

# PROMISE AND PERFORMANCE

## Recent Trends in Government Expenditures on Indigenous Peoples

Tom Flanagan





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# Executive Summary

If better-funded government programs were the answer to Indigenous poverty, we would have seen the results by now. Between 1981 and 2016, federal spending on Indigenous programming was multiplied by more than four times, yet the gap in the average Community Well-Being Index between First Nations and other Canadian communities barely budged. It was 19.5 in 1981 and 19.1 in 2016.

From the fiscal crisis of the mid-1990s to the end of Stephen Harper's Conservative government in 2015, federal spending on Indigenous programs grew at a compound annual rate of 2.5% (constant dollars). In the name of Reconciliation, the Liberal government headed by Justin Trudeau has more than doubled that rate of increase since 2015.

Federal budgets project a total increase of at least 50% by fiscal 2021/22. Spending totals from the Main Estimates and Public Accounts suggest that actual increases in Indigenous spending are even higher than the budgetary projections. Indigenous spending is now the federal government's second largest operational program expense, behind only national defence.

Meanwhile provincial expenditures, although still small compared to federal outlays, continue to increase even more rapidly than federal appropriations. Own-source revenues earned by First Nation governments through their business activities also continue to increase. Taken together, these trends mean that far more money is being spent in the name of Indigenous peoples than has been seen for 25 years (though in fact the majority of the outlay goes to civil servants and consultants, not to Indigenous persons).

The stated goal of Reconciliation through increased spending on government programs is to attain economic equality between Indigenous people and other Canadians. Yet there are serious questions about the effectiveness of these programs. The most highly touted promise of Budget 2016 was to eliminate all long-term water advisories on Indian reserves by March 2021 at a cost of \$1.8 billion. But we now know that deadline will not be met, even though the estimated expenditure has more than doubled. A flood of money has not been able to overcome intractable problems of small size, remote location, and lack of economic pricing for water and sewerage.

Another high priority is education, and federal budgets have promised additional hundreds of millions for school operating expenses and capital construction. Money can provide higher teacher salaries and nicer buildings, but not necessarily better education results. The Cree educator Waubageshig has identified parental support as the crucial variable: "If a majority of parents continue to low-ball education success and achievement, their children will too."

Housing is a third area where large additional amounts of money are to be spent. Of course, it is always possible to build more homes, but their useful life will be short without private

ownership or rental. Government-owned housing is a recipe for long-term failure because it does not create incentives for further investment and maintenance. As with clean water and education, more money may be helpful in some ways, but inadequate funding is not the root of the problem.

The biggest single problem facing First Nations is lack of economic opportunity. Seventy percent of First Nations are located more than 50 kilometres from the nearest town or city, and almost 20% have no all-weather road connection. Development of natural resources such as forestry, oil and gas, and minerals is by far the best hope that remote First Nations can have for prosperity.

Government can overcome distance by fostering infrastructure, including roads, railways, pipelines, power lines, communication towers, and harbours. Governments may have to build some of these facilities, but private investors would build many of them if governments would get out of the way. Better transportation and communication to enhance economic opportunities for remotely located Indigenous peoples is a more promising pathway out of poverty than increased government programming.

# Introduction

In its response to the 2020 COVID-19 pandemic, the government of Justin Trudeau has established a free-spending reputation. However, long before the pandemic, the Trudeau government dramatically increased Indigenous program spending in the name of Reconciliation. At the same time, provincial Indigenous spending continued to grow even more rapidly. First Nations' own-source revenue (OSR) also increased after 2015, though at a more modest rate. This study will try to measure the rate of these various increases and assess some of the implications for the well-being of First Nations.

The emphasis here is on First Nations living on Indian reserves because they are commonly acknowledged to be the most disadvantaged communities in Canada. They are also a reasonably well-defined group because the federal government recognizes Indian bands (First Nations) as communities and also maintains a registry of individual Indians entitled to various government benefits. And there is a standardized measuring instrument, the Community Well-Being Index (CWB), that can be used to track progress over time. In contrast, terms such as "Métis," "non-status Indian," and "Indigenous ancestry" are not clearly defined in law and are to a considerable extent a matter of self-identification in the Canadian census (Flanagan, 2017).<sup>1</sup> Thus, any attempt to track the socio-economic status of people identifying with these terms runs into difficult issues of who is being counted at any point in time.

## Background

Federal spending on Indigenous peoples rose rapidly and with few interruptions for the half century from the mid-1940s to the mid-1990s (Milke, 2013). Federal spending in these years was mainly on what are now called First Nations, plus Northern Development, which was also housed in the Department of Indian Affairs and Northern Development. Then came a decade of slower, irregular growth as the fiscal crisis of the 1990s led to three years of reduction in overall federal spending followed by a degree of caution to avoid falling back into deficit financing (Flanagan and Jackson, 2017). Indigenous spending measured in 2018 constant dollars grew at a compound annual rate of 7.1% over the 67 fiscal years from 1946/47 to 2013/14 (Baines and Ishkanian, 2016: 3). Spending per Registered Indian over a similar period, 1949/50–2013/14, grew by 3.6% per annum in real terms, showing that the growth of the First Nations population

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1. I do not attempt to deal with the Inuit in this paper as I have not had the opportunity to study their situation in the depth it deserves.



could only account for about half of the increase in spending. The rest of the increase was caused by making programs more generous plus introducing programs for Métis, non-status Indians, and registered Indians living off reserve.

For purposes of comparison, per-capita spending on all federal programs grew by a compound annual rate of 2.5% over the years from 1949/50 to 2013/14 (Baines and Ishkanian, 2016). The difference between compound growth rates of 3.6% and 2.5% is significant in real-world terms and illustrates the extent to which the Canadian federal government prioritized spending on Indigenous peoples after World War II. However, this rapid growth in spending levelled off after the fiscal crisis of the mid-1990s. In the 20-year period from fiscal 1993/94 to fiscal 2013/14, overall program spending grew at a compound annual rate of 1.8%, while Indigenous spending increased at 2.5% per annum. These were substantial declines from the spending patterns of the preceding 50 years, both for federal spending in general and for Indigenous spending in particular.

## The Federal Government's Promises

During the 2015 federal election campaign, Liberal Leader Justin Trudeau unveiled a “Reconciliation Framework” for Indigenous peoples that included promises of increased spending on new and existing programs, thus reversing the trend of the previous two decades. After being elected, he said on National Aboriginal Day, 2016, “No relationship is more important to our government and to Canada than the one with Indigenous peoples” (Trudeau, 2016). The Liberal government’s budgets document its plans to implement these commitments (**table 1**). Bear in mind that modern government budgets are as much political as accounting exercises; so, to make the numbers look as large as possible, the spending commitments took the form of projected increases over a five-year period. As such, they cannot be added together to form a meaningful total.

Table 1: Federal budget promises for Indigenous spending, 2016–2019

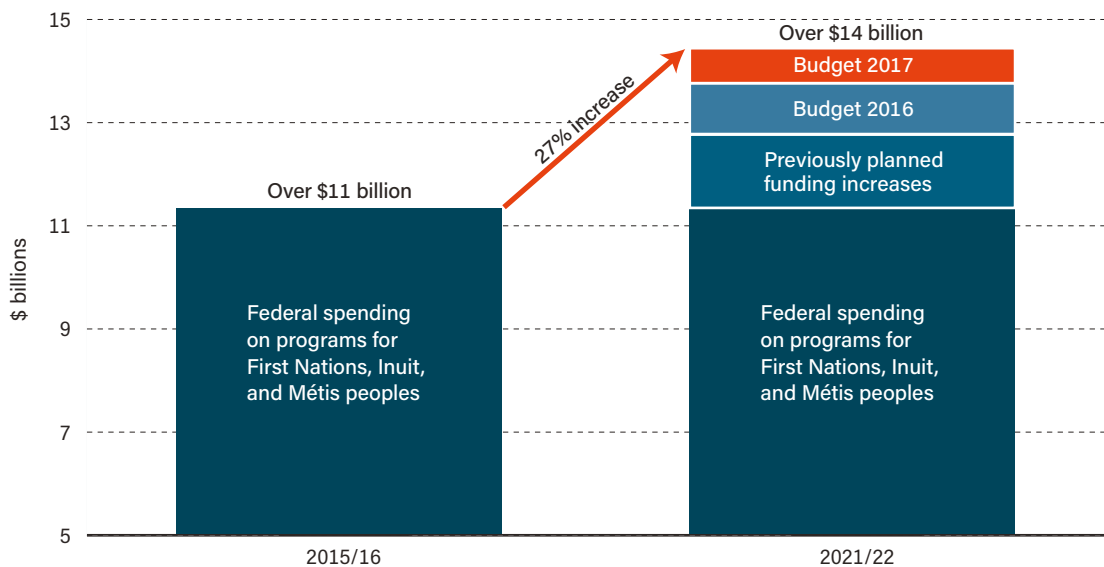
Budget year	Total additional spending (\$billions)	Period of implementation (fiscal years)
2016	8.4	2016/17–2020/21
2017	3.4	2017/18–2021/22
2018	4.8	2018/19–2022/23
2019	4.7	2019/20–2023/24

Sources: Canada, Department of Finance, 2016, 2017, 2018, 2019.



A more understandable presentation of these spending promises can be found in charts contained in the 2017 and 2019 budgets. **Figure 1** runs from fiscal 2015/16, the last Harper budget, to 2021/22, the end of the five-year forecast presented in Budget 2017. This would have amounted to an annual compound increase of 4% a year, greater than the preceding 20-year average of 2.5%. Only two years later, however, the government upped the ante. Figures 2A and 2B show recalibrated expenditure projections contained in Budget 2019. The curve in the **figure 2A** shows Indigenous spending increasing sharply in the first two fiscal years after the Trudeau government took power, then continuing to increase but not quite as rapidly in the following years. **Figure 2B** shows an estimated spending increase of 50% (nominal dollars) over the six fiscal years from the last Harper budget through fiscal 2021/22, superseding the earlier projection of a 27% increase over the same time period. The 50% increase translates to a compound growth rate of 7% *per annum* in nominal dollars.

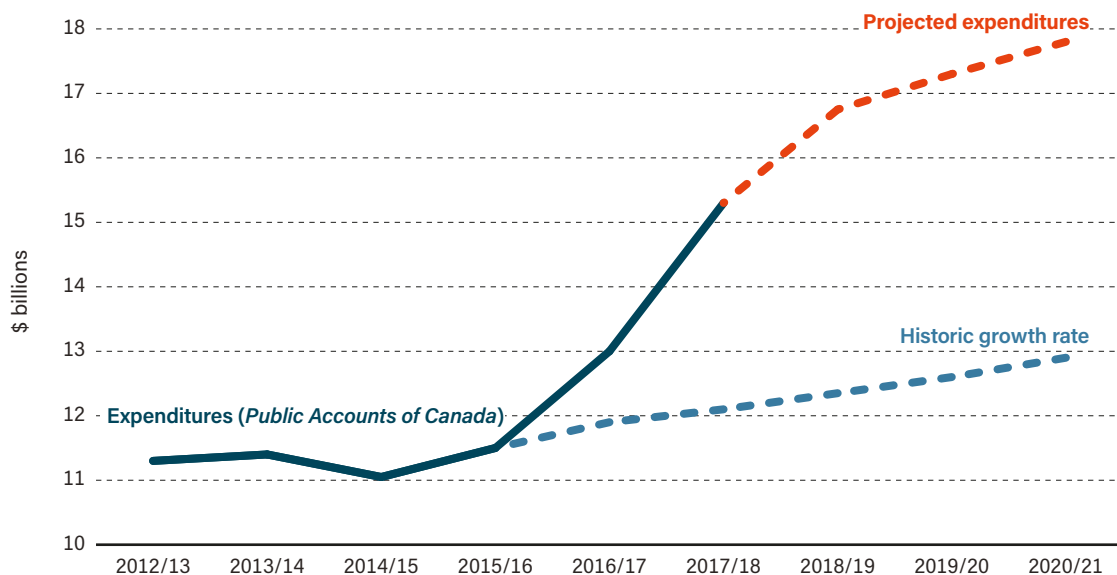
Figure 1: Current and projected federal spending on programs for First Nations, Inuit, and Métis peoples, 2015/16 and 2021/22



Source: Canada, Department of Finance, 2017: chart 3.2.

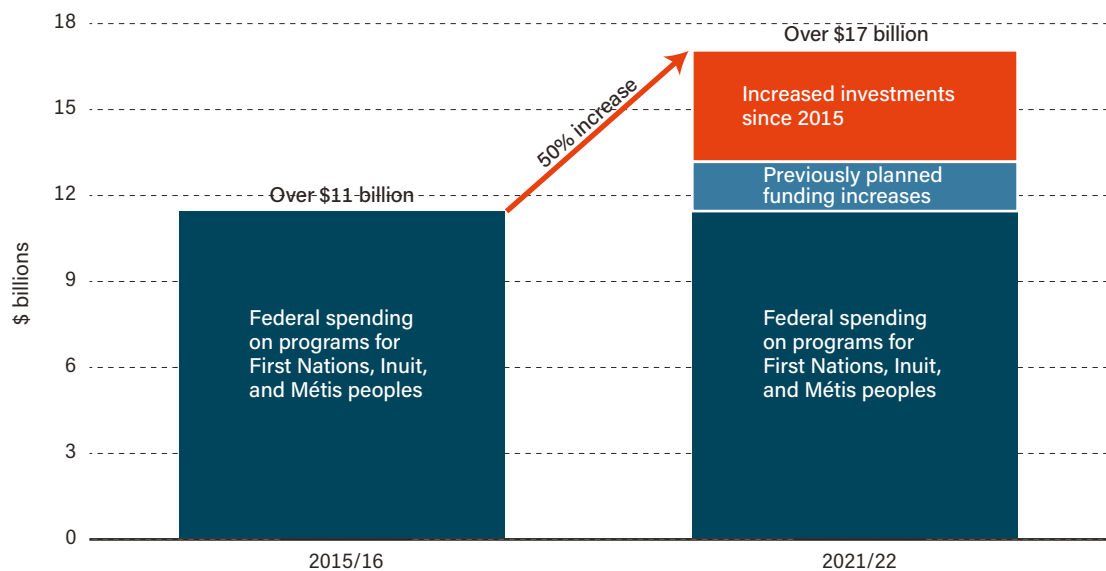
Using the 2020/21 Main Estimates, which were released in March 2020 before the 2020 Budget (which was never released) and therefore do not incorporate new spending, the Parliamentary Budget Officer estimated an increase of 66.1% in Indigenous spending between fiscal years 2015/16 and 2020/21 (PBO, 2020: 8). This is a different estimate based on a different time period and different measures, but it also suggests a sharp increase in Indigenous spending under the Liberal government. The PBO now views Indigenous spending as the federal government's third largest spending envelope, behind only seniors' benefits and health transfers (PBO, 2020: 1). Omitting transfers to persons such as Old Age Security, Employment Insurance,

Figure 2A: Historic and projected expenditures, 2012/13–2020/21



Source: Canada, Department of Finance, 2019: chart 3.1.

Figure 2B: Current and planned federal spending on programs for First Nations, Inuit, and Métis peoples, 2015/16 and 2021/22



Sources: Canada, Department of Finance, 2019: chart 3.1.

and children's benefits, Fraser Institute researchers identified Indigenous spending in 2018/19 as the federal government's second-largest direct program expense, second only to National Defence (Hill, Li, Palacios and Clemens, 2020: 6). These are different ways of looking at the federal budget, but they agree in highlighting the ever-growing importance of Indigenous spending.

Because we don't know what future inflation will be, we can't precisely calculate the rate of growth in real terms, but we can make an estimate. After running at about 2%, inflation is now about zero because of the COVID-19 lock-downs. If we forecast a cumulative gain in inflation of 10 percentage points from 2015/16 through 2021/22, we could reduce the projected federal increase in Indigenous spending from 50% to 40.5% in real dollars. Under that hypothetical scenario, the average annual compound growth rate of Indigenous spending in real dollars would be 5.8%, lower than the nominal rate but still higher than the preceding 20-year rate of 2.5%.

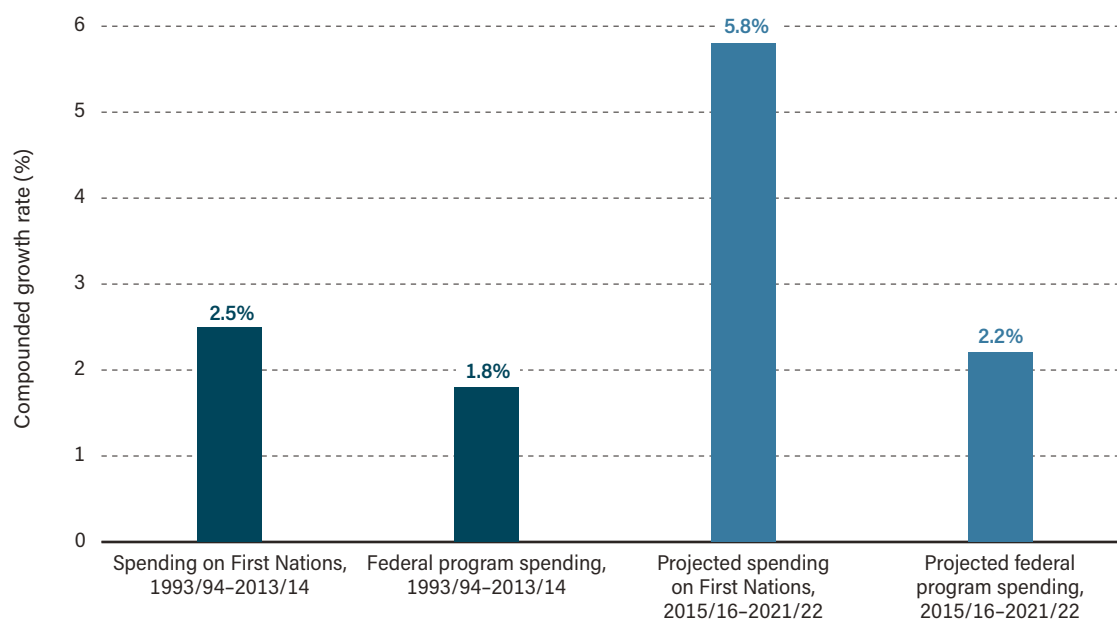
## The Federal Government's Performance

Information about trends in real spending is summarized in **figure 3**. The two columns on the left use historical data from the Public Accounts; the two columns on the right are projections computed from Budgets 2015 and 2019. Even before the COVID-19 emergency, all program spending under the Trudeau government was growing faster than recent historical norms, but Indigenous spending is projected to grow much more rapidly than overall program spending.

The current picture is not entirely clear because, contrary to usual practice, the federal government did not present a budget in early 2020. The *COVID-19 Economic Response Plan* (Gov't of Canada, 2021) unveiled on July 3, 2020, contained seven new programs for Indigenous peoples, with a total price tag of \$1.42 billion. That was a substantial increase to Indigenous spending but almost a rounding error in the Response Plan, whose total cost was \$227.9 billion. The Fall Economic Statement delivered on November 30, 2020, mentioned several more Indigenous spending items of a similar order of magnitude, but it was not clear to what extent these constituted new commitments or were a recapitulation of earlier promises (Canada, Dep't of Finance, 2020: 7, 14). It seems a safe guess that the COVID-19 pandemic will cause Indigenous spending to increase in absolute terms but decline relative to total government program spending because of the enormous price tag of the various relief measures itemized in the Response Plan and the Fall Update.

Even more dramatic increases in federal spending are recorded in the Public Accounts of Canada, which record actual expenditures for the fiscal year rather than budgetary projections. In 2014/15, the last fiscal year for which the Harper government was fully responsible, Indigenous spending was \$11.4 billion; by 2018/19, it had risen to \$19.5 billion (nominal) (Hill, Li, Palacios and Clemens, 2020: 6). Indigenous spending is defined here as the total spending of the two departments of Indigenous Services Canada and Crown-Indigenous Relations and Northern

Figure 3: Compounded growth rate (%) of federal spending (\$2018) on First Nations and total federal program spending, 1993/94–2013/14 and 2015/16–2021/22



Sources: Statistics Canada, 2020; Canada, Department of Finance, 2019: Chart 3.1; Library and Archives Canada, 2020; Public Works and Government Services Canada, 2020.

Development, which in 2017 succeeded the earlier department of Indigenous and Northern Affairs Canada (INAC). This constituted an overall increase of 71.1%, corresponding to an annual rate of 14.4% compounded over four years, or 12.6% corrected for inflation. It is not clear why the increase in Indigenous spending as recorded in the Public Accounts is so much greater than projections in the various budgets; some accounting changes may have taken place.

The increase in spending was not driven by an increase in the number of Registered Indians. That total rose from about 950,000 to 1.0 million in the years from 2015 to 2019,<sup>2</sup> an increase of only 5.3% or an annual compound growth rate of 1.4%. This was much slower growth than in previous years. Thus, the growth in federal Indigenous spending must have been caused by enrichment of programs as well as extension beyond the federal government's traditional clientele of First Nations communities and Registered Indian individuals.

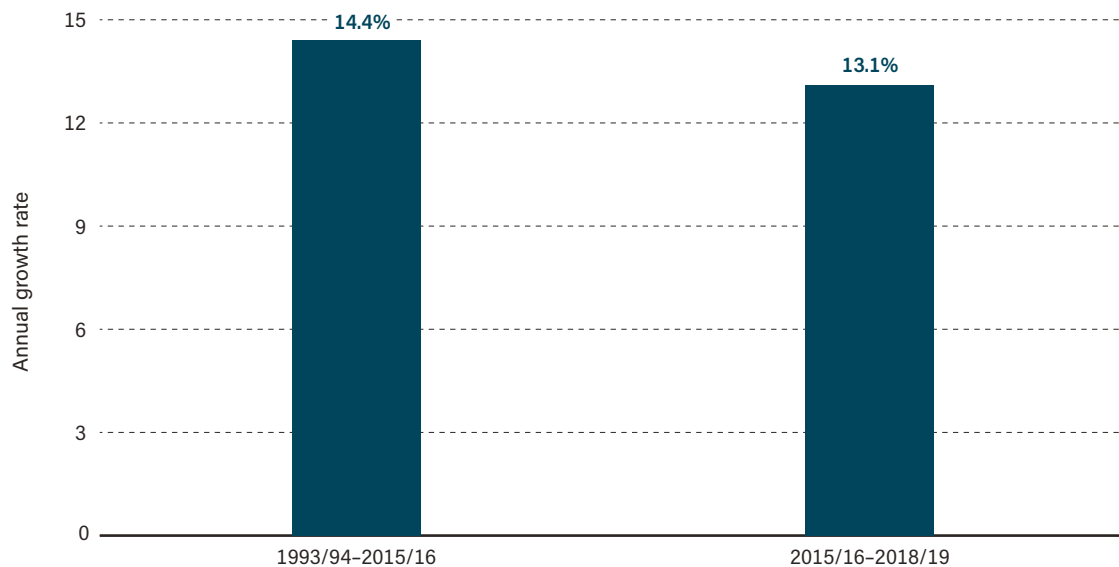
To conclude this part of the analysis, both the budgets and Public Accounts agree in showing a remarkable increase in federal Indigenous spending, no matter how it is measured, after November 4, 2015, when Justin Trudeau's Liberal government came to power.

2. Data from e-mail message to Nathaniel Li (September 22, 2020) from the Statistics and Research Unit (INSTAT), Crown-Indigenous Relations and Northern Affairs Canada; <<https://www.rcaanc-cirnac.gc.ca/eng/1603225519672/1603310558983#sec5>>.

## Provincial Spending

Earlier research has shown that provincial spending on Indigenous peoples has grown even more rapidly than federal spending. In line with the division of constitutional jurisdiction, most of this has been for Métis, non-status Indians, and Registered Indians living off reserve, while the federal government has remained primarily responsible for First Nations reserve communities. Over the 22-year period from 1993/94 to 2015/16, the spending total recorded in provincial public accounts rose from \$43 million to \$946 million (nominal dollars) (Baines and Ishkanian, 2016: 6). After conversion to constant dollars, that increase represents a remarkable compound annual growth rate of 14.4%, albeit beginning from a very small base. This was in a period when the growth rate of federal Indigenous spending declined. The high provincial growth rate has continued only slightly abated in more recent years: in the three-year period from 2015/16 to 2018/19, provincial spending rose from \$827.2 million to \$1.26 billion—a compound growth rate of 13.1% *per annum* measured in constant dollars (figure 4).

Figure 4: Compounded annual growth rate of total provincial program spending (\$2018) on First Nations, 1993/94–2015/16 and 2015/16–2018/19



Sources: Statistics Canada, 2020; provincial *Public Accounts* (various years); Government of Alberta (various years).

As with federal spending, the chaos of the COVID-19 emergency prevents an accurate depiction of current trends. Unlike the federal government, the provinces are presenting budgets to their legislatures, but several current accounts statements for 2019/20 are not yet available, and they will not be published for fiscal 2020/21 until late 2021 at the earliest. However, for the

period for which hard data can be obtained, it is clear that the provinces continued to increase their Indigenous spending even more rapidly than the federal government, even though the provincial rate of increase did decline compared to its past history.

## First Nations' Own-Source Revenue

In addition to transfers from senior governments, First Nations can generate their own income, generally known as own-source revenue (OSR). There are many varieties of OSR, including rent from leasing band land; imposing property taxes on lease holders; operating band-owned enterprises (BOE); royalties from production of natural resources such as minerals, hydrocarbons, hydropower, and forest products; and payments from corporations as part of mutual benefit agreements for development projects on or adjacent to band land.

Data on OSR can be gleaned from the annual audited financial statements that First Nations submit pursuant to the *First Nation Financial Transparency Act* (S.C. 2013, c. 7; Gov't of Canada, 2020), which was introduced by the Harper government and passed by Parliament in 2013.<sup>3</sup> The data are imperfect because no uniform scheme of accounting is required and terminology varies from one First Nation to another. However, Fraser Institute researchers have used the same scheme of classification to identify OSR in reports going back to 2013/14 (Bains and Ishkanian, 2016; Flanagan and Jackson, 2017), so the data should be valid for describing relative changes over time.

At the time of writing, audited financial statements for fiscal 2018/19 were available from 494 First Nations out of 581 required to file (some will file belatedly, while others refuse to file). The 494 who filed reports claimed total revenue of \$11.1 billion, of which \$7.6 billion (68%) consisted of government transfers and \$3.5 billion (32%) was OSR. According to the Public Accounts, Indigenous spending for 2018/19 totalled \$19.5 billion, so about 40% of that amount reached First Nations governments (see also Hageman, forthcoming: Ch. 17). There is nothing surprising about that percentage. Some federal Indigenous spending goes to First Nations and Inuit individuals (for example, supplementary health insurance); to Yukon and the northern territories; to First Nations organizations that transcend reserve boundaries, such as tribal councils and child welfare agencies; and to Métis organizations. Much, of course, also goes to the salaries of government employees plus outside consultants and contractors such as lawyers, accountants, engineers, construction firms, doctors, and nurses.

OSR grew between 2015/16 and 2018/19. For the 451 First Nations who reported in both fiscal years, OSR was \$2.7 billion in the former fiscal year and \$3.3 billion in the latter (constant dollars), for an annual compound growth rate of 7.0%. A similar comparison showed a small decline

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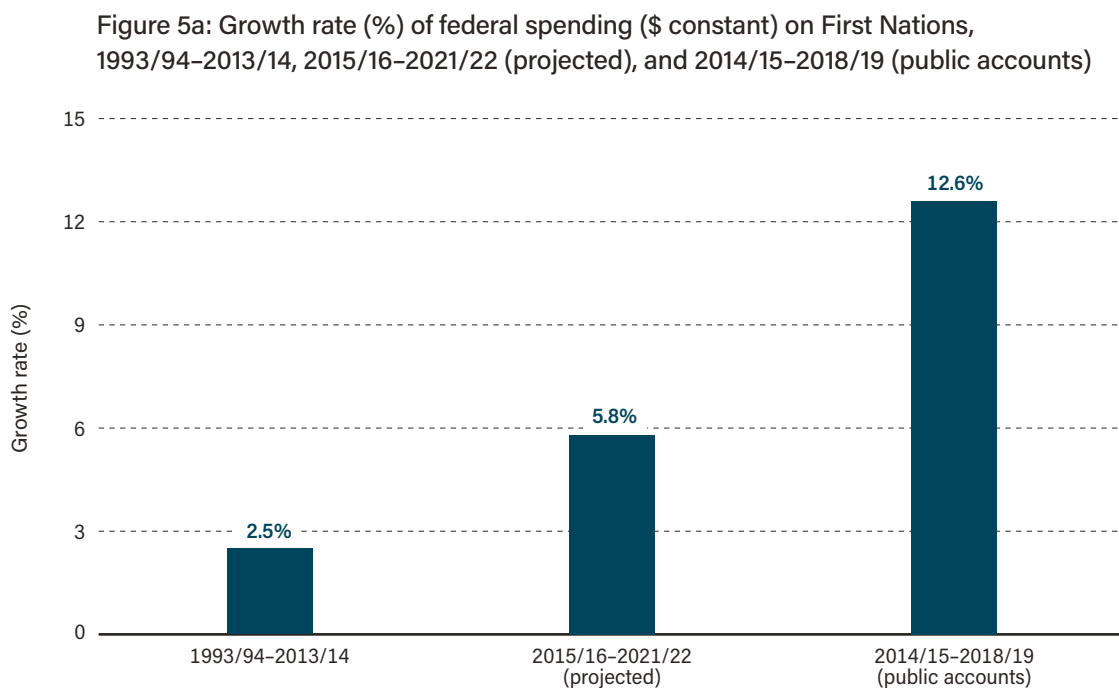
3. The statement will be found in the First Nations Profiles (Indigenous and Northern Affairs Canada, 2019).

in OSR from 2013/14 to 2015/16 (Flanagan and Jackson, 2017: 12), so this healthy growth in more recent years is good news. It is particularly important because previous research has shown that OSR is positively correlated with a higher standard of living for First Nations as measured by the Community Well-Being Index (Flanagan, 2019d: 47).

Of course, OSR is not equally distributed; in fact, it is about as unequally distributed as Canadians' income reported in tax filings (Flanagan and Jackson, 2017: 13). Thus, an aggregate increase in OSR, no matter how significant, will leave some First Nations governments under-resourced. Presumably growth in government support (including both federal and provincial), which went from \$4.8 billion to \$7.4 billion (constant dollars) in this period, addresses some of this inequality. Yet, at a time when First Nations were doing steadily better in achieving fiscal independence by generating more OSR, did they really need more government funding on the scale that we have seen?

## Discussion

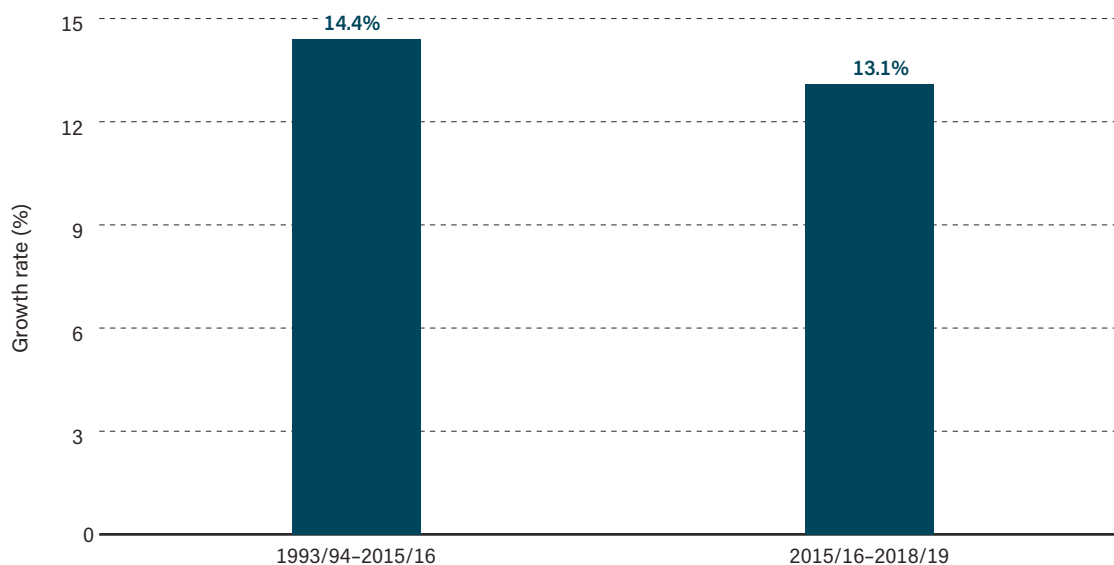
I begin by summarizing in **figures 5a, 5b, and 5c** the empirical findings about governmental Indigenous spending and First Nations' own-source revenue (OSR).



Sources: Statistics Canada, 2020; Canada, Department of Finance, 2019 : Chart 3.1; Library and Archives Canada, 2020; Public Works and Government Services Canada, 2020.

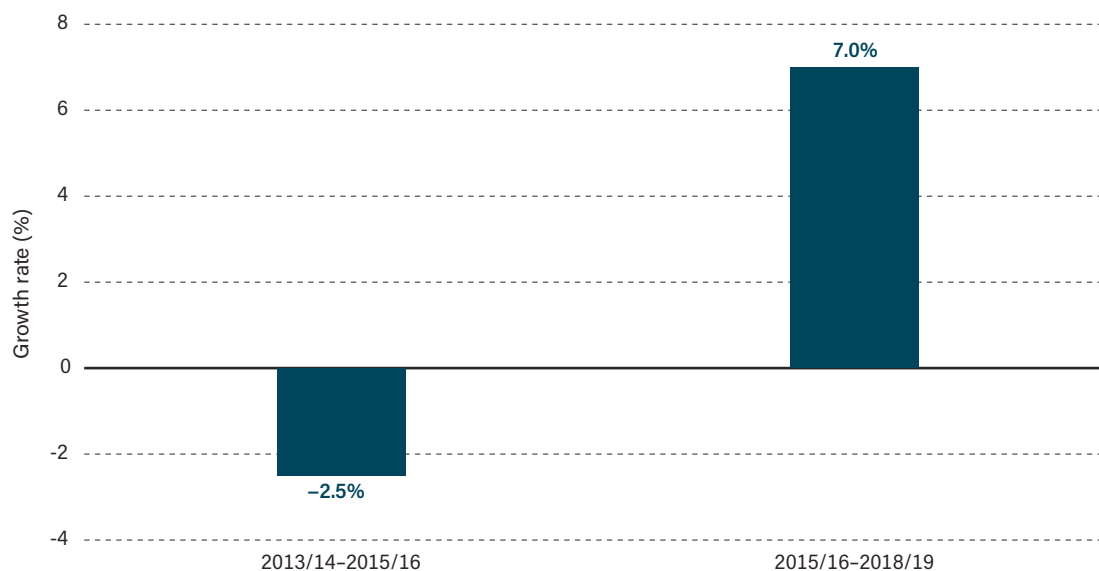


Figure 5b: Growth rate (%) of provincial spending (\$ constant) on First Nations, 1993/94–2015/16, and 2015/16–2018/19



Sources: Statistics Canada, 2020; provincial *Public Accounts* (various years); Government of Alberta (various years).

Figure 5c: Growth rate (%) of First Nations' own-source revenue, 2013/14–2015/15, and 2015/16–2018/19



Sources: Bains and Ishkanian, 2016; author's calculations.

To re-state the data in words, federal Indigenous spending, no matter how it is measured, increased greatly compared to recent norms after the Liberals formed a government in 2015. Provincial spending also continued to grow rapidly, though the rate of increase declined. First Nations' OSR also went up after 2015, but at a lower rate than the spending of senior governments, though admittedly some of that spending was not targeted to First Nations. What is the impact of these trends?

Because descriptions of federal government "investments" vary from year to year and different overlapping time periods are involved, it is difficult to demarcate spending into different areas. However, it is clear that education is a very big recipient. Budget 2016 claimed that an additional \$4.2 billion would be spent over five years on education, children, and training—about half of the then projected increase in Indigenous spending.

Budget 2016 promised an increase of about \$300 million a year in operating expenses for First Nations education. This included on-reserve schools as well as tuition payments for the approximately one third of First Nations children living on reserve who attend off-reserve schools. Another \$97 million was promised for capital construction and upgrading of schools on reserves (Anderson and Richards, 2016b: 1). This increase in funding corresponded more or less to what the previous Conservative government had promised as part of its agreement with Shawn Atleo, National Chief of the Assembly of First Nations, to improve the education of First Nations children. However, that deal fell apart because of criticism from many chiefs. Atleo resigned as National Chief of the AFN, and the Conservative government held back the new funding. The Liberal government restored the planned increase but without the requirements for reorganization of school administration and testing of students that the Conservative agreement had included (Anderson and Richards, 2016a: 21–23). Thus both the Conservatives and the Liberals agreed on the necessity of more funding for First Nations education, but the Conservatives put more emphasis on structural reforms that the chiefs did not want to accept.

In addition to the enhancement of expenditures on K-12 education, Budget 2016 promised about the same size of increase to funding for post-secondary education (Government of Canada, 2019). Because First Nations have only a few of their own post-secondary schools, such as Old Sun Community College in Alberta and First Nations University in Saskatchewan, this mainly took the form of increases to grant programs for Indigenous students attending provincial universities and colleges. The chief vehicle is the Post-Secondary Student Support Program, which offers bursaries to individual students, mainly selected by First Nation governments.

Other than appropriations for education and other children's benefits, almost all the rest of the funding increase was broadly categorized in Budget 2016 as infrastructure, including social and green infrastructure. Within the infrastructure category, housing was a big-ticket item, along with various forms of community infrastructure, including roads, public buildings, and utilities.

## Clean water

Within infrastructure and utilities, the most publicized promise was the provision of clean water by removing all long-term water advisories within five years. This commitment was initially projected to cost \$1.8 billion over five years. In Budget 2019, the government claimed to be on track, having lifted 59 of 105 long-term water advisories from November 2015 to March 2019. More money, however, would also be required, so Budget 2019 promised to spend an additional \$739 million over five years on the clean-water initiative. However, the five-year deadline of March 21, 2021 will not be met. After many hints and rumours, the government finally made a clear statement on December 1, 2020. Indigenous Services Minister Marc Miller said the government would budget an additional \$1.5 billion on top of what had already been authorized in order to complete the job (Stefanovich, 2020).

The simple math is informative. There were 105 long-term advisories in effect when the Liberals came to power in November 2015. They claimed to have lifted 97 such advisories by December 1, 2020, but at the same point in time 59 were still in effect (Stefanovich, 2020). This means that, during the period when 97 advisories were lifted, 51 new ones must have come into effect ( $105 - 97 = 8$ ;  $8 + 51 = 59$ ). On some days the government must feel like the mythical Greek figure Sisyphus, condemned for eternity to roll uphill a rock that then rolls back down.

The underlying problem is that providing clean water is not just a technical matter of building facilities; it is also a governance issue of proper management, in which reliable revenue is a crucial issue. Although some First Nations tax leaseholders, very few tax their own members, so that source of revenue is precluded. Many are also averse to imposing realistic user fees for water and sewerage. In Aboriginal world views, water is generally seen as a sacred part of the earth and not to be treated as a commodity. But as recently argued in a paper in *Canadian Public Administration*, the only way to treat water respectfully under modern conditions is to have a rational pricing regime; otherwise it will be wasted, which is the opposite of respect for a gift of the Creator (Alcantara, Longboat, and Vanhooren, 2020).

Another problem is that First Nations are too small to provide reliable and cost-effective water services for themselves. John Graham notes: “One estimate proffered by the American Environmental Protection Agency is that a minimum of 10,000 customers is required for a viable potable water system, a standard that no First Nation in Canada can meet” (Graham, 2018: 19). A logical solution is for First Nations to contract with nearby municipalities, and this does often happen to good effect; but it sometimes fails to take place because of remote location, lack of resources to pay for a hookup plus ongoing service, and concerns over who exercises control (Deaton and Lipka, 2015). These objective difficulties cannot be wished away no matter how much money is appropriated.

I have gone into this issue at some length because, amid all the Indigenous spending promises, clean water was the line item with the clearest metric for success (elimination of long-term water advisories) and most definite deadline (March 2021). The actual record of performance—cost overruns coupled with failure to meet the deadline—shows the intrinsic difficulty of fulfilling

such promises through government spending alone. The objective of supplying clean water is worthy and important, but questions about how to achieve the objective in the most cost-efficient way remain to be answered.

### Economic equality and education

The story of water advisories hints at the larger difficulty of determining how much this additional spending will actually help Indigenous people. According to Budget 2016, the goal of Reconciliation is to attain economic equality between Indigenous peoples and other Canadians: “Too many generations of Indigenous peoples have suffered from the neglect and failed policies of the federal government. There should be no reason preventing an Indigenous child from having the same hopes and aspirations as any other child in Canada or from having the opportunities to achieve them” (Canada, Dep’t of Finance, 2016). The barely articulated premise is that the inferior economic status of Indigenous people is the result of “the neglect and failed policies of the federal government.” If that were true, the remedy would seem to be bigger and better government programs. And indeed that is what the Trudeau government, followed by the provinces, has tried to do, by supplying additional funds for existing programs such as education and housing as well as new initiatives such as language preservation and expanded self-government.

Let me offer another example of how more money may not be a complete solution to pressing social problems. Better education, particularly for First Nations children living on Indian reserves, is desperately needed. But better education does not necessarily result from spending more money on buildings, teachers’ salaries, and supplementary programs, though all of these may be helpful. Per-student federal spending on First Nations education is already at least as high as per-student spending in provincial systems (Bains, 2014: 13), though some observers argue that federal spending ought to be higher in view of the remote location and special needs of so many First Nations children (Porter, 2016). But the Cree educator Waubageshig has argued that money and facilities do not suffice; buy-in from both parents and children is also required:

What educators and legislators need to bear in mind is that improving education outcomes for First Nations youth depends considerably on convincing parents, in ways that are meaningful to them, that a formal education is essential and valuable for their children’s future, not to mention the future of their communities. If a majority of parents continue to low-ball education success and achievement, their children will too. (Waubageshig, 2016: 9)

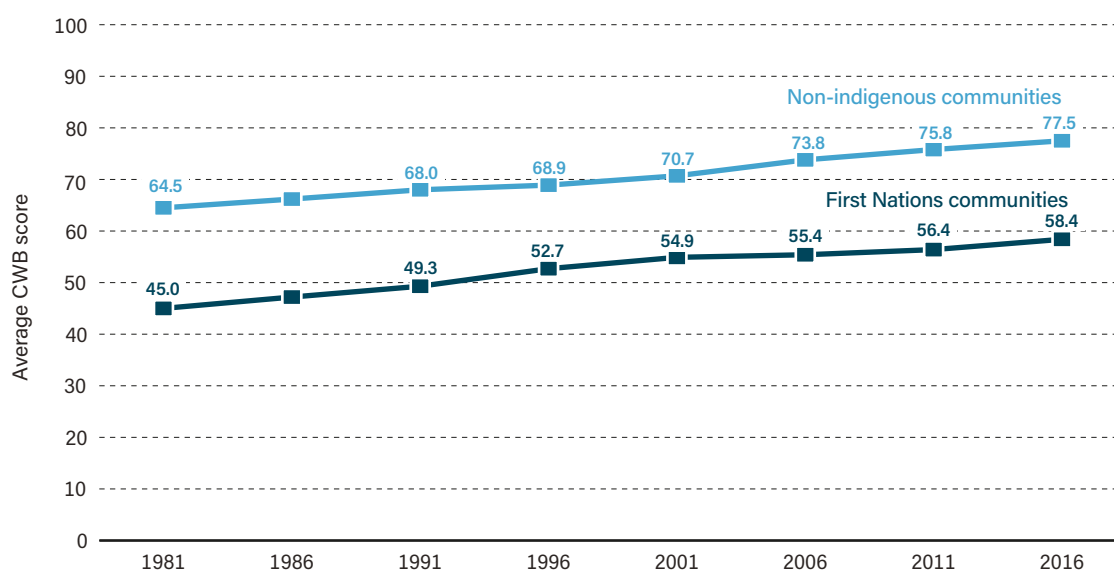
In the United States, good results in education of minorities have often been obtained in charter schools (Sowell, 2020), which are actually less expensive to operate than ordinary public schools. Research shows that these results can be demonstrated even after controlling for the socio-economic background of the parents, consistent with Waubageshig’s suggestion that family commitment is a key variable in addition to the organization and pedagogy of schools.

## Spending and the standard of living

Better housing is another pressing need for First Nations on Indian reserves. Yet building houses at public expense is not really a long-range solution unless there is also a change in property rights. If houses are not maintained, they quickly deteriorate, especially in the harsh climates in which many Indian reserves are located. Ownership is required to create incentives for construction and maintenance. As in the larger economy, either owner occupancy or ownership of rental units by landlords can create such incentives. However, the practice in many First Nations of assigning residents to band-owned housing with little or no rent is a recipe for deterioration of the existing housing stock and inadequate investment for future needs.

The long-term historical evidence on increased government spending suggests that it does not close the gap in living standards between First Nations and other Canadians. **Figure 6** shows average scores on the Community Well-Being Index (CWB) for the period from 1981 to 2016. The CWB is an aggregate of census data on income, employment, housing, and formal education, updated every five years from new census data. It is computed for all communities in Canada, both First Nations and others, making long-term comparisons possible. The gap between the curves for First Nations and other communities has shown slight variations from time to time, but it was almost the same in 2016 (19.1 points) as in 1981 (19.5 points).

Figure 6: Community Well-Being average scores over time, First Nations and non-indigenous communities, 1981–2016

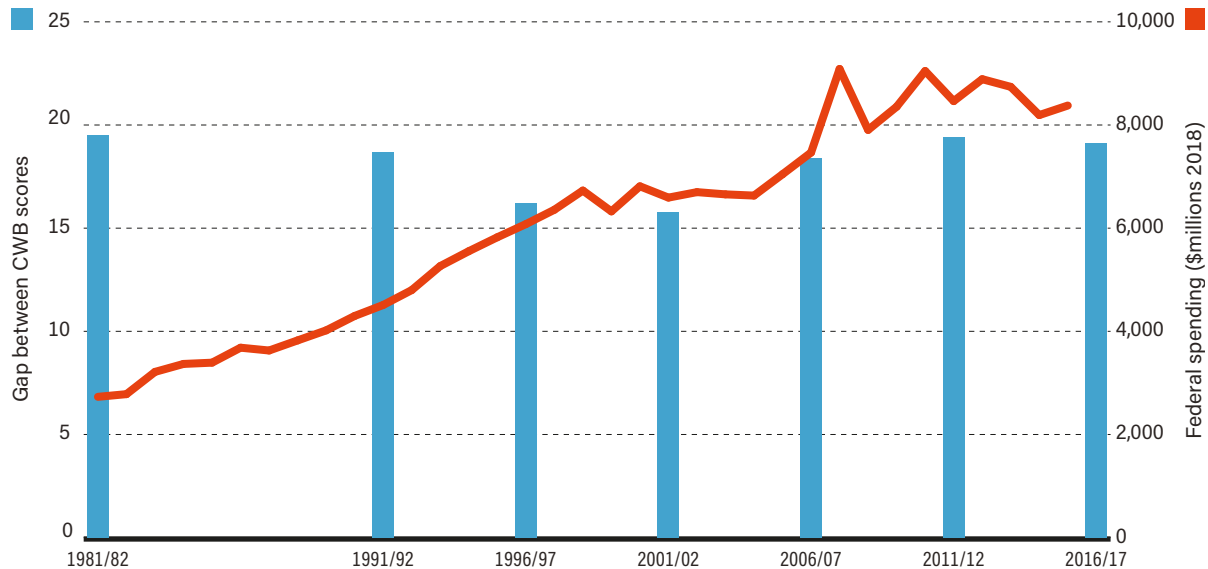


Sources: Statistics Canada (various years); Indigenous Services Canada, 2019.

During this 35-year period in which First Nations made substantial progress in absolute terms but essentially no progress toward closing the relative gap with other Canadian communities, federal Indigenous spending was multiplied more than four times. The lack of correlation

is shown in **figure 7**, where the bars representing the gap are in essentially horizontal alignment, with some ups and downs, while the curve representing federal Indigenous spending rises steadily, also with a few ups and downs, especially in more recent time periods.

**Figure 7: Gap between the Community Well-Being scores of First Nations and non-indigenous communities, and real federal spending (\$millions 2018) on First Nations, 1981/82–2016/17**



Sources: Statistics Canada, 2011, 2020, various years; Indigenous Services Canada, 2019; Library and Archives Canada, 2020; Public Works and Government Services Canada, 2020.

If federal spending were the key to improving the standard of living for First Nations, one would expect spending and the CWB to increase in tandem, but they don't. Unfortunately we do not have the evidence to distinguish between two possible explanations: (1) that the programs themselves are ineffective; and (2) that much of the program spending goes to targets other than First Nations, such as northern communities and other Indigenous peoples. In the real world, elements of both are probably involved.

Without claiming to know all the reasons that the gap in living standards between First Nations and other Canadians is so resistant to increases in government spending, one factor stands out: the remote location of most First Nations. About 70% of these communities are situated more than 50 kilometres from the nearest service centre, which could be anything from a large city to a small town. About 19% have no all-weather paved or gravel road connecting them to the nearest service centre and thus must depend on some combination of rail, airplane, barge, and ice road for the transportation of people and commodities (INAC, 2000).

Remote location is a substantial obstacle to economic progress. One researcher found that, for all Canadian communities, "those living in relatively remote and very remote regions of the country have much lower income, lower labour force participation rate, higher unemployment

rate, lower level of educational achievement and higher incidence of poverty” (Mozzami, 2018: 7). Using a sophisticated gravity index of remoteness, researchers from Indigenous Services Canada found the same to be true of First Nation communities (ISC, 2018). Using various datasets and indicators of remote location, I have also obtained similar results in my earlier research (Flanagan and Beauregard, 2013: 17–18; Flanagan and Harding, 2016: 7–8; Flanagan, 2019d: 51–55).

The 30% of First Nations who are located within 50 kilometres of towns and cities have many and varied opportunities for economic progress (Coates, 2020: 23). Their members, acting as individuals, can find jobs in urban areas and study in schools and post-secondary institutions. The First Nations, acting collectively, can leverage their location through residential and commercial real-estate development (Flanagan, 2019c), as well as ventures in the hospitality and entertainment industries, including casinos (Flanagan, 2020), hotels, convention centres, golf courses, and marinas.

Economic progress for First Nations in remote locations is obviously more difficult, but “difficult” does not mean “impossible.” A recent study identified the 18 First Nations whose CWB scores improved the most rapidly in the years from 2001 to 2016. Of these 18, only four were located within or close to urban areas. The others had prospered mainly by participating in the development of natural resources, such as oil and gas, hard rock mining, forestry, and fisheries (Flanagan, 2019a: 7–8). It is not necessary to become a producer of natural resources: the Fort McKay First Nation, located in the heart of Alberta’s oil sands, has made spectacular progress not by producing oil but by providing services such as freighting, workforce lodging, and well-site maintenance to producers of bitumen (Flanagan, 2018a). There are many paths to prosperity, depending on what opportunities can be discovered.

One way for the federal government to help the 70% of First Nations in remote locations would be to enlarge their opportunity set. On one side, this might mean that the government could facilitate resource development projects. Now that the duty to consult has been established by the courts, resource development means major advantages for First Nations, including jobs, job training, contract set asides, and cash payments to the community. The government of British Columbia has set a good example with its sharing of resource revenues for the Coastal GasLink pipeline as well as various forestry projects (Flanagan, 2019b: 16–17).

In addition to promoting resource development, senior governments can invest in building infrastructure in remote areas, including roads, railways, ports and airports, powerlines, and communication towers. Better transportation and communication will have the effect of reducing the isolation of remote First Nations and increasing their economic opportunities. Over the long term, something like the Canadian Northern Corridor proposed by Fellows and Tombe (2018) would be particularly beneficial to remote First Nations.

The current federal government has developed a spending mentality, as shown by the enormous scale of its anti-pandemic measures. But the objective problems of remote location, deficient property rights, and small communities faced by many First Nations require appropriate structural innovations; enhanced funding for government service programs cannot in itself deliver economic independence and a higher standard of living.



I end by quoting the remarks of John Graham, who after reading my draft summed up my conclusions clearly and succinctly:

| The federal government's assuming primary responsibility for improving the well-being of indigenous peoples is a mistake of major proportions. The government can help but should not usurp the lead from indigenous individuals and communities.

| Consequently, dramatically increasing funding in and of itself will not improve matters.

| The discussion of education and potable water indicates the complexities of making progress. There are no easy answers or magic solutions. Politicians would be wise to temper expectations.

| As the dramatic rise in OSR and the ability of First Nations to borrow on the international bond markets demonstrate, there are reasons to be optimistic. Further success stories like the Fort McKay First Nation are encouraging and numerous.

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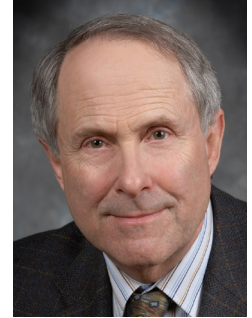




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