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## WHERE DID ALL THE TOILET PAPER GO?

## NEW CNU RESEARCH REVEALS THE PROBLEM WITH PRICE GOUGING RULES.

by [Jim Hanchett](#) | September 16, 2020*Above: Rik Chakraborti**Read time: about 2 min*

Price gouging rules went into effect in many states when toilet paper and hand sanitizer disappeared from store shelves at the beginning of the COVID-19 pandemic.

New research by [economics](#) Professor Dr. Rik Chakraborti indicates that government efforts to keep pandemic prices reasonable actually led consumers to hoard those precious products.

“Governments that tried to help consumers by enforcing or adopting price regulations ran headlong into one of the traditional theories of economics: households stocked up and the shortages got worse,” Chakraborti said.

Chakraborti and co-author Gavin Roberts of Weber State University have written an article, currently under peer review, about their findings: “Learning to Hoard? – The effects of preexisting and surprise price-gouging regulation during the COVID-19 pandemic.”

While economists regularly issue warnings about the shortage-inducing tendencies of these regulations, empirical evidence on the matter is hard to come by. The pandemic gave the researchers ideal conditions to test that economic theory. Chakraborti and Roberts examined online searches for two items that are typically store-bought: hand sanitizer and toilet paper. They cross-checked the search numbers against states that either had preexisting price gouging regulations or implemented them in the heat of the hoarding.

Thirty-four states have pre-existing regulations against price gouging that are activated as soon as the state formally declares an emergency or disaster. These regulations prohibit large price increases on household essentials during the emergency. The policies are popular with the public and with politicians. As California governor Gavin Newsom proclaimed, “All consumers (will be) able to purchase what they need, at a fair price.”

It didn’t work out that way. Consumers in states with no price regulations resorted to searching online for the products far less frequently than residents in California and states where prices were capped.

“It’s possible that consumers in states with regulations anticipated there would be shortages from prior experience in emergencies and so they rushed out and stocked up,” Chakraborti said.

Eight states also enacted “surprise” regulations as part of their responses to the pandemic. That gave the researchers a way to test how consumers responded to these unanticipated regulations. In those states, online searches for toilet paper and sanitizer rose but not nearly as much as in the states with pre-existing regulations.

The analysis compares changes in online searches across states, and accounts for the variation in populations and a range of other state-specific features, as well as national trends. Doing so minimized factors that could have influenced search trends. The pandemic – because it led to emergency declarations all across the U.S., triggering pre-existing price-gouging laws in some states, and not in others – created ideal conditions for the study.

“What we found is that anticipation of price-gouging regulation and possibly previous experience with its effects, leads to even higher consumer searches,” Chakraborti and Roberts concluded. “A key implication of our result is that anticipation of shortages caused by price-gouging regulation might be a self-fulfilling prophecy if it leads to hoarding and panic buying.”

States should definitely repeal price gouging laws, Chakraborti said. Doing so will reduce these shortages by allowing prices to serve two important purposes: discourage consumers from hoarding by making it expensive, and encourage stores to replenish depleted stocks by making it profitable. When stores can increase prices as essential goods start flying off the shelves, consumers can afford to hoard less, allowing more people to buy what they need, and stores, seeing the potential for profit, bring in more stock.

“Disasters are bad news, and disproportionately so for the poor. Price-gouging laws only make things worse,” Chakraborti said. “You can have low prices and empty shelves, or higher prices and available supplies. Not both.”

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