

3



The Commission's Strategy as a Good Investment

THE COMMISSION'S PROPOSALS to establish a fundamentally different relationship between Canada and Aboriginal peoples are obviously not without cost; we are recommending that governments undertake major structural reform and a great many social and economic initiatives. We envisage a period, spanning a generation, in which the foundations of a renewed relationship are put in place and the day-to-day reality experienced by Aboriginal people is transformed. Governments will have to apply substantial resources to those tasks: fundamental change will be achieved only with great effort and commitment.

We believe that governments should commit significant additional resources to resolve historical claims, restructure the political relationship, and improve living conditions and economic opportunities for Aboriginal people. This expenditure is justified to correct the injustices of the past and present. As we have argued throughout this report, Aboriginal people are entitled to equal social, educational and health outcomes, to a fair share of the country's assets, and to a much greater share of opportunity than they have had so far. We also demonstrate in this chapter that the entire country stands to gain if our proposals are acted on. The additional government expenditures required to implement our recommendations are a good investment for all Canadians.

We approach the task of determining what additional resources governments should commit by taking several factors into consideration. First, our recommendations represent an interactive strategy for change and should be implemented in such a way that they reinforce each other. The breadth of our mandate has enabled us to consider the synergistic dimension of change, that is, the impact that change in one area has on a range of other areas. Thus we see a dynamic developing between structural reform and social and economic measures, each reinforcing the other. The principle that drives change and gives it direction is that Aboriginal people are empowered to create their own solutions by having both the authority and the tools to do so. We outlined this approach in the first chapter of this volume and will give more consideration to it here.

Second, we have been acutely conscious that governments are in the midst of the most fundamental reassessment of their activities and reduction of their expenditures since they first assumed a major role in the economic and social life of Canada. The resources are not available to do all that good public policy, or justice and morality, would dictate should be done.

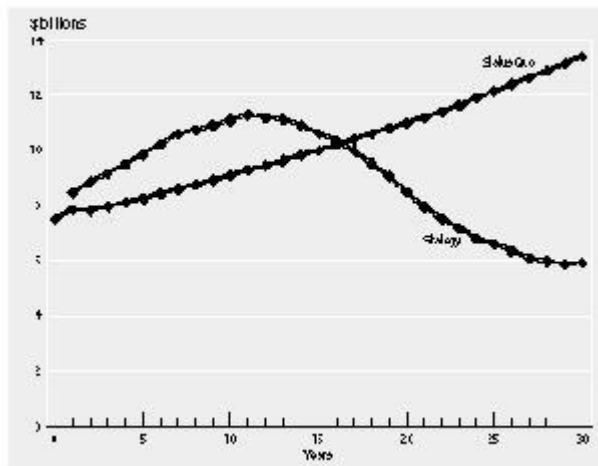
Third, a further limitation constrains the pace of progress. We propose that change be implemented by Aboriginal people in the manner of their choosing. This means that the pace of change will be determined in part by their capacity to implement their chosen priorities, a capacity that is still developing.

Given these factors, we recommend strongly that, to give effect to our recommendations, governments increase their annual spending over the first five years of the strategy, so that by year five, expenditures are between \$1.5 and \$2 billion more than they are today. Governments will then need to sustain that level of additional expenditure for a number of years.

These resource requirements follow from the approach to implementation presented in Chapter 1. In the first few years following the government's receipt of this report, development of Aboriginal capacity to implement change through healing, improvement in economic and living conditions, and human resource and institutional development will require an immediate and major infusion of resources. By contrast, the initial focus with respect to structural reform will be on rebuilding Aboriginal nations and changing the land claims and treaty processes, which will require only limited funding in the early stages. But as more and more Aboriginal nations are reconstituted, increasing amounts will need to be allocated to implement self-government and the redistribution of lands and resources. Significant spending on social measures and structural reform will then need to be sustained for a number of years.

These investments represent an economic cost, in that productive resources will have to be devoted to the task. But in our view they will also result in substantial economic gains for all Canadians. They will lead to greater economic self-reliance for Aboriginal people and restore health and vitality to Aboriginal individuals and communities.

FIGURE 3.1
Projected Cost of the Status Quo and of the Commission's Strategy

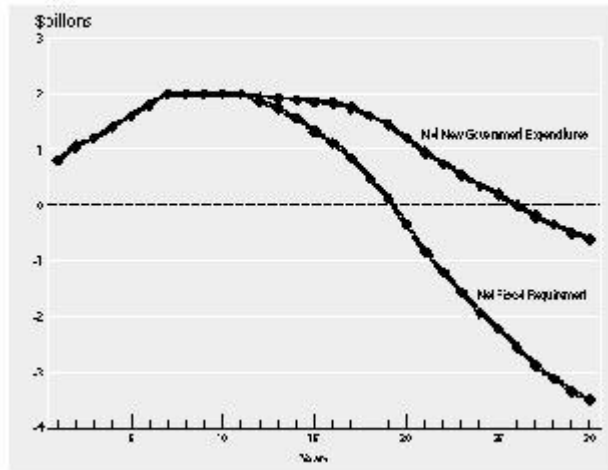


In Chapter 2 we demonstrated that the political, social and economic conditions facing Aboriginal people impose a cost of \$7.5 billion per year on them and on all Canadians; this cost is likely to increase in future, reaching \$11 billion per year 20 years from now. This cost of the status quo includes losses flowing from failure to develop and use the full economic potential of Aboriginal people and the cost of remedial action to deal with the effects of social disintegration. In Chapter 2 we showed that these costs can be reduced significantly. We believe that the recommendations in this report, taken together, will bring about fundamental change in the circumstances of Aboriginal people and lead to the progressive reduction and eventual elimination of these costs. By eliminating the cost of the status quo, the strategy will yield economic benefits that far exceed the amounts governments will spend to implement it.

We estimate that these positive effects will begin to be realized in terms of the economy and government finances by about the tenth year following the adoption of our recommendations (though in terms of the impact on people's lives, the effects will be felt much sooner) and will become significant in the decade following that. Implementation will still involve significant costs 10 years hence, but as the gains from the strategy increase, the net cost will decline and in time become a net gain. The projected costs of the status quo and the strategy are displayed graphically in Figure 3.1. The net cost and net gain from the strategy are indicated by the distance between the two cost lines. As shown in Figure 3.1, the cross-over point, where net cost becomes net gain, is reached somewhere between year 15 and year 20 after the beginning of implementation. From this point on, Canadians and Aboriginal people will be better off than under the status quo.

Gains from the strategy will take the form of increased incomes for Aboriginal people and a fiscal dividend for governments. Governments will see their revenues increase, as Aboriginal economic activity expands, and their expenditures on financial assistance and remedial programs decline as Aboriginal people's dependence on government diminishes. We propose that governments use a part of the fiscal dividend to increase the resources devoted to implementing the strategy and apply the remainder to general revenues.¹ This way of using the fiscal dividend makes it possible to complete the investments in healing, economic development and institutional reform, to implement Aboriginal self-government, and to make progress in reallocating lands and resources during the second 10-year period, without imposing an additional burden in excess of \$2 billion in any year.

FIGURE 3.2
Changes in Government Financial Results from the Strategy



Indeed, governments will find their financial situation improve year after year as the fiscal dividend increases, until it reaches the same size as the additional expenditures needed for implementation. At that point governments would no longer have to raise taxes, borrow funds or reduce other spending to continue to work toward a renewed relationship with Aboriginal people. We expect that this point will be reached about 20 years after the beginning of implementation (Figure 3.2). From then on, governments jointly will have a smaller deficit (or larger surplus) than under the status quo.

Looking beyond 20 years, the amount required to continue to implement the recommendations will decline when the major social and economic investments and the reallocation of lands and resources are completed. There are some permanent costs of maintaining the new governance arrangements and the higher standard of living of Aboriginal people, but these are considerably smaller than the present cost of economic dependency and social dysfunction. Thus, in the long run, government expenditures will be significantly lower than under the status quo (Figure 3.2).

The results that can be achieved by implementing the recommendations in this report are summarized in Table 3.1. Aboriginal people generate the larger share of the gain by producing greater economic output; but half this gain is transferred to governments through taxes and changes in financial assistance. Governments gain directly when demand for remedial programs declines, but they also bear the cost of maintaining the new reality. In all, more than half the net gain takes the form of a fiscal dividend for governments.

Table 3.1
Net Long-Term Annual Gain from the Strategy Compared to the Status Quo (\$ billions)

Aboriginal People			
<i>Increase in earned income</i>	8.6		
Government revenues from increased Aboriginal income	(3.1)		
Reduction in financial assistance from governments	(1.2)		
Change in net income of Aboriginal people			4.3
Governments			
<i>Reduction in expenditures on remedial programs</i>	2.4		
<i>Expenditures to maintain the strategy</i>	(1.2)		
Reduction in financial assistance to Aboriginal people	1.2		
Net change in government expenditures		2.4	
Increase in government revenues		3.1	
Net fiscal dividend to governments			5.5
<i>Net gain for Aboriginal people and for all governments from the strategy compared to the status quo</i>			9.8

Note: Real economic gains and costs are printed in *italics*. Other items relate to the distribution of these costs. Parentheses indicate negative entries. All values are based on the projected size of the Aboriginal population in 2016. This table is the same as Table 2.12, Chapter 2 in this volume, except that here 'Expenditures to maintain the strategy' has been added (see p. 74).

These time horizons and resource allocations — an investment of up to \$2 billion per year for 20 years — should be seen against the background of four generations or more when the Canadian state marginalized Aboriginal people economically and politically and several more generations of welfare policies applied in a way that disregarded the social realities of Aboriginal communities and fostered deep dependency. Patience and consistency of effort will be needed as Aboriginal people heal themselves, take control of their futures and regain strength. Change cannot be expected to proceed in a uniform and steady manner or at a regimented pace.

Our recommendations are motivated first and foremost by a desire for social justice and for a restoration of historical rights, dignity and self-reliance to Aboriginal people. From this perspective the strategy will be a good investment for Canada. But the strategy is also a good economic investment. Greater productivity, higher incomes and improved government finances will result from it. At a time when the economy is not performing optimally and government finances are under severe strain, the realistic prospect of ending the economic dependency of many Aboriginal people and communities provides a powerful argument in favour of the strategy.

1. Financing Fundamental Change

In this and the next two sections we examine how the finances of governments will change as they implement the recommendations in this report. What is likely to happen if no major reforms are introduced is addressed in Chapter 2. There we showed that, in the absence of a fundamentally different approach and new policies, the social and economic conditions of Aboriginal people would remain more or less as they are at present and that government expenditures per Aboriginal person would remain at present levels. In

support of this view, we provided extensive data showing that the circumstances of Aboriginal people and the level of government expenditures relating to Aboriginal people have shown little change over the past decade or two.

But the changing age structure of the Aboriginal population will bring about major shifts in the composition of government expenditures. Expenditures for education will remain close to their present level as a decline in the birthrate keeps the number of children and youth from increasing greatly; but expenditures on financial assistance will increase rapidly because large numbers of young people will be coming of age. Indeed, the age structure of the Aboriginal population will change in a way that would reduce government expenditures were it not for the high degree of economic dependence among Aboriginal people. The changing demographics add force to the economic argument for fundamental change, as reflected in the rapidly increasing cost of the status quo and the burden this imposes on all Canadians.²

A perspective on the future in which government expenditures remain more or less constant on a per capita basis is at odds with the present fiscal policies of most governments in Canada. It is worth noting that the starting point for the projections is 1996, so that projected expenditure levels reflect any cutbacks that occurred up to that point.

While governments will no doubt continue to practise expenditure restraint for some years, we would not expect reductions to the extent seen in recent years to continue after the public debt is stabilized. We believe that governments will continue to have a major role in the social and economic life of the country to maintain social peace, provide economic opportunity for all citizens, and support those in need. Should the future bring a major, sustained reduction in the scope of government responsibilities, there will likely be more hardship among Aboriginal people, and it would become very difficult to reach the goals we have set.

Governments should not ignore their obligations to Aboriginal people just because their role in society is being redefined. It would be a travesty of justice if concerted and effective action to correct the history of oppression and dispossession of Aboriginal people were set aside on grounds of financial restraint just at the point when this history is finally being recognized for what it is. A great debt is owing, a debt on which governments and Canadians cannot renege.

Our task is to show what resources are needed to establish a renewed relationship and end dependency on government by greatly improving social and economic conditions for Aboriginal people. We have not done this for individual recommendations but have projected resource requirements for 12 policy areas, using a global approach and with existing expenditures on similar activities as a guide.

The majority of the expenditures we propose are of a temporary nature, serving to bring about change. For example, land claims settlements will involve a redistribution of land, resources and money effected over a number of years and will be completed at some

point. Future income streams will be transferred with the assets, but these would be reflected in the value of the assets or integrated into fiscal arrangements for Aboriginal governments.

Many of the Commission's recommendations concerning social and economic measures call on governments to change the content, delivery and control of existing services. The recommendations call for new Aboriginal institutions, restructuring of mainstream institutions and greater use of Aboriginal content, methods and knowledge. To achieve this, extra money will be needed for a period to effect change by involving Aboriginal people at all levels, by adding new functions or experimenting with new approaches that will later be merged with or substituted for present delivery mechanisms, and by developing new curricula and methods, as well as for bricks and mortar. As services reach more Aboriginal clients and are made more effective, and as the healing process proceeds, demand for services to deal with unmet needs will also increase funding requirements. But after the new structures are in place and fully operational, and the backlog of needs has been addressed, costs should revert to more or less the same level as before the introduction of changes.

Some costs of the strategy are of a permanent nature. For instance, investment in human resources for self-government and economic growth will mean greater enrolment rates among Aboriginal students. The central institutions of Aboriginal governments and the capacity to develop and implement policy where they assume jurisdiction are new functions that will require new resources on a permanent basis. But programs are already in place, and on the whole they can be delivered as efficiently by Aboriginal organizations as by existing agencies, or perhaps even more so. (Services to Indian people living on reserves and Inuit are already being delivered for the most part by Aboriginal organizations; any effects this may have on costs are reflected in the present level of expenditures and are not a cost of the strategy.)

Two stages of implementation are set out in detail in Table 3.2. The first column, showing government expenditure allocations for 2001, five years after the beginning of the strategy, represents the early implementation phase, when spending is focused on social and economic measures. The structural reform measures, although an indispensable part of the strategy and essential to its success, do not as yet involve large government outlays.

But 20 years after the strategy is launched this has changed completely, as shown in the second column of Table 3.2. The allocations for that year reflect the operations of Aboriginal nation governments and financial transfers associated with land claims and treaty settlements. Significant outlays will be required. While some of the social and economic investments will have been completed, other measures will still require major funding. (The expenditure allocations for social and economic measures for 2016 are scaled up to reflect changes in the size of Aboriginal client groups.)

TABLE 3.2
Changes in Government Finances under the Strategy (\$ millions)

Additional allocation in the year	2001	2016
Structural measures		
1. Tribunal and treaty commissions	50	50
2. Nation rebuilding	50	0
3. Nation governments	50	425
4. Land claims settlements	0	1000
Total for structural measures	150	1475
Social and economic measures		
Healing		
5. Education, youth and culture	300	150
6. Health care	100	-450
7. Social services	100	-425
8. Justice	25	-325
Economic opportunity and living conditions		
9. Economic development	350	225
10. Income transfers	0	-250
11. Housing and infrastructure	400	350
12. Human resource development	150	425
Total for social and economic measures	1,425	-300
Government revenue gains	—	-1,550
Overall total	1,575	-375

Notes:

1. In this table, expenditures (numbers without parentheses) represent increases in spending by all governments required to implement the strategy. Reductions are shown by the numbers in parentheses in the column for 2016. These relate to amounts saved as a result of the strategy that, in its absence, would have been incurred under a continuation of the status quo and to additional revenues collected by governments.

2. Figures are rounded to the nearest \$25 million.

Also shown in the second column of Table 3.2 is the fiscal dividend generated by the strategy in 2016. Significant annual savings will accrue in a number of program areas by that time, and these will be larger than the expenditures on the strategy's social and economic measures.³ As government revenues also increase as a result of progress on the economic front, government finances overall will have returned to more or less the same state as under the status quo, that is, as shown in Table 3.2, an improvement of \$375 million.⁴

This favourable result will be reached when half the cost of the status quo has been eliminated through improvements in the social and economic circumstances of Aboriginal people. While recognizing that the effects of the strategy will take time to emerge and that progress will not be steady or uniform, we believe it is possible that half the potential gains from the strategy can be realized 20 years from now. (We comment on

the pace of progress later in the chapter). In the next two sections we discuss in detail the expenditure allocations and savings presented in Table 3.2.

2. Establishing a New Relationship: Structural Measures

As proposed in Chapter 1 of this volume, policies and processes to effect change in the political relationship between Aboriginal people and other Canadians and in the distribution of lands and resources would be put in place through a new royal proclamation and companion legislation. Initially the focus of action will be on rebuilding Aboriginal nations through processes that are to a large extent internal to such nations. Aboriginal groups will enter into these processes when they are ready and proceed at their own pace. The process may be time-consuming for many nations. Once reconstituted, Aboriginal nations will begin to exercise increased jurisdiction on their territories. Following negotiation of a Canada-wide framework agreement, recognized Aboriginal nations entering into treaty negotiations would use the framework agreement to arrive at more definitive arrangements respecting self-government jurisdiction, fiscal arrangements, and territory.

Compared to existing processes concerning treaties, governance and lands, we are proposing major changes in scope and orientation, with significant effects on financial requirements. Nation building and achieving recognition will require more resources than are allocated to existing community-based self-government and tripartite processes. The operations of new bodies such as the treaty commissions and the Aboriginal lands and treaties tribunal will also cost more than the institutions that are now part of the process. But the cost of these process innovations is modest compared to the resources needed to effect a reallocation of lands and resources and a resolution of treaty issues with all Aboriginal nations.

At present, federal, provincial and territorial governments spend some \$200 to \$250 million per year on negotiation, implementation and litigation related to treaties, lands and self-government, not including the value of claims settlements.⁵ The settlement process will change but the activity will continue. There will still be a need for research and preparation of claims, evaluation and negotiation, but after new policies and processes are introduced, we would anticipate less litigation. Given the current large backlog of specific claims, and with more than 45 comprehensive claims filed in British Columbia alone, we expect that no financial resources currently committed to these activities can be freed up.

We propose that governments, while continuing to fund these various activities, commit an additional amount of up to \$150 million per year during the initial five years of the strategy for structural reform measures. New funds are required, temporarily, for consultations about the royal proclamation and companion legislation and for negotiation of the framework agreement. These processes will involve the national Aboriginal organizations, which will require funding to support their participation, amounting to perhaps \$15 million per year for consultations with their constituents, researching, preparing for and conducting negotiations, commissioning technical studies, and so on;

this need will cease once an agreement is in place. These funds are included in the \$150 million, as expenditures on other items (detailed below) will not be required during the early years of consultations. (Adoption of new policies and processes by federal, provincial and territorial governments will also involve costs such as for consultation within the government and with the public, drafting of legislation, and so on. We consider these part of governments' usual cost of doing business.)

The Aboriginal Lands and Treaties Tribunal will involve new outlays that are likely to be similar in scale to those of the Federal Court of Canada. These costs can be met in part by reallocating funding now devoted to other institutions, in particular the Indian Claims Commission. The net demand on the federal government may be \$25 million per year. Our proposals also include treaty commissions. To these we assign an allocation of the same magnitude, bringing annual funding for the tribunal and treaty commissions to \$50 million by year five of the strategy (Table 3.2, line 1).

Rebuilding Aboriginal nations will begin in earnest after the royal proclamation is promulgated. Nation building involves several stages: animation and preliminary self-definition, an initial referendum to launch the self-government process, development of a citizenship code, enumeration and resolution of citizenship cases, and developing a constitution.

Expenditures of \$2.5 million per year for each nation, for two to four years on average, should be sufficient, although in certain cases a larger amount may be necessary. Accordingly, we would expect costs to range from \$5 million to \$10 million per nation over the time needed to complete the process. If 20 to 30 nations embark on the process in the three years following the royal proclamation and some of them complete it by the fifth year, as we think possible, expenditures should not exceed \$50 million a year at that time (Table 3.2, line 2).

Once reconstituted, Aboriginal nations will seek formal recognition and establish nation governments. Nations will determine their own forms of governance, but all will need some type of legislature, an executive, and a capacity to develop and implement legislation and policy in each area of jurisdiction. The expenditures needed to establish and operate these institutions are the costs of Aboriginal self-government. We do not regard the cost of delivering existing programs and services by Aboriginal organizations as a cost of self-government.

DIAND spends close to \$250 million per year in band government allocations, that is, expenditures for financial administration and general management functions relating to devolved programs.⁶ With the creation of nation-level government, these functions will continue, and so will the need for funding. Some economies of scale will be realized. Band-level governments will likely continue with municipal-type responsibilities, but policy responsibility and specialized technical expertise can be concentrated at the nation level.

New funds will be needed to operate the governments and legislatures of Aboriginal nations. The institutions we proposed in Volume 2 for lands and resources and economic development will need a capacity to manage resources and regulate their exploitation, a sophisticated activity demanding skilled staff in numerous areas of expertise.

In our view, additional spending of \$250 million equivalent to current band government allocations (approximately \$735 annually per capita) will provide a strong funding basis for self-government by First Nations.⁷ The combined amount of \$1470 per capita, while higher than the per capita amounts spent by federal and provincial governments, is well below the per capita spending of the two territorial governments.⁸ These are relevant comparisons, as Aboriginal nations will ultimately assume wide-ranging jurisdiction. The small size of communities and the distances between them will make for higher operational costs than those of federal and provincial governments, but the territory of Aboriginal nations generally will not be so large, or transportation and communications so costly, as to warrant spending at the levels found north of the 60th parallel.⁹

Other Aboriginal groups, in particular Métis groups, will also seek recognition as nations, assume jurisdiction, and take over program delivery from provincial and territorial governments. We estimate that this may involve \$175 million in additional funding.¹⁰ Thus, in the long run, an additional \$425 million will be needed when the current Aboriginal population is regrouped into some 60 self-governing nations. As noted earlier, it may take 15 to 20 years to rebuild and recognize these nations and to reach the stage where many have assumed jurisdiction. If 10 nations are in operation by 2001, \$50 million will be required in that year to meet their incremental cost of self-government (Table 3.2, line 3). Thus, five years after the beginning of the strategy, structural reform measures will require expenditures of \$150 million — \$50 million each for new institutions, nation rebuilding, and nation governments.

Following recognition, an Aboriginal nation may also begin to negotiate a treaty on self-government, territory and other treaty matters. Even when guided by a framework agreement, such negotiations are likely to be extensive and time-consuming. There will be a need to research traditional territory, and issues like land selection, third-party interests, and municipal tax bases will be more complex south of sixty than they are in the North. This activity will require additional funding, since the scope of the redistribution of lands and resources that we envisage well exceeds the specific and comprehensive claims being addressed by the government under its current claims policy.

As land claims settlements are reached, Aboriginal nations will acquire a land base and an economic base. If cash transfers under new treaties are similar in size to per capita cash payments awarded under modern comprehensive claims — about \$35,000 — more than \$26 billion will be required to accommodate nations without modern treaties. But these agreements also included the direct transfer of substantial amounts of Crown land, something that may not be possible to the same extent in the more developed and densely populated parts of the country. However, lands and resources may not be as significant a factor for economic development in areas close to urban centres, where the range of economic opportunities provides other options. Whatever the precise outcomes of

negotiations, payment of the settlements will be spread out over a long period and will increase as more settlements are reached. Our strategy includes \$1 billion per year in new funding for land claims, a level that should be reached before or early in the second decade of the strategy, and then maintained for as long as needed (Table 3.2, line 4).

Thus, after 20 years, governments would be spending close to \$1.5 billion on structural reform in the following categories: \$425 for Aboriginal self-government operations, \$50 million for the Aboriginal Lands and Treaties Tribunal and treaty commissions, and \$1 billion on land claims and treaties, mainly for the financial transfer component of settlements.¹¹

3. Social and Economic Measures: Gathering Strength

In Chapter 1 of this volume we set out four major dimensions along which social, economic and cultural initiatives should proceed: healing; improving economic opportunity and living conditions; human resources development; and development of Aboriginal institutions and adaptation of mainstream institutions. The following discussion of the resources required for implementation and the resulting gains is organized according to this framework. However, the fourth dimension, institutional reform, is so much a part of the first three dimensions that its funding allocation is included in those for the other three dimensions and is not shown separately in Table 3.2.

3.1 Healing

To foster a climate conducive to healing, we propose a number of strategies for education and culture, health care, social services and justice.

With respect to education and culture, our approach focuses on children, youth and cultural institutions. For year five, we allocate \$300 million in new funding to education, youth and cultural strategies (Table 3.2, line 5). The first of these strategies is the development of Aboriginal curricula and teaching materials, where the diversity of cultures and languages necessitates a major investment over a decade. We allocate \$50 million per year to this task. (The diversity of Aboriginal cultures, languages and history means that culturally appropriate educational materials will need to be developed for each. Our allocation is based on an expected number of Aboriginal nations and an annual allocation of up to \$1 million per nation. Examples of new approaches in education are given in Volume 3, Chapter 5.)

Second, establishing Aboriginal schools and school boards for Métis and urban Aboriginal populations, and bringing high school education into Aboriginal communities, will require planning, investment in new institutions and instructional programs, construction of schools, and installation of long-distance facilities where these are more cost-effective. No doubt this reform can be financed in part within existing budgets for capital investment, program development and operations. We allocate an additional \$100 million a year in this area. This amount represents an increase of about 10 per cent over

current expenditures by provinces and school boards on education of Aboriginal children and youth.

Third, \$100 million annually is allocated to the proposed youth strategy, reflecting an amount of \$1,000 per year for each Aboriginal youth between the ages of 16 and 20. This level of funding allows for development of recreation and sports programs with a high degree of volunteer involvement for the large majority of Aboriginal youth, along with return-to-school programs, counselling and other targeted interventions.

The fourth item in this group concerns cultural institutions, to which we allocate \$50 million. This injection of funds would more than double recent government spending on northern and Aboriginal broadcasting, support for Aboriginal languages, and cultural and educational centres. It would make possible the establishment of an Aboriginal languages foundation and an Aboriginal arts council, provide core funding for Aboriginal media, and support production of Aboriginal programs.

The first three components are investments that require a higher level of funding for only a limited period. Once the education system is restructured, Aboriginal content is developed, and Aboriginal people are involved in every aspect of it, cost per student should return to the levels now spent by governments. As well, when youth are motivated by opportunity and a positive environment, spending on the youth strategy can be reduced to \$25 million a year. However, we estimate that cultural institutions will still require incremental funding 20 years from now and have allocated \$50 million per year for that purpose. The \$150 million noted in Table 3.2 also includes \$75 million for the added cost of educating Aboriginal youth for a longer period when their rate of high school attendance and completion reaches the Canadian rate. This allocation is calculated as four per cent of government expenditures on elementary and secondary education. Based on 1991 data it is estimated that the duration of schooling is approximately four per cent shorter for Aboriginal people than for other Canadians.

In the medium term, extra resources will be needed in health care to enhance services selectively, based on community needs, and to integrate health and social services while they are brought increasingly under Aboriginal control. The task of restructuring is greatest in urban and rural off-reserve communities, where most of the additional funding should be directed to establish Aboriginal healing centres. An allocation of \$100 million a year in year five is intended to ensure that this change takes place (Table 3.2, line 6).¹²

We take the same view of social services. Many of our recommendations with respect to the family, health and healing, education and economic development are aimed at protecting and enhancing the development of young children. Culturally appropriate services, maternal and child health, early childhood education, and high quality child care are proposed to complement the role of the family in nurturing young children. The federal government has recently implemented several early childhood initiatives for Aboriginal people. On First Nations territories, resources are being provided for a transfer of child and family services to Aboriginal control, while the focus is shifting to education and prevention. For year five, we allocate \$100 million to social services to fund a wide

range of early childhood initiatives to complement the federal measures; these focus mainly on urban and rural off-reserve Aboriginal communities (Table 3.2, line 7).¹³

As vitality and self-reliance are restored in Aboriginal communities, a reallocation of government expenditures will ensue. The analysis in Chapter 2 indicated that significant reductions are possible in government expenditures on health care and social services, as well as in some other program areas. We project that by 2016 half the possible maximum savings will be realized (Table 3.2, lines 6 and 7).¹⁴

The changes in needs that make these expenditure reductions possible should be felt in a wide range of programs — child welfare, suicide prevention, alcohol and drug counselling, family violence, and other mental and physical health care. These services are not generally in abundant supply at present. We urge that, as social conditions improve, governments ensure that services are supplied at a more adequate level in relation to need and reduce expenditures only when there is solid evidence that needs are fully met. We are confident that the strategy will bring about a fundamental transformation in the next 20 years that will make the projected savings possible. The savings may appear in the form of a levelling off of funding for many Aboriginal institutions. Over the longer term, given a constant level of demand for services, program funding would be expected to increase with the size of the client population. A decline in demand would make it possible for governments to increase funding at a slower rate. Thus governments can reduce per capita spending and realize the savings we project without reducing their expenditures, abolishing programs, or shutting down delivery institutions.

With respect to justice, a modest amount of \$25 million is allocated in the medium term for new initiatives (Table 3.2, line 8). We expect savings to emerge early in this area, as a result of a reduction in the extraordinarily high rate of incarceration of Aboriginal people as justice systems learn to deal with Aboriginal people more fairly and effectively, and these savings can be used to intensify measures for reform. When Aboriginal communities heal themselves and begin to offer more economic opportunities, further savings are bound to occur. It is not difficult to see the sources of possible savings when 72 per cent of prisoners in provincial prisons are Aboriginal, as is the case in Saskatchewan.¹⁵ Entire facilities could be closed. The estimated reduction in government expenditures on police and correctional services, like the reduction in health care and social services expenditures, reflects a reduction of one-half of excess government expenditures that would otherwise occur by 2016 with the escalation of costs under the status quo.

There are other dimensions to healing, not least of which is the role of non-Aboriginal Canadians in gaining greater knowledge and understanding of the history and aspirations of Aboriginal people and acknowledging the errors of the past. We are calling for restitution, in particular of a land and resource base. The allocation under structural measures for this major item should be regarded as including all forms of restitution, including compensation to individuals and collectivities as recommended in Volume 1.

3.2 Improving Economic Opportunity and Living Conditions

The second thrust of action to revitalize Aboriginal societies is a direct attack on economic disparities and intolerable living conditions. With regard to economic development we propose an increase in government expenditures of \$350 million by 2001, allocated to three components (Table 3.2, line 9). First, spending on small business advisory services, equity capital and small business loans has been reduced sharply in recent years, with a total federal effort of \$105 million in 1995-96, compared to \$177 million four years earlier.¹⁶ Restoring funding to past levels and responding to increased demand resulting from population growth will require an increase in funding of \$100 million in the medium term, followed by further increases in the future. This level of funding will accommodate initiatives such as a national Aboriginal development bank and expansion of funding for Aboriginal capital corporations, as well as the financial requirements of regional and sectoral development institutions, which were severely affected by cuts in the early 1990s. These institutions are the precursors of the economic development institutions of self-governing Aboriginal nations. Continuing to build these institutions serves the dual purpose of building capacity for self-government and pursuing business development.

The second component in the economic development envelope is a 10-year special training and employment initiative. We estimate that additional funds at the rate of half the Pathways program will be needed to implement this initiative on the scale required to have a significant impact. Thus, \$100 million should be allocated to this initiative.¹⁷

Reform of social assistance is the third component. More active use of social assistance for economic and social development in Aboriginal communities does not necessarily require additional funding. Training and re-employment can be actively encouraged within existing budgets, in a way similar to reform of unemployment insurance over the past several years. Other funds coming into the community, in particular those for housing and infrastructure, could be used creatively in combination with social assistance benefits. However, we estimate that some additional funds will be required for support of hunting and trapping and the mixed economy. We allocate \$150 million, which is equivalent to approximately 10 per cent of social assistance expenditures at this time. (An increase of 10 per cent normally could not be expected to have a significant effect on the nature and impact of government programs like social assistance. However, these funds should be applied selectively to support those whose main economic pursuits are of a traditional nature, so that they have a larger relative impact. As reform of social assistance and support for traditional activities are intended to stimulate economic activity and self-reliance, the related allocations are classified under economic development, not income transfers. Reform of social assistance is discussed in Volume 2, Chapter 5.)

Of these three components of additional funding for economic development — which together would amount to \$350 million per year by 2001 — the first, an allocation for business development, can be phased out when economic development gains momentum and investments begin to be financed by private capital and reinvestment of revenues

from natural resources and profits. The second component, the special training and employment initiative, is intended to accelerate skills upgrading over a 10-year period. Twenty years into the strategy, governments will still be funding training and business development, but we assume that current budgets, adjusted for population size, will be adequate to the task. Of the three components, only support for the traditional and mixed economies is likely to be long-term. Accordingly, 20 years from now, new funding for economic development is projected to be \$225 million for support of traditional activities. (This estimate is equivalent to the allocation of \$150 million for 2001, adjusted for changes in the adult Aboriginal population.)

As an allocation for social assistance has been included in new expenditures for economic development, no further new funding is required for income transfers. But as Aboriginal people achieve more success in the economy, there will be less need for income transfers. We project that, by 2016, expenditures in this area can be reduced by \$250 million — one-half the excess expenditures that would occur if the status quo were maintained (Table 3.2, line 10).

We propose that funding be committed immediately to improve housing and infrastructure for Aboriginal people. Adequate water and sanitation systems should be installed and operated, so that within the next five years acute threats to health are eliminated. Within ten years, Aboriginal people should live in adequate and suitable housing, as a result of a major catch-up effort undertaken jointly by governments and Aboriginal people.

According to estimates presented in Volume 3, Chapter 4, these undertakings will require \$228 million in 1997, growing to \$774 million by 2006, most of it in the form of subsidies for loans. In 2001, as the halfway mark approaches, \$400 million in new spending will be needed (Table 3.2, line 11).¹⁸ These estimates include an allocation of \$15 million in new funds for program delivery and development of Aboriginal institutions.

Beyond the 10-year horizon of Volume 3, Chapter 4, it becomes important to consider changes in ability to pay. We would expect Aboriginal people to spend a significant portion of gains in earned income on housing. Under the policies we propose in Volume 3, Chapter 4, government assistance for housing on- and off-reserve would be geared to financial need and would therefore decline as incomes rose. Based on a reduction of one-half in economic dependency, a saving of one-half of projected excess government expenditures on housing will reduce financial requirements by \$350 million by the year 2016. As the cost of the housing proposals under the strategy at this time is \$700 million, a net amount of \$350 million is allocated.

3.3 Human Resources Development

The third major dimension of social and economic change is human resources development. In many parts of our report we have emphasized the need to prepare Aboriginal people for positions in Aboriginal governments and public services and for

participation in the general economy. We have proposed many initiatives, including an education for self-government funding initiative and a scholarship fund for Métis and non-status Indian people, and called for expansion of assistance to First Nations and Inuit students to cover additional students and changes in costs.

In the early years, resources should be devoted to encouraging greater post-secondary attendance and establishing new Aboriginal institutions of post-secondary training, including an Aboriginal Peoples' International University. An allocation of \$100 million by year five will enable governments to undertake the many initiatives we are proposing. This level of spending will need to be increased gradually to accommodate rising enrolments in post-secondary education once awareness programs have had their effect and new institutions are past the start-up stage.

We are also proposing that a scholarship fund be established for Métis and non-status Indian students. Assuming the average level of assistance per student is equivalent to that of the DIAND program, but with access based on merit, this initiative would require \$50 million per year in new funding at the time it is introduced.¹⁹ Thus, \$150 million is required for human resources development by 2001 (Table 3.2, line 12).

In the longer run, the cost of the human resources development proposals flows from an increase in the number of Aboriginal students in post-secondary education, so that they achieve the same levels of enrolment and completion as other Canadians. At present, Aboriginal enrolment is at about 60 per cent of the rate for other Canadians, so that an increase of two-thirds is required, and expenditures on post-secondary education for Aboriginal people will have to increase by the same ratio. Using estimates of government expenditures developed for Chapter 2, we estimate that by 2016 this will create an annual requirement for \$225 million in new funding for post-secondary institutions. Outlays for student funding will also increase with enrolment. Financial assistance for status Indian people and Inuit under the DIAND program and for Métis and non-status Indian people through the new scholarship fund will require approximately \$200 million more annually when parity in enrolment is achieved. The \$225 million figure is based on an estimate of \$230 million spent by

provinces and territories for post-secondary education in 1992-93 (Chapter 2, Table 2.9), projected to 2016. Note that this allocation reflects only expenditures of provinces and territories, not the total cost of post-secondary education which is covered partly through tuition fees, other charges to students, and other income of post-secondary institutions.

In the longer term, when Aboriginal people participate in and complete post-secondary education at the same rate as all Canadians, funding for Aboriginal human resources development will be \$425 million higher than it would be if the present situation continues. This is the allocation for 2016, as 20 years should be sufficient to achieve parity in participation and performance in post-secondary education. It is assumed that the cost of funding Aboriginal students will increase by two-thirds as a result of higher enrolment. On the basis of the 1996 population, this creates a requirement for \$200 million in incremental funding. It is assumed that the same amount is needed 20 years

from now, despite growth in the population of student age, as the need for entry-level programs will be much reduced when more students have completed high school.

3.4 Institutional Development

The fourth major dimension of social and economic change is institutional reform. The establishment of Aboriginal institutions throughout the public sector will create room for Aboriginal initiative and approaches that are essential to the healing and revitalization of Aboriginal societies. Institution building is an integral part of reforms in education and culture, health and social services, economic development, and housing. In each of these areas we have allocated funds to the task of building new organizational and physical structures.²⁰ When change is complete and the new institutions are operating effectively, costs of service delivery should revert to normal levels.

4. Beyond the 20-Year Horizon

In the long term, well beyond the 20-year time horizon shown in Table 3.2, there will still be a requirement for financial resources to maintain the new institutional arrangements and the much improved circumstances of Aboriginal people. Five items are identified in Table 3.3, two of which relate to structural reform. A small amount is needed for the Aboriginal Lands and Treaties Tribunal and the treaty commissions, whose scale of operations will be much reduced after the major land and treaty issues have been dealt with. As well, the operations of Aboriginal governments will require funding.

TABLE 3.3

Changes in Government Finances under the Strategy: Long-Term Gains (\$ millions)

	2016	Long Term
Structural measures		
Tribunal and treaty commissions	50	25
Nation rebuilding	0	0
Nation governments	425	425
Land claim settlements	1000	0
Total for structural measures	1475	450
Social and economic measures		
Healing		
Education, youth and culture	150	150
Health care	-450	-900
Social services	-425	-850
Justice	-325	-650
Economic opportunity and living conditions		
Economic development	225	225

Income transfers	-250	-500
Housing and infrastructure	350	-700
Human resource development	425	425
Total for social and economic measures	-300	-2800
Government revenue gains	-1550	-3100
Net fiscal gain from the strategy	-375	-5450

Notes:

1. All amounts for the longer term are scaled to the size of the Aboriginal population in the year 2016.
2. In this table, expenditures (numbers without parentheses) represent increases in spending by all governments required to implement the strategy. Reductions are shown by the numbers in parentheses. These relate to amounts saved as a result of the strategy that, in its absence, would have been incurred under a continuation of the status quo and to additional revenues collected by governments.
3. Figures rounded to the nearest \$25 million.

As for social and economic measures, Aboriginal cultural institutions will need continuing support through public funds, not unlike Canadian cultural institutions. As well, higher high school retention and completion rates will need to be accommodated through greater expenditures on schools. A larger item is the funding of post-secondary educational institutions, as well as allowances and scholarships for students, to accommodate higher enrolment, an investment essential for maintaining economic self-reliance and effective self-government.

There will also be a continuing need for financial support from governments for individuals and communities. Although economic self-reliance is a realistic prospect for many Aboriginal communities, economic opportunity is not evenly distributed. We took this into account in estimating economic potential in the previous chapter. This suggests that governments may be called upon to provide income support and housing subsidies, over and above what they make generally available, in some parts of the country where economic opportunity is limited. To a large extent this may take the form of financial assistance for traditional activities, which is considered a permanent cost of the strategy.²¹

Taken together, about \$1.2 billion will be needed in these five areas, which are essential to continuous implementation of the strategy. This long-term annual cost of the strategy is only a portion of the cost at year 20, because two of the largest allocations will eventually be phased out. Expenditures related to land claims and treaty settlements will still be high at year 20, but at some point this financial transfer will come to an end. The same can be said about housing subsidies: after 20 years, large outlays are still required to meet loan obligations assumed during the 10-year catch-up program and to meet the needs of a growing population. But eventually these loans will be paid off, and governments will be called upon to assist only rarely when Aboriginal people achieve their full economic potential. (When the reallocation of lands and resources is completed, the federal government could also eliminate existing expenditures on land claims, which are in excess of \$300 million. This is not considered part of the gains from the strategy,

as presumably governments would cease spending money on claims under current policies as well.)

On the other side of the ledger are government revenue gains, which increase over time to a level twice that in the year 2016. How this occurs was described earlier in the chapter: economic progress generates more government revenue and reduces dependence on financial assistance, while healing of individuals and communities and greater effectiveness of service delivery systems reduce expenditures on remedial programs. The entries in parentheses in the second column of Table 3.3 are based on calculations presented in Chapter 2 of this volume.²²

As shown in the second column of Table 3.3, the net fiscal gain from the strategy increases dramatically compared to the situation at year 20. Most important is the full realization of the fiscal dividend from the strategy, as reflected in a number of entries in the table. However, phasing out two major costs — financial transfers related to land claims and treaty settlements, and government expenditures to achieve and maintain adequate housing — also contributes significantly to the net fiscal gain from the strategy, which eventually reaches \$5.45 billion. In other words, in the long run, governments would be better off by \$5.45 billion annually as a direct result of the strategy.

In summary, we expect the strategy to result in greater economic opportunities and in greater health and social well-being for Aboriginal individuals and communities. This should result in a larger contribution of Aboriginal people to the Canadian economy and in the freeing up of productive resources now devoted to dealing with the effects of social disintegration in Aboriginal families and communities. These are the fundamental gains that give rise to the changes in government finances just reviewed. Economic self-reliance also means greater wealth for Aboriginal people. We calculate that an increase of \$4.3 billion in the net private incomes of Aboriginal people can be realized. Together with the changes in government finances detailed in the second column of Table 3.3, this gives the results presented at the beginning of this chapter and summarized in Table 3.1.

5. The Distribution of Costs and Gains among Governments

The federal government and the governments of the provinces and territories should each assume a share of the additional government expenditures required to implement the strategy, according to their established jurisdiction and our proposals for sharing the cost of social programs between orders of government and for fiscal arrangements involving Aboriginal governments. Each government also stands to collect a share of the considerable fiscal dividend we expect the strategy to generate — in other words, to gain from its own efforts to improve the social and economic conditions of Aboriginal people. Collaborative efforts among governments are likely to yield greater benefits within a shorter period.

The cost of developing and implementing Aboriginal self-government, both on and off Aboriginal territories, falls to the federal government; funding for nation rebuilding and the operations of nation governments would be provided by the federal government. This

is broadly similar to the approach taken by the federal government and the government of British Columbia in treaty negotiations taking place in that province. Under a memorandum of understanding between Canada and British Columbia respecting cost sharing, the federal government is to pay for establishing and operating core institutions required for governance, while the cost of negotiating self-government, including contributions to First Nations for their participation, is to be shared between the two governments.²³

With respect to lands and resources, we expect the costs of negotiation will be shared equitably between the two orders of government. The provinces should contribute provincial Crown land to the settlements, and the federal government will be responsible for providing most of the cash transfers. In areas where adequate provincial Crown land is not available, funds will be required for cash payments in lieu of land and to finance third-party buy-outs. The extent to which the federal government compensates provinces for loss of future income from lands transferred to Aboriginal control can have a major bearing on the distribution of costs between the two orders of government. All this will be negotiated between them, but it should be clear that provincial governments, which have been the principal beneficiaries of the absence of treaties or the misinterpretation or abuse of treaty provisions where this has occurred, will have to bear a substantial portion of the cost of settling lands and resources issues.²⁴

With regard to social and economic measures, the federal government will also carry the larger share of the cost, but the provincial share will be more significant than for structural reform and may be between one-quarter and one-third. As proposed in Volume 4, Chapter 7, the federal government should fund changes in social programs on Aboriginal territories, where 42 per cent of the Aboriginal population lives at present.²⁵ Although this group is the most socially and economically disadvantaged among Aboriginal people, we have concluded that there is also an urgent need for reform in urban and non-reserve communities, where the provinces have a major role. They have an obligation to make programs more culturally sensitive and effective and therefore should provide funds for institutional reform of their public services. Affirmative action programs to bring about greater equality between Aboriginal people and other Canadians would be cost-shared between federal and provincial governments.

The distribution of costs between governments will be different for each major dimension of change. With respect to healing, the provinces will carry a large share of the cost of the strategy, as the proposals encompass the off-reserve population, including Métis and non-status Indian people. Economic development, including training, has been funded to a large extent by the federal government, and this should continue. (The transfer of responsibility for labour market programs and training to the provinces that is currently before Parliament will lead to a larger provincial share of the allocation for economic development.) With respect to housing assistance, the federal share has been approximately 75 per cent off-reserve, where half the incremental funding will be directed. The cost of the human resources strategy will fall fairly evenly on both orders of government, with the provinces funding institutions and the federal government supporting students.

To sum up our observations about sharing the costs of the strategy, provincial governments are called upon to implement a major share of the social and economic measures, which require most of the additional funding in the initial years. The federal government will assume a larger share later on, when the agenda shifts to definitive arrangements for structural reform, more and more Aboriginal nations move to self-government, and their territories expand and become home to more Aboriginal people. As the federal government is also the central player in fiscal arrangements with governments of Aboriginal nations, it will assume a predominant role.

In the previous chapter we showed that the federal government and the governments of the provinces and territories all have extensive expenditure commitments relating to Aboriginal people. Both orders of government provide financial assistance and remedial programs. Accordingly, both orders will share in savings flowing from the strategy. If conditions on First Nations territories and in Inuit communities improve, the federal government will see the demand for remedial programs and services decline. Off-reserve, the provinces and territories now carry the cost of remedial programs and will therefore gain when the need for these programs is reduced; but the federal government will also benefit where it now shares the cost of provincial programs for Indian people living off-reserve and through income transfer programs like employment insurance and housing subsidies.²⁶ Thus, every government stands to gain from efforts to improve social and economic conditions for Aboriginal people.

Increases in tax revenues flowing from economic growth will accrue to all governments, according to their share of various tax revenue sources. Both existing orders of government can expect to collect a share of additional personal and corporate income tax as well as sales tax revenues from greater activity off-reserve. Increases in economic activity on-reserve would be exempt from taxation to a large extent under the present system but would be subject to taxation by Aboriginal governments.

Indeed, we are proposing that governments of Aboriginal nations should have extensive taxation and spending powers. When Aboriginal governments assume jurisdiction, they may take over sources of revenue and spending responsibilities from federal, provincial and territorial governments. Naturally, they would then receive a share of the fiscal dividend commensurate with their tax and spending powers. However, under the financial arrangements we propose, much of this dividend will be passed on to other governments.

The revenues that will be available to the majority of Aboriginal governments in the medium term are likely to be inadequate to fund their normal operations, owing to the great needs of the Aboriginal population and the low level of market-oriented economic activity generally prevailing at present. If the federal government supplements the finances of Aboriginal governments in the manner that we recommend — to equalize fiscal capacity and to meet fiscal need — then the federal government will be the main beneficiary of improvements in the fiscal fortunes of Aboriginal governments.

First, through transfers aimed at correcting for weak fiscal capacity, the federal government will top up revenues of Aboriginal governments to a level that reflects average revenues of governments in the country. As economic conditions improve, Aboriginal governments will collect more revenue, and federal transfers will be reduced. This is entirely analogous to the effect on federal equalization payments when a province receiving the payments experiences an increase in its own revenues as a result of economic growth.

Second, we propose that the federal government also make transfers to Aboriginal governments to assist them in meeting needs such as high expenditures for social assistance related to a lack of employment opportunities, and for housing subsidies, health care and social services. These transfers will be reduced if social and economic conditions improve. Thus, as the fiscal dividend is passed through from Aboriginal governments to the federal government under the proposed new fiscal arrangements, the distribution of gains from the strategy between the after-tax incomes of Aboriginal people and the revenues of governments will see most of the gains flowing to non-Aboriginal governments, as they bear most of the costs today.

Aboriginal governments may choose to collect revenues in different ways and at different rates than other governments have done to date. The current on-reserve tax exemption leaves room for First Nations governments to raise new revenues. In the first instance this is an internal matter for First Nations, which will have the authority to determine taxation levels. With fiscal arrangements based on tax effort by the Aboriginal nation, fiscal transfers from the federal government will be determined to a degree by how and how much these nations tax. These matters will no doubt receive a great deal of attention in future and are the subject of analysis in the section on financing self-government in Volume 2, Chapter 3.

6. Realizing the Gains: The Pace of Progress

In this chapter we have estimated the dimensions of potential change and indicated a time frame for its realization. To close half the economic gap between Aboriginal people and Canadians generally and improve social conditions to a similar degree in two decades is a great challenge indeed. In this final section we attempt to provide some perspective on this challenge.

In the previous chapter we analyzed economic disparities between Aboriginal people and other Canadians, showing that the economic gap between Aboriginal people and Canadians is equivalent to about two-thirds of the economic output of Aboriginal people. Thus, closing half the gap requires that output by Aboriginal people be increased by one-third. Over 20 years, this means increasing the economic output of Aboriginal people by 1.5 per cent per year on average, in addition to growth of 2 per cent per year associated with the projected increase in the Aboriginal population of working age.

In Chapter 2 we also showed that half the economic gap is attributable to a lack of full-time jobs for Aboriginal people and estimated that 80,000 additional jobs are needed to

eliminate the disparity in employment if the population remains at 1996 levels. It would thus be possible to eliminate half the economic gap by creating 80,000 full-time jobs, or 4,000 jobs per year. In the context of a healthy Canadian economy, which creates jobs at a rate of 200,000 or more per year, this seems to be a modest challenge.²⁷ A different perspective emerges, however, when total requirements resulting from population growth are considered. In those circumstances an additional 225,000 jobs have to be created for Aboriginal people over the period to 2016. The potential employment level is projected to increase in step with growth in the Aboriginal population aged 15 to 64, that is, by 48.6 per cent. Thus, a total of 305,000 more jobs will be needed by 2016.

This rate of growth exceeds the rate of growth of employment in the Canadian economy as a whole by a significant margin, reflecting a closing of the gap as well as the high rate of growth of the Aboriginal adult population. Nonetheless, Aboriginal people make up only a small fraction of the Canadian population, and the adaptability of the Canadian economy and its past record of employment creation suggest that much progress is possible in 20 years. Over this period the majority of the baby boom generation will be retiring. This may permit greater upward mobility in jobs for qualified individuals and increase the importance of contributions by working Canadians to pension plans and social programs.

Job creation is not the only way to make progress. A complementary and equally productive strategy would be to find not only more but better jobs for Aboriginal people. In the previous chapter we pointed to the importance of closing the gap in educational attainment to achieve employment levels and earnings more comparable to those of other Canadians. Specifically, we showed that the gap in educational attainment accounts for 41 per cent of the difference in total earnings. Progress achieved in recent years in keeping Aboriginal students in school longer, together with the prospect of good jobs in the Aboriginal public sector and in Aboriginal and mainstream businesses, new education strategies, new Aboriginal institutions and student funding — all integral parts of the strategy — are bound to create a positive education climate and induce many more Aboriginal youth to continue their studies past high school. Possibly the next generation of Aboriginal people will achieve parity in high school completion and close most of the gap in post-secondary diplomas and degrees. Given that this generation is rather large, this will drastically change the educational qualifications of the Aboriginal labour force, and in due course this will translate into more and better jobs.

Many new jobs for highly qualified Aboriginal people will be found in an emerging Aboriginal public sector, in schools, health centres, governments. Most of these jobs already exist in mainstream and Aboriginal institutions, and more and more Aboriginal people will move into these positions, first in junior roles, and increasingly at more senior levels. The public sector, including government departments and education and health institutions, accounts for about one-quarter of the work force in Canada and a larger portion of the highly trained labour force. There will be new jobs, too, in economic development and land management institutions and to meet the needs of a rapidly growing population.

Education is also vital for success in the general labour market, and we can expect progress on this front, coupled with more effective placement activities and new approaches to affirmative action to help boost Aboriginal employment. Employment equity can be a powerful instrument. For instance, Aboriginal participation in the work force under the federal Employment Equity Act increased from 0.66 per cent in 1987 to 1.04 per cent in 1993.²⁸ Over a period of six years, close to 2,100 new jobs were created for Aboriginal people by the businesses subject to the federal employment equity policy, which account for 4.5 per cent of employment in Canada. If this pace of job creation for Aboriginal people were to be realized in the entire economy, more than 150,000 jobs would be created between 1996 and 2016. This would not be enough to close the employment gap, and a greater effort is therefore needed.

In many Aboriginal communities, access to mainstream jobs is limited, and the Aboriginal business sector will have to generate the necessary employment. Jobs, profits and tax revenues will be generated by greater Aboriginal control over lands and resources. The interim measures proposed in Volume 2, Chapter 4 will stimulate business development and job creation, and land claims settlements will add to this impact. Aboriginal people have demonstrated that when they obtain access to resources, they can mount successful business operations.²⁹

Harvesting and processing of resources on traditional Aboriginal lands is an economic opportunity that will be opened up for Aboriginal people in many parts of the country as the land reform measures we propose are implemented and agreements are reached. Many communities and nations now have some of the technical and business skills needed to exploit these opportunities and can move forward quickly through joint ventures. Success stories can also be found in the United States, and these, too, suggest that significant gains can be made by communities that assume control over resources on their traditional territories or get cash settlements.³⁰

In Canada, comprehensive land claims agreements are used as a tool of economic development. Evidence is still limited, but there is reason to be cautiously optimistic about the longer-term benefits of these agreements. A recent study comparing census data for 1981, 1986 and 1991 found that “over time, the Inuvialuit maintained a rapid increase in development while the James Bay communities maintained a modest increase”.³¹ As for specific claims, a recent evaluation prepared for DIAND found that there had been no noticeable improvement in economic conditions in the communities affected, but that some of the settlement money had been used to improve community infrastructure. Such investments are important to well-being and improve pre-conditions for economic development.³²

Greater progress can be made as the full scope of regional economic opportunities is exploited and Aboriginal governments gain in legitimacy and competence and establish the right frameworks for their business ventures. It is also important to resume the building of economic development expertise and capacity that was interrupted by cutbacks.

This review is far from definitive about the likely pace of economic and social progress in the years ahead. But it suggests that significant progress can be made over a 20-year period. As we believe that our strategy will set in motion a broad process of profound change, we estimate that through new employment and Aboriginal people moving to more skilled and better paying jobs, half the economic gap can be eliminated by that time. This will entail changes in government revenues and expenditures on income support and housing subsidies.

With respect to remedial programs, we also take the view that significant progress is possible over a 20-year period. Certainly it is possible to establish the new Aboriginal institutions we propose and to make the investments in Aboriginal content and approaches within two decades, and within that period much can be accomplished in making mainstream institutions more culturally sensitive as well. Community and individual healing will be greatly stimulated by the commitment of governments and Canadians to a renewed relationship and to concrete steps toward its realization. More investment in early childhood development, reform of education, new youth programs, and greater economic opportunities should establish a far more positive environment for the next generation of Aboriginal people coming of age.

Perhaps it will take longer. If it takes 25 years instead of 20 to reach the halfway mark, Aboriginal people and Canadians may have to demonstrate more patience and more determination. Perhaps the investments in social and economic measures need to be sustained over a longer period, pushing up the total cost of implementing the recommendations in this report. Our strategy will still produce great and lasting improvement over the status quo and change of the dimensions sketched out in this chapter. The bottom line of our strategy for renewal is a large gain for Aboriginal people and for Canadians.

Notes:

1 What governments do with the part of the fiscal dividend that is not reinvested in the strategy lies outside the terms of our mandate. Our purpose is to show that governments will gain more revenues and will be able to reduce expenditures by implementing our recommendations. To simplify matters, we assume that these gains will go directly to the bottom line, that is to say, increase the budget surplus or reduce the budget deficit.

2 To project government expenditures it is assumed that in each program area expenditures will remain constant in relation to the size of the client group. Using the expenditure categories identified in Chapter 2, Table 2.9, and the age groups most closely associated with each of these categories, the following rates of increase are projected for 1996-2016: for elementary and secondary education, 1.4 per cent, which is the growth rate of the 5 to 19 age group; post-secondary education and training, 22.3 per cent, the growth rate of the 15 to 34 age group; for income support and housing subsidies, 48.6 per

cent, which is the rate of growth of the population aged 15 to 64; for health care, 54.5 per cent, the growth rate of the population aged 15 and over; and for social services, police and correctional services and other expenditures, 34.8 per cent, the growth rate of the Aboriginal population as a whole. This gives an overall growth rate of 34.8 per cent, equal to the rate of growth of the Aboriginal population. Expenditures on financial assistance and remedial programs taken together are projected to increase more rapidly than total expenditures relating to Aboriginal people, as also reflected in the projected rate of increase of 47 per cent for excess expenditures over 1996 to 2016, as discussed in Chapter 2 of this volume.

3 Savings are projected in five program areas where government spending is high as a result of the current circumstances of Aboriginal people. One of the five areas is housing subsidies. While experiencing some reduction in housing subsidies after 20 years of change, because Aboriginal people will then be on the way to economic self-reliance, governments will also still be spending extra funds to ensure that Aboriginal people have adequate housing. The combined result is a net extra expenditure of \$350 million, as per the second column of Table 3.2.

4 It will be noted that governments spend more and collect more revenue at this point. The increase in revenue is not the result of extra taxation, but rather of economic gains made by Aboriginal people. The net cost of the strategy is reduced as the strategy becomes increasingly self-financing as a result of these economic gains. The net cost (net gain) is measured by the change in the surplus/deficit of governments.

5 Process expenditures for 1995-96 included the following: for DIAND, operating expenditures of the Claims and Indian Government Branch, \$37.2 million; transfers related to land claims research, negotiation and implementation, \$42.9 million; loans, investments and advances relating to claims, \$76 million; share of the Claims and Indian Government Branch in DIAND overhead, Indian Claims Commission, analysis of claims by the department of justice, \$30 million (estimated); and community-based self-government negotiations, \$17.8 million, for a total of \$203.9 million. To this should be added the costs incurred by provincial and territorial governments relating to claims and self-government negotiations and the cost of litigation involving the federal government (at present more than 400 cases, many for breach of trust and fiduciary duty). These latter items are not negligible, but estimates of related expenditures are not available.

6 For fiscal year 1995-96, band government allocations by DIAND were as follows: \$165.8 million for band support funding (including chief and council, basic administrative overhead, and additional amounts for administration of various programs); tribal council funding of \$24.1 million (advisory services to bands) plus \$21.6 million (administration); advisory services for unaffiliated bands, \$1.5 million; and band employee benefits of \$40 million. The total was \$253 million, or \$735 per reserve resident.

7 The government has been pursuing community-based self-government without increasing DIAND's budget. To finance self-government for the Yukon communities that

have signed final agreements, DIAND is reallocating expenditures internally. The self-government policy announced on 11 August 1995 also takes the DIAND budgets as given. Nevertheless, it is simply not realistic to imagine that effective self-government can be achieved without incremental funding. It would be wrong to introduce self-government and at the same time reduce funding for essential government services. In the long run, self-government is likely to lead to savings in federal expenditures, as we show later in this chapter. These savings will take time to be realized, however.

8 The average annual operating cost of government per Canadian is \$700 for all levels of government combined. The annual cost of operating the territorial governments is about \$2,000 per resident for the Yukon and \$3,800 for the Northwest Territories. These amounts represent expenditures for general government services, mainly the operating costs of the legislature, the executive and central agencies. The data and definitions can be found in Statistics Canada, "Public Sector Finance 1994-1995, Financial Management System", catalogue no. 68-212.

9 Incremental funding of \$250 million averages out to \$5 million per First Nation, assuming that about 50 First Nations will be established. On average, each First Nation will have from 5,000 to 7,000 citizens living on Aboriginal lands, a larger number on the nation's traditional territory, and several thousand citizens living elsewhere in Canada. The nation government will exercise some functions for all its citizens and some only for those living on Aboriginal lands.

10 This estimate reflects the relative size of the Métis and Inuit populations compared to the population of First Nations living on their own territories. Note that this estimate includes funding for Inuit, which may be an overstatement as the creation of Nunavut falls under existing policy. As the number of nations is not known, costs are extrapolated on the basis of the size of the population. While program delivery has already been devolved to First Nations and Inuit, this is not the case for Métis people. The related cost, which is regarded as being of a temporary nature, is addressed later in the chapter.

11 The allocations for operations of Aboriginal self-government and for land claims and treaties for year 20 are not adjusted for changes in the size of the Aboriginal population over the next 20 years. The cost of self-government is the cost of operating the central institutions of Aboriginal governments and is not related very closely to population size. The financial transfer associated with claims may depend on the size of the population affected. Additional costs related to future population increases may be met by extending the transfers over many years.

12 The transfer of First Nations health services to community control gives some indication of the cost of restructuring. Health Canada provides funding for management, financial administration, training, and so on, in a way broadly analogous to band support funding provided by DIAND. In 1995-96, \$61.6 million will have been transferred to 142 First Nations; 24 per cent of this amount is for management and administration. Some costs (training) are transitional. Continuing costs of administration will be offset in the long run by savings in administration in governments and institutions currently doing this

work and by greater effectiveness. The federal Building Healthy Communities strategy, with \$243 million in funding over five years, is an example of service enhancement in response to needs. This strategy focuses on crisis intervention with respect to mental health, home care nursing and solvent abuse in First Nations and Inuit communities. The proposed funding allocation for health care would make possible restructuring and service enhancement of similar scope in non-reserve and urban settings. The orientation of program enhancements would not be limited to those of the Building Healthy Communities strategy but should be responsive to local needs. Restructuring would be focused on integrated service delivery through healing centres as recommended in Volume 3, Chapter 3.

13 The amount is allocated to the social services item in Table 3.2 but also covers initiatives that could be classified under health care and education. In First Nations and Inuit communities, child and family services are being transferred to Aboriginal control, with additional funding for preventive interventions. According to the 1995-96 federal estimates, DIAND spending on social services support could increase from \$253 million in 1993-94 to \$380 million in 1995-96, but it will probably take longer to achieve complete devolution of program management. As noted in Volume 3, the federal government has introduced several initiatives in recent years with respect to early childhood: Aboriginal Headstart, with \$84 million for four years, focusing on non-reserve communities in the west and north; the First Nations and Inuit Child Care Initiative, with funding of \$72 million for three years and \$36 million per year thereafter; and the Child Development Initiative (Brighter Futures in First Nations Communities), a child and community mental health program with funding of \$177 million for five years. These examples indicate that within existing federal expenditures significant amounts are allocated to this important area and suggest that an allocation of \$100 million per year for up to 20 years should make possible a transfer of control and selective enhancements in response to needs, especially in non-reserve and urban settings.

14 As shown in Chapter 2, governments incur excess expenditures on remedial programs as a result of the adverse circumstances of Aboriginal people. These excess expenditures are projected to reach \$2.4 billion by 2016 unless action is taken (see Chapter 2, Table 2.12). If half these excess expenditures are eliminated by 2016, a gain of \$1.2 billion will be realized, with a \$450 million saving in health care and a \$425 million saving in social services. Savings of \$325 million will occur by 2016 in the third remedial program area, police and correctional services. Using the same approach, savings through reduction of excess government expenditures on financial assistance to Aboriginal people are projected to be \$250 million for income support programs, also by 2016.

15 See RCAP, *Bridging the Cultural Divide: A Report on Aboriginal People and Criminal Justice in Canada* (Ottawa: Supply and Services, 1996), Chapter 2.

16 Chapter 2, Table 2.7. DIAND funding is also for community development and basic human resource development in First Nations communities. The increase in funding that we propose should be allocated to business development and regional capacity building, rather than to these community-based activities.

17 An average expenditure of \$10,000 per trainee would make it possible to assist 10,000 persons per year under the initiative. Costs would include tuition fees, income allowances during classroom training, wage subsidies to encourage hiring, as well as planning and delivery by Aboriginal institutions. The assumed cost per trainee is similar to that of the current Aboriginal training program, Pathways, which has an annual budget of \$200 million, but it may be higher (and the number of trainees lower) if training of longer duration is emphasized.

18 As discussed earlier in the chapter, it is assumed that in the absence of new policies, government expenditures in each program area will increase in step with the size of the client population. Expenditures on existing housing programs are projected to increase by 48.6 per cent over the period 1996-2016 (see note 2). This increase reduces the net expenditures required to implement the housing recommendations, as calculated in Volume 3, Chapter 4, to \$400 million in 2001 and \$700 million in 2016.

19 The budget for the DIAND program is \$261 million in 1995-96. The number of Métis and non-status persons in the 15 to 34 age group, which includes most students in post-secondary institutions, is 46 per cent of the number of status Indians and Inuit in the same age group.

20 Consider the following funding allocations in year five, indicating levels of spending to be maintained for a number of years, possibly to year 20, which may also be exceeded by drawing on the fiscal dividend as needed: \$100 million for elementary and secondary schools, in part to establish new schools and school boards; \$50 million for culture and languages; \$100 million for health care; \$100 million for social services; \$100 million for economic development institutions; and \$15 million for housing on First Nations territories.

21 In Chapter 2, the initial estimate of the gap between potential and actual production by Aboriginal people was reduced by one-quarter to account for regional variations in economic opportunity. As a first approximation, we could assume that savings in social assistance expenditures realized by governments when Aboriginal people participate fully in the economy will also be lower by the same fraction. In 2016, this would amount to \$300 million, which is not greatly different from the \$225 million allocated to support of traditional activities.

22 The amount of \$700 million for housing and infrastructure reflects the complete elimination of excess expenditures and the absence of any cost associated with the strategy. The change from net cost in 2016 is particularly large because it reflects two changes that will occur when Aboriginal people achieve economic self-reliance: not only can the projected expenditures under existing policies be reduced sharply, but the expenditures under the strategy to improve and properly maintain the housing stock will also cease.

23 “Memorandum of Understanding (MOU) Between Canada and British Columbia Respecting the Sharing of Pre-treaty Costs, Settlement Costs, Implementation Costs and the Costs of Self-Government”, Vancouver, 21 June, 1993.

24 The MOU between Canada and British Columbia provides for a rather complex approach to sharing the cost of settling treaty negotiations, in which each government’s share of the cash cost depends on the mix of land and cash, the categories of lands transferred, and other factors in the settlement agreement. The sharing of costs, therefore, depends on the outcome of the treaty negotiations. According to the formula in the MOU, the federal share of the cash cost of settlement ranges from 75 to 90 per cent. Under the MOU, the federal government will partly reimburse the provincial government for ceding productive forest lands of high value and for loss of revenues from resources. The amounts involved are not part of the cash cost of settlements, but they are financial transfers between governments and shift a greater part of the financial cost of the settlement to the federal government.

25 First Nations people living on-reserve and Inuit made up 42 per cent of the Aboriginal population in 1996, according to projections based on the Aboriginal peoples survey. As a rough estimate, assuming that costs per Aboriginal person are the same on- and off-reserve, that 42 per cent of the Aboriginal population lives on Aboriginal territories, and that the federal government pays 50 per cent of costs for those not living on Aboriginal territories, the federal share of expenditures would be 71 per cent.

26 Cost sharing was terminated under the Social and Health Transfer of the Budget Implementation Act, S.C. 1995, c. 17 (Parts IV and V). As the federal government will no longer share the cost of provincial programs, it will not experience a direct financial gain when demand for these programs is reduced. Employment insurance is a contributory program with rates set in a way that balances contributions and benefit payments over several years. A reduction in benefit payments would thus be passed on to contributors through lower rates. It is not certain that employment insurance benefits payments to Aboriginal people will decline when they participate more fully in the economy. Many Aboriginal people do not have employment of a type that qualifies them for benefits.

27 From 1984 to 1994, employment in the Canadian economy increased from 11,402,000 to 13,292,000, or by 189,000 per year on average. This period includes the 1990-92 recession and the weak economic recovery that followed it.

28 Human Resources Development, Annual Report, Employment Equity Act, 1994 (Ottawa: Supply and Services, 1994).

29 The Meadow Lake Tribal Council’s activities in the forestry sector are a good example. In 1988, the council purchased a sawmill owned by the province that had been struggling to survive for 20 years and established a tree harvesting and reforestation company. Success soon followed for the two joint ventures, which now boast 243 employees and account for an estimated 730 indirect jobs in northwestern Saskatchewan.

Key to their success was a 20-year Forest Management Licence Agreement that made planning possible, has protected hunting and trapping rights and the interests of residents, and provided for reforestation and a preference to northern residents in harvesting, hauling and reforestation. The profitable companies have generated \$10.7 million in corporate taxes and personal income taxes paid by their employees between 1992 and 1994. See Price Waterhouse, Evaluation of Various Financial Results, MLTC Logging and Reforestation Inc., NorSask Forest Products Inc., November 1994.

30 In six Indian reservations that gained control over resources or undertook business ventures with funds received in settlement of claims, the proportion of adults with incomes above the poverty line increased from an average of 21 per cent to 31 per cent over the period 1977-1989. Stephen Cornell and Joseph P. Kalt, "Reloading the Dice: Improving the Chances for Economic Development on American Indian Reservations", in *What Can Tribes Do? Strategies and Institutions in American Indian Economic Development* (Los Angeles: American Indian Studies Center, University of California, 1992). The authors also report that average unemployment in these six communities was 28 per cent of the labour force at the end of the study period, indicating that a substantial economic gap remained. In *Tribal Assets: The Rebirth of Native America* (New York: Henry Holt and Company, 1990), Robert White tells the stories of five U.S. tribes that have gained significant control over resources and have successfully exploited business and employment opportunities.

31 James Saku, "The Socio-Economic Impact of the Inuvialuit Final Agreement", PH.D. thesis, Department of Geography, University of Saskatchewan, 1995. The author measured social and demographic development as well as economic variables and found that changes in social and cultural indicators had been more pronounced in the James Bay area. The author attributes this result to different priorities that were also reflected in the terms of the agreements.

32 DIAND, Report on the Evaluation of the Specific Claims Negotiation and Settlement Process, Draft 1, 1994. If moneys received in settlement of land claims are applied to any of the elements of infrastructure or in any other way to improve the social and economic conditions of Aboriginal people, they add to the momentum of change either directly or indirectly by enabling Aboriginal governments to pursue other priorities.