Abstract

In this paper, I examine how the federal Department of Western Economic Diversification has adapted and survived despite considerable odds. By employing variations of three survival strategies, the Department has been responsive to its stakeholders yet achieved autonomy. Furthermore, the impact of these results has been affected by a number of institutional arrangements. Western Economic Diversification Canada has survived by leveraging responsive competence and organizational autonomy with actors in the political process, including politicians, civil society, and other government officials. It has been aided by its comparative advantage as an advocate for western Canada and by its small size.
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Introduction

The federal Department of Western Economic Diversification (WD)\(^1\) is a small and adaptive agency that has survived considerable political and administrative opposition, relative insignificance within the larger federal government machinery, continuing reorganizations and ministerial shuffles, and a mandate that has left it vulnerable. This study analyzes WD’s survival techniques and its strategies to maintain itself in a dynamic often hostile environment over the last twenty years.

Western Economic Diversification’s survival has been achieved by its careful use of three strategies: the production of politically desirable results, the mitigation of potential weaknesses, and the construction of support among key constituencies. These strategies have been implemented at critical junctures of the Department’s history and reflect WD’s creation, its small size and place within the federal government.

The Department has also been able to invoke the rhetorical and political importance of “the West” and by emphasizing its unique position as the sole federal organization devoted entirely to western Canada.

This paper examines the theoretical foundations of government organizational survival as found in the literature and applies them to the Canadian experience in the last two decades, using Western Economic Diversification as a test case. WD is an ideal case for

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\(^1\) For the purposes of this paper, WD will be treated as a unitary actor with preferences. This should be interpreted as the product of departmental norms and decision-making processes that are set and determined by the actions of the Deputy Minister.
three reasons. First, by any standard WD is “vulnerable” and has incentives to use survival strategies. Second, WD has no long history or obvious supporters and is thus more politically expendable than other federal departments. Third, politicians have incentives to dismantle Western Economic Diversification and might have easily as WD has a modest budget, a small staff, and is on the periphery of the federal decision-making process. In other words, the costs of eliminating WD are low.

WD’s survival strategies have provided it with both political support and autonomy to pursue its interests. Autonomy has allowed WD to resist some of the preferences of politicians and other government organizations. Western Economic Diversification’s comparative advantage vis-à-vis other government organizations has been its ability to focus on and represent western Canada. Finally, and most revealingly, Western Economic Diversification’s small size is an important advantage, allowing it to slip under the radar and become a less significant target for opponents. This finding runs contrary to many assumptions about public servants as empire-builders and budget-maximizers.

This paper begins with a discussion of the literature’s insight into survival strategies employed by government organizations. It then chronologically examines the execution of these strategies over twenty years, beginning with the founding of WD in 1987 and the critical impact that its founding had on its future development. The study then turns to the 1993-96 period when Liberals, led by the Rt. Hon. Jean Chrétien, were in power. During that period, a Liberal MP from Saskatoon-Dundurn, Morris Bodnar, chaired a committee on the future of WD that recommended major changes. At the same time, Program
Review, a wide-ranging process aimed at reducing the scope of government activities and the reduction of federal spending took hold. In the post-deficit era (1997-2006) the department was reorganized and faced new opposition. Finally, this paper examines the political hostility of the Reform and Canadian Alliance parties toward WD, and how this has been tempered by the new Conservative Party of Canada in 2006-07.

The analysis and conclusions are by no means generalizable, but rather illuminate forces at work in the Canadian federal public service. In this case study, theories of public servants as budget-maximizers and empire-builders are challenged and the understudied area of survival of small government organizations is examined. This study is constrained by some common research issues, including access to cabinet minutes, internal executive committee minutes from WD, and private discussions held between and amongst ministers and deputy ministers. As a result, the study relies primarily on publicly available information including press releases, parliamentary debates, government reports and publications, and media analyses. Such research has been supplemented by personal telephone interviews with several senior WD officials in October and November 2007.

**Government Organization Survival: Theory and Strategy**

The literature on organizational survival suggests government bodies employ many survival strategies, of which three apply to WD: the production of politically desirable outcomes, the mitigation of potential weaknesses, and the building of key constituencies.

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2 This section is based primarily on Wilson (1989), and to a lesser extent Carpenter (2001), who have studied the subject in detail.
The first survival strategy is to produce politically appealing results. Government organizations can produce political 'goods' that aid governments' electoral ambitions. Politicians\(^3\) come to rely on their agencies to fulfill political needs. Hence, political benefits increase and the agency's political strength increases while the costs of weakening it increase. Government organizations therefore adapt to changing political climates. Terry Moe (1989) identifies this as “responsive competence”, noting that officials will make administrative decisions based on politicians' preferences as opposed to “neutral competence” which sees “objective” decision-making as evidence- and expert-based.

The second survival strategy is to mitigate potential weaknesses in the organization’s mandate and programs. J.Q. Wilson (1989) finds that avoiding errors is critical to stemming outside interference. If an agency takes action to avoid criticism and blunt the objections of its opponents, politicians and rival government organizations will be less able to weaken or restructure it, or to reallocate its budgets. Agencies need to display the appearance of success and credibility, as this protects them from external interference and builds public credibility.

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\(^3\) By politicians, I am referring to politicians in the executive branch who have the authority to make these changes. However, this theory can pertain to all politicians (both backbenchers of the governing party and opposition members) who hope to one day sit in Cabinet and have the authority to design the organizational structure in ways that are politically beneficial, using many of the existing structures to further their political goals.
The third survival strategy is to build supportive constituencies. A group directly interested in an organization's mission can be a great source of political and public support. Politicians who perceive that agencies have identifiable supporters will be cautious in dealing with them. Government agencies then have to manage their constituencies carefully, ensuring that they remain united behind the goals of the department, and resisting policies that can divide core supporters or turn them hostile (Wilson, 1989).

### 3 Survival Strategies

1. Producing desirable political outcomes
2. Mitigating potential weaknesses
3. Building support

The first strategy (producing desired political outcomes) differs from the other two in that it is the only one that demonstrates "responsive competence" or a desire to satisfy political preferences. The second and third strategies (mitigating mandate weaknesses and building constituencies) produce organizational autonomy. The mitigation of weaknesses, especially mandate weakness, protects an organization from predatory actors and provides it with leverage to pursue its own agenda. Furthermore, the building of key constituencies supplies agencies with independent power bases that can be leveraged to pursue goals autonomously.
According to Daniel Carpenter (2001), organizational autonomy "prevails when a politically differentiated agency takes self-consistent action that neither politicians nor organized interests prefer but that they either cannot or will not overturn or constrain in the future". With autonomy comes the power to direct one's mission, goals and future, and ensure survival in a competitive environment. Wilson argues that government agencies often prefer smaller budgets with more agency control to larger budgets with less agency control. When budget cuts or agency reorganizations are required government agencies want the authority to decide how to implement change. Such authority allows agencies freedom to pursue avenues that maximize their odds of success and survival. As a product of survival strategies, organizational autonomy is affected by institutional arrangements.

The execution of these three survival strategies are shaped by five institutional factors: mandate, cabinet structure, career paths of deputy ministers, comparative advantage, and size. Agencies do not operate on these survival strategies in isolation and WD specifically has been affected by these five factors.

The initial mission and mandate of a department at its founding are critical, because changing the purpose of a government agency becomes more challenging as large amounts of time, money, and energy are needed to overcome procedural and institutional barriers to change (Pierson, 2000). An organization at the heart of the federal decision-making process is more difficult to weaken because the effects of any reorganization have reverberations throughout the entire government machinery. Finding a match
between mission and jurisdiction is critical in order to fend off rivals from other government agencies and from the private sector (Wilson, 1989).

The level of political support and representation in the Cabinet also plays an important role, as it affects the agency’s visibility among members of the executive branch. Ministers with multiple job responsibilities can become distracted by other, often more demanding, concerns. If a Minister’s responsibilities are limited to a single department, they can devote more attention to monitoring administrative matters which reduces bureaucratic drift away from political preferences. In short, responsive competence can be raised.

Organizational autonomy can also be affected by the loyalties of deputy ministers, which are influenced by their career backgrounds (Savoie, 1999). Those with less experience in central agencies and who have held longer tenures are more likely to pursue departmentally-focused courses of action.

Government organizations can leverage their comparative advantage against their administrative competitors. At Western Economic Diversification this is primarily its niche as the only federal body that “speaks for the west” in Ottawa and for Ottawa in the west. WD has leveraged advantage through these representative claims. Its position outside of Ottawa has also provided it with advantages that its administrative rivals lack – personal contacts and a visible presence in western Canada.
Finally, WD’s small size, small budgets and peripheral location foster organizational autonomy. Arguments by rivals that their functions will dramatically improve by absorbing Western Economic Diversification are seldom compelling.

**Founding, Purpose, Mandate**

On August 4, 1987, Prime Minister Brian Mulroney announced a 5-year $1.2 billion Western Diversification Fund that would be managed by a Western Diversification Office (WDO), a special operating agency with headquarters in Edmonton, regional offices in Vancouver, Edmonton, Saskatoon and Winnipeg and a liaison office in Ottawa (PMO, August 4 1987). The new organization was headed by a cabinet minister. It would assume the existing regional responsibilities of the Department of Regional and Industrial Expansion (DRIE), with an eye to developing a unique role in diversifying the western Canadian economy. WDO was to be the federal nerve center for economic activity related to industry, business and business infrastructure in the region. Western Canada’s resource-dependent economy was seen as susceptible to uncertain commodity markets and to boom and bust cycles. WDO was charged with working with industry, producer associations, cooperatives, labour and provincial governments to generate increased economic and social stability in the region (WDO Framework, 1987).

Western Economic Diversification was born in a complex political environment. In the mid-1980s, the west was still suffering from the 1981-82 recession, as commodity prices

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4 Initially
5 A subsequent decision would extend the Western Diversification Fund to 7 years, ending in 1994.
for grains, oil, and lumber were simultaneously low (Scarfe, 1985). Politically, the fires of western alienation were stoked by Ottawa’s decision to undertake maintenance of CF-18 fighters from a Quebec-based aerospace firm, not a Winnipeg firm that offered technically superior services at lower prices (York, A3; Fisher, A8). This decision had a direct bearing on the government’s popularity – westerners were reminded of a long history of central Canadian “exploitation”, with the National Energy Program still fresh in their minds.

Another regional economic development agency, the Atlantic Canada Opportunities Agency (ACOA) had been launched two months earlier, albeit with a very different mandate. WD thus added symmetry in federal regional economic development policymaking, and provide the west with political and economic clout.

The Western Diversification Office’s mandate was four-pronged:

1. to coordinate and communicate all federal programs and activities that contribute to the economic development and diversification of the west;

2. to support business infrastructure to further the economic development and diversification of the western economy;

3. to undertake activities that will facilitate the creation of new enterprises and businesses consistent with our evolving international trade policy; and

4. to represent the interests of western Canada in the development of national policies and the design of national programs, and to ensure that western Canada is effectively linked to decision-making in Ottawa (PMO, August 4 1987).

Unlike WD, ACOA seeks to increase the number of jobs and the earned income of Canadians in the region. Economic growth is a general departmental goal, and not targeted to specific sectors.
WDO’s purpose was to invest in projects with high investment potential, usually on a repayable basis. Funding could not be used to bail out industries or go to companies that compete with other Canadian firms. WDO was instructed not to deliver its programs directly, but to contract such work out to other public bodies capable of handling these contributions (WDO Framework, 1987).

The Western Diversification Office’s policy approach was to ensure the continued competitiveness of the natural resource sector, while broadening the region’s economic base through research, innovation, and technology development.

In the run-up to the 1988 federal election, WDO’s impact was being felt through the regional economy, and it was subsequently “promoted” to a full-fledged federal department known as the Department of Western Economic Diversification.

The Early Years (1987 – 1993)

Western Economic Diversification had the potential to produce politically appealing results because of its mandate to “include” the west in federal decision-making processes in Ottawa and to increase the administrative strength of western Canada. The personal involvement of Deputy Prime Minister Don Mazankowski in WD’s founding was particularly relevant, as he provided essential political support. Regardless, opposition

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7 This financial support was typically provided in the form of grants, loans, loan guarantees, and interest subsidies.
parties and vocal interest groups such as the Canadian Federation of Independent Business raised early concerns that WD would be:

"a political slush fund to support vulnerable constituencies; lure in big business or bail out obsolete industries in the hope of gaining short-term political profile; a bureaucratic slush fund available for all other line departments and Ministers to raid in lieu of other national programs that should have their fair share spent in the west; a narrow and highly centralized approach to diversification with continued emphasis on mega projects and traditional resource extraction and development; a confusing black box lacking clear criteria or policy direction and on a collision course with a myriad of client groups who are inevitably going to see thousands of applications rejected and thousands of hopes dashed" (C-113 Legislative Committee, April 14 1988).

Murray Horn has observed (1995) that the vaguer the governing legislation for a government agency, the more authority is delegated to its permanent officials. The Western Economic Diversification Act, which governs WD, is a broad statute that empowers the Minister to "develop and diversify the economy of western Canada". The Act is short and fails to define either development or diversification. Department officials have considerable latitude to act autonomously.

With only two minor exceptions, the Minister of Western Economic Diversification has held multiple cabinet portfolios, a situation that primarily resulted from the Department's small size.

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8 The Act also fails to delineate between development that doesn't diversify the economy of Western Canada and development that does diversify the economy of Western Canada. This potential contradiction is not remedied anywhere in the Act.

9 Larry Schneider held the portfolio exclusively for 4 months under Kim Campbell’s government, and Rey Pagtakhan for 7 months under Paul Martin’s government.
Ministers and Secretaries of State (SoS) responsible for Western Economic Diversification

<table>
<thead>
<tr>
<th>Name</th>
<th>Government</th>
<th>Length of Tenure</th>
<th>Concurrent portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill McKnight</td>
<td>Mulroney</td>
<td>August 4, 1987 – January 29, 1989</td>
<td>Indian Affairs and Northern Development</td>
</tr>
<tr>
<td>Mary Collins</td>
<td>Mulroney</td>
<td>January 4, 1993 – June 24, 1993</td>
<td>Associate Minister of National Defence, Minister responsible for Status of Women</td>
</tr>
<tr>
<td>Larry Schneider</td>
<td>Campbell</td>
<td>June 25, 1993 – November 3, 1993</td>
<td></td>
</tr>
<tr>
<td>Lloyd Axworthy</td>
<td>Chrétien</td>
<td>November 4, 1993 – January 24, 1996</td>
<td>Human Resources Development</td>
</tr>
<tr>
<td>Jon Gerrard</td>
<td>Chrétien</td>
<td>January 25, 1996 – June 11, 1997</td>
<td>Secretary of State for Science, Research and Development</td>
</tr>
<tr>
<td>Ron Duhamel</td>
<td>Chrétien</td>
<td>June 11, 1997 – January 15, 2002</td>
<td>Secretary of State for La Francophonie</td>
</tr>
<tr>
<td>Brian Tobin</td>
<td>Chrétien</td>
<td>October 17, 2000 – January 14, 2002</td>
<td>Industry, ACOA, Minister responsible for CEDQ</td>
</tr>
<tr>
<td>Allan Rock</td>
<td>Chrétien</td>
<td>January 15, 2002 – December 11, 2003</td>
<td>Industry, ACOA, Minister responsible for Infrastructure</td>
</tr>
<tr>
<td>Stephen Owen</td>
<td>Chrétien</td>
<td>January 15, 2002 – December 12, 2003</td>
<td>Secretary of State for Indian Affairs and Northern Development</td>
</tr>
<tr>
<td>Rey Pagtakhan</td>
<td>Martin</td>
<td>December 12, 2003 – July 19, 2004</td>
<td></td>
</tr>
<tr>
<td>Stephen Owen</td>
<td>Martin</td>
<td>July 20, 2004 – February 5, 2006</td>
<td>Minister of State for Sport</td>
</tr>
<tr>
<td>Carol Skelton</td>
<td>Harper</td>
<td>February 6, 2006 – January 3, 2007</td>
<td>National Revenue</td>
</tr>
<tr>
<td>Rona Ambrose</td>
<td>Harper</td>
<td>January 4, 2007 – present</td>
<td>Intergovernmental Affairs, President of the Queen’s Privy Council</td>
</tr>
</tbody>
</table>

Ministers responsible for Western Economic Diversification have tended to have attention divided elsewhere, in portfolios that are generally larger and more complex. This circumstance has provided WD with opportunities to act with limited ministerial

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10 Source: Privy Council Office website
oversight. Between 1996 and 2003, WD was integrated within the Industry Canada portfolio and ceased to be a fully independent department. During this period, a Secretary of State was responsible for the Department who was not a member of Cabinet.\footnote{11} Ministerial oversight was provided by the Minister of Industry who had other much heavier duties. Such limited ministerial oversight enlarged the scope of activities that WD could pursue independently.

In contrast to the large number of ministers in the Department's history, its deputy ministers have often had longer tenures. This circumstance, combined with limited political oversight, provides the Department with considerable scope for independent action and preferences. Savoie (1999) has observed that deputy ministers in recent years have increasingly had shorter tenures and more central agency experience, which has had the effect of increasing their responsive competence, particularly to the Prime Minister. WD is a clear outlier in this regard, as none of its deputy ministers has ever held a senior position within a federal central agency.\footnote{12} The impact on organizational autonomy here is fewer incentives for senior officials to cooperate with central decision-making at both the administrative and political levels, which is exacerbated by professional relationships that are separated by 3,000km and two time zones. With fewer ties to decision-making in Ottawa, the Department has more latitude to pursue an autonomous course.\footnote{13}

\footnote{11} All Secretaries of State (SoS) also held multiple portfolios, adding to the problem of political authorities with divided attention.
\footnote{12} By senior official, I refer to a position at the Associate Deputy Minister level or higher
\footnote{13} Interviews with senior officials have also stated that central agency officials are some of the Department’s greatest critics
Deputy Ministers of Western Economic Diversification\textsuperscript{14}

<table>
<thead>
<tr>
<th>Name</th>
<th>Government</th>
<th>Length of Tenure</th>
<th>Previous DM postings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bruce Rawson</td>
<td>Mulroney</td>
<td>August 4, 1987 – November 25, 1990</td>
<td>Fisheries and Oceans, Indian Affairs and Northern Development, Health and Welfare, Social Development</td>
</tr>
<tr>
<td>Al Kilpatrick</td>
<td>Mulroney</td>
<td>November 26, 1990 – February 9, 1993</td>
<td>International Trade</td>
</tr>
<tr>
<td>Oryssia Lennie</td>
<td>Chrétien Martin Harper</td>
<td>November 1, 1997 – present</td>
<td>(Government of Alberta)</td>
</tr>
</tbody>
</table>

The current deputy minister of Western Economic Diversification, Oryssia Lennie, is a case-in-point: she has held the position longer than anyone else in the deputy minister community (10 years) and has no central agency background in Ottawa.

Experience with Criticism

In the late 1980s and early 1990s, Western Economic Diversification began spending its $1.2 billion endowment. During that period media, public and political attention focused on failed projects and loans that were given to businesses that went bankrupt. Critics decried the department as a provider of corporate welfare, buyer of western votes and waster of scarce public resources. The criticism faced by the Department was strong and consistent as newspaper articles highlighting loan failures appeared frequently. This problem was compounded by the Department's investment criteria that provided

\textsuperscript{14} Source: Parliament of Canada website
significant discretion to WD officials in the regional offices. Formal applications were eschewed and more holistic approaches to loan decisions were made (Auditor General, 1995, 20.22). The Department’s lending process and criteria did not appear rigorous. This situation inevitably led to charges of favouritism in the allocation of loans, partiality, particularly toward businesses with known political connections.

The fledgling Reform Party of Canada included the termination of WD (and all other regional development agencies) in its 1993 (and subsequent) policy platforms (Reform Party of Canada, 1993). With these developments, WD was becoming less politically effective as a tool for increasing government support among western Canadians.

Building Support with the Provinces

Western Economic Diversification also had an important federal-provincial role as it inherited responsibility for the administration of Economic Regional Development Agreements (ERDA) and their successor intergovernmental agreements, Western Economic Partnership Agreements (WEPA). These agreements used “cooperative federalism” techniques to diversify the western economy. They contained a total of $242 million over 5 years distributed equally among the four western provinces (WD, 2002).¹⁵ At the formal announcement of WD’s founding, the three prairie premiers attended with Prime Minister Mulroney and described it as “like waking up after 20 years and finding

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¹⁵ This applies only to the 1989-1994 WEPA agreements. The subsequent WEPAs would be significantly smaller and may partially explain the tepid support from provincial governments for WD today.
that a dream has come true” (Bausch, A1).\textsuperscript{16} Provincial support provided WD with some protection against predators – politicians in government and the opposition in Ottawa who may have been wary about WD, ideological detractors against government intervention in the economy, and federal administrative rivals that wanted to take over WD's responsibilities and budgets. In its early years, WD developed the western provincial governments as key constituencies. This symbiotic relationship between WD and the provincial governments ensured its early survival, because the political cost of making changes would be high for federal decision-makers. This fact provided WD with significant autonomy and delayed calls for its elimination.\textsuperscript{17}


From 1993-1996, Western Economic Diversification experienced major shocks in its political, organizational, financial, and policy environments. These shocks demanded survival responses from the department, as it was required to adapt in new ways. The most important shock during this period was the recession of 1990-1 and the corresponding rise of hostility to government involvement in the economy. Canadians seemed less supportive of government activity as it often led to government debt, soaring deficits, and poor results. WD began to be at ideological odds with public and elite opinion.

\textsuperscript{16} BC Premier Bill Vander Zalm was absent, presumably because of frustration that BC’s share of the Western Diversification Fund would go toward developing Gwaii Haanas South Moresby National Park & Reserve.

\textsuperscript{17} A search in \textit{Canadian Newsstand} does not find a single reference to the notion of WD’s elimination until 1993
Building Support: the Bodnar Report

Western Economic Diversification’s first shock was the election of the Liberal Party in 1993 with a mandate to pursue economic recovery in the aftermath of a recession. Given that WD was a direct legacy of the previous Mulroney government, concerns emerged about its fate. The Chrétien Liberals immediately formed a committee of western Liberal MPs headed by Morris Bodnar to redefine WD’s mandate and report back to its Minister, Lloyd Axworthy. The timing of the Bodnar committee was critical, as WD’s $1.2 billion endowment was set to expire. Fundamental decisions had to be made about the Department’s future direction and existence.

The Bodnar committee undertook public consultations in 9 western Canadian cities, thus affording WD an opportunity to mobilize its supporters, especially those that received WD funding (WD official, October 2007). Consultations were largely positive and MPs were urged to provide larger budgets and greater responsibilities to WD (Bodnar Report, 1994). One media report claims that WD encouraged supporters to attend the public consultations and praise the Department, which was described by the Fraser Institute, a right-wing think tank and WD critic, as “like asking the pigs, ‘How’s the grub?’” and as the epitome of “special-interest politics” (Baines, B4).

The Bodnar Report recommended the expansion of Western Economic Diversification in the areas of western advocacy (i.e., helping western firms win federal procurement

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18 This includes individual businesses and not-for-profit groups receiving grants, and provincial governments that took advantage of WEPAs.
contracts, adjusting national programs to be regionally responsive, and being the visible face of the federal government in the west). It also called for more loans to firms developing new technologies, increases in information services to business, a transfer of the Community Futures program from Human Resources Development Canada (HRDC) to WD, and a greater focus on trade and venture capital partnerships (Bodnar Report, 1994).

Program Review and 1995 Budget
The first Chrétien government (1993-1997) confronted serious public finance problems. “Program Review” was the federal vehicle used to decide how to reduce expenditures, and to clarify federal roles relative to the private sector, provincial governments, and “civil society”. Departments were given expenditure reduction targets and program mandates to change. WD had significant autonomy in deciding how it would make cuts. It chose ways that ensured its survival – by producing politically desirable outcomes, by mitigating potential weaknesses in its mandate and jurisdiction, and by taking advantage of key constituencies. These strategies were filtered through 6 questions asked about every government program and activity:

<table>
<thead>
<tr>
<th>Test</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Interest</td>
<td>Does the program area or activity continue to serve a public interest?</td>
</tr>
<tr>
<td>Role of Government</td>
<td>Is there a legitimate and necessary role for government in this program area or activity?</td>
</tr>
<tr>
<td>Federalism</td>
<td>Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces?</td>
</tr>
<tr>
<td>Test</td>
<td>Purpose</td>
</tr>
<tr>
<td>------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Partnership</td>
<td>What activities or programs should or could be transferred in whole or in part to the private or voluntary sector?</td>
</tr>
<tr>
<td>Efficiency</td>
<td>If the program or activity continues, how could its efficiency be improved?</td>
</tr>
<tr>
<td>Affordability</td>
<td>Is the resultant package of programs and activities affordable within the fiscal restraint? If not, what programs or activities should be abandoned?</td>
</tr>
</tbody>
</table>

These sequential tests would be answered by departments, and then reviewed by a committee of deputy ministers and a committee of ministers.¹⁹

WD was responsible for submitting its proposed cuts directly to the Program Review Secretariat in the Privy Council Office. Its deputy minister, Janet Smith, was a member of the Committee of Deputy Ministers screening submissions. These circumstances allowed the department’s preferences to prevail (Paquet and Shepherd, 1996).

The 1995 federal Budget was the defining moment in the Department’s history. Based on the recommendations of the Bodnar Report and Program Review, WD dramatically changed its primary purpose. It abandoned the provision of direct financial assistance to business. Instead, it assumed the role of purveyor of information and advice to businesses. Given that WD’s greatest liability was its public identification with wasteful loans, its transformation from a lender to a “facilitator” was an enormous asset. As Wilson (1989) observed, government organizations will use their autonomy to adjust

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¹⁹ An observability problem with Program Review has been identified by many researchers, as the process was intentionally left under-documented to avoid leaks and documentation that was produced was considered “advice to the Minister” and exempt from Access to Information requests, including those by the Auditor General.
their mandate toward more achievable, popular and non-controversial ends. Freed of its obligation to “choose winners”, the Department could now credibly portray an air of objectivity and recast its image as an effective advocate of western Canadian interests.

The 1995 federal budget cut the Department’s operating budget by 25 per cent\(^\text{20}\). It also provided Western Economic Diversification with three popular federal programs: the Community Futures program that engaged grassroots economic development efforts through volunteer-driven rural organizations, the Canada Business Service Centres that provided business and trade information from all levels of government, and the Infrastructure Canada program that invested in physical assets that supported economic growth in communities. These programs are relatively inexpensive and in line with WD’s larger mandate of economic development and diversification. By simultaneously allowing the Department to shrink dramatically and by adding small, popular programs, WD also made itself a minor target at the same time. Its new programs allowed WD to be publicly identified as a positive force.

Western Economic Diversification used fiscal restraint as an opportunity to lessen growing ideological opposition and business criticism. The business community at large was increasingly uncomfortable with direct grants and subsidies. Its support (or its non-opposition) was critical to ensuring public, and by extension, political, support of WD.\(^\text{21}\)

WD’s additional Community Futures and Infrastructure Canada programming shifted the

\(^{20}\) According to the OECD, WD’s budget would be cut by 73\% by 2001 from its high in 1993.

\(^{21}\) For example, the Canadian Federation of Independent Business had been highly critical of the Department throughout its history, arguing that money spent on direct loans would be better spent reducing taxes.
Department’s client focus away from the business community and toward “communities” that were supportive of government involvement in economic development.

In this complex period, WD used all three essential survival strategies. It mitigated potential weaknesses by ending direct loans to business, and was thus freed from its major political and public relations albatross. The addition of the popular Community Futures, Canada Business Service Centres and Infrastructure Canada programming made WD an agency that was doing “good work” for Canadians.

The Department’s autonomy was increased as well. It moved from the political radar screen as a “problem” department and gained further control of its own operations. In this respect, WD’s small size was an asset. Predatory rivals, including Industry Canada could not easily argue that the annexation of WD’s budget and responsibilities would either fix policy problems or create significant cost savings.

Post-Deficit Expectations and Roles (1996 – 2006)

Government Reorganization

After surviving the 1995 federal Budget, Western Economic Diversification (and the other federal regional development agencies\textsuperscript{22}) became agencies within Industry Canada, a department headed by a senior cabinet minister. As part of Industry Canada, WD was directly run by a Secretary of State for Western Economic Diversification, an MP from

\textsuperscript{22} ACOA, CEDQ, and FedNOR’s mandates, however, were not overhauled in the way that WD’s was – their overall purpose remained the same.
western Canada who was not a minister. The rationale behind this reorganization was to streamline federal economic decision-making, ensure Industry Canada was responsive to regional issues and project an image of fiscal restraint by “hiding” regional development agencies in the larger Industry portfolio. WD was not strong enough to prevent this reorganization.

While this reorganization was not Western Economic Diversification’s preference, it had several positive impacts. The Industry Minister was preoccupied with larger matters in a ‘superministry’, a fact that increased WD’s autonomy. While freeing WD in some respects, the Department was also constrained by being administratively aligned with Industry Canada. As the federal department best equipped to take on the functions of WD in the future\textsuperscript{23}, this was a real threat. However, interaction between the two departments was not dramatically transformed as they largely worked independently, with separate deputy ministers each reporting directly to the minister. According to senior WD officials (personal telephone interview, October 2007 & November 2007), the Department would much rather have the freedom and flexibility of being a stand alone department, than be a part of Industry Canada. The relationship was a complicated one that saw cooperation at first, but which evolved into an “edgy and competitive”, then “remote”, relationship over time (personal telephone interview, November 2007). The desire of Industry Canada to take on the functions of WD was no secret and had been articulated by Deputy Minister of Industry, Harry Swain on a number of occasions (Kroeger and Swain, 2003).

\textsuperscript{23} Other contenders being the Business Development Bank of Canada and potentially Human Resources Development Canada
Challenges in Building Support

Western Economic Diversification’s largest threat in the post-deficit era became Industry Canada, not politicians or business interests. The threat of absorption prompted senior WD officials to mobilize supporters and to encourage them to communicate their support for WD to MPs and ministers (personal telephone interview, November 6, 2007).24

The argument that Western Economic Diversification should be dismantled remained. Studies of WD by the Canadian Taxpayers Federation and the Senate Banking Committee called for its dissolution. While maintaining a low profile is often a strategy for agencies that wish to avoid the risk of further controversy, WD’s low profile became the subject of criticism. The Department was unknown to many western Canadians (WD Awareness and Ad Tracking, 2001). This fact was also the subject of a departmental audit (WD, 2003) which gathered some mild press coverage. In this respect, a low profile was a liability for WD; particularly if the public is not aware of the Department, and politicians can’t use public knowledge to convey value. This is an inherent tension in a strategy that seeks to increase an organization’s autonomy – responsive competence is often traded away, creating potential difficulties in the future.

This is not to say that all politicians viewed WD negatively. In fact, government MPs who studied the Department were often supportive and called for increased departmental resources. This was made most clear by the Prime Minister’s Task Force on the Four

24 This occurred during the 1998-2000 period.
Western Provinces (Harvard Report, 2000) which recommended an increase in WD’s budget so that it can further encourage diversification of the western Canadian economy. One senior WD official explained that western MPs and Ministers tended to be most enthusiastic while those from Ontario could not understand the need for regional development in the booming west (personal telephone interview, November 2007).

Post-Deficit Politics

After 1997, the federal government began to engage in ‘post-deficit politics’, limited new spending programs, tax reductions and debt payment. Western Economic Diversification’s annual budgets remained small in the wake of Program Review, with incremental programming being added annually. WD linked its mandate to federal economic initiatives such as the Jobs and Growth Agenda, the Connecting Canadians Agenda, and the Skills and Innovation Agenda during the late 1990s and early 2000s (RPP, 2000-2001). This allowed the Department to remain politically valuable, to foster more links with key constituencies and to appear relevant.

When Paul Martin became prime minister in late 2003, he sought to bring a renewed energy and focus on western Canada. He named Alberta MP Anne McClellan Deputy Prime Minister and Saskatchewan MP Ralph Goodale Minister of Finance. Martin also reinstituted the appointing a member of cabinet charged with responsibilities for Western Economic Diversification. This move emphasized the Prime Minister’s commitment to western Canada by untying Western Economic Diversification from Industry Canada,
and allowing its interests to be articulated by a minister that could focus on the west
without filtering information through the large Industry ministry.

WD, as the federal government’s only western agency, had a competitive advantage over
Industry Canada and others, in regional representation. Being a window on the west in
Ottawa was a crucial and effective feature of WD’s mandate that provided it with a
valuable advocacy role. It was ‘the west’s’ voice in Ottawa in matters of policy,
programming, and procurement. This WD feature has allowed it to distinguish itself from
administrative competitors. It also appealed to federal politicians as they ‘reach out’ to
western Canada. WD’s location outside of the nation’s capital positions it
advantageously, as it can collect information on the ground and has personal contacts
with the region’s businesses and communities.

**Western Economic Diversification and the Harper Conservative Government**

*(2006-2008)*

Prime Minister Stephen Harper began his elected political career as a Reform MP, a party
that called for the elimination of Western Economic Diversification. Reform believed that
regional development agencies “distorted” markets, that government did not belong in
“the business of business”, and that WD was wasteful. When Reform became Canadian
Alliance in 2000, the new party remained opposed to WD and other regional
development agencies, with one Alliance MP musing that the party would “eliminate the
western one (WD) before the eastern one (ACOA) because it would be politically easier
to do" (Geddes, A8)\textsuperscript{25}. When Stephen Harper became leader of the Canadian Alliance in 2002, he continued to rail against the regional development agencies. However, a comment about Atlantic Canada’s “culture of defeat” and “can’t-do attitude” created serious electoral difficulties for the Conservatives and led to a major policy change. When the Canadian Alliance and Progressive Conservative parties merged to form the Conservative Party of Canada, the new party became committed to supporting the regional development agencies with a promise to depoliticize them and make them more accountable (CPC, 2006)\textsuperscript{26}.

\textbf{Conclusion}

Government agencies adapt to budget cuts, restructuring, and the predatory behavior of other organizations. In order to survive, government agencies employ several techniques - they produce politically desirable results, they lessen weaknesses in their mandates, and they appeal for the support of different groups. They try to achieve responsive competence that satisfies politicians and organizational autonomy which protects them from changes in their operating environments.

The Department of Western Economic Diversification has defended its very existence from all directions: political parties, civil society, and other government organizations. It has managed to survive for twenty years by skillful use of organizational survival techniques.

\textsuperscript{25} Rahim Jaffer, MP
\textsuperscript{26} It should be noted that Harper never campaigned on supporting regional agencies such as WD. Including this in the party platform was likely a defensive move to stop criticism for past comments, rather than a belief in regional development agencies.
The production of desirable political outcomes is the single most important survival strategy for a government organization. Western Economic Diversification’s single greatest political resource has been its western focus. Speaking for the west in Ottawa, and for Ottawa in the west has produced significant political results and maintained the Department’s value for federal politicians eager for western Canadian votes. When WD’s political results were being damaged by regular reports of failed loans to businesses, the Department shed those loans. It became an asset not a political liability. Western Economic Diversification made itself even more politically popular by taking massive budget cuts in the program review process, and, at the same time, linking itself to popular government programs. The Department exists under the Conservative government today because it is producing a desired political outcome.

Mitigating potential weaknesses in an agency’s mandate often contributes to greater organizational autonomy. Western Economic Diversification’s single greatest liability was the criticism (and later perception) that the Department is a wasteful patronage tool. By abandoning direct loans to business in 1995, Western Economic Diversification mitigated this criticism and began to act with greater autonomy.

Building key constituencies provides government agencies with greater political support and organizational autonomy. Western Economic Diversification’s key constituencies have almost always been its clients. Early in the Department’s mandate, the provincial governments were enthusiastic supporters and defenders that worked cooperatively with
WD and enjoyed its capacity to inject federal funding into their programs. Later, businesses and communities that received Western Economic Diversification funding became strong supporters who publicly defended it and who were actively encouraged by the Department to do so.

The autonomy that the Department has cultivated has protected it from political and administrative rivals that may have different preferences that include its absorption or elimination. The Department was most notably able to decide how its own budget cuts, mandate change, and restructuring would be administered during the Program Review process. Western Economic Diversification, it should be noted, did not achieve complete autonomy, as it could not prevent its forced location within the Industry Canada portfolio in 1996.

Western Economic Diversification survives, against considerable odds, because it has employed survival techniques and has built a political network and organizational niche. Had Western Economic Diversification tried to maximize its budgets and responsibilities, it would have become a tempting target for administrative and political predators. Instead, political decision-makers have to make a cost-benefit analysis, deciding if the costs of eliminating Western Economic Diversification in its current form and reallocating large portions of its budget and responsibilities elsewhere are worth the cost of not reflecting the west in Ottawa and Ottawa in the west.
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