Government Expenditures on Aboriginal People: The Costly Status Quo

PRÉCIS
Cet article présente une estimation des dépenses des gouvernements en faveur des peuples autochtones du Canada, et il examine pourquoi ces dépenses sont considérablement plus élevées que les dépenses pour les Canadiens en général; il montre ensuite comment la Commission royale sur les peuples autochtones interprète ces chiffres et les considère comme un argument en faveur d’un renouvellement fondamental des relations entre le Canada et les peuples autochtones. L’article cite ensuite les estimations faites par la commission et la méthode que celle-ci a employée pour calculer le montant de l’ensemble des dépenses de tous les gouvernements en faveur des peuples autochtones. La commission a noté que les gouvernements dépensent 57 pour cent de plus pour une personne autochtone que pour une personne canadienne. Cette différence est attribuable à quatre facteurs : les dépenses spécifiquement destinées aux peuples autochtones, le coût plus élevé de l’exécution des programmes dû au petit nombre d’habitants et à l’éloignement de nombreuses communautés autochtones, les différences dans la structure par groupe d’âge qui affectent la demande de services gouvernementaux, et les disparités sociales et économiques qui elles aussi affectent cette demande. L’article examine ensuite la relation entre chacun de ces facteurs et le montant des dépenses. On constate que plus de la moitié de la différence dans les dépenses gouvernementales est le reflet direct des besoins plus grands des peuples autochtones en termes de sécurité du revenu, de soins de santé et d’autres services reliés à la pauvreté généralisée, le mauvais état de santé et les divers problèmes sociaux qui les affligent. La commission considère que ces dépenses représentent le coût du statu quo, et elle demande que l’on procède à des changements fondamentaux. L’article conclut en donnant un bref aperçu, basé sur les estimations de la commission, de ce que représenteraient les coûts et les bénéfices d’une modification du statu quo et des principaux éléments de son programme.

* Economic consultant; previously co-director of policy at the Royal Commission on Aboriginal Peoples. The author wishes to thank David Slater for encouragement and an anonymous reviewer for helpful comments. The method for allocating a share of government expenditures to Aboriginal people was developed by consultants at Goss Gilroy Inc.
ABSTRACT
This article presents estimates of government expenditures on Aboriginal people in Canada, explores why these are significantly higher than government expenditures on Canadians generally, and shows how the Royal Commission on Aboriginal Peoples interprets these numbers as an argument for a fundamental renewal of the relationship between Canada and Aboriginal peoples. Estimates of expenditures of all governments on Aboriginal people developed by the commission are presented, along with the method of estimation. It is found that governments spend 57 percent more per Aboriginal person than per Canadian. Four factors are identified which contribute to the difference in the level of expenditures: expenditures specific to Aboriginal people; higher cost of delivery of programs related to the small size and remoteness of many Aboriginal communities; differences in age structure of the population that affect the demand for services from government; and social and economic disparities that also affect the demand for government-funded services. The relationship of each of these factors to the level of expenditures is then examined. It is found that more than half of the difference in government spending directly reflects the greater need of Aboriginal people for income support, health care, and other services caused by widespread poverty, ill health, and a variety of social problems. The commission considers these expenditures a cost of the status quo and calls for fundamental change. The article concludes with a brief sketch of the commission’s estimates of the cost and financial benefit of changing the status quo and the principal elements of its agenda for change.

INTRODUCTION
Generally speaking, Canadians are poorly informed about Canada’s Aboriginal people. Although news coverage has been frequent since the constitutional negotiations of the 1980s and the Oka crisis, many people lack even a rudimentary knowledge of our shared history and of the current circumstances of Aboriginal people. In the absence of such knowledge, they have no frame of reference by which to evaluate Aboriginal claims and protests, and cannot see apparent privileges like the Indian tax exemption and income support for students in context. The Royal Commission on Aboriginal Peoples fills a void by devoting the entire first volume of its final report to history, but the report may not reach many of those who would take time to be educated.¹

As well as presenting the historical record, the commission describes and analyzes the appallingly bad social and economic conditions facing Aboriginal people, and makes recommendations designed to bring about change for the better. In this context, the commission argues that improvement in the living standards and well-being of Aboriginal people

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will also be advantageous to Canadians. Canadians may derive satisfaction and pride from greater social justice; they also would gain financially. The much-publicized $2 billion in extra annual government spending proposed by the commission is therefore to be seen as an investment that will pay off handsomely.

Underlying the prospect of significant gain for everyone is an analysis of economic disparities between Canadians in general and Aboriginal people, and of government expenditures. The commission shows that government expenditures directed at Aboriginal people are much greater than expenditures for Canadians generally, and that approximately one-half of the difference is related to poverty and a range of social and health problems among Aboriginal people.

This article focuses on the difference in the level of government expenditures per capita between all Canadians and Aboriginal people. The first section presents estimates of government expenditures developed by the commission. The second section analyzes the role of four factors that contribute to higher expenditures for Aboriginal people: government expenditures specific to Aboriginal people; higher cost of delivery of programs related to the location and dispersion of Aboriginal people; differences in age structure of the population that affect the demand for services from government; and social and economic disparities that also affect demand for government services. The third section offers a few comments on the potential for change as viewed by the commission.

The analysis presented here is consistent with that contained in the commission’s report.

GOVERNMENT EXPENDITURES RELATING TO ABORIGINAL PEOPLE

A few years ago, the government of Canada issued a compilation of its expenditures on programs directed at Aboriginal people. The commission provides an update for 1995-96 (table 1). The Indian and Inuit Affairs sector of the Department of Indian Affairs and Northern Development (DIAND), with a budget of $3.8 billion, accounted for the lion’s

2 Documentation and analysis of economic disparities is beyond the scope of this article. For further discussion, see Canada, Report of the Royal Commission on Aboriginal Peoples, vol. 5, Renewal: A Twenty-Year Commitment (Ottawa: Supply and Services, 1996), chapter 2, “Economic Disparities, Government Expenditures and the Cost of the Status Quo,” 24-32.

3 The first section of the article presents estimates developed by the commission. In the second section, where levels of government expenditures are compared, the analysis expands on the commission’s report in three respects: more expenditures are identified as being specific to Aboriginal people; the cost of delivery of programs and services is discussed in more detail; and the effect of age of clients on the demand for government services is estimated for seven program areas.

4 Canada, Department of Indian Affairs and Northern Development, Growth in Federal Expenditures on Aboriginal Peoples (Ottawa: the department, 1993).

5 Renewal: A Twenty-Year Commitment, supra footnote 2, at 35, table 2.7.
share of federal expenditures; other departments spent $1.7 billion, nearly $1 billion of which was contributed by Health Canada.

Measured in real per-capita terms, these federal expenditures increased at a high rate during the first half of the 1990s, while government expenditures in general became increasingly subject to restraint. The rapid growth of expenditures on Aboriginal people can be attributed to several factors: a rapid increase in the number of registered Indians following changes to the Indian Act in 1985 (Bill C-31); the financial dependency on the federal government of many young Aboriginals entering their adult years; and the native agenda of the Mulroney government.

The totals in table 1 have at times been cited as measures of government spending on registered Indians living on reserves. But they are rough measures at best, not suitable for comparison with other government spending. First, they include spending on training and economic development, housing, correctional services, and some other smaller programs that are directed to all Aboriginal people, including those not living on reserves, who make up the majority. Second, federal responsibilities on reserve

### Table 1 Federal Expenditures on Programs Directed to Aboriginal People, Selected Fiscal Years ($ Millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DIAND(^b)</td>
<td>1,252</td>
<td>3,412</td>
<td>4,493</td>
</tr>
<tr>
<td>Indian and Inuit Affairsc(^c)</td>
<td>1,022</td>
<td>2,864</td>
<td>3,854</td>
</tr>
<tr>
<td>Self-government</td>
<td>na</td>
<td>18</td>
<td>63</td>
</tr>
<tr>
<td>Claims</td>
<td>18</td>
<td>118</td>
<td>345</td>
</tr>
<tr>
<td>Economic development</td>
<td>72</td>
<td>98</td>
<td>53</td>
</tr>
<tr>
<td>Lands, revenues, trusts</td>
<td>21</td>
<td>84</td>
<td>65</td>
</tr>
<tr>
<td>Education</td>
<td>307</td>
<td>846</td>
<td>1,153</td>
</tr>
<tr>
<td>Social assistance and social services</td>
<td>221</td>
<td>731</td>
<td>1,108</td>
</tr>
<tr>
<td>Capital facilities</td>
<td>240</td>
<td>623</td>
<td>756</td>
</tr>
<tr>
<td>Band management</td>
<td>76</td>
<td>247</td>
<td>314</td>
</tr>
<tr>
<td>Program management</td>
<td>50</td>
<td>45</td>
<td>42</td>
</tr>
<tr>
<td>Health Canada</td>
<td>174</td>
<td>639</td>
<td>995</td>
</tr>
<tr>
<td>Employment and Immigration (training)</td>
<td>70</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Canada Mortgage and Housing Corporation</td>
<td>77</td>
<td>240</td>
<td>305</td>
</tr>
<tr>
<td>Industry Canada (business development)</td>
<td>47</td>
<td>79</td>
<td>52</td>
</tr>
<tr>
<td>Solicitor General (policing)</td>
<td>28</td>
<td>62</td>
<td>50</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>42</td>
<td>107</td>
</tr>
<tr>
<td>Total</td>
<td>1,652</td>
<td>4,674</td>
<td>6,202</td>
</tr>
<tr>
<td>Real per-capita annual growth</td>
<td>1.3%</td>
<td>3.4%</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Estimates. \(^b\) Department of Indian Affairs and Northern Development. \(^c\) Included in DIAND. The difference between lines one and two consists of expenditures related to Aboriginal people in the two territories.


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\(^6\) According to estimates based on the 1991 Aboriginal Peoples Survey by Statistics Canada, there were 740,000 Canadians who identified with an Aboriginal group or were

(The footnote is continued on the next page.)
comprise many services that are under provincial jurisdiction in the rest of the country. Third, provincial governments also spend significant sums on residents of First Nation communities, notably on insured health services.

In order to arrive at a meaningful comparison of government expenditures on Aboriginal people and on Canadians generally, the commission developed an estimate of all expenditures of all governments on all Aboriginal people (table 3 below; 1992-93 was the most recent year for which provincial data were available at the time). The commission went beyond spending through targeted programs since Aboriginal people, in particular those not living in First Nation communities, receive many services through programs directed at the general population. As Canadian citizens, they also share in expenditures on general administration, national defence, and the like.

To determine the Aboriginal share of expenditures on general programs, information is required about the extent of use of those services by Aboriginal people. For services to individuals (hospital stays, enrollment in education), administrative records of clients and specific services they received would be an excellent source. But since governments do not keep track of the ethnic identity of clients of their general programs, a share of expenditures has to be allocated using indirect methods. For provincial program expenditures, the commission used estimates from a study that identified the Aboriginal group and the age group most closely representing those eligible for the program, and applied information about the relative level of use of the program by Aboriginal people to estimate the Aboriginal expenditure share, using the following formula:

$$\text{Aboriginal expenditures} = \frac{\text{government expenditures} \times \text{APS} \times \text{LOU}}{1 - \text{APS} + \text{APS} \times \text{LOU}}$$

where

$$\text{APS} = \text{Aboriginal population share}$$

—that is, the share of the total client population consisting of Aboriginal people, defined in terms of group affiliation and location (Registered Indians on or off reserve, Metis, Inuit, all Aboriginal people off reserve) and age; and

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6 Continued . . .

Registered Indians under the Indian Act. Of these, 452,600 were Registered Indians, 263,800 of whom lived in First Nation communities (that is, on Indian reserves). These estimates, which the commission relied on, are used throughout this article. For more detail, see Looking Forward, Looking Back, supra footnote 1, at 15-20. According to the Indian Register, there were more status (Registered) Indians in 1992: 533,500, with 315,700 living on reserves. See Canada, Department of Indian Affairs and Northern Development, Basic Departmental Data 1994 (Ottawa: the department, 1995), tables 3 and 4.

7 Goss Gilroy Inc., “Federal, Territorial and Provincial Expenditures Relating to Aboriginal Peoples,” study prepared for the Royal Commission on Aboriginal Peoples, included in For Seven Generations: An Information Legacy of the Royal Commission on Aboriginal Peoples (Ottawa: Libraxus, 1997) (CD-ROM computer file). This study documents all government expenditures on Aboriginal people as summarized in table 3 of this article, except the $1.5 billion of “other expenditures.”
LOU = level of use of the program or services by Aboriginal clients relative to other clients.

Whereas the Aboriginal identity population makes up 2.7 percent of the Canadian population, the Aboriginal share of the client population (APS) varies from less than 0.5 percent to more than 10 percent, depending on the province, the age of clients, and the Aboriginal groups covered. As a share of the provincial population, Aboriginal people are most numerous in the four western provinces. As well, Aboriginal people are on average much younger than the Canadian population and so account for a larger share of clients of programs for the young (education) and a smaller share of clients of programs for seniors.

The relative levels of use (LOU) also vary considerably by program area (table 2). These ratios are derived from a variety of sources, and it is appropriate to dwell on them because they have a crucial effect on the overall relative level of government expenditures on Aboriginal people. 8

LOU for education reflects duration of schooling, derived from educational attainment of the population of working age as measured in the 1991 census. Relatively fewer off-reserve Aboriginal people than other Canadians have completed elementary and high school, indicating a somewhat lower average length of schooling. For post-secondary education, the difference is more pronounced. LOU reflects how many Aboriginal people relative to other Canadians entered college and university and how many obtained a diploma or degree, as well as the higher cost of universities as compared with colleges.

Although the federal government provides primary care and public health care on reserve, Indians on reserve have access to provincially insured medical and hospital services. There is evidence for Ontario, Manitoba, and Saskatchewan as to use of medical and hospital care by status Indians: on average, the level appears to be the same as for Canadians generally, and it is assumed that this holds for other provinces. 9 As no information is available for other Aboriginal groups, it is assumed that they use health services at the same rate as Canadians generally.

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8 Care should be taken in interpreting the level-of-use ratios and estimates of government expenditures presented in this article. The ratios and estimates focus strictly on the quantity of services and expenditures, and are not intended to indicate benefit or advantage. If it is not obvious that a group that receives more income support or social services from governments is benefiting more or enjoying some advantage, it is even more inappropriate to relate benefit to the “client group” to the level of spending on correctional services.

9 Pran Manga and Laurel Lemchuk-Favel, Health Care Financing and Health Status of Registered Indians, study prepared for the Assembly of First Nations (Ottawa, 1993), and data provided by the Saskatchewan Office of Health Canada. The study found that use of physicians’ services by on-reserve Indians in Ontario and by all Registered Indians in Manitoba was below the provincial average, whereas in Saskatchewan a higher-than-average level was reported for Registered Indians. For hospital services, use was found to be below average in Ontario, average in Manitoba, and well above average in Saskatchewan.
Table 2 Client Group and Level-of-Use Ratio, by Program Area

<table>
<thead>
<tr>
<th>Program area</th>
<th>Client group</th>
<th>Level-of-use ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary and high school</td>
<td>Off reserve, ages 5-19</td>
<td>0.96</td>
</tr>
<tr>
<td>Post-secondary education</td>
<td>All Aboriginal persons, ages 15-24</td>
<td>0.60</td>
</tr>
<tr>
<td>Public health services</td>
<td>All off-reserve Aboriginal persons</td>
<td>1.00</td>
</tr>
<tr>
<td>Insured medical and hospital care</td>
<td>All Aboriginal personsa</td>
<td>1.00</td>
</tr>
<tr>
<td>Social assistance</td>
<td>All off reserve</td>
<td>3.00</td>
</tr>
<tr>
<td>Social and community services</td>
<td>All off reserve</td>
<td>5.00</td>
</tr>
<tr>
<td>Social housing</td>
<td>All off reservea</td>
<td>1.50</td>
</tr>
<tr>
<td>Correctional services</td>
<td>All Aboriginal persons</td>
<td>11.0</td>
</tr>
<tr>
<td>Police, justice</td>
<td>All Aboriginal persons</td>
<td>5.0</td>
</tr>
</tbody>
</table>

a For provinces where information on use of services was available, only information for that province was used to calculate the level-of-use ratio. This concerns Ontario, Manitoba, and Saskatchewan with respect to insured medical and hospital care, and the latter two provinces with respect to social housing. The number in the table represents the average for these provinces, which was assumed to apply in other provinces.


LOU for social assistance is based on the number of welfare beneficiaries as reported in the 1991 census and Aboriginal Peoples Survey. For social services, LOU reflects the relative incidence of children in care, as reported in various studies. Although there are federal housing subsidies specifically for Aboriginal people, they also account for a more than even share of general social housing by the provinces, according to information from two provinces.

As for provincial correctional institutions, Canada-wide statistics indicate an extraordinarily high share of admissions for Aboriginal persons over the past decade, corresponding to a LOU of 11. For police and justice, no data are available, and a ratio of 5 was adopted in the light of LOU for correctional services.

Using national and, where available, provincial LOU ratios and province-specific demographic data, provincial expenditures on services to Aboriginal people through general programs were estimated by province. Expenditures by school boards financed through local taxes, using the same method of allocation as for provincial expenditures, were added. Expenditures by the governments of the territories were estimated by


In Saskatchewan, a survey of occupants of social housing in 1993 revealed a higher-than-even participation of Aboriginal people. An official of the government of Manitoba provided subjective estimates of such participation in that province.

Renewal: A Twenty-Year Commitment, supra footnote 2, at 45, table 2.11. The original source is Statistics Canada, Canadian Centre for Justice Statistics, Adult Correctional Services in Canada, catalogue no. 85-211, various years.

(1997), Vol. 45, No. 5 / n° 5
applying population shares (APS) but not LOUs. Together, expenditures of provincial and territorial governments and school boards through general programs amounted to $4.1 billion in 1992-93.

Several more items need to be considered. The federal government spent $0.4 billion on services to Aboriginal people through general programs. This estimate includes old age security (OAS) and the guaranteed income supplement (GIS), family allowances, and the federal share of provincial policing. In addition, most provinces have some programs specifically for Aboriginal people. With Ontario and Quebec each spending in excess of $250 million, provincial expenditures through targeted programs were $0.7 billion.

The last items to be included are expenditures of municipal governments and expenditures of the federal and provincial governments not yet considered (that is, not involving services to individuals). The Aboriginal share of these expenditures was estimated by the share of the off-reserve Aboriginal population, on the basis that persons in First Nation communities (Indian reserves) generally do not benefit.

**Comparing Levels of Government Expenditures**

In 1992-93, the consolidated expenditures excluding debt charges of governments in Canada were $285.4 billion, or $10,026 per Canadian. Per

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**Table 3  Government Expenditures Relating to Aboriginal People in 1992-93**

<table>
<thead>
<tr>
<th></th>
<th>Federal</th>
<th>Provincial, local, and territorial</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Targeted programs</td>
<td>4.9</td>
<td>0.7</td>
<td>5.6</td>
</tr>
<tr>
<td>General programs of services to persons (estimated with population shares and LOU)</td>
<td>0.4</td>
<td>4.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Other expenditures (allocated by population share)</td>
<td>0.8</td>
<td>0.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Total</td>
<td>6.0</td>
<td>5.6</td>
<td>11.6</td>
</tr>
</tbody>
</table>


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14 Ontario and Quebec have produced estimates of their spending on Aboriginal people that include some expenditures through general programs. These are included in targeted program spending. When targeted and general program expenditures were added together, care was taken to avoid double-counting. See the study by Goss Gilroy Inc., supra footnote 7.

15 Included are expenditures on national defence, transportation, environment (municipal infrastructure), fire fighting, and many smaller items.

16 Statistics Canada, *Public Sector Finance 1994-1995*, catalogue no. 68-212. These consolidated government expenditures include expenditures related to Aboriginal people (The footnote is continued on the next page.)
Aboriginal person, governments spent $15,714, or 57 percent more. Whereas governments spent $11.6 billion on Aboriginal people, they spent only $7.4 billion, on average, on the same number of Canadians, or $4.2 billion less. Because, as noted earlier, federal expenditures on Aboriginal people increased very rapidly in the first half of the 1990s, the gap is probably larger still today. Thus, even though there is some uncertainty as to the number of Aboriginal people and the relative level of use by Aboriginal people of some government programs and services, it is probably safe to conclude that government expenditures per Aboriginal person are at least half again as large as expenditures per Canadian.17

This striking result deserves to be known and understood. Previous studies were not comprehensive and therefore were not able to come to firm conclusions about this matter.18 But now that a global comparison is available, an opportunity exists to explore the reasons for the large difference in government expenditures: differences in the range and quality of services; differences in the cost of providing services; and differences in the need for government services.

This article will show that all three factors play a role. As regards the first factor, there are some major federal expenditures that are specific to Aboriginal people. After excluding these, we may proceed on the basis that programs and services to Aboriginal people are approximately the same as for Canadians generally. A part of the remaining difference in the level of government expenditures then can be attributed to the fact that it costs more to provide the same services to Aboriginal people than to Canadians generally, because a relatively large proportion of Aboriginal people lives in small and remote communities.

With regard to the third and final factor, demand for government services, the effect of the different age structure of Aboriginal people is first examined. Although age is a major factor in several program areas, its overall effect on expenditures is small. Thus, much of the extra government spending for Aboriginal people relates to other reasons for high demand for government services. The commission has found that half of

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16 Continued . . .
as estimated in the preceding section of this article; to arrive at expenditures per capita, we divide by the number of Canadians including Aboriginal people. The comparison in this section is not between two separate categories, but between a part and the whole.

17 As indicated in footnote 6, supra, the Indian Register for 1992 counted 18 percent more Registered Indians than did the Aboriginal Peoples Survey. This figure results in an estimate of government expenditures on Aboriginal people for 1992-93 that is 49 percent higher than expenditures on Canadians generally, on a per-capita basis. See Renewal: A Twenty-Year Commitment, supra footnote 2, at 52, footnote 18.

the extra spending—$2.2 billion in 1992-93—is due to the social and economic circumstances and health status of Aboriginal people.

To explore these factors in more detail, consider government expenditures by program area (table 4). Expenditures per Aboriginal person are higher in each program area shown, as well as in the residual category. Surprisingly, spending on income transfers is only marginally higher, whereas one might have expected a larger difference because of the high incidence of low incomes and welfare dependency among Aboriginal people.

Expenditures Specific to Aboriginal People
The federal government incurs expenditures in relation to Aboriginal people that have no apparent counterpart in federal or provincial expenditures directed at Canadians generally. These expenditures have to do with the special status of First Nation people and Inuit. The government pays tuition fees and provides income support for students at institutions of secondary education, in the amount of $201 million in 1992-93. It also funds supplementary health benefits for these groups—similar to employer-sponsored benefits—through the Non-Insured Health Benefits (NIHB) program of Health Canada, with expenditures of $422 million in 1992-93. Although these expenditures are not entirely incremental to government expenditures generally (there are student loan programs, and provincial governments pay for extended health benefits for welfare recipients), they are largely so.19

The federal government also incurs costs related to negotiation and settlement of land claims; management of lands, resources, and trusts; and the Indian Register, band support funding (funding of bands and tribal councils for the purpose of general government and administration of programs), and administration of DIAND. These expenditures too are not entirely incremental (provinces also incur costs for managing lands and resources, for instance), but they are largely so. They amounted to $690 million in expenditures in 1992-93.

Totalling $1,313 million, these expenditures account for 18 percentage points or almost one-third of the gap between Aboriginal and general expenditures. They are significant in the three program areas affected: post-secondary education and training ($201 million or 69 percent of the “gap” in expenditures), health care ($422 million or 53 percent of the expenditure gap), and other government expenditures ($690 million or 90 percent of the expenditure gap).

19 While the federal government maintains that the two programs are a matter of social policy, First Nation people tend to see them as related to treaties. In the context of this analysis, what matters is that the programs exceed what governments make available to other Canadians. Housing programs on reserve also may be seen in the context of treaties, but the author of this article, and the commission, take the view that, broadly speaking, although there are some different programs on reserve, the benefits they provide are based on need and are similar to those received by other Canadians.
Table 4  Expenditures of All Governments on Aboriginal People and on All Canadians, by Function, 1992-93

<table>
<thead>
<tr>
<th>Expenditures of all governments on Aboriginal people</th>
<th>Expenditures of all governments on all Canadians</th>
<th>Ratio of per-capita expenditures (column 2/column 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Element</td>
<td>Elementary and secondary education</td>
<td>1,673</td>
</tr>
<tr>
<td></td>
<td>Post-secondary education and training</td>
<td>649</td>
</tr>
<tr>
<td></td>
<td>Income transfers</td>
<td>1,996</td>
</tr>
<tr>
<td></td>
<td>Housing</td>
<td>542</td>
</tr>
<tr>
<td></td>
<td>Health care</td>
<td>2,013</td>
</tr>
<tr>
<td></td>
<td>Social services</td>
<td>767</td>
</tr>
<tr>
<td></td>
<td>Protection of persons and property</td>
<td>819</td>
</tr>
<tr>
<td></td>
<td>Other government expenditures</td>
<td>3,171</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>11,628</td>
</tr>
</tbody>
</table>

With respect to all other government expenditures, it is assumed here that Aboriginal people receive the same services as Canadians generally. Thus, differences in the level of spending may reflect differences in the cost of providing the services or in the quantity, but not in the range and nature of services. This generalization is a matter of some controversy. Aboriginal people have frequently charged that their access to government services is restricted by geography, cultural differences, and inadequate funding. At their public consultation sessions, the commissioners received various testimony along these lines. On the other hand, the federal government has significantly increased funding of services in First Nation and Inuit communities in the 1980s and early 1990s, so that health care services, for instance, may in some respects be superior in these communities to what other Canadians in similar locales experience. It would be extremely difficult to assess the range and quality of government services available to Aboriginal people and Canadians across the entire country, and such an assessment is certainly beyond the scope of this article.

Here it is assumed that the same services are available as a first approximation to a complex reality. With respect to expenditures through general programs, this assumption is implicit in the method used to estimate the Aboriginal share. The LOU ratios measure the relative quantity of services provided by governments (enrolment in educational institutions, number of doctor’s visits, etc.). Thus, it is assumed that the programs are the same for Aboriginal people and Canadians generally in all respects not explicitly captured in the LOU ratio, while also having the same unit cost. This method of allocating expenditures was used to estimate $6 billion—that is, more than half—of government expenditures on Aboriginal people.

Further, the federal government provides more or less the same services in First Nation and Inuit communities as provincial governments provide to all Canadians. The federal government has not legislated its own social programs; rather, where programs are delivered directly or by the community, provincial rules and standards are applied in education, social assistance, and social services, with limited variations such as Aboriginal language training in the school curriculum. As well, although the federal government provides the funding, the provinces still play a major role in delivering services—for instance, 44 percent of children in First Nation communities attended provincial schools.

20 Complete transcripts of the public consultation sessions are available on the CD-ROM issued by the commission. See supra footnote 7.

21 In economic development, manpower training, and housing, the federal government has the lead role and does not follow provincial policies. However, in manpower training, Aboriginal people are one of four target groups (along with women, visible minorities, and the disabled), and only in recent years has a separate Aboriginal program been established. As for housing subsidies, certain social elements of programs offered by Canada Mortgage and Housing Corporation have been needs-driven with only limited targeting to Aboriginal (The footnote is continued on the next page.)
Cost of Delivery of Services
The cost of delivery of services may vary considerably depending on size and remoteness of the population to be served. As a general rule, the smaller and more remote the community, the higher the cost of providing a given service, because the number of clients is small, transportation and communications are expensive, financial incentives may be required to attract staff to the community, etc.

The cost of delivering services to Aboriginal people is therefore bound to be higher than average. However, in terms of the estimates presented in this article, this is not a major reason for the discrepancy in spending levels.

First, as just noted, $6 billion of government expenditures on Aboriginal people has been estimated based on population share and level of use. In this procedure, costs of delivery are not explicitly considered and are thus taken to be the same for Aboriginal people as for Canadians generally. Thus, for more than half of government expenditures considered, cost of delivery can be ruled out as a factor contributing to the gap in spending.

Second, the $690 million of “other” government expenditures identified as being specific to Aboriginal people includes $275 million in federal “band support funding”—that is, funding for general management and financial administration in First Nation and Inuit communities. Some of the cost of delivering programs is covered by this item and therefore not included in expenditures in various program areas.

Third, the cost of delivery is not significantly different for some of the expenditures through programs for Aboriginal people. Federal funding for social assistance in First Nation and Inuit communities includes an allowance for program delivery that averages to less than 4 percent of benefits paid. DIAND pays provincial school boards their average per-student cost for children from First Nation communities attending such schools (44 percent of children from those communities in 1992-93). If costs per student are higher than average in the outlying regions, Aboriginal expenditures

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21 Continued . . .

people. All governments, including local governments, promote economic development using a variety of means; to some extent, federal programs do for Aboriginal people what federal, provincial, and local governments do for Canadians generally. The federal Aboriginal business development programs have evolved out of general regional development programs. These brief comments must suffice here to show that, in these areas too, Aboriginal programs have their origins in programs for all Canadians and remain in important ways similar to those programs. To assume that they provide the same responses to various levels of need seems a reasonable first approximation to a complex reality.

22 Band support funding is treated as an expenditure specific to Aboriginal people, since self-administration by Aboriginal communities involves general government, which goes beyond delivery of programs and is related to the special status of Registered Indians. A comprehensive estimate of cost of delivery of services to Aboriginal people should include some part of band support funding.
also should be higher, but this may not be the case where school boards are funded by local property taxes.  

Thus, differences in cost of delivery may be a significant contributor to the discrepancy in spending only for federally funded services other than income transfers in First Nation and Inuit communities, delivered directly by the federal government or by the community, and for expenditures by territorial governments. Together, in 1992-93, these expenditures were in the order of $3.5 billion—that is, one-third of total expenditures on Aboriginal people. Although differences in cost of delivery may be significant where they play a role, they do so only with respect to a modest share of expenditures.

The Age Structure of the Population

The demand for services funded by governments depends on the size of client groups. Because the Aboriginal population is very young as compared with Canadians generally, per-capita government expenditures in many program areas will also differ between Aboriginal people and Canadians generally, even as the same services are provided. Expenditures on education will be higher, and expenditures on health care lower, for Aboriginal people.

Table 5 shows the striking difference in age structure. Taking the young and the old together, the share of the Aboriginal population that is dependent on major government services is larger than the Canadian share. However, senior citizens tend to cost governments more than children and youths. Using a factor of 2.5 for the relative level of government expenditures for the old as compared with the young, it is found that per-capita government expenditures should in fact be somewhat higher for

\[\text{expenditure on education per capita for Aboriginal people} = \text{expenditure on education per capita for all Canadians} \times 1.29\]

\[\text{expenditure on health care per capita for Aboriginal people} = \text{expenditure on health care per capita for all Canadians} \times 0.9\]

In elementary and secondary education, expenditures on Aboriginal people are 29 percent above the all-Canadian level after adjusting for age structure (see table 6). This figure reflects federal expenditures that are well above the level indicated by the size of the population of school age. It is possible that the on-reserve population of school age is greater than the data used here indicate (see footnote 6, supra, for an alternative estimate of the on-reserve population). The federal government may also fund more services (kindergarten). However, differences in cost of delivery may be important here, too.

In 1992-93, the per-capita expenditures of the government of the Northwest Territories and local governments were $19,400, almost twice as much as government spending in Canada as a whole. The high cost of most goods and services in the north undoubtedly contributes to high government expenditures. As Aboriginal people make up a large proportion of the population of the Northwest Territories, the high cost of the north is reflected more in government expenditures on Aboriginal people than in government expenditures on all Canadians.

Differences in cost of delivery are probably important with respect to water and sanitation services in First Nation communities, since small systems tend to have high costs per dwelling unit served, and for other capital expenditures. DIAND’s capital expenditures, $679 million in 1992-93, are included in the large category “other government expenditures.”

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Table 5  Age Structure, Aboriginal People and All Canadians, 1991  
(as a Percentage of Total Population)

<table>
<thead>
<tr>
<th>Age group</th>
<th>Aboriginal people</th>
<th>All Canadians</th>
<th>Ratio of Aboriginal/all Canadians</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-17</td>
<td>42.6</td>
<td>24.8</td>
<td>1.72</td>
</tr>
<tr>
<td>Over 65</td>
<td>3.2</td>
<td>11.4</td>
<td>0.28</td>
</tr>
<tr>
<td>Dependant population</td>
<td>45.8</td>
<td>36.2</td>
<td>1.27</td>
</tr>
<tr>
<td>Weighted dependant population</td>
<td>50.6</td>
<td>53.3</td>
<td>0.95</td>
</tr>
</tbody>
</table>


Canadians generally than for Aboriginal people as a result of differences in age structure.26

The effect of age structure on spending in each program area can be illustrated with a set of “age factors” that state what governments would spend per Canadian if the Canadian population as a whole had the age structure of Aboriginal people (table 6). The age factors are derived in various ways to exploit available information. For elementary and secondary education and post-secondary education, they reflect the relative size of the Aboriginal client group. For income transfers and housing subsidies, there is more than one client age group, and the age factor reflects the relative sizes of the Aboriginal client groups weighted by the (Canadian) expenditure shares. For housing subsidies, for instance, a distinction is made between recipients of 55 years of age and over, and those who are younger. For health expenditures, the age factor is derived from per-capita expenditures for four age groups; and for protection, it is based on the age distribution of those admitted to federal and provincial correctional institutions.27

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26 A factor of 2.5 is mentioned by Robert L. Brown, “Achieving Stability and Equity with Paygo Funding” (September 1995), vol. 16, no. 7 Policy Options 17-21, at 20.

27 Income transfers to Canadians were broken down into those to the aged (OAS/GIS, Canada Pension Plan, and veterans), those for the young (family allowances and tax credits), and other transfers. Expenditures for each of the three were weighted by the ratio of Aboriginal to all-Canadian population shares of the target groups. About 50 percent of housing subsidies to all Canadians go to persons aged 55 years and over, according to Statistics Canada’s 1990 Household Income, Facilities and Equipment Survey. See Margaret Blakeney, “Canadians in Subsidized Housing” (Winter 1992), no. 27 Canadian Social Trends 20-24 (Statistics Canada catalogue no. 11-008). Public sector health care expenditures by four age groups are available from Health Canada, Policy and Consultation Branch, National Health Expenditures in Canada 1975-1994: Full Report (Ottawa: Health Canada, 1994), table 76. The age of offenders admitted to federal and provincial correctional services institutions is given in Statistics Canada, Canadian Centre for Justice Statistics, Adult Correctional Services in Canada, 1992-93, catalogue no. 85-211, tables 17, 18, 41, and 42. For social services, no age factor is shown because of lack of data.
As shown in table 6, when adjusted for differences in age structure, government expenditures per Canadian appear to be much closer to expenditures per Aboriginal person in education and protection of persons and property (services involving the young), while for health, income support, and housing (services directed at the old), adjustment for age makes the discrepancies larger.

Although these findings do not bear out David Foot’s dictum that “[d]emographics explain about two thirds of everything,” they certainly show a significant effect of age structure on per-capita expenditures in the seven program areas considered. The effect of age structure on aggregate spending, however, is small.

Social and Economic Disparities
The remaining difference in the level of government expenditures must be related to different needs of Aboriginal people that are related not to age, but, broadly speaking, to social and economic circumstances. The commission focused on five program areas: income transfers, housing, health care, social services, and protection of persons and property.

Together in the five program areas, expenditures on Aboriginal people are $1,850 million above expenditures on the same number of Canadians, after elimination of expenditures specific to Aboriginal people (table 6). When the age factor is brought into the picture, we find that government expenditures on Aboriginal people are above the age-adjusted Canadian norm by more than $2.6 billion. Governments would spend $3.1 billion if Aboriginal people had the same need for services as Canadians generally; they spent $5.7 billion instead. These calculations corroborate the commission’s finding that $2.2 billion of government expenditures on Aboriginal people is a direct result of the greater need for government services related to the challenging social and economic circumstances of Aboriginal people. Indeed, these numbers suggest that the commission’s estimate may be conservative.

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28 David Foot with Daniel Stoffman, *Boom, Bust and Echo—How To Profit from the Coming Demographic Shift* (Toronto: Macfarlane Walter Ross, 1996), 2. Foot is of course referring to changes over time.

29 The amounts given in this paragraph are obtained by multiplying amounts of per-capita spending in table 6 by 740,000, the number of self-identifying Aboriginal people in 1992 (supra footnote 6).

30 The commission’s estimate of “excess” government expenditures in the five program areas, $2.2 billion, was arrived at by a somewhat different treatment of income transfers and health care spending than in this text. The presentation in this text aims to bring out the role of age structure.

31 The author’s estimate of the expenditure gap is about $400 million higher than the commission’s. This seems a fair margin for higher cost of delivery of services to Aboriginal people in the five program areas. Federal and provincial expenditures through programs targeted to Aboriginal people and territorial government expenditures in the four program areas other than income transfers—that is, expenditures where cost of delivery may play a (The footnote is continued on page 976.)
<table>
<thead>
<tr>
<th>Element</th>
<th>Expenditures per Canadian</th>
<th>Age factor</th>
<th>Age-adjusted expenditures per Canadian</th>
<th>Actual expenditures per Aboriginal person</th>
<th>Same as col. 4 excluding Aboriginal-only expenditures</th>
<th>Ratio of adjusted per-capita expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary and secondary education</td>
<td>1,072</td>
<td>1.63</td>
<td>1,747</td>
<td>2,261</td>
<td>2,261</td>
<td>1.29</td>
</tr>
<tr>
<td>Post-secondary education and training</td>
<td>483</td>
<td>1.40</td>
<td>676</td>
<td>877</td>
<td>605</td>
<td>0.90</td>
</tr>
<tr>
<td>Income transfers</td>
<td>2,594</td>
<td>0.77</td>
<td>1,997</td>
<td>2,697</td>
<td>2,697</td>
<td>1.35</td>
</tr>
<tr>
<td>Housing</td>
<td>130</td>
<td>0.82</td>
<td>106</td>
<td>732</td>
<td>732</td>
<td>6.91</td>
</tr>
<tr>
<td>Health care</td>
<td>1,652</td>
<td>0.65</td>
<td>1,073</td>
<td>2,720</td>
<td>2,150</td>
<td>2.00</td>
</tr>
<tr>
<td>Social services</td>
<td>352</td>
<td>1.00</td>
<td>352</td>
<td>1,036</td>
<td>1,036</td>
<td>2.94</td>
</tr>
<tr>
<td>Protection of persons and property</td>
<td>492</td>
<td>1.28</td>
<td>630</td>
<td>1,107</td>
<td>1,107</td>
<td>1.76</td>
</tr>
<tr>
<td>Other government expenditures</td>
<td>3,251</td>
<td>1.00</td>
<td>3,251</td>
<td>4,285</td>
<td>3,353</td>
<td>1.03</td>
</tr>
<tr>
<td>Total</td>
<td>10,026</td>
<td>9.832</td>
<td>15,714</td>
<td>13,941</td>
<td>13,941</td>
<td>1.42</td>
</tr>
</tbody>
</table>

Source: Table 4 and calculations as described in the text.
The commission’s report provides compelling testimony and statistics on economic disparities and poverty, poor health status, and social dysfunction among Aboriginal people. For instance, earnings from employment are less than 60 percent of the Canadian level; the share of adults with full-time jobs is less than half the Canadian level. The incidence of contagious diseases, violence and injury, substance abuse, suicide, etc., is very high. These conditions directly affect the demand for income support, health care, and social services, and contribute to the high rate of incarceration of Aboriginal people in correctional institutions. The LOU statistics presented earlier also give evidence of both disparities and differences in the demand for government services.

To sum up, it has been found that governments jointly spend at least 50 percent more per Aboriginal person as per Canadian, and that more than half of this discrepancy is a direct consequence of the different health, social, and economic circumstances of Aboriginal people. To make this argument, it was necessary only to measure expenditures and show what the circumstances of Aboriginal people are, but not why these circumstances exist, or how they might be changed in the future. The latter concerns are, of course, the focus of much of the commission’s report.

**CHANGING THE STATUS QUO**

The commission’s own estimate of the cost of its recommendations—up to $2 billion per year over 20 years—has received a good deal of attention and probably has contributed to the shelving of its report. Much less publicized was the commission’s claim that such an investment would pay off handsomely for both Aboriginal people and Canadians generally, with lasting gains in the order of $10 billion annually.

The gains would be in the form of greater production and output by Aboriginal people as they become far more economically self-reliant, as well as through reduction of government expenditures. The economic potential of Aboriginal people is so much underutilized at present (in 1996) that an increase of $5.8 billion in the annual value of production (and hence in income earned) by Aboriginal people is possible, according to the commission. Savings of $1.7 billion in annual government expenditures can be realized if the need of Aboriginal people for health and social services falls more in line with the needs of Canadians generally, and when conflict with the law is reduced. The combined potential gain of $7.5 billion will grow to $11 billion in 20 years as the number of Aboriginal people in Canada increases. As Aboriginal incomes improve, significant role—amount to $1.6 billion. Thus, even if the cost of delivery of Aboriginal programs exceeds the cost of general programs by a margin of 25 percent of expenditures on Aboriginal programs, the commission’s conclusion that the difference in expenditures in these five program areas is entirely attributable to differences in need still stands.

31 Continued...

32 This and other estimates mentioned in this and the following paragraph are derived from *Renewal: A Twenty-Year Commitment*, supra footnote 2, at chapters 2 and 3.
governments stand to collect more tax revenue and spend less on income support and housing subsidies. In all, $6.7 billion of the $11 billion in potential gains should accrue to governments, and the remainder of $4.3 billion to Aboriginal people.

The cost of realizing these gains through implementation of the commission’s recommendations would be up to $2 billion per year in additional government expenditures for 20 years, after which the annual cost would drop to $1.2 billion. Thus, the ultimate gains would be $5.5 billion for governments and $4.3 billion for Aboriginal people, for a total of $9.8 billion. These are not one-time gains; they would be realized year after year. The commission estimates that half the annual gains could be realised in 20 years.

Surely the opportunity for gain highlighted by the commission is a major one, since there are few policy proposals on the table that promise lasting gains in the order of 1 percent of the country’s economic output. How can this be achieved? The thrust of the policies the commission proposes is summarized in the words of the two co-chairs:

Aboriginal reality has become a vicious circle of cause and effect. If that vicious circle is to become a healing circle, the roots of injustice must be addressed . . . . The roots of injustice lie in history and it is there where the key to the regeneration of Aboriginal society and a new and better relationship with the rest of Canada can be found.33

The commission proposes a renewal of the relationship between Aboriginal people and other Canadians through “two mutually reinforcing paths to change—rebalancing political authority and economic resources; and a reinforcing effort to restore health and effectiveness to individuals, families, communities and nations.” The commission’s strategy rests on four concepts:

1) The reality of social and cultural difference. “[T]he community and the collective play a very large role in the Aboriginal individual’s sense of identity. . . . Throughout Canada’s history, attempts to deprive Aboriginal peoples of their communal strength has been a consistent theme. . . . Aboriginal approaches to governance and conflict resolution depart in many ways from the practices of mainstream society. . . . [T]he imposition of mainstream institutions . . . has done much to create the sense of helplessness and passivity that often mark Aboriginal communities.”

2) Self-government and self-determination as an inherent right firmly anchored in history and law. “There was no conquest, no giving up of rights. . . . [I]t is our view that self-government was an existing Aboriginal and treaty right when such rights were recognized by constitutional amendment in 1982.”

33 This quotation and the ones following are from the “Address for the Launch of the Report of the Royal Commission on Aboriginal Peoples,” by the Honourable René Dussault and George Erasmus, co-chairs, November 21, 1996.
3) *The nature of Aboriginal nationhood.* The unit of self-government should be based on the historic nations, not individual communities. The commission envisages a process of rebuilding nations involving “the re-connection of communities split apart by the *Indian Act*, the creation of constitutions and governing procedures, the development of human re-
sources, the promotion of social and spiritual healing.”

4) *A requirement for adequate land, resources, and self-reliant Aboriginal economies.* This concept too derives from the understanding that led Aboriginal people initially to agree to share their lands. “The negotia-
tion of an adequate land and resource base is the central prerequisite for cultural renewal, economic self-reliance and self-determination for Abor-
riginal peoples.”

Clearly, this strategy is quite unlike the investments in human capital and economic opportunity usually prescribed for disadvantaged groups in so-
ciety. The status quo, the commission says, leads to more of the same; improving programs is not enough; a fundamental new departure is essential.

To come to grips with the commission’s policy proposal, Canadians may want to examine the history of the relations between Canada and Aboriginal people to judge for themselves whether it is a history of op-
pression and dispossession, and ask whether major injustice continues to the present day. They may also want to take note of the fact that Aborigi-
nal and treaty rights are entrenched in the Canadian constitution, and consider whether the country should recognize a special relationship and make it work in the best interest of all concerned. The present relation-
ship clearly is not working well at all. And so, while Canadians debate these questions, they will continue to forgo a gain—incur a cost—of about 1 percent of the country’s economic output.