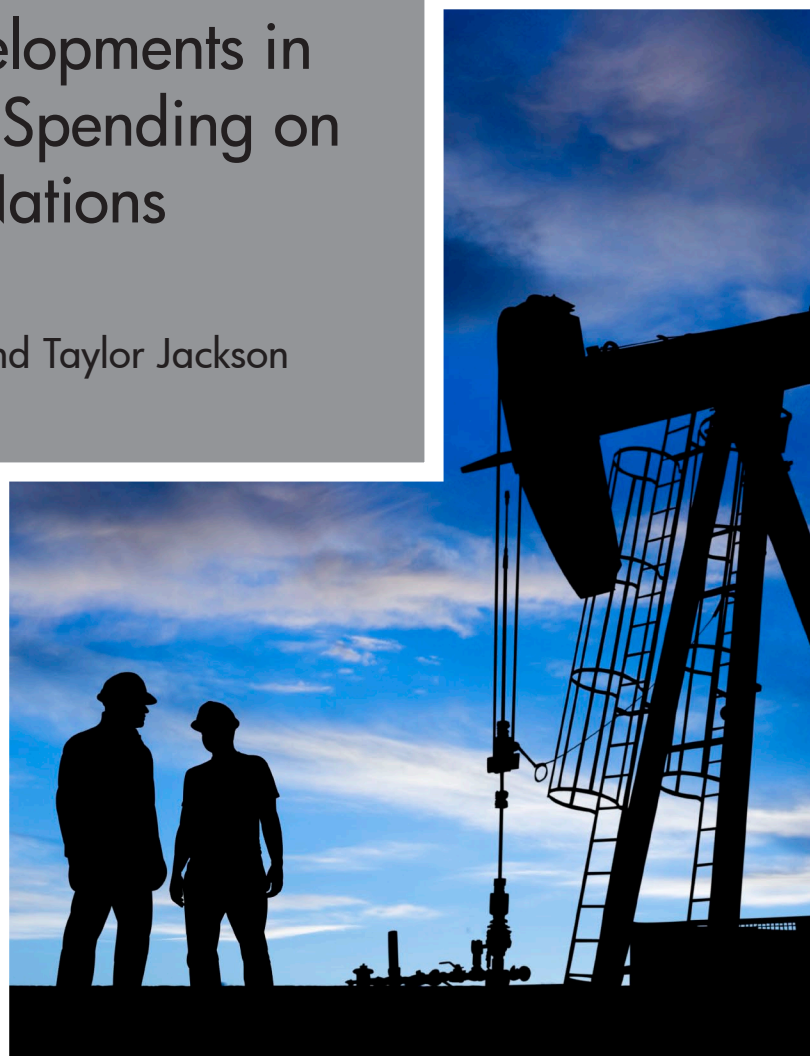




# BENDING THE CURVE

Recent Developments in  
Government Spending on  
First Nations

Tom Flanagan and Taylor Jackson





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# Contents

Executive summary / i

Introduction / 1

Federal Spending / 3

Provincial Spending / 9

    Estimating revenues and expenditures 10

Own-Source Revenue / 11

Bending the Curve / 15

Discussion / 17

References / 22

    About the authors / 27

    Acknowledgments / 28

    Publishing Information / 29

    Supporting the Fraser Institute / 30

    Purpose, Funding, and Independence / 30

    About the Fraser Institute / 31

    Editorial Advisory Board / 32

# Executive summary

How much money are governments spending on Indigenous peoples? How have these amounts been changing over time? How effective is the spending? This is the third in a series of Fraser Institute studies of these questions. This paper extends the previous work on government spending in support of First Nations, including federal transfers from Indigenous Affairs and Northern Development (INAC), Health Canada spending on First Nations, Aboriginal program spending by provincial governments, and own-source revenue (OSR) generated by First Nation governments. Basically, the same methodology has been used as in the earlier papers: INAC expenses recorded here do not include Northern expenditures or internal administration. Own-source revenue is counted slightly differently from the previous attempt to tabulate it.

## Main empirical findings

- ∞ INAC support for First nations as measured in constant dollars continued to increase from 1995/96 to 2015/16, but not as rapidly as in the preceding 40 years. The very large cost of the Residential Schools Settlement Agreement (about \$5 billion), which was paid to individuals rather than First Nation governments, has inflated the apparent amount of transfers.
- ∞ INAC spending per Registered Indian has declined in this 20-year period because legal changes have led to a rapid increase in the number of Registered Indians. INAC spending per Registered Indian living on reserve has experienced ups and downs but is now about the same as it was 20 years ago.
- ∞ After growing rapidly from 1995/96 to 2005/06, provincial spending on First Nations grew less rapidly in the last ten years. It is a significant total but remains small compared to overall federal spending.
- ∞ Own-source revenue declined slightly in constant dollars from 2013/14 to 2015/16; the reasons for this decrease are not certain, though it was obviously a time of low natural resource commodity prices.

In its first two budgets, the Liberal government of Canada promised a substantial increase in federal spending on First Nations, but figures from the Public

Accounts are not yet available to determine how great an increase has actually been implemented. The announced spending hikes will have to contend against an already large deficit, increasing interest rates, and other claims on the budget, such as higher defence spending.

Increased expenditure is not a panacea because some problems faced by First Nations have deeper causes than shortage of money. Clean water, for example, may be difficult to supply in remote locations subject to flooding. Educational deficits may arise more from family disorganization and lack of community support than from budgetary shortfalls. Thus, increased spending should be accomplished by rigorous program evaluation to ensure the increases actually achieve results and are not merely transferred to organized rent seekers.

Own-source revenue, which is already equal to over 50% of federal spending, is a way for many First Nations to improve their well-being. Natural resource development is promising for some First Nations in remote locations but, unfortunately, the contemporary environmental movement and the federal government are making resource development more difficult even as it promises to increase fiscal transfers to First Nations.

### Note on Terminology

The Liberal government elected in 2015 changed the name of the department previously known as Aboriginal Affairs and Northern Development Canada (AANDC) to Indigenous and Northern Affairs Canada (INAC). This corresponds with contemporary usage in the international sphere, where “Indigenous” is the most common term and “Aboriginal” usually refers specifically to the first inhabitants of Australia. However justified this linguistic change may be, it creates a problem for Canadian researchers and writers because the term “Aboriginal” is entrenched in the Constitution Act, 1982, as well as in recent court decisions and scholarly commentary.

“Aboriginal” should properly be used to refer to the aggregate of the three Aboriginal peoples mentioned in the *Constitution Act, 1982*—Indians, Inuit, and Métis—but it is often used loosely as a synonym for Indians, or “First Nations” as they are now more commonly called. The two earlier Fraser Institute studies focussed on spending on First Nations, but the authors often used the general word “Aboriginal” even when speaking more narrowly of First Nations or Indians. For the sake of precision, we use “Aboriginal” in this paper in the general sense to include all three Aboriginal peoples, and reserve “First Nations,” “Indians,” or “Registered Indians” for those more narrowly defined groups.

# Introduction

This is the third in a series of Fraser Institute studies examining government spending on Indigenous peoples. The purpose is to achieve clarity about how much is being spent and how those amounts may be changing over time. In the final section we also raise some questions about the effectiveness of spending.

The first study (Milke, 2013) examined federal spending by Aboriginal Affairs and Northern Development Canada (AANDC) directed at First Nations from fiscal 1946/47 to 2011/12.<sup>1</sup> In addition, Milke tracked two spending programs run by other entities: Canada Housing and Mortgage Corporation's Aboriginal housing program,<sup>2</sup> and Health Canada's Aboriginal spending, including especially the Non-Insured Health Benefits (NIHB) program. Many other federal departments and agencies also run programs for Aboriginal people, including First Nations on reserve, so (as Milke acknowledged) his totals were an underestimate of federal spending. Finally, Milke also tabulated provincial Aboriginal spending from 1993/94 to 2011/12.

A follow-up study by Bains and Ishkanian (2016) extended the time frame by two years to 2013/14. They tracked the same spending programs as Milke except that they did not follow up on the housing program, instead adding a review of First Nations own-source revenue (OSR) in 2013/14 to show this was a substantial source of funding—not as large as federal transfers, but over three times larger than provincial spending. OSR can be considered another form of government financing, as it is raised by First Nation governments through their taxation, investment, business operations, resource royalties, claims settlements, and impact-benefit agreements.

Both studies emphasized the long-term growth of government spending. Milke's title, *Ever Higher: Government Spending on Canada's Aboriginals since 1947*, represents their viewpoint and conclusions. They were indeed correct to emphasize the growth of spending, for that is the major story to be told as Aboriginal

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1. Subsequently known as Indigenous and Northern Affairs Canada (INAC). After this paper was written, Prime Minister Trudeau announced that Indigenous and Northern Affairs Canada will be split into the two departments of Indigenous Services and Crown-Indigenous Relations and Northern Affairs. We continue to use the previous name and acronym in this paper because the split will not be completed for at least a year.

2. Milke (2013) identified this housing program as part of Human Resources and Skills Development Canada, later known as Employment and Skills Development Canada. CMHC is an independent Crown corporation that reports to cabinet through the minister of HRSDC (ESDC).

people were drawn into the post-War expansion of the Canadian welfare state. However, it is not the whole story. The earlier studies paid little attention to what at the time appeared to be mere temporary deviations from the trend line of the spending curves in the mid-1990s and first decade of this century. But from the vantage point of 2017, with two more years of data to be included and the 2015 replacement of the Harper Conservative government by the Trudeau Liberal government, it is clear that there was a noticeable impact on spending on First Nations in 1995/96 as the Liberal government of that time came to grips with previously uncontrolled deficit spending, and it has grown more slowly and irregularly afterwards. Depending on which metric is chosen, most forms of First Nations spending in the last 20 years have either (1) grown less rapidly than in the previous 40 years, (2) been static in terms of constant dollars, or (3) even fallen in constant-dollar terms when measured against the very rapid growth in the numbers of Registered Indians. This paper will examine the various forms of spending over the last 20 years, showing what has happened in each category. Tabulation of expenditures follows the same methodology as in the earlier studies, except for some minor changes in OSR recording (see *Estimating Revenues and Expenditures*, p. 10).

In a larger context, it is not surprising that spending on First Nations would start to grow less rapidly after 1995/96, after almost 40 years of fast and steady growth. Governments have manifold responsibilities and they have to make trade-offs among the many claims for assistance with which they are confronted. At some point, growing claims from one sector are bound to conflict with other priorities.



# Federal Spending

Mark Milke’s pioneering study of 2013, *Ever Higher: Government Spending on Canada’s Aboriginals since 1947* painted a picture of continually rising expenditures on First Nations while spending by the federal government on all Canadians was also rising because of the expansion of the welfare state. The following are Milke’s key findings:

- ∞ from fiscal 1946/47 to 2011/12, annual departmental spending by Indigenous and Northern Affairs Canada (INAC) and its predecessors on Aboriginal people rose from \$79 million to almost \$7.9 billion (\$2013)—a 99-fold increase after adjusting for inflation;
- ∞ in the same period, overall federal program spending increased almost nine-fold;
- ∞ from 1949/50 to 2011/12, departmental spending per Registered Indian rose 882% in constant 2013 dollars;
- ∞ in the same period, federal program spending on all Canadians rose 387% per capita.

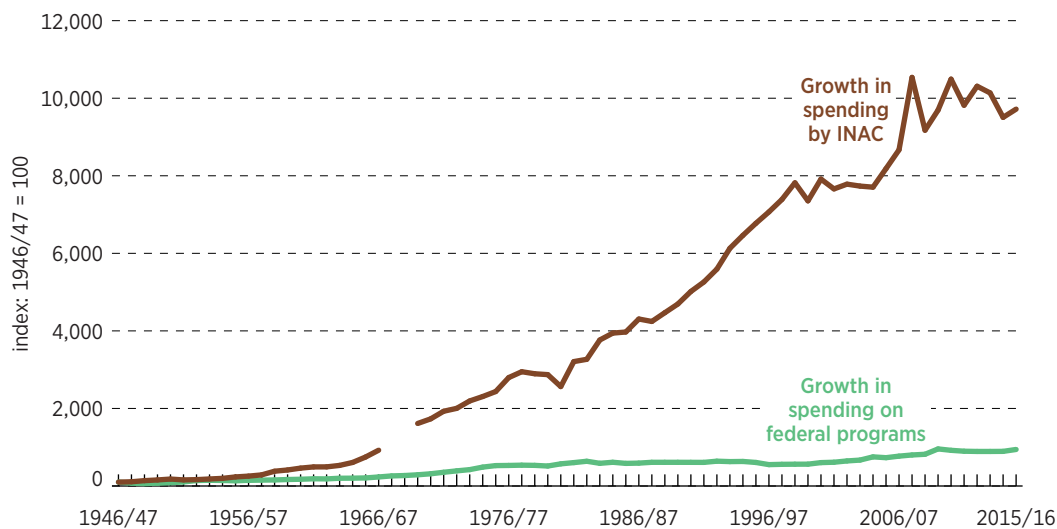
Thus, over a little more than 60 years, per-capita departmental spending on Registered Indians rose 128% more than per-capita federal program spending on all Canadians (from which Registered Indians also benefit).

It should be noted in passing that the composition of INAC spending on First Nations changed considerably from time to time. In the late 1940s and 1950s residential schools were a major expense, but towards the end of the 1950s the federal government started to spend much more on reserve infrastructure, in areas such as water and housing. However, our data set does not allow us to pursue these various changes in focus.

Bains and Ishkanian (2016) followed Milke’s methodology while extending the data by two more years, through fiscal 2013/14. Because of the slightly different time period, their growth percentages differed somewhat from Milke’s, but they maintained Milke’s central narrative of “ever higher.” However, adding two more years to the time series (through fiscal 2015/16) while focussing on the last 20 years provides a new perspective for analysis.

The upper line in **figure 1** shows INAC spending on First Nations from 1946/47 through 2015/16, while the lower line shows all federal program spending over the same period of time. To adjust for inflation, each spending curve tracks year-over-year change in constant dollars, with the initial value set at 100. The first

Figure 1: Growth in INAC spending compared to growth in total federal program spending, 1946/47–2015/16 (index: 1946/47 = 100)



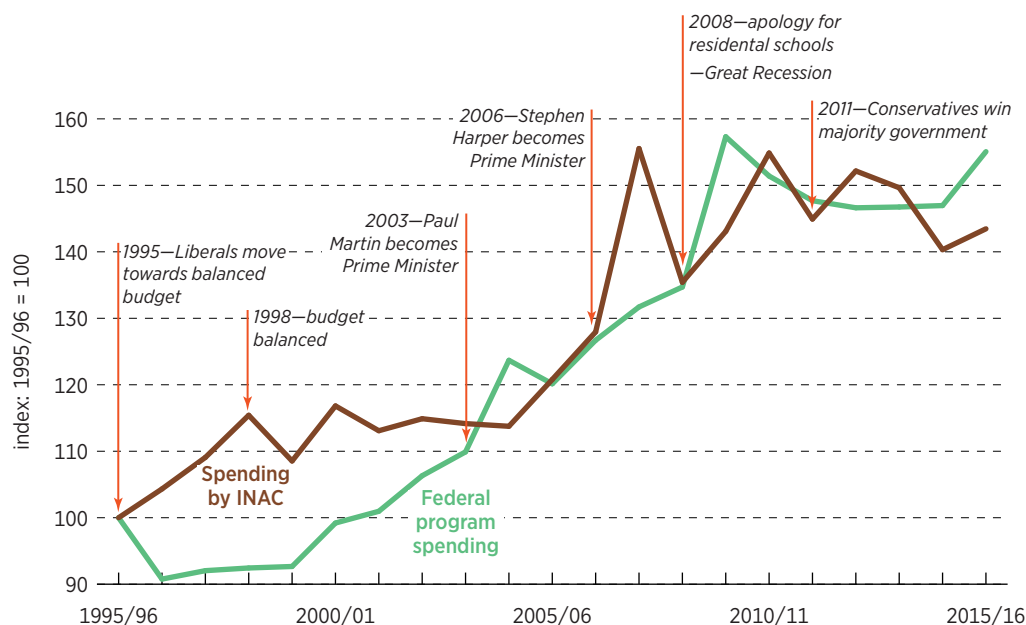
Sources: Canada, Department of Finance, 2008, 2016; Library and Archives Canada, 2014.

and most obvious observation is that INAC spending and general federal spending were on much the same growth track until the mid-1950s, when INAC spending started to accelerate. INAC spending then grew rapidly until the mid-1990s, when it levelled off for a few years. Growth in INAC spending resumed again in 2003/04 until it reached a peak in 2006/07, after which it levelled off and even fell back a bit, though the pattern was rather irregular.

The last 20 years require a closer look. **Figure 2** tracks increases in overall federal program spending and INAC spending on First Nations from 1995/96 through 2015/16, adjusted for inflation. Both curves start at 100 in 1995/96 but diverge thereafter. Initially, INAC spending grew more rapidly than general program spending, but after 2004 there were several changes in relative position. INAC spending on First Nations increased in absolute, constant-dollar terms over these 20 years but by 2015/16 had not increased as much as overall federal program spending.

In 1995, Jean Chrétien's government began to deal with 25 years of unrestrained federal deficits by imposing real cuts on most aspects of federal spending. First Nations spending began to increase less rapidly at that point, but the subsequent pattern involved irregular increases and decreases due to relaxation of fiscal vigilance after the federal budget was balanced, the replacement of Chrétien by Paul Martin in 2003, the election of a Conservative government in 2006, the expensive apology for residential schools in 2008, the worldwide Great Recession of 2008, and the 2011 election of a Conservative majority government dedicated to imposing a new level of fiscal restraint. Together, these political events help account for the ups and downs of the last 20 years.

Figure 2: Spending on First Nations by INAC compared to overall federal program spending, 1995/96–2015/16 (index: 1995/96 = 100)



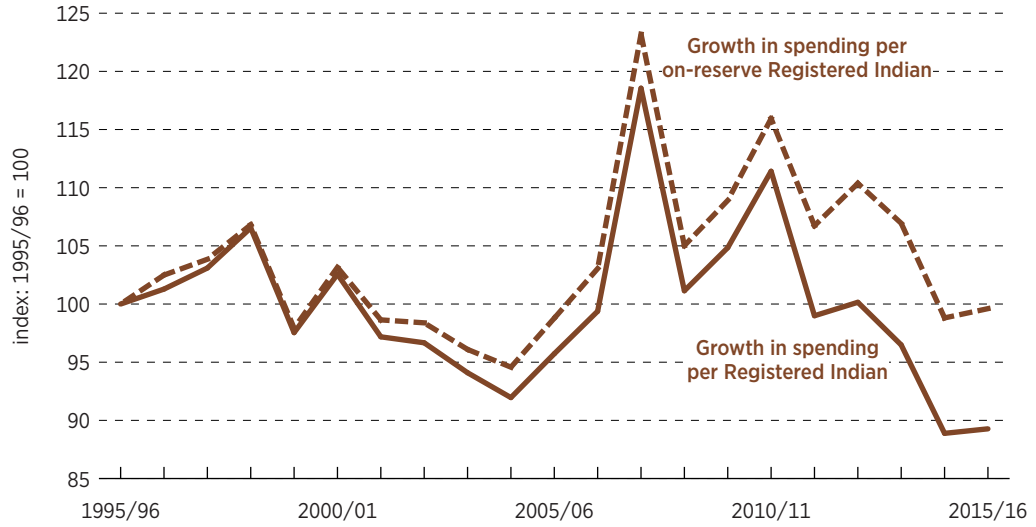
Sources: Canada, Dep't of Finance, 2016; Public Works and Government Services Canada, 2016.

Overall, the nine and a half years of the Conservative government led to less rapid increase in INAC spending on First Nations, but the pattern is obscured by the very large expenditures connected with the 2008 residential school apology. The Public Accounts show \$2.34 billion (nominal dollars) paid out over the fiscal years 2011/12 to 2015/16 to those who attended residential schools. But that is far from the total amount expended in compensation. We could not obtain Public Accounts figures prior to 2011/12, but an INAC report gives a total of \$4.74 billion (nominal dollars) paid out from 2007 to 2017: \$1.62 billion for the Common Experience Payment and \$3.12 billion through the Individual Assessment Process (INAC, 2017b). Some claims are still incomplete or under appeal; and if all the process costs could be tracked and added in, the total residential school expenditure is sure to be over \$5 billion and perhaps approaching \$6 billion. This large amount counted as program spending, but as a temporary program it masked some of the changes taking place in long-term program spending.

**Figure 3** tracks changes in INAC spending per Registered Indian over the same period of time as well as INAC spending per Registered Indian on reserve. The two curves have a similar shape, but a gap gradually opened after the year 2000. The reason for this divergence is the more rapid growth in the number of Registered Indians as compared to Registered Indians on reserve (**figure 4**).

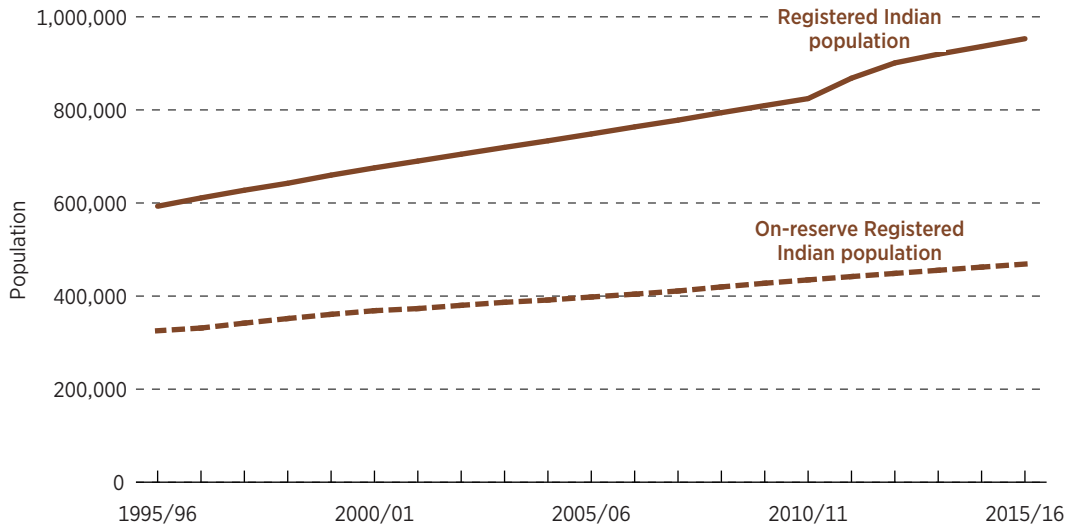
INAC expenditure per Registered Indian is a fraction in which the number of Registered Indians is the denominator. Rapid growth in the denominator causes

Figure 3: Growth in INAC spending per Registered Indian and per on-reserve Registered Indian, 1995/96–2015/16 (index: 1995/96 = 100)



Sources: Personal communication by e-mail from Scott Workman, INSTAT, Strategic Research and Statistics Directorate, INAC (May 1, 2017): Total Registered Indian Population & Total On-Reserve Registered Population for all Provinces and Canada, Indian Registry System; Public Works and Government Services Canada, 2016.

Figure 4: Registered Indian populations, total and on-reserve, 1995/96–2015/16



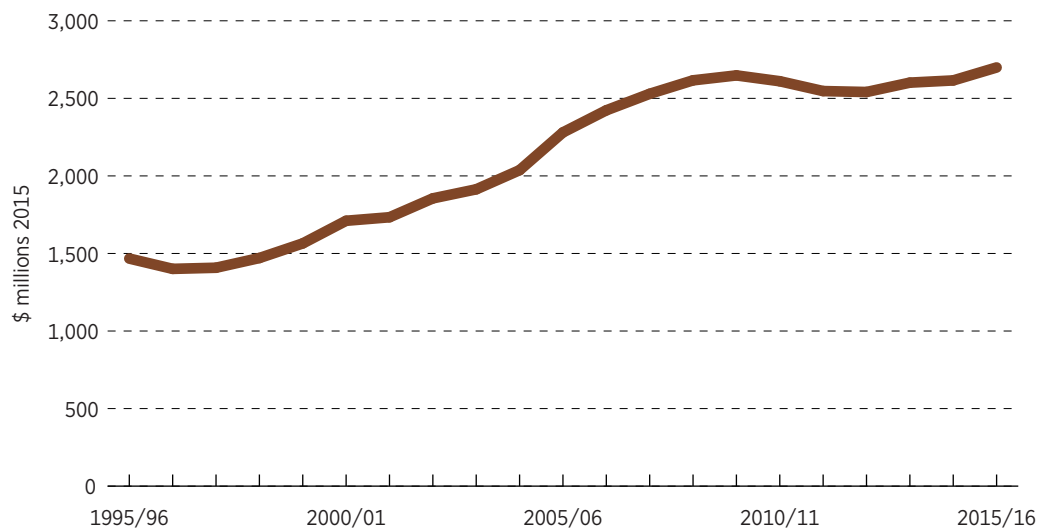
Sources: Personal communication by e-mail from Scott Workman, INSTAT, Strategic Research and Statistics Directorate, INAC (May 1, 2017): Total Registered Indian Population & Total On-Reserve Registered Population for all Provinces and Canada, Indian Registry System.

the value of the fraction to decline correspondingly. On-reserve populations have not grown as rapidly because registered status has been extended in the last 20 years to ever larger numbers of Indian women (and their children and grandchildren) who had lost status by “marrying out.” Many of these new Registered Indians have been living off reserve for decades and have no desire to move back. Others might like to move back but have not been accepted as members under citizenship codes adopted by their First Nations (Flanagan, 2017a). As a result of these developments, INAC spending per Registered Indian is now less than it was 20 years ago, whereas spending per Registered Indian on reserve is about the same in constant dollars. Both indicators are essential to grasp the whole picture. Most INAC funding is directed at reserve communities, but some programs also affect First Nations people who, though they live off reserve, are involved with the reserve community.

### Other programs

INAC’s expenditure budget is the largest element of spending on Aboriginal people but not the only one. Dozens of departments, agencies, commissions, and Crown corporations run special programs for Aboriginals, with Health Canada being the biggest spender. We are not aware of an authoritative public listing of all these programs, but the Department of Finance estimated total Aboriginal spending as “over \$11 billion” in fiscal 2015/2016, when INAC spending was \$8 billion (Canada, Dep’t of Finance, 2016).

Figure 5: Spending (\$ millions 2015) by Health Canada on First Nations and Inuit populations, 1995/96–2015/16

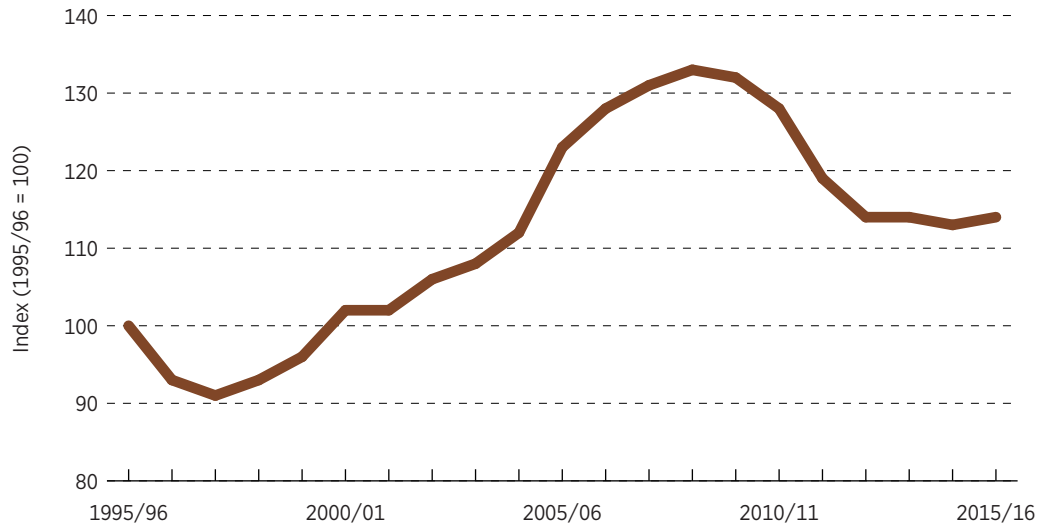


Sources: Public Works and Government Services Canada, 2016.

The largest spender other than INAC is Health Canada, whose expenditures on (mainly) First Nations in fiscal 2015/2016 amounted to \$2.7 billion (figure 5). Health Canada’s spending track over the last 20 years has shown a greater net increase than that of INAC—84% in constant 2015 dollars from 1995/96 to 2015/16 compared to 43% for INAC (Public Works and Government Services Canada, 2016).

The steady rise of Health Canada spending is at least partly due to the statutory nature of some of its obligations. A large component of Health Canada spending is the Non-Insured Health Benefits (NIHB) program, which provides free supplementary health insurance to all Registered Indians and Inuit for drugs, vision care, ambulance, and many other items. Spending on NIHB is heavily driven by the number of Registered Indians, which, as we have seen, has been increasing rapidly (Inuit make up only about 6% of those covered). Yet even as Health Canada has increased spending on Aboriginal people much faster than INAC has, its spending per Registered Indian is being diluted by the increasing number of the latter (Public Works and Government Services Canada, 2016). Figure 6 shows Health Canada spending per Registered Indian in constant dollars over the last 20 years, with the initial year set to 100. Health Canada spending per Registered Indian peaked in 2008/29, after which it fell for several years and then levelled off.

Figure 6: Spending by Health Canada per Registered Indian, 1995/96–2015/16 (index 1995/96 = 100)



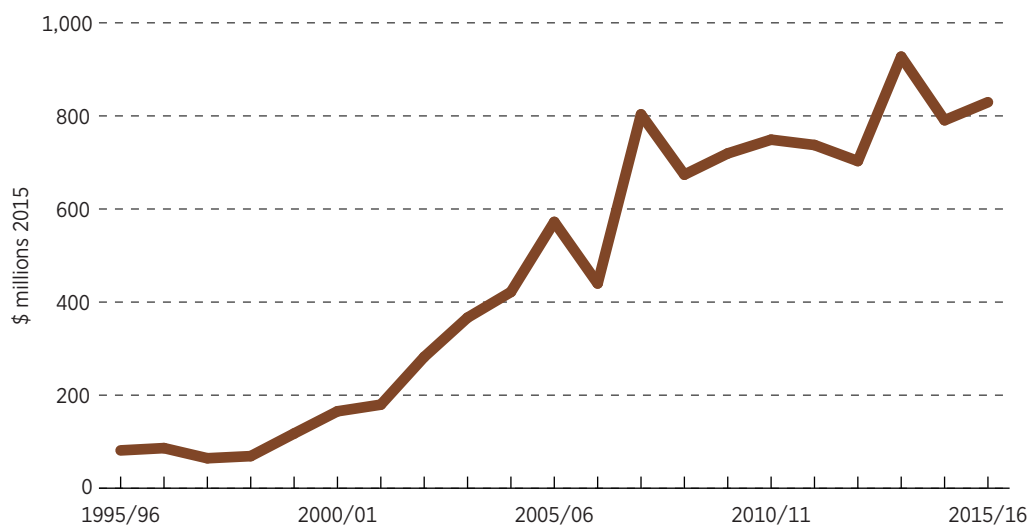
Sources: INAC, 2017a; Public Works and Government Services Canada, 2016.

## Provincial Spending

Although Parliament has responsibility for Indians under s.91(24) of the *Constitution Act, 1867*, all provinces now have a ministry of Aboriginal affairs under various titles and may also run special programs for Aboriginal people under the aegis of other departments. These programs are often directed at off-reserve status Indians, non-status Indians, and Métis as much as at Registered Indians living on reserve. Provincial expenditures vary greatly in magnitude. The biggest spender in 2015/16 was Quebec (\$281.9 million), while the smallest was Prince Edward Island (\$550,000). The nature of these expenditures is also quite variable. British Columbia, for example has very large expenses for consultation and treaty negotiation because most of its 200 First Nations have never signed treaties and may have existing Aboriginal rights and title subject to impact by natural resource development projects. For all these reasons, provincial expenditures are not directly comparable to INAC spending, most of which takes the form of transfers and grants in support of First Nations on reserve.

**Figure 7** tracks aggregate provincial spending in constant dollars over the last 20 years, from fiscal 1996/96 through 2015/16. Provincial spending was

Figure 7: Total provincial program spending (\$millions 2015) on First Nations and Inuit populations, 1995/96–2015/16



Sources: Personal communication by e-mail from Scott Workman, INSTAT, Strategic Research and Statistics Directorate, INAC (May 1, 2017); Total Registered Indian Population & Total On-Reserve Registered Population for all Provinces and Canada, Indian Registry System; Public Works and Government Services Canada, 2016.

modest in the 1990s but rose rapidly in the first decade of this century. It peaked in 2013/14 at \$927.4 million (2015 dollars), after which it fell back somewhat but remains at historically high levels. Because of the highly variable range of provincial spending and the heterogeneous character of the programs, it is difficult to draw firm conclusions except to say:

- ∞ in line with the constitutional division of responsibilities, provincial spending is only a small fraction (less than 10%) of total federal spending but is nevertheless not negligible (approaching \$1 billion);
- ∞ after very rapid growth from 1995/96 to 2005/06, aggregate provincial spending has grown more slowly over the following ten years.

### Estimating revenues and expenditures

Following Milke (2013: 6), we estimated INAC spending by aggregating grants and contributions to First Nations as listed in the annual Public Accounts of Canada. This does not include Northern or internal administrative spending. In contrast, our estimates of provincial spending, taken from provincial public accounts, include all Aboriginal spending.

Own-source revenue (OSR) encompasses “the revenue that an Aboriginal government raises by levying taxes and resource revenues or by generating business and other income” (Bains and Ishkanian, 2016: 12). For the purposes of our research, revenues received by First Nations communities, as appearing in the publicly available, audited financial statements, were placed into one of three categories: government transfers, natural resource revenue, and other OSR.<sup>1</sup> The individual revenues placed into these categories were then summed together to yield total revenue estimates for each category.

Similar to the approach of Bains and Ishkanian, natural resource revenue was considered to include “contracts with private companies looking to use natural resources found on reserves as well as revenues generated from aboriginal-owned natural resource companies” (2016: 12).<sup>2</sup> Other OSR revenue includes income related to investments, sales, land-use fees, liquor or gaming revenues and casino revenues, among others. Any income labelled as “other” or “miscellaneous” in the financial statements was

treated as OSR revenues. Given that it is difficult to trace the sources of other revenues, it is possible that some revenue from natural resource projects or governments is included in the estimates of other OSR.

Business losses or repayments made to government agencies were included in the revenue estimates. Any income labelled as deferred revenue was excluded from all revenue estimates, as this refers to income either already earned in the current year or revenues earned in previous years.

#### Notes

1. Note that total OSR estimates include both revenues from natural resource projects and other OSR.
2. While the definition used to classify OSR natural-resource revenues was the same in this analysis as it was in that of Bains and Ishkanian (2016) there were some slight differences in the types of activities that were classified under this heading. The most consequential differences were in the classification of gas-bar revenues, which Bains and Ishkanian classified as natural-resource revenue. However, this analysis placed such revenues under the other OSR category because the distribution and marketing of a previously refined product is not equivalent to the actual production of natural resources, which is the intended definition of the natural-resource revenue category. In addition, the gas-bar revenues likely also include revenue from the operation of the associated convenience stores.



# Own-Source Revenue

Bains and Ishkanian provided 2013/14 estimates for First Nations' own-source revenue" (OSR), defined by INAC as "the revenue that an Aboriginal government raises by levying taxes and resource revenues or by generating business and other income" (Bains and Ishkanian, 2016: 12). INAC does not publish data on this subject but the *First Nations Financial Transparency Act* (FNFTA), passed in 2013, has made it possible for researchers to collect information. The Act requires First Nations to file annual audited budgetary reports, which are then posted in the First Nations Profiles section of INAC's website (INAC, 2017a, 2017c). Bains and Ishkanian collected data on OSR from 539 First Nations' reports that were available at that time. Their chief finding was that in 2013/14 OSR, or "band-generated revenue" as they also called it, amounted to about \$3.3 billion, or almost 40% of the total amount of money received by First Nations that year, the remainder consisting of transfers from various levels of government (Bains and Ishkanian, 2016: 13).

This paper updates the OSR analysis to include fiscal 2015/16, based on INAC's First Nations profiles. There are, however, problems of comparability with the data from 2013/14 because reporting by First Nations is somewhat sporadic. The FNFTA was controversial, and some First Nations from the beginning refused to report and went to court to challenge the constitutionality of the Act (Flanagan and Johnson, 2015a: 8–10). Reporting went down a further notch after the newly elected Liberal government announced in 2015 that it would not exact penalties for non-compliance and would engage in consultations aimed at replacing the FNFTA with more "respectful" legislation (*Globe and Mail*, 2015). Thus only 516 reports were available for 2015/16. For this paper, we have used the data from the 500 First Nations who reported in both 2013/14 and 2015/16, or about 80% of the more than 600 First Nations in Canada. **Table 1** gives a summary comparison of OSR for 2013/14 and 2015/16.

Note that total OSR, including natural resource revenues, was about 5% less in constant dollars in 2015/16 than in 2013/14 for these 500 First Nations. Two hundred seventy-one (54%) First Nations experienced a decrease, compared to 229 (46%) who saw some increase. Both natural resource revenues and other OSR declined. What caused these decreases is not known for certain, though they obviously occurred in a period when natural resource commodity prices were low.

In many respects, First Nations resemble local governments that are supported and supervised by INAC rather than by a provincial department of

Table 1: Comparison of Own-Source Revenue Generation, 2013/14 and 2015/16

	Total Revenue	Total Government Revenue	OSR + Resource Revenue	Total Own Source Revenue	Total Natural Resource Revenue
Totals 2013/14 (\$2015)	\$7,961,264,851	\$4,849,143,802	\$3,112,121,049	\$2,784,296,554	\$327,824,495
Totals 2015/16	\$8,311,394,177	\$5,349,902,511	\$2,961,491,666	\$2,639,920,362	\$321,571,304
Difference	\$350,628,094	\$500,758,709	-\$150,629,383	-\$144,376,192	-\$6,253,191

Sources: INAC, 2017a; Bains and Ishkanian, 2016; authors' calculations

municipalities. Canadian municipalities, school boards, and other local government agencies receive financial transfers from their provincial governments, but they also pay part of their own operating costs through levying property taxes and collecting user fees. Historically, Indian reserves were completely tax-free; but since passage of the so-called “Kamloops Amendment” in 1988, there are now 146 First Nations that collect property tax on leases (mostly held by non-members) on reserve lands (First Nations Tax Commission, 2017). These are often utility and transportation corridors as well as housing and commercial leases. Revenue from First Nations taxation is included in estimates of OSR, along with natural resource licenses, fees, royalties, impact benefit agreements, and all other forms of business revenue.

Several authors have criticized the tax-free status of reserves, arguing that taxation would not only raise much-needed revenue but also lead to better government (Graham and Bruhn, 2009; Flanagan, 2008: 102–106). However, except in the case of self-government agreements, Parliament has shown no interest in repealing s.87 of the *Indian Act*, which confers tax-free status on Indian reserves. What is emerging instead is a unique form of community capitalism in which First Nations create band-owned agencies and corporations to engage in business activity, leveraging their location, resource rights, and other assets to generate revenue. Their property taxes are part of the mix, but much of the revenue comes from the entrepreneurial sale of location and resource rights or management of businesses.

For the 500 First Nations in our sample, OSR totalled more than half of government transfers, or almost 36% of all funds available. In the aggregate, First Nations now seem to contribute a substantial share of the costs of running their own communities. These numbers, however, are somewhat misleading because

OSR is a gross total, including property taxes, interest on trust funds and investments, and revenue from business operations. Particularly in the latter category, it may be partially balanced by operating expenses. Casinos, for example, generate large revenues, but they are also expensive to operate. Because First Nations are not taxable corporations, they do not have to file statements of profit and loss. Moreover, there is no standard method of reporting revenues and expenses under the FNFTA. At this point, there is no way to estimate the net contribution of OSR to First Nations coffers. It is obviously less than the gross amount reported under the FNFTA, but we cannot say how much less.

Another issue is the variability of OSR among First Nations. In fiscal 2015/16, the OSR reported by our sample of 500 ranged from \$97,020,544 (the oil-rich Samson Cree Nation in Alberta) to -\$287,676 (Beecher Bay First Nation in Sooke, British Columbia, who took a loss on a real estate development—the only negative OSR that year). The average OSR for our sample of 500 was about \$5.9 million, and the median was about \$3.0 million (that is, 250 First Nations had more OSR than that, and 250 had less).

The ten First Nations with the highest OSR amounts in 2015/16 are listed **table 2**. Together, these ten (2% of the total sample) earned \$531.5 million in OSR, or 18% of the total earned by all 500 First Nations. The top five First Nations, the highest 1% of the sample, generated \$329.2 million in OSR, about 11.1% of the total. By way of comparison, the top 1% of tax filers in Canada in 2013 earned 10.3% of all reported income (Kohut, 2015). OSR is as unequally distributed as income in the larger society.

OSR can help First Nations raise their standard of living and well-being. Previous research has demonstrated a statistically significant correlation between OSR as a percentage of the band budget and the Community Well-Being Index, our best measure of how on-reserve communities are doing. The correlation persisted even after controlling for several other variables (Flanagan and Johnson, 2015b: 11–12). But the unequal distribution of OSR, similar to the distribution of other forms of income in Canadian society, suggests that OSR will not lift all First Nations out of poverty. And unfortunately, many First Nations do not have the infrastructure and organization to benefit from OSR (Graham, 2017).

Table 2: Top-10 OSR-Generating First Nations, 2015/16

Province	Community	Total Revenue	Total Government Revenue	OSR + Resource Revenue	Total Own-Source Revenue	Total Natural Resource Revenue
Alberta	Samson	\$129,185,686	\$32,165,142	\$97,020,544	\$37,226,585	\$59,793,959
Alberta	Chiniki	\$136,686,693	\$61,411,994	\$75,274,699	\$62,600,875	\$12,673,824
British Columbia	Squamish	\$78,381,602	\$16,914,959	\$61,466,643	\$57,332,600	\$4,134,043
New Brunswick	Saint Mary's	\$64,604,477	\$16,195,375	\$48,409,102	\$47,619,908	\$789,194
Manitoba	Nisichawayasihk Cree Nation	\$82,657,108	\$35,569,347	\$47,087,761	\$46,030,190	\$1,057,571
Ontario	Chippewas of Rama First Nation	\$57,168,694	\$10,862,519	\$46,306,175	\$46,306,175	—
Nova Scotia	Membertou	\$56,038,238	\$14,855,177	\$41,183,061	\$38,139,962	\$3,043,099
Manitoba	Norway House Cree Nation	\$109,932,112	\$68,784,440	\$41,147,672	\$32,902,903	\$8,244,769
Ontario	Wikwemikong	\$58,505,641	\$21,272,850	\$37,232,791	\$37,232,791	—
Alberta	Blood	\$146,732,257	\$110,328,982	\$36,403,275	\$35,358,823	\$1,044,452

Sources: INAC, 2017a; authors' calculations.

## Bending the Curve

Shortly after becoming Prime Minister in December 2003, Paul Martin started consultations leading to the Kelowna Accord. The process involved all provincial governments and major Indigenous organizations as well as numerous federal ministries. In an agreement announced in November 2005, the federal government pledged to spend an additional \$5.1 billion (nominal dollars) on Indigenous programming over the next five years. Most would be dedicated to social programs for First Nations, though some would also be spent on Inuit and Métis (Patterson, 2006).

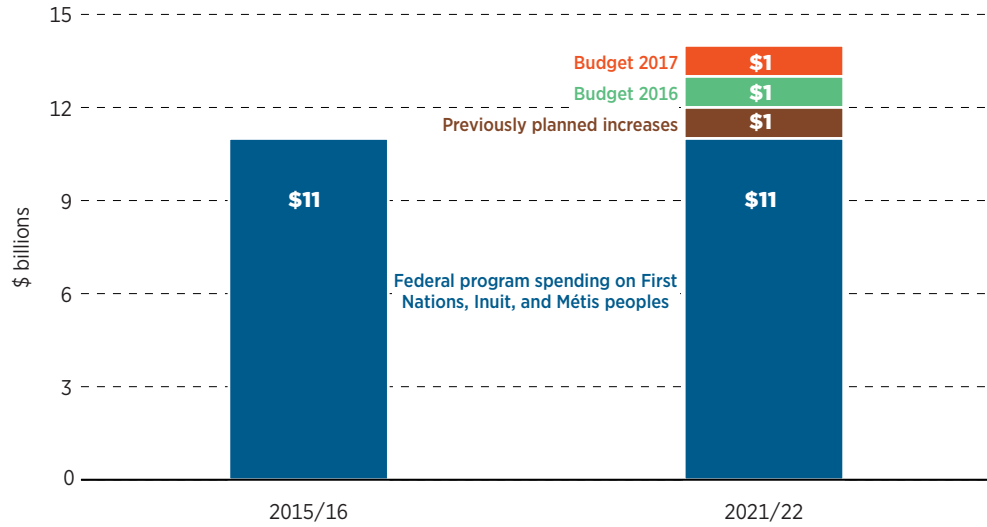
The Kelowna Accord was never implemented because Paul Martin's Liberal government fell at the end of November 2005, the Liberals were defeated in the election of January 23, 2006, and Conservative leader Stephen Harper became prime minister. The Conservative platform pledged to "accept the targets" (Conservative Party of Canada, 2006: 38) of the Kelowna Accord but did not support the plan itself, and the budgetary proposals were never implemented. The Kelowna Accord would have bent the curve upwards by continuing the acceleration in departmental spending that began after Paul Martin became prime minister. However, as shown in the preceding section, the net result of Stephen Harper's ten budgets was to slow the rate of growth.

In the 2015 federal election, one of the Liberal campaign promises was to increase the level of spending on Indigenous programs (Liberal Party of Canada, 2015). The first Liberal budget, presented March 22, 2016, promised additional spending of \$8.4 billion, spread over the five fiscal years from 2016/17 to 2020/21 (Government of Canada, 2016: 134). This was a greater-than-Kelowna-sized spending increase. According to the Bank of Canada's *Inflation Calculator* (2017), the cost of living increased about 18% from 2006 to 2016, so a Kelowna-sized package would have cost about \$6 billion in 2016. In fact, the new package of \$8.4 billion was 40% larger than required to replicate Kelowna ten years later.

*Budget 2017* presented the numbers somewhat differently (**figure 8**):

The historic investment of \$8.4 billion over five years made in *Budget 2016* marked an important first step in advancing reconciliation. *Budget 2017* proposes to build on this momentum with investments in a range of critical areas, notably infrastructure and health care. As a result, by 2021/22, total federal government spending on programs for First Nations, Inuit and Métis in Canada will increase from over \$11 billion in 2015/16 to over \$14 billion in 2021/22, an increase of 27%. (Government of Canada, 2017: 172).

Figure 8: *Budget 2017* funding (\$ billions) for Aboriginal peoples, 2015/16 and 2021/22



Source: Gov't of Canada, 2017.

These 2016 and 2017 budget projections are difficult to compare with each other because of different terminology and time periods, and use of nominal rather than constant dollars. They also cannot be directly compared with the expenditure data presented in this paper, which are actual expenditures taken from the Public Accounts, whereas budget numbers are predictions of future spending. When the Public Accounts are released about 18 months after the budget speech, they often show that some expenditures have been reduced, postponed, cancelled, or increased in comparison to projections. *Budget 2016* and *Budget 2017* also lump together the Aboriginal spending of all federal departments, whereas the Fraser Institute data series is mainly for INAC grants and contributions to First Nations. But even if direct comparisons are not possible, it seems that Indigenous spending, including spending on First Nations, will now grow more quickly after having been affected by the fiscal crisis of the mid-1990s and the budget-balancing efforts of the Harper government.

## Discussion

First Nations people should have access to social services comparable to those available to other Canadians. Public expenditure is required, as it is for other Canadian communities, but increased expenditure is not always the crucial variable. Even if government spending is planned to increase more rapidly than in the Harper years, the results may not live up to expectations because First Nations face intractable real-world dilemmas not easily resolved by spending more money, at least within a fiscally and politically possible range of expenditure. Water quality and education are two good examples.

According to Health Canada's website, there were 97 long-term water advisories as of May 31, 2017 in place for First Nations communities south of the 60<sup>th</sup> parallel. This total did not include the Territories, British Columbia, and the Saskatoon Tribal Council, so the total number must be even higher (Health Canada, 2017). During the 2015 election campaign, Liberal leader Justin Trudeau promised to provide drinkable water to all Indian reserves within five years (*Canadian Press*, 2015). This is now an official government commitment, starting from 2016 (Health Canada, 2017), with new money designated for that purpose in the federal budget.

However, this long-standing problem has defied solution in the past. Almost no measurable progress was made between 2001 and 2013 despite targeted expenditure of \$2 billion (Gulli, 2015; Morrison, Bradford, and Bharadwaj, 2013). Many Indian reserves are in remote locations where they cannot connect to urban water supplies. Sites near rivers and lakes may be subject to frequent flooding that contaminates water supplies. Growing populations also tend to contaminate ground water. Treatment systems have to be suitable to the local situation and may require trained personnel to operate. Some reserves have seen systems installed that were ineffective or broke down quickly in the face of flooding or inadequate maintenance. Reliable provision of safe water in small, isolated jurisdictions will require not just more money but a fundamental reorganization to create larger, more competent water authorities (Hrudey, 2013).

Education is another area where increased expenditure does not necessarily resolve long-standing problems with complex causes. As of 2012/13, there were about 110,000 students living on Indian reserves. About 65% of these young people were served by about 500 on-reserve schools run by First Nations themselves, while most of the rest attended provincial schools and a few went to private schools or a small number of schools run by the federal government. Over

160 of the 500 on-reserve schools had fewer than 100 pupils, and more than 140 were in locations considered remote or “special access” (that is, no year-round roads) (PBO, 2016: 1, 4).

First Nation spokesmen have long complained that on-reserve schools are underfunded compared to their provincial counterparts. Bains (2014: 13) showed that the average per-pupil expenditure for on-reserve schools is actually higher than the average provincial expenditure, but that is not the end of the story. Provincial departments of education use funding formulas that give extra weight to cost-drivers such as remote location, small size of school, percentage of ESL children, and other special needs. A recent report by the Parliamentary Budget Officer argued that many on-reserve schools rank high on all these indicators and that, if they were funded according to provincial formulas, they would receive much more than they do from INAC. The PBO’s low estimate of the operating shortfall for reserve schools over the five years beginning in 2016/17 is \$1,779.4 billion, and the high estimate is \$3,520.3 billion. *Budget 2016* pledged an increase of \$2,600.8 billion over the same time period, so it might help meet the problem diagnosed by the PBO, assuming the incremental money is allocated to needy schools (PBO, 2016: 30). Prime Minister Harper was also ready to put \$1.9 billion more into Indigenous education until his tentative agreement with the National Chief of the Assembly of First Nations broke down (Rennie, 2015).

The discussion, however, is seriously deficient as long as it looks only at the input or expenditure side. Education, like other social programs, should be measured by its results, such as graduation rates and scores on standardized tests. Greater expenditure should not be an end in itself and will easily be absorbed by organized rent-seekers unless program outputs are monitored and used as a guide to budget allocation. Reserve schools suffer from disadvantages in addition to alleged insufficient funding. Many are so small that they are little more than one-room school houses, and are not part of a professionally organized system. Parental and community support for education is often weak and attitudes are sometimes even openly hostile, so that teachers are driven away (Shimo, 2016). Yet these problems are not universal, and some reserve schools function much effectively than others (Cowley, Easton, and Thomas, 2011). If more money is to be spent, it should be accompanied by systematic study of reserve schools to discover best practices of high-performing schools that can be more widely imitated.

Speaking in general terms, it is not clear that spending more government money on social programs for First Nations always leads to real improvement in their standard of living or well-being. The chain from the federal treasury to the individual people of First Nations is long and convoluted. It runs from INAC through band councils, with sidebars for national, regional, and tribal



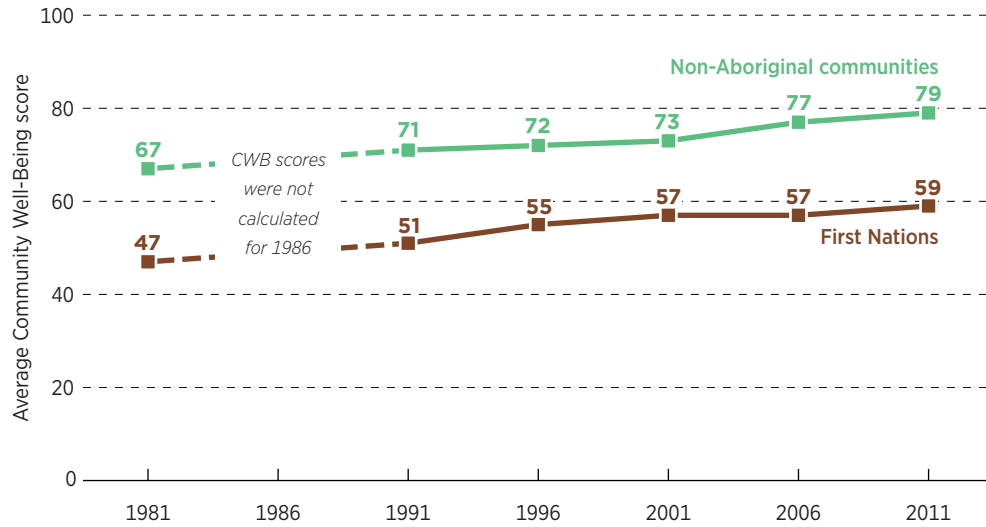
organizations. There are many opportunities along the way for money to be spent on civil servants, lawyers, and consultants, or to disappear in outright corruption (Flanagan, 2016). But even if the money is spent on services for individuals, there is a still more fundamental problem: it may displace individual effort and foster a culture of dependency (Helin, 2006).

We do not have definitive proof on the efficacy of public-sector spending, but three lines of evidence are suggestive. First, Métis and non-status Indians are much better off in income, education, employment, and all other measurable social indicators than the people of the First Nations (Statistics Canada, 2015). Indeed, on some indicators they are very close to the Canadian average, after allowing for the younger age of the Métis and non-status population. Yet they do not have land reserves (except for eight small Métis settlements in Alberta), and the federal government has historically spent very little on targeted social programs for them. Are they better off than the First Nations in spite of, or because of, the absence of special programming?

Second, Milke (2013) showed that per-capita INAC spending on First Nations grew 1.28 times more than per-capita federal spending on all Canadians in the fiscal years 1946/47 to 2011/12. If federal social program spending is the key to the advancement of First Nations, one would expect to see that improvement reflected in time-series data. The best indicator we have to measure the progress of First Nations is the Community Well-Being (CWB) index, which is an amalgam of income, education, housing, and employment computed every five years from Statistics Canada data (INAC, 2016).

**Figure 9** shows the time series from 1981 to 2011, comparing First Nations to other Canadian communities. The most striking feature of figure 9 is the strong parallelism in improvement of First Nations and other Canadian communities over these 30 years. Things have been getting better for First Nations, as they have been for all Canadians—an increase of 12 points in the CWB index for both groups over the 30 years from 1981 to 2011. This raises an important question of public policy: if the well-being of First Nations has increased no more rapidly than that of Canadians in general, what is the value of all the additional spending on First Nations? Put that way, it may seem that INAC spending has had little effect on the well-being of First Nations. However, it is also true that First Nations gained ground more rapidly in the 15 years from 1981 to 1996 than they did in the following 15 years from 1996 to 2011, after INAC spending started to grow less quickly. The average CWB index of First Nations rose eight points in the first period but only four points in the second. As is often the case, data can tell more than one story. Release of new CWB scores calculated from 2016 census data may bring clarification.

Figure 9: Average Community Well-Being (CWB) scores, First Nations and non-Aboriginal communities, 1981-2011



Sources: INAC, 2016.

Third, there is a lot of variation in the success of First Nations as measured by the CWB index, and research has uncovered numerous factors associated with higher CWB (Flanagan, 2017b). These include:

- ✎ staying out of debt and avoiding third-party management;
- ✎ creating stability by supporting leaders who pursue economic development;
- ✎ paying council members less than average for the size and wealth of the First Nation, thus dampening political factionalism;
- ✎ raising own-source revenue (OSR) through property taxation and investment in locally appropriate business ventures like residential and commercial real estate, tourism and hospitality, natural resources;
- ✎ entering the First Nation Land Management Agreement for more control of band assets and to “move at the speed of business” rather than “the speed of government”;
- ✎ negotiating a self-government agreement;
- ✎ negotiating a modern treaty giving secure property rights;
- ✎ making use of Certificates of Possession—the highest form of individual property right generally available on Indian reserves.

Each successful First Nation has its own profile, and none of them does all of the above. Nonetheless, these characteristics overlap, and all successful First Nations

possess many of them. They create a “family resemblance,” as the philosopher Ludwig Wittgenstein put it (Philosophy Index, n.d.), so that one can readily identify a successful and self-improving First Nation, even if each pursues its own path.

Own-source revenue (OSR) is particularly important in this context. As shown above, OSR is now a major source of income from First Nations, but its impact has been uneven because a small number of First Nations generate a large share of the OSR dollars. It should be a high priority for the federal and provincial governments to encourage First Nations to increase their OSR, yet it is not always clear how to achieve this. For the hundreds of First Nations located far from cities and towns, this will often mean involvement in natural resource industries such as oil and gas, mining, and forestry. Previous Fraser Institute publications have highlighted the way in which natural resource development can enhance the prosperity of First Nations (Bains, 2013). And yet resource development does not always bring progress to nearby First Nations; witness the unfortunate case of Attawapiskat, located near the Victor diamond mine in northern Ontario (*CBC News*, 2016).

Unfortunately, the contemporary environmental movement is working at cross purposes with these opportunities, as shown by the fate of the Northern Gateway Pipeline proposal. The proponent Enbridge negotiated impact benefit agreements with dozens of First Nations situated along the proposed route in northern Alberta and British Columbia, providing for cash payments, jobs, contracts, property taxes, and an equity stake in the pipeline. This would have led to a long-term enhancement in OSR for the mostly impoverished First Nations living in these remote locations. These opportunities evaporated when the federal government announced, without consulting the affected First Nations, that it would not permit tanker traffic off that part of British Columbia’s coast (*CBC News*, 2015). Ironically, the same government that is increasing federal transfers to First Nations is preventing dozens of First Nations from generating more OSR for themselves. That government has, however, declared itself in favour of Kinder Morgan’s Trans Mountain pipeline expansion, which will bring substantial OSR enhancements to First Nations along its route in southern British Columbia. Will that pipeline actually be built, or will political opposition in British Columbia once again get in the way of OSR opportunities for First Nations (Abma, 2017)?

Adequate funding from senior governments is necessary for First Nations, just as it is for other local communities in Canada. But funding from senior governments cannot do the whole job. Many First Nations want to enhance their own standard of living by generating OSR, and governments can help them by encouraging, rather than obstructing, natural resource development. At the same time, increases in government spending must be rigorously evaluated in terms of their results, not just celebrated for their own sake.

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Notre mission consiste à améliorer la qualité de vie des Canadiens et des générations à venir en étudiant, en mesurant et en diffusant les effets des politiques gouvernementales, de l'entrepreneuriat et des choix sur leur bien-être.

## Peer review—validating the accuracy of our research

The Fraser Institute maintains a rigorous peer review process for its research. New research, major research projects, and substantively modified research conducted by the Fraser Institute are reviewed by experts with a recognized expertise in the topic area being addressed. Whenever possible, external review is a blind process. Updates to previously reviewed research or new editions of previously reviewed research are not reviewed unless the update includes substantive or material changes in the methodology.

The review process is overseen by the directors of the Institute's research departments who are responsible for ensuring all research published by the Institute passes through the appropriate peer review. If a dispute about the recommendations of the reviewers should arise during the Institute's peer review process, the Institute has an Editorial Advisory Board, a panel of scholars from Canada, the United States, and Europe to whom it can turn for help in resolving the dispute.

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