Canada's Boring Banker: Policy Maker of the Year

Robin V. Sears

Bank of Canada Governor Mark Carney was on the move constantly in 2012, speaking across Canada on monetary policy and the global economy and attending G7 and G20 summits, not to mention chairing the Financial Stability Board. At the end of November, he was named Governor of the Bank of England. Montreal *Gazette*.

Bank of Canada Governor Mark Carney is *Inside Policy* Magazine's and the Macdonald-Laurier Institute's Policy Maker of the Year. Appointed Governor of the Bank in 2008, he has become a ranking figure on the financial world stage. His background as an investment banker at Goldman Sachs stood Canada in good stead during the financial meltdown of 2008. Such is his stature in the international finance community that he was named Chairman of the Financial Stability Board in Basel, Switzerland, a part-time position. And on November 26, he resigned as Governor of the Bank of Canada effective next June to become Governor of the Bank of England effective on July 1. While it's unusual to imagine a central banker as a policy star, that's what Carney has become. Robin Sears profiles our Policy Maker of the Year.

Mark Carney, gouverneur de la Banque du Canada, a été désigné Décideur de l'année par *Inside Policy* et l'Institut Macdonald-Laurier. Nommé à ce poste en 2008, M. Carney est aujourd'hui une personnalité de haut rang de la communauté financière mondiale. Son expérience de banquier d'affaires chez Goldman Sachs avait favorisé la bonne tenue du Canada pendant la crise financière de 2008. Et son rayonnement est tel qu'il a été nommé président du Conseil de stabilité financière, établi à Bâle (Suisse), poste à temps partiel. À noter que le 26 novembre dernier, M. Carney a remis à la Banque du Canada une démission qui prendra effet en juin 2013, et qu'il deviendra le 1er juillet gouverneur de la Banque d'Angleterre. Robin Sears brosse le portrait d'un banquier central devenu contre toute attente une célébrité des milieux décisionnels internationaux.

Mark Carney describes his personal goal as Canada's most important banker as, "To return to boring." Quoting Mervyn King, the crusty head of the Bank of England, he chuckles slightly as he recalls King's cautionary advice to central bankers: "Boring is best!" King added that if you are on "the front page a lot that is not a mark of success." Carney declares deadpan that he looks forward to returning to boring.

One suspects he knows full well that as Canada's most prominent central banker ever, that is not likely while playing navigator for the nation's economy as it struggles to avoid a return to the bloodiest economic chaos in three generations. In his work on the implementation of Basel III, the latest set of post-crash rules for banks around the world, and as head of the Financial Stability Board, Carney, in less than five years on the job, has had a greater impact on public policy than any Bank of Canada governor before him. And now that he's going to London as the new head of the Bank of England, his influence will grow even more.

Carney is the model of a modern regulator in many ways. He is accessible to his many stakeholders, astonishing quite a few when he agreed to give what became a very front page speech at the Canadian Autoworkers Union convention, of all groups. He avoids the camouflage of the felt mouth, jargon dripping vernacular favoured by many of his peers. He understands well the interplay between Bank policy, media intermediation, and the behaviour of both consumers and key decision makers in the economy. He returns several times in conversation to the importance of the market's perception of the Bank's intentions and the importance of delivering those messages often and loud.

Some have criticized him for being too fond of displaying his cleverness and his erudition. If that were true in his early days in the public spotlight, it is not today. You give your head a shake many times in discussion with him, recalling that this is a man who played a key role in managing Russia's public debt in his early 30s, was chosen as number three at the Department of Finance before he was 40, and became Governor of the Bank of Canada while still in his early 40s. One can perhaps forgive someone of those demonstrated achievements a touch of immodesty in his manner of speech at 37, his age when he moved from multimillionaire investment banker to Canadian public servant.

Still one can forgive a less confident or jealous colleague grinding their teeth when he draws on his prodigious reading to casually cite Tommaso Padoa-Schioppa, "you know, probably Italy's greatest banker in this century, conceived the euro, sadly died a couple of years ago." Carney offers the quote apropos his decision to move from Wall Street to Wellington Street, into the chairman's office in the ghastly grey stone and black glass mausoleum that is home to Canada's central bank. Carney says, "When people ask me why I would do something so extraordinary, I quote Tomasso, who said a gentleman's life should be 'to learn, to earn, and to serve'." It's a clever way to shut down a discussion of his decision to trade wealth for power.

He understands well the power and importance of humility when dealing with as cruel a mistress as global capital markets. Reflecting on the impact of his time on the Street, as a rising star at the then most prestigious investment bank in the world, Goldman Sachs, Carney says that time in international finance teaches you about markets, but more importantly teaches you humility about how little certainty you have about what moves them. He is clearly proud of his time as a successful player in the ultra-competitive world of global investment banking in Tokyo, London, and New York. It has been an impressive journey for the son of two high school teachers, born in Ft. Smith in the Northwest Territories.

He brushes off inquiry into his family and personal history. "I'm not a politician, after all" he chuckles. One should conclude though that his were two impressive parents, nurturing four children (two brothers and a sister) to success – there are three Harvard graduates among Mark Carney and his brothers. Carney keeps his political convictions appropriately well buried, but there are clues; his choice of Nuffield as his Oxford college, for example. Nuffield College is home to progressive thinkers and writers such as Robert Skidelsky, Keynes' biographer, and Amartya Sen, probably the seminal thinker on development economics in the past century. It's the place where industrial relations was honed into a real profession. A college of somewhat pinkish hue, in other words. It's also where he met his development economist wife Diana, a Brit with impressive professional credentials of her own, who he successfully lured to the frozen north.

> *Though the fear of catastrophe also gets much of the credit for the success of the post-crash reform efforts among the G20, the negotiating skills of Carney and his former boss and Finance Minister Jim Flaherty were powerful contributions at several tables over the past five years. Each has been chosen as first among equals by juries of their peers – a twofer unheard of in Canadian history.*

Carney also believes that time on the Street is important to public sector bankers and regulators because of the hard lessons one learns in negotiation, deal making, and the necessary structure of transactions. With just a hint of condescension toward the endlessly circular, risk avoiding, "Yes, Minister" behaviour of too many senior civil servants – my description, not his – he outlines the value at an international governmental level of having spent long hours crafting a successful transaction with partners from other cultures, everyone facing real drop dead deadlines.

Mark Carney at the Financial Times Canada Business Day forum in London. "He understands well", writes Robin Sears, "the interplay between Bank policy, media intermediation, and the behaviour of both consumers and decision makers in the economy." Carney will be spending a lot more time in London in his new role as Governor of the Bank of England. Photo courtesy Bank of Canada.

Too many government negotiators are driven into paralysis by their dread of the reaction to a compromise deal in which some stakeholders' interests were sliced. It leads to endless years of meaningless negotiation, such as the infamous Doha trade talks. Investment bankers only get rich when they complete deals, not when they avoid closure. Though the fear of catastrophe also gets much of the credit for the success of the post-crash reform efforts among the G20, the negotiating skills of Carney and his former boss and Finance Minister Jim Flaherty were powerful contributions at several tables over the past five years. Each has been chosen as first among equals by juries of their peers – a twofer unheard of in Canadian history.

Carney is stating what is obvious to most of the developed world: in choosing someone to regulate the private sector, it's useful for the candidate to have had experience in it. Sadly, it is not so obvious to Canadian decision makers. There is no country that values leadership experience in both the public and private sectors as little as we do. This is curious. Our public sector is large and its leaders are mostly best in class professionals by any international standard. Some of our best public servant leaders are regularly plucked for the most prestigious roles in international institutions – as Carney himself has been with his November 26 appointment as the Governor of the Bank of England.

Similarly, a variety of global multinational enterprises have disproportionate numbers of Canadians in their senior management. Canadians are good at management, in part because we are good at putting ourselves in the other person's shoes, across cultures, generations, and the public/private sector divide. You'd think the penny would have dropped among our politicians and business leaders choosing their lieutenants and successors, but sadly that is another Canadian *deux solitudes*.

When the young Canadian banker arrived fresh from success and acclaim in New York and internationally, there were mutters from the usual Canadian suspects about his lack of roots in any finance ministry, let alone a central bank. In addition, he was young, and looked younger – he was the father of small children, for heaven's sake! Canadian central bankers had always come with grey hair, and won the Bank chair as a career capper after a long slow climb in the public sector.

Although American banks had not yet acquired the dim public reputation they earned in the 2008 collapse, many Canadian politicians and commentators tut-tutted quietly about the value of experience in the "cowboy world of US investment banking." Partly, one suspects typical Canadian sanctimony about American behaviour. Along with many American liberal commentators, it has become a cliché to label American public servants and regulators with a previous career in business as being incapable of disciplining their former colleagues. It is nonsense, of course. There are compliant and vacillating regulators whose entire career has been on the government payroll. There are steely, high expectation and high integrity public regulators who cut their eyeteeth as junior executives in every type of private enterprise.

Carney is clearly one of the latter, along with the new US derivatives market cop, Gary Gensler, a former colleague at Goldman Sachs. Gensler left the Street to help craft the Clinton era financial reforms under Bob Rubin, then the eponymous Sarbanes/Oxley rules for the late Maryland politician. As the head of the CFTC, the derivatives regulator, criticism of Gensler has come from both left and right, but his harshest critics are often angry executives in the banking world, led by the notorious Jamie Dimon, head of JP Morgan Chase. One suspects Dimon's anger – turned on Carney, as well, in one famous private encounter early in his Bank term – is driven in part because his tormentors are *vendus*, former colleagues from the Street.

Neither Carney nor Gensler will be critical of their fellow regulators without knowledge of the mumbo jumbo and foolish pretences of the private sector, or their former employers' vacuous claims of "risk probity" and "client first" business cultures. It is self-evident that Tim Geithner's ability to translate the bafflegab he may be fed by a bank executive seeking exceptional or merely gentler treatment, after a life spent in government and at the Fed, is not going to be as strong as Carney's. Canadian bankers, even when being critical of his determination on issues about which they disagree, admit that he "knows the business, he knows how we work".

As Carney outlined in a series of little noticed but tough and prescient speeches just as the 2008 financial crisis was breaking all around him, two themes recurred throughout the disaster: a failure – in some cases, deliberate – to accurately assess risk; and a shallow and sometimes completely inaccurate understanding of what the complex new financial products and transactions were and the risk multipliers built into them.

As Carney observes, looking forward in the world of central banking, the same factors will no doubt reemerge with new labels and packaging in the next cycle. He describes the parallels between Canada's asset backed commercial paper (ABCP) fiasco and the risks inherent in some new products financial engineers have been trying to slide into the market. He points to the similar risks we faced in the regional meltdowns in Japan, Russia, and Asia. The combination of the world's first truly global capital markets accelerating the flow of funds in and out of developing economies with inaccurate risk calculation, and a contagion potential on the same level as an H1N1 flu virus, produced devastating outcomes, sometimes in days.

He recalls the universally respected American-Israeli banker Stan Fischer's painful aphorism, "Crises always take far longer to develop than you think, and then hit much faster and harder than you had planned."

Carney clearly loves his work, knows he is making a difference at it, and is realistic about the limits of regulators' ability to prevent yet another market meltdown. He has that uniquely Canadian combination of aspiration and enthusiasm mixed with a calm acceptance of human frailties, the excesses of the powerful, and the importance of carrying on nonetheless. He is a student of his predecessors and their fates, and that history informs his view of his boundaries. He declares with clear admiration that he and the Bank are still "living on the political capital, the space, and the respect" that previous governors such as James Coyne and John Crow have bequeathed him. It was "their courage, their vision, their pioneering that gave us the independence we have today. We are still following many of their innovations – the importance of price stability, for example – and I am very grateful" for that bequest he says, with some emotion.

He declares with clear admiration that he and the Bank are still "living on the political capital, the space, and the respect" that previous governors such as James Coyne and John Crow have bequeathed him.

He recognizes that his has been a special time, that the crisis permitted him and his fellow super-regulators to successfully push changes that would not have been possible in quieter times. He also expects that this period will last for a while longer, as the efforts to move from agreed analysis of the systemic problems to the creation and approval of pragmatic solutions to the challenges of their execution will continue for some years. He accepts that the power of an integrated, high level agreement project endorsed by the Bank for International Settlement – the Central Banker's bank – the IMF, and the World Bank, and his own Financial Stability Board, cannot be one-size-fits-all at the national level.

In Canada, Carney says, "Our regulatory tradition is that we share information. When we had concerns about household debt, mortgages, there was a discussion among CMHC, the Bank, the department of Finance, and OSFI (the Office of Supervision of Financial Institutions, Canada's senior bank regulator). We discuss, we agree, and then we each do our part of getting the message out." Other countries have very different cultures and traditions in this field. The Americans, he points out, are constitutionally required by the division

Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney. Flaherty calls Carney's departure for the Bank of England "bittersweet" and a loss for Canada, but added: "It's important for the world financial system that Mark is doing what he's doing." Department of Finance photo.

of powers doctrine not to share information – co-ordination is much tougher.

The ability to act in concert at the national level depends, as he puts it delicately, "on your culture, on the strength of your institutions". Some cultures are more adversarial than others he observes, and in some cases bank leaders have been more confrontational than he would have hoped. Perhaps as the wish being father to the thought, he claims that these tensions are decreasing and that the levels of co-operation are improving broadly.

Carney's is the voice of a veteran, even of a retired general, as he casts his mind back over the history of financial regulation, as he muses on the limits of regulatory power today, and cautiously forecasts where his institution and its peers may be headed. Yet he is only 47, and the father of four young daughters. It is this gravitas, combined with a winning smile, a wry sense of humour, and a rare ability to communicate complex financial messages in a manner even a semi-comatose post-dinner audience will perk up and listen to avidly, that has contributed to his success.

He is reportedly a demanding but supportive boss, still learning how to conceal his irritation at sloppy or shallow work, even when it comes from another esteemed national regulator. He has that Canadian comfort with a broad array of cultural environments, from the arch ritual and splendor of Swiss banking to the back booth at his favorite Ottawa hamburger joint.

He laughs at his own rationalizations about the compromises a globetrotting life imposes on a young family. "I told Diana when I agreed to do this job that it was far more predictable than my previous roles. I described it as the 'most predictable job in the world.' Well the dates may be predictable, it's just that there are a heck of a lot more of them now than there were, many of them on weekends."

He rues the predictability of his missing key family birthdays, as they each year conflict with fixed international events. Like many a too-travelled dad, he consoles himself with the view that when he is home, he is "really at home: no papers, no distractions."

One who had seen the imagination, creativity, and strength for which he quickly become known was then Ontario civil servant David Lindsay. Lindsay was running the investment arm of the Ontario government, and Carney was one of the investment bankers who worked on privatization and P3 deals for the Harris government.

On the eve of his return to Canada Carney was handed, in 2002, an important assignment with the province of Ontario. The Harris government was in the midst of its hapless energy privatization scheme. Goldman was retained to prepare the province's grid system for a TSE listing. Lindsay said Carney was a calm and devoted adviser through months of back and forth negotiations, capable of seeing the province's political and financial needs as well as the Street's. The deal fell through when interim premier Ernie Eves got cold feet and decided to kill the whole privatization plan.

Asked how Carney reacted to being told that his many months of hard work, endless negotiating time, and deal commission had just gone up in smoke, Lindsay said, "He was completely inscrutable and unflappable. Very mature for a guy in his mid-thirties." One suspects that Carney privately digested with some irritation an early lesson in the difference between the Street and the public sector when it comes to knowing how to complete transactions. Lindsay gave Carney a very strong reference when he was being considered for his post at the Department of Finance and a return to Canada a few months later.

Carney does not seem flummoxed by the central paradox in the task of central banker. As the ultimate guardian of an economy's financial foundation and infrastructure, they must be moved by bank stability, inflation control, and levels of indebtedness. These policies are often in direct conflict with governments keen to spend to spur growth, with banks eager to lend to consumers similarly keen to spend, and with politicians wanting exceptions given election timing or regional political needs, generating permanent tension.

Carney rejects the suggested characterization of the traditional central bank posture as more reactive or even passive, except when moved by crisis. He accepts that the role of his bank and most developed economy central banks has moved closer, probably permanently, to centre stage in policy development and explanation. But he is convinced that this period of exceptional innovation – quantitative easing and open market lending and all the other sometimes panicky measures taken by banks and governments in the wake of the crash – will soon come to an end. He believes that banks will move back off the front page, as Mervyn King insists they should, even if they continue to have a higher profile and authority in the mix of public and private institutions involved in managing our financial services players.

Carney acknowledges that the international dimension of policy making and execution is not likely to return to the days of jealously guarded national silos, but he believes that the focus will be increasingly on the regulatory side as the waves of globalization continue to generate new products and new risks.

Mark Carney and Jim Flaherty have played exceptional roles in an uniquely stressful moment at the top tables of international finance. Each has said that there were sometimes heated exchanges, and others have reported that each man played the role of peacemaker between several traditional "frenemies". We will wait years before their memoirs allow us to pour over the detailed recounting of those frantic days. Flaherty, a plain spoken senior politician, to put it mildly, has told friends that in the early days of the crisis, he was stunned and then deeply irritated at the theatrical performances of some finance ministers, the predictable strutting of national rivalries, and the "simple, bloody time wasting" in the midst of a fast moving crisis, as he sat long into the night on hours-long conference calls.

> *Mark Carney has set a high standard for a modern central banker impressively quickly. The job as he has defined it will likely continue to be the mold for the governor of the Bank of Canada for many years to come.*

Carney's interlocutors being more often bankers than politicians, one can imagine that the equally long, tense sessions were less about windy speeches than technical one-upmanship. However, as each man struggled to promote the Canadian response to the crisis in the face of sometimes tough resistance, the differences in style must have faded. Some of the name calling directed at Canada – specifically, at Carney and Flaherty – over their struggle to resist an international financial trading tax, the so-called Tobin tax, went public. It will be worth the wait to read their side of the battles of those often frightening days.

It seems hard to believe but Carney and Flaherty are now almost the deans of the G20, as the crisis has been so disruptive to the careers of many of the players over the past five years. Carney has developed a good working relationship with US Fed Chairman Ben Bernanke, who is rumoured to be thinking of stepping down during this next presidential term. There will be new heads, at several of the central banks and international financial institutions within this period as well, including Carney himself as Governor of the Bank of England, starting July 1 – as it happens, Canada Day.

It would be excessive to suggest that in these fora an "Ottawa Consensus" has replaced the somewhat discredited "Washington Consensus" of the 1980s and 1990s. But it is the case that Canada's almost unique success in managing to avoid either bank failure or long lasting recession has given new authority to our view of the best approaches to fiscal and monetary management.

Appointed in early 2008, just before the roof collapsed, Mark Carney has set a high standard for a modern central banker impressively quickly. The job as he has defined it will likely continue to be the mold for the governor of the Bank of Canada for many years to come. It is now a much more public role requiring communication skills at the level of a political leader, not a deputy minister. It will continue to be a role requiring persuasive skill at moving Canadians in their private financial decision making.

Future governors may not punch so far above their weight internationally – that the head of the world's most important new financial regulatory body comes from a nation representing less than 3 percent of the world's GDP is probably not sustainable, and perhaps is even a one-off. However, it seems likely that Canada and its Bank governor will continue to play outsize roles in international financial regulations just as we have done in many international institutions.

Without diminishing the role he has played internationally, perhaps Carney's greatest achievement has been his impact on the Canadian public. We have never had a Bank governor with his profile and popularity with ordinary Canadians. He unscrambles financial complexity with the skill and compelling clarity of a good teacher. Carney certainly deserves his designation as "Policy Maker of the Year."

He will probably be remembered by most Canadians, however, as our best financial "policy explainer". He helped us navigate our way through the worst crisis in our lives. Perhaps more importantly, in the long term, he explained in clear, respectful detail why he wanted us to follow his route back to financial health. Sometimes that clarity got him into trouble – "dead money" will now be part of every Carney bio – but the impact he has already had in raising the financial literacy of a generation of Canadians was surely worth it.

But do not confuse clarity with discretion in a powerful central banker. In almost an hour long discussion only three days before his announcement that he was moving, not a hint was dropped about his now very different future.

It will be fascinating to watch how a "rude colonial boy", even if he was Canada's most successful central banker, transforms the much stodgier Grey Lady of Threadneedle Street, the Bank of England.

Robin Sears (robin@earnscliffe.ca) is a principal at the Earnscliffe Strategy Group. He has been a commentator and writer on public policy issues for more than three decades, having worked in public affairs on three continents over that period. He served as National Director of the NDP for seven years, before assignments in Europe and Asia.