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Greensboro Office
100 S. Elm St., Suite 400
Greensboro, NC 27401
Phone: (336) 271-6539
Toll-free: (800) 723-2977
News fax: (336) 370-2899
Advertising fax: (336) 370-2900
General fax: (336) 574-3607
Winston-Salem Office
305 W. Fourth St. Suite 2B
Winston-Salem, NC 27101
Phone: (336) 725-1163
Fax: (336) 725-1154
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COMMENTARY

When price-gouging is a necessary reality

When it comes to gasoline, we Americans have a habit of losing our minds. If we're not panic-buying due to false rumors, we're demanding that government do something, anything, about high prices. We claim a heritage of capitalism and free markets, but somehow that goes out the window when the subject is gasoline.

The latest example of this is the investigation by N.C. Attorney General Roy Cooper into price-gouging by about two dozen gas stations across the state. In the days before Hurricane Ike hit Texas, prices spiked upward due to fears that the storm would knock out refineries and cut gasoline supplies.

VIEWPOINT
ANDREW BROD

Within hours, prices were hovering around $4.20 per gallon, up from about $3.60. The stations under investigation by Cooper's office apparently charged much more, between $5.49 and $5.99 per gallon.

The question is why this is illegal. As a rule, businesses have a right to charge whatever the market will bear. That's called capitalism. If a product's price is too high, consumers will let the business know, either by going elsewhere or doing without. This is particularly true in the highly competitive retail gasoline industry, in which sellers post their prices on big outdoor signs and drivers are assisted in finding the lowest price by media outlets and Web sites like www.greensborogasprices.com.

No doubt the justification for applying anti-price-gouging laws to gasoline is that drivers have few alternatives when there's a general supply disruption. But this is precisely when high prices are needed the most. In a market economy, prices convey information about surpluses and shortages.

Without such information, we're left in the dark and are forced to engage in irrational behavior like the panic-buying that hit the Triad earlier this month. It's true that many stations ran out of gasoline, but it was due more to the panic than to actual supply conditions.

Imagine instead that when you heard rumors of an impending shortage, you went to a gas station and saw a sign informing you that you could buy all you want, but at a cost of $10 per gallon. At that point, your decision of how much to buy would be based on your actual need for gasoline, not your fear that others would buy too much.

If you had an out-of-town business trip that could not be missed, you'd take the hit and fill up. Otherwise, influenced by that hefty price, you'd buy only enough to tide you over. Without the high price, you'd have no incentive to economize on gasoline. During a shortage, that's a problem.

But wait, what if the retailer had already paid a low pre-rumor wholesale price? Wouldn't he be jacking up the price just to benefit from the rumors? Well, so what?

His profiteering would be temporary, and the result would be much more civilized than gas lines and angry drivers. Aren't civility and predictability worth something?

Allowing gasoline retailers to charge what the market will bear wouldn't have to hurt poor folks. The government could issue vouchers or adjust the Earned Income Tax Credit program.

I will grant that price-gouging is problematic during a true emergency. But we've seen how to deal with that. Back in the 1990s, when the federal government was actually effective in dealing with hurricanes and their aftermaths, it stopped most price-gouging by simply stepping in to supply essential commodities like fuel and ice.

Unfortunately, we seem to think that anything involving gasoline is an emergency. But as long as the government isn't going to step in to sell us gasoline, what we call price-gouging isn't the problem. It's the solution.

ANDREW BROD *is the director of UNCG's Center for Business and Economic Research and a member of The Business Journal's Editorial Board of Contributors. Reach him at (336)334-4867 or AndrewBrod@uncg.edu. An archive of Dr. Brod's columns is available at http://cber.uncg.edu.*

Loose regulations, greed at core of Wall Street fiasco

The mess in our financial system is vexing. A friend described it as "stupendous." When that word didn't quite do it, he offered a quickly fashioned adjective: "gianormous."

Not a bad word. "Gianormous: Of unprecedented and unexpected magnitude."

Whatever is going on, I don't like it. And it makes me mad.

I'm mad about an attitude in this country that over the years has allowed a relaxation of regulations on our financial industry. Such regulations were ripped asunder in 1999 when Republican Sen. Phil Gramm pushed through legislation signed by Democratic President Bill Clinton repealing the Glass-Steagall Act. Plenty of articles were written at that time warning of the consequences, which we're seeing today.

Glass-Steagall, passed in 1933 with the express purpose of avoiding a financial meltdown such as occurred during the Great Depression, was one of the first laws approved during the administration of President Franklin D. Roosevelt. The law had many provisions, but the overriding one prohibited banks from getting into the investment business.

GUEST COLUMN
DALE GIBSON

Since the repeal of Glass-Steagall, banks have become virtual casinos of deal-making. What's emerged is a "shadow banking system" in which money managers minute by minute pull the levers on esoteric investment products with characteristics that few outside the business — and even some inside — can understand.

Today, investment banks are left holding reams of virtually worthless paper. It's not an irony, but the truth, that, however we got to this point, the result is not radically different than in 1929, when the stock markets crashed.

Eminent economist John Kenneth Galbraith, in his history of the Great Depression, wrote this: "During 1929 one investment house, Goldman, Sachs & Co., organized and sold nearly a billion dollars' worth of securities in three interconnected investment trusts — Goldman Sachs Trading Corp.; Shenandoah Corp.; and Blue Ridge Corp."

The result, Galbraith further wrote: "All eventually depreciated virtually to nothing."

Goldman Sachs continues to stand — for now — along with Morgan Stanley as the last of New York's big five investment banks. Gone to a forced sale are Bear Stearns and Merrill Lynch, and Lehman Brothers is in bankruptcy.

We could discuss banking history and financial systems until we're blue in the face. We could discuss the impact of the housing crisis on the banking sector. Bottom line, though, is this inescapable conclusion: The way financial companies have been allowed to operate since the wisely approved Depression-era regulatory laws were repealed has facilitated the situation we find ourselves in today.

The formula is simple: Lack of accountability + human nature + money = greed.

The biggest losers when bankers got greedy in the 1920s were not the bankers, but the investors — rich and not so rich alike, people who one day were comfortable and the next were looking for handouts.

FDR put it this way in his first inaugural address, as he embarked to deal with the collapse of the nation's financial system caused by bankers: "Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men."

The same could be said today.

DALE GIBSON *is managing editor of the Triangle Business Journal, a sister publication.*