

Given that price control appears as a reaction to price increases not only in Serbia but also in the rest of Europe, economists increasingly point to its harmful consequence. The unintended outcomes of this measure, which are reflected in product shortages whose price is dictated, are an example of good intentions ending in bad results. With the aim of protecting citizens from price increases, decision-makers unintentionally disrupt incentives in the market and cause empty shelves in stores.

However, why does price control persist as a potential intervention regardless of its negative consequences?

One possible explanation, which will be presented in this text, is that politicians may see uncontrolled price increases as worse for them than the emergence of shortages. The reason is that the first negative outcome (price rise) is a consequence of sitting idly by, while the second negative outcome (shortages) is a consequence of measures taken that are a visible reaction to price increases. If rising inflation creates ever-increasing expectations for a concrete response to the crisis, shortages due to the actions undertaken may seem more acceptable than free price growth.

Thus we arrive at a paradoxical situation where the ***greater evil that results from an action is more attractive than the lesser evil that results from inaction.*** In the following, the so-called action *bias*, which explains this behavior.

A goal conceded is a goal conceded, right?

Let's imagine that a very important football match is being played in which a decisive penalty is played. The goalkeeper prepares to defend, throws himself aside, but the opposing player still scores a goal.

Now let's consider an alternative scenario, where the opposing player also scores a goal while the goalkeeper has not moved from his position during the shot. In both scenarios, the goalkeeper conceded a goal that lost his team the game, but are both goals really equally "bad"? Objectively yes - the game is lost. Subjectively no - while in the first scenario the goalkeeper threw himself to the side and thus made an effort to save the shot, in the second scenario he just stood still. The judgment of the goalkeeper is therefore not based solely on the negative consequence of conceding a goal, but also on whether he actively reacted to the danger of a goal.

A group of authors actually conducted research on this topic by analyzing a large number of penalties, and concluded the following: although based on the distribution of shots, the optimal strategy for goalkeepers is to stay put, they are generally thrown aside.

This behavior is explained by a concept called action bias: the goalkeeper is expected to do something about a penalty kick, he tends to take action because the negative outcome of standing still is subjectively worse. Since the norm is that the goalkeeper should react to danger in some way, the negative consequence that would arise from not reacting would be more directly attributed to him and would be more intense.

The presented bias towards action is based on the so-called theory of norms Kahneman and Miller, which says that emotional reactions to the outcome of a decision depend on the (ab)normality of that decision in a given context. For example, respondents in one survey believed that a person who experienced a traffic accident would be more upset by returning home on a new instead of a routine route. Since choosing a new path is an abnormal decision, that is, a decision that deviates from the expectation that a routine path will be chosen, emotional reactions to a negative event will be more intense. The same applies to the goalkeepers in the previous example: since they are expected to take action in response to the danger of conceding a goal, standing still will be seen as an abnormal reaction. The negative outcome of an abnormal decision will be subjectively worse and the actor's responsibility will be greater.

Action bias and price controls

Just as goalkeepers choose to sidestep penalties even though the aforementioned research suggests they would have a better chance of saving if they stayed put, politicians may choose to impose price freezes despite the fact that free price increases would be the lesser evil.

The absence of concrete and conspicuous interventions in times of crisis could be interpreted as abnormal behavior for the given context. Given that abnormal decisions can make negative consequences more intense and increase the perception of responsibility for them, politicians may judge that it is more profitable for them to control prices and thus cause shortages.

If the growing crisis creates expectations that the state should do something about it, price control could be the "ideal" option for decision makers: price dictation is a visible, concrete, quick and conspicuous reaction to inflation.

In one of the previous articles on Talas about price control, it was stated that the cure can be worse than the disease. However, while the remedy in the form of price freezes may objectively be worse for citizens and the economy, subjectively the negative consequences of the crisis could be more acceptable if they are the product of action and not of refraining from action, Talas writes.