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THE REORGANIZATION OF THE CANADIAN DEPARTMENT
OF EXTERNAL AFFAIRS 1980-1983: A CASE STUDY

by

James F. Lee, B.A.

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfillment of
the requirements for the degree of
Master of Arts

Department of Political Science

Carleton University

Ottawa, Ontario

May 15, 1987

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"THE REORGANIZATION OF THE CANADIAN
DEPARTMENT OF EXTERNAL AFFAIRS 1980-83: A CASE STUDY"

submitted by James Lee, Hons. B.A.

in partial fulfilment of the requirements for
the degree of Master of Arts

Thesis Supervisor

for

Chairman, Department of Political Science

Carleton University

June 18, 1987

ABSTRACT

The reorganization of the Department of External Affairs in 1982 to include trade policy and promotion functions, as well as less comprehensive but important changes before and after have significantly enhanced the department's ability to generate more holistic foreign policy and its position in the Ottawa policy-making process. This case study of the reorganization of the department in the context of a major reorganization of government in that year allows some conclusions to be drawn as to the appropriateness and success of the changes in External and more generally the assumptions underlying the reorganization of government structures in the later Trudeau years. While External has emerged from its reorganization a stronger department, in many respects this was despite the manner in which it was reorganized rather than because of it.

ACKNOWLEDGEMENTS

This study was, of necessity, based largely on interviews with former and current government officials. Thanks must be given to Gordon Osbaldeston, Michael Pitfield, Ian Stewart, Mark MacGuigan and Herb Gray, as well as to numerous others identified simply as "interviews"; without the kind cooperation of these individuals, this thesis would not have been possible in its present form.

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Abbreviations

ADM	Assistant Deputy Minister
APEC	The Atlantic Provinces Economic Council
BEDM	Board of Economic Development Ministers
CCC	Canadian Commercial Corporation
CCDM	Coordinating Committee of Deputy Ministers
CCED	Cabinet Committee on Economic Development
CCERD	Cabinet Committee on Economic and Regional Development
CCFDP	Cabinet Committee on Foreign and Defence Policy
CIDA	Canadian International Development Agency
DEA	Department of External Affairs
DM	Deputy Minister
DND	Department of National Defence
DREE	Department of Regional Economic Expansion
DRIE	Department of Regional Industrial Expansion
EDC	Export Development Corporation
FED-C	Federal Economic Development Coordinator
FIRA	Foreign Investment Review Agency
FPRO	Federal-Provincial Relations Office
GDAs	General Development Agreements
ICER	Interdepartmental Committee on External Relations
IT&C	Industry, Trade and Commerce
MSED	Ministry of State for Economic Development
MSERD	Ministry of State for Economic and Regional Development
MSSD	Ministry of State for Social Development
MSST	Ministry of State for Science and Technology
MSUA	Ministry of State for Urban Affairs
NEP	National Energy Policy
P&P	Priorities and Planning Committee
PAFSO	Professional Association of Foreign Service Officers
PAG	Policy Analysis Group (External Affairs)
PCO	Privy Council Office
PEMS	Program and Expenditure Management System
PMO	Prime Minister's Office
SSEA	Secretary of State for External Affairs
TBS	Treasury Board Secretariat
TCS	Trade Commissioner Service
TNO	Trade Negotiations Office
USSEA	Under-Secretary of State for External Affairs

INTRODUCTION

On January 12, 1982, the Department of External Affairs (DEA), with the Department of Finance long considered perhaps the most traditional and venerable department in the federal government was fundamentally reorganized both in terms of mandate and structure.

Since the mid-1960's the reorganization of existing departments and the creation of new structures has become an increasingly important tool in the arsenal of government.¹ The late 1960's saw the entrenchment in Ottawa of an approach to government which stressed the creation and adjustment of machinery to improve policy outputs, and was in part a reaction to the existing ad hoc administrative system which had been exposed by the Glassco Commission several years before. Apart from the creation of a formal cabinet committee system, the Privy Council Office (PCO) experimented with large-scale reorganizations of government in the mid-to-late 1960's, and rapidly learned the great costs of such exercises: confusion as to departmental mandates and purposes, negative reaction from constituencies affected, and on a more micro' level decreases in employee morale in the departments involved.

¹ For a good introduction to the issues involved in the reorganization of government, see Bruce Doern and Peter Aucoin eds. Public Policy in Canada: Organization, Process and Management Toronto: Gage, 1979, especially their "Introduction".

As Michael Pitfield, the man most directly associated with the rationalization of Canadian government apart from Pierre Trudeau put it in somewhat after the fact in 1975, " We have been through a period of considerable organizational change, and I would hope that the next few years will be largely a time of consolidation that will permit the changes of recent years to work their way through the system ".²

With both Pitfield and Gordon Osbaldeston, then Secretary of the Treasury Board convinced that full-scale reorganization should remain a last resort of government, major restructurings of machinery were avoided throughout the 1970s; the Trudeau governments did rely increasingly on the creation of central agencies to support the cabinet in this period, however.

The Department of External Affairs found itself challenged in the 1970's both by a new approach to government it was unaccustomed to and changes in the nature of Canadian domestic and foreign policy. The increasing interdependence of international trade and domestic economies was demonstrated by the OPEC oil crisis of the early 1970's, and the proliferation of international units in domestic departments strained its ability to coordinate Canadian foreign policy

² Michael Pitfield, " The Shape of Government in the 1980's: Techniques and Instruments for Policy Formulation at the Federal Level " Canadian Public Administration, Vol. 19, 1, Spring, 1976, p.17

making. By the time the National Energy Program (NEP) was developed in 1980, External was completely irrelevant to the economic policy making system in Ottawa--hardly an ideal position in the context of the times.

The 1982 Reorganization for Economic Development grew out of a consensus on the part of powerful Liberal cabinet ministers upon their return to power after the Clark interregnum in 1980 that certain problems they had lived with for many years had to finally be resolved. Directly and indirectly affecting some 23,000 government employees in thirteen departments and agencies, the reorganization redefined the mandates of several traditional departments and created certain central agency structures to pave the way for the development of an assertive and visible national industrial strategy, while at the same time attempting to integrate regional concerns more fully into the policy-making process. Convinced that circumstances warranted major structural change, the reorganization of 1982, like its predecessors, was conceived and planned under the blanket of strict Prime Ministerial authority, with no consultation with constituencies to be affected, or even cabinet knowledge! In some respects, this reorganization was the most ambitious of all, attempting in one stroke to solve a number of complex problems, and restructuring very powerful departments of government.

As Gordon Osbaldeston has noted, " This reorganization was the background to what we did with the Department of External Affairs. You notice I say, and I choose my words carefully, what we did to the Department of External Affairs '. There were no major groupings within the Department of External Affairs that were in agreement with what was done. So the decision to move, as we did, was taken outside the Department of External Affairs, although some of us indeed had foreign service experience. "

The " new " Department of External Affairs created in 1982 was very different from its predecessor. Apart from its traditional diplomatic duties, it was given responsibility for Canadian trade policy and promotion. To carry out this new mandate and accomodate the transfer of trade personnel from the Department of Industry, Trade and Commerce (IT&C), two ministers and two deputy ministers were added to the department, which found itself with a quite radical new structure as a result. Confusion was the order of the day for much of the immediate period following the changes, as was a clash of cultures between the " diplomats " and the " salesmen ". While tinkering with the structure never really stopped within DEA, a further restructuring of the department was undertaken the following year, and must in fact be seen as a re-evaluation of the structure initially put in place.

³ Speech given by Gordon Osbaldeston in Canberra, Australia, 1985

While the organizational and structural aspect of the Department of External Affairs is only one element of Canadian foreign policy, it is an important one, and deserves more attention than it has received in the literature.⁴ To paraphrase Graham Allison, organization matters.⁵ The decision as to whether the department's new structure is likely to improve or hinder foreign policy making in Canada can only be made after a study of the reorganization in its context.

In a more theoretical vein, perhaps the dominant theme in the literature on executive decision making and processes in Canada in the past decade has been concerned with the central agency approach to government, or as Bruce Doern and Richard Phidd have put it, "The heyday of the grand coordinators".⁶ The key feature to understanding Canadian government in the 1970's according to this perspective is the domination and "rationalization" of the policy-making

⁴ The influence of bureaucratic structures and processes on the development of foreign policy was first discussed in the literature by Graham Allison. For attempts to apply similar models to Canadian foreign policy see the work of Kim Nossal, and Michael Tucker's Canadian Foreign Policy: Contemporary Issues and Themes Toronto: McGraw-Hill Ryerson Ltd., 1980.

⁵ Graham Allison and Peter Szanton Remaking Foreign Policy: The Organizational Connection New York: Basic Books, 1976, Chapter 1.

⁶ Doern and Phidd, Canadian Public Policy: Ideas, Structure, Process Toronto: Methuen, 1983, p.210

process by "Superbureaucrats" and central agencies. This conclusion is based mainly on the, admittedly rational approach to government of the early Trudeau years, and the strengthening of central agencies of government that continued throughout the period.

The revisionist perspective on this issue (which is only beginning to emerge) sees the early Trudeau years as rational, but believes the reality of the Trudeau era is that as this rationality encountered the mysteries of politics and the practical aspects of governing, it was replaced by a more practical, incremental approach to government.²

As one of the last major structural innovations of the Trudeau/Pitfield years, the reorganization of 1982 should offer some insights into the reality of central agency "rationality" in terms of the restructuring of government--although since machinery questions are an important element of PCO's mandate, its involvement in this case will not be completely representative of its role in the policy process in this period. The assumptions about the reorganization of

² Perhaps the major exponent of this perspective is Colin Campbell: See Campbell and Szablowski The Superbureaucrats: Structure and Behavior in Central Agencies Toronto: Macmillan of Canada, 1979 and Campbell, Governments Under Stress: Political Executives and Key Bureaucrats in Washington, London and Ottawa Toronto: University of Toronto Press, 1983

³ See Doern and Phidd, p.577, also Peter Aucoin "Organizational Change in The Machinery of Canadian Government: From Rational Management to Brokerage Politics" Canadian Journal of Political Science Vol. 19, 1, 1986

government, the processes by which major reorganizations are planned and implemented and the stumbling blocks which are always present in exercises of this kind will be described and considered.

In more specific terms, the background to and planning of the reorganization of External Affairs will illuminate important aspects of Canada's foreign policy bureaucracy, and will lead to some consideration of structural requirements of foreign ministries in general. Unique demands on Canada's foreign affairs machinery will become apparent, as the planners of the DEA reorganization were struggling to devise a structure for the department which would allow it to fulfill demands placed on it in a trading nation such as Canada which values its tradition of "Pearsonian" foreign policy.

In the absence of a well-developed literature on the reorganization of government departments, and in light of a lack of specific information on the reorganization of External Affairs, our goal must be to first develop a taxonomy of the reorganization of the department. While a theoretical context will be considered, the thrust of this study is not theoretical. Since virtually all of the

One of the few case studies of the reorganization of a federal department is John Langford's Transport in Transition: The Reorganization of the Federal Department of Transport. Montreal: McGill-Queens Press, 1979. A less comprehensive study is V.J. Kronenberg's All Together Now: The Organization of the Department of National Defence in Canada 1964-1972. Canadian Institute of International Affairs, 1973.

documents relating to the planning of the reorganization are cabinet documents, and therefore inaccessible, interviews with relevant officials are relied upon for sections of this study. Care was taken to corroborate information gained in interviews but otherwise unverifiable, and where this proved impossible we have erred on the side of caution. Interviews were conducted in person and for the most part tape recorded to ensure accuracy. Nearly 40 officials and politicians were interviewed, including Michael Pitfield, Gordon Osbaldeston, Ian Stewart, Mark MacGuigan, Herb Gray, Bud Olson, Tom Axworthy and numerous officials who will be identified simply as "interviews".

The study consists largely of a chronological narrative, tracing the development of External Affairs through the 1970's under the dual pressures of new foreign policy actors and the new governmental processes put in place under the Trudeau Administrations (Chapter 1). The context of the reorganization of 1982 and the development of the plans for it will be discussed (Chapter 2). The implementation of the reorganization will be considered including its non-DEA aspects (Chapter 3). The second major reorganization of the department will be discussed as a complement to the first (Chapter 4). The conclusion will attempt to evaluate the lessons learned from a consideration of the reorganization of 1982, both in its long-term implications for the Department

of External Affairs and Canadian foreign policy, and in the broader context of approaches to government reorganization.

This study should be read with two questions in mind: namely, what assumptions about government machinery formed the bases of the planning of the overall reorganization, and given the enormous cost in personnel and policy terms in External Affairs over the past five years, was the reorganization of that department both appropriate and worth the costs incurred?

CHAPTER ONE

THE DEPARTMENT OF EXTERNAL AFFAIRS AND THE THE RATIONALIZATION OF CANADIAN GOVERNMENT

The foreign policy of a nation is best defined simply as the broad framework of goals, objectives, decisions, activities (and occasional inaction) of a government with regard to its place in the world and its relations with other states.¹⁰ Despite the fact that leaders of government could use their own resources and those of their staffs to supervise and coordinate the country's departments of trade, defence, immigration, agriculture and any others doing business abroad, the more traditional method has been the creation of a separate ministry expressly for that purpose.¹¹

THE DEPARTMENT OF EXTERNAL AFFAIRS

The Canadian Department of External Affairs as created in 1909 by Sir Wilfred Laurier was a very modest affair, given responsibility in its accompanying Act for nothing more than communication with other governments. In fact, however,

¹⁰. Jackson, R.J. ed. Politics in Canada: Institutions, Behavior and Public Policy. Scarborough: Prentice-Hall Inc., 1986, p.566

¹¹ Eayrs, J. " The Department of External Affairs " in Z. Steiner ed. The Times Survey of Foreign Ministries of The World. London: Times Books, 1982, p.96.

the coordinative nature of a foreign ministry is already visible in the reason given by the leading public servant of the day, Sir Joseph Pope, for the creation of the department: "to acquire an organized method for dealing with international questions which at present we wholly lack".¹² While Pope's aims were administrative and modest, the coordinative element of the department as opposed to its purely policy side is visible in its genesis.

Events such as the establishment of Canada's first diplomatic mission abroad in 1927 highlighted the development of External's role in the country's emerging foreign policy. The crisis of the Second World War necessitated a huge growth in the federal bureaucracy as a whole, and its conclusion left Canada with a multitude of new international commitments which required a corresponding growth in External. Another sign of DEA's emergence as a true Department of Government in the traditional sense was the transfer in 1946 of responsibility for it from the Prime Minister to a separate Secretary of State for External Affairs (SSEA).

Staffed by such exceptional people as Lester Pearson, Norman Robertson, John Holmes and others, Canadian diplomacy entered what many have later seen as its "golden age". In this period of ascendancy within the Ottawa policy-making

¹² Quoted in James Eayrs, "The Origins of Canada's Department of External Affairs" in Hugh L. Keenleyside et. al. The Growth of Canadian Policies in External Affairs. Durham, N.C., 1960, p.17

establishment, the department exhibited clearly five features of organization and ethos that have remained with it over the years ¹³: (1) it was a rotational service, alternating foreign assignments with stints at home; (2) partly as a consequence of the first, it valued 'generalists' who had a wide range of knowledge over specialists in any given area: the latter were felt to have too-narrow a scope of interests and experience; (3) DEA was pragmatic in approach and disliked long-range planning and designs; (4) As a highly traditional department it resisted administrative innovations such as new management techniques. (This was to become very important in the 1960's and 1970's, of course); (5) In this period the department projected a self-image - as the elite sector of the federal bureaucracy. This was especially important as it reflected the view on the part of the members of the department, that foreign affairs was a highly specialized area that could only be handled by experts. This was to complicate the department's acceptance of changes in the nature of foreign policy over the next two decades.

While it is true that in the 'golden age' the attention of the department was focused mainly on 'high' policy politico-military issues, its highly professional personnel also had an interest in economic policy. At this point in its history External's pre-eminent position in cabinet

¹³ Eayrs, "The Department of External Affairs.", p.98

allowed it to limit its advice on economic matters largely to broad outlines and objectives rather than details of micro economic policy. This too was to hinder the department's re-insertion into the economic policy-making process in Ottawa in the late 1970's and early 1980's.

This economic aspect of the department during its golden years is important, and must be borne in mind. As John Holmes has put it,

There has been much talk lately about the suggestion that in the early days the Canadian national interest was sacrificed to internationalism and that somehow Mr. Pearson was running off trying to save the world when he should have been at home saving us from the Americans. I think that was utter dribble. The assumption for a long time after the war was that there was no Canadian national interest higher than that of a peaceful world in which we didn't have to produce an army and which would then enable us to be a great trading nation. I don't think anybody thought of this as unselfish. That was a priority...¹⁴

Nevertheless, the cold war and its emphasis on military issues allowed the department to participate less and less in the emerging domestically based economic issues of the late 50's and early 60's. The Diefenbaker years were also a

¹⁴ John Holmes interview Bout de Papier, Professional Association of Foreign Service Officers Bulletin, Vol. 3 #3, Fall 1985, pp.13-14.

strain, since as a result of long Liberal rule and the department's connection with Lester Pearson, the Prime Minister was suspicious of DEA and its "Pearsonalities".¹⁷ His prominent but unpredictable influence on foreign policy made its job that much harder.

The mid-1960's reinforced growing changes in the nature of Canada's foreign policy. What is usually called the domesticization of foreign policy was the result of a changing public policy agenda and a shift away from politico-military matters toward those more directly related to the social welfare and domestic priorities of the country.¹⁸ At the same time the country's international economic relations, under the GATT, for example, were also becoming more important.

In organizational terms, External was feeling the same pressure as other government departments to modernize and streamline its operations. In 1962 the Royal Commission on Government Organization, the Glassco Commission, took a close look at how the department was running its affairs and some

¹⁷ John Hilliker, "The Politicians and the Pearsonalities: The Diefenbaker Government and the Conduct of Canadian External Relations", paper delivered at the Canadian Political Science Association convention, University of Guelph, June 12, 1984.

¹⁸ A milestone in this process was the Liberal Party's Kingston Conference on National Problems in 1960; the result of this conference was a new policy manifesto stressing regional disparities, manpower policies and social services.

organizational changes followed. That the Commission, which "seemed to have conceived its function to be that of a management consultant" in the words of one authority on governmental structures recommended organizational changes in the DEA was not surprising.¹⁷ But the Commission's legacy to External was, in the words of a former UnderSecretary that "The Glassco enquiry impressed upon the department the need to review and reform its internal organization from time to time, and since 1962 the department has with the help of outside consultants undertaken several studies which have resulted in further modifications of its structure".¹⁸

Apart from the specific effects of the Glassco Commission on DEA, its report impacted on the department in other ways. The commission had been the culmination of years of dissatisfaction in Ottawa with the structures and processes of policy making. The most important structural innovation in this area in the mid 1960's involved the cabinet committee system. The cabinet in Westminster-type governments is, above all, a committee to negotiate.¹⁹ That is to say, its purpose is to allow ministers to achieve consensus in the difficult choices between alternatives necessary to govern a.

¹⁷ J.R. Mallory, The Structure of Canadian Government, revised edition. Toronto: Gage, 1984, p.184

¹⁸ Gordon Osbaldeston, "Reorganizing Canada's Department of External Affairs" in International Journal 37 Summer 1982, p.455-56

¹⁹ Mallory, p.106

modern state. Cabinet committees are an elaboration of this system rather than a substitute for it; they act as screening and filtering devices to save ministerial time and consider questions which, for one reason or another, are not in a form suitable for consideration by full cabinet. To this end, much of the preliminary and some of the final discussion of cabinet business is carried on in its committees.²⁰

Except for the Treasury Board, there is no constitutional or legislative provision for the establishment of cabinet committees. Early in the Pearson administration ad hoc committees of the cabinet were used more than had previously been the case to deal with specific issues. These committees considered individual issues and had no authority to make decisions: they initiated nothing and decided nothing. As the workload of cabinet increased and more and more issues needed detailed consideration, Prime Minister Pearson put into place a formal cabinet committee structure in 1964. The ad hoc committees were replaced by nine standing ones (three of which Pearson chaired himself by the end of his administration) which had all matters under their jurisdiction referred to them automatically by cabinet.

With the establishment in 1968 of the committee on Priorities and Planning (P&P) to develop government priorities in relation to the country's overall fiscal situation, the outline of the modern cabinet committee system

²⁰: Ibid., p.114

was complete. For the first time cabinet procedures required issues to be dealt with in committee before going to full cabinet, but a certain amount of the committee work was still tasked by cabinet. Following the Glassco Commission's report much of the responsibility for detailed expenditure decisions was transferred from the Minister of Finance to the Treasury Board; In 1966 the Treasury Board Secretariat (TBS) was split off from the Department of Finance and a separate ministerial portfolio, President of the Treasury Board, was created.²¹

The reorganization of 1966 was to be the precedent for two more 'lumps' of such activity over the next several years; All were handled through the instrument of a Government Organization Act.²² The Government Re-Organization Act, 1966, confirmed organizational changes which for the most part had been implemented in December 1965 through orders-in-council under the Transfer of Duties Act of 1919. This act allows cabinet considerable latitude in altering internal structures and re-allocating departmental responsibilities. The Re-Organization Act of 1966, apart from authorizing the creation of the office of President of the Treasury Board established the departments of the Solicitor General of

²¹. For a brief summary of these and other changes in cabinet decision-making, see Ian D. Clark, "Recent Changes in the Cabinet Decision-Making System in Ottawa" Canadian Public Administration .Vol. 28, 2, Summer 1985

²². Langford, Transport in Transition: The Reorganization of the Federal Transport Portfolio. , p.2 .

Canada, the Registrar General of Canada, Indian and Northern Development, Manpower and Immigration, Energy, Mines and Resources and Forestry and Rural Development.

The combination of orders-in-council and an omnibus organization act was to be used again in government reorganizations of 1968-69 and 1970. It is worth noting here that the transfer of duties between ministers and departments by orders-in-council have been referred to by an official of the Privy Council Office as the "coup d'etat method", which allows the government to move quickly with organizational changes before vested bureaucratic or clientele pressures can be brought to bear.²³

THE TRUDEAU REFORMS

The election of the Trudeau government in 1968 was a milestone in the evolution of modern cabinet process and the structures that support the cabinet in its work. It was believed by Trudeau and his advisors that good government would result from responsive, innovative and effective policy making; As a result the federal planning and policy apparatus had to be imbued with these qualities if suitable priorities were to be established and goals reached. The premium attached to these values was not to imply that such traditional organizational and administrative ones as responsib-

²³ Ibid., p.3

ility, stability, effectiveness and accountability were to be ignored--but simply that the former should be emphasized.²⁴

The personal commitment of the Prime Minister to the need for a rational re-thinking of both substantive government policy and its processes resulted in major changes in the practice of executive decision-making. Trudeau's reforms hinged on the desire for a system wherein: (1) ministers consulted with each other about interrelated matters; (2) there was coordination; (3) there was collective responsibility for cabinet decisions in fact as well as in theory (and perception); (4) ministers had more influence (not only more power) than officials on the ultimate choice of a course of action.²⁵ The effect of this approach to the problems of governing was the strengthening of the collective nature of cabinet discussion and a corresponding strengthening of cabinet committees and central agencies.

The organization of the cabinet committee system in 1968 was, and evolved as, a central coordinating structure for government activities.²⁶ Five initial "operating" committees of cabinet--Economic Policy; Government Operations; Science, Culture and Information; Social Policy; External

²⁴ Ibid., p.8

²⁵ James Gillies, Where Business Fails. The Institute for Research on Public Policy, 1980, p.86

²⁶ Audrey Doerr, The Machinery of Government in Canada. Toronto: Methuen, 1981, p.24

Affairs, and Defence--grouped the activities of the government into several " policy sectors " that provided the foci for ministerial consideration of policy and program proposals. The coordinating committees--Priorities and Planning; Legislation and House Planning; Federal-Provincial Relations; Treasury Board--provided for the examination of proposed action from a broad " horizontal " as opposed to functional point of view. A key element of the reforms was the stress put on the central role of the P&P Committee in establishing priorities and developing an overall planning approach to government undertakings.

The other main element of the 1968 reforms was the strengthening and enlarging of such existing central agencies of government as the Privy Council Office and the Prime Minister's Office.

The main organization supporting the cabinet and the Prime Minister is the Privy Council Office. Headed by the Clerk of the Privy Council and Secretary to the Cabinet, Canada's senior public servant, PCO is responsible for the coordination of overall government policy. While in its origins PCO was modest, basically providing secretarial service for the cabinet (and later its committees), it is adequately staffed, has a competent research capability and acts as the cabinet's overall eyes and ears. In its role as a gatekeeper between cabinet and ministers and departments

seeking approval for proposals.²⁷ PCO's strength, put simply, is that it controls the flow of information through the government, and knowledge was never power more than in this case.

The organization of the PCO reflects the cabinet committee system.²⁸ Until 1975 three main divisions existed in the office: Plans, Operations and Federal-Provincial Relations. Each division contains secretariats for specific cabinet committees: the Operations Division those of the functional committees described earlier, and the Plans Division those of the two key coordinating committees, P&P and Legislation and House Planning. (The Federal-Provincial Relations division was set up as a separate agency in 1975). The secretariats prepare agendas, brief their committee chairmen and the Prime Minister on matters before the committees, and ensure proper liaison is maintained with relevant departments and agencies.

The Plans Division also provides special support to the Prime Minister in the form of a Machinery of Government Directorate to assist in his prerogative to allocate responsibilities among ministers and make senior appointments. As

²⁷ See Gordon Robertson, "The Changing Role of the Privy Council Office", Canadian Public Administration Vol. 14, 4, Winter 1971 for a discussion of the modernization of the PCO. For a more critical view, see the work of Colin Campbell, for example.

²⁸ See Doerr, pp.30-32

the role of the PCO changed over the years organizational changes were made within it, but for our purposes it is sufficient to note that by the 1970's the Office was fully equipped to record and follow up on actions taken by the cabinet, and keep the Prime Minister and committee chairmen briefed about the progress of various programs and activities within the government.

An important element in the development of the PCO's role in Ottawa rests with one man, Michael Pitfield. While we will consider Pitfield more fully later, it should be noted here that he was instrumental in the development of PCO during the Trudeau years despite the fact that at the time of these early reforms he was not yet Clerk of the Privy Council. At the age of 29, two years before the election of Pierre Trudeau, he was already Assistant Secretary to the Cabinet in PCO. He became Deputy Secretary of the Plans Division when it was created in 1969, and Clerk of The Privy Council in 1975. After his appointment to that position, PCO was the focus of policy and process in Ottawa. As Jean Chretien has said, "The PCO gains power from using its information-gathering system for real influence. Co-ordination becomes more important than action... Even important ministers came to fear the PCO because it was so influential after Michael Pitfield became its chief".

While PCO is capable of fulfilling the Prime Minister's personal staff needs, doing so would violate its politically neutral role as the epitome of the civil service. The organization that has developed in response to this need for a more partisan support staff for the PM is the Prime Minister's Office.³⁰ PMO's role is different from and complimentary to that of PCO in that while the latter is "non-partisan, operationally oriented, yet politically sensitive"; the PMO is "partisan, politically oriented, yet operationally sensitive".³¹ In other words, the PMO monitors both policy and process in the government, the former to warn the PM of potential political danger, the latter to ensure procedural problems don't sidetrack his agenda.

The PMO was enlarged and reorganized in 1968 to include policy advisory sections and five regional desks for the purpose of liaison and coordination.³² The regional desks proved to be irritants to regional cabinet ministers (and backbenchers) and disappeared after the 1972 election. Trudeau appointed as his Principal Secretary in the PMO Marc Lalonde, a friend and confidant who had been with the Pearson administration. Lalonde, who at the time liked to quote John Kenneth Galbraith's observation, that "Technology means the

³⁰ See Marc Lalonde, "The Changing Role of the Prime Minister's Office" Canadian Public Administration Vol. 14, 4, Winter 1971

³¹ See Robertson

³² See Lalonde

systematic application of scientific or other organized knowledge to practical tasks" came to occupy a very sensitive position at the apex of decision-making and controlled the information flowing to the Prime Minister.⁵³

From the point of view of foreign policy, the most important innovation in the PMO in 1968 was the creation of an office to monitor developments in foreign affairs.⁵⁴ The Prime Minister's equivalent of Marc Lalonde in the foreign affairs area was Ivan Head, a former University of Alberta law professor. Head had been hired as part of a constitutional review in the Justice Department, and became the PMO's senior advisor for international relations in 1970. He was often jeeringly compared to Henry Kissinger, the American President's special advisor for international relations, but in this period he did exercise considerable influence on the Prime Minister in the area of foreign affairs. One of Trudeau's goals had been to set up countervailing centers of advice to the traditional bureaucracy, and Ivan Head was set squarely against the Department of External Affairs in this period.

The DEA in the 1960's was conscious of a growing

⁵³. Quoted in Bruce Thordarson, Trudeau and Foreign Policy: A Study in Decision Making. Toronto: Oxford University Press, 1972, p.13

⁵⁴. See Tom D'Aquino, "The PMO: Catalyst or Cabal" Canadian Public Administration. Vol. 17, 1, Spring 1974

uncertainty in government, in the department and in the public about Canada's position and role in a changing world. This uncertainty was made more acute by the emerging debate on national unity the Centennial celebrations of 1967 had highlighted. As well, academic nationalists had begun criticizing traditional Canadian roles and assumptions about international affairs, and public opinion grew doubtful over the country's position vis-a-vis the Vietnam war.

THE FOREIGN POLICY REVIEW

In late 1967 a three man team of senior DEA officials began an in-house study of key sectors of Canadian foreign policy.³⁵ The review was conducted by UnderSecretary of State Norman Robertson at the request of Prime Minister Pearson, was to involve mainly key department officials, and was to be carried out in strict confidence. The report was completed shortly before the Liberal leadership convention in April, 1968, and was sent directly to the PM and the SSEA, with copies for the UnderSecretary and his immediate advisors in the department.

Following the change of leadership, the report was sent to Prime Minister Trudeau and his SSEA, Mitchell Sharp, then to the Deputy Ministers of National defence, Trade and

³⁵ Geoffrey Murray, "In Search of Foreign Policy.", in Bout de papier, Vol. 2, 14, December 1984

Commerce, Finance and the President of the Canadian International Development Agency (CIDA). While Paul Martin hailed the report publicly as an endorsement of policies he had been pursuing for years, within the government--and especially within the PCO--the Robertson report was seen as a defence of the status quo. While that is not quite clear from a reading of the report today, in the words of one of its authors "...it died stillborn of calculated neglect".³⁶

In preparation for the general election of June, 1968, the PMO issued a press release entitled "Canada and the World" based largely on the Robertson report. The statement formally announced and launched a series of foreign policy reviews that would occupy over one hundred officials in fifteen departments for two years or more.³⁷ In calling for a comprehensive review of Canada's foreign policy the government obviously meant for more than one department to be involved in its preparation. Without specific instructions as to how to conduct the review, however, DEA relied on tried and true methods. Separate task forces were established within External composed of experts from various departments;

³⁶ Ibid., p.1

³⁷ Ibid., and testimony Murray gave before the House of Commons Standing Committee on External Affairs and National Defence, quoted in John Kirton The Conduct and Coordination of Canadian Government Decision Making Towards the United States. Unpublished Ph.d dissertation, Johns Hopkins University, 1977, p.202

The task forces then set to work to prepare five sector studies of Canada's foreign policy.

In the summer of 1969 drafts of the first two booklets were sent to cabinet for approval. The response was not encouraging. Ministers found it hard to relate the two booklets, and in the absence of a central framework within which to consider the studies the Prime Minister and his advisors found them unacceptable. External was ordered to prepare a central paper that would integrate the other booklets into a rational framework. Geoffrey Murray, a senior official of the department and one of the authors of the Robertson report succeeded in pulling together the other studies in a central paper that seems largely a re-working of old Trudeau articles and speeches. No interdepartmental consultation was attempted with this central book, and after cabinet approval the other studies were re-written to fit the framework outlined in it.

The six booklets were tabled in the House of Commons and otherwise made available to the public under the title Foreign Policy for Canadians in June, 1970.³⁰ Immediate response to their publication was mixed. The fact that External Affairs had attempted to outline the basis of Canadian foreign policy in print was seen by most as a positive departure from the old ad hoc days of foreign

³⁰ The six booklets were a general booklet under the main title and five sector studies: Europe; International Development; Latin America; the Pacific and the United Nations.

policy. The glaring weakness of the review, however, was the absence of a booklet on Canadian-American relations. Several somewhat contradictory reasons were given for the absence of such a book: the relationship was too complex for a single book; U.S. relations were dealt with all through the other books and the purpose of the review was not to produce a bilateral study, but a general foreign policy framework.

Under pressure, a study of the Canada-U.S. relationship was begun in the department in late 1970 by the newly-formed Policy Analysis Group (PAG).³⁹ In deference to the economics involved the Department of Industry, Trade and Commerce was shown drafts of the study as it was prepared. The final version argued that the Canadian economy was becoming too dependent on the United States, and that Canada should work to develop counterweight markets in other parts of the world, notably Europe. IT&C and other departments strongly resisted the publication of the study as a government white paper, fearing a negative impact on economic relations with the U.S. In the end the study was published as an article over the signature of Mitchell Sharp, in the fall of 1972.⁴⁰

The Third Option, so called because: (1) continuing our

³⁹ See Daniel Madar and Denis Stairs, "Alone on Killers Row: The Policy Analysis Group and the Department of External Affairs" International Journal 32, Autumn 1977

⁴⁰ The Secretary of State for External Affairs, "Canada-U.S. Relations: Options for the Future" International Perspectives. (Special issue, Autumn, 1972).

U.S. relations in the current manner and (2) actually integrating more closely with the U.S. economy were rejected in favour of (3) developing counterweight trade partners in Europe, actually outlived Foreign Policy for Canadians in terms of its impact on Canadian foreign policy. This may not be much of a feat, however, since the amount of hype that surrounded the review prevented it from ever really getting down to substantive questions about Canada's foreign policy.

While the review never produced a workable basis for Canadian foreign policy, it did have a bureaucratic impact.⁴¹ Aside from setting a precedent of DEA being a bit more procedural about its work, the fact that the department had saved the day by producing the central booklet on its own after the interdepartmental route had failed to satisfy cabinet gave it back some badly-needed bureaucratic clout in Ottawa; As well, the fact that it had managed to have the Third Option published at all also signalled that it was beginning to assert more influence in Ottawa than it had for the past three or four years.

DEA had fallen on hard times in the early years of the Trudeau government. On top of the original rejection of the first two review booklets in 1969, the department was challenged in policy terms when the Prime Minister rejected its advice over the Nigerian civil war in 1968; the decision

⁴¹ See Kirton, The Conduct and Coordination..., p.197

to reduce Canada's military commitment to Europe in 1969 and the Arctic sovereignty issue of 1970. This rejection of traditional DEA policies was coupled with changes in process, as austerity measures in 1969 resulted in a departmental budget freeze and forced the closing of some posts abroad and staff cutbacks. Ivan Head and the PMO had played a large role in the substantive policy questions, and DEA was frustrated by what it saw as the Prime Minister's preference for Head's advice over its own. As one External officer put it in this period, "One of our most astonishing diplomatic failures was our failure to establish a link with Ivan

Head". 42

In procedural terms, the Canadian foreign policy bureaucracy was being shaken up as well at this time. A government reorganization in 1968-69 had created four new departments, two of which reflected the government's increased involvement in new allocative policy areas. A Department of Regional Economic Expansion was created in an attempt to bring under the control of a single minister the key programs required to reduce regional economic disparities in the country. Also created were a Department of Communications, a Department of Fisheries and Forestry and a Department of Supply and Services. A similar pattern of reorganization was followed, as orders-in-council outlining the changes were

42 Thordarson, p.89

proclaimed in July, 1968, and a Government Organization Act passed the next year.

ORGANIZATIONAL EXPERIMENTS

In 1970 a final 'lump' of government reorganization in this period was put forward and given legislative blessing in the Government Organization Act, 1970. While superficially the same as the Organization Acts of 1966 and 1969, the 1970 reorganization was actually much more important since it signalled a different approach to government structures and organization.⁴³ Previous reorganizations had involved reshuffling existing units and building on them in the first instance. For example, in the creation of the Department of Indian Affairs and Northern Development in 1966, the Indian Affairs branch was transferred from the Secretary of State's department and joined with northern development programs to create the new department. The 1970 Reorganization Act contained provision for the creation of two types of Minister of State portfolios, one of which involved a new organizational design--a coordinative policy agency without any program responsibilities. The design of this type of ministry was based on the premise that knowledge was power: the mandate of these ministries was to provide leadership in

⁴³ See Doerr, p.22

policy development across government departments and inter-governmentally.

Two ministries of this type were established in 1970, the Ministries of State for Science and Technology (MSST) and Urban Affairs (MSUA). Experience was to show that some program influence was necessary for survival, and Urban Affairs was disbanded in 1979, while Science and Technology has evolved into a monitoring agency for all science-related activities of the Federal Government. The second type of Minister provided for was that of a junior minister to assist senior ministers: these were to have no independent departmental or program authority, and were largely " political cosmetic " for the representation of specific interests and areas in cabinet without the establishment of large bureaucracies.⁴⁴

Further features of the Government Organization Act of 1970 were the creation of a Department of the Environment, a Post Office Department separate from the Department of Communications and amendments to the Public Service Superannuation Act and the Salaries Act. As Langford notes, however, whereas the first two organization acts seemed designed to implement specific Glassco Commission recommendations and structure efficiently the un-coordinated growth

⁴⁴ Doerr, pp.22-23. For a discussion of the ministries of state see also Peter Aucoin and Richard French Knowledge, Power and Public Policy. Science Council of Canada background study No.31, 1974.

of new government programs, the third was motivated at least in part by a new attitude toward policy making; This new attitude demanded cabinet have at its disposal more suitable forms of policy-making machinery than those presently supplied by traditional bureaucratic and ministerial structures.

As this new creational approach to government coordination was being developed in the PCO, External Affairs was feeling the repercussions. New departments such as Communications (1969), Energy, Mines and Resources (1969 and 1970) Environment (1970), Industry, Trade and Commerce (1969) and Manpower and Immigration (1966) reflected emerging policy fields, and many of these new departments, as well as older departments such as Agriculture and National Revenue began to establish contacts with their counterparts in other countries. Expanded 'International' divisions sprouted in a number of departments, and External felt powerless to defend its traditional 'turf' of relations with other governments in the face of the Trudeau/Ivan Head challenge to its authority.

In 1969 the government commissioned a study of its operations abroad by S.D. Pierce, a retired senior official of IT&C with extensive experience abroad. Pierce's inter-departmental task force presented its unanimous recommendations in March, 1970. Rather than simply instructing

ambassadors abroad to consider more fully the range of domestic interests involved in foreign policy, it recommended the establishment of machinery in Ottawa for the almost complete unification of the foreign service under one "superministry", and a rational planning system for government operations in any given country; An Interdepartmental Committee on External Relations (ICER) was to be created to manage the integration process.⁴⁶

The Pierce report was presented to a "committee of senior officials on government organization", which debated its recommendations and removed the central one--the creation of a unified foreign service.⁴⁷ It recommended the ICER be created, but used as a committee for consultation between the still autonomous foreign service departments. Cabinet agreed to this revised proposal, and "shoehorned" this commitment into the general foreign policy review booklet. When it appeared in 1970, then, Foreign Policy for Canadians contained a section entitled "Organizing for the Seventies" which committed the government to the "maximum integration of its foreign operations that will effectively contribute to the achievement of national objectives", and the establish-

⁴⁶ For a discussion of the Pierce Report and ICER see Jack Maybee " ICER and its Two Year Search for an Approach to Integration " International Perspectives Sept./Oct. 1972

⁴⁷ See Kirton The Conduct and Coordination...

ment of a committee of DMs (ICER) to carry out the program.⁴⁰

Under ICER's direction, the support staff of all departments operating abroad except for the military and crown corporations were incorporated into External Affairs in April, 1971. The committee also considered the integration of all foreign service personnel operating abroad into one department, but deferred structural action in favour of harmonizing and coordinating the policies of the various departments and agencies involved in foreign operations. ICER hoped better coordination at the policy formulation level would help eliminate some of the conflicts which had been occurring at the program level, and would enable DEA to act more effectively on the part of those departments which did not have their own representatives abroad.⁴¹

The harmonization of personnel policies among the departments concerned, the establishment of an agreeable system for the selection of heads of posts and an agreement on rotation and seconding of officials between departments allowed ICER to report some quick and complete progress to cabinet. Over the next several years, as cabinet showed less direct interest in the reform of the foreign service, ICER settled into a pattern of conflict between the ICER Secreta-

⁴⁰ Canada, Secretary of State for External Affairs, Foreign Policy for Canadians Ottawa, 1970, p.39.

⁴¹ Gordon Osbaldeston, "Reorganizing Canada's Department of External Affairs", p.456

riat and DEA on one hand, and IT&C and other departments on the other.³⁰ This was indicative of a new determination on the part of DEA to exercise a leadership role over the foreign service departments in the wake of less countervailing opinions and more survival politics in the minority government years of 1972-74. Not only in the foreign affairs area, but across the government, the heyday of administrative experimentation and reform was coming to a close.

By the mid 1970's, according to an in-house DEA review of process, ICER was no longer regarded as a key decision-making body, or channel by the majority of foreign service departments.³¹ While DEA no longer asserted the sort of total control it had over foreign service departments in the 1950's, it had effectively asserted itself as the main department in the delivery of foreign policy, at any rate. In the economic policy field it was faring less well.

A major internal reorganization in 1971 had left the department with a "matrix management" structure designed to increase its coordinative effectiveness at all levels. This reform was based on three elements, a new role for Assistant UnderSecretaries, the creation of a Director General level beneath and an expansion and re-arrangement of divisions below. With one exception, the Assistant UnderSecretaries

³⁰ Kirton, The Conduct and Coordination..., p.260

³¹ See W.M. Bobell, "Interdepartmental Management in External Affairs", Canadian Public Administration, 21, Spring 1978.

were removed from the line hierarchy and placed with the UnderSecretary in a "senior management group". Free from the details of fixed operational responsibilities, this group was to formulate and direct overall policy. The policy-making flow of the department was to be based on three relationships: between posts abroad and geographic divisions at DEA headquarters; between these geographic divisions and their functional counterparts in the department; and between these functional divisions and their client units in other departments.⁵²

In this way, coordination of government activities abroad was to be achieved by the functional divisions in DEA monitoring the activity of other departments, and funneling matters through to the geographic divisions and posts. The emphasis on the senior management group was an attempt to allow DEA interdepartmental control at senior levels, as a backup to the procedures described above.

While DEA was thus internally ready to take over complete coordination of Canadian foreign policy formulation and delivery, it lacked one important resource. Departments exercise power in the policy-making process based on three factors: their monetary resources, their expertise in their areas and their position in cabinet vis-a-vis other departments. While External retained its traditionally powerful position in cabinet, and possessed the budgetary clout

⁵² Kirton, The Conduct and Coordination..., pp.30-43.

necessary to implement its programs, it had lost out in terms of expertise to the new specialized departments that had been created since the mid 1960's. It was able to get around this problem by the mid 1970's largely through the creation of modest specialized units within itself, and by asserting its overall right to coordinate the development of foreign policy, no matter how specialized the areas. The one area within which it never re-asserted its expertise in this period, however, was that of economic policy.

As noted earlier, External had traditionally been content to allow departments such as Finance and Trade and Commerce to determine the details of economic policy, while reserving the right its cabinet position gave it to comment upon or criticize these policies at higher levels. With increasing interdependence in national economies and a growing number of technical departments at home to formulate economic policies, External had been content to concentrate on non-economic policy areas in the 1960's and 1970's. Expertise was allowed to lapse, and DEA didn't object too strenuously as the economic policy-formulation process evolved and included new actors.

A persuasive case can be made that, whether consciously or not, the reason a United States booklet was omitted from the foreign policy review process was that Canada's relationship with the U.S. is largely economic, and External felt more comfortable omitting this sector in favour of more

traditional high policy matters such as relations with the United Nations. Or, at most, economic matters dealt with on a very general level, such as the suggestion in The Third Option that we offset our tremendously complicated economic relationship with the U.S. by turning our attention elsewhere.

That may be an overstatement of the case for emphasis, but it is undeniably true that DEA felt more comfortable dealing with non-economic issues in this period than otherwise. As we have seen, External officials in the golden age, while not economists, had been quite comfortable dealing with economic issues, or at least against an economic background. That External gave up this capacity in the decades that followed is a fascinating instance of a department willingly giving up participation in a policy area. While this seems contrary to all the rules of bureaucratic behavior, it can probably be best explained both by the fact that DEA felt very secure in its high policy mode, and the generation of officers that followed Pearson, Robertson and Holmes may have been misled as to the nature of "Pearsonian" diplomacy, perceiving it as non-economic diplomacy.

Whatever the reasons for this change in External's role and capabilities, the effect is unquestionable. By the late 1970's, External was almost totally excluded from economic policy formulation. The National Energy Program, which we

will consider in more detail in the next chapter, was the centerpiece of the government's economic and industrial strategy when it was introduced in 1980, yet despite the fact that it soured relations between Canada and the U.S. for several years and had major foreign policy consequences, the program had been developed totally without input from External Affairs. In terms of economic policy formulation, as a former USSEA put it, " They may have intellectually wanted to play, but they had no cards, no chips...usually what they said would either be self-evident or the result of one guy working at home ".⁵³ This was not enough to buy External a seat at these discussions by the end of the 1970's.

DEA AS A CENTRAL AGENCY

The appointment of Allan Gottlieb as USSEA in 1977 set up the conditions for the reorganizations of External we are considering. A former External Affairs officer, Gottlieb had been one of a number of bright young men posted to different departments throughout the 1970's, with a view toward developing broader perspectives than experience in one department can usually provide. As USSEA Gottlieb was determined to re-assert External's leadership over the other

⁵³ Interview with Gordon Osbaldeston, September 9, 1986.

foreign service departments, and re-insert it into the (economic) policy process in Ottawa in a meaningful way. A structural reorganization of the department in the fall of 1977 was designed to clarify its chain of command and free the USSEA from many operational details in favour of more strategic management.³⁴ Given his close personal relationships with the Prime Minister and Michael Pitfield, by this time Clerk of the Privy Council, Gottlieb was in a strong position to push his case.

He gave speeches describing External Affairs as a central agency of government based on its role as the coordinator of foreign policy and foreign affairs departments. As he described the situation in 1979,

...The Department...seemed to lack a clear and distinct idea of its role within the burgeoning international affairs community in Ottawa and elsewhere in the country. Equally, that community was uncertain in its perception of the Department. There was a feeling--general and diffuse to be sure--within and outside the Department that External Affairs had not yet decided on its role in the wake of substantial changes in the international and domestic environments which had occurred in the 1970's. A "taking stock" of these changes and the determination of the appropriate departmental response, both in organizational and substantive terms was my highest priority on my return to External Affairs. The government, both at the

³⁴ These reforms were based on the creation of four Deputy Under-Secretary level positions. Department of External Affairs circular document Departmental Organization. 29/77, September 8, 1977

political level and in the Privy Council Office, wanted this stock-taking and supported it...The government considers the Department of External Affairs to be a central agency because it has responsibility to provide other departments with coherent policy and priority guidance covering the full range of Canada's international relations.⁵⁵

As Mark MacGuigan, who was Secretary of State for External Affairs between 1980 and 1982 put it in discussing this DEA-as-central-agency period,"...The Central Agency thing never mattered much to me as Minister, it was never one of my causes--it was Allan Gotlieb's life at one time".⁵⁶

CONSOLIDATION

The Privy Council Office was once again studying the question of foreign service integration before the general election of May, 1979.⁵⁷ Various options were offered to Prime Minister Clark after he took office, but he chose to commission a further study of the problem by Barry Steers, a former trade commissioner who had served as Ambassador to

⁵⁵ Department of External Affairs Speech, "Canadian Diplomacy in the 80s: Leadership and Service", February 15, 1979, pp. 5-6.

⁵⁶ Interview with Mark MacGuigan, April 9, 1986.

⁵⁷ See Maybee, "Foreign Service Consolidation" International Perspectives, July/August 1980.

Brazil and Consul-General in New York. Steers rendered his report in late August, 1979, but the government took no action on it before its defeat on February 18, 1980.

On March 21, 1980 the new Trudeau government announced a consolidation plan based on the Steers Report that was personnel rather than program-oriented. The plan involved the integration into External Affairs of foreign service officers at the senior executive level from the Departments of Industry, Trade and Commerce and Employment and Immigration. At the operational level foreign service officers from Employment and Immigration and the field staff of CIDA were integrated into the Department, but trade commissioners at the operational level remained with IT&C.

The purpose of the 1980 consolidation was "to improve the economy and efficiency of foreign operations without affecting the policy and programme development roles of the departments involved, to create a single foreign service with a greater sense of cohesion and common purpose, to strengthen the role of heads of post, and to improve the career prospects and broaden the experience of foreign service personnel".²² Somewhat more cynically, the decision went some way toward resolving coordination problems in the foreign service without resorting to structural changes in the departments involved. Five months after the consolida-

²² Osbaldeston, "Reorganizing Canada's Department of External Affairs", p.457

tion a Royal Commission on Conditions of Foreign Service (the McDougall Commission) was established as an important complement to the change, to consider the effects of social, economic, technological and political change on foreign service personnel and their families. After the consolidation of 1980 External controlled all Canadian government activity abroad except for that of IT&C's Trade Commissioner Service; It also was the lead department in foreign policy formulation--except for its critical lack of economic capacity. Both of these elements would be addressed in the next round of DEA (and foreign service) reorganization.

CHAPTER TWO

1982 : PLANNING

LIBERAL PRIORITIES

The Liberal government of 1980, having risen like the mythical Phoenix from the ashes, was quite a bit different than its predecessors. In opposition for the first time in 16 years, the Liberals had undergone important policy shifts. The election of Joe Clark's Conservative government in 1979 had been more in spite of Conservative policy than because of it, and had demonstrated just how unpopular the Liberals were across the country. As a result, in opposition the Party had redefined important elements of its platform.

These changes in policy were signalled by the choice, on the advice of Jim Coutts, the Prime Minister's Principal Secretary, of Marc Lalonde as opposition Energy critic and Herb Gray as Finance critic. As Stephen Clarkson has noted, these appointments " would change the public face of the Liberal Party ".⁵⁵

⁵⁵ Stephen Clarkson, Canada and the Reagan Challenge: Crisis and Adjustment, 1981-85, revised edition. Toronto: James Lorimer and Co., 1985, p.19. The following section is based largely on Clarkson. For a discussion of Liberal priorities in this period see David Milne Tug of War: Ottawa and the Provinces under Trudeau and Mulroney. Toronto: James Lorimer and Co., 1986.

Herb Gray had been one of the Liberal Party's leading left-of-center advocates for years. The author of the Gray Report of 1972, which had led to the creation of the Foreign Investment Review Agency (FIRA), Gray represented the nationalist tendency within the Party. He believed in government action to overcome the costs imposed on Canada's economy by years of American " branch plant " policies, and argued for a comprehensive industrial strategy both to offset past failures and to encourage new economic benefits for the country. Gray's interventionist approach was also given credence by an apparent willingness within certain sectors of the business community to accept nationalistic government intervention at the time,

Marc Lalonde was not a nationalist, but was convinced the energy sector was the key to the modernization of the Canadian economy. As well, Lalonde realized that federal control of the emerging energy sector would reassert Ottawa's control over the provinces, which had steadily been making gains at Ottawa's expense both in economic and other areas.

Apart from these key individuals, those outside the party core were also pushing for a more aggressive Liberal (ie. nationalist) line. With the House of Commons defeat of the Clark government a snap election campaign was underway, and the priorities of Gray and Lalonde were hastily argued and accepted as policy. The Liberal election campaign stressed energy and an industrial policy, and promised

assertive centralism on the part of the federal government. FIRA's scope was to be expanded, Autopact imbalances were to be re-negotiated, and a comprehensive energy policy was promised--although the name National Energy Program was still in the future.

The victory of the Liberals in February, 1980, set the stage for the debates on economic development which would dominate the rest of the decade. In keeping with their opposition stance, Marc Lalonde and Herb Gray were named Ministers of Energy, Mines and Resources and Industry, Trade and Commerce respectively. The Throne speech in April reaffirmed the commitment of the government to play a larger role in directing the economy. Armed with a new electoral mandate, the government decided to deal once and for all with several issues it had lived with throughout the 1970's: energy, economic development, the constitution and foreign policy. In the face of up-beat Canada-U.S. relations following the rescue of American embassy employees in Tehran by the Canadian Ambassador, the National Energy Program was developed.⁶⁰

⁶⁰ For a discussion of the National Energy Program, see G.B. Doern and Glen Toner, The Politics of Energy: The Development and Implementation of the NEP. Toronto: Methuen, 1985.

THE NATIONAL ENERGY PROGRAM

The NEP was first and foremost an act of political aggressiveness, an act first-talk later affair. Announced in the Allan MacEachen budget of October 28, 1980, the program was designed to restructure the oil and gas industries to achieve energy self-sufficiency for Canada, restore financial primacy to the federal government through transfer payments and increase Canadian ownership at all levels in the energy sector.

This broad restructuring of the economy had been promised ten months earlier during the election campaign, and was initially popular with Canadians.⁸¹ What the government had not counted on was the election less than one week after the NEP was announced of Ronald Reagan in the United States. Trudeau's assertive new centralism was matched by Reagan's assertive new conservatism, and Washington lost no time protesting what it perceived as anti-American elements in the NEP. Within ten days the U.S. was privately expressing its "bitterness and outrage" over the program, and soon complained that Canada was violating the principle of national treatment--the non-discrimination against foreign

⁸¹ 84% of respondents to a poll taken at the time supported the NEP's goal of 50% Canadianization of the energy industry by 1990. Cited in Clarkson, p.3

nationals--which it had agreed to uphold in an OECD declaration.--

While the U.S. was unhappy with the NEP, Canadian-American relations proceeded amicably in other areas until attempted takeovers of two American companies by Canadians produced one of the worst crises in relations between the two countries in this century. Washington reacted quickly to takeover bids by Canadian Pacific and Seagrams by claiming FIRA prevented Americans from launching similar bids in Canada. It also claimed that the NEP was reducing the value of American energy subsidiaries in Canada, thereby making them prime takeover targets at firesale prices.

Washington was quick to respond to what it saw as the rabid nationalism of the Trudeau government and its blockage of free flows of capital. Canada was held up as an example of an unfair trading partner, and the U.S. mounted diplomatic and other pressures aimed at dismantling the NEP. In May the Canadian government made concessions on the NEP, but the U.S. demanded more. By the summer of 1981 the Canadians were stonewalling and protectionist legislation was being considered in the U.S. Congress. In the midst of media leaks speculating not about whether the Americans would retaliate, but how they would do it, Ottawa began to panic. Canada was simply vulnerable to U.S. pressure in too many areas, and the government decided to give in to the Americans.

Ottawa informed the U.S. in the fall of 1981 that it would not proceed with an all-encompassing NEP-type industrial program. This didn't satisfy the Americans, who demanded further concessions on the NEP itself. The second MacEachen budget, in November 1981, and its accompanying document Economic Development for Canada in the 1980's confirmed that there would be no son of NEP. As it informed Canadians, "The special measures being employed to achieve more Canadian ownership and control of the oil and gas industry are not, in the Government of Canada's view, appropriate for other sectors".⁶³ The Americans were still not satisfied, and the Canadian government began to lose patience.

As Allan Gotlieb, Canada's new Ambassador to the U.S. informed Washington, "You seem to have taken insufficient account of the genuine efforts made by the Canadian government over the past year to meet your concerns".⁶⁴ Ottawa refused to budge further, and effectively told the Americans to put up or shut up: either drop the issue or take Canada before an international tribunal over it. In January 1982 the U.S. requested bilateral consultations with Canada over FIRA under GATT article 22. This was a rather low-key diplomatic proceeding instead of a loud public one; The

⁶³ Economic Development for Canada in the 1980's
Ottawa: Government of Canada, November 1981, p.12

⁶⁴ Clarkson, p.45

" crisis of 1981 " had given way to a somewhat better but still strained Canada-U.S. relationship in 1982.

As the Government of Canada's department of foreign affairs, DEA was understandably pushed to the limit trying to placate the Americans and convince them they were misunderstanding the NEP in 1981. This responsibility of the department was made all the more difficult by the fact that the NEP had been developed and announced with no External Affairs input. This may not be surprising given that as a former Trudeau cabinet minister has confirmed, the Program was developed by Marc Lalonde and a small coterie of officials, and kept even from cabinet until it was a fait accompli.⁵³ Given the fact that American reaction to the program could have been at least partly anticipated, however, DEA felt it should have been involved.

External's minister, Mark MacGuigan, was a relative newcomer to cabinet, and warranted no special consideration vis-a-vis the planning of the NEP. The department's lack of economic expertise again came into play at this point, since with no technical expertise External simply had nothing to offer the powerful group of ministers and officials that drafted the NEP; it was simply left to clean up after the policy.

In terms of bilateral relations with the U.S., while the NEP was the central preoccupation of the department in 1981,

⁵³ Don Johnston, Up The Hill., p.54

there were other worries as well. As Stephen Clarkson has noted, by 1980 nine outstanding issues implied trouble in the 'special relationship' through the coming decade: energy; foreign investment; Autopact imbalances; Alaskan pipeline construction; multi-lateral problems involving U.S. economic influence on other economies; environmental issues; fisheries and boundaries; cultural policy and defence.²² This impressive list was all the more discouraging in that all of these issues were at least partly economic.

Over the past several years the Ottawa policy process had been updated in the face of the fact that the economy was without doubt the priority of all governments, but DEA had not been involved in any meaningful way in discussion of policies outside its own strict area of expertise. Following the consolidation of 1980 it controlled all non-economic government operations abroad, but was no further ahead than it had been in terms of its lack of position in the new policy system.

THE OTTAWA POLICY PROCESS, 1982

The single most important change in the Ottawa policy process since the defeat of the Trudeau government in 1979 had been the introduction under the Conservatives of the Policy and Expenditure Management System (PEMS). The PEMS,

²² Clarkson, pp.14-16

or 'envelope system' was designed for both financial and policy management. The older model of Ottawa decision making had cast the Treasury Board in the naysayer's role of scrutinizing policy proposals developed in cabinet committees for their financial implications. The major problem with this system was that the Treasury Board was not linked effectively to the development of proposals, yet was forced to approve or veto them on cost grounds.

The PEMS was designed for policy making and fiscal expenditure planning within the cabinet committee system. Under this system, policy decisions and expenditure limits are made simultaneously in the same cabinet committee. In addition, the system ensures that priorities and expenditure limits are set before expenditure plans are developed, thus allowing sufficient time for ministers and officials to change policies and reallocate resources.²⁷

The PEMS system had three specific goals: to decentralize decision making toward cabinet committees; to increase ministerial direction; and to provide a longer period for the integration of policies and expenditures.²⁸ PEMS involved the addition of two features to the cabinet cabinet system. The first was a floating five year fiscal plan to set out the

²⁷ Jackson, p.272, also R.J. Van Loon, "Kaleidoscope in Grey: The Policy Process in Ottawa" in M.S. Whittington and Glen Williams eds. Canadian Politics in The 1980's. Toronto: Methuen, 1981.

²⁸ Government of Canada. Privy Council Office The Policy and Expenditure Management System March, 1981

overall fiscal constraints within which policy choices were to be made. The second feature was specific expenditure limits or 'resource envelopes'; in 1979-80 ten of these envelopes were put in place. Allocations within the envelopes were decided upon by ministers in each of the four policy committees of cabinet and in the Priorities and Planning Committee.

The basis of PEMS was that ministers could no longer simply keep bringing policy proposals to committee and let the Treasury Board worry about resource allocations for them. Under PEMS, ministers are forced to choose between competing proposals for a share of a finite pie. (Allowances are made for additional resources outside the envelopes, but these are not for use in normal cases). The Prime Minister's committee, P&P, determines overall priorities and the size of the various envelopes.

In order to assist the relevant committees in administering the most costly budgetary envelopes and making trade offs within them, two Ministries of State were created: the Ministry of State for Economic Development (MSED) in 1979 and the Ministry of State for Social Development in 1980. These ministries were essentially secretariats of the type provided by the PCO to assist cabinet committees in their day-to-day business, but were much more powerful. As we saw in Chapter 2, the Government Organization Act of 1970 had

established the concept of Ministries of State to coordinate government activities and provide expertise in given areas.

The Ministries of State for Urban Affairs and Science and Technology failed to live up to their potential largely due to a lack of program clout. The Ministries and Ministers of State Act, 1978, had paved the way for a second generation Ministry of State model, and signalled the government's desire to use such organizations as a more strategic instrument than had been the case previously.

Like the earlier Ministries of State, MSED and MSSD were relatively small organizations designed to assist coordination between other departments. They were staffed with experts from the public service and had relatively high "brass" complements: the Secretaries chosen as their permanent heads were very experienced, and they were given three ADM-level positions each and a staff of about one hundred. Unlike the earlier ministries, these had real budgetary clout. While MSUA and MOSST had traded in information, MSED and MSSD played an important role in the allocation of money within their respective sector envelopes. Some functions previously carried out by the Treasury Board Secretariat and the Privy Council Office were transferred to equip the ministries for their new role. While these more traditional organizations each retained specific powers to monitor policy and process over the entire range of issues, by concentrating on one area, for example the economy in the

case of MSED, the Ministries of State were able to focus their very considerable talent when and where necessary.

Each ministry was headed by a minister, who chaired the cabinet committee in his sector; The Secretary of the Ministry chaired the Deputy Ministers mirror committee. Policy proposals intended for cabinet were first reviewed by this DM forum. Assessment (briefing) Notes to cabinet were prepared by the Ministries based on these discussions, and formed the basis of the briefing notes prepared for the cabinet committee, chaired by the ministry's political head. The Ministries therefore controlled both the DM and cabinet committee level discussion of issues in their areas, and were responsible for recommending budgetary allocation within their sectors.

The Privy Council Office continued to occupy its central role in the policy process, although in allowing the Ministries of State more control over the relevant cabinet paper systems it had lost some of its unique control; PCO officials grumbled about the power of MSED and MSSD in the same way departmental officials had been grumbling about them for years.⁷²

The PCO continued to provide cabinet committees with secretariats to monitor the general policy process, and to

⁷² See R. Crowley, " A New Power Focus in Ottawa: The Ministry of State for Economic Regional Development " Optimum 13, 2 1982, p. 8

brief the Prime Minister on organizational and senior personnel matters. When the Liberals lost power in 1979, one of Joe Clark's first acts had been to fire Michael Pitfield from his post as Clerk of the Privy Council and Secretary to the cabinet. Pitfield had wanted to continue in the position, but was too-closely identified with Pierre Trudeau. In anticipation of his dismissal, Pitfield had groomed as his replacement Marcel Massé.⁷¹

Massé, then Deputy Secretary to the Cabinet for Federal-Provincial Relations, was a young, bright francophone who had jumped from the PCO to become the equivalent of Pitfield in the New Brunswick government, and back to the PCO again. In April, 1979, one month before the election, Pitfield had made Massé Deputy Secretary to the Cabinet for Operations so that he could familiarize himself with the overall workings of the PCO. As Clerk under a new Prime Minister unfamiliar with the system, Massé wielded great power, and presided over the institution of the envelope system.

With the defeat of the Conservative government in 1980 Massé was sent to CIDA to make room for his successor, Michael Pitfield. The re-appointment of Pitfield as Clerk of the Privy Council was seen by many as confirmation of the politicization of the highest civil service post in the country under the various Trudeau administrations. This has

⁷¹ Jeffrey Simpson, Discipline of Power: The Conservative Interlude and the Liberal Restoration. Toronto: Personal Library Publishers, 1980, pp.127-128

not proven to be the case with Pitfield's successors, however, and it is more clearly simply confirmation of his unique relationship with Trudeau. Pitfield was heard after his re-appointment advocating a new openness within the PCO, a willingness to accept ideas and advice from outside; at least one Privy Council official failed to see this new attitude materialize in the days that followed: "I am trying to say that things are actually worse than they were. We just got used to opening up the way in which we worked. Masse had changed the atmosphere completely. When Pitfield came back he promised solemnly in a staff meeting that Harvard had changed him, and that we could continue to operate in a different way. Within 2 weeks it was back to the old PCO. No one shares information with the next guy. Everyone lives in mortal dread of a call from Pitfield's office to come up and explain what you have been doing on this or that".⁷² While there had been changes in the policy-making system in Ottawa, there were few obvious areas in which the post-1980 PCO differed in large respects from that which had developed under Pitfield in the preceeding five years.

The cabinet committee system PCO supports was one of the things that had undergone changes in the past several years. While the pre-1979 Trudeau government had nine standing committees, the Clark government replaced these with seven

⁷² Campbell, Governments Under Stress: Political Executives and Key Bureaucrats in Washington, London and Ottawa Toronto: University of Toronto Press, 1983, p. 98

standing committees and what was called the " inner cabinet " --a committee of about twelve senior ministers with full decision making authority.⁷³ In the Clark government real decision making authority was delegated to the committees of cabinet, which now controlled their own sectors fully under the envelope system.

The normal flow of cabinet business went from the sponsoring ministry for any given proposal to a DM committee which mirrored the membership of the cabinet committee. From there the proposal could either be aborted or could continue to the cabinet committee under the guidance of the sponsoring minister. A Committee Recommendation was prepared for each item on the agenda, and sent to the inner cabinet for decision. (Full cabinet rarely met, and was not an effective decision making body).

The Liberals after 1980 retained the basic outlines of this system, which was really more evolutionary than revolutionary. The seven standing committees were retained, and weekly full cabinet meetings were reinstated. The inner cabinet was renamed the Cabinet Committee on Priorities and Planning, but continued to fulfill the same roles it had under Clark: the allocation of envelopes to the other committees; the review of all cabinet decisions; some program responsibilities, for example transfer payments to provinces;

⁷³ See Van Loon, " Kaleidoscope in Grey ".

dealing directly with particularly important issues or ones that fell into more than one committee area.

The near defeat of the Liberals in 1972 had led to a shift in focus in Ottawa. The process-oriented advice of the PCO which had played such an important part in the early Trudeau reforms was largely replaced by the highly partisan advice of the Prime Minister's Office. The results of the election put the PMO into a 'survival politics' mode, and along with a general decrease in the number of policy initiatives, those that did emerge were closely controlled by PMO.

Marc Lalonde's election to the House of Commons in 1972 deprived Trudeau of his major personal link to the Ottawa bureaucracy. Several attempts were made to find a comparable Principal Secretary for the PM, but it wasn't until the appointment of Jim Coutts in 1975 that some measure of success was achieved. An attempt to formalize PMO control over the development and implementation of the government's agenda in 1972 involved the establishment of ten regional desks in the Office; Each desk was to keep the PM and his advisors on top of political developments in the provinces. This project was abandoned when Liberal MPs complained that their role as representatives of their regions was being short-circuited by the PMO. After the election of 1974 an attempt was made to institute a program of strategic planning to guide cabinet in establishing its priorities for the

mandate. The program was the brainchild of Michael Kirby, a former advisor to Premier Gerald Regan of Nova Scotia and the holder of a doctorate in systems theory from Northwestern University, then a senior advisor in the PMO. The failure of the Priorities exercise marked the shift in government planning back to the Privy Council Office. As one PCO official put it, "PMO used to play a strong role in long-term planning because Kirby wanted to. Now we have to plead for the PMO guys to do something with us. They have become short-term tacticians. They're mainly concerned about polls and the next election".⁷⁴

The PMO's role as a partisan and process-sensitive support agency was largely unchanged by the introduction of PEMS and related changes in the policy making process, which were designed to aid cabinet in the process of choosing among priorities and introduce a semblance of order to what was often a chaotic process. By 1980 the government's priority, after, perhaps, the Constitution, was clearly economic development, and the steps it was to take in the next few years were direct results of earlier attempts to systematize its approach to economic development.

⁷⁴ Campbell, Governments Under Stress, p.82

ECONOMIC DEVELOPMENT

The early 1970's had seen a growing realization of the need for restraint on government programs and resources, a slow rediscovery of scarcity. By the end of the 1970's productivity growth was down from the rates of the sixties and in some periods economic growth was negative. International oil prices had risen sharply, and high interest rates were prompting fears of renewed inflation. The Canadian government had just abandoned wage and price controls, and was facing criticism over its lack of a coherent industrial strategy.

In August 1978 Prime Minister Trudeau decided to implement major cuts in federal spending while at the same time stressing economic development initiatives. A new discretionary fund for economic development initiatives seemed to be the only money in town, and fierce interdepartmental competition was expected for shares of it. PCO feared that existing government machinery in the area wouldn't be able to handle the degree of coordination required, and at least three major options were considered: a new "super" department, integrating IT&C, Regional Economic Expansion and Science and Technology; a strengthened interdepartmental

committee in the area; and a " board " of ministers to oversee the area.

In a pre-election effort to bring some structure to economic development policy, a Board of Economic Development Ministers (BEDM) was set up in November 1978 to consider economic development strategies. Headed by Robert Andras, one of the most powerful cabinet ministers of the late 1970's, BEDM was to be supported in its consideration of the economic development area by a small secretariat separate from PCO. The Board was soon rechristened the Cabinet Committee on Economic Development (CCED) and given control of the entire economic development budget, and its secretariat, MSED, was set up the following year.

The plan was for MSED to be staffed by about one hundred public servants, and headed by a senior mandarin, Gordon Osbaldeston. Few in Ottawa could match Osbaldeston's qualifications: as a former Deputy Minister of both the Treasury Board and Industry, Trade and Commerce he had extensive experience at the highest levels of policy making. His job at MSED was to support his Minister and the CCED in

G.B. Doern and Richard Phidd, " Economic Management in the Government of Canada: Some Implications of the Board of Economic Development Ministers and the Lambert Report ", paper presented at the CPSA meeting in Saskatoon, May 30, 1979; cited in P. Aucoin and H. Bakvis " Organizational Differentiation and Integration: The Case of Regional Economic Development Policy in Canada " Canadian Public Administration. Vol. 27, 3, Fall 1984

the development of policy on and expenditures for economic development in Canada.

With powers garnered from the Treasury Board, the Privy Council Office and the Department of Finance, MSED was charged with the coordination of the government's micro-economic policy. It moved quickly (in bureaucratic terms) to the center of the Ottawa policy process, and in fact was considered by many a new focus of power in Ottawa .

As we saw earlier, MSED (and later MSSD) controlled both DM-level and cabinet committee consideration of policy and programs in its area. Its internal dynamics were remarkably good, and through a combination of positional authority and ' quiet diplomacy ' it established itself as a quasi-central agency, on an equal footing with the more established ones in specific but highly important areas.

The adoption of the PEMS system meant each cabinet committee now controlled its own budget, but only the two most expensive committees were supported in their work by Ministries of State. Another Ministry of State had been envisaged by Michael Pitfield, to support the Cabinet Committee on Foreign and Defence Policy. As we shall see, External Affairs was able to successfully fight off this challenge to its coordinative role in Canadian foreign affairs by establishing an in-house ministry of state in 1982.

A persistent problem in the consideration of economic development strategies in Canada has been regional disparities. The Department of Regional Economic expansion had been created in 1969 under political pressure from the provinces to bring under one roof all federal programs relating to regional development. Over the years DREE underwent changes in structure and philosophy.⁷⁷ Initially a high-profile centralized department with strong cabinet presence, provincial pressure had resulted in a more decentralized, low-key DREE by 1973. By 1981 DREE was a hindrance to the government's attempts to develop sound regional and industrial strategies, since its frame of reference was really more political than it was economic. Public debates in which DREE was interested in reducing regional disparities while IT&C was concerned with economies of scale and economic growth were common: they would argue over where, for example, the next Volkswagen plant should go, whether to a region with high unemployment or one where it was more economical to operate. The importance of regionalism in Canada strengthened DREE's hand in these debates, and frustrated the development of a rational industrial strategy. At the same time, there was concern in Ottawa that the federal government was not receiving its share of credit for regional initiatives.

⁷⁷ For a discussion of DREE and attempts to offset regional disparities in Canada see Donald Savoie, Regional Economic Development: Canada's Search for Solutions. Toronto: University of Toronto Press, 1986.

that it was being perceived as hopelessly muddled while provincial governments were benefitting from federal programs.

As we saw, the creation of the BEDM and MSED had signalled the government's willingness to impose more structure on the system of economic development. The post-1980 Liberal commitment to developing both the NEP and an industrial son of NEP forced the PCO, which advises the Prime Minister on matters of government organization, to begin considering ways to solve the problems the DREE/ITC debate involved.

The debates continued to complicate the development of an industrial strategy and to embarrass the government in public until early 1981, when Pierre De Bané, the Minister of DREE decided matters had gone far enough. A very frank and critical letter was sent by De Bané to the Prime Minister outlining the impossible situation existing between DREE and IT&C, and demanding something be done about it.⁷⁰ The De Bané letter had brought the issue into the open, and action of some sort was now required. A committee of senior ministers chaired by Allan MacEachen met in the summer of 1981 to consider general questions of economic development, including solutions to the DREE/ITC problem. It was decided to give

⁷⁰ Interviews. See also Bruce Doern, "The Political Administration of Government Reorganization: The Merger of DREE and ITC", Canadian Public Administration Vol. 30, 1, Spring 1987.

further study to the problem, and the Privy Council Office Machinery of Government Directorate was assigned to look into options to solve the problem.

MACHINERY OF GOVERNMENT

The Machinery of Government Secretariat of the Plans Division of PCO undertakes staff work to assist the Prime Minister in determining the general lines of government organization and overall organizational policies.⁷⁹ More generally, it provides the Prime Minister and cabinet with advice and information on the roles and responsibilities involved in the functioning of Canada's system of parliamentary government and its unwritten constitution. Reporting through the Deputy Secretary to the Cabinet for Plans, the Secretariat evolved from the one or two officers in the Plans division who had planned the government reorganizations of 1966, 1969 and 1970.⁸⁰ A Machinery of Government Secretariat had been created in 1972, and reconstituted a Directorate the following year. It retained this designation throughout the period we are considering, but was renamed a Secretariat again in 1986.

⁷⁹ See Richard French, "The Privy Council Office: Support for Cabinet Decision Making" in R. Schultz et. al. eds The Canadian Political Process, third edition. Toronto: Holt, Rinehart and Winston of Canada, 1979.

⁸⁰ Doerr, p.40

The general philosophical approach to government organization had evolved during the Trudeau years. The period following the Glassco report, from the mid-1960's to the early 1970's, was, as we have seen, one of organizational growth and change," extraordinary in its breadth and highly innovative " in the words of Richard French.⁸¹ As the full costs and effects of these organizational experiments became apparent in the early 1970's, a period of consolidation set in; an attempt to stabilize the bureaucratic system after the onslaught of ideas it had suffered.

This desire to stabilize the policy making system coincided with the period of PMO control that followed the election of 1972. The mid-to-late 1970's was characterized by restraint in the area of government machinery, although the PCO hoped this would not be at the expense of efficiency.

The Machinery of Government Directorate consisted of six officers and support staff in 1981. One officer was assigned to work on the DREE/ITC problems, while another monitored Ottawa's foreign policy machinery. The consolidation of the foreign service in 1980 had required little PCO planning, as it was almost entirely based on the Steers report.⁸² Two PCO officers had been quietly sent to External Affairs prior to the announcement in March, partly to help prepare for the

⁸¹ French, "The PCO: Support for Cabinet Decision Making", p. 384

⁸² Interviews. The full Steers report has never been made public.

changes; One of these officers was Michael Pitfield's machinery of government expert, Gordon Smith.⁹³ Smith had joined the Machinery of Government unit in 1972, and had become its Director in 1974. In 1977 a new designation, Senior Assistant Secretary for Machinery of Government had been created for him. In 1978 he became Deputy Secretary for Plans, and in 1980 Associate Secretary to the Cabinet--another new designation. He returned to PCO after a brief period in External, but went back to the Department as Associate Under-Secretary and DM Political Affairs in 1985.

The post-announcement work on the 1980 consolidation was mostly 'firefighting', a term used in Ottawa to describe day-to-day crisis handling. An important point is that while PCO is responsible for developing the structural outlines of departments and agencies, once an organizational change is announced it becomes the responsibility of the department's Deputy minister to rearrange his own house. PCO can offer advice and suggestions at this point, but has no authority to enforce them. It is obviously preferable from a tactical point of view to stay on the good side of DM's and senior officials involved in a reorganization, then, so that followup work can proceed smoothly. As we shall see, this was a critical flaw in the 1982 reorganization.

Since 1980 an officer in the Machinery of Government unit had continued to monitor the foreign policy area. While

⁹³ See Campbell, Governments Under Stress, pp.85-86

the Consolodation was in many ways an unstable decision, in that friction over the control of the Trade Commissioners in the foreign service would still exist, under its terms DEA had finally gained control over almost all government operations abroad, and under the leadership of Allan Gotlieb had exercised an almost central agency role in Ottawa. When the Ministries of State were created Gotlieb successfully fought off an attempt to create one for the foreign affairs sector, arguing that DEA itself was a Ministry of State for foreign affairs, providing the Cabinet Committee on External Affairs and National Defence with any information and advice it needed. Michael Pitfield remembers the story somewhat differently, arguing that he had wanted External to exert more influence over the foreign policy process in Ottawa, and that the possibility of a foreign affairs Ministry of State forced the department to upgrade its capabilities.²⁴

Apart from policy considerations, there were important problems in the management of the Department. In the view of some senior officials, External's structure complicated the development of foreign policy in that it required senior officials to spend inordinate amounts of time handling day-

²⁴ In fact, in order to clarify the role PCO played in support of the Cabinet Committee on Foreign and Defence Policy some time before, a further alternative had been given to External Affairs--the creation of a National Security Council similar to that in the United States to assist in the development of foreign policy; The establishment of what would have amounted to a rival foreign affairs body was not an option External favoured. Interview with Michael Pitfield, May 14, 1986.

to-day management issues rather than thinking solely about policy. The idea of a two 'wing' department, with one wing concentrating on administration so that the other could concentrate on developing better policy was seriously considered in the PCO, and in the minds of the officers involved became an unofficial working basis for changes in External's structure to improve both its internal workings and its position in the policy-making system.⁸⁰

In the wake of the NEP it was clear that if External was to have any relevance in policy making aside from traditional diplomatic affairs, it needed more economic resources and a clear mandate to use them. Alternative plans to enhance the department's economic capability were looked at as well in 1980-81.

When the De Bané letter of March, 1981, increased the pressure on PCO to solve the DREE/ITC problem, the Machinery of Government division began to gear up for major organizational planning. While three officers handled day-to-day questions, work proceeded independently along both the DREE/ITC and foreign policy tracks. (One officer worked on each; the sixth officer, the Directorate's head, coordinated the work of the others). In late spring or early summer of 1981, as one of the officers involved remembers, "The penny dropped among those of us working on it that in fact these

⁸⁰ Interviews.

things were related, that in fact there might be a single way to deal with this...range of things "...

On the domestic side, it seemed obvious that DREE and IT&C would have to be amalgamated in some way. Since it was the lack of common ground which prompted the conflicts between the two departments, it seemed to make sense to make both regional and industrial concerns part of the mandate of whatever hybrid department evolved--with the added benefit, it was hoped, of pleasing the respective constituencies involved.

The constant bickering of the departments simply could not be tolerated any longer. As Gordon Osbaldeston later observed, " Those kind of public debates were found to be unproductive and embarrassing to the Government, and it was decided to hold them inside a single department of government. More importantly, given the nature of Canada, it is imperative that economic development decisions be made in full knowledge of regional expectations and needs "... A revamped industry department capable of implementing the still anticipated son of NEP industrial strategy while taking into account regional factors and asserting federal control of regional development seemed an ideal model to work toward. Regional issues were not, strictly speaking, industrial, so the idea was developed of allowing MSED, which was

²⁶ Interview.

²⁷ Osbaldeston speech, p.2

already overseeing the economic development field to include regional issues in its work. (Debates would continue between the regional and economic elements of the new department).

Undoubtedly aware of the plans for a " superministry " composed of IT&C, DREE and Science and Technology which had surfaced in the BEDM debate, planners began to work toward a hybrid department of some sort. The only element that didn't quite fit into the plans for this new Department of Industry (the working name PCO officials used for it) was the Trade function of Industry, Trade and Commerce. The importance of trade to Canada was obvious, but its logical organizational position was not. A case could be made that the inclusion of the trade function in the new department would weaken its ability to handle industrial and regional questions--that trade was another matter altogether. The industry component had only been added to the old Department of Trade and Commerce in 1969; it was not such a venerable pairing that taking it apart again was out of the question.

Serious consideration was given to the creation of a Department of International Trade. While Ed Lumley, as junior minister for trade in IT&C had been lobbying for a long time for the creation of such a department (which he hoped to head), it was decided that a department of trade would have neither a particularly large budget by Ottawa standards nor a monopoly on expertise--it would still rely on the new industry department for its knowledge of Canadian exporters,

and on External Affairs for its knowledge of foreign markets. Staffing along the lines of MSED and MSSD, that is to say with high-caliber people from across the public service would provide the necessary talent, but as with MSED and MSSD its role would largely be to coordinate the substantive work done by others rather than provide a single source of Canadian trade policy and programs. Finally, the anticipated reaction of such traditional departments as DEA and Finance to such a new organization was predictable, and discouraging.

With the decision that a separate ministry of trade was not a realistic or desirable option, but conscious that the trade function would not fit into the emerging plans for the Department of Industry, PCO planners began looking around for something to graft the trade function to which would be strong enough to keep it from being submerged in the new environment that would exist after the reorganization.

It was at this point that the Machinery of Government officers realized that placing the trade function within External Affairs would both ensure trade's continued survival and give External much-needed economic clout in Ottawa. As one official involved admits, "When you describe it, (as above) it doesn't take great geniuses to see that there are connections".²²

While work was proceeding in the Machinery of Government Directorate, more high-level discussions were going on as

²² Interview.

well. Committees of deputy ministers had long been an important part of the cabinet committee system, with DMs mirroring the committee membership of their ministers. Under more special circumstances, the Clerk of the Privy Council--who is in fact DM of the PCO--would chair a committee of senior DMs to address especially sensitive coordinative issues.⁸⁷ Pitfield had chaired such a committee, DM 10, in 1975 when planning the implementation of the Anti-Inflation program; by the end of the program, DM 10 had become DM 5. Another committee had met since 1980, initially to coordinate the transfer of power between the Clark and Trudeau governments, and later to oversee the central agency restructuring involved in the creation of MSED and MSSD.⁸⁸

Officially known as the senior coordinating committee (unofficially the "Gang of Eight"), membership included Pitfield and his Associate Secretary, and the DMs of Finance, Treasury Board, DEA, Justice, the Secretaries of MSED and MSSD and the head of the Federal-Provincial Relations Office (FPRO).

The function of this Coordinating Committee of Deputy Ministers in the development of plans for the 1982 reorganization is unclear. According to Pitfield, while the need for a solution to the DREE/ITC problem was obvious, pressure also

⁸⁷ French, "The PCO: Support for Cabinet Decision Making", p.383

⁸⁸ Campbell, Governments Under Stress, pp.84-85

came from within the committee to place the trade function within External Affairs.²¹ There was undoubtedly a consensus in the committee that this was the best way to proceed. Apart from general agreement that External needed to be strengthened vis-a-vis other departments (and not at the expense of those at the table!), each DM had his own reasons for favouring the change: Allan Gottlieb obviously saw it as a means of inserting DEA back into the policy process in Ottawa; Gordon Osbaldeston had been convinced by years of observation in the Trade Commissioner Service and as Deputy Minister of IT&C that the trade function would be better served in External Affairs, and that the department needed more economic expertise; Ian Stewart, as Deputy Minister of Finance, was alarmed by the protectionist tendencies of some ministers, and felt that given External's traditional support of more liberal international trade it was the best place to put responsibility for that area.²²

Whether the DM committee was the originator of these ideas in their mature form or simply approved of them once they had been developed in the Privy Council Office (as seems more likely), the general lines of the reorganization had strong support at the highest level in Ottawa. Michael Pitfield had been part of the ICER experiment in the early 1970's, and had never swayed from his conviction that the

²¹ Interview with Michael Pitfield, May 14, 1986.

²² Interview with Ian Stewart, January 12, 1987.

foreign service needed to be structurally reorganized along more rational lines. While some have seen the Reorganization of 1982 as something Pitfield had been waiting for for years, the truth is probably much less cut-and-dried.⁷³

Although Pitfield had built his career on the need for rationality in government, he had also learned some practical lessons about the costs of organizational change over the years. As he now admits, "The story that I tell, I think, is one of the PCO having learned by the events in the early seventies that you couldn't wave a wand from on high by surprise and realistically achieve an objective of the magnitude we've been talking about with regard to departments of the importance of External Affairs and Finance."⁷⁴ By 1981 it was decided that matters on both the DREE/ITC and External Affairs fronts had gotten too far out of hand to be solved by anything less than major structural changes.

A reorganization plan whose main outlines were the merging of DREE and IT&C and the transfer of "the trade function" to External Affairs was drawn up in a twenty-two page memorandum and presented to the Prime Minister in late August, 1981.⁷⁵ Pierre Trudeau had been hearing the arguments for a restructured foreign service since the late

⁷³ See for example Kim Nossal The Politics of Canadian Foreign Policy, Scarborough: Prentice-Hall Inc., 1985

⁷⁴ Interview with Michael Pitfield, May 14, 1986.

⁷⁵ Interviews.

1960's, and as a senior official puts it," You program Trudeau on administrative matters, and if you wanted to then change his mind you had to de-program him ". In other words, once a problem was put to Trudeau and a solution offered that convinced him, he would keep that position until it could be proven to him that new facts which changed the arguments had entered the picture. He had been convinced that DREE was necessary for regional development in this case, and changing his mind on that score was much more difficult than convincing him of the need to restructure External Affairs."

THE CORE GROUP

On Labour Day the go ahead in principle was given by the Prime Minister, and work began in earnest." Gordon Osbaldeston was put in charge of supervising the fleshing-out of the plans from his desk at MSED. A "core group" was formed around the three Machinery of Government officers working directly on the plans, and it was at this point in the planning that its frustrating aspects began to appear:

PCO staffing is based largely on the seconding of bright young men and women from across the civil service. Soft

Interviews

The majority of this section is based on interviews with officials concerned.

expertise, such as political science, law and sociology are the stock-in-trade of PCO, and the function of its officers is to tap departmental expertise when and where needed rather than duplicate it. At this point in the planning ideally experts from the Treasury board, Public Service Commission and other areas would have been brought in to translate the plans from the somewhat lofty heights of macro-policy into more detailed, nuts-and-bolts plans.

The Prime Minister had decided, however, that no one apart from the PCO officials involved and those designated by him was to know what was being done. As French describes such situations, "Because such questions involve difficult choices in the allocation of jurisdiction between or among ministers, they tend to produce confrontation in committees or cabinet. Such confrontation jeopardizes solidarity, and offers few avenues of resolution that do not cause some minister to lose face before his or her colleagues".²⁹ To minimize this, ministers are encouraged to undertake jurisdictional disputes bilaterally under arbitration by the Prime Minister. This is essentially what Pierre De Bané had done with his letter of the previous January, but Trudeau hesitated to inform his ministers how the problem was being resolved.

²⁹ French, "The PCO: Support For Cabinet Decision Making", p. 383

It is doubtful that when De Bané wrote his appeal to the Prime Minister he envisaged his department being swallowed up; even if he had anticipated a hybrid department, there is no doubt that he would assume the control of the industrial element by the regional one. On the other hand, the minister of IT&C would resent the loss of the Trade Commissioner Service, while External would be quite happy and Ed Lumley would lobby for a separate Trade department. The Liberal cabinet would have been badly split over the changes: as Mark MacGuigan puts it, "It was quite apparent to me that if it had been left to cabinet in our time there would never have been a cabinet decision that would have done this--if the Prime Minister hadn't had an almost ruthless and total dedication to doing it, it wouldn't have happened".²² Trudeau's dedication to maintaining strict Prime Ministerial authority in matters of government organization is probably much more important in understanding his 'ruthlessness' in this case than any overwhelming personal commitment to the reorganization. Within PCO the rumor was that a cabinet shuffle was being planned, and without knowing who was going to end up in what job, the safest route seemed to be to remain silent about the reorganization plans.

Finally, a leak of the reorganization plans would mean criticism from the Canadian business community, which had long opposed the integration of the trade commissioner,

²² Interview with Mark MacGuigan.

service into External Affairs. After the consolidation of 1980 was announced, the Canadian Exporters Association had sent a telegram to the Minister of State for Trade registering disappointment and its opposition to "organization changes such as those now proposed which would tend toward diluting the effectiveness of the trade promotional activity." 100

With the need for secrecy, it was obviously impossible to bring departmental experts into the planning process. Eventually officials were seconded to the PCO on pretexts to handle the practical aspects of the plan; One Treasury Board official looked at the resource aspects of the plan; A Public Service Commission officer was brought in to look at staffing; a Justice department lawyer handled the legal aspects of the changes and two MSED employees worked on communications and space allocation.

These practitioners were given very little to practice with. Transfer of the detailed records and files needed to plan the intended changes would have aroused suspicion in the slightly paranoid world of Ottawa bureaucracy. In most cases these officials obtained documentation from their home departments under one pretext or another, and sometimes simply visited their old offices at night and took

what they needed.¹⁰¹ In other cases they simply worked with inadequate tools: departmental telephone books and old Estimates were often used as a basis upon which to plan the new departments. Suggestions that more time and resources were needed to do the job properly were met with shrugs, as the decision to proceed as they were had come from the Prime Minister, through Michael Pitfield. As a DM at the time has put it, "Now as soon as you put on those constraints you are really dealing in quite a Mickey Mouse world. You are trying to reorganize enormous departments of government !."¹⁰²

CCDM was given the details of the reorganization in the fall of 1981. Toward December, as the details were finalized and a communications sub-committee of the core group was set up to draft announcements and briefings on the reorganization, key ministers such as Marc Lalonde and Allan MacEachen were given details of the plan. Lalonde insisted that the new industry department needed the word "regional" in its name, so the Department of Industry became the Department of Regional Industrial Expansion.

In mid-December the McDougall Commission presented its report. In light of the consolidation and the long struggle to centralize government operations abroad, Commissioner Pamela McDougall recommended the process be brought to its logical conclusion with the integration of the Trade Commis-

¹⁰¹ Interviews.

¹⁰² Interview

sloner Service into External Affairs. By the latter days of December the organizational charts and announcements had been drawn up. PMO's only involvement in the whole reorganization likely came in the decision of when, politically, it could best be announced. Reorganizations are often announced when the House of Commons is in recess or not sitting, so that ministers can learn something about their new portfolios before they are obliged to answer questions about them. January 12, while parliament was in recess for the Christmas holiday, was chosen as the date of the announcement. A flurry of last minute redrafting and briefing of ministers kept most of the PCO officials involved from getting any sleep at all on the weekend of January 8-10, and on Tuesday January 12 at 2:30 pm the government announced its Reorganization for Economic Development.

CHAPTER THREE

1982 : IMPLEMENTATION

The reorganization, in the words of the press release of January 12, was designed " to increase the government's capacity to assist Canadians in every region of the country to better exploit major economic and employment opportunities ..." and " increase the Federal Government's capacity to aggressively pursue international export markets for the goods produced by every region of the country, be they resource products, manufactured goods or services ".¹⁰³ The main elements of the plan were: (1) The creation of a new Ministry of State for Economic and Regional Development (MSERD) to focus on regional economic development issues and provide a " single window " major project management capability; (2) a Department of Regional Industrial Expansion to provide a regionally-balanced national focus to the government's industrial development policies and programs; and (3) a restructured Department of External Affairs to give new priority to the expansion of international trade and economic issues in Canada's foreign policy.¹⁰⁴

In personnel terms, the moves were not to result in an increase in the size of government, since they were based on

¹⁰³ Office of the Prime Minister, Press Release, 12 January 1982, pp.1-2

¹⁰⁴ Ibid.

the redistribution of employees within the public service. As well, although "no absolute guarantee of job security can be given, the Prime Minister has directed the ministers and deputy ministers concerned, as well as the Treasury Board Secretariat and the Public Service Commission will ensure that the reorganization proceeds in such a way that present indeterminate employees of those departments directly affected will not, as a direct result of the reorganization, be laid off, reduced in classification level, or, as far as possible, be subjected to unacceptable geographic relocation".¹⁰⁵

MSERD

MSERD was created by the addition of regional policy and coordination functions to the existing Ministry of State for Economic Development. MSERD was to advise ministers with information and analysis on regional economic development issues in its role as the support agency of the Cabinet Committee on Economic and Regional Development. A series of regional offices (a "decentralized central agency" according to the background paper distributed on January 12) would be established by MSERD, to: provide an improved regional information base for CCERD decision making; to give regional officials of sector departments a better under-

standing of the decisions and objectives of the cabinet; to better coordinate the implementation of government decisions affecting economic development in the regions; and to develop regional economic development policies for consideration by cabinet.

The regional offices were designed to increase the cabinet's knowledge of regional issues, and to provide it with feedback on its progress from the regions. A senior official called a Federal Economic Development Coordinator (FED-C) was to head a regional office in every province. (This placement of FED-C's had been necessary when the original plan to locate them in only a few regions had proved politically unworkable).

MSERD was to ensure that all policy proposals before CCERD (and eventually full cabinet) considered regional factors in their design. A first step was to be a comprehensive review of all major programs in the economic development sector to provide " regional tailoring " where appropriate. Existing General Development Agreements (GDAs) with the provinces would be continued until their expiry date in order to preserve current provincial budgetary plans, but after that time MSERD would be responsible for developing simpler sets of agreements under which sectoral ministers would be responsible for negotiating and administering subsidiary agreements.

A Regional fund was to be set up using the money saved as existing GDAs expired; this fund was expected to reach \$ 200 million in 1984-85. In addition to the hoped-for savings based on the regional tailoring of programs, the Fund would be used when necessary to promote regional economic development when extra funds were needed.

Special Project Directors attached to MSERD were to be named to coordinate federal involvement in complex mega-project developments when needed, and all departments were to improve their capacity to include regional considerations in their programs.

DRIE

A new line department, DRIE, was created through the integration of DREE's regional and IT&C's sectoral expertise. Most of DREE's program functions would remain in the new department, as would IT&C's domestic responsibilities for industry, tourism and small business. Designed to be more centralized than DREE, but less so than IT&C, DRIE was to

" give greater priority to regional objectives in the Government's industrial policies and programmes ". Apart from integrating regional and industrial considerations in a single department, DRIE was to concentrate the government's efforts to derive benefits from mega-projects. The Office of Industrial and Regional Benefits, created in August, 1981,

was to be strengthened, and would work closely with the Project Directors of MSERD.

At the top of the new department, the Minister of DRIE would continue to be assisted by a Minister of State for Small Business and Tourism. In more nuts-and-bolts organizational terms, because of the complexity of the reorganization and the need to have the new department functioning quickly, the Deputy Minister of the department was to be supported by an Associate Deputy Minister. Four line functions were to form the basis of DRIE: the existing IT&C sector branches; administration of the various incentive programs; regional planning and operations, amalgamating IT&C and DREE regional offices and the Canadian Government Office of Tourism.

THE DEPARTMENT OF EXTERNAL AFFAIRS

It was stressed on January 12 that rather than simply being an amalgamation of functions from other departments, or an absorption of one sector (foreign policy) by another (trade), a " new " Department of External Affairs now existed.¹⁰⁰ The addition of the trade function to External Affairs was explained in three ways. First, the domestic industrial focus of the new DRIE meant it was preferable to locate the trade function elsewhere. Second, there was also

¹⁰⁰ For the department's semi-official description of its reorganization, see Gordon Osbaldeston, " Reorganizing Canada's Department of External Affairs ".

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a need for greater trade priority in Canadian external relations, and finally it was hoped that the reorganization would "...serve to integrate the department more effectively into the broader economic policy process in Ottawa".¹⁰⁷

The responsibility for trade policy and export promotion included the conduct of bilateral trade negotiations, and although "substantial" involvement with Finance in tariff issues was promised, little attention was given to the import side of trade policy, which remained with Finance..

In addition to the responsibility for trade policy, the department gained responsibility for the Export Development Corporation (EDC) and the Canadian Commercial Corporation (CCC) . The EDC was designed to provide services to Canadian exporters "such as the financing of loans to foreign buyers, while the CCC, the country's commercial credits organization, was to assist Canadian firms in obtaining foreign government contracts, when the customer preferred to deal with a crown agency.

In structural terms, the new DEA was quite radical, but essentially simple. (See Appendix A-1 and A-2 for the PCO outline of Jan. 12 and the department's of later that month respectively.) To the two wing departmental model--foreign policy and administration-- which had been the basis of plans for DEA's restructuring was added a trade component. Trade

¹⁰⁷ Office of the Prime Minister Background Paper: Reorganization for Economic Development., 12 January, 1982

— was to form one wing of the new department, while its traditional foreign policy operations were to be another; an administrative center was to co-ordinate the other two and keep the department functioning. Parallel structures were put in place in each wing, for example an Asian desk would be created in the foreign policy wing, and another in the trade wing.¹⁰⁰ Each wing was given its own minister and deputy minister, while the SSEA and the USSEA were to coordinate the two wings.

In official terms, while the SSEA remained the primary minister in the department, in order to assist him in managing the broad mandate of the new department he was to be supported by two additional ministers: a Minister for International Trade and ~~a~~ junior Minister for External Relations. Appointed as Ministers of State for International Trade and External Relations respectively pending the passage of a new Department of External Affairs Act, the two were very different in terms of their real power in the department. The Minister for International Trade was responsible for the international trade and export promotion activities of the new department, as well as the EDC and the CCC. The Minister for External Relations was clearly a junior partner on the new team, directed to "support" the SSEA in the areas of international, social, cultural and humanitarian

¹⁰⁰ The foreign policy wing was quickly dubbed the "left" wing by wags, ostensibly because of its location on the department's new organizational chart. See Nossal, p.141

affairs, and such other assignments as the SSEA might ask him to undertake. To maintain the cohesion of the department, the three ministers were to work closely as a team.

Since there were three ministers in the new department, three Deputy Ministers were installed; the Under-Secretary of State for External Affairs was to retain overall control over the department, while a Deputy Minister was to support the ministers of International Trade and Foreign Policy. The DM International Trade was to support the Minister of Trade as well as functioning as Coordinator, International Economic Relations, while the DM Foreign Policy was to perform a standard role in support of a minister. The senior management of the department was to act as a team, each with the right to go to any of the department's ministers depending on the issue under consideration, but with the understanding that the other DMs would be kept informed. Three 'core' Assistant Deputy Ministers (ADMs) reported directly to the Under-Secretary, responsible for the department's management and program activities, planning and personnel; Three more ADMs were put in place in each wing, responsible to the DM of the wing for specific activities. A "key feature" of the new structure was a senior management committee. Designed to parallel the collective direction of the ministerial team, it was composed of the USSEA and DMs, with the three core ADMs attending most meetings.

Resources for the Trade Commissioner Service and trade policy administration were to be transferred to the External Affairs and Aid envelope; according to the 1982-83 main estimates, ninety one million dollars was transferred to DEA in this way.¹⁰⁹ Funds for the EDC and the CQC were to remain in the Economic and Regional Development envelope, while through the Minister for International Trade, DEA was to become a full member of CCERD. In personnel terms, the reorganization meant incorporating into External Affairs some 862 public servants from IT&C, including some 533 Trade Commissioners and Commercial Officers.

In any reorganization the choice of senior officials to appoint to the new structures is of critical importance to the initial success or failure of the changes. In External Affairs, the SSEA at the time of the reorganization was Mark MacGuigan. Now entering his second year in the portfolio, MacGuigan was popular within the department, but was not seen as a strong cabinet presence. Appointed to the new department to support MacGuigan were Ed Lunley, who had been lobbying for his own department of trade for years, and Pierre De Bané, whose department, DREE, had been swallowed up in the reorganization.

In terms of appointments, the key to the success of the department's reorganization was to be the appointment of

¹⁰⁹ Government of Canada. Supplementary Estimates (A). For the Fiscal Year ending March 31, 1983.

Gordon Osbaldeston was Under-Secretary of State for External Affairs. Apart from his extensive experience in the senior levels of Ottawa policy making, he had been as closely associated with the planning for the reorganization as anyone, and had in fact been trying as far as possible to overcome the impact of secrecy on the quality of the planning. He had close connections with the TCS from his years as Deputy Minister of IT&C, and was well thought of in the business community. It was thought psychologically important to bring someone in from outside External Affairs to supervise the reorganization process, since it was felt that the important changes that were to come would be more acceptable to External officers if they were being imposed by an outsider (although one with extensive foreign service experience). Finally, since the business community hadn't been consulted prior to the announcement, it was important to have someone who could talk to them in charge of External.

Once the press release of January 12 announced the new department, it became Osbaldeston's job to flesh out its organizational structure and solve its other problems. His colleagues at the Deputy Minister level were Robert Johnstone and de Montigny Marchand, DMs of international trade and foreign policy respectively. Both had extensive experience in Ottawa. Johnstone had recently been Deputy Minister of IT&C, while Marchand had held high level posts in the Department of Communications and the PCO; he had also spent

the past two years as Associate Under-Secretary in External.

One of the most important and immediate problems in the new department was the clash of cultures between the trade and foreign policy wings--between those who had spent their lives dealing with domestically-based economic and trade matters, and therefore had certain protectionist tendencies, and those who were more comfortable with traditional 'war and peace' type diplomacy and more liberal international trade.

As Gordon Osbaldeston later recalled, "There was, I think, an initial attempt to defend one's turf, a determination to bring purity to the other group or faith ~~or~~ religion, as it was then known, by one wing or the other. There were a great number of meetings where the two wings sat and lobbed rocks backwards and forwards".¹¹⁰

A weekend retreat in Kingston, Ontario, was arranged shortly after the announcement in January, at which all DM and ADM-level officials met in an attempt to solve their differences and work out a modus vivendi for the new department. One group among those present favoured the creation of a number of geographical desks within which would be found the components of trade policy and promotion, foreign policy, immigration, culture, defence, etc. The concept of these 'great desks in the sky' as they were referred to by detractors failed to carry the day, but more so because Osbaldeston and others were loath to wipe out what admittedly

¹¹⁰ Osbaldeston Speech, p.4

little progress had already been made to start again than because the idea had no merit.¹¹¹ More pressing issues existed, and a team management approach was sanctioned as the department's working model. Unfortunately, as one commentator has observed, team management structures depend on a "fabric of trust" for their success, and in External this was in short supply.¹¹²

One of the most important aspects of the new structure was the ADM for Policy and Resource Planning. This position had two functions: it was External's in-house Ministry of State, and it was the coordinator of policy and planning in the new department. The officer named as ADM Policy and Resource Planning was Glen Shortliffe, who had been brought back to DEA from CIDA and would therefore, it was hoped, be seen as somewhat 'neutral' in the clash of cultures within the department. Shortliffe was also named head of the department's implementation team which was to oversee the work of seven internal working groups, and cooperate with interdepartmental task forces designed to facilitate the government-wide reorganization.

It was quickly realized that amidst the confusion many employees misunderstood the implications of the new department for their careers, and in the face of a reluctance on

¹¹¹ Osbaldeston speech and interviews.

¹¹² W. Wright, "Teams in a Bureaucratic Structure" Optimum, Vol. 16,3, 1985, p. 82.

the part of some senior officials to embrace the reorganization, no clear channel existed through which to receive the government's message about the changes. Apart from a decision that the Deputy Ministers would meet frequently with employees both at headquarters and at posts abroad to explain the goals of the new department, it was decided to bypass senior management through the distribution of an internal Reorganization Newsletter. Prepared under the direction of the Under-Secretary, when the first Newsletter was distributed with a copy of the interim departmental organization chart on January 22, it was unequivocal: "This newsletter, which will be issued frequently and regularly, is designed to be your basic information source on the planning and implementation of the reorganization. It will be transmitted to you as quickly as possible".¹¹³

The working groups established in the department are instructive in that they allow us to group the tremendous problems associated with the reorganization into issue areas. The seven groups were: resources; personnel; accommodation; international activities of other government departments; consolidation; communications and legal matters.

The first priority was to reassure departmental employees that their careers would not be jeopardized by the reorganization. In fact, as Osbaldeston said "to my way of

¹¹³ Department of External Affairs Reorganization Newsletter. #1, p.1

thinking, the expanded mandate of the new Department of External Affairs will enhance career opportunities for all employees ¹¹⁴. There were large problems involved in personnel management, as trade officers from IT&C interested in foreign policy were worried they would be kept within the trade wing of the department, and vice versa; the opposite also occurred, as some feared the coherence of each wing would be destroyed by the influx of amateurs from the other. A working group under Tony Eyton, the (core) ADM for personnel was set up to study these and other problems.

In resource terms, a "major puzzle" had to be sorted out, since the detailed determination of resources and person years to be transferred from IT&C to External had to be made by negotiations between DRIE, DEA, and the Treasury Board. (An idea of the mass of detail involved can be gained from the fact that six months later the Newsletter reported that negotiations over the division of word processors and audio-visual resources were "almost" complete. ¹¹⁵)

On the accommodation front, it had been decided early on that if possible the trade and foreign policy wings of the new department should be co-located in the External Affairs building on Sussex Drive. Once it was decided to move certain units intact from DRIE headquarters in the C.D. Howe building to the Pearson building, it was realized that the

¹¹⁴ Reorganization Newsletter #2, p.1

¹¹⁵ Reorganization Newsletter #12, p.4

new department would overflow its building. It was eventually decided to move some units from the department to nearby Hull, although it was expected that this would tax support services such as messengers to the limit. Treasury Board rejected the department's submissions for the moves, however, since rent in the core of the Ottawa-Hull area was prohibitively expensive. The department worked with consultants to plan for the best utilization of its available space, and accepted the Treasury Board's suggestion of an open office system, despite resistance in the department.

While this work was going on the legal working group was looking at amendments to the External Affairs Act to reflect the nature of the new department, and the communications group was supervising the Newsletter and drafting model texts for officials to use in speeches describing the reorganization.

In order to keep the paper flowing in the very confused channels of the new department, Glen Shortliffe played a strong internal role in his position as ADM Policy and Resource Planning. His other function, that as External's in-house ministry of state for foreign affairs, deserves mention as well.

While the operations of such ministries of state as MSSD, MSED and later MSERD involved the coordination of separate departments, among other things, the role of External's in-house ministry of state was less clear. In

common with the other ministries of state, the External structure involved the prior consideration of policies ultimately intended for cabinet, and the preparation of Assessment Notes for the relevant DM committee. The parallel triads of leadership in External made this very complicated, however.¹¹⁶

As a result of the relative independence of the Deputy Ministers of Trade and foreign policy, when a trade or economic issue came through the system, a Memorandum intended ultimately for cabinet was prepared in the trade wing and sent to the DM of International Trade, who in turn presented it to the mirror committee of CCFDP. The USSEA, the chairman of the mirror committee, effectively treated the document as if it had originated in another department. In addition, the Under-Secretary was guided on the issue by the Assessment Note prepared by External's ministry of state, but not by the same officials who had directly worked on the Memorandum from the trade wing. If the mirror committee approved the Memorandum, it was signed off by the trade DM to the Minister of International Trade, while the Under-Secretary signed off the mirror committee Note to all members of CCFDP, including the SSEA, who was its chairman.

¹¹⁶ The following discussion draws on an unpublished chapter of W.R. Hines, Trade Policy Making in Canada: Are We Doing it Right? Montreal: The Institute for Research on Public Policy, 1985, which Mr. Hines was kind enough to provide to the author.

This rather strange arrangement raised many questions as to where ultimate decision making authority rested in the new department. In the above example it was theoretically on the Minister and Deputy Minister of Trade, with the SSEA and USSEA playing little or no role. In practice both would be fully aware of the matter (through Shortliffe's internal role, if nothing else) and may have proposed alternate solutions and made their views known internally before documents made their way through the mirror and cabinet committees. It was a strange organizational arrangement within the same department, and one with great potential for confusion.

The new mandate of the department initially produced confusion within it as to the weight trade and economics should have in Canadian foreign policy. In terms of the policy emanating from the department, Osbaldeston has admitted that " At first those policy moves were tentative and not of high quality ".¹¹⁷ In one almost unbelievable case, discussions were supposedly underway regarding sanctions against the Government of South Africa. A paper prepared by External Affairs, traditionally non-economic in its approach, was actually turned back in committee by the Department of Finance, since while it considered the economic

¹¹⁷ Osbaldeston speech, p.8

aspects of the question it neglected the political effects on Canada's relations with other countries.¹¹⁹

OUTSIDE REACTION

While this confusion persisted throughout 1982 within the department, outside reaction to the reorganization was relatively muted. Initial media scepticism was perhaps summed up by the the headline of John Walker's description of the plans for Southam News: " Super-ministry good idea, but will it work ?"¹¹⁹

Reaction from the business community was uniformly negative, although not as vocal as some had expected.¹²⁰ The Canadian Exporters Association, who as we saw had opposed organizational changes it felt would hurt the trade commissioner service, expressed " great concern " that the reorganization would: (1) separate trade from the sector expertise now in DRIE; and (2) eliminate the TCS as a " service " and endanger the professionalism of trade officials abroad.¹²¹

¹¹⁹ Hines mentions the case in his book, but not in detail; the identification of the issue as sanctions comes from interviews with other officials.

¹¹⁹ John Walker, The Ottawa Citizen. Jan 13, 1982.

¹²⁰ Hines, p.16

¹²¹ Canadian Exporters Association Annual Report, 1984., p.9

The basis of these fears was the same clash of cultures going on in External Affairs. As one businessman put it, "The jury is still out. My impression is that the trade people in External Affairs have tended to become more the striped suited diplomats rather than practical agents. I believe that External Affairs has become bloated with too many chiefs jockeying for more turf".¹²² Business representatives often found it impossible to locate old contacts in the new department, or follow organization charts until they found new ones. The reaction of the foreign policy side of External to these complaints was summed up by an officer who wryly commented that if they couldn't find their way around a telephone book, he'd hate to see them doing business in South East Asia.¹²³

The government needed time to smooth over the problems created by the reorganization. The problems at External Affairs were almost tame compared to those at DRIE, where the Deputy Minister (who hadn't been involved in the reorganization planning) basically ignored PCO's plans and attempted to remake the department's structure over again. There was also a feeling in Ottawa that as a result of the way the reorganization had been handled DRIE became very inward-looking, and refused to cooperate fully with the trade people now in External Affairs. Extensive firefighting was carried

¹²² Hines, p.16

¹²³ Interview

on from PCO on the DRIE side, and a new Deputy Minister was eventually put in place in the department.

As with the earlier government reorganizations, the changes were immediately put into effect on January 12 under the Public Service Rearrangement and Transfer of Duties Act. The legislative basis of the reorganization, Bill C-123 (the Government Organization Act, 1982) was introduced in the House of Commons on June 30, 1982, where it was given first reading, but died on the order paper. As explained in the Reorganization Newsletter, the bill was significant for External Affairs in that it defined the new department's mandate. Also, for the first time the existence of the foreign service was legally recognized, thereby providing a basis for seeking occasional exemptions from domestically-oriented policies and programs: "Thus, we may be able to obtain foreign service-oriented exceptions to domestic legislation".¹²⁴ Re-introduced as Bill C-152 on May 5, 1983, it was examined by the Senate and Standing Committee on Miscellaneous Estimates and passed with only minor amendments.

The debate in the Commons centered mainly on the demise of DREE and a concern that problems of regional disparity in Canada would now take a back seat to industrial policy in DRIE. There were misgivings about the transfer of trade functions to External Affairs on the same grounds as the

¹²⁴ Reorganization Newsletter #14, p.1

business community's criticism: that it was not desirable to break the direct link between domestic industry and trade promotion and development, and the shakeup might damage the effectiveness of the trade commissioner service.

Most importantly, it was feared that within the new DEA trade-offs might occur between trade objectives and broader international and humanitarian questions. An NDP member called for the establishment of a separate ministry of international trade, and the opposition generally echoed the press in criticizing the confusion surrounding the reorganization.

More specific, however, were the comments made by Conservative M.P. Walter Baker. After identifying the "locomotive engineer" behind the Bill as (then Senator) Michael Pitfield, Baker suggested that it represented "organization and reorganization gone mad...it represents the little fingers of government meddling around in departments and agencies of Government which were already doing their job quite well".¹²⁵

In regional terms, the Senate committee on National Finance criticized the government for virtually abandoning its responsibility to assist the least developed regions of the country. The Atlantic Provinces Economic Council (APEC)

¹²⁵ Canada. House of Commons Debates. May 27, 1983, p. 25805.

echoed these concerns, arguing that DRIE was an inadequate replacement for DREE.

Relations between External Affairs and other departments were going better in some cases than relations within DEA. As a result of its new control of trade and with strong support from the Prime Minister and the most important departments and agencies (who had helped plan the changes), the department was accepted in its new role without too much complaint. The importance of working relationships with DRIE was realized, and the USSEA commissioned a report by John Edwards, a Commissioner of the Public Service Commission, to study relations between External Affairs and other departments. Studies were also undertaken on the advisability of a vigorous program secondments between External, which did not have a good record in this area, and other departments.¹²⁰

It was business as usual in foreign policy terms, since despite the internal battles in the department and the poor quality of some early advice, as Gordon Osbaldeston points out, the same foreign policy practitioners that had been in DEA before 1982 were still there. Decisions such as allowing the U.S. Air Force to test Cruise missiles over Canada were taken in the fall of 1981 as the reorganization was being planned, and as we saw, the department spent 1982 attempting to improve Canadian-American relations in the wake of the

¹²⁰ The Prime Minister's Press release of January 12 had mentioned a figure of 20% as a basis for study.

NEP. The government's clear preoccupation after the patriation of the constitution in April was the development of an economic/industrial strategy.

The team management approach at External Affairs was wearing quite thin by the fall of 1982. It had been recognized from the beginning that the two wing departmental model would have to be replaced eventually, and the point was made in the department's Newsletters that the structure would need further modification. The planners of the 1982 model simply had not known enough about how the new department would have to function to even guess at the organizational structure which would best suit it --apart from the top of the department.

A year of living with the new structure had pinpointed the most obvious problems, and had finally convinced even most of the diehards within the department (and outside it) that External could integrate foreign and trade policy, in some manner, and would continue to try, at any rate. The new department still had the support of the Prime Minister, and eventually the most serious of the rear guard actions that had been fought within it were abandoned.

Given this new knowledge that had been earned through a year of largely discouraging trial-and-error, conscious of a need to improve morale, which the confusion surrounding the reorganization had depressed even further, and confident at last that the department was stable enough not to fall

completely apart at a touch, the conclusion that more changes could now be successfully begun took hold with the SSEA and his advisors.

CHAPTER FOUR

"REORG II", 1983

In the fall of 1982 Pierre Trudeau rotated his senior mandarins. Michael Pitfield went to the Senate, and Gordon Osbaldeston was brought from External Affairs to replace him as Clerk of the Privy Council. Marcel Massé, who had been at CIDA since Pitfield's return to Ottawa in 1980 was put into External Affairs as Under-Secretary.

Immediately upon Osbaldeston's appointment to the Privy Council Office, he began to redefine PCO's role in Ottawa in a much less interventionist mode, and this was reflected in the planning for what it was hoped would be the final reorganization of External Affairs. Although as he has admitted, " This reorganization was very near and dear to my heart ", he instructed the Machinery of Government Directorate to give Massé a free hand in the planning of the new structure. (He did reserve the right to approve of the plans as they were formulated, and on occasion changed them).¹²⁷

Drawing on the accumulated wisdom of almost a year under the 1982 model before he became Under-Secretary--and another ten months before the new changes were actually implemented--Massé, Shortliffe and a handful of senior officials planned what was to become unofficially known as " Reorg II ". .

¹²⁷ Osbaldeston speech and interviews

Officially described as an "organizational adjustment", PAFSO was closer to the truth when it described the 1983 changes as "a second, fundamental reorganization of the Department of External Affairs".¹²⁰

STRUCTURAL CHANGES

Based on the 'great desks in the sky' model which had been deferred in January, 1982, because not enough was known about the operation of the new department to fine-tune its structure (in the sense that it had already absorbed the trade function), Reorg II was meant to solve some long-standing questions. (See Appendix A-3) In the words of the Under-Secretary, "The duplication and overlap in geographic responsibilities has left accountability diffused, with consequent problems in the timeliness, coherence and quality of departmental output".¹²¹

Although the three Ministers and Deputy Ministers were retained, the 'team management' approach to senior management was abandoned in favour of a clearer hierarchy dominated by the Under-Secretary. The wing concept of the department was softened by the introduction of five geographical desks: Africa and Middle East; Asia and Pacific; U.S.A.; Europe; and

¹²⁰ Department of External Affairs circular document, July 8, 1983, and Bout de papier, September, 1983, p.1

¹²¹ DEA circular document, July 8, 1983, p.1

Latin America and the Caribbean. Each desk was headed by an ADM responsible for the full range of Canadian relations--trade, defence, immigration, etc.--in his region.

Three "core" ADMs reporting directly to the Under-Secretary were retained for administration, personnel and policy coordination. The ADM Policy Coordination was to continue as the department's ministry of state, supporting CCERD and the Under-Secretary's mirror committee, as well as fulfilling corporate and envelope management functions.

Two functional ADMs were created in each wing, charged with the coordination of their areas of responsibility across the department. On the trade side, ADMs for Trade Development and Economic and Trade policy were created, to oversee between them the department's economic and trade development functions. On the political side, an ADM Political and International Security Affairs was to oversee multilateral issues and institutions, while an ADM Social Affairs dealt with such matters as immigration and consular affairs.

Planning for the 1983 reorganization was done on a confidential basis within the department, since there were still elements within it which would, if given the chance, oppose any further integration of the trade and foreign policy wings. Once the plans had been approved by the government, however, employees in the department were given several months notice of the impending changes.

No Newsletter similar to the first was judged necessary, since the reorganization this time was a redistribution of functions within the department rather than the addition of new ones from outside. In addition, after nearly two years of living with it every employee in the department probably had some appreciation of the flaws in the 1982 model, and the changes this time were much more easily understood and accepted by all.

It was hoped that these organizational changes would finally solve DEA's structural problems, and go some way toward addressing the morale problems Pamela McDougall had identified even before the reorganization of 1982. As Masse concluded, "The potential advantages of this organizational change are very significant for the Department's future... This structure should provide the basis for a considerable period of stability in the future. It will take a great deal of effort and commitment on behalf of all of us over the next months, both before and after formal implementation. The result should be a unified, more effective and happier department in which we all can be proud to serve".¹³⁰

POST-1983

External Affairs by 1984 had gone from being a department with a very strong Under-Secretary and a somewhat less-

strong SSEA to almost the reverse. The appointment of Allan MacEachen as Secretary of State for External Affairs in late 1982 removed fears that External was a less powerful cabinet presence than it had once been, and also helped stabilize the internal dynamics of the department.

Although the SSEA was given clear authority over the other two ministers in the reorganization of 1982, the structure that had been put in place was fluid enough to allow different weights to be given to ministers at different times. Under Mark MacGuigan significant jockeying for power had gone on in External, not all of which can be explained by the newness of the structure.

Under MacEachen, who had served as SSEA from 1974 to 1976, and in fact had only left at the Prime Minister's request to become Government House Leader, much less internal jostling went on in the department. Neither of his fellow ministers, Charles Lapointe (External Relations) or Gerald Regan (International Trade) carried nearly as much weight in the Trudeau cabinet as MacEachen.

As MacEachen's Under-Secretary, Marcel Massé had much less of a free reign in the department than Gordon Osbaldeston had, even with the organizational mess he had to work with. While Osbaldeston benefitted in his work by being seen as an outsider brought in to 'make the reorganization work', Massé was less lucky.

On the basis of Reorg II, Massé got off to a good start. As one PCO official put it simply, " Marcel got it right. It was a super job ".¹³¹ Unfortunately for Massé, External Affairs officers are very conscious of departmental cultures and backgrounds. As one put it, " External officers are a bit like Jesuits in their relations with those not of the family--they'll give food to a Dominican friar, but won't discuss theology with him ".¹³² Massé was seen as a continuation of the organizational approach to DEA, and sentiment mounted for a more traditional ' foreign policy ' USSEA.

In the broader Ottawa context, the External reorganization was largely digested by 1984. An interesting postscript to the External and foreign service changes involved the Cabinet Committee on Foreign and Defence Policy. CCFDP had originally been conceived as a forum wherein all departments with foreign policy responsibilities and interests could discuss issues prior to their consideration by full cabinet. By the logic of the restructuring of foreign policy machinery to put all functions within External, however, CCFDP was redundant.

As Clerk of the Privy Council Gordon Osbaldeston was convinced that the committee was no longer necessary or desirable, but was unable to convince Pierre Trudeau to

¹³¹ Interview

¹³² Interview

eliminate it.¹³³ Upon taking office John Turner announced steps to streamline decision making in Ottawa, one of which was the winding up of CCFDP and its mirror committee. Brian Mulroney initially followed suit, intending to handle all important foreign policy business in the Committee on Priorities and Planning. Under the weight of important foreign policy issues, however, and perhaps having learned the same lessons about ministerial time Joe Clark had in 1979-80, Mulroney reconsidered, and reconstituted the committee in July, 1985.

The other elements of the 1982 reorganization were somewhat less than successful. After its initial false start DRIE settled into a somewhat disappointing pattern of industrial grants and little else. In terms of regional disparities, as Donald Savoie has observed, the reorganization was not a success: "The government reorganization and subsequent changes offer little more than what already existed--minus, of course, DREE".¹³⁴

John Turner's streamlining measures in the summer of 1984 essentially reversed Pierre Trudeau's use of strong central agencies to support cabinet decision making. MSERD was eliminated. The FED-Cs, now called federal coordinators, survived the demise of their parent agency, and were to

¹³³ Interview with Gordon Osbaldeston

¹³⁴ Savoie, p.133. Savoie was involved in the planning for the 1982 reorganization as a representative of Pierre DeBane and DREE.

report to a junior minister of state for regional development in DRIE. According to Peter Aucoin and Herman Bakvis, "Prime Minister Turner, in effect, decided that the logic of this reorganization needed to be turned on its head".¹³⁵

THE CONSERVATIVE VICTORY AND THE DEA

While rumors continued about the establishment of a separate department of trade, with the election of the Conservative government in 1984 economics took on a whole new priority in both domestic and foreign policies in Canada, and External Affairs was in the forefront of this movement.¹³⁶ Joe Clark described External as a "selling department" in his first speech as SSEA, and later reflected this priority of the department in a Green Paper on Canadian foreign policy entitled Competitiveness and Security.¹³⁷

The first Conservative Minister of Trade, James Kelleher, was not seen as a strong cabinet presence. On his relations with other ministers in cabinet (and in External

¹³⁵ Peter Aucoin and Herman Bakvis, p.371

¹³⁶ For discussions of External's role in the Mulroney government, see John Kirton, "The Foreign Policy Decision Process" and Harald von Reikhschaff "The Structure of Foreign Policy Decision Making and Management" in Brian Tomlin and Maureen Molot eds. Canada Among Nations, 1985 and 1986 respectively.

¹³⁷ Department of External Affairs "Pulling Together for a Better Future" Statements and Speeches, 84/9, 1984 p.1. Department of External Affairs, Competitiveness and Security, Ottawa, 1985.

Affairs) Kelleher said " All I can say is that if conflictual situations arise, that's what make Cabinet discussions interesting, and I guess one would have to wait and see and weigh the relative merits at that time. Obviously, I would think that in situations of that nature I would be putting forth a position that trade is important, because that's my ministry. Of course, the other people would be putting forth their positions and then undoubtedly a decision would be made ".¹³⁰

With the appointment of Pat Carney as Minister of Trade the internal dynamics of the department changed somewhat. Brian Mulroney continued to support Clark as SSEA, but Pat Carney wielded much more power in cabinet than Jim Kelleher had. Free trade negotiations with the United States had assumed great political importance to the government, and with a very strong team on the trade side of External including Garry Shannon and Sylvia Ostry, rumors of a ministry of trade started again.

Further complicating the trade/foreign policy balance in the Canadian government was the creation in 1985 of a Trade Negotiations Office (TNO) to supervise free trade negotiations with the Americans. Staffed by high-level secondments from across the public service, TNO was originally seen by many as proof External had not yet developed a strong in-house trade capacity, but in fact it follows in the tradi-

¹³⁰. Quoted in Bout de papier. Vol.3, #1, March 1985, p.29.

tion of the separate units set up before each GATT round, to put officers working on this type of negotiations in close physical proximity, and allow them to concentrate on the issue at hand to the exclusion of all others.¹³⁹

Within External Affairs the trade and foreign policy components are functioning quite smoothly. The geographic desks are universally considered a success, and although there still remain problems, the reorganization is over, and as new officers join the department, a mentality is developing which (again ?) sees trade and traditional foreign policy issues as two sides of a single coin. The trade commissioner service, which the leadership of DEA had been trying to integrate fully into the larger body of the department received a welcome compliment in 1985 when the Deputy Prime Minister's task force on government spending recommended the name "trade commissioner service" be revived to assure Canadian exporters they were still receiving the same service they always had.¹⁴⁰

Some adjustments at the senior level of the Department have taken place. (See Appendix A-4) The DM Political Affairs has been renamed the Associate Under-Secretary of State for External Affairs, (a position provided for in the

¹³⁹ Gilbert Windham, "Bureaucratic Politics and Canadian Trade Negotiation" International Journal 34.1, Winter 1978-79

¹⁴⁰ "Services and Subsidies to Business: Giving with Both Hands" a study team report to the Task Force on Program Review (the Nielsen Task Force), Ottawa, March 4, 1985

reorganization legislation), and now supervises more of the core administrative functions of the department and generally supports the Under-Secretary in a wider range of areas. The DM International Trade remains essentially the same. The geographic desks continue to function very well, and seem assured of a long life in the department.

Perhaps the most welcome appointment in the department in the past five years was that of James Taylor as Under-Secretary in 1985. As the successor of Gordon Osbaldeston and Marcel Massé, Taylor's importance was that as a career diplomat, his appointment was seen and probably intended as a signal that the organizational changes were over and it was back to business as unusual in the department. A complement to Taylor was Derek Burney, his Associate Under-Secretary, who was seen as someone who could keep the department running while Sir Taylor concentrated on developing policy.

The relative weight given to trade and foreign policy concerns in the department may change further, but flexibility which allows it to adjust its emphasis is a desirable aspect of DEA's structure. If persistent rumors of plans to reorganize DRIE are correct External may lose its trade functions once again, but this would not be because of internal factors in DEA. Barring a general reorganization, the trade function is likely to remain in External, and the trade minister a junior one as long as the SSEA enjoys the full support of the Prime Minister. Pat Carney is a strong

minister in the Mulroney cabinet, but so is Joe Clark, and until some new foreign policy element such as a successful free trade deal with the Americans enters the picture, the department is likely to remain structured as it is for some time.¹⁴¹

¹⁴¹ An example of the type of "Clark as Phoenix" reports currently being produced is "The New Joe Clark" Macleans Magazine, December 1, 1986

CONCLUSION

This study of the government reorganization of 1982 allows us to make some concluding observations about the appropriateness and effectiveness of the reorganization of the Department of External Affairs and more generally about the assumptions which guided the reorganization of government in the later Trudeau years.

In terms of scope and the importance of the departments and agencies involved, the reorganization of 1982 was in many ways the most ambitious attempted in the Trudeau/Pitfield era of Canadian government. It is not apparent after looking more deeply at the reorganization, however, that it was the 'excess of rationality' many had always feared in the 1970s and early 80s.¹⁴²

The characterization of Canadian government in the past twenty years as excessively technocratic and rational is at best partly correct. The philosophy of government of Pierre Trudeau and Michael Pitfield was undoubtedly one which stressed the "top down" rational identification of priorities and the development of programs to achieve them, but in practice in the later years of the Trudeau period the determination of priorities was much less rational than political. Machinery of government questions are not ideal.

¹⁴² See H.L. Laframboise, "Causes of Organizational Disarray in the Federal Public Service" Optimum Vol. 16, 1, 1985.

case studies in attempting to assess of PCO's influence in Ottawa policy-making in the early 1980s, since as these are subject to strict Prime Ministerial prerogative and are not high profile outside the public service and the academic community, PCO's involvement in such issues is unrepresentatively great. In contrast, such reorganizations as that of the Departments of National Defence and Transport involved the more personal attention of the minister, in the case of DND, and broader consultation and discussion (particularly at the cabinet level) in the case of Transport.

The reorganization of 1982 emerged from a consensus on the part of Pierre Trudeau and his senior ministers that lingering problems such as the Constitution, economic development and the lack of a national industrial strategy had to be resolved upon their return to power in 1980. One of these ministers, Donald Johnston, has written of the increased domination of the decision-making process in this period by advisors and officials such as Pitfield.¹⁴³ The desire to solve such complicated problems in the limited time in office remaining to Pierre Trudeau, who had already resigned once, meant that while some issues, such as the Constitution, could be solved by old-fashioned power politics, others would require a more expedient, technical fix.

It is not possible to separate in the final analysis the personal contributions to the decision to reorganize in 1982

¹⁴³ See Johnston, especially pp. 53-73

of Pierre Trudeau or Michael Pitfield. As Nicole Morgan has observed, however, "as time passes, this (type of) knowledge loses its importance. What matters is that the Prime Minister and the Clerk of the Privy Council always worked together on the same themes and ideas, and that the friendship which linked them reinforced the Prime Minister's interest in the bureaucracy and contributed to breaking down the separation between the bureaucracy and politics in Canada."¹⁴⁴

While the past few years have not demonstrated the politicization of the Clerk's office, Morgan's comment does summarize the idiosyncratic questions involved in the reorganization of 1982. Certainly the Prime Minister gave his full support to the concept of structural change once he became convinced it was necessary to achieve the government's priorities. At the same time, the reorganization would never have come to pass in its final form had Michael Pitfield not been Clerk of the PCO, and had the Office not reflected his concern with process and structural innovation. Gordon Osbaldeston injected some much-needed incrementalism into the planning, and the support of senior deputy ministers such as Ian Stewart and Allan Gotlieb aided the planning and implementation process.

¹⁴⁴ Nicole Morgan, Implosion: An Analysis of the Growth of Federal Public Service in Canada. Montreal: The Institute for Research on Public Policy, 1986., p. 68

More important than personalities in the decision were the forces at work in the Ottawa policy community and the changing government agenda. The Privy Council Office was the central actor in the development and implementation of the plan, but this is hardly surprising given that support of the Prime Minister and Cabinet on questions of government organization is an important part of its mandate. The Machinery of Government Secretariat is designed to monitor government process and be able to change or refine it when so directed by the Prime Minister, but is not designed to duplicate the expertise found in departments in any given area.

In the domestic sphere, in order to resolve DREE/IT&C conflict over industrial development in regions a hybrid department, Regional Industrial Expansion, was created. While regional considerations were to be fully integrated in the new department, the creation of DRIE effectively silenced DREE concerns as a prelude to the development of an industrial strategy. The solution was not ideal, yet when viewed in the context of the economic and political priorities of the early 1980s, was justifiable to the planners of the reorganization.

The reorganization plan developed for External Affairs was bold, yet an understandable outgrowth of the past decade and a half of incremental change in the department and the foreign service. The consolidation of 1980 was important in

the context of attempts to integrate the foreign service dating back to the ICER experiments of the early 1970s, but was in fact an incomplete decision in that it placed senior foreign service personnel in External, yet kept trade policy functions in IT&C. While it occurred to the planners that placing the trade function in External would solve many of the Department's problems, a reorganization along those lines was not possible in 1980. The restructuring of External simply was not important enough in itself to justify the dismemberment of IT&C. It was with the decision to create DRIE, and also the conclusion that a separate Ministry of International Trade was not a desirable option that the possibility of giving External much-needed economic resources and a strong mandate to use them became possible.

The integration of trade functions into the department presented many problems. It was decided that given the political necessity of a Minister of Trade in the new department, and the plans which had already been considered for a junior minister of External Affairs to reduce the demands on the Secretary of State, a two wing departmental model would be adopted. Little thought was given to its structure below the senior level, first because it was impossible at that early stage to predict how the communication and policy channels in the new department would function best. The creation of geographic desks was considered, but it was decided that simply co-locating the trade and foreign

policy functions in the department was a difficult enough first step.

Once the main outlines of the reorganization plan were developed, the most frustrating aspects of the exercise began to emerge. The importance of preventing Cabinet factionalism, and bureaucratic resistance at lower levels, which would undoubtedly have occurred if the issue had been handled differently, dictated that the plans be developed in strict confidence. As we have seen, while PCO contains the government's experts on machinery questions, it does not duplicate expertise found in departments and agencies such as the Public Service Commission or External Affairs. This need for secrecy in the planning stage is the most significant reason for many of the problems the reorganization encountered in practice, but once the constraints were imposed, the result was almost inevitable.

In parliamentary democracies the Cabinet is of such importance that preserving its solidarity is worth almost any price to a government of the day. In the final analysis the planning of major organizational change in secret is unfortunate, but must be accepted until a broader appreciation of the importance of government reorganization issues emerges which will encourage governments to strive for more consultative approaches to reorganization, even at the risk of some Cabinet friction.

An incremental approach to the reorganization of government structures is preferable to one based on the strict rationality which had been the norm in the late 1960s and early 1970s, since while it does not preclude a grand underlying plan, incrementalism allows further modifications based on the success or failure of initial changes and the ability of the organization being restructured to digest them. Comprehensive rationality, on the other hand, allows less flexibility on the part of decision makers once initial moves have been made.

The "top down" approach to government restructuring followed in the early Trudeau years assumed that only at the top of the bureaucracy was the view broad enough to allow the effective reshaping of structures. This view was taken close to its extreme in the reorganization of 1982, but this was a function of political direction; while PCO was not philosophically opposed to the broad reorganization of government structures, it was not solely responsible for the excesses of 1982. The priority the government placed on the rapid solution of complex problems, and the need for secrecy in the planning process to preserve Cabinet solidarity forced the development of a plan which was incomplete in practical aspects. Apart from the lack of detail in the plan, the manner of its development resulted in a disinclination on the part of the departments involved to cooperate with PCO in the post-announcement work required.

In terms of the specific restructuring of External Affairs, the department is the clearest winner from the reorganization of 1982. The central agency structures created in 1982 have been disbanded. While some positive features, notably the ERDAs, have emerged from the almagation of DREE and IT&C, in terms of the stated goals of the new department, the experiment has not been a success. Regional concerns have been submerged in DRIE and the department has failed to produce significant improvements in national industrial policy; further changes to the machinery in this area are likely.

While it is impossible to quantify improvements in foreign policy, External Affairs on balance is a stronger department in 1987 than it was before its reorganization. The problems of foreign service coordination, the proliferation of international units in domestic departments and the perception in Ottawa that the department was no longer a leader in the policy community have been largely resolved by the steps taken in 1982. Reorganizations must be seen on at least two levels: first, as a signal of government priorities and agenda, and secondly in substantive policy terms. While the reorganization of DEA was not intended as a signal to an External Affairs constituency, it did signal within the bureaucracy that the department once again enjoyed the full support of the Prime Minister. Given the fact that in 1980 the National Energy Program had been developed with no

External input even though it had significant foreign policy implications, this "signal" aspect of the department's restructuring was very important.

The infusion of economic resources and a clear mandate to use them is an important consideration in an evaluation of the success or failure of External's reorganization, but not the only one. Critics of the department's new mandate see in it the denigration of traditional diplomatic concerns in favor of trade, but in fact the integration of trade and diplomatic functions has been the norm in the Western world in the past twenty years.¹⁴⁵ While the reorganization of External Affairs was an exception to the general rule that such readjustments take place gradually and stop short of grand syntheses, External simply resisted this trend longer than most foreign ministries, and was forced to change more radically as a result when the decision was finally taken.

The self-image projected by the department as the elite sector of the public service, and the preference for diplomacy over economic affairs on the part of its post-Pearsonian officers resulted in DEA's marginalization in Ottawa in the 1970s. While the suspicion with which it was viewed in the early Trudeau years was important, the department must bear much of the blame for its own decline. The

¹⁴⁵ See Robert Boardman, "The Foreign Service and the Organization of the Foreign Policy Community: Views From Canada and Abroad" in D. Stairs and G. Winham eds. Selected Problems in Formulating Foreign Economic Policy, p.96.

resistance of its generalists to the need to become more specialized in given areas was understandable, but as the history of the Department of Finance shows, a traditional department can increase its degree of specialization over the years and so preserve its position in the policy-making system.

In less structural terms, External's 'esprit de corps' had long been its strength, and the reorganization seriously damaged departmental morale for at least two years. The departmental-level implementation of the changes was impressive by any standards. Forced to work within the structure designed by PCO while they readjusted the 1982 model at the top and planned the proper lower level organization of the department, the Under-Secretary and his colleagues did perhaps better than could have been expected given their situation.

As Gordon Osbaldeston has admitted, "the people problems were as large as the organizational problems."¹⁴⁴ The emphasis placed on the revival of employee morale through such instruments as the Reorganization Newsletter, visits to posts and the appointment of trade personnel to senior positions in the new department was important in the eventual turnaround of employee morale. Along with "Reorg II", which was universally seen as the appropriate finish of the restructuring of the department, a generational factor is at

¹⁴⁴ Osbaldeston speech, p.9

Work which finds newer employees accepting the department and its mandate with greater ease than some more senior officers. The development of a new corporate culture to replace that lost in 1982 will be perhaps the most important factor in the long-term success or failure of the restructuring of the department; the appointment of a traditional foreign affairs Under-Secretary in 1985 was an important step in this direction.

Tensions in Ottawa and within the department over the weight placed on trade and the appropriateness of External's control of this area are likely to continue for some time. While the creation of a Ministry of International Trade remains a possibility, the effectiveness of such an organization would depend not only upon control of the Trade Commissioner Service, but of import policy as well, currently the responsibility of Finance.¹⁴⁷ Without this transfer of responsibilities, a ministry of trade is most likely to be simply the vehicle for a powerful minister, and another organizational experiment. At the same time, despite the validity of many of the arguments advanced for the creation of such a ministry, the effect of removing trade functions from External Affairs after most of the larger problems associated with its transfer there have been resolved argues against the desirability of the idea.

¹⁴⁷ For a more detailed discussion of a Ministry of Trade, see Hines.

The importance of foreign affairs and trade to Canada is unquestionable, and the reorganization of External Affairs has been a success from the point of view of the department despite the constraints under which the changes were conceived and planned. In more macro terms, the reorganization yields strong proof that while governments must retain the ability to restructure their machinery, major reorganizations are costly, and should not to be undertaken lightly. When they are, care should be taken to involve as much consultation with those affected as possible. No structure is permanent or ideal, and as priorities of governments change it might be decided that the reorganization of 1982 was incorrect in scope and purpose. Even so, it offers many lessons to those who consider it of the manner in which the machinery of government in Canada can be creatively and effectively reorganized when necessary.

Senior ManagementStaffing

Note: 1) This and the following charts describe reporting relationships which apply from January 12, 1982.
 2) Descriptions and relationships of all units are subject to change in the context of the reorganization and ultimately to Treasury Board approval.
 3) Units headed by an Assistant Under Secretary of State for External Affairs are indicated with an asterisk(*)

DEPARTMENT OF EXTERNAL AFFAIRS

JANUARY 1964

DEPARTMENT OF EXTERNAL AFFAIRS

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