

Executive Summary

On April 1 1999, the map of Canada changed with the formal establishment of Nunavut. Nunavut, “our land” in Inuktitut, is the realisation of more than 30 years of negotiations and planning by the Inuit of the Eastern and Central Arctic. The 1993 Nunavut Land Claims Agreement included a political accord that provided for the establishment of the new Territory of Nunavut and through this, a form of self-government. The Inuit, who represent 85 per cent of the population in the Territory, chose to pursue their aspirations to self-determination through a public government structure that represents all citizens of Nunavut, Inuit and non-Inuit alike.

The Government of Nunavut, Nunavut Tunngavik Inc. and Indian and Northern Affairs Canada share a common commitment to the sustainable development of the Territory and agreed that an economic outlook would be a helpful tool in their work. To this end, the Conference Board of Canada was contracted to conduct a study on the current status of Nunavut’s mixed economy (both the land-based economy¹ and the wage economy) and assess its longer-term prospects. This included undertaking a 20-year economic forecast for Nunavut, identifying structural issues underlying economic performance over the long term.

A comprehensive approach was taken for this report beginning with a theoretical overview on the necessary conditions to achieve growth, as well as how this can affect subsistence or land-based economic activity. Wealth creation, or economic growth, is dependent on four key factors:

Physical capital: Refers to the infrastructure needed to support economic production—transportation infrastructure, communications systems, housing stocks, hospitals, etc.

Human capital: Encompasses human labour, but extends beyond this to include a society’s level of literacy, education and skills status, and knowledge, as well as health status.

Natural capital: Includes the *raw materials* required for economic activity, such as land, wildlife, fibre, minerals, energy and the knowledge derived from this capital.

Social and organisational capital: Encompasses the environment in which natural, human and physical capital interact to create wealth. This form of capital includes the major

¹ Land-based economy or subsistence economy refers to all economic activity that is non-wage-based. For example, hunting, fishing and trapping activities used for household use, or for barter would be considered land-based economic activity. The recorded selling of sealskins or fish for processing, although tied to the land, would not be considered land-based economic activity for the purposes of this report when these activities involve an income of some sort and are recorded as economic activities in standard Statistics Canada indicators. While a large portion of land-based economic activity pertains to hunting and fishing, it can also include the making of clothes and crafts that are not sold as well as informal child care services.

players or sectors involved with wealth creation (e.g., government, private sector, non-governmental organisations), policy environments, levels of trust between players, and public security.

Economic growth, through attention to these four factors, is required for a society to achieve its development objectives and meet increased demand for goods and services arising from a growing population and increasing levels of individual consumption. Traditional land-based economies cannot, on their own, keep pace with the increasing demands for goods and services produced in the industrial economy. Nevertheless, land-based economic activity can still be an important contributor to overall economic activity, as well as play a significant role in the social and cultural way of life for a society. For example, the land-based economy offers a critical avenue for people, especially youth, to gain self-esteem by entering into productive roles in society. This can provide significant development of the human capital available for future economic activities.

Nunavut's Four Factors for Wealth Creation

The Conference Board of Canada recognises the importance for Nunavut's economic strategy to consider all four factors for wealth creation. An assessment of each provides the following observations:

Physical Capital

The state of infrastructure in Nunavut is a serious problem that is affecting both economic and social development. A key consideration is how Nunavut's infrastructure will need to be upgraded to accommodate population growth stemming from a large young population and a growing number of elderly persons. Key areas requiring attention include: housing and commercial space; sewage and waste management systems; affordable transportation and telecommunications networks; and child care services.

Human Capital

Nunavut has a rapidly growing population—more than three times the national average between 1991 and 1996. The Territory also has the youngest population in Canada with approximately 60 per cent of the population under the age of 25 years of age. The level of formal education has been increasing in Nunavut and the situation has been improving; however, it still ranks low compared to populations in other jurisdictions. Over half of the population has less than a high school diploma. Average income per family is lower in Nunavut than the other northern territories and the rest of Canada.

There are differences in health status between Nunavummiut and the rest of the Canadian population. Life expectancy for Nunavummiut males is approximately 7

III

years below the national average and almost 10 years below the national average for females. Related to this is the fact that the rate of premature death (measured in potential years of life lost) is more than double the national average.

It is also important that Inuit have the skill set required for participation in the land-based economy. Inuit learn this skill set—navigation, safety, and land skills—from within their families and from elders. It will be important that attention is given to this and that it be monitored on an ongoing basis.

Natural capital

Natural resources are vital to Nunavut's mixed economy and the overall way of life for most Nunavummiut.² Sound knowledge of Nunavut's natural capital is required that builds on and integrates Inuit Qaujimajatuqangit.³ However, significant gaps in wildlife and fisheries science and public geoscience are restricting the making of accurate assessments of Nunavut's wealth in terms of wildlife and non-renewable resources. Appropriate data on many aspects of Nunavut's natural capital are now being collected, but this will need to be enriched and undertaken on an ongoing basis.

Social and Organisational Capital

The 1993 Nunavut Land Claims Agreement (NLCA) has a profound role in organising capital across the Territory. The Agreement includes numerous provisions for economic development such as: representative hiring of Inuit within Government (territorial, municipal and federal where the Treasury Board is the employer); preferential procurement policies by the federal and territorial governments for Inuit firms; a requirement for an Inuit Impact and Benefit Agreement for major development projects; and greater control over natural resources and the right to harvest. Inuit Qaujimajatuqangit (IQ) also plays an important role in guiding the creation and distribution of wealth in Nunavut, particularly for the land-based economy but increasingly for the wage economy.

Four principal players or sectors support much of Nunavut's economic activity, namely government, incorporated Inuit organisations, the private sector, and institutions of public government (IPGs). Both the Government of Nunavut and the Government of Canada provide a number of economic development initiatives to support individuals, small organisations and businesses, and communities. Nunavut Tunngavik Inc. (NTI),

² Nunavummiut refers to any Inuit or non-Inuit citizen of Nunavut.

³ Inuit Qaujimajatuqangit, or IQ, is a philosophy or a way of living and thinking that encompasses a range of elements such as: the long-practiced tradition of passing Inuit knowledge, values and teachings from the Elders down to the younger generations; a system of laws, values and consultations before making important decisions that affect the community; and an understanding of complex family relationships that is explained by Inuktitut kinship terminology.

which oversees the Inuit obligations under the Nunavut Land Claims Agreement, administers numerous economic development programs for Inuit and provides support to several Inuit “birthright” organisations involved in economic development projects. Nunavut’s private sector is small and relies heavily on the government sector for its business. Institutions of public government oversee the management of development issues involving Nunavut’s land and resources. They therefore play a key role in shaping economic activity.

Overview of Nunavut’s Mixed Economy

Nunavut’s unique mixed economy features both a “land-based” economy and a wage economy. These economies are not mutually exclusive. For most Nunavummiut, the issue is not which economy to participate in but achieving a balance between both. As with other northern regions, a household’s income is often derived from a variety of sources including land-based economic activity, commodity production (e.g., the selling of sealskins), wage-employment, and government transfers.

The land-based economy represents more than economic activity—it is an integral part of the cultural and social processes of the Inuit way of life. It involves the sharing of resources with roles and responsibilities for each member based on age, gender and experience with the kinship affiliate.

Estimating the Size of the Land-Based Economy

The method adopted by Statistics Canada for estimating the value of production or Gross Domestic Product (GDP) is largely confined to the value of goods and services produced and exchanged for money in the wage economy. Estimating the size of the land-based economy in comparable terms is therefore extremely difficult. Although these numbers must be approached with caution, there is a consensus among key informants that put the value of the land-based economy in the range of \$40 to \$60 million. This range includes an estimate of \$30 million for all food-oriented economic activity (replacement-cost value). Beyond this, it is difficult to attach figures to specific activities such as the production of arts and crafts, since most of these activities go unrecorded. Not included in this figure is the unrecorded value of child care, volunteer labour, or sharing of assets.

An important element not to be overlooked in assessing the “worth” of Nunavut’s land-based economy is its contribution to the social fabric of Inuit society. To this, no value can be attributed; however, its role in advancing Inuit human capital is the foundation on which most land-based activity begins (e.g. children learning to hunt or sew from their parents and grandparents).

Overview of Nunavut's Wage Economy

With respect to Nunavut's wage economy, 1999 marked the first year in which data are available from Statistics Canada. The 1999 value of Nunavut's real expenditure-based GDP was \$682 million. While caution should be taken when analysing the Territory's economy based on one data point, the figures do highlight the extent to which Nunavut's economy is linked to the government sector. In real terms, total government spending on goods, services and investment exceeded 55 per cent of total domestic demand compared to approximately 22 per cent at the national level. At the same time, government employed, on average, 4,006 people in 1999, which was almost half of the Territory's total employment.

Another unique feature about Nunavut's economy can be found by comparing domestic demand with the Territory's output. In 1999, real domestic demand was \$967 million, while real GDP was \$682 million. This means the local population is using up a much greater amount of goods and services than it produces, resulting in a significant trade deficit of \$195 million, or \$6,851 per person. This trade deficit can exist without economic ramifications because of the sizeable flow of money from the federal government to Nunavut in the form of transfers and direct wages. Moreover, the growth in the government sector has spawned a growth in other local service providers, creating jobs and generating much needed money circulation. However, the longer-term fear should be the relative growth rate of these transfers versus the growth in population. After the initial expansion phase, growth in the government sector will flatten out. Because the economy is so dependent on the public sector, general economic growth will slow. The population will continue to expand, however, so that per capita growth of the economy will decline.

Nunavummit Kiglisiniartiit estimated an unemployment rate in Nunavut of 20.7 per cent in 1999 based on a labour force of 10,904. This estimate is for the national definition of unemployment, which requires a person to have actively looked for work during the month prior to the survey. This is not an entirely appropriate definition for Nunavut, as many residents in communities with weaker wage economies don't actively look for work because they know that if there is work available, it will be posted at the community store and/or announced on the community radio station. When the 'no jobs available' definition is used—which includes people who reported that the reason they didn't look for work in the last month was because they perceived there to be no jobs available—the unemployment rate rises to 27.2 per cent based on a labour force of 11,886.

This unemployment picture worsens when one looks at the discrepancy between Inuit and non-Inuit of Nunavut. Using the "No Jobs Available" criteria, Inuit unemployment was 35.8 per cent compared to non-Inuit at 3.3 per cent in 1999. Inuit between the ages of 15 and 24 averaged 48.1 per cent unemployment. This number excludes those who are still in school or those who are involved entirely in land-based economic activity

and are not seeking a wage-based job. Clearly, Nunavut youth need jobs, and to get them, they need to have an education that will help them succeed in these jobs. This gets back to the issue of Nunavut's human capital and the composition of its wage-based economy dominated by skilled job opportunities in the public sector. If this is to be the case, then the youth must receive the training required to work as a public servant, whether it is in an administrative or professional position.

A descriptive analysis of Nunavut's wage economy by sector was undertaken based in part on 1999 GDP figures provided by Statistics Canada. The sectors examined included: fishing and hunting, mining, manufacturing (arts and crafts industry and food processing), construction and government. Government and its related services was the largest contributor to GDP in Nunavut in 1999. Growth for many of these sectors has been limited to date due to low levels of physical and human capital (i.e., limited infrastructure and skilled labour).

The Conference Board of Canada produced a 20-year economic forecast for Nunavut. Real GDP is forecast to expand by an average of 2.42 per cent, compounded annually, from 1999 to 2020. The fastest growth period will come in the Territory's first ten years of existence due to the activities surrounding the creation of Nunavut. Mining, tourism and fishing are sectors with the largest potential. This forecast is based on a number of assumptions including growth in population and labour force, growth in federal transfers, and an assessment on an industry-by-industry basis gauging the likelihood of wage-based economic activity. Our forecast is also contingent upon the development of all four forms of Nunavut's capital, particularly human capital (e.g., education of youth, improving health status) and the development of the Territory's infrastructure.

A forecast for the land-based economy is much more difficult due to the lack of data. Growth in land-based economic activity will no doubt be influenced by the carrying capacity of Nunavut's natural resources (e.g., numbers of wildlife, availability of soapstone), increases in Nunavut's population, and the values and skills of its young people to pursue land-based activities. Growth in Nunavut's wage and land-based economies is interconnected. For example, growth in tourism is dependent in part on Nunavut's ability to market its traditional way of life.

Key Issues for Charting Nunavut's Economic Future

The Conference Board of Canada felt it was necessary to identify key issues that will impact on Nunavut's four forms of capital and the development of wealth. First, societal values will continue to play an important role in shaping policy choices and influencing a course for Nunavut's economic development. Values have already been driving the development of Nunavut thus far. These values include:

- A collective approach to socio-economic development: For example, there is a strong belief in Nunavut that economic opportunities should be shared among all communities as seen in the policy to decentralise government operations.

VII

- A move towards greater self-reliance: This includes Inuit having greater political and economic control of Nunavut and its environment.
- Inuit Qaujimajatuqangit (IQ): There is recognition of the value of Inuit knowledge and integrating it with other knowledge sources. Consensus building and consultation is the preferred route for decision making.
- Economic development should be focused primarily at the community level.
- Land-based economic activity is an important part of life and must be supported: There is no evidence to suggest that land-based economic activity is valued less than participation in the wage economy.
- Sustainable development: Economic development must follow the practices of sustainable development whereby equal importance must also be given to the development of human and natural capital.

A key matter will be whether these values are in fact important to Nunavut's younger population and what balance Nunavummiut want to have between the land-based and wage economies.

A second issue is the need to increase knowledge about Nunavut by improving the level of understanding in some key areas such as:

- the health and social status of Nunavummiut;
- Nunavut's natural capital including a lack of public geoscience;
- Nunavut's land-based economy and how it functions; and
- Nunavut's wage-based economy.

Many of these problems stem from the lack of Nunavut-specific data, the small population size and the inherent difficulties in capturing land-based economic activity. Steps are being taken to address these gaps but more must be done to generate data specific to Nunavut on a permanent basis and ensure that they are accessible for all (e.g., making information available on line). A better understanding of the status and potential of Nunavut's four forms of capital will be required to secure both public and private investment.

Third, the development of Nunavut's human capital, especially in the areas of education and skills development, will have a significant influence on Nunavut's economic growth. The case for addressing Nunavut's human capital is compelling when considering its relatively young population, and the goals that have been set for this new Territory (e.g., achieving greater self-reliance and a representative level of Inuit employment within Government). The skills needed to work in the workplace today and tomorrow (e.g., manage information, be adaptable, work with others) will be important to learn.

VIII

The implementation of the Nunavut Land Claims Agreement will also have an impact on economic activity in Nunavut. Given the important role government plays in the Nunavut economy, Articles 23 and 24 of NLCA, aimed at greater Inuit involvement in government and its operations, can be major contributors to economic development. However, implementation of the Agreement requires an ongoing commitment and there should be recognition that some provisions will take time.

A fifth issue affecting economic development is the need to clarify the role of each of the major players involved in economic development. Economic development assistance by the federal government must recognise the unique situation in which Nunavut finds itself stemming from differences in demographics, limited physical capital, and large undeveloped potential. Economic development programs based on per capita funding formulas or designed to support already established industries generally do not fit with Nunavut's current stage of development.

The federal role in Nunavut cannot be viewed in isolation of the federal transfers it receives. And it must not be viewed in isolation of the other key players involved in economic development. A collaborative approach to economic development including all of the major players, including the private sector, is required that involves setting specific objectives for action and moving beyond common principles. There is consensus that collaboration among stakeholders needs to be improved.

One of the major challenges of the Government of Nunavut is to find revenues to finance the wealth-creating investments needed to ensure the future prosperity of Nunavut's whole economy. While a re-assessment of spending priorities may be required, the Conference Board believes it is unlikely this will provide sufficient funding for these investments. Therefore, consideration should be given to securing additional revenues over the short to medium term (e.g., additional federal funding, finding new revenue sources). Regardless, failure to address the physical and human capital needs of the Territory poses a tremendous risk to the future of Nunavut and this economic outlook.

With all newly established political jurisdictions come high expectations—Nunavut is no exception. It will be important that achievable objectives be identified along with the reassessment of existing ones. On this note, the implementation of some ambitious objectives set for Nunavut may take some time. For example, the target of a representative level of Inuit employment within Government will be difficult to achieve in the short to medium term. However, because such a large percentage of the Nunavut population is so young, if the target is linked to education and training opportunities for potential entrants, and steps are taken to ensure the public service is regarded by Inuit as a desirable career choice, these difficulties could be overcome.

People and jurisdictions around the world closely followed the establishment of Nunavut. Expectations for progress from both outside and within Nunavut have been

high. But it is clear that Nunavut's development must begin with the basics by ensuring all of the necessary levels of capital are in place to foster economic development. Our 20-year economic forecast remains an optimistic one providing they are addressed. Ultimately, however, the people of Nunavut will need to decide what constitutes a high and sustainable quality of life and the kind of development they are willing to pursue to achieve their goals.