.

Take hotel prices when a hurricane makes landfall. Those evacuating need housing, and hotels are great for this. Price gouging laws make all rooms cheap, so a family with kids will get two rooms. Soon all rooms are rented, and the rest need to look further from home for lodging.

In these cases, let prices follow the free market and the problems solve themselves. The available stock, while very limited, can now be accessed by everyone because you can't hoard at a high price, not just a few who got there first and bought the stock out. Same for the hotels. High prices encourage the family to get just the one room, leaving space for other families.

The advantage of the truly free market is enormous. Sellers charge whatever they want, knowing that when they charge too much they don't sell much either. Seller want to sell. Buyers want to buy. Each wants the price to go a different direction, and the free market optimizes the price for the greatest distribution of the goods available.

UPDATE June 2022:

John Stossel just posted a video on the topic of rent control:

<https://www.youtube.com/embed/Tc8XQGEoEpY>

He states the case well: rent control goes in to protect housing for the poor. New apartment construction drops to zero because there is no more profit to be made there. Rich people get the apartments for second offices or playrooms. Poor people move to a new town. It's a city scam to get the poor out of their town, and enhance the tax base. No wonder city leaders are voting for it.

Revision #1

Created 3 October 2023 12:34:48 by bruce

Updated 3 October 2023 12:35:22 by bruce