# Economist blames Mark Carney for high dollar, plant closures

By Barrie McKenna
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In a rare dig at Mark Carney, a prominent Canadian economist says the former Bank of Canada governor handed successor Stephen Poloz a mess that included a painful legacy of plant closings.

Mr. Carney's "hands-off attitude" to the soaring Canadian dollar helped fuel a flood of hot money into Canada and a "serious overvaluation" of the currency as the trade deficit ballooned between 2010 and mid-2013, according to Avery Shenfeld, chief economist at CIBC World Markets in Toronto.

"In effect, monetary and exchange rate policy traded off more condos for fewer factories," Mr. Shenfeld argued provocatively in a research note Wednesday.

"The legacy of … plant closures will be with us for years to come."

Mr. Carney, who left the central bank to become Bank of England governor last June, has been widely praised for ably guiding the Canadian economy through the financial crisis. That stellar reputation earned him superstar status in the international financial community, and ultimately a prestigious job at the helm of Britain's central bank.

Outside the monetary realm, critics have been less kind to Mr. Carney, questioning his open flirtation with the leadership of the federal Liberal Party while still running the Bank of Canada.

But it's his work at the bank that troubles Mr. Shenfeld. He suggested that Mr. Carney's decisions in the years after the recession landed Canada in "a spot of bother."

A spokesman for Mr. Carney declined to respond. "We just don't comment on analysts' commentaries," said Bank of England official Jeremy Harrison.

Other economists say Mr. Shenfeld's criticism is off-base. McGill University economist Christopher Ragan, a monetary policy expert and former visiting scholar at the federal Finance Department, said he agrees that financial inflows pushed up the value of the Canadian dollar and hurt manufacturers.

But he characterized as "bizarre" the suggestion that Mr. Carney could, and should, have done anything about it. The primary goal of monetary policy is to target inflation and excess capacity in the economy, not to set the value of the currency, Mr. Ragan pointed out. He added that the rising dollar was backed by economic fundamentals.

"The lesson here is that if you have an economy that is doing better than its neighbours, you can expect financial capital to flow in," he explained. "It may not be pleasant, and manufacturers will be hurt. But it doesn't mean that a strong dollar was inappropriate."

BMO Nesbitt Burns chief economist Douglas Porter, on the other hand, endorsed Mr. Shenfeld's view that the dollar was too high. But he said intervention would have been futile in the face of the massive flow of funds flooding into Canada after the recession, and that's why the bank hasn't done it in nearly 15 years.

"I wouldn't lay blame at the feet of any one person," he said.

Mr. Porter praised Mr. Poloz for changing the tone. He's shown concern for the plight of exporters rather than attacking businesses for hoarding cash and not being competitive, as Mr. Carney famously did, he said.

In his research note, Mr. Shenfeld faulted the bank’s rate hikes in 2010 and Mr. Carney’s “on-and-off warnings of further tightening,” which he said widened interest rate spreads and encouraged more foreign financial flows into Canada.

That also coincided with a critical period of long-term investment decisions by manufacturers “on whether to retain plants, and where to shutter them for good,” according to Mr. Shenfeld. “That wasn’t only in the auto sector, but in the likes of food processing, locomotives and steel making,” he said.

Mr. Shenfeld credited recent “dovish talk” by Mr. Poloz for helping to encourage “a more appropriately valued exchange rate.”

“That, and improving commodity prices, will help bring trade into better balance,” he said.