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### **Economic Disparities, Government Expenditures and the Cost of the Status Quo**

**IN THE FIRST FOUR VOLUMES** of this report we showed how inequitable and counter-productive the policies of dispossession and assimilation of Aboriginal peoples have been and remain. We discussed how these policies helped to create the conditions facing Aboriginal people today, and how changes in policies over the past several decades, while sometimes constructive, have not been sufficiently far-reaching to change the deplorable conditions in which many Aboriginal people live. This situation entails a considerable cost to Aboriginal people and to Canadians generally. In this chapter, we explore the nature and dimensions of that cost.

It is not difficult to find examples of government actions that have been costly to governments and to Aboriginal parties. Consider the years of prolonged negotiations and litigation sparked by the government's desire to circumscribe basic Aboriginal rights. (To cite just one example, during the 20 years it took to negotiate the Yukon comprehensive claim — with much of the delay resulting from shifting government policies and personnel — Yukon First Nations incurred a debt of \$63 million. They should not have to bear the cost of government delay and confusion alone; the debt's repayment should be renegotiated.) Or think about the deterioration of publicly funded housing stocks on reserves, resulting largely from government's failure to construct houses to an adequate standard and ensure their maintenance. In this chapter, however, we focus on the cost of government actions that are perhaps not as obvious but are nonetheless substantial. We call them social costs, as they are borne collectively by all Canadians. We show that these costs will continue to be incurred year after year and will escalate as long as current policies are in place. Eliminating these costs through fundamental policy changes is a convincing argument for implementing the agenda proposed in this report.

Social costs fall into two broad categories: costs associated with the economic marginalization of Aboriginal people, and costs incurred as governments attempt to address social problems through remedial programs. As a group, Aboriginal

people do not participate fully in the Canadian economy. They produce and earn less than an equivalent number of other Canadians. By any realistic standard, the contribution of Aboriginal people to the Canadian economy is much less than it could and should be. More than 150,000 Aboriginal adults do not know the satisfaction of earning an adequate income and being economically independent.<sup>1</sup> As a result, the wealth they could potentially produce is not being realized. The value of production and income forgone is a continuing cost that can never be recovered. We estimate that the cost of forgone production was \$5.8 billion in 1996. Half the cost of forgone production is shifted to governments and thus is borne by all Canadians. Governments collect less tax revenue than they would if Aboriginal people earned adequate incomes, and they pay out more in social assistance, other income support payments, and housing subsidies.

The second category of social costs consists of the large amounts allocated to coping with social problems — in other words, the extra cost of government expenditures on remedial programs. If health and vitality were restored to Aboriginal communities, these expenditures could be reduced. We estimate that extra expenditures on remedial programs amounted to \$1.7 billion in 1996.

Adding the two categories together, the total social cost of the status quo was \$7.5 billion in 1996 — almost one per cent of the value of Canada's economic output as measured by the gross domestic product (GDP).<sup>2</sup> Again, although Aboriginal people bear a large part of the cost of the status quo, more than half the burden falls on Canadians generally through reduced government revenues and increased spending on social assistance, health care, child welfare, law enforcement and corrections and other remedial measures.

The social costs examined in this chapter are not one-time costs; they are incurred yearly and will likely increase unless fundamental changes are made. To demonstrate this, we examine the social and economic conditions that give rise to these costs and explore whether policies now in place have the capacity to change these conditions.

## **1. The Cost of Forgone Production**

Compared to other Canadians, Aboriginal people as a group participate in the economy at lower rates and therefore have lower incomes. The large majority of Aboriginal people would be better off if their economic potential were realized. In the following pages we explore that economic potential and what can be gained by realizing it.

To estimate the economic potential of Aboriginal people, we focus first on income from employment, using data from the 1991 census and Aboriginal peoples survey (APS) to estimate how much Aboriginal people would earn if they were employed more productively and in larger numbers. It seems reasonable to take earnings and production in the Canadian economy as a basis for estimating this potential; Aboriginal people and communities are part of the Canadian economy and can be expected to encounter similar economic opportunities and constraints. Of course, economic opportunity is not distributed evenly over Canada's large land mass, and we take this into account by adjusting our estimates for regional differences in economic opportunities. We then extend our analysis to include income from sources other than employment, including profits and investments. Finally, we estimate the cost of forgone production for 1996 and the related shortfall in employment.

Differences in economic outcomes between all Canadians and Aboriginal people are shown in Table 2.1. (In this chapter, data for Canada or 'all Canadians' include both Aboriginal and non-Aboriginal people.) There is a large gap in average earnings from employment (including self-employment) for persons aged 15 years and over. In 1990, Aboriginal people earned an average of \$9,140, or 53.7 per cent of the Canadian average of \$17,020. The difference is directly attributable to three factors: Aboriginal people participated in the labour force at a lower rate (57 per cent compared with 67.9 per cent); they experienced a higher unemployment rate (24.6 per cent compared with 10.2 per cent); and those who were employed earned less than employed Canadians (\$21,270 compared with \$27,880). The aggregate employment income for Aboriginal Canadians was \$4.2 billion in 1991. An equivalent number of Canadians earned \$7.8 billion from employment, or \$3.6 billion more.

**TABLE 2.1**  
**Selected Economic Indicators, 1991**

	<b>Aboriginal Rate<sup>1</sup></b>	<b>Canadian Rate<sup>2</sup></b>
Earnings from employment per person age 15+	\$9,140	\$17,020
Labour force participation (% of population age 15+)	57.0%	67.9%
Unemployment rate (% of the labour force)	24.6%	10.2%
Earnings from employment per employed person <sup>3</sup>	\$21,270	\$27,880

Notes:

1. Adjusted Aboriginal population (see Volume 1, Chapter 2).
2. Includes all Canadians — Aboriginal and non-Aboriginal.
3. Income data are for 1990.

Source: Statistics Canada, "Labour Force Activity", catalogue no. 93-324, Table 1; "Profile of Canada's Aboriginal Population", 1991 Census, catalogue no. 94-325, Table 1; and Aboriginal peoples survey, custom tabulations.

Differences in levels of employment are echoed in discrepancies in employment income. When we combine the labour force participation and unemployment rates presented in Table 2.1, we find that on average at any time in 1990, 43 per cent of Aboriginal persons aged 15 years and over was employed, compared to 61 per cent of all Canadians.<sup>3</sup>

To achieve parity with all Canadians in the rate of employment, 82,000 more Aboriginal people would have to have been employed. At Aboriginal people's earning rate in 1990, this extra employment would have brought in \$1.8 billion in income and narrowed the earnings gap by almost half (48.6 per cent). If the level of earnings per employed Aboriginal person were raised to the overall Canadian level at the same time, the other half of the earnings gap (51.4 per cent) would be eliminated. The difference in the level of earnings per employed person is not as significant as the difference in the rate of employment. If employed Aboriginal persons had earned as much as employed Canadians earned on average in 1990, 36 per cent of the gap in earnings would have disappeared.

Differences in employment levels relate mainly to full-time, full-year jobs. Although Aboriginal people are well represented in employment involving up to 26 weeks of work in a year, only one-fifth of Aboriginal adults had a full-time, full-year job in 1990, compared to well over one-third of all Canadians (see Table 2.2). The shortage of full-time, full-year jobs applies to all Aboriginal groups, but is most acute for First Nations people living on-reserve. The disparities are somewhat smaller for women than for men.<sup>4</sup> Aboriginal women have been part of the trend of the last several decades toward greater labour market participation among women.

A person's level of education is closely related to the probability of finding employment and to employment income. In the case of Aboriginal people, less than half of those with a grade nine education or less were employed at any time in 1990, compared to more than 90 per cent of those with a university degree.

TABLE 2.2

**Employment by Weeks Worked, 1990 (% of the population age 15+)**

	Full-Time Employment		Part-Time Employment	
	Aboriginal People	All Canadians	Aboriginal People	All Canadians
1-26 weeks	14.2	8.4	7.6	5.8
26-48 weeks	9.5	10.7	2.5	3.5
49-52 weeks	20.5	36.9	2.9	4.7
<b>Total</b>	<b>44.3</b>	<b>56.1</b>	<b>12.9</b>	<b>14.0</b>

Source: Statistics Canada, "Educational Attainment and School Attendance", catalogue no. 93-328; and Aboriginal peoples survey, custom tabulations.

Average employment income ranged from less than \$13,000 for those with grade nine or less to more than \$33,000 for those with a university degree. The gap in levels of education between Aboriginal people and all Canadians is illustrated in Table 2.3.

TABLE 2.3

**Education and Employment Income, 1991**

Highest Level of Education Completed	Aboriginal People* (% of population age 15 to 64)	All Canadians* (% of population age 15 to 64)	Average Employment Income Per Aboriginal Person (\$000s)
Less than grade 9	25.4	11.8	12.7
Grades 9 to 13	32.2	22.8	15.3
High school diploma	12.9	21.3	19.4
College without certificate	8.0	6.2	15.8
College with certificate	14.2	17.9	20.5
University without degree	4.7	7.9	22.6
University with degree	2.6	12.2	33.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>17.8</b>

Note: \* Population age 15 to 64 no longer attending school full-time.

Source: Statistics Canada, "Educational Attainment and School Attendance", catalogue no. 93-328; and Aboriginal peoples survey, custom tabulations.

Using the data in Table 2.3, we calculated that 41.6 per cent of the \$3.6 billion gap in employment income is associated with educational attainment.<sup>5</sup> This suggests that education is a major lever for improving economic outcomes for Aboriginal people. We know as well that such factors as ill health, disability and conflict with the law, although less significant, are also related to economic performance, and that improvement in these factors will also contribute to reducing the economic gap.

Opportunities for wealth creation are far from evenly distributed in Canada. In large areas of the country, including the mid- and far north where many Aboriginal people live, economic activity is limited and mainly resource-based. Regional economic disparities have persisted despite considerable efforts over several decades to reduce them. To reflect this diversity of economic opportunity in our estimates, we took the location and size of Aboriginal communities into account and compared them with others of similar size and location.

As shown in Table 2.4, per capita income from employment in these more or less comparable communities is considerably less than the Canadian average; participation in the labour force is somewhat lower and unemployment is higher. Some of the First Nations communities are in urban areas and in regions with dynamic, high-performing economies, as are some of the comparable communities. Many First Nations communities, however, are small and remote from service centres (see Volume 2, Chapter 5). Even compared to similar communities, however, the economic performance of First Nations communities falls far short, particularly with respect to the level of employment. This illustrates the degree of exclusion of First Nations communities from the Canadian economy.

**TABLE 2.4**  
**Selected Economic Indicators for First Nations and Comparable**  
**Communities, 1986**

	<b>First Nations Communities</b>	<b>Comparable Communities</b>	<b>Canada</b>
Labour force participation (% of population age 15+)	44.9	60.3	66.9
Unemployment rate (% of labour force)	33.3	14.9	12.0
Average income from employment, women (\$000s)	3.3	4.4	7.3
Average income from employment, men (\$000s)	6.5	12.8	17.9

*Note:*

Data are for 1986 (the latest comprehensive data available). Comparable communities are communities located in the same geographic area as reserve communities (that is, in the same census subdivision or division), similar in population size, and organized as a municipality or village.

*Source:* Diand, Community Comparison Project, unpublished.

No similar comparison is available for other Aboriginal communities. Although some of these communities are small and remote, and may therefore have limited economic potential, many off-reserve Aboriginal people live in urban and metropolitan areas where they should have access to the same economic opportunities as most Canadians.<sup>6</sup> We believe, therefore, that the Canadian average is a good measure of the economic potential of Aboriginal people not living on reserves, with the exception of Inuit, who live mainly in small northern communities and whose income from employment is the second-lowest among Aboriginal groups, after that of Indian people living on-reserve. If we take comparable communities as the norm for First Nations people on-reserve and Inuit, and retain the Canadian average as the norm for other Aboriginal groups, the estimated potential employment income of Aboriginal people drops by \$0.9 billion, from \$7.8 billion to \$6.9 billion, and the gap between Aboriginal people and all Canadians narrows from \$3.6 billion to \$2.7 billion.<sup>7</sup>

Employment earnings are only part of the income generated by economic activity. In 1990, earnings accounted for 61 per cent of the value of production (GDP), with the remainder made up of profits, capital consumption allowances and other, smaller income items.<sup>8</sup> To estimate the total economic gap between Aboriginal people and other Canadians, these other income items must also be taken into consideration. In the absence of data for Aboriginal people regarding these income items, we assumed that the composition of total income is the same for Aboriginal people as for all Canadians. Thus, in addition to a gap in employment income, there is also a gap of the same relative size in income from other sources. This leads to an estimate of \$4.4 billion in 1990 for the gap in total income between Aboriginal people and an equivalent number of Canadians.<sup>9</sup>

We identified a lack of full-time, full-year jobs and lower levels of education as major factors in poor economic outcomes. We also showed that only a fraction of the economic gap between Aboriginal people and Canadians is related to regional economic disparities, and we have reduced our estimate of the economic gap to eliminate this component. In Volume 2, Chapter 5 we presented a more complete analysis of the performance of Aboriginal economies. Besides the factors highlighted here, we discussed the disruption of traditional ways, dispossession from a rich land and resource base, and restrictions inherent in the Indian Act. The economic exclusion of Aboriginal people has had significant cumulative effects on individuals' employment skills, their incentive to pursue education and training, and the capacity of communities to engage in modern economic activity, and these too are obstacles to better economic performance.

Our analysis points to a number of deep-seated problems. The economic disadvantages facing Aboriginal people are not a passing phenomenon. In fact, disparities between Aboriginal and other Canadians are increasing, and they will likely continue to do so unless policies are radically altered. Between 1981 and 1991, the unemployment and income gaps widened (see Table 2.5). Aboriginal people in the labour market, whose numbers grew rapidly during that period, experienced much greater difficulty finding work. The unemployment rate soared, far outpacing the increase for Canadians generally, and the average income of Aboriginal people (adjusted for inflation) actually declined over the decade. Various factors contributed to these trends: a recession in the early 1990s, jobs lost in resource exploration and extraction activities in northern areas, and a decline in the price of fur.



TABLE 2.5

**Economic Indicators for Aboriginal People and All Canadians Age 15+,  
1981 and 1991**

	1981			1991		
	Aboriginal People	All Canadians	Gap	Aboriginal People	All Canadians	Gap
	1	2	1-2	1	2	1-2
Labour force participation rate	51.8	64.8	13	57	67.9	10.9
Unemployment rate	15.8	7.3	8.5	24.6	10.2	14.4
% with income less than \$10,000	49.4	32.8	16.6	47.2	27.7	19.5
Average total income	\$15,303	\$23,119	\$7,816	\$14,561	\$24,001	\$9,440

*Note:*

Figures for 'average total income' and '% with income less than \$10,000' exclude persons reporting no income. Data are for 1980 and 1990, in 1990 constant dollars, and include income from all sources, not only employment earnings.

*Source:* Statistics Canada, "Canada's Aboriginal Population, 1981-1991: A Summary Report", research study prepared for the Royal Commission on Aboriginal Peoples [RCAP] (1995); data from the Housing, Family and Social Statistics Division, Statistics Canada, January 1995; Statistics Canada, "Labour Force Activity", 1991 Census, catalogue no. 93-324, Table 1; and 1991 Aboriginal peoples survey, custom tabulations. For information about research studies prepared for RCAP, see A Note About Sources at the beginning of this volume.

With regard to education, some progress was made between 1981 and 1991. The proportion of the Aboriginal adult population with less than grade nine dropped from 37 to 24 per cent (see Table 2.6). High school completion rates rose from 29 to 42 per cent, and the proportion of post-secondary non-university certificate holders increased from nine to more than 13 per cent.

TABLE 2.6

**Aboriginal and Canadian Populations Age 15+, Showing Percentage by Level of Education Attained, 1981 and 1991**

	<b>1991 Aboriginal People</b>	<b>All Canadians</b>	<b>Gap</b>	<b>1991 Aboriginal People</b>	<b>All Canadians</b>	<b>Gap</b>
	<b>1</b>	<b>2</b>	<b>2-1</b>	<b>1</b>	<b>2</b>	<b>2-1</b>
Elementary school	63	80	17	76.1	86.1	10
High school	29.1	52.1	23	42.5	61.8	19.3
Post-secondary certificate	8.9	13.7	4.8	13.3	15.8	2.5
Some university	6.7	16	9.3	8.6	20.8	12.2
University degree	2	8	6	3	11.4	8.4

*Note:* This table shows the number of individuals who have attained the level of education indicated, including individuals who have gone on to higher levels. Thus, in 1991, of the 76.1 per cent of Aboriginal people who completed elementary school, many have completed high school and a number have also gone on to study at colleges and universities. The category 'post-secondary certificate' includes those who may not have completed elementary school or high school.

*Source:* Statistics Canada, "Canada's Aboriginal Population 1981-1991: A Summary Report", research study prepared for RCAP; and data from the Housing, Family and Social Statistics Division, Statistics Canada, January 1995.

Educational attainment among Canadians generally also rose over the same period, but the disparities diminished in these three categories. As Table 2.6 shows, however, there is still a 10 per cent gap at the elementary level and a 19 per cent gap at the secondary level. Compared to Aboriginal adults, Canadian adults are still 1.5 times more likely to have completed high school.

The positive trends in high school education are related in part to policy initiatives such as greater Aboriginal control, more Aboriginal history and language in the

curriculum, more schools in Aboriginal communities, and increasing the numbers of Aboriginal teachers. The positive trends may not continue, however, unless these kinds of reforms in education are extended and the social and economic prospects of children now in school improve.

Aboriginal people also made educational gains at the university level for the period 1981 to 1991, but the improvements were modest compared to those of Canadians generally. The gap in university participation and completion increased over the decade: by 1991 Canadian adults were 2.4 times more likely to have some university education and 3.8 times more likely to be a university graduate. Moreover, although Aboriginal participation in all forms of post-secondary education has been increasing, it remains significantly below general Canadian levels. Only when Aboriginal people begin to obtain college and university degrees at the same rate as all Canadians will we see the gap in educational attainment decline and ultimately disappear.

Deterioration in economic indicators for Aboriginal people in the 1980s appears to show that improvements in levels of educational attainment up to the high school level have not had much impact on economic outcomes. A much greater catch-up at all levels of schooling is required if greater employment and higher earnings are to be realized.

This brief review highlights how entrenched the economic disparities between Aboriginal people and Canadians generally are and how they increased during the 1980s. It is quite possible that during the 1990s, these disparities have continued to widen. A trend toward greater concentration of employment in low-wage jobs and a higher degree of marginalization has been observed in the economy as a whole. The rapid increase in federal social assistance expenditures from 1991-92 to 1995-96, as documented later in this chapter, suggests that conditions may have worsened in First Nations communities. Some improvements in the Canadian economy in general, and in some resource sectors in particular, might have tended to moderate the disparities, however. On balance, we can assume, without risk of exaggerating the economic gap facing Aboriginal people, that differences in income and employment between Aboriginal people and all Canadians have remained constant on a per capita basis since 1990. After adjusting for population and price changes, we calculate that the economic gap between Aboriginal people and an equivalent number of Canadians will reach \$5.8 billion in 1996, compared with \$4.4 billion six years earlier.<sup>10</sup> One-half of this gap is related to a gap in employment of 80,000 jobs.<sup>11</sup>

An economic gap of this size is not acceptable in Canada today. Our recommended strategies for change, discussed in Volume 2, Chapter 5 and

elsewhere, present a major challenge to Canadians — Aboriginal and non-Aboriginal alike — and their governments. But we believe that success will follow implementation of the measures we propose. Avoiding the social costs of economic disparity and eliminating the economic disparities facing Aboriginal people is a viable and realistic policy objective.

First, we have no doubt that Aboriginal people will agree with the scope of development needed in their communities and on their traditional territories to create the jobs and incomes. We believe that Aboriginal people will seize economic opportunities and adapt to new economic realities, as they always have. Although Aboriginal people have a strong attachment to the land, and many wish to pursue traditional activities, they also want jobs that offer good incomes. They are not resigned to economic dependency. Experience has also shown that although Aboriginal people often resist development on their traditional lands, their attitude is different when they can control the negative effects of development and share in its benefits. Moreover, the two lifestyles — traditional activities and salaried employment — need not conflict. Many Aboriginal people combine traditional activities with salaried employment or commercial activity in different seasons and over the course of a lifetime.<sup>12</sup>

Second, we have been careful to base our estimate of economic potential on the actual performance of the Canadian economy. If Canadians in general can achieve a certain level of employment and productivity, so can Aboriginal people. In particular, our estimates take into account the diverse opportunities for wealth creation and differences in lifestyle across the country.<sup>13</sup> Aboriginal people can likely achieve the rates of employment and earnings we have estimated without massive migration to areas of greatest economic opportunity. We are not proposing that economically weaker regions of Canada catch up with wealthier areas; rather, we are suggesting that within each region and urban area, Aboriginal people should share more equitably in wealth-creation activities.

The rapid growth of the Aboriginal population will pose a challenge for the future. The Aboriginal population of working age is expected to expand by nearly 250,000 between 1996 and 2016, an increase of a 48.6 per cent in 20 years, compared with an expected 23.4 per cent increase for the same group in the Canadian population as a whole.<sup>14</sup> In the cities, Aboriginal people will compete for employment in growing job markets. In the resource-producing areas of Canada, employment may not expand enough to provide sufficient jobs for the growing Aboriginal and non-Aboriginal population. Aboriginal people will need a larger share of jobs in those regions. Other entrants to the labour market could find opportunities in parts of the country where more jobs can be created.

But there is reason to be optimistic about economic growth in the resource-producing areas if lands and resources are restored to Aboriginal peoples. Where land claims have been settled, Aboriginal people have taken control of resources and invested in their communities; regional economies have expanded, benefiting all who live there. In Volume 2, Chapter 4, we drew a comparison between the Cree people to the east and west of James Bay, and between Inuit in Nunavik and those in Labrador. Crees and Inuit in Quebec now have more economic tools at their disposal to improve their lot, and have used some of the proceeds of a land claims settlement to acquire and develop businesses. When Aboriginal people control resources and the businesses that exploit them, a larger part of the income generated is likely to remain in the region instead of being transferred to urban centres. The result is that more money is spent locally, and in turn more jobs and greater business activity are generated.

Some economic opportunities for Aboriginal people have not yet been widely recognized: Aboriginal communities can develop world markets for entirely new and unique products in cultural tourism, the arts, specialty foods, clothing, pharmaceuticals, sports and recreation, as well as in the construction and service industries. Many new jobs can be created as a result of an increase in two-way trade with neighbouring communities and wider outside markets. Given a growing land base and more investment funds from further claims settlements, coupled with self-government, a better-educated work force and healthy communities, there is a potential for a major turnaround in the economic fortunes of Aboriginal people.

To sum up, we conclude that under the right conditions, Aboriginal people could and would participate more fully in the broader Canadian economy. A failure to foster such conditions is causing a loss of production and income, conservatively estimated at \$5.8 billion in 1996 and growing year by year. The cost of this missed opportunity is being borne by Aboriginal people and by all Canadians and can never be recovered.

## **2. Government Expenditures: The Burden of Remedial Costs**

The second major social cost associated with the current circumstances of Aboriginal people is government expenditures on remedial measures. First we review the growth and composition of federal expenditures on programs for Aboriginal people over the past 15 years. Next we examine total expenditures by federal, provincial, territorial and local governments relating to Aboriginal people

and compare these with government expenditures for all Canadians.

## **2.1 Federal Expenditures on Targeted Programs**

As Table 2.7 shows, in fiscal year 1995-96, the federal government intends to spend \$6.2 billion on Aboriginal programs. More than two-thirds of this spending is administered by the Department of Indian Affairs and Northern Development (DIAND). Many of the most costly items include services that provincial governments provide to other Canadians: education, social assistance and social services, and health care. Also included are expenditures for municipal infrastructure in First Nations communities.

Over the 10 years from 1981-82 to 1991-92, federal expenditures on Aboriginal programs grew by 183 per cent; as a share of federal government spending (excluding debt charges), they increased from 2.9 to 3.7 per cent.<sup>15</sup> Adjusted for the effects of inflation, expenditures per Aboriginal person increased by 14 per cent.

By comparison, total per capita federal expenditures for the same period (excluding debt charges) increased by 3.8 per cent after inflation, and consolidated expenditures (excluding debt charges) by all levels of government increased by 12.4 per cent in real per capita terms. (Comparison with consolidated expenditures of three levels of government is meaningful since the bulk of federal spending on Aboriginal people is for services provided to all Canadians by provincial and municipal governments.) By this latter standard, then, federal spending on Aboriginal programs kept pace with changes in government spending generally.

Only a few federal programs are directed to all Aboriginal people. They include Pathways, Aboriginal Business Canada (formerly the Canadian Aboriginal Economic Development Strategy or CAEDS), and the Aboriginal programs of the Canada Mortgage and Housing Corporation (CMHC). Other federal spending generally relates to registered Indian people and Inuit. For the period 1981-82 to 1991-92, this latter category of spending increased by nine per cent on a real per capita basis. When expenditures are further narrowed to those directed to people living on reserves and Crown land and to Inuit (about three-quarters of the total), the real per capita growth rate is 16 per cent. The differences here arise mainly from differences in the rate of population growth.<sup>16</sup> These findings demonstrate that during the 1980s the federal government made financial resources available for a rapidly growing First Nations and Inuit population, with more or less the same rate of increase as for program spending by all Canadian governments

combined.

TABLE 2.7

**Federal Expenditures on Programs Directed to Aboriginal People, Selected Years (\$ millions)**

<b>Department/Program</b>	<b>1981-82 Expenditures</b>	<b>1991-92 Expenditures</b>	<b>1995-96 Estimates</b>
Diand	1,252	3,412	4,493
Indian and Inuit Affairs	1,022	2,864	3,854
Self-Government	—	18	63
Claims	18	118	345
Economic Development	72	98	53
Lands, Revenues, Trusts	21	84	65
Education	307	846	1,153
Social Assistance and Social Services	221	731	1,108
Capital Facilities	240	623	756
Band Management	76	247	314
Program Management	50	45	42
Health Canada	174	639	995
Employment and Immigration (Training)	70	200	200
Canada Mortgage and Housing Corporation	77	240	305
Industry Canada (Business Development)	47	79	52
Solicitor General (Policing)	28	62	50
Other	4	42	107
<b>Total</b>	<b>1,652</b>	<b>4,674</b>	<b>6,202</b>
Real Per Capita Annual Growth		1.30%	3.40%

*Notes:* Data are for fiscal years beginning in April of the calendar year indicated. Expenditures listed in this table pertain only to programs directed specifically to Aboriginal people. Not

included are federal expenditures on programs directed to the general population, a share of which relates to Aboriginal people. Expenditures on general programs are considered in the next subsection of this chapter.

*Source:* Diand, *Growth in Federal Expenditures on Aboriginal Peoples* (Ottawa: Supply and Services, 1993); Canada, 1995-96 Estimates; and calculations by RCAP.

Since 1991-92, federal expenditures on Aboriginal programs have continued to increase while overall spending has become increasingly subject to restraint. In 1995-96 federal spending on Aboriginal programs will be about \$6.2 billion, an increase of 33 per cent over the 1991-92 level, while total federal expenditures (excluding debt charges) will revert to about their 1991-92 level. As a share of federal expenditures (excluding debt charges), Aboriginal program spending increased from 3.7 per cent in 1991-92 to 4.9 per cent in 1995-96. Compared with provincial and local government expenditures, federal Aboriginal program expenditures also have been growing rapidly in the past four years.

As Table 2.7 shows, the composition of government spending for the three periods 1981-82, 1991-92 and 1995-96 changed markedly in several respects. From 1981-82 to 1991-92, expenditures for most programs roughly tripled, with social development and health care expenditures increasing somewhat more rapidly and expenditures on education somewhat less so. Spending on claims increased more than sixfold over that 10-year period, but expenditures for economic development by DIAND and Industry Canada did not keep pace with these increases. Changes in federal spending for program management and band management reflect the devolution of program delivery from DIAND to First Nations communities.

Since 1991-92, spending has shifted as in the previous decade; aggregate expenditures have increased rapidly. Claims expenditures stand out because of the settlement of several comprehensive claims, the Saskatchewan Treaty Land Entitlement, and the increased budget allocation for specific claims. Economic development and, to a lesser degree, housing have taken the brunt of federal expenditure restraint. Spending on economic development by DIAND and Industry Canada declined sharply, and the Pathways budget for training remained unchanged. As for housing, the Rural and Native Housing Program was suspended in 1994, and CMHC stopped making commitments for new units under other off-reserve programs in April 1995. CMHC has also reduced by two-thirds the number of new dwellings to be built on-reserve. (New approaches to on-reserve housing, announced in July 1996, will be financed through reallocation within DIAND and CMHC budgets.) The increase in federal expenditures in the 1990s, as during the 1980s, is driven largely by an escalating



need for basic services — education, health and social assistance — to a rapidly growing population that has become more economically dependent. Federal budgets for social assistance and health care services rose by more than 50 per cent in the past four years. A significant force behind this increase was the large number of Aboriginal youth who came of age in the last two years, swelling the ranks of the adult population. From 1991 to 1995, the Aboriginal population aged 15 years and older increased by 13.4 per cent — almost one per cent per year more rapidly than the Aboriginal population as a whole. The Indian Register indicates an even higher rate of growth for the adult population living on-reserve, where most federal spending is concentrated.

Some of these trends are reason for concern. We welcome the increased budgets for claims and the devolution of program delivery, as well as recent program enhancements in health care and social services. But we are disturbed by the evidence examined earlier in this chapter and by recent increases in federal government expenditures on social assistance, which indicate that the Aboriginal population is becoming more dependent on federal assistance. We are also concerned that expenditure reductions will diminish spending on services, such as social housing, that are vital to enable Aboriginal people to cope with deteriorating conditions in their communities. Worse, cutbacks in economic development programs and the levelling off of the training budget mean that less effort is being made to improve economic conditions for Aboriginal people. We fear that governments, facing further restraint, will not make the investments necessary to eradicate poverty among Aboriginal people and improve their living conditions.

## **2.2 Total Expenditures of All Governments**

Let us now consider expenditures by provincial, territorial and local governments (see Table 2.8). All expenditure data and estimates discussed here are for fiscal year 1992-93; comprehensive data are essential for the analysis presented in this part of the chapter, and figures for 1992-93 were the most recent comprehensive data available at the time of writing.

TABLE 2.8

### **Estimated Total Expenditures by All Governments Related to Aboriginal**

## People, 1992-93 (\$ millions)

	Targeted Programs <sup>1</sup>	General Programs <sup>2</sup>	Total
Yukon	—	68	68
Northwest Territories	—	641	641
Newfoundland	2	61	63
Nova Scotia	2	40	42
Prince Edward Island	—	3	3
New Brunswick	—	28	28
Quebec	323	253	576
Ontario	260	845	1,105
Manitoba	25	472	497
Saskatchewan	52	393	445
Alberta	12	637	649
British Columbia	70	671	741
Other provincial and local government expenditures <sup>3</sup>	—	736	736
Total provincial, territorial and local government expenditures	746	4,848	5,594
Federal expenditures on general programs <sup>3</sup>	4,852	1,182	6,034
Total expenditures of all governments <sup>4</sup>	5,598	6,030	11,628

### Notes:

1. Targeted programs are those directed exclusively to Aboriginal people. For Ontario and Quebec, targeted programs also include other expenditures related to Aboriginal people, as estimated by the Ontario Native Affairs Secretariat and Quebec's secrétariat aux affaires autochtones.

2. Figures for general programs consist of the estimated Aboriginal share of all expenditures of governments other than those on targeted programs. For federal and provincial expenditures on elementary and high school education, post-secondary education and training, income transfers to persons, housing, health care, social services, and protection of persons and

property, an Aboriginal share was estimated on the basis of the Aboriginal share of the client population of these programs and the relative rate at which Aboriginal people make use of the services. Relative rates of use by Aboriginal people were estimated using a variety of information and methods, such as the relative number of Aboriginal people in schools, child care facilities and correctional institutions. Estimates of expenditures by school boards financed by local taxes are included in the amounts for each province.

3. For federal expenditures on general programs, an Aboriginal share was calculated on the basis of the Aboriginal share of the population. A single amount was estimated for provincial and local governments together and listed as 'other provincial and local government expenditures'. For the territories, expenditures relating to Aboriginal people were estimated by applying the Aboriginal population share to total government expenditures.

4. Whereas Table 2.7 presents an historical perspective on federal expenditures on Aboriginal programs, Table 2.8 provides a snapshot of all expenditures of all governments relating to Aboriginal people for the most recent year for which all data were available (1992-93). Federal expenditures on targeted programs in Table 2.8 include, in addition to the expenditures identified in Table 2.7, a few small items as estimated in a research study prepared for RCAP by Goss Gilroy Inc. Included in Table 2.7 are the estimated Aboriginal shares of general transfers to territorial governments, but these are excluded from Table 2.8, as the expenditures of territorial governments are shown separately in this table.

The study by Goss Gilroy Inc. documents \$10.1 billion in government expenditures relating to Aboriginal people. An additional \$1.5 billion is included in Table 2.8 under two items, 'other provincial and local government expenditures' and 'federal expenditures on general programs', to take account of expenditures not considered in that study.

*Source:* Goss Gilroy Inc., "Federal, Territorial and Provincial Expenditures Relating to Aboriginal Peoples", research study prepared for RCAP (1995); and estimates by RCAP.

A number of provincial programs for Aboriginal people are in place, but they tend to be small and short-lived compared with federal programs. Most provincial spending is in the form of general programs directed to a province's entire population. With few exceptions, the provinces do track program use by Aboriginal people. However, based on such information as we have been able to collect, we have estimated the Aboriginal share of expenditures on general programs.

Spending relating to Aboriginal people by all governments in 1992-93 is estimated to be in the order of \$11.6 billion, with the provinces, territories and local governments adding \$5.6 billion to federal expenditures of \$6 billion. (For an explanation of how this estimate of federal expenditures relates to the data in Table 2.7, see the notes in Table 2.8.) This amounts to 4.1 per cent of the consolidated expenditures of all levels of government in Canada (excluding debt charges), which stood at \$285.4 billion for that fiscal year.<sup>17</sup>

On a per capita basis, government expenditures relating to Aboriginal people were \$15,714 in 1992-93.<sup>18</sup> This is 57 per cent higher than the spending of all governments per Canadian resident, which stood at \$10,026 in the same year. In total, governments spent \$4.2 billion more on programs and services for and used by Aboriginal people than they spent on programs for an equivalent number of Canadians in the general population.

These estimates demonstrate convincingly the existence of a significant difference in average government spending per person. We explore this difference further in Table 2.9, where government expenditures are presented by major function or policy area and expressed on a per capita basis in columns 4 and 6. Column 7 presents the ratio of per capita spending levels based on the amounts in columns 4 and 6. Ratios higher than one indicate government expenditures per Aboriginal person higher than per capita government expenditures for the general Canadian population.

As shown in Table 2.9, a high level of government expenditures on Aboriginal people is found across many policy areas. It is related to several factors: discrepancies in the cost of service delivery; some specific expenditures related to First Nations people and Inuit; and, most important, the high level of use of programs by Aboriginal people, resulting mainly from their economic marginalization and the social ills experienced in many communities. We examine each of these factors in turn.

TABLE 2.9

**Total Expenditures of All Governments on Aboriginal People and on All Canadians, by Function, 1992-93**

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
	<b>Federal (\$ millions)</b>	<b>Provincial/territorial/local (\$ millions)</b>	<b>All govt.s (\$ millions)</b>	<b>All govt.s, per Aboriginal person (\$/person)</b>	<b>All govt.s (\$ millions)</b>	<b>All govt.s, per Canadian (\$/person)</b>	<b>Ratio of expenditure per Aboriginal person to expenditures per Canadian (col. 4 - col. 6)</b>
Elementary and secondary education	692	981	1,673	2,261	30,502	1,072	2.1
Post-secondary education and training	419	230	649	877	13,763	483	1.8
Income transfers	1,223	773	1,996	2,697	73,832	2,594	1.0
Housing	410	133	542	732	3,701	130	5.6
Health care	798	1,215	2,013	2,720	47,027	1,652	1.6
Social services	227	540	767	1,036	10,027	352	2.9
Protection of persons and property	342	648	991	1,339	25,505	896	1.5
Other government expenditures	1,924	1,074	2,999	4,052	81,026	2,847	1.4
<b>Total</b>	<b>6,034</b>	<b>5,594</b>	<b>11,628</b>	<b>15,714</b>	<b>285,397</b>	<b>10,026</b>	<b>1.6</b>

Notes: Column 7 gives the ratio of the amounts in columns 4 and 6. Columns 1 and 2 represent a regrouping of the data presented in Table 2.8. Column 5 is based on Statistics Canada, "Public Sector Finance", catalogue no. 68-212, Table 1.33.

## ***Cost of services delivery***

A disproportionate number of Aboriginal people live in small, remote, and northern communities. The cost of delivering government services varies substantially as a result of scale and distance from major centres. The cost of living in the north ranges from 25 per cent to 100 per cent higher than the Canadian average, a situation that is reflected in salaries and allowances for public servants working in the north. (See Volume 4, Chapter 6, particularly the discussion of support for the northern economy.) Municipal infrastructure, buildings and related services, and transportation, which make up a significant part of DIAND expenditures, are also more costly. Expenditures by the government of the Northwest Territories and local governments combined were about \$19,400 per capita in 1992-93, almost double the national level. DIAND formulas for transfer payments to bands for education, social services and general administration take into consideration the size of the community, its distance from population centres, and latitude as cost factors. The amount DIAND pays per student in elementary or high school varies from a base amount of \$4,500 to as much as \$8,500 in the smallest northern communities.<sup>19</sup>

## ***Specific expenditures relating to First Nations people and Inuit***

The federal government incurs a number of expenditures in fulfilling its obligations under the Indian Act and Aboriginal and treaty rights that have no counterpart in expenditures for all Canadians. These include expenditures associated with negotiating self-government, maintaining the Indian Register, and litigating with respect to Aboriginal rights. Expenditures associated with negotiating and settling land claims, for instance, totalled \$173 million in 1992-93.

For status Indian people and Inuit, DIAND's post-secondary education assistance program (PSEAP) pays tuition fees and living allowances to students at post-secondary educational institutions, and Health Canada covers certain medical expenditures through its non-insured health benefits program (NIHB). In 1992-93, a total of \$623 million was spent under these two programs, \$201 million for PSEAP and \$422 million for NIHB.

Although other federal programs for status Indian people living on-reserve and for Inuit communities generally adhere to provincial program rules and standards, there are differences, and they do not always favour Aboriginal clients. For instance, DIAND does not provide a shelter allowance to social assistance

recipients living in band-owned housing, except those financed with CMHC assistance. In some instances DIAND will pay more for education services delivered by a province than it will to the Aboriginal community for the same services. For example, DIAND reimburses provincial school boards on the basis of their total costs averaged over all students. Schools in First Nations communities are funded on the basis of a formula providing only limited resources to address the special needs of Aboriginal children. (See Volume 3, Chapter 5.)

Some social services are in short supply in First Nations and Inuit communities. The availability of programs such as PSEAP and NIHB, therefore, does not necessarily mean better services overall. However, federal funding of medical services has resulted in the substantial development of health facilities for First Nations and Inuit communities across the country (see Volume 3, Chapter 3).

### ***Use of services***

The most important factors underlying differences in spending levels are relative levels of program use and differences in population structure. The relative level of program use by Aboriginal people is low in education, but high for most other program areas.

In education, level of use is indicated by enrolment of the school age population at learning institutions. Because Aboriginal youth on average leave school earlier than other Canadian youth, the rate of enrolment in elementary and secondary educational institutions is somewhat lower for Aboriginal people than for Canadians generally. However, the fact that a very large percentage of the Aboriginal population is of school age means that the number of Aboriginal students at these levels is disproportionately large. (Five- to 19-year-olds make up 33 per cent of the Aboriginal population but only 20 per cent of the general population.) The age structure of the Aboriginal population, therefore, is the main reason that per capita government expenditures on elementary and secondary education are approximately twice as much as for Canadians generally.

With respect to post-secondary education, we find that expenditures relating to Aboriginal people are also above the level for Canadians generally. Young Aboriginal adults constitute a large proportion of the Aboriginal population relative to the proportion of young adults in the general population, but they enrol at much lower rates and tend to leave university without completing a degree. At first glance, government spending on post-secondary education for Aboriginal students appears relatively low. However, also included in that category are funding of students through DIAND's PSEAP program and expenditures under

the Pathways training program. Overall, therefore, spending per Aboriginal person on post-secondary education and training is approximately 80 per cent higher than per capita spending for all Canadians.

### **3. Dependence on Financial Assistance and Remedial Programs**

In contrast to relatively low participation rates in education, Aboriginal people make up a disproportionate share of the clients of the justice system and of federal, provincial and territorial social and income support programs. In this section we examine government expenditures on social programs and the justice system and identify the second major component of the cost of maintaining the status quo — the cost of extra government expenditures on remedial programs. We also estimate the share of the cost of forgone production that is shifted from Aboriginal people to governments (and thus all Canadian taxpayers) through financial assistance programs.

We focus on five program areas in two major groups: programs that provide financial assistance to persons in need and remedial programs. The former are intended to meet basic human needs and include social services, other forms of income transfers and housing subsidies. Remedial programs protect society, enforce the law and help individuals, families and communities cope with social, personal and health problems. Included in this category are health care programs, social services such as child welfare and alcohol and drug addiction treatment, and protection of persons and property (police and correctional services). As a group, Aboriginal people are frequent users of these services — the result of social disintegration in Aboriginal communities, poverty and racial discrimination, among other factors.

In each of these areas, governments jointly spend more per capita on services for Aboriginal people than they do for Canadians generally, as illustrated in Table 2.9. Table 2.10 shows that government expenditures on financial transfers and remedial programs for Aboriginal people exceeded expenditures for an equivalent number of Canadians by nearly \$2.2 billion in 1992-93. Although high government expenditures indicate a high level of services, it should not be assumed that the needs of Aboriginal people are always fully or adequately met. During our hearings, Aboriginal people told us many times about the lack of certain services and difficulties they have experienced in making use of programs. We examined the need for government services of various kinds, the adequacy of services, and the effectiveness of past and present policies in previous volumes of this report.



TABLE 2.10

### Excess Expenditures of Governments on Financial Assistance and Remedial Programs, 1992-93

	Expenditures on Aboriginal people, per Aboriginal person (\$)	All government expenditures, per Canadian (\$)	Excess expenditures (\$ millions)
Income support	2,404	1,968	323
Housing subsidies	732	130	445
<b>Total: excess expenditures on financial assistance</b>			768
Health care	2,282	1,652	466
Social services	1,036	352	506
Police and correctional services	1,106	492	454
<b>Total: excess expenditures on remedial programs</b>			<b>1,426</b>
<b>Total excess expenditures</b>			<b>2,194</b>

Notes: The per capita amounts for income support are derived from figures showing income transfers in Table 2.9 by excluding old age security and family allowance payments as these two benefits are not dependent on the economic situation of Aboriginal people. Health care spending per Aboriginal person was calculated by excluding non-insured health benefits, except for an excess component of the same relative size as for other health care expenditures. The per capita amounts for police and correctional services were derived by excluding expenditures on national defence from the category of protection of persons and property in Table 2.9. The amounts in the third column showing excess remedial expenditures were calculated by multiplying the difference between columns one and two by the Aboriginal population in 1992 (740,000).

Source: Estimates by RCAP, based on Table 2.9.

Excess expenditures on financial assistance and remedial programs account for approximately half the difference between government expenditures on Aboriginal people and those on an equivalent number of Canadians in the general population, which is estimated at \$4.2 billion (as discussed earlier in the chapter). Of the remaining \$2 billion, \$0.7 billion is federal expenditures relating

to land claims, funding for post-secondary students and non-insured health benefits, and \$0.9 billion is related to elementary and secondary education for Aboriginal people. These expenditures are relatively high because of the large Aboriginal population of young adults discussed earlier.<sup>20</sup>

An examination of statistics on the incidence of poverty, ill health and other indicators highlights the factors behind high dependence on financial assistance and remedial programs and the persistent nature of these factors. Perhaps most disturbing is the deterioration in economic conditions discussed in the first part of this chapter (see Table 2.5). One consequence of these conditions has been the increase in dependence on social assistance benefits to a point where, in 1992-93, 47 per cent of registered Indian persons living on reserves were receiving social assistance, compared to 40 per cent a decade earlier.<sup>21</sup> (These numbers include recipients and their dependents, as estimated by DIAND. They are higher than the numbers from the APS referred to in Volume 2, Chapter 5 on economic development and in Volume 3, Chapter 3 on health and healing. They are used here because they permit comparisons over time.) Dependence levels for other Aboriginal groups are also high, ranging from 20 to 25 per cent, or about three times the national average of 9.7 per cent.<sup>22</sup> Aboriginal people receive lower transfers than Canadian generally from several other income support programs, including employment insurance and the Canada and Quebec Pension Plans. The combined effect is a relatively low net transfer of income to Aboriginal people over and above what governments spend on financial assistance per Canadian in the general population.

Poverty also lies behind government expenditures on housing for Aboriginal people. The federal government, which provides the large majority of funding, assists Aboriginal households as a matter of social policy, based on financial need. Adverse economic trends affecting Aboriginal people over the past 10 years have meant that Aboriginal people were less able to look after their own housing needs by the end of the decade. Government programs have provided relief, but the housing stock remains inadequate, especially on First Nations territories (see Volume 3, Chapter 4).

Differences in per capita spending also relate to the incidence of ill health and social dysfunction among Aboriginal people. There have been some notable improvements in the health of Aboriginal people over the years. Medical advances and increased access to health services have resulted in lower infant mortality rates and a sharp decline in deaths from such diseases as tuberculosis, whooping cough and measles. Substantial progress in the prevention and treatment of respiratory and infectious disease accounts for the steady reduction

in mortality rates since the 1950s.<sup>23</sup> Nevertheless, the high level of per capita spending on health care reflects the remaining gap between the health of Aboriginal people and that of Canadians generally, as documented in Volume 3, Chapter 3. First Nations people on-reserve make use of provincially insured services at more or less the same rate as other Aboriginal people and Canadians generally, and they receive federally funded services in communities as well. Because federal and provincial health services complement each other, this indicates a high rate of services use. The NIHB program also contributes to higher expenditures for Aboriginal people. Nevertheless, expenditures under the NIHB program also reflect the high incidence of ill health among Aboriginal people.

High rates of social services use reflect the social dysfunction that often accompanies poverty. Family breakdown, for example, and a lack of cultural sensitivity on the part of non-Aboriginal agencies have resulted in an inordinate proportion of Aboriginal children being placed in foster care. Although the percentage of First Nations children (on-reserve) in the care of foster parents or institutions declined from over six per cent in the mid- to late 1970s to just under four per cent in 1992-93, the percentage of all Canadian children in care decreased more rapidly, so the relative gap has widened (see Volume 3, Chapters 2 and 3). The incidence of children in foster care is also high for other Aboriginal groups.

Turning now to the justice system, we note that Aboriginal persons are incarcerated in provincial jails at 11 times the rate of other Canadians; in federal penitentiaries the rate is five times that of other Canadians. These rates, which have remained relatively constant over the last decade, point to social problems in Aboriginal communities and to problems in the way the justice and corrections systems deal with Aboriginal people.<sup>24</sup> As Table 2.11 shows, data on admissions to federal, provincial, and territorial correctional facilities do not reveal any strong trends over time. A high proportion of the cost of federal, provincial and territorial correctional institutions evidently is associated with Aboriginal people in custody, and has been for many years.

TABLE 2.11

**Admissions to Provincial and Federal Custody, Showing Percentage Who Identified as Aboriginal, 1986-87 to 1993-94**

	<b>Sentenced Admissions to Provincial and Territorial Facilities</b>	<b>% Aboriginal</b>	<b>Warrant and Committal Admission to Federal Custody</b>	<b>% Aboriginal</b>
1986-87	116,229	18	3,741	10
1987-88	117,325	22	3,988	11
1988-89	116,051	19	4,011	13
1989-1990	115,100	18	4,274	11
1990-91	114,834	19	4,296	12
1991-92	n/a	—	4,878	11
1992-93	n/a	—	5,583	13
1993-94	118,907	17	5,174	12

Notes: n/a = not available. — = not applicable.

Source: Statistics Canada, Canadian Centre for Justice Statistics, *Adult Correctional Services in Canada, 1993-1994*, pp. 67, 90; *Adult Correctional Services in Canada 1990-91*, pp. 35, 56.

This brief survey of health care, social services and the justice system highlights the factors that give rise to large government expenditures on financial assistance and remedial programs for Aboriginal people. If the social and economic circumstances of Aboriginal people changed significantly for the better, and if remedial service systems were more culturally sensitive, the level of government expenditures for Aboriginal people would be more closely in line with expenditures for Canadians generally.

We conclude, however, that the conditions giving rise to large financial transfers to Aboriginal people and high remedial expenditures have not changed for the

better and are not likely to do so in the absence of a fundamental reorientation of policies. On this basis, we estimate that excess government expenditures on financial assistance, which were nearly \$0.8 billion in 1992-93 (see Table 2.10), will be the same in 1996, and that excess expenditures on remedial programs will increase from the \$1.4 billion recorded in 1992-93 to \$1.7 billion in 1996.<sup>25</sup>

Government financial assistance helps Aboriginal people in need obtain basic necessities such as food and shelter. If Aboriginal people had more and better jobs, they would be capable of meeting basic needs from their own incomes. Current government expenditures redistribute income between Canadians and Aboriginal people, shifting a part of the cost of forgone production from Aboriginal people to governments and thus to all Canadians.

Expenditures on remedial programs, however, pay for activities that could be eliminated if conditions changed for the better and services were more sensitive to Aboriginal needs and cultures. If Aboriginal people were healthier of body and spirit and their families less troubled, they would require less in the way of health care and social services, and there would be fewer cases of Aboriginal people in conflict with the law. As well, remedial services, especially the justice system, could be far more effective in dealing with Aboriginal people than they are now. Each of these improvements would mean that real productive resources could be freed for other uses. Many of the public sector employees now delivering remedial services could be redeployed to produce valuable goods and services. That these goods and services are not being produced now imposes a cost on Aboriginal people and all Canadians. Accordingly, excess expenditures on remedial programs, which we estimate at \$1.7 billion in 1996, are a cost of the status quo. When we add this amount to the cost of forgone production, we find that the cost of the status quo in 1996 is \$7.5 billion.<sup>26</sup>

#### **4. Escalating Cost of the Status Quo**

The analysis in this chapter leads us to conclude that the present circumstances of Aboriginal people impose large costs on them and on all Canadians. We have examined two categories of cost. The first and largest cost results from the economic marginalization of Aboriginal people. We have shown that under better conditions Aboriginal people could contribute an additional \$5.8 billion to the Canadian economy. That they do not do so now is directly related to their low participation in the labour force, high unemployment, and lower productivity when they are employed. On further exploration we also found that a lack of full-time, year-round employment and low educational attainment relative to all Canadians are important aspects of the problem. These factors are not passing phenomena.

On the contrary, as shown in Volume 2, Chapter 5, Aboriginal people have been on the fringes of the economy for several generations. In the first section of this chapter we showed that conditions deteriorated further over the 1980s, some modest improvements in educational attainment notwithstanding.

We have argued that it is realistic to expect that there can be a substantial increase in Aboriginal participation in wealth-creation activities. Our estimate of the economic potential of Aboriginal people is based on the known performance of the Canadian economy, taking into account its regional diversity and the aspirations of Aboriginal people. Indeed, in some parts of the country, where land claims have been settled or Aboriginal people have successfully launched businesses, we can already glimpse a better future with a stronger economic base for Aboriginal people.

The second cost of the economic marginalization of Aboriginal people consists of the extra expenditures by governments on remedial programs that address the adverse conditions facing many Aboriginal people. Many Aboriginal people and some entire communities are in poor health, struggling socially and economically. Expenditures on health care and social services, including child and family services, substance abuse programs, and the justice system, are higher for Aboriginal people than for Canadians generally. We estimate the combined cost of these expenditures, which we refer to as excess government expenditures on remedial programs, at \$1.7 billion in 1996.

Like the economic circumstances of Aboriginal people, the social conditions that give rise to government expenditures on remedial programs are deeply rooted, and they have not improved significantly under the policies governments generally have chosen to apply.

The cost of the status quo is being borne by Aboriginal people and by all Canadians. The fact that Aboriginal people could be earning an estimated \$5.8 billion more than they are means that governments are losing \$2.1 billion in revenues they would otherwise collect through taxation.<sup>27</sup> The remaining \$3.7 billion is a loss to Aboriginal people in income after taxes. They receive an estimated \$0.8 billion in income support payments and housing subsidies, so their disposable net income is \$2.9 billion less than it could be.

When we took our estimate of \$1.7 billion in excess government expenditures on remedial programs and added it to excess expenditures on financial assistance to Aboriginal people in the form of income support payments and housing subsidies, we concluded that government expenditures are \$2.5 billion higher

than they might be if Aboriginal people enjoyed the same quality of life as other Canadians. When we also considered the potential loss of revenues of \$2.1 billion, we found that governments would experience a drain on their finances of \$4.6 billion in 1996. This cost to governments, which occurs year after year and can never be recovered, is equivalent to the annual expenditures of the government of New Brunswick.

In sum, every year that the social and economic circumstances of Aboriginal people remain as they are, it costs the country \$7.5 billion. That cost — the cost of the status quo — is the equivalent of nearly one per cent of Canada's GDP. It consists of a fiscal cost of \$4.6 billion, borne by all Canadians, and a loss of net income to Aboriginal people of \$2.9 billion.

If no effort is made to reduce the cost of the status quo, it is likely to increase. Unless economic opportunities and participation are enhanced and social conditions improve, the cost will increase in step with a growing Aboriginal adult population, or even more rapidly. This population is growing at almost twice the rate of the general Canadian adult population. Using demographic projections, we expect that the cost of the status quo could increase by 47 per cent over the next 20 years, from \$7.5 billion to \$11 billion by 2016 (see Table 2.12).<sup>28</sup>

**TABLE 2.12**  
**Present and Future Annual Cost of the Status Quo (\$ billions)**

	1996	2016
<b>Cost to Aboriginal People</b>		
Forgone earned income	5.8	8.6
Income taxes forgone	-2.1	-3.1
Financial assistance from governments	-0.8	-1.2
Net income loss of Aboriginal people	2.9	4.3
<b>Cost to Governments</b>		
Expenditures on remedial programs	1.7	2.4
Financial assistance to Aboriginal people	0.8	1.2
Government revenue forgone	2.1	3.1
Total cost to governments	4.6	6.7
Total cost of the status quo	7.5	11.0

Note: Under 'Cost to Aboriginal People', the total income forgone is estimated at \$5.8 billion for 1996. Some of this cost is borne by Aboriginal people in the form of lost income. The rest is

borne by governments, in the form of taxes forgone and various forms of assistance paid out. Costs to governments are removed from 'Cost to Aboriginal People' and included under 'Cost to Governments'.

The cost of the status quo is also likely to increase in relative terms. The Canadian population of working age is projected to increase by 23.5 per cent over the next 20 years, which is half the projected rate of increase in the cost of the status quo over the same period. This means an increase of close to 20 per cent in the burden of these costs per Canadian of working age. It also implies that the social cost of the status quo will increase to more than one per cent of GDP.<sup>29</sup>

It is possible to avoid this costly future, but not with current policies. To be sure, some improvements have been made, and we want to acknowledge these positive steps. Several major land claims have been settled in the north — a major step forward for the groups directly affected — and increasing resources are being devoted to negotiation and settlement of claims, a welcome move. Also worth mentioning are efforts to tackle specific health and social problems and the transfer of education and other public services to First Nations control. More generally, governments are also giving greater recognition to the particular needs of Aboriginal people, and there is growing awareness of Aboriginal concerns on the part of Canadians generally.

As we have shown, however, these measures, while constructive and offering some hope, do not go far enough. Only a more fundamental renewal of the relationship between Aboriginal people and other Canadians will lead to much improved conditions for Aboriginal people. The positive steps taken so far are likely to be overwhelmed by population growth, government expenditure restraint, and a lack of economic opportunity for Aboriginal people. Indeed, unrest in several parts of the country in the summer of 1995 was a reminder of the ever-growing sense of frustration with conditions in Aboriginal communities. Expectations have been raised; the younger generation is less willing to accept the enormous disparities that are the focus of this and other chapters of this report. Unless tangible progress is made soon, there is a serious risk of major conflict, with high human and economic cost, much higher than the cost of the status quo discussed here.

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## Notes:

1 In 1996, Canada's Aboriginal population aged 15 years and over is calculated



at 535,000. Of these, 153,000 (28.6 per cent) receive social assistance, based on the 1990 rate of dependence recorded in the Aboriginal peoples survey (APS). This is a conservative estimate, as dependence on social assistance has probably increased since 1990, as we show in this chapter. For a general discussion of the sources of data used by the Commission in this report, see Volume, Chapter 2, particularly the endnotes.

**2** GDP is projected to be \$821 billion in 1996, according to economic assumptions in the federal budget of February 1995. According to projections presented later in this chapter, the rapid growth of the Aboriginal population will cause the social cost of the status quo to increase to more than one per cent of GDP in the next 20 years.

**3** This result is obtained by multiplying the participation rate (57 per cent for the Aboriginal population) by the percentage of the labour force that is employed (100 per cent less 24.6 per cent), and applying the same formula to the statistics for all Canadians. The difference between these employment rates is 18 per cent (61 per cent less 43 per cent), which when applied to the Aboriginal population aged 15 years and over (457,800) reveals a difference of 82,000 jobs.

**4** For Canada, the labour force participation rate in 1990 was 76.4 per cent for males and 59.9 per cent for females; for Aboriginal people the rates were 65.4 per cent for males and 49.6 per cent for females. The unemployment rates are 10.1 per cent for Canadian males and 10.2 per cent for females. For Aboriginal people the rates are 27.2 per cent for males and 21.6 per cent for females. Statistics Canada, 1991 Census and Aboriginal Peoples Survey.

**5** This result was obtained by applying the distribution of the Canadian population by level of education achieved to Aboriginal people and calculating what Aboriginal people would have earned at their actual rates of earning by level of education. The procedure consists of multiplying the corresponding elements in the second and third columns of Table 2.3, adding the resulting products, and scaling by the size of the Aboriginal population 15 years of age and over. This analysis is suggestive only and provides a snapshot, not a complete causal explanation. Although education can be a major lever for change, a major change in education cannot be realized in isolation and will likely result following other changes in Aboriginal society. As well, attitudes of many non-Aboriginal Canadians toward Aboriginal people are probably in part related to the gap in educational attainment between these two population groups. Thus, a narrower gap in education might facilitate the

participation of Aboriginal people in the Canadian economy and give Aboriginal people with any amount of education access to better jobs and incomes. Improving educational attainment may be even more effective in improving overall conditions than our calculations indicate.

**6** The percentage of Aboriginal groups living in urban areas is as follows: registered Indian people off-reserve, 80.8 per cent; non-registered Indian people, 69.3 per cent; Métis people, 64.9 per cent; and Inuit, 21.9 per cent. Of the Canadian population, 77.2 per cent live in urban areas (see Volume 2, Chapter 5).

**7** This revised estimate of the earnings gap corresponds with a different estimate of the employment gap: 68,500 jobs in 1990, down from the 82,000 jobs mentioned earlier in the chapter.

**8** In 1990, wages, salaries and supplementary labour income, together with income of unincorporated businesses, was \$410,740 million. The GDP was \$670,952 million for the same year. Statistics Canada, "National Income and Expenditure Accounts, Annual Estimates 1981-1992", catalogue no. 13-201.

**9** The gap in income from employment between Aboriginal people and an equivalent number of Canadians, \$2.7 billion in 1990, is 61 per cent of the gap in total income. (The latter can be calculated as  $100 \div 61 \times \$2.7 \text{ billion} = \$4.4 \text{ billion}$ .) By the same method we find that actual earned income of Aboriginal people was \$6.9 billion, while a value of \$11.3 billion is found for potential earned income (that is, the income of an equivalent number of Canadians). In the absence of data it is assumed, as a first approximation, that the same relative gap exists for other income because economic activity tends to generate different types of income jointly. Most jobs in the economy involve capital investment by businesses that recover the cost of such investments and earn a profit as well as paying wages, salaries and benefits to their employees. However, the gap is probably larger than these estimates indicate. Income other than earnings from employment is derived largely from capital, and there are large disparities in wealth between Aboriginal people and Canadians in general.

**10** The adjustment for population size is based on the growth in the Aboriginal population of working age (15 to 64 years) (see Volume 1, Chapter 2). The price level was adjusted using the Consumer Price Index for 1990 to 1994 (Statistics Canada, catalogue no. 62-001, vol. 74, no. 2), and the consensus forecast for 1995 and 1996 reported in the February 1995 federal budget.

**11** The initial estimate of the employment gap derived from Table 2.1 — 82,000 for 1990 — was reduced to 68,500 when differences in economic opportunity reflected in Table 2.4 were considered. This latter estimate is updated to 80,000 for the year 1996 by applying the growth rate of the Aboriginal population of working age (15 to 64 years) over the period 1990 to 1996.

**12** The experience of the James Bay Cree with the Hunter and Trapper Income Support Program is a good illustration of a dual lifestyle, one among many available. See Volume 2, Chapter 5 and Volume 4, Chapter 6. See also Ignatius La Rusic, “Subsidies for Subsistence: The Place of Income Security Programs in Supporting Hunting, Fishing and Trapping as a Way of Life in Subarctic Communities”, research study prepared for RCAP (1993). For information about research studies prepared for RCAP, see A Note About Sources at the beginning of this volume.

**13** We do not think that differences in lifestyle require further adjustments in our measures of economic potential and the earnings gap. In the small communities neighbouring many First Nations communities, people also live on the land and make trade-offs between employment and other pursuits that are not included in measured economic activity. As we show in this chapter, Aboriginal control of resources likely will lead to greater economic activity as more income from resource exploitation is retained in the region.

**14** Mary Jane Norris, Don Kerr and François Nault, “Projections of the Population with Aboriginal Identity in Canada, 1991-2016”, research study prepared by Statistics Canada for RCAP (1995) (the Aboriginal population aged 15 to 64 years is projected to increase from 507,000 in 1996 to 753,000 by 2016); Statistics Canada, “Population Projection for Canada, Provinces and Territories, 1993-2016”, catalogue no. 91-520; and Statistics Canada, “Revised Intercensal Population and Family Estimates, July 1, 1971-1991”, catalogue no. 91-537.

**15** Sources for total federal government expenditures: Statistics Canada, “Public Finance Historical Data 1965/66-1991/92”, catalogue no. 68-512, and “Public Sector Finance 1994-95”, catalogue no. 68-212.

**16** For purposes of these calculations the following population growth rates over the period 1981-1991 were used: for the total Aboriginal population, including Métis and non-status Indian people: 48.5 per cent; for status Indian people and Inuit: 56.4 per cent; and for Inuit as well as status Indian people on-reserve and Crown land: 34.1 per cent. These rates are based on data from the APS and the Indian Register. The sharp increases in the growth rate for status Indian people

reflects registrations under Bill C-31. The population of Canada increased by 12.9 per cent over the same decade.

**17** Statistics Canada, "Public Sector Finance 1994-1995", catalogue no. 68-212.

**18** Expenditures here are based on 740,00 persons who self-identified as Aboriginal, as measured by the Aboriginal peoples survey (APS), and after adjustment for under-reporting and updating to 1992. Federal and provincial programs directed to Aboriginal people generally take as clients those who self-identify. In calculations of the Aboriginal share of general programs for this chapter we used the identity population. When the number of status Indian people is taken from the Indian Register instead of the APS and adjusted for persons living abroad and other factors, the number of Aboriginal persons in 1992 is 787,000. Using this latter population estimate, and adjusting expenditures on general programs as appropriate, spending on Aboriginal people was estimated to be \$14,900 per Aboriginal person in 1992-93, or 49 per cent higher than government per capita expenditures for Canadians in general.

**19** The higher cost of delivering government services in small, remote and northern communities is reflected in expenditures for targeted programs but was not taken into account in calculating the Aboriginal share of general programs. As the amounts in Table 2.8 indicate, this cost factor may be significant for the federal government and Ontario and Quebec, but not for other provinces. The expenditures of territorial governments, as estimated and presented in Table 2.8, reflect the high cost of programs and services in the north.

**20** Of the three factors affecting government expenditures, specific expenditures for First Nations and Inuit and differences in levels of service use play a significant role in differences in the level of government expenditures. The third factor, cost of service delivery, contributes to the difference in the level of expenditures in many areas of program delivery; it may also contribute to the unexplained residual of \$0.4 billion.

**21** DIAND, Basic Departmental Data — 1994, Tables 1 and 25.

**22** Allan Moscovitch and Andrew Webster, "Social Assistance and Aboriginal People: A Discussion Paper", research study prepared for RCAP (1995).

**23** The present brief discussion focuses on changes in health over time and is based on T. Kue Young, "Measuring the Health Status of Canada's Aboriginal Population: A Statistical Review and Methodological Commentary", research

study prepared for RCAP (1994).

**24** These matters are examined in RCAP, *Bridging the Cultural Divide: A Report on Aboriginal People and Criminal Justice in Canada* (Ottawa: Supply and Services, 1996). Chapter 2 of that report deals with Aboriginal over-representation in Canadian prisons and provides some data for Saskatchewan, Manitoba and the Northwest Territories.

**25** To obtain a current estimate for the same period as the cost of forgone production, government expenditures on financial assistance and remedial programs for Aboriginal people were updated to the calendar year 1996 with information from the 1995-96 federal budget and estimates (see Table 2.7), including a projected three per cent increase in DIAND expenditures in 1996-97. It was assumed that provincial and territorial expenditures on Aboriginal people increased by four per cent between 1992-93 and 1996, reflecting a more rapid growth rate of the Aboriginal population within a constant overall level of expenditures. Excess expenditures were assumed to be constant as a share of expenditures for each of the five program areas.

**26** The cost of excess expenditures and forgone production can be added together because both measure a loss of collective well-being in Canada. The cost of forgone output refers to under-utilization of the productive potential of Aboriginal people. The cost of excess government expenditures on remedial programs refers to a misallocation of other productive resources. Removing the former cost will result in higher employment and production in the Canadian economy. Eliminating the latter cost does not lead to more jobs and a higher GDP, but the people now delivering remedial services can be redeployed to produce goods and services not available at present. This would result in an increase in valuable output.

Naturally, the economic potential of Aboriginal people and redeployment of a segment of public services will not be realized overnight, but such progress is realistic within a time frame measured in decades. In Chapter 4 of this volume, we suggest a schedule for implementing the recommendations of this report. Given the structural changes taking place continuously in the economy, as new products and technologies are introduced and the needs and preferences of the population change, these two shifts would not be extraordinarily large.

**27** These potential revenues of federal, provincial and territorial and local governments are calculated by applying the share of government revenues in total income or GDP (41 per cent in 1993-94) to the income gain of Aboriginal

people, with an adjustment for the tax exemption. The majority of Aboriginal people pay taxes in the same way as other Canadians. A tax exemption applies to “the personal property of an Indian or band situated on a reserve” (Indian Act, R.S.C. 1985, c. I-5, s. 87(1)(b)), and this is the basis for exemption of income earned by Indian people on-reserve and from sales taxes on goods and services acquired by Indian people on-reserve (this description captures only the general thrust of the tax rules, which are intricate and, in the case of provincial sales taxes, vary by province). To calculate the government revenue share of additional income earned by Aboriginal people it was assumed that people on-reserve would pay no property or income taxes, with sales taxes at half the prevailing rates.

**28** The cost of forgone output is assumed to be proportional to the size of the Aboriginal population of working age (15 to 64 years), which is projected to grow by 48.6 per cent between 1996 and 2016. This rate of growth is also applied to forgone government revenue. Excess government expenditures on financial assistance — social assistance and other income support payments, and housing subsidies — are projected to increase in step with the population aged 15 to 64. Excess expenditures on remedial programs are projected to increase by 45 per cent, with health care expenditures being proportional to the Aboriginal population aged 15 and over (an increase of 54.5 per cent between 1996 and 2016), and expenditures on social services and police and correctional services growing at the same rate as the Aboriginal population as a whole (34.8 per cent).

**29** Based on these projections, the cost of the status quo will increase from 0.9 per cent of GDP in 1996 to 1.1 per cent by 2016. Our projections do not take into account future gains in productivity, which is, next to population growth, the most significant source of long-term growth in the economy. Productivity gains would increase GDP per Canadian in the work force and make the burden of social costs easier to bear. We note, however, that three-quarters of the social cost of the status quo consists of an economic gap between Aboriginal people and Canadians generally resulting from exclusion and marginalization. This gap will increase when productivity gains occur in the economy. Productivity gains, therefore, will not significantly change the relative cost of the status quo in relation to GDP.