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Reflections on the Evolution of the Federal Industry Department

Speeches by Arthur Kroeger and Harry Swain Presented
at the Industry Canada 2003 Executive Conference

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Introduction

Carole Swan, Associate Deputy Minister, Industry Canada

It is my pleasure to present the following papers by Arthur Kroeger and Harry Swain about the evolution of Industry Canada and its predecessor departments.

The papers were originally produced as speeches for a conference of Industry Canada managers in 2003. This was a special anniversary year for the department – ten years before that, the federal government undertook a major reorganization, including substantial changes to the mandate and structure of the department dealing with industry and commerce issues. A decade after this major restructuring, it was a fitting time to step back and consider the department's past roots and achievements.

In reflecting upon the department's evolution, we were fortunate that Mr. Kroeger and Mr. Swain agreed to join us to share their perspectives. We could not have found two more eminent and more suitable speakers.

Mr. Kroeger's illustrious career in the federal public service included a number of positions as Deputy Minister, including a period as Deputy Minister of one of the predecessors of Industry Canada. In his paper, Mr. Kroeger reviews the department's origins, which go back to 1892, and its progress over a century up to 1993. Along this journey, Mr. Kroeger situates the department's evolution within the broader context of the economic, political and governmental environment of the day. His paper provides a rich picture of the series of organizational changes that took place from the 1960s to the early 1990s, recurrent issues that have influenced the department's mandate (such as trade, investment and industrial development) and important areas in which shifts have occurred over the decades (such as the role and extent of financial assistance to business).

Mr. Swain provides a complementary and compelling perspective from the vantage point of his equally impressive career in the federal public service, which included several years as Deputy Minister of Industry Canada. His tenure included the period of the 1993 government reorganization. In his paper, Mr. Swain traces the department's progress from 1993 to 2003 and shares some of the challenges in bringing together the new organization, the impact of the fiscal restraint era that followed in the mid 1990s and insights into key issues over the ensuing decade (such as "big science" projects).

Mr. Kroeger and Mr. Swain's papers make an important contribution to the study of public administration and we were therefore pleased that they agreed to make the papers available to a broader audience. We were also very pleased that the Canada School of Public Service agreed to publish the papers electronically via its Web site. This is an ideal partnership that brings together the best minds with rich insights and the best venue in public administration for sharing those important ideas.

I trust that you will find the papers interesting and full of unique insights!

"Reflections on the Evolution of the Federal Industry Department Prior to 1993"
Arthur Kroeger

(This presentation was delivered verbally to Industry Canada's executive cadre in May 2003. In editing the presentation for publication, the style of address found in a verbal presentation has been largely retained.)

It's nice to be back. In preparing for this presentation on the evolution of Industry Canada, I decided I would adopt the tactic of the student who chooses not to answer the question on the exam, but rather to answer the question that he wishes had been asked.

So what I want to do is deal with the period before 1993, rather than after, since I left the government in 1992.

I want to take you back to 1963, which was the year of the first creation of the Department of Industry. It's a story of 30 years of quite a lot of organizational turmoil, which led up to what you have now, which has been ten years of organizational stability.

Gordon Osbaldeston, after he left the government having been among other things a Deputy Minister of this department, produced a book called *Organizing to Govern*. He has a chapter about the department and his closing comment is that, of all the departments reviewed, the history of the Department of Industry was perhaps the most rife with change. People who lived through those periods, I think, must have envied the relative stability enjoyed by officials in for example the Department of Agriculture, which was largely unchanged from a machinery of government perspective.

It's a story of efforts to bring about the industrialization of Canada and the elimination of regional disparities and the promotion of international trade by government action. What resulted was a process of learning, by trial and error — I guess especially error — what governments can't do effectively, and also what they can.

When I thought about these kinds of limitations, I was reminded of a contest that Peter Gzowski once ran. He said: "Finish the sentence as Canadian as..." — you know, "as American as apple pie", "as French as the Eiffel Tower", "as Canadian as..." what? The winning entry read: "As Canadian as possible under the circumstances."

That is a bit the story of the department. I want to go back some years. The Department of what was called Trade and Commerce was actually founded in 1892. It was a time when Canada was a resource-dominated economy. We were part of the British Empire and were a supplier of raw materials to Britain, as well as to the U.S. market. That department functioned virtually unchanged for three-quarters of a century until 1968.

Two major developments occurred in World War II. The first one was that the war brought about a major industrialization of Canada. We found ourselves having to build ships, build airplanes, create synthetic rubber plants, et cetera. It transformed the Canadian economy to a considerable degree. Then, in the post-war period you had a heavy inflow of foreign investment. There were several concerns during this period. First, we felt that we were still too resource-dependent. The other one, which developed later, was that with all this foreign investment we risked losing control of our economy.

The other thing that happened was that, in the post-war period, an attack was made on the prohibitive levels of tariffs that had been established in the depression. Successive rounds of international negotiations took place with major cuts in tariffs by all industrialized countries. The GATT was established and this started to raise questions about whether Canadian manufacturing could survive.

The Manufacturers Association are free traders now, but they were stridently protectionist then. When I was a probationary Foreign Service Officer in the economic side of Foreign Affairs, we were bombarded with letters denouncing the government for its inadequate protection of the manufacturing sector.

Another factor in Canadian development during that period was defence procurement. With the onset of the Cold War, the formation of NATO and the Korean War, we found ourselves in the rearmament business and instead of simply buying offshore, we used our Department of Defence Production to ensure that there was employment and industrial development in Canada.

During the same period, what you got was a certain growth of Canadian economic nationalism. I suppose it came with the prosperity, when we could afford to start worrying about it.

This sentiment particularly found expression in the Gordon Commission on Canada's Economic Prospects in the mid-1950s. There was a change of government in 1957 and the Commission's recommendations were not substantially acted upon, but in 1963 the Liberals came back. Walter Gordon was a member of the government. He was a close adviser of Prime Minister Pearson and he was Minister of Finance. He was also a nationalist and an interventionist.

One of the things that came about through his influence was the creation of the first Department of Industry. It was done in the ill-fated "60 days of decision" that the Liberals had promised. The sixty days involved a certain number of stumbles, but in the end we had a Department of Industry that was to focus on manufacturing. It was an attempt to use government powers to achieve industrial objectives.

Well, it's one thing to pass legislation, but what in fact was the Department of Industry supposed to do? This was the beginning of a mandate issue that plagued the department for years. It was there when I arrived in 1985.

In terms of industrial development, Sir John A. Macdonald of course launched the National Policy: high tariffs to protect central Canadian manufacturing.

Well, by the 1960s, this couldn't be done anymore because we had had these rounds of tariff negotiations and we had the GATT, so we couldn't use the tariff much to promote industrial development anymore. The era of large-scale subsidies to promote regional development, and industrial development, still lay in the future.

Another limitation was that most of the responsibility for economic development actually rested with the provinces.

If you try to read the first Department of Industry Act, you don't find a lot of guidance. It was two short pages long in large type. It said that the department was to acquire a detailed knowledge of manufacturing industries — that's okay — to promote the establishment of growth, efficiency and improvement, to assist the adaptation of manufacturing, to assist industries that require "special measures", and promote the development and use of modern industrial technology. The Act didn't say anything about *how* these things were to be done.

The department survived five years and it did have one major achievement to its credit, which was the Auto Pact with the United States. This was the creative use of the tariff to increase opportunities for a major element of the Canadian manufacturing industry.

Simon Reisman was the Deputy and that success was, in some considerable measure, a reflection of his entrepreneurial skills. But it also did indicate that maybe there was a place for organized government attention to manufacturing because the complaint about trade and commerce had been: "This is just export stuff, and nobody is looking after the manufacturing industry." It wasn't quite true, but there was some truth in it.

In 1968, Prime Minister Trudeau merged the Department of Industry, the Department of Defence Production and the Department of Trade and Commerce to produce Industry, Trade and Commerce. The Act for that department picked up some of the earlier wording about information, promoting manufacturing, tourism, and so forth. It also added some more thoughtful objectives. It talked about the promotion of efficiency, productivity, rationalization and restructuring, together with an even greater emphasis on the role of information.

Now, in this audience, you will recognize a lot of that terminology. It was pointing in the right direction. IT&C, as it was called, lasted for 14 years until 1982. You might think that meant there was a period of great stability, but there wasn't. It was only seven or eight years before a certain restlessness started to develop: "We have to have better coordination of economic policy. We have to have some place in the government that can develop a comprehensive industrial strategy and a line department like IT&C can't do that. We need a central agency."

Out of that came the creation of the so-called Board of Economic Development Ministers, which then became the Ministry of State for Economic Development.

As a parenthesis, one effect of creating the Ministry of State for Economic Development was to cream off a lot of the department's policy resources.

It was a very interventionist period. The government was using subsidies, not to attract investment, but to control it and direct it. You had, for example, the Canada Development Corporation that was supposed to buy back a lot of the entities that had been bought by foreign investors. When people put up proposals for the government to limit itself to providing a framework for industrial development, this was rejected: "That's not good enough. It's inadequate. Have to do more than that."

To further explore how people thought about things during that period, I want to turn to regional development because the rather short Act of 1963 creating the Department of Industry had a second half, two pages, for the creation of an Area Development Agency. There was a scatter of other agencies that were created at the same time. The Act authorized the government to designate areas requiring "special measures."

In 1968, Mr. Trudeau's government moved beyond that to create a full-fledged Department of Regional Economic Expansion known as DREE. Its objectives were to deal with economic expansion and social adjustment in areas of "exceptional inadequacy of opportunities for productive employment." The instruments at its disposal included loan guarantees, grants, agreements with the provinces and so forth. It had a substantial budget — \$600 million in the early 1970s; translate that to the present day, probably a couple of billion.

I don't intend to give you a history of DREE, but the creation of this department and the attempt by the government to bring about large-scale regional development were very much a sign of the times. There was an ambitious view of what governments could do. There were people, not just in Canada, who said, "Governments have an obligation, not just to guarantee everybody a job, they should guarantee them a meaningful job." There was public resistance, a lot of it, in Canada to the idea that people should move to where the jobs were, rather than the other way around.

When the government created DREE, the question that came up was: "What is it going to do vis-à-vis the other departments?" The original idea had been that you would use the whole government. The wording of the 1963 Act had said that the Governor-in-Council could direct departments to undertake special measures for regional development. Later acts were more modest. They just talked about coordination and cooperation.

The idea was that DREE would only do stuff that didn't fall in the mandate of any other department, but that is not the way that it worked out. It was feared, with some reason, that the creation of a department of regional development would take everybody else off the hook. There was a lot of controversy about what DREE should do and whether Transport and others ought also to be promoting regional development. This argument was what finally brought about the demise of DREE.

In the late 1970s, people started to look at the kind of results, or lack of them, that were coming from DREE's rather substantial expenditures. The C.D. Howe Institute did a survey and found that in fact regional disparities were widening, not narrowing.

Well, the conclusion you might have drawn from that finding was that the objective was too ambitious. The government can't industrialize north-eastern New Brunswick. Actually, the conclusion drawn was the opposite: that you had to put more effort into it. You had to bring to bear the full resources of the entire government and that would solve the problem.

This led to one of the spectacular wrong turns in government history, in my view: the reorganization of 1982.

What had happened was that after the Liberals came back in 1980, Pierre De Bané was the Minister of DREE and he found himself enormously frustrated because he couldn't accomplish enough and he wasn't getting enough help from the rest of the government. Then there was a dispute that became public between Mr. Gray, who was the Minister of Industry, and Mr. De Bané, who was the Minister of DREE. I think it was a question about a Volkswagen plant and where they were going to put it, either in Barrie where Mr. Gray wanted it or in Gaspé where Mr. De Bané wanted it.

Mr. De Bané became so frustrated that he wrote to Mr. Trudeau recommending that his department be abolished and the Prime Minister took him at his word.

The big issue in that period was: "Do you locate an industry where it will be best able to compete or do you put it where it will relieve local unemployment?" In an era of globalization, which is what we are in today, the answer is pretty clear. It was less clear, at least to some people, in the 1980s.

A slight diversion here. There was another factor that was in play and brought about the reorganization. This was: "Should you consolidate the Canadian government's foreign operations in one department? In other words, should you take the Trade Commissioner Service out of Industry and put it in with Foreign Affairs?"

Mr. Trudeau decided at the beginning of his mandate in 1980 that that was exactly what he was going to do, urged on by Michael Pitfield and Gordon Osbaldeston.

Well, this was a very big step. If you take the Trade Commissioner Service out, what do you do with the rest? The answer was that the remaining parts of the Department of Industry were merged with the Department of Regional Economic Expansion, and it became Regional Industrial Expansion (DRIE). At the same time, the Ministry of State for Economic Development was given responsibility for regional coordination as part of the business of trying to enlist the whole government.

Ten years after the transfer of the Trade Commissioner Service to Foreign Affairs, Gordon Osbaldeston in his book took a look at it and said: "The jury is still out. I don't know whether that worked well or not."

I think today what most people would say was it was a reasonable success. It had the effect of giving trade and economic affairs a much bigger place in the scheme of things in the Department of what was then External Affairs.

When the Trade Commissioners came over, a Deputy Minister of External Affairs remarked that it was a bit like a reverse take over, that instead of the Trade Commissioners being swallowed up by the Department, trade and economic affairs came to have a much more dominant role. It continues to the present day, which is one of the reasons why I think it's regarded as a success.

But in other respects, the reorganization of 1982 produced the worst of all possible worlds, and I speak with some experience since I went to DRIE, as it was called, in 1985. The original concept was that regionally responsive programs were supposed to be pursued in all parts of Canada. The Ministry of State for Economic and Regional

Development (MSERD) was supposed to coordinate this and enlist all the departments of the government. The DRIE Act spoke of enhancing economic development "in all regions", improving opportunities for productive expansion in all regions.

Here is an interesting one. The department was to assist investors in the location of industries consistent with the needs of investors and federal, regional and industrial development policies. It was not an easy circle to square.

As an aside, the Act did include several new provisions that were of some interest. It was the first time that you found a statutory reference to service industries and the fostering of trade within Canada.

However, overall the constituencies of both Industry and DRIE were about equally unhappy. Exporters found they now had to deal with two departments — External Affairs for trade, Industry for domestic matters. Major manufacturers in central Canada were dismayed that what they regarded as their department had been directed to perverse ends.

I think some of the officials in the department felt the same way. They had industry sector expertise, they felt it was not going to be well used, and there was a certain loss of talent by the department as a result.

On the other hand, the partisans of regional development said, "That merger means that Ontario and Quebec have taken over, and we are now just going to be shut out in Atlantic Canada."

Various attempts were made to develop a mandate. Everybody knew the mandate problem was the big thing. That's what I was told by Jack Manion in the Treasury Board when I became the Deputy in 1985. I set up a task force to work on it. They came up with a quite good report, which talked about information, business intelligence, advisory support to industry and so forth. It went nowhere and, consistent with the spirit of the times, I was only there for a year and then I was transferred to Energy, Mines and Resources. My successor was only there for a year. You can't develop a mandate that way.

The 1980s were probably the high-water mark of government intervention, first by the Liberals but, as things turned out, it was pursued with equal zeal by Prime Minister Mulroney's Conservatives. Sinclair Stevens, who was my Minister for a time, was determined to use the government to wipe out unemployment in Cape Breton Island.

Of course, the principal instrument with which you do this is money. DRIE was spending about a billion dollars a year on regional and industrial development — subsidizing a pulp mill in the Gaspé, reopening a lead and zinc mine in the Yukon when there was a world surplus, trying to stimulate the east end of Montreal, and so forth. In parallel, Employment and Immigration was spending another billion on so-called job creation projects, which were really just make-work. Government money was widely thought of as the key to industrial development and especially employment. The disposition was to downplay market forces.

I am going to tell you a couple of anecdotes to illustrate kind of what the ethos of the time was and the disposition to ignore market forces and economics.

One proposal was really quite ingenious. It came from an entrepreneur who came to the government and said "I have a solution for the problem of the shipyard in Lévis," which was uneconomic, couldn't compete internationally. His idea was we would have this uneconomic shipyard build a ferry for Marine Atlantic, which of course was not a self-sufficient entity either — it was subsidized to a level of about 80 per cent — and then, because the Government of Canada was also insolvent — deficits of \$30 to \$40 billion — he proposed to raise the money and get it back from the government later.

I have another one. Government money was widely thought of as the key to industrial development and especially employment. Not long after I went to the Department of Industry, my Minister, Mr. Stevens, went off to Korea. He was gone a couple of weeks, came back and reported that there was a prospect that the Koreans might open a Hyundai plant somewhere in Canada.

Well, the media were all atwitter about this. Lots of articles. The provincial governments were ready to compete to see if they could get it in their territory with subsidies because there was a prospect of 1,200 jobs when the plant would come into operation three years later.

It took me quite a long time before one day it dawned on me that, in the two weeks when my Minister had been in Korea, the Canadian economy, without any government money, had produced 10,000 jobs. So what was the big deal about 1,200 jobs three years later with government money? But this is not the way things were thought about then.

Well, so much for the ethos of the times.

I want to go back to DRIE because this was the final step in the economic progression that I want to talk about. There was all kind of dissatisfaction with the 1982 reorganization. You had pressures, especially from Atlantic Canada. As a result, only four years after the creation of DRIE, came the decision to create the Atlantic Canada Opportunities Agency (ACOA) and, that having been done, there had to be another decision to create Western Economic Development and Diversification.

Once the regional agencies were there, work began on creating a department that would go back to the old model of Industry, Trade and Commerce, a knowledge-based department that would be an advocate for industry and have at its disposal a few funding instruments.

Well, it was a good idea, but the trouble was getting there, because it was the mid-1980s and the free trade negotiations with the United States intervened. There also was the 1988 election. It actually took until the spring of 1990 before the new department was created. In the meantime, the department and its officials, a lot of whom are in this room, will remember having gone through three very confused years.

The new model merged the Ministry of Science with the Department of Industry. So when DRIE was superseded, one of my colleagues Stanley Hartt, who was the Deputy of

Finance, remarked to me that, if we create a Ministry of Industry, Science and Technology, we will have gone from DRIE to MOIST.

The language of the 1990 Act really foreshadowed the Department that was created in 1993. It had been a long learning process to get there, but it had new provisions that had never appeared in legislation before: increase international competitiveness; promote mobility of goods and services in Canada; improve productivity and efficiency; foster entrepreneurship; provide support services for marketing; expansion of scientific knowledge; surveys, analyses, investigations, dissemination of information. A long, tortuous road, but we finally got it right.

I want to spend just another couple of minutes reflecting on what kind of conclusions you can draw from that long turbulent history.

The story is one of a quest by successive governments. They were looking for a role in fostering Canada's transition from an exporter of raw materials to a diversified industrial economy, which would be internationally competitive, all good things that governments were seeking. At times, the search for a government role became almost frantic — one reorganization after another, a succession of agencies set up for different purposes, rampant turnover of Ministers and Deputies year after year, and the expenditure of very large amounts of money often with questionable results.

I am not the first person to describe that whole period as the phenomenon of pulling a plant up by the roots every day to see if it is growing.

Gordon Osbaldeston — coming back to his book — points out what really happened during this period: governments made the mistake of trying to solve policy problems by organizational measures. There was this feeling that, if we could just find the right organization, it would enable the government to achieve what it was after.

The basic policy issue, of course, was: "Could Canada have an industrial strategy?" and, if by that you mean a capital "I", capital "S" industrial strategy, then the answer turns out to be No. The lesson, which has been well learned, is there has to be a realistic accommodation of markets.

Looking at it, you could say that governments today are older, wiser and maybe a bit sadder than they were in the heady days of the 1970s, but at least they have come to terms with reality.

Governments have also learned that so-called framework policies actually can produce results, as we are now finding. They have come to recognize the importance of markets, but what is interesting is that it is not a clean sweep for the market side at all, because we now also know that markets alone aren't the answer. Governments have a key role to play, and I think we have come pretty close to finding it — good fiscal management; bankruptcy laws; oversight of financial institutions; competition legislation; transparent political processes; quality educational system; promotion of scientific knowledge; and modern technology.

All of this and more over time have put Canada in a position that compares exceptionally well with our major competitors.

Another thing we found is that the Department of Industry actually does need to have some money at its disposal for certain strategic purposes, as the history of Technology Partnerships demonstrates. However, the amount of money, and the purposes for which it should be used, are much more limited than was once thought.

Well, of course, a lot more has to be done. I have been looking back and your job is to look forward.

One of my observations about officials in this department over many years is that they are always worried. They are predisposed to worry — our productivity isn't growing fast enough; we need more innovation; international competition for our raw materials is growing; and so forth.

In closing, I just want to say that I find your predisposition to worry reassuring. It is really quite a good safeguard against complacency.

“Reflections on the Evolution of Industry Canada from 1993 to 2003”
Harry Swain

(This presentation was delivered verbally to Industry Canada's executive cadre in May 2003.)

Let me take you back to 1992.

Consider: the Cold War was over and the good guys won. Everything was new and hopeful in the former Communist bloc.

The U.S. and its allies had just won a smashing victory over Iraq and made the world safe for democracy in that country and its neighbours. No longer would tyrants and religious fundamentalists upset the peace of the "unipolar world." President Bush was cruising toward re-election.

The Japanese had just had a little stumble; people regarded Japan as the source of innovation in manufacturing and a model of the Protestant ethic at work.

We were at the end of the Tory government, and in the eighteenth year of continuous deficits. After two decades of inadequate fiscal discipline, the dollar, at 79 cents U.S. on September 30, was called the northern peso, and debt as a percentage of GDP was getting near 70 per cent. Cabinet kept growing and more departments were invented — there were 39 members in the late Mulroney Cabinet.

The department, as Arthur Kroeger writes in his related presentation on Industry Canada's evolution prior to 1993, was near the end of a string of reorganizations. ITC was stripped of T, married DREE and became DRIE, with the addition of MOSST — it almost became MOIST but became ISTC instead. We were grouped together with the trade side of the External Affairs Department as the "Wilson Portfolio", a kind of cohabitation after divorce, which worked principally because of the drive and tenacity of a much-respected Minister and a pretty good Deputy. "Prosperity" was on the pre-election agenda.

The department had two prime lines of business. It advised our trade negotiators on the consequences of trading this for that in the negotiations that were all the rage at the time, and it provided financial support to "old-line" manufacturing industries.

I exaggerate — we did more than that. But that is what we were known for. We represented, in that sense, the old style of government-led industrial development that went back to the Second World War and the days of C.D. Howe.

To be fair, a number of programs were eliminated in the 1980s — the Performance Improvement Grant (PIG) and the Shipbuilding Industry Assistance Program (SIAP). Nevertheless, the department still revolved around sector branches, and the officers of

those branches were received with respect in industrial Canada to some degree due to the existence of the department's funding instruments.

The thinkers in the department, as well as some of the people in the Privy Council Office (PCO), were discontented. Subsidy programs and corporate bailouts were disliked by industry in part because their leaders knew they could not, in the interest of their shareholders, ignore available funding, and they were equally disliked by those among us newly possessed of the Washington Consensus.

Anyway, deficits were squeezing them out, and the new trade agreements were increasingly outlawing them. At the same time, there were many reasons to be concerned about the state of the Canadian economy.

Scholars associated with the Canadian Institute for Advanced Research (CIAR) like Lipsey, Romer and Helpman were reviving economic growth theory, with a new emphasis on the deliberate creation of comparative advantage through investment in technology and other sorts of innovation which before then had been seen as wholly exogenous.

Thus in the period from about 1985 onward, under Bill Teschke as the department's Deputy, and Gordon Osbaldeston and Paul Tellier at PCO, the feeling grew that something had to change. The Prime Minister asked his colleague Robert de Cotret, assisted by Osbaldeston, to study Cabinet makeup and organization. Nothing immediate followed, but the ideas did not go away.

It fell to Tellier's successor, Glen Shortliffe, and his colleagues at PCO, notably Jim Mitchell and Nick d'Ombraïn, to put flesh on the bones.

The Machinery of Government office in PCO is one of the least known but most powerful pieces of Canadian bureaucracy. It has to operate simultaneously at two speeds: long, slow, contemplative, and history-soaked on the one hand, always cautious that the transaction costs of otherwise desirable change may overwhelm the theoretical advantages; and like lightning on the other. When a Cabinet crisis arises – when a Minister must suddenly resign, when an accident counting heads in the House threatens a government – suddenly the Prime Minister and the Clerk turn in emergency to their source of wisdom and precedent.

There would not have been a King-Byng Thing if King had had a d'Ombraïn or a Mitchell.

In ordinary times, Machinery of Government busies itself with mandate letters, the design of Cabinet and its members' responsibilities, and the like. It is the staff function for one of the three powers of the Prime Minister, namely the design of Cabinet and its decision-making system, the appointment of Ministers and other senior people, and when to dissolve the House.

These traditional powers are nowhere written in the Constitution – indeed, the office of Prime Minister itself is not mentioned – but they are sufficient to make all tremble when the incumbent shows signs of wanting to do something.

Through the years leading up to 1993, there had been a growing sense that naming more ministers to more new agencies was not helping to solve the nation's problems. Shortliffe and his Machinery advisors started on a new design. The winter and spring of 1993 saw the planning circle expand slightly to include a few key Deputy Ministers.

At that point I had been at ISTC for only a few months. I had been aware that something was afoot as the Clerk had let me know in confidence before my move that some changes would have to be made to the department and the portfolio.

The objectives were clear enough. A large Cabinet of 39 or 40 could be unwieldy. Something in the range of 22 to 25 seemed possible, even allowing for regional balance in appointments.

So one objective was the grouping of responsibilities under Ministers who would each have a considerable range of policy responsibility and who could be expected to integrate a larger range of political judgements before matters came to Cabinet.

In our line of country, the wish was to have a department that could take a view of the whole of the micro-economic realm. The balancing pieces were to be a department — Finance, as always — which would be responsible for fiscal and monetary policy, and a new human resources department which would bring together all the strands of labour, employment, training and job creation programming.

The new department — originally Industry and Science Canada, shortly afterwards Industry Canada — was to have an explicit mandate to coordinate micro-economic policy across the federal government.

This was to be based on an expanded suite of line responsibilities, as well as a quasi-central agency role in convening all the economic development departments on matters of grand strategy.

Just which responsibilities were to be grouped in the new department was the subject of a great deal of consultation among PCO and the key Deputy Ministers it had identified as the holders of the new responsibilities.

I found it easy to agree to the integration of most of Communications and Investment Canada, and all of Consumer and Corporate Affairs. I recognized the necessity of having regional development agencies and I thought they should come under the umbrella of the Industry Minister for a modest degree of coordination. My recommendations on that front were not adopted immediately but were taken up by a later government.

A minor loss, from my point of view, was the transfer of the Food Products Sector Branch to an expanded Department of Agriculture and Agri-Food. It was poor revenge to see an ancient and honourable department staggering under the least harmonious name ever given to a piece of the government of Canada.

This, however, was consistent with the distribution of sectoral responsibilities among several entities, notably the new Department of Natural Resources. Plainly, there would

still be a need for interdepartmental coordination. Even better, there would be the possibility of new policy and programming solutions arising from a kind of competitive process among departments.

The most serious issue at this level, however, was whether the responsibility for trade policy would lie with Industry or with Foreign Affairs. There were not a few people, including some in Trade, who felt that the move to External some years before had severed the ties with Canadian industry for the hazy objective of imbuing our diplomacy with a more strongly economic flavour.

The alternate view was that trade had to be an integral part of foreign policy, and that the function had to represent all the departments that had export interests — Industry, but also Agriculture, Fisheries, Energy, Mines and Resources, Forestry (to use their old names) and even the regional development agencies. This, in the end, was inescapable.

Thus were settled the particulars of what would be in the department and the portfolio. The other part of the mandate was something that had been missing since the not wholly un lamented days of the old Ministry of State for Economic and Regional Development, which had been given its quietus in the short government of Mr. Turner in 1984.

Two big files had dominated economic policy in the succeeding years: free trade and the deficit. Due to this, together with the constitutional rounds of 1988-92, much of the attention of the best and the brightest in town was turned away from the bread and butter items of micro-economic policy.

There was no market for the re-creation of MSED, and PCO did not want to take on the coordination role. The somewhat awkward solution was to assign it to the new super-department.

The test was upon us immediately. 1993 was the year of three prime ministers, and it was certain that the survivor would want a sensible economic policy.

Let me not go into the details of that program. Enough to say that it was successful, in that it paid attention to the recent thinking about the sources of economic development that had been gathering strength in the Policy Branch, which in turn was drawing on the best thinking of CIAR.

It was realistic about the instruments and financial resources that could be brought to bear. It laid greater emphasis on getting framework legislation and policies right than on providing financial assistance.

There were challenges facing us at three levels, I think. I have just mentioned the issues involved in drawing the town together on a cross-cutting economic development policy. One of the elements of that plan was leading the federal government into negotiations with the provinces on an agreement on internal trade, a difficult project that preoccupied several of our most senior officials for much of the next year.

A second challenge was at the level of the new portfolio. And a third was at the level of the department itself.

The makeup of the portfolio was fairly diverse: eleven agencies, each operating at arm's length from the department and wanting unfettered access to the Minister. This was more of a theoretical challenge than a real one, as the Minister, Mr. Manley, made it clear that an orderly approach to the portfolio was desirable.

There was one area, however, that gave us difficulty: science. Here, briefly, are the stories of the Sudbury Neutrino Observatory (SNO) and the TRIUMF lab in Vancouver.

SNO was and still is essentially a single experiment. Aimed at the detection and characterization of solar neutrinos through their rare interactions with a substantial fraction of the world's supply of heavy water at the bottom of the Creighton Mine, it had the potential to settle some fundamental arguments about the origins of matter in the universe. Great stuff! It was, and still is, Nobel-quality science.

SNO's construction costs were escalating and the department, in its central coordinating role with respect to science policy, devised a solution. Funds were found within the department and the portfolio and grants to the Canadian physics community were compressed for the next several years to offset the investments being made in SNO.

TRIUMF was seeking funding from the federal government to expand its budget by an order of magnitude or more in order to turn the lab into a hugely prolific source of a family of nuclear particles, a "kaon factory." TRIUMF was running on \$25-30 million a year. The new facility would cost \$2 billion in capital and take another \$200 million a year to run according to TRIUMF's estimates.

TRIUMF's Director had persuaded the B.C. Premier and other political figures to make a commitment to this project a major federal-provincial relations issue. The Director had even used the occasion of a visit by Kim Campbell to arrange to have her license plates replaced by ones reading "Kaon Kim."

There were several elements to a solution. Fortunately, one of the world's truly great experimental physicists, Dr. Alan Astbury, happened to be next door at the University of Victoria. The responsible universities were encouraged by the department to engage him as the new TRIUMF Director and to re-think the future of TRIUMF. The mandate was to identify ways to do exciting new physics on a budget that was not all that different from what the lab had enjoyed in the past.

He and his colleagues obliged brilliantly, with the result that the lab is now one of the leading places in the world for the study of radioisotope collisions. Again, the solution came principally from the portfolio, using available Western Economic Diversification funds.

At the level of the department, there were a number of challenges. In addition to the normal efficiencies that should attend an amalgamation like ours, we were in a period of serious resource compression. Those whose memories stretch back only as far as the Program Review of 1995-96 will be unaware that major cuts were the order of the day before then, too.

Second, there were a few employees of the new department who felt miscast. Related to both was the need to explain to people what was happening and why. Those whose jobs were affected needed to be told as soon as possible, and assisted to find the next steps in their lives. Those on whom the new department was going to rely in the future needed assurance and a strong mission.

Between amalgamation and Program Review, our eventual plan called for a department with 26 per cent fewer people and 48 per cent of the financial resources of its several predecessors.

Moreover, the cuts were exceptionally unevenly distributed. Groups like the Canadian Intellectual Patent Office and Spectrum Management were not inefficient, and both funded their operations through cost recovery. Personnel or budget cuts in these areas would worsen the fiscal balance, not improve it.

Other groups as diverse as the Competition Bureau, Legal Metrology, the Superintendent of Bankruptcy, the Assistant Deputy Registrar General and even the tiny 30-person Consumer Affairs group all had claims to irreducibility.

At the same time, we had decided as a policy matter that, with the exception of Aboriginal Business Canada, we were going to manage down the grants and contributions portfolios significantly. The blow fell with wholly disproportionate weight on the old heart of the department, the sector branches of the Industry Sector.

The consequences of amalgamation and resource compression were several. On the downside, many competent and valuable public servants found their careers ended, or at the least sidetracked in unexpected ways. Though in the fullness of time people settled into new futures, there was inevitably disruption and heartbreak, despite our best attempts to make the transition as quick and surgical as possible.

At a structural level, amalgamation highlighted certain square-peg problems that had been mostly latent before.

With the Program Review's focus on expenditure cuts, our concerns about the old Defence Industries Productivity Program (DIPP) were unavailing. And it is little consequence to have been proven right. We ended DIPP and later on we established Technology Partnerships Canada by necessity.

The square-peg problem was more interesting. The 1960s populism that had led to the creation of a Department of Consumer and Corporate Affairs meant that part of our inheritance was a relatively small group who worked for the welfare of Canadian consumers. Now 30 among 6,600 does not, on the face of it, reflect much in the way of balance between producer and consumer concerns. And the tiny, beleaguered Branch thought so too.

On deeper reflection, they were raising a valid concern. Ottawa's structure is overwhelmingly oriented towards the interests of Canadian producers, not consumers. Our sectoral departments, from Industry to Agriculture to Natural Resources to the Space Agency and even the granting councils, have producer interests foremost in mind.

So do the regional development agencies. So does Human Resources Development, for the most part. Even the Bureau of Competition Policy administers an Act that is as solicitous of producer interests as it is of the basic consumer virtue of fair competition. This producer interest was one reason it made sense to house Communications with Industry.

Throughout, the basic assumption is that if we take care of trade and industry, lots of jobs and income will be produced, and this is the most direct route to human happiness, or the most direct route available to the federal government anyway.

Evidently, there were many costs associated with the creation of the new Industry Canada. On the whole, though, I am still of the view that the outcome was worth the cost.

Some things would have happened anyway. No government could have continued the vast mismatch between income and expenditure that had characterized Canada for two decades: there is no question that expenditures had to fall drastically. And a good place to start was with industrial subsidies — at least those that could not be associated with specific market failures or features of the international competitive landscape. Even those would have had to be judged harshly, and frequently, to ensure we were clearly getting our money's worth and more.

The replacements for the subsidy programs of the old department were to be two: commercially actionable information, and improved framework law.

Here I think the theory was right and the programmatic results reasonable, though there is some distance to go. The production, collation and delivery of commercially relevant information to Canadian firms is still something of a struggle, especially insofar as "relevant" may include the notion of "confidential." Letting it all hang out — on the Web, for instance — is hardly conducive to the creation of comparative advantage.

I fear that, to a degree, the idea that animated the Policy Branch a decade ago may have gotten swallowed up in the fashionable rush to e-government.

Framework law is absolutely critical and, moreover, is never a finished product. Is the balance right in our patent law when it comes to pharmaceuticals? Twelve years ago, we gave up compulsory licensing and we lengthened effective patent terms in return for investment guarantees. Those guarantees have been fulfilled many times over, but with a bias towards repetitive clinical trials work and with a regional concentration that was not anticipated.

Should patents attach to simple bits of DNA whose function is unknown? To designer mice? Designer babies? How much attention should we pay to the desires of poorer countries — those who see the proposals emanating from Disney and Big Pharma as devices to keep their peoples in thrall?

Until we answer this question more convincingly, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) will be effectively absent from the Doha

Round of World Trade Office multilateral trade negotiations and all subsequent moves toward liberalization of international markets.

We still have three or four bankruptcy statutes, a record among civilized countries. Does this make sense? Bankruptcy and competition policy are increasingly matters for international concertation and action. The department has been trying to deal with that in its sphere, but there is a large question of Canada's role and Canadian leadership internationally on these topics. These are all areas where the department's leadership is required.

Equally, to the degree that Industry and the other sectoral departments are closer to the ground than their colleagues in Trade or Finance, they should be putting reasoned cases on trade policy and tax to those departments.

Our sectoral experts need not be numerous, but they should be very wise and experienced. They should not spend so much time in Ottawa, and their consultation exercises should be well-targeted and results-focused.

These are not the only opportunities for Industry in the years ahead. Here are some others.

Science policy I have mentioned. The last few years have seen growth in spending without clear enough evidence of an overall investment plan. Is it really true that all the payoffs lie in medicine and biotechnology? I know they are promising, but they have surely gotten their fair share.

Foreign ownership. It is unfashionable to speak of the huge shift of ownership out of the country, itself partly a consequence of a decade of declines in the value of the dollar. Of the once mighty Foreign Investment Review Agency (FIRA), now a whisper of its former self as Investment Canada remains as a unit within Industry Canada.

This is, after all, an era when a Commons committee pronounces itself in favour of lowering barriers to foreign investment in telecommunications and media, since the companies are so short of capital. Nonsense! The problem with those industries is the huge burst of over-investment that accompanied the late-1990s bubble, and the fact that the present owners of so much dark fibre and other underutilized assets want a larger investor pool.

When we lose the mind and management of important firms, or whole sectors, we lose the locomotive effect of their head offices. The TSX oil and gas index has dropped more than half of its names since this young century began. The biotech sector has no Canadian seniors, just small and medium-sized enterprises whose destiny may be to be bought by Big Pharma as soon as possible.

If maintaining a degree of domestic ownership is important — and it is, I think it is, and I think it will become a political issue quite suddenly one day; think of some of the firms that are now in play — what should be our response? Surely not the heavy-handed FIRA; surely not a pulling back from the national treatment disciplines of our trade treaties; but

what? There are some possible answers, but again, the leadership must come from this department.

There is room for cross-departmental thinking about sectoral development. Lessons learned from one industry are often relevant to others. Is there a cross-town forum for the sector development professionals in Industry, the National Research Council (NRC), Environment, Agriculture and the like to compare notes?

One longstanding sectoral issue has to do with the development of the financial sector. The Department of Finance tends to think of itself as the regulator of the sector, not its development advocate. Toronto lost 30,000 financial jobs in the late 1980s and gained 40,000 in the early 1990s. The financial sector is the main industry in the biggest city in the country.

The department and its Minister have to keep up a steady pressure on the provinces to streamline their securities regulatory process. They would not have gotten as far as the current "passport" proposal without federal pressure. At the least, they need to follow through, enact it, and start reducing their costs.

Likewise, speaking of pressure on the provinces, the department is often the sole voice for internal free trade. I doubt that in my lifetime we will ever see interprovincial trade and investment as free as it is becoming internationally, but a halting start has been made and the battle needs to be renewed.

The Constitution is on the federal government's side on this one, and I am delighted to see the courts paying deference to the principles laid out in the present agreement as an aid to interpretation, at least.

Finally, what about building a serious home for the consumer within the policy precincts of the federal government? It's even good industrial policy. After all, only the most demanding consumers can keep producers on their toes, ready to take on the rest of the world at the drop of a hat.

To return to the beginning, how many of the achievements of the department over the last decade, and how many of the opportunities I have just mentioned, were and are better pursued in the reorganized structure of 1993? I think the story speaks for itself.

A department with a wide range of policy responsibilities can establish priorities on a basis other than organizational pride. It can marshal the breadth and depth of talent to perform the analyses and put reforms into play. It can offer leadership to other sectoral departments struggling with analogous questions and to those concerned with regional development.

If we had not constructed a super-department, and a powerful portfolio, to do those things, then the functions would have had to be housed in some new wave of central agencies.

There are lots of other opportunities facing the department. But I had better stop here because my brief was to speak about conditions a decade ago, not next year.

Thanks very much for the opportunity.

