

## We know what to do, but how do we do it?

Written by The Conversation

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The problem with economic reform is not 'what to do' but 'how to do it'.

This is highlighted by the recent [Competition Policy Review](#) .

Ian Harper and the Review team highlighted a range of useful reforms in transport, energy, the professions and other parts of the economy. Most of these reforms are not new. Indeed, in some areas, such as retail trading hours, the best evidence for reform in one state is that there has already been successful reform in other states.

So why doesn't obvious economic reform occur?

The political difficulty with economic reform is building community support. Reform creates winners and losers. The losers are often concentrated and the winners are diverse. The reforms may create benefits for the general population that hugely outweigh the potential losses. But when reform is proposed, the losers have strong incentives to stop the reform process. They lobby government, make dramatic headline-grabbing claims, and create an environment of fear. Meanwhile the potential winners just get on with life. So twenty-four million people each put up with a small cost to support the gains to a lucky few.

[Pharmacy reform](#) is a good example.

Government rules allow pharmacies to be little local monopolies. They restrict competition and choice. God help you if you need a prescription filled for a sick child outside normal hours. There have been many calls for reform. But these have successfully been blocked by the pharmacy lobby.

So how do we get over the political barriers to reform?

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Overseas experience shows that reform is possible, if the reform process is carefully designed. Put simply, the problem is not where you end up but how you get there.

Take congestion pricing on roads.

This is an economic 'no brainer'. If a commuter jumps into his or her car in peak period to drive to work, school or elsewhere, then he or she imposes a cost on every other driver. This is a classic 'negative externality'. One driver's commuting decision can harm other commuters. The economic solution is to use pricing to 'ration' the scarce road space at peak periods. Technology means that this can be done easily and in real time. It would not eliminate all congestion but it would provide incentives to reduce congestion - to jump on the train or adjust commuting times.

Congestion pricing, however, is a political no-go-zone in Australia.

The electorate already considers that it has paid for the road system. Congestion charging sounds like the government attempting to make drivers pay twice. And the electorate think that this is unfair.

Such a line of argument sends purist economists' eyeballs rolling. Money raised by petrol taxes and excises is simply part of general revenue. It makes no more sense to say that petrol taxes pay for roads than it does to say that alcohol taxes pay for pubs. Government spending and revenue raising are separate.

So the conflict between public perceptions and economic purity means that nothing gets done.

If we want real economic reform in Australia then public policy makers need to dump purity for practicality. Both Stockholm and Vancouver show how.

Stockholm has [congestion charging](#) for vehicles that travel into the central city area. But it was

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introduced carefully. It started with a seven-month trial in 2006. At the start of the trial, public transportation was significantly improved, so commuters had real alternatives. The charges were modest and payment was made easy. At the end of the trial there was an independent [public assessment](#). Then there was a referendum. Really it was a joint vote on both congestion charging and better public transport. And the vote was to keep the charges. The margin was not large (52.5% to 47.5%) but smart policy implementation won.

Similarly, Vancouver showed how to introduce a carbon tax in the Canadian state of British Columbia. The centre-right state government introduced a [low-level tax](#) that was explicitly revenue neutral. The government mandated that every dollar of carbon tax revenue had to be returned to tax payers through tax cuts. The law requires that if the Finance Minister does not ensure revenue neutrality then he or she takes a 15% pay cut! The policy is only moderately popular (it runs between 50 and 60% in polls) but the government has been twice re-elected.

So what are the lessons?

The key to good policy change is to bring the majority of people with you. Don't let debate be dominated by a small group with a big vested interest. Take the debate to the people, through slow and steady change, and hypothecate revenue (whether to public transport or other tax cuts) so the public does not perceive the policy as a 'tax grab'. Sometimes use 'hokey' stunts - like pay cuts for politicians. But overall, show the majority of winners how and why they will gain, and then let them decide.

It may be second best economics, but it is first best policy.

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