

cover story

**THE** Running the Bank of Canada by the book wasn't enough for **Mark Carney**.

# GOVERNOR GETS HIS HANDS

Meet the country's point man on the economy—period

# DIRTY

BY SINCLAIR STEWART PHOTOGRAPHS BY PETER YANG

**It is 6 o'clock in the morning** and I am on a leafy street-corner in Ottawa's Rockcliffe Park, one arm braced against a stop sign, the other grasping the toe of a sneaker and gingerly trying to coax some co-operation from my quadriceps which, if they could talk, would pose the entirely valid question: What the hell are we *doing* here?

One of the benefits of business journalism is that it doesn't require much in the way of physical sacrifice, and when I requested some time with Bank of Canada Governor Mark Carney, I naively envisaged a low-key dinner, or a couple of pints at a local pub. What I received, instead, was a counterproposal: "Are you fit?" the Bank's communications director asked me. "More or less," I replied, stifling a smoker's cough.

And so I found myself, a week later, stretching on a sidewalk a block from the 44-year-old Carney's home, wondering if I should feign a leg injury before a few of his pals joined us for a 10-kilometre run.

When we do set out, and begin to thread our way along the southern bank of the Ottawa River, it is at a blessedly moderate pace: Carney has some capacity for pity, but only to a point. He can't resist asking me if I plan to light a cigarette after the run. When we come to a gate blocking our path, he instructs me to hurdle it as part of my





initiation. As I fight for breath, it dawns on me that Carney's constant cracks verge on a conversational tic. The day before, as we loitered near a sushi buffet at the Japanese Embassy and I reached into my satchel for a pen, he accused me of filching a tuna roll. And on the way there, trying to penetrate his driver's taciturn armour, he announced that he planned to replace the Bank's large Chrysler sedan with a Prius. (No response.)

Carney, despite being in the job for just 19 months, has already emerged as Canada's leading figure on the international stage during the economic crisis. And he has done so in singular fashion. He is unusually young, unusually blunt and unusually cocksure—not the typical prerequisites for inclusion into the central banking fraternity. His resumé, however, has been his real badge of distinction. He is that rarest of species in public policy: an outsider, nurtured not within the bureaucracy but in the investment banking

world that has been at the epicentre of the meltdown.

I had submitted myself to the jog (and the jibes) in the hopes of piercing the public veil, and catching a glimpse of Carney away from the stilted environs of central banking. But our conversation is squarely domestic: kids' soccer leagues, home renovations, a vacation to France that Carney is thinking of taking with his wife, Diana, and their four young daughters. Carney may win plaudits as a hyper-smart, recession-slaying dervish, but otherwise, as several of his friends and colleagues attest, he is a pretty plain guy.

The man leaving me in his dust exemplifies Flaubert's directive: "Be regular and orderly in your life, so that you may be violent and original in your work." Well, original at least.



**In his hectic, globetrotting schedule, Carney makes sure he has time for his morning run—in this case, in Washington, D.C.**

environment where he doesn't have as much control," says an official who has worked closely with him. "If there's trouble, he'd like to be close to it."

He got his wish—and then some.

There was a time, not long ago, when a central banker's primary job was to take the pulse of the economy and then nudge interest rates up or down to keep inflation at a stable rate of advance (about 2%, in Canada's case). Not so any more.

Although Canada didn't have the widespread banking failures that ravaged the United States and Britain, it has still been at risk of getting sucked into the wake of a global economic catastrophe, and that has meant a baptism by conflagration for Carney. Since he was appointed to succeed David Dodge in February, 2008, Carney has been forced to confront one white-knuckled decision after the other. He helped co-ordinate emergency rate cuts with several countries last fall—a delicate task, given the announcement came before an election, and after the federal government seemed to suggest the Canadian economy was holding up fine. He played conciliator at meetings of the G7 countries that had threatened to fall apart because of hard feelings about the American response to the credit crunch. He took unprecedented steps to improve liquidity for Canada's big banks. He has helped lead the international charge for an overhaul of the way countries manage and identify financial risk. And he has done it all with a transparency and plain-spokenness that is a refreshing break from the Delphic style that Alan Greenspan made a hallmark of central banking. "To some degree he was the go-to guy on a lot of these issues which weren't just economic and monetary policy," says Gordon Nixon, CEO of Royal Bank of Canada.

The most important test of the new governor came from the asset-backed commercial paper market, which had become paralyzed in the summer of 2007 as the subprime mortgage industry began to unravel. Carney brokered a series of *détentes* that helped prevent what could easily have become a Made in Canada financial calamity. The save earned Carney wide credit, both in Ottawa and on Bay Street. But it didn't come without a struggle.

Just weeks after he took over, a rescue plan was coming unglued. Toronto-Dominion Bank, the only one of Canada's six largest banks that hadn't actually sold the paper, was balking at Ottawa's request to commit money toward a restructuring of the market. TD chief executive Ed Clark was adamant that his bank shouldn't have to share the pain.

TD's refusal created a serious problem. Sources say that RBC's Nixon told Carney that his bank's participation in the rescue plan was contingent upon *all* of the other banks making loan commitments. After several private conversations between Carney and Clark, TD suddenly announced that it would contribute.

"It was important they were in," says Carney, who declines to discuss the particulars of the exchanges with Clark. "It was in their best interests that all the parties stepped up to help make the restructuring work." Clark similarly shrugs off the showdown, saying TD agreed to participate after another official involved in the restructuring—not Carney—told him they needed his help to thwart a grave risk to the financial system. "In the end, we did the right thing," he says.

### Carney has the sonorous baritone

of an FM host, and he is of medium height with a slender frame, dark eyes and hair that looks as though it has been parted with a switchblade. He favours snugly tailored two-button suits, wide-knotted ties, and spread-collared shirts with large cufflinks. The only visible hint of eccentricity is on his wrist: either an unbankerly Swatch, one of three he owns, or an Eddie Bauer time-piece that was a gift from his mother.

While he can be charming and funny, there is a *gravitas* about him, a kind of impeccably groomed confidence that suggests he isn't much prone to bouts of self-doubt. "He's probably not as comfortable in an

Yet people familiar with the talks suggest Clark had little choice. One bank executive says Carney was “pretty direct” about his desire that TD step up, reminding Clark that his participation was not merely good corporate citizenship, but that it was also the price of holding a bank licence (which, it should be pointed out, is the concern of the Office of the Superintendent of Financial Institutions, not the Bank governor).

“Ed was squarely pissed off, of course,” says an Ottawa official who knows both men well. “But he understands [Carney’s position]. He would also understand that if he told Carney to go screw himself, he’d pay a price.”

**“LET’S BE CANDID.** We had a financial sector that was in total disarray, globally. **THE FINANCIAL COMMUNITY IS OVERESTIMATED**—and the Bank of Canada is underestimated”—**Mark Carney**



**Not that Carney is a hard-ass.** He is a pragmatist who, thanks to his unusual career path, is able to navigate the often conflicting imperatives of the public and private sectors. And he has maintained credibility with both sides, even when speaking hard truths. “I think the appreciation of the Street for the role of the Bank is much deeper than it was,” he says. “You’ve got to have rules. You’ve got to have infrastructure. The Street forgot about the infrastructure and the rules. Let’s be candid—we had a financial sector that was in total disarray, globally. I think the financial community is overestimated—and the Bank of Canada is underestimated.”

Bay Street might normally dismiss this kind of criticism from a bureaucrat, but given Carney’s provenance, it actually means something. He is the first Bank of Canada chief to have spent the bulk of his career in the private sector, as an investment banker at Goldman Sachs.

Carney’s two worlds began to converge one day in 2003, when he was leafing through *The Economist* and saw an ad for a deputy governor’s position at the Bank of Canada. Although he was earning several million a year at Goldman, and was viewed as a rising star who would earn considerably more when he made partner, Carney always considered himself an accidental banker. So he submitted his application and crossed his fingers. “I went through the interview process and thought, ‘I’d love to do this job, but I probably won’t get it. But at least I’ll meet the people,’” he recalls. “Some people at Goldman Sachs thought I was crazy to do it. But the senior-most people absolutely understood.”

Carney is often asked why he would give up a lucrative career in banking, at the tender age of 38, to join the government. But he flips the question around and wonders aloud—Why did it take him so long? “Some people feel an obligation to public service, and if they do, then they should pursue it,” he shrugs. “Others don’t.”

The third of four children, Carney was born in Fort Smith, Northwest Territories, where his father, Bob, was a school principal and his mother, Verlie, a teacher. In 1971, when Carney was 6, the family moved to Edmonton, and Bob took a job as professor of education at the University of Alberta. He later did a stint as the province’s deputy minister of recreation, parks and wildlife.

Carney was a very good student, gravitating toward math and English literature (today, he will often tote a volume of poetry for a

flight, most recently a collection of Seamus Heaney’s). He was athletic, too. But when it dawned on him that a future in the National Hockey League wasn’t that likely, he began to set his sights on a career in public policy, inspired by the example of his father.

Carney earned a partial scholarship to Harvard in 1984, where he attended lectures by John Kenneth Galbraith and became increasingly fascinated by economics. He was a dogged student—he “worked like a bastard,” recalls Peter Chiarelli, who shared a room with Carney at Harvard for three years and played with

him on the Crimson hockey team, where Carney was a backup goalie.

Carney was a little square, recalls Chiarelli: He liked to relax after study days with a glass of milk and a piece of chocolate. But he still let loose once in a while. “We had our little shenanigans in college, whether it was imbibing a couple at the pub or chasing some young women around,” says Chiarelli, who is now the Boston Bruins’ general manager.

But he adds that Carney could be edgy: His mind moved rapidly, and he got impatient when his friends couldn’t keep up. “If you don’t get it, he gets mad. He has tremendous fire in him that way, and in politics he has to bite his tongue.”

Chiarelli remembers telling another student that Carney would become Prime Minister one day. Yet, rather than pursue his policy ambitions, Carney joined Goldman Sachs, spending two years in London and one in Tokyo, both in the firm’s credit department. It was an interesting job, and it taught Carney about the markets, but the main reason he did it was money: He left Harvard with a pile of student-loan debt.

In 1991, Carney left Goldman—for good, he thought—to pursue a PhD in economics at Oxford, a degree he planned to use as a springboard for a career in policy. He met his wife, the former Diana Fox (another hockey-playing economist), during this time, and just as he was finishing his thesis, Goldman asked him to return. Carney agreed, and stayed for almost 10 years in London and New York, working in credit and trading before coming back to Canada in 2000 as part of the investment banking services team.

Carney was never that fussy on Toronto, or the Bay Street scene in particular, which he found overly materialistic—even by New York or London standards. “It was like ‘I belong to this club, and it cost this much,’” he grouches. “Or ‘I drink this wine, and it cost this much.’” But he also was nervous about moving to Ottawa when David Dodge offered him the deputy job in 2003. He and Diana had two young daughters, and he knew virtually no one in government.

It wasn’t long before they knew him. Just five months

after he landed at the Bank, Carney was seconded by the Finance Department to fill a vacant deputy position as a representative to the G7—much to Dodge’s displeasure. In November, 2004, he was promoted to senior associate deputy, and the temporary transfer became full-time.

It was in this post that Carney really began to burnish his credentials and hone his political acumen, working on just about every major financial file in the capital. His fingerprints were all over the Liberal budget in 2005, so much so that people referred to him as the “budget driver.” He masterminded Ottawa’s \$3.1-billion sale of its stake in Petro-Canada, which was viewed as wildly successful. And when the Tories came to power, he was one of the main agitators for a clampdown on income trusts.

Carney quickly gained the confidence of Finance Minister Jim Flaherty, and became a trusted adviser—much as he had with Flaherty’s predecessor, Ralph Goodale. But the transition wasn’t without its issues, not least because of Carney’s abrupt manner. His pronouncements have a measure of self-possession that some perceive as arrogance. Even his sense of humour, which is as dry as a biscuit, has a disarming, needling directness. “For the people who worked for him at Goldman, there wouldn’t be a whole lot of mystery in terms of how they were doing,” says Doug Guzman, who worked with Carney at Goldman and now heads investment banking at RBC. “If you were messing up, you’d know about it right away.”

That approach doesn’t always translate so well in Ottawa. “I’m a big fan of Mark’s,” says a colleague in the

city. “But I think he doesn’t tolerate incompetence enough. He can be too hard on people. And he doesn’t tolerate fools. [He had to learn that] not everyone is as talented as Mark Carney.”

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### **Some Bank observers were surprised**

when Carney was named as Dodge’s successor in the fall of 2007, outflanking long-time insider Paul Jenkins, who remains senior deputy governor. The hiring occurred before the tightening of credit had metastasized into a full-blown crisis. Yet in retrospect, it’s difficult to imagine there were many people more qualified—on paper, at least—for the job.

Carney appeals to bankers partly for narcissistic reasons. Yes, they respect the fact that he is smart and decisive, but they also choose to see him in their own image: someone who knows their business, who speaks their language and understands the esoteric products that served as tinder for the crisis. They also like the fact that Carney is immediately accessible. (The man is a fiend on the BlackBerry, and when he has time, he responds to e-mails he gets from regular Canadians.)

“I’d say the thing Mark instinctively gets is he talks to the industry,” says TD’s Clark. “I’m not sure it’s so much that David [Dodge] wouldn’t have understood capital markets. I think having been in the business, it’s more natural for Mark to pick up the phone and say, What do you think is happening here? Mark is very good at understanding that the markets are an important source of intelligence for him.”

Those in Ottawa, meanwhile, like the fact that Carney helps Canada “punch above its weight” on the international stage: In fact, the phrase seems to have been burned into the collective psyche in the capital of our small country. Nothing excites this tendency like the sort of plaudit Carney received in March, when

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the *Financial Times* named him among its “Fifty who will frame the way forward,” writing that “the youthful Mr. Carney continues the tradition of impressive Canadian governors.” He was the only Canadian on the list.

The respect comes not just by virtue of Carney’s job title. “I’ve seen people from other countries in this situation, where the respect was not present,” says former prime minister Paul Martin. “Some countries, no matter who is speaking, they’re going to be listened to. That is not the case for Canada.”

It helps that Carney is incredibly well-connected—not just through Goldman’s powerful alumni network but also because of his time as a G7 deputy. He has a close relationship with U.S. Federal Reserve Chairman Ben Bernanke, and sources in Ottawa say Carney was instrumental in forging a consensus with the U.S., France and the U.K. for the emergency co-ordinated interest rate cut last fall. He played a key role in tempering hostilities at the G7 meeting shortly after—a weekend Flaherty called the “most dramatic” in his career. (Carney won’t discuss particulars, but does insist that “there is nothing that happened at the Fed in this crisis for the past two years that we didn’t have advance warning of.”) He is also capable of picking up the phone and calling Timothy Geithner, the head of the U.S. Treasury—access that few, if any, of his rivals for the job could have hoped to match.

“It’s a very challenging environment—lots of huge egos going on at the G7,” says one Ottawa veteran who has attended the meetings. “Mark can play in that sandbox very comfortably. There’s probably no one else in the Bank of Canada—or the government—who could do that.”

The flip side of this, of course, is that ego. Carney can sometimes preen, particularly in his speeches, which he writes himself and occasionally lards with arcane academic references. In one recent address, he referred to “Ricardian effects” and the “black

swan” phenomenon, and then cautioned that any new measures introduced by central banks would have to be rolled out in “Augustinian” fashion. “He’s loaded with confidence,” says Don Drummond, the chief economist at Toronto-Dominion Bank and a former associate deputy minister in the Finance Department. “To a large degree it’s warranted by his intelligence. But he’s very cocky.”



**Within the Bank**, there is respect for Carney, and an acknowledgment of the benefits his pedigree has brought. Yet this acquiescence sometimes chafes against institutional pride: *Yes, he’s talented*, staffers seem to suggest, *but we could have managed our way through this regardless*.

It does raise a difficult question: Has the Bank’s primacy in this crisis been a result of Carney, or was it simply a product of extraordinary circumstances? Carney may have a different style and background than Dodge, but who’s to say his predecessor wouldn’t have intervened in similar fashion on the ABCP market? Or that he wouldn’t have come to the same conclusions on co-ordinated rate cuts, or on the expansion of a mortgage program last fall that allowed the banks to access badly needed liquidity?

No one can say for sure. In fact, there’s a good chance that Carney’s tenure will be graded as much on what he does *after* the whirlwind subsides: when he gets to his desired home on “page 17 of the business section” and things regain a semblance of normalcy. He took a step in this direction in late July, pronouncing the

recession over and ratcheting up his growth forecast to 3% for 2010.

But no one quite knows what the new “normal” is. The future of central banks is the subject of intense debate around the world, and what seems clear is that their mandates will expand beyond mere monetary policy. Lawmakers have proposed giving the U.S. Fed substantial new regulatory powers, and Carney will no doubt play a part in developing any “macroprudential” agency in Canada that patrols the financial system for risk.

In the meantime, he has set to work tinkering with the Bank. He has begun to remove some layers of management and improve its research. He has brought in new blood from the private sector in an effort to tighten the linkages between the Bank and the markets. All the while, he has been moving the Bank’s emphasis more toward maintaining financial stability.

Already, he insists, the Bank has become more responsive. “I think the aspect of Goldman that is a little different than here, but has been helpful, is that at some point you *have* to make a decision—you’re never going to have perfect information,” he says. “People will make mistakes—that’s natural. The issue is not that things turn out wrong. The issue is you’ve made the effort and done the right preparation before you make the call. When we make an interest rate decision, we have everything we possibly could before we make a decision.”

And even then it’s not enough. Carney was roundly questioned early last summer for not dropping rates when other countries did. And in January, he was

branded too optimistic after issuing a remarkably sunny growth forecast of 3.8% in 2010, which was out of line with even the most bullish of private sector economists. “We don’t do optimism. We don’t do pessimism,” he snapped when he was asked about the figures in Parliament earlier this year. “We do realism at the Bank of Canada. We don’t do spin.” (Nevertheless, the Bank did revise its forecast downward, to 2.5%, at its next quarterly update.) “I think he’s done a good job,” Drummond of TD says of Carney’s overall performance. “He’s had a lousy forecast record in that time, but welcome to everybody else’s world.”

Carney admits it was difficult at first to get used to the constant scrutiny of a central banker’s job. It has made him more careful with his words, and his image. When I ask him if he collects art, he looks momentarily uncomfortable. “No comment. I don’t want to look like a dilettante.” (He does collect, incidentally. He and Diana buy a piece together, typically modern, on their anniversary each year.)

Oddly, even with all of the attention, the governor’s chair can be a lonely one. Discretion is prized above all else, and though he can talk with his peers, or his internal governing council at the Bank, with everyone else, “it’s all take.”

Yet Carney may be the only central banker in the world who appears to be having fun. Perhaps he would love the job less if he were Bernanke, and had lawmakers calling for his head. Perhaps he would love it less if he was absorbing blame for the crisis, and hatching weekly rescue plans for some of the largest banks in the world.

“It is a lot of responsibility,” Carney says. “There is a weight of responsibility that’s entirely different than working in a segment of an investment bank.” It can be wearing, he concedes.

“But it’s a pretty good job,” he adds quickly. “You can sleep at night because you feel you’re trying to do the right thing.” 