

Unreasonable Prices and Reasonable Politics?

Does Croatia need Anchor Prices?

“It cannot be the case that something that costs, I don’t know, X in Osijek costs X plus one, plus two, or plus three here [on the island of Hvar]. That is not normal. Especially if it is the same product, and everyone needs to be reasonable.”

Since Croatian Prime Minister Andrej Plenković uttered these words a few months ago, prices have continued to rise “unreasonably.” In October, the Croatian Government was set to introduce its latest measure aimed at protecting consumers: the obligation to display so-called anchor prices was to be extended to all products and services, along with a requirement that suppliers publish price lists for their products and services on their websites. However, three days before the measures were due to take effect, Minister Ante Šušnjar announced that he would propose withdrawing these decisions. Then, the following day, the Croatian Government decided merely to extend the deadline for compliance, with the measures now set to take effect on November 17.

Before addressing this unexpectedly introduced, almost canceled, and then merely postponed obligation under the “11th Package of Measures to Protect Citizens and the Competitiveness of the Economy,” and assessing how successfully its implementation will protect us as citizens and promote economic competitiveness, it is worth, I hope, reminding ourselves of what prices are and what role they play.

What Prices Are - and What They Are Not

In a market economy, where prices are formed through mutual agreement, prices are not numbers that attempt to quantify the absolute value of a product or service. The reason is simple: no product or service has an absolute value that, by definition, should remain constant and be independent of time, place, and individuals. Quite the opposite: the value of every product and service is subjective. It differs not only from person to person but can also vary for the same person in different circumstances. If this is not immediately clear to someone, they need only ask themselves whether a sandwich is more valuable to them after several days of fasting or after a wedding dinner. The sandwich is the same, the person is the same, but the circumstances are different.

We can already see that, at least from an economic perspective, the prime minister’s statement at the beginning of this article misses the point entirely. Given that Spanish Scholastics had already understood this in the 16th century, it is unfortunate that Croatian politicians have failed to learn the lesson even after nearly 500 years. The fact that such statements carry political weight despite their economic absurdity is an indication of our society’s poor economic literacy, but that is a separate topic. For now, I will simply quote the good old Thomas Sowell, whose words seem particularly appropriate here: “When you want to help people, you tell them the truth. When you want to help yourself, you tell them what they want to hear.”

Let us return to prices. Prices are also not numbers arbitrarily determined by sellers. More precisely, sellers can set whatever price they want, but that price becomes a market reality only if someone is willing to pay it, that is, if someone values the product or service more highly than the amount of money represented by that number. This acts as a built-in constraint on sellers' greed - until someone values the good more than its asking price, that price is merely the seller's stated wish. A buyer's willingness to pay that particular price also depends on the prices set by other sellers and on whether a better deal is available from competitors. Naturally, the more competitors offer the same good, the lower we can generally expect its price to be, and vice versa.

So, what exactly are prices? We can think of them as a bridge connecting individuals' subjective valuations of products and services, both on the buying and selling sides, with their choices in the marketplace. Their relative movements simultaneously provide information about availability (supply) and desirability (demand).

Beyond enabling trade between two people, prices serve several other important functions. Prices act as incentives that guide the behavior of consumers and producers. When prices rise, consumers are encouraged to economize - to use the good more sparingly or turn to another product that can satisfy the same need. The same price increase, when caused by a relative increase in demand compared with supply, encourages sellers to increase their supply. Sellers who have not previously offered the product are encouraged to redirect their resources and begin selling it as well. In this way, prices also serve as coordination signals, transmitting information throughout the economic system about the relative scarcity of goods and resources and thereby enabling their efficient allocation.

What Happens When There Are No Prices?

There is a well-known saying that a healthy person has a thousand wishes, while a sick person has only one. The point is that we often become aware of the importance of something only after we no longer have it. If this applies to something as important as health, it will almost certainly apply to something as seemingly "unimportant" as price fluctuations. To understand the role of prices as fast as possible, let us look at what happens in systems where prices cannot move freely and perform their functions.

In the Soviet Union, prices were not formed through mutual agreement in a free market. Instead, they were set and regulated by the State Committee on Prices, also known as Goskomtsen. Not some, but all prices. From agricultural and industrial goods to consumer products, the prices of every product were determined by decisions of this body, based on analytical assessments by the Soviet Union's best economists, mathematicians, and statistical experts. They took average production costs and standardized profit margins into account, guided by the idea that nobody should unfairly earn excessive profits. Any resemblance to Croatia's actual, proposed windfall profits tax is purely coincidental.

Prices were also adjusted according to the type of product. Prices for essential goods such as bread, meat, milk, and children's clothing were set below production costs, while luxury goods such as jewelry, alcohol, and cars were subjected to heavy taxation. Some members of today's Croatian Government, as well as most of the opposition, would probably consider this methodology more reasonable than the situation on Croatian store shelves.

And what did Soviet store shelves look like? What was the result of this centralized price-setting system? Hunger, empty shelves, queues outside shops, poor product quality, and vast amounts of wasted resources and time spent producing goods and services that nobody actually needed.

Simply put, the system failed to perform its primary function: allocating scarce resources efficiently to the uses that consumers genuinely needed. It is worth remembering that the USSR was no ordinary economy. At the time, it possessed perhaps the world's largest natural resource base and ranked among the world's leading countries in both the number and quality of its experts. Yet, as long as prices were determined by bureaucrats, the calculation problem remained too great for them to solve. As Hayek demonstrated, without freely fluctuating prices, they could not account for the dispersed, local knowledge distributed throughout society that would have revealed where particular goods and services were most needed.

One moment that best illustrates the difference between a system that centrally determines prices and one in which prices fluctuate freely is Boris Yeltsin's legendary visit to a supermarket in Houston. It took place in 1989, during Yeltsin's visit to NASA, when he unexpectedly walked into a local supermarket and was astonished by the selection.

"Even the Politburo doesn't have this kind of choice. Not even Mr. Gorbachev," Yeltsin remarked while his eyes glowed at the sight of the available fruit, vegetables, ice cream, and other treats. He knew he was not looking at a staged display arranged by the Americans but at an ordinary American grocery store.

The average person in the United States had access to more choices and better-quality products than the very highest-ranking officials in the USSR. The only difference was that ordinary Americans could influence prices through their behavior as consumers, one transaction at a time. They bought more when the price of something fell and refrained from buying things they considered unacceptably expensive.

Anchor Prices: Pros and Cons

And so, starting November 17, we Croatian will find ourselves looking at as many as four different prices displayed on a single product in some situations. If the product is on sale, its promotional price will be displayed alongside its pre-sale price. We are already accustomed to seeing the lowest price charged during the previous 30 days. In addition to these, we will see the anchor price - the price the product had on September 10, 2026, or May 2, 2025, depending on the type of product. Furthermore, we will be able to easily download price lists for all the products and services offered by retailers from their websites, in digital formats suitable for automated data processing.

Supporters of the measure generally cite increased transparency and easier price monitoring as its main benefits. Indeed, additional, readily accessible pricing data achieve precisely that: they make it easier for us as consumers to track price movements and make decisions about what to buy, where to buy it, and how much to purchase.

Moreover, economists, economic analysts, and marketing professionals will have access to a wealth of readily available data that will hopefully improve their research and academic work. If we have argued above that the role of prices is to convey information, then anchor prices will also convey information that was previously hidden, potentially helping the economy function more efficiently.

Who could possibly object to having more information? After all, with new AI tools, implementing such changes in business operations should be exceptionally easy, right?

Of course, as with any law or regulation, every measure provides some visible benefit to at least someone, while also producing negative consequences that are often harder to notice. The decision about whether a regulation should be implemented ought to be guided by the balance between its positive and negative consequences. In this case, the negative consequences are certainly not negligible.

The most obvious negative consequence is the additional work that sellers must perform every day, without sufficient time to prepare, even after the deadline extension. This burden alone has several negative effects. Some retailers will see a decline in service quality because they will decide to shut down their websites, as many people have already been reporting on LinkedIn and other social media platforms.

Furthermore, the cost a seller must incur simply to offer a product on the market will increase. Both consequences, of course, disproportionately affect small sellers compared with large ones, for whom economies of scale mean that the cost per unit of product will be considerably lower.

A message to those who support such measures and others like them: do not then naively blame the free market for the “disappearance of small businesses and the concentration of economic power in the hands of large companies” when this is often the result of regulation that, under the guise of consumer protection, tilts the rules of market competition in favor of larger players.

What will happen to these additional costs that sellers must absorb? In other words, who will ultimately pay for them? Time will tell. There are two possible outcomes, and the final scenario will almost certainly be split between both. Unfortunately, neither is good for us as consumers.

The first possibility is that final consumer prices will rise as sellers seek to recover their increased costs. Note that this is precisely the opposite of what the measure is supposed to achieve.

The second possibility is that sellers absorb the difference from their own profits. But this simply reduces the incentive for new sellers to enter the market and encourages existing sellers who are already barely profitable to leave it. This would reduce competition in the market, directly contradicting the secondary objective of the 11th Package of Measures. Naturally, reduced market competition means that, in the long run, prices will be somewhat higher than they would have been in the original scenario without such measures.

Beyond the additional work and higher costs, another important negative consequence is all the missed and unrealized opportunities caused by this measure. Instead of focusing on their primary function - understanding customers' needs and improving their service - sellers and entrepreneurs will now have to spend hours and hours of work complying with a new bureaucratic requirement.

Such a measure amounts to a political demonstration of action, creating the impression that "something is being done" about rising prices while bureaucratic requirements burden the productive sector instead of allowing it to focus on delivering value to its customers.

Why We Don't Need Anchor Prices

I believe that, based on everything discussed so far, it is clear that I consider the disadvantages of introducing this measure to outweigh its benefits and that, therefore, we do not need it.

There is one more important argument that supporters of anchor prices must address: Why hasn't the market itself come up with this way of displaying prices?

Think about it, we buy on a marketplace in which sellers compete for our hard-earned money. Some compete on price, reducing their costs in the process. Others compete by improving the quality of the product itself and/or the purchasing experience. Still others compete by promoting their brands. Countless marketing professionals spend their days analyzing figures, examining spreadsheets and graphs, and conducting quantitative and qualitative consumer research to better understand what customers prefer and what they want to avoid.

What are the chances that these professionals - whose career success depends on understanding their customers as well as possible and finding ways to deliver value to them - have not already thought of displaying up to four different prices if doing so would provide value to consumers?

Of course, the question "How come they only thought of this now?" applies to every innovation when it first appears. However, we must recognize that most innovations ultimately fail. Given that, we can say that the likelihood of this measure delivering value to consumers is relatively low. Once we take that factor into account, our question becomes more precise: "What are the chances that a genuinely good idea that delivers value to consumers would originate in the mind of a bureaucrat who is not directly accountable for that idea, rather than someone whose entire focus is on creating such value and who stands to benefit directly from doing so?"

When we frame the issue this way, it becomes clear that the chances are virtually nil - and that the likelihood of this being a good idea is therefore equally low.

I do not consider the previous paragraph mere rhetoric. Rather, I see it as a serious objection to this and similar forms of bureaucratic interference in how markets operate.

If displaying the price of a product on a particular date in the past were something we, as consumers, valued, we would expect retailers, who are constantly searching for ways to attract customers, to have recognized this already, started publishing such prices, differentiated themselves from their competitors, and profited as a result.

Just as there are retail chains whose promotional message is that they maintain identical prices throughout the entire country (which the prime minister presumably considers reasonable, given the principle expressed in his opening statement), we would expect emergent of those sellers who promoted themselves as retailers whose prices had fallen, remained stable, or increased the least.

Since this has not happened, I believe there is an extremely low probability that the government's measure will prove useful, or even reasonable.

Constantly Changing the Rules Is Harmful

Finally, the situation in which the rules keep changing from one day to the next illustrates another major harm caused by such casual interference in the free market. Many of the objections I have raised above, from unnecessary work and higher costs to missed opportunities, have already materialized simply because the measure was announced.

And this brings us to an extremely important lesson for all of us: the rules governing market behavior must be clear, transparent, and, as far as possible, long-lasting.

It is not good when every government changes the rules of market competition however it sees fit, let alone when a single government does so several times within just a few days.

Imagine that you are an investor or entrepreneur who wants to start a business. You are doing everything possible to comply with all the rules so that you can begin delivering your product or service as quickly as possible. At the same time, you must account for all the rules that might change over the next few years and consider how those changes could affect your business.

Think of all the unnecessary time, resources, and opportunities lost because of such uncertainty.

It is like preparing for a difficult university exam. You have been studying for months, but your professor changes the syllabus every week, sometimes adding new chapters and sometimes removing others. Many of us would behave rationally under those circumstances and give up on taking the exam, at least until the professor changed.

The same thing happens in the market. Many people decide against starting a business or investing in Croatia because they know the challenges that bureaucracy brings.

Minister Šušnjar, with his 20 years of experience in business, is certainly aware of this. Over those 20 years, he must have had to pivot his company and/or its products more than once, navigating uncertainty while waiting for customer feedback in the form of successful or unsuccessful sales.

As a politician responsible for setting the rules of market competition, however, he no longer has the luxury of experimenting to discover which rules are good and which are bad, because frequent changes cause substantial harm.

Given this, a responsible politician would first carefully consider whether introducing any measure at all is necessary. And if they decided to proceed, they would insist on a thorough public consultation before implementing measures of this kind, rather than having them suddenly appear in the 11th Package of Measures to Protect Citizens and the Competitiveness of the Economy without any prior notice.

Practically the only positive thing that can be said about this situation is that the government decided not to intervene directly in the control of all prices, as it has done with the 100 products whose prices it has capped, but instead chose to “merely” introduce an obligation to display anchor prices under the guise of increasing transparency.

What does it say about the Croatian Government that we consider it a good thing when it refrains from behaving like the State Committee on Prices? I will leave that for you to decide.

Although, when I hear announcements about introducing a windfall profits tax and observe the obvious trend toward increasing state intervention in market processes, I cannot help but wonder whether the words “at least for now” should be added to the previous sentence.