In the wake of a tsunami in Indonesia in which hundreds of thousands of people were left without food or shelter, prices for desperately needed items rose dramatically to meet higher demand. Electric generators, building supplies, fishing boats and nets, farming equipment, food, bottled water, i.e., anything essential to survive and regain one’s livelihood, was at a premium. Since most of the population lived at a subsistence level, they had neither insurance nor a government with sufficient resources to bail them out. Thankfully, close to a billion dollars in relief aid had been pledged by more developed countries. However, it would take several months before most of that aid could be allocated. Even then, it was not clear if the aid would be sufficient given the exorbitant prices for essential materials.

During the first few weeks after the disaster, enough food and water had been provided to keep people from starving. What were needed most now were the tools and raw materials to rebuild homes and livelihoods. In high demand were generators, fishing boats, and nets. But since suppliers had tripled their prices to meet increased demand, most victims had to go without. Many were compelled to sell off whatever assets they still had—land, animals, jewelry—often at distress-condition prices. Wealthy buyers took advantage of people’s desperate need for money to snatch up tremendous bargains on expendable assets such as land and jewelry that now flooded the market. To make matters worse, the usual pattern after such disasters is that as the economy regains momentum, those who liquidated assets in the flooded market can least afford to buy them back as prices return to pre-disaster levels.

In this context, Pioneer Hardware, a large American hardware chain, was facing a moral dilemma. It had received an incredibly high number of orders for electric generators in the wake of the tsunami from only a handful of clients. It appeared that these generators were to be resold to tsunami victims. Meanwhile, media outlets had begun reporting news of widespread “price-gouging” for such products in Indonesia. Pioneer Hardware felt uncomfortable at the thought of price-gougers purchasing its generators and selling them to disaster victims for exorbitant amounts. But what could they do about it?

After all, stratospheric prices were guaranteeing that the largest quantities of generators available would reach the affected areas fast. This rush to satisfy demand might in turn lower prices once the market has been saturated. But what if there were not enough generators to satisfy demand? This was a safe assumption at least until the power grid was rebuilt. In that case, what method should be used to distribute generators among the needy? A random first-

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**What Price Relief?**

**Does disaster relief require business altruism?**

By Julian Friedland, Ph.D.
giving the generators to the relief agencies in charge of distribution. This way the places that most needed them, such as hospitals, community shelters, and other essential public services, would have them without spending large sums of donation money. Pioneer Hardware determined that it could afford to make a charitable donation of all 5,000 generators it currently had in stock. The executives were tempted to cancel all the existing orders and do just that.

But what about all the other material needs that were driving prices up? Building materials such as tools, nails, screws etc. were also desperately needed. Could the company stop people from ordering other items to price gouge? Pioneer could certainly not afford to give away all its inventory. There seemed to be no solution with which they were entirely comfortable. Should the company simply turn over a portion of its profit to relief efforts and not risk angering good customers by canceling orders for generators? Another option might be to limit the number of generators per order and to send a notice to all stores about price-gougers profiting from the disaster and to report any unusually high orders of hardware to headquarters. Unfortunately, investigating such orders and canceling them when they seemed destined for price-gouging could cost the company dearly in reduced profits and could alienate customers.

Was it simply naive and unrealistic to want to inhibit the price-gouging after a disaster? Was there really anything wrong with charging the highest price that the market could bear? What was an ethical company like Pioneer to do?

Discussion Questions

1. Do you think one of the options Pioneer Hardware considered is better than the others? Are any worse? Why or why not?

2. After large-scale disasters, do businesses have a moral duty to offer aid? Do you think Pioneer Hardware has such a duty, or is providing help a sheer act of altruism that is not the duty of business?

3. Is it fair to sell certain products after disasters for exorbitant prices? Consider medicine, bottled-water, toys, and televisions. Are there any moral differences between these items?

4. Do you think there should be international anti-price-gouging laws? Why or why not?