

Independent Agency Needed to Manage Ontario's Cap and Trade

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A few weeks ago Ontario's Premier announced her government's intention to introduce a cap-and-trade system to reduce greenhouse-gas emissions. Though many have applauded this announcement, there are still many critics – and they are only now beginning to gather their forces. Kathleen Wynne should recognize that the political road ahead will be anything but smooth.

Critics of Ontario's policy fall into two broad groups. In the first, critics argue that carbon pricing is ineffective and, in any event, there is no genuine problem worthy of a policy response. With considerable evidence in her corner, Premier Wynne can politely ignore these people.

The second group acknowledges the need to reduce greenhouse-gas emissions and favours carbon pricing as the preferred approach. Yet these critics argue that Ontario has missed an opportunity to impose a simple B.C.-style carbon tax, choosing instead a more complex cap-and-trade system, an approach they argue is inherently easier to game and more susceptible to political interference.

These second critics are half wrong and half right. They're wrong that a cap-and-trade system is inherently more corruptible than a tax. Any specific group or industry granted special treatment in one system could just as easily receive similar treatment in the other. The avoidance of special deals comes down to the wisdom of the government designing the system, not the nature of the system itself.

But these same critics are right in arguing that a cap-and-trade system is administratively more complex than a tax, and this complexity leads many to believe that the system might be built to achieve partisan political objectives. This points to the need for the Ontario government to get these design details right. In the months ahead, the public's perception of the policy may end up being more important than the policy itself.

In order to gain widespread public acceptance for Ontario's cap-and-trade system, Premier Wynne needs to make sure the system is designed and operated in the province's overall interest, which means achieving the desired emissions reductions in the fairest and most cost-effective manner. Partisan political objectives need to be set aside – and be widely seen as such. How can this be achieved?

Kathleen Wynne should look to the world of central banking for some inspiration.

Central banks and their governors are often in the nation's headlines, with many people commenting on and criticizing their decisions. Yet despite very active debate, nobody accuses them of playing politics with their decisions. They are viewed as "technocrats" who

are well beyond partisan politics. As a result, discussions about monetary policy almost always focus on technical details.

This is not an accident. Many years ago, when elected politicians could influence their central banks, there was a tendency to stimulate the economy before elections – and then conveniently forget about the need to tighten up policy later. After all, why tighten policy when another election is just a few years away? The result, after many “political business cycles”, was a built-in bias toward higher inflation. Governments around the world eventually learned that monetary policy was far too important to be left to elected politicians. The operational independence that central banks now possess is a crucial part of their ongoing efforts to keep inflation low and stable.

Inspired by the world of central banking, what could Kathleen Wynne do in Ontario? She could establish an independent agency to design and operate her province’s cap-and-trade system. It could be filled with technically competent, non-partisan, individuals who understand how to operate an efficient and well-functioning system. They could be given a clear mandate from the government to achieve specified emissions reductions along a clear time line.

The agency’s mandate could also specify that the system be operated to minimize overall economic costs, and to preclude special deals for special interest groups. This agency could report its operations in a clear and transparent way to the public, and be accountable to a specific minister or even to the entire provincial cabinet. The existence of such an independent agency would go a long way towards taking the politics out of Ontario’s carbon-pricing policy.

Ontario’s announcement for a cap-and-trade system to reduce greenhouse-gas emissions should be applauded. But details matter, and Premier Wynne’s challenge is to convince Ontarians that the system will not be used to pander to special interests. The independence of modern central banks can point her in the right direction.

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