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Mark Carney on a mission: First Canada, next the world

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The Bank of Canada Governor has been getting kudos for his actions during the economic meltdown. Now he is expected to be named the head of the globally influential Financial Stability Board

In international finance, reputations are made on the big call. Get a bold prediction right and you might become a legend. Blow it, as Alan Greenspan did, and you'll be a goat.

Mark Carney began making his reputation as economic policy maker quickly - on March 4, 2008, to be exact, only a month after taking over as the Bank of Canada's eighth Governor. Faced with the first tremors of a recession in the United States, he did something unexpected, slashing the bank's key interest rate by half a percentage point. Six weeks later, he cut deeply again.

The moves caught most everyone off guard. It was a break with the central bank's usual cautious approach to changing the cost of money. But it was also out of step with what the better-known, more powerful central bankers were doing. They didn't see the same risks he did; as late as July of that year, Europe's central bank was still increasing rates.

Mr. Carney, through the most powerful tool he has, was sending a message: The U.S. housing collapse is serious and financial markets are telling us the outlook is bleak. Get ready for tough times. It demonstrated that Canada's new central banker had an unusually firm grasp of how markets work and the special dangers they carry in a globalized economy - and also the self-confidence to go with his gut and run away from the pack.

"He really made a name for himself in 2008," Sophia Drossos, a New York-based currency fund manager at Morgan Stanley, said of Mr. Carney's interest rate cuts. "It was Mark Carney's wake-up call to the global central bankers that the U.S. mortgage crisis was everybody's problem."

It took another six months and the September collapse of Lehman Brothers Holdings Inc. for most others in the global financial world to catch up. But they're paying attention now. They're practically hanging on Mr. Carney's every word.

As his reputation has grown, so has his influence, far beyond that of a typical Canadian central banker. Within weeks, Mr. Carney is expected to be tapped to lead the Financial Stability Board, an international committee of policy heavyweights that aims to prevent the sort of reckless lending that brought the world's largest financial institutions to their knees in 2008 and almost caused another depression.

For the man who helped steer Canada through the recession, the next mission is to try to save the world's banks - from themselves.

No Canadian has ever held the top job at an institution with such global reach. Former trade minister Roy MacLaren was nominated to head the World Trade Organization in the late 1990s, but did not get the job. Donald Johnston headed the Organization for Economic Co-operation and Development, but that group has less scope. The FSB, which been asked by the Group of 20 nations to rewrite the rules of international finance, has the potential to grow into something on par with the other pillars of post-Second World War finance - the International Monetary Fund, the World Bank and the WTO.

The job would also make him a target - something he already saw a glimpse of when Jamie Dimon, the powerful chief executive officer of JPMorgan Chase and Co., launched a tirade against Mr. Carney during a private meeting in Washington last month with several titans of global finance that the central banker had been invited to attend.

Mr. Dimon was upset about a number of reforms that Mr. Carney has championed - namely, the idea of placing different rules on banks that are so big their failure could cripple the world financial system, and forcing them to carry an extra cushion against losses. Such rules, the banker argued, discriminate against huge American banks such as JPMorgan and would harm the economic recovery by leaving them less money to lend.

But for all the gravitas and importance attached to the FSB's top job, it is a part-time gig with no compensation and no real power to force national governments to implement certain policies. It doesn't even have any full-time employees of its own; its staff of barely 20 people is all on loan from the Bank for International Settlements or from member governments.

The FSB chairman relies on persuasion and influence to effect change. And that is why many say Mr. Carney, who would keep his position at the Bank of Canada, is the right man for the job.

The former Goldman Sachs Group Inc. investment banker holds a doctorate in economics from Oxford University and worked in every major financial capital on the planet, giving him a combination of credibility on Wall Street and an intellectual foundation that is rare among central bankers, most of whom are lifelong economists or bureaucrats with little hands-on experience in the private sector. Ben Bernanke, the head of the U.S. Federal Reserve, is an academic, for example.

That mix of theory and practice has earned Mr. Carney respect among the bankers whose behaviour policy makers now seek to rein in.

"Mark is one of the few senior public officials who has real experience, important experience, on both the financial side and the policy side," said John Lipsky, a special adviser to the International Monetary Fund's new managing director, Christine Lagarde. "There is a need for new thinking."

Mr. Carney stands out because he can address bankers and traders in their own language. His second speech as Bank of Canada Governor, in early 2008, was devoted exclusively to the problems he saw in credit markets. In it, he attacked the notion that risk could be minimized by parcelling mortgages and selling them as separate financial assets, and criticized pay structures at financial firms that rewarded big bets more than wise ones.

"Through the financial crisis, I think he showed remarkable skill in terms of a combination of toughness and yet understanding the right thing to do," said Gordon Nixon, chief executive officer at Royal Bank of Canada. "He became someone that - not just in Canada - we benefited from, somebody that a lot of others around the world leaned on in terms of the different directions to take."

Perhaps most important for a chairman of the FSB - who attends all G20 leaders' summits - Mr. Carney has consistently shown that he is unafraid, even eager, to speak the truth to the most powerful figures in the industry where he spent much of his adult life. His confrontation with Mr. Dimon is but the latest example.

In response to the tongue-lashing by Mr. Dimon, Mr. Carney gave a passionate defence of the G20's efforts to create rules designed to reduce the risk of another crisis, according to a person familiar with what happened. And days later, Mr. Carney gave a speech at a gathering hosted by the financial lobby, in which he pointedly rejected Mr. Dimon's claims.

"Having someone like Mark, who can withstand pressure from the banks, at the head of the FSB is going to be very important," said Eswar Prasad, a senior fellow at the Washington-based Brookings Institution and a former head of the financial studies and China divisions at the International Monetary Fund. "Many senior people in the G20 would like to see him get it."

Mr. Carney's well-connected associates and friends describe him as a highly intelligent participant in policy debates who is often a couple of steps ahead of everyone else at the table. Tim Adams, a managing director at Lindsey Group, a Fairfax, Va.-based consultancy, was the U.S. Treasury Department's top international official when Mr. Carney held similar responsibilities at the Finance Department. Even though Mr. Carney was only in his early 40s, Mr. Adams says, "when he stopped to talk, people stopped to listen."

Indeed, you would have to think a lot of someone's judgment to let them take you jogging in the frigid February cold of Iqaluit, even a northerner like Mr. Carney (who hails from Fort Smith, NWT, and grew up in Edmonton). Last year, when finance ministers and central bankers of the Group of Seven club of rich countries gathered in Nunavut's capital, Mr. Carney got World Bank president Robert Zoellick to join him on his sacred daily early-morning run.

More recently, Mr. Carney has been in the thick of frantic efforts by policy makers to contain the European debt crisis, floating some very specific proposals for boosting the euro zone's bailout fund in public appearances and in private conversations with his counterparts. At a gathering of G20 central bankers and finance ministers last weekend in Paris, he pressed European policy makers to more than double the euro zone bailout fund, from €440-billion ($615-billion) to more than €$1-trillion.

On the eve of the Paris meeting, he caused a stir by endorsing the Occupy Wall Street Movement in an interview with CBC's Peter Mansbridge, calling the demonstrations an "entirely constructive" expression of frustration with the global economic and financial system and saying they highlight the need for policy makers to show they are serious about forcing change.

Such comments speak to Mr. Carney's ambition to be an important actor on the global stage, which is part of why he left behind millions of dollars in salary as an investment banker to join the public service - and why he is open to the FSB role.

The global crisis in 2008 revealed that financial markets can have a major impact on what happens in the real-world economy - not just the other way around. That suggests there is a crucial role in the future for financial regulations that are crafted with the aim of avoiding another market-driven economic catastrophe that drives up unemployment and hurts incomes.

Mr. Carney has championed this idea for years, rejecting the notion that periodic financial crises are simply a natural part of economic life and cannot be avoided. In other words, he thinks that policy can make a difference - can help create a more stable global economy. Leading the FSB would put him at the forefront of ensuring that governments embrace that thinking, too.

So far, Mr. Carney has said little about the specifics of what he would do with the job. But his views are well known on some key issues facing financial regulators.

He is a proponent of requiring very large banks to hold extra capital - that is, to make them financially stronger and less likely to fail. But he also wants to devise ways to deal with the collapse of such institutions, so they don't wreak the sort of chaos in credit markets and the economy that Lehman Brothers did.

The reason the U.S. government was forced to bail out Wall Street after Lehman's demise in 2008 was that not doing so would have led to disastrous consequences in the real economy - including sky-high unemployment - as the flow of credit dried up. They were too big to fail, so taxpayers had to pick up the pieces. Mr. Carney wants to find a way to structure the financial system so that a poorly-run large bank could go out of business without creating an economic crisis.

As part of that, Mr. Carney is also an advocate of cleaning up the system of trading derivatives - private financial contracts that were one of the causes of Lehman's troubles.

But there are obstacles: The banks will fight any regulatory push that threatens their profits. And the nature of the FSB is much like the G20 itself, where national or regional interests and jealousies often get in the way of meaningful change for the collective good.

"You have to be able to convince people it's in their own interest to implement changes, and together they have to find arguments that will win over their national legislatures," said Jo Marie Griesgraber, executive director of a Washington-based non-governmental organization called New Rules for Global Finance, one of few groups that studies the FSB closely.

Mr. Carney declined to be interviewed and the Bank of Canada would not comment on his candidacy for the FSB. He has been considered a leading candidate since being touted for the job in a CNBC report last spring - when his name was being bandied about as a possible replacement for Dominique Strauss-Kahn at the IMF - and Finance Minister Jim Flaherty has been openly pushing for Mr. Carney to get the job.

Leaders from the G20 nations, including Prime Minister Stephen Harper, are expected to name the new FSB chairman at their Nov. 3-4 summit in Cannes. There are signs that the institution may be given more clout - and possibly its own budget - so it can properly monitor whether and how the tougher rules are actually being implemented by national governments.

What is less clear is whether Mr. Carney would be able to use his three-year term to turn the institution's growing influence into something that transcends temporary waves of crisis response and prevention.

This is a critical moment for the FSB, says former prime minister Paul Martin, who was one of the authors of the current G20. The challenge for the organization lies in proving that it can "establish its authority and establish rules in an industry that is globally seamless," he said.

If the FSB is granted the authority it needs, the chairmanship that Mr. Carney is likely to get could eventually be seen as a highly prestigious job - as important as leading the IMF, Mr. Martin said. "Both institutions are going to have to prove themselves over the next four or five years," he said. "There is no doubt that Canada will benefit from a strong FSB and that Mark Carney has the required skills."

With files from reporters Grant Robertson and Tara Perkins in Toronto

THE FINANCIAL STABILITY BOARD

Where it came from

The Financial Stability Board was created at a Group of 20 summit in London in April, 2009, during the global financial crisis. It replaced an earlier group called the Financial Stability Forum. The FSB has more members, broader responsibilities and - rhetorically, anyway - more clout. The move reflected the obvious need for stronger regulation and monitoring after the U.S. subprime mortgage collapse, as well as the need for advanced economies to share leadership with emerging economic giants like China, India and Brazil.

What it is

Unlike its predecessor, the FSF - established in 1999 by G7 finance ministers and central bankers - the FSB brings together policy makers from more than 20 countries and the world's key financial standard-setting bodies. It is based in Basel, Switzerland, and housed within an organization called the Bank for International Settlements. With no budget or full-time staff of its own, the FSB so far has relied on the BIS and member governments to lend officials to help it complete work on whatever recommendations the board agrees to push.

Why it's important

The G20 asked the FSB to craft new rules to govern global finance and ways to boost supervision of markets, banks and other financial institutions, and also to monitor whether and how member countries implement its proposals. The aim is to prevent another meltdown like the one in 2008. Backers of the FSB hope that one day it will be on par with other key pillars of global economic governance, like the International Monetary Fund, World Bank and World Trade Organization. Currently, while in the middle of the G20's efforts to forge co-operation on financial regulation, the FSB has little true authority to enforce its will. Gains instead come through persuasion or "peer pressure."

Who has chaired it

The top job at the board is a part-time position and the person is drawn from the officials and agency heads from the countries that make up the FSB. Mario Draghi, the Italian central bank governor who leaves next month to take one of the most thankless jobs in the global economy these days - president of the European Central Bank - is its first chairman and was head of the FSF before that, starting in 2006. Before that, Roger Ferguson, a former vice-chairman of the U.S. Federal Reserve Board, led the FSF from 2003 until 2006.
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