“But Only Rich People Would Get Tickets”

As I came out the door of my late afternoon class last September, I could see that the College of Business and Economics (CBE) annual picnic had started. Faculty grilled burgers and hotdogs. Representatives of student clubs pimped their organization to anyone who passed in front of their booths. Captains of departmental volleyball teams scanned the top of the crowd for potential spikers. But most important, a long line of students and faculty members waited for free food and drink. As a card-carrying economist, fresh from an introductory class on the principles of supply and demand, I didn’t take a place in the food line. Instead I walked the line looking for my current students. Finding one at last, I looked up and down the long line and asked,

“What’s wrong with this picture?”

“What do you mean?” he asked.

“I mean this line. What does it tell you?”

“They need more barbecue grills.” He said.

“D answer, I said, but thanks for trying.” I shook his hand and welcomed him to the picnic, choking back the urge to give a mini-lecture about expensive “free” food.

I continued to walk the line until I spotted a young woman who had done very well on the first exam. I’d chatted with her during my office hours and knew she was smart.

“What’s wrong with this picture?” I asked.

“What do you mean?” she asked, a little flustered, stalling for time. She looked like a student who had just run into a parent at a kegger.

“This line, what does it tell you?” I asked.

After a short pause, and a glance again over her shoulder in both directions, she said in her best uptalk, “The price is too low?”

“Bless you my child.” I said, “See me after class tomorrow about becoming an economics major.”

Economists hate lines. A line usually means that we are addressing the economic problem of excess demand with some method other than allowing the price to rise. At the CBE annual picnic, we decide who gets the burgers and hotdogs on a first-come, first-served method of allocation, and then by the opportunity cost of waiting. Whoever has the least valuable time is willing to wait the longest in line for food. That’s not the way it works at auctions, as bidding hands remain in laps or pockets as bids rise. Millions, perhaps billions of times every day markets clear as prices rise. If they don’t have to think about it, normal people are willing to tolerate markets, but bring a market process into the light of day and objections mount.

Usually, concerns about fairness defeat market processes. A zero price before the picnic may not be such a bad idea. After all, you want a large number of students to show up. But once it was clear that we had underestimated demand or overestimated faculty burger flipping ability, we could have made changes. But no one wants an economist to run the picnic.

“Hey back there in line,” I’d yell, “Anyone willing to pay $3 can come to the front of the line.”

Can you imagine the boos and hisses. Now only rich students, and worse, faculty, would get food in a timely fashion, if they were willing to pay. I’d have a rebellion on my hands. I wouldn’t even have time to argue that having more money usually means people get to buy more and better goods and services. But the angry crowd would have my head if I said rich people drive more Mercedes, too, or that F. Scott Fitzgerald said the rich are different than us. They have more money.

In anticipation of the equity objection, I could say that anyone wishing to contribute $3 to a fund to help poor students hire tutors could move to the head of the line. This might receive more support, but probably not. If they have to think about it, normal people think markets are unfair and should be avoided.

The fall picnic is small change, merely symbolic, but we can see other examples of market aversion in the Economics Laboratory of the Real World. Tickets to the NCAA Final Four are too important to be left to the marketplace. To get a ticket, you have to be lucky enough to have your name picked in a random draw. If you're not lucky, your only hope is the black market. If the NCAA charged market prices, only the rich could attend the Final Four.

Tickets to many events are often under-priced, with expected results. Country singer Garth Brooks used to sell some tickets to his concerts at a low price. The result, tents in the streets. Playoff tickets for the Seattle Mariners in 2001 led to sidewalk sleeping bags in the rain. For student tickets to a football game against the traditional rival with the conference championship on the line, you'd better get there early. If we didn't do this, only rich people would get to see (fill in the blank).

At the University of Idaho, we price parking permits low. At UCLA, what we pay for the best permit wouldn't get you in eyesight of a shuttle bus stop. At Idaho, we ration parking with a special game of chicken at 9:00 weekday mornings. He who blinks last racing for an empty spot gets the space. Gentlemen, rev your engines. A permit is a license to hunt, not a permit to park. But if we raised permit prices, only the rich would get to park.

Permits to float rivers managed by the U.S. government are rationed by random draw. Many want to run the Middle Fork of the Salmon River in July. Limited permits exist. If we had a river permit auction, those who valued the trip the most would be willing to pay the most and get the permit. But then only rich folks would run the Salmon.

Many well-intentioned elected officials think apartment rentals should not be left up to the marketplace, although rent control is losing its grip on American cities. Even the Peoples Republic of Santa Monica is relaxing its hold on apartment rental prices. Rent control is a legislative attempt to do what the market could not do, make apartments more affordable. Rent too high? Pass a law that rolls back rents and only allows them to rise with costs. Economists call rent control a legislated "price ceiling." A normal city council representative might think that without it, only the rich would get apartments. But attempts to legislate market outcomes have predictable effects. At the rent-controlled price, fewer apartments will be available, and more people will want to rent. At a rent-controlled price, potential landlords turn basement apartments into storage, wine cellars and poolrooms. At rent-controlled prices, your roommate suddenly becomes more annoying. The excess demand becomes permanent, what economists call a shortage. Other rationing methods must be brought in to address this version of the basic economic problem. Reading the obituaries to scout out potential rent controlled apartments becomes a popular pastime. Forms of discrimination other than willingness to pay come into play. All have costs.

Water and electricity appear frequently in lab reports from the Economics Laboratory of the Real World. Often when we have droughts in the West, the amount of water demanded in the summer exceeds the amount available. An economist would suggest raising the price, but economists are rarely water managers. They would never be appointed. After all, only the rich would get water. Instead, we have odd and even watering. On odd-numbered days, those with odd-numbered addresses get to water their lawns. On even-numbered days, those across the street get their chance. We have to commission a water police force to keep track of water use.

In the spring and summer of 2001, electricity shortages occurred in California. With lower electricity supplies and higher demand, market forces called for an increase in price. But California politicians capped the price of electricity at the retail level, with predictable results. Rolling blackouts substituted for price increases to clear electricity markets in California. After all, if electricity prices rose, only the rich would get electricity!

In the late 1970s, the Organization of Petroleum Exporting Countries again raised the world price of oil. Gasoline prices rose, at least until Congress passed a law rolling back the price of gasoline with a price ceiling. As predictable as tulips in the spring, gas lines sprouted at the pump. But without price controls on gasoline, only the rich would get to drive.

Fairness and equity are important concerns. No one, including economists can fault another for worrying about the economic plight of those at the lower end of the distribution of income. Certainly, we economists have no special insight about fairness. But we do know that using non-price rationing to address conditions of excess demand has consequences that might be as ugly as the inequity these methods seek to address. And we do see the irony in using the market to decide the prices of most everything in our market economy, when we don't have to think about it, then using non-price methods for tickets to athletic events, river trips, water, electricity and hot dogs at the fall CBE picnic. If we don't have to think about it, it's OK if only rich people would get (fill in the blank).