



“Show me the incentive and I’ll show you the outcome.”

Charlie Munger

In June we visited my daughter who is studying in Berlin. We flew to Bergen in Norway for a few days where we experienced the midnight sun and drove along the banks of some majestic fjords. One thing that struck me was the extraordinary number of Teslas on the road. It turns out Norway is the largest per-capita Tesla market, by a huge margin. Electric vehicles are exempt from government sales tax (the GST equivalent, which is 25%), have free use of municipal charging points, pay no parking fees and can travel in bus/taxi lanes! Nor do they pay road tolls or ferry fares, each of which are unavoidable and quite expensive. Little wonder then that electric vehicles account for more than a third of new vehicles sold in Norway, a market share that is rising steeply. Incentives do work.

We’ve heard about a lot of bad behaviour over the course of the Banking Royal Commission. The thread that runs through almost all of the case studies presented to the royal commission is incentives. Much of the behaviour is criminal or could be subject to civil action, so it’s not necessarily a case of needing more rules. People crossed a line, or paid too little attention to ensure they did not cross it, because it was in their interest to. A bank manager effectively brokering the sale of a farm so that he could make a loan to the purchaser and meet his bonus target, a telemarketer haranguing an indigenous woman to buy inappropriate and expensive funeral insurance to top the monthly sales tally and win a week in Las Vegas¹, a financial adviser continuing to charge fees to clients (some of whom were dead) without providing any service...

Rules can set the floor for what standards are acceptable, but best practice can only be achieved if the right culture is in place, and this is hugely affected by the incentives².

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¹ From my experience of that town, second prize might have been two weeks in Vegas.

² Even ignoring the material effect of incentives, they are an explicit expression of what an organisation deems “good” behaviour.