

ABORIGINAL ECONOMIC DEVELOPMENT

Overview

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John McCallum

It is, for me, a pleasure and a privilege to address this gathering. Back in October of last year, Royal Bank teamed up with the Council for the Advancement of Native Development Officers (CANDO) to sponsor a conference that was directed at the Canadian business community. We were concerned that the response of corporate Canada to the massive research conducted by the Royal Commission on Aboriginal Peoples (RCAP) had been almost deafening in its silence. We hoped the conference would help break that silence and stimulate both debate and action by corporate Canada.

At the conference, my colleague Charlie Coffey, who heads up Royal Bank's business banking, as well as being an honorary aboriginal chief, spoke of the role of business and banks in fostering aboriginal economic development. My role was to focus on the macro side, or the larger picture. And that is also what I will do today.

My remarks will be divided into four parts:

- The statistics leave no doubt as to the very sad state of aboriginal economic and social development today.
- If one is not moved by these statistics, one might instead be moved by the high and rising cost of the status quo. Failure to improve the situation will extract a large and rising charge on the public purse.
- RCAP's economic strategy is based on additional annual government expenditures of about \$1.5 billion for a period of some 15 years,

followed, they argue, by a net benefit to government finances as the economic and social conditions of the aboriginal peoples begin to approach those of the population at large.

- Whether or not it will be accepted by government, the RCAP strategy is becoming increasingly affordable to the federal government. The next 10 to 20 years should see a large and rising "fiscal dividend" as the country's national debt declines in relation to the size of our economy.

I. CURRENT REALITIES: CANADA'S SHAME

Although the general fact of aboriginal economic deprivation is well known, it is worth reviewing a few of the statistics to underline just how bad things are.

Earnings

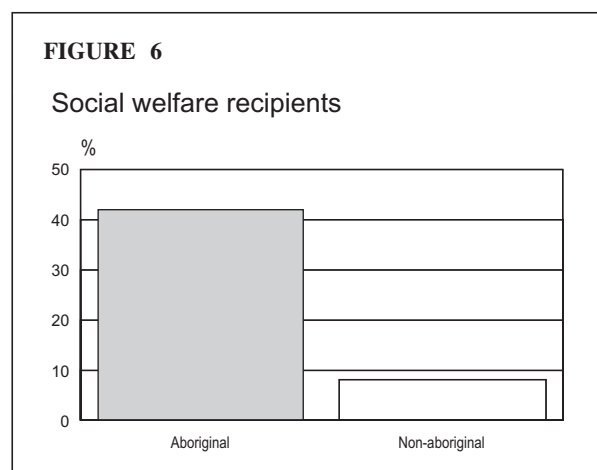
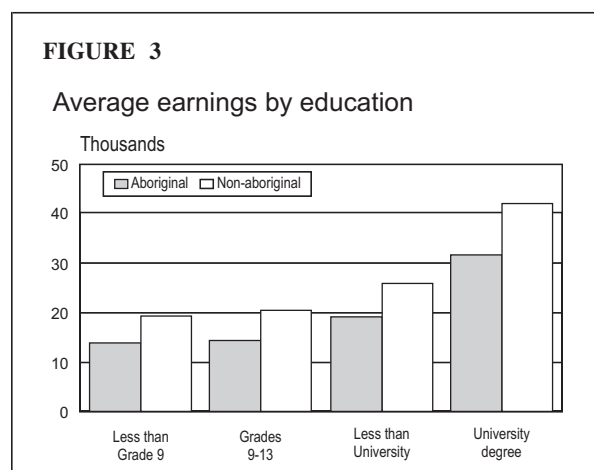
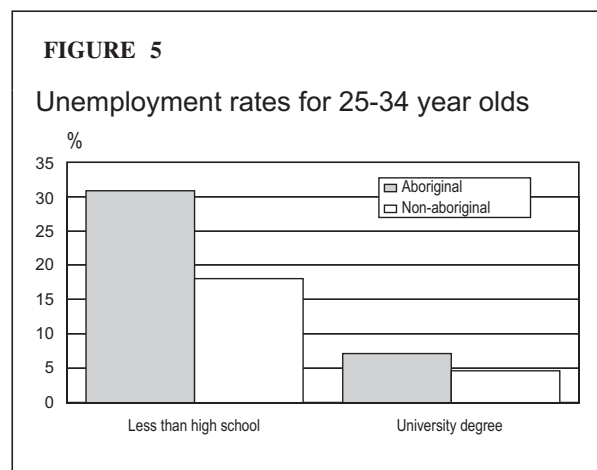
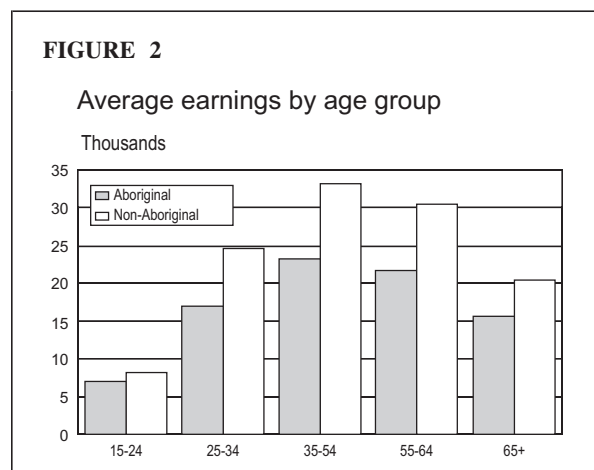
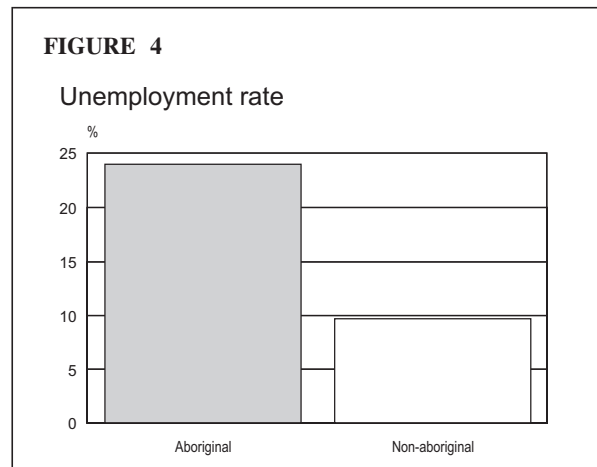
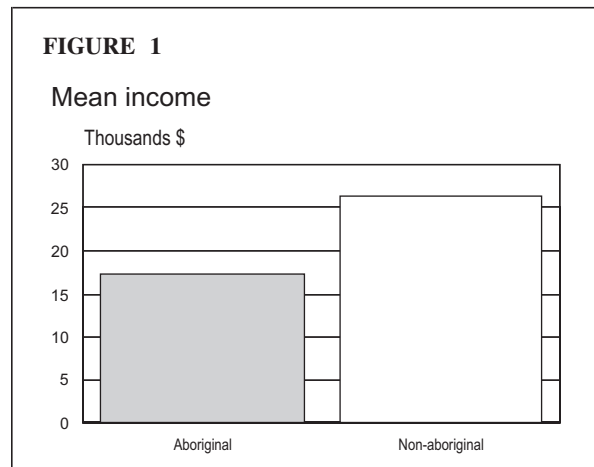
In 1995, the mean earnings of aboriginals aged 15 and above was just \$17,400, or 66% of the non-aboriginal average.

There is a substantial earnings gap for all age groups and for all levels of education, although at least in percentage terms the gap tends to fall as education rises. (See Figures 1-3.)

Unemployment

In 1995, the aboriginal unemployment rate was 24%, as opposed to a Canadian average of 9.8%.

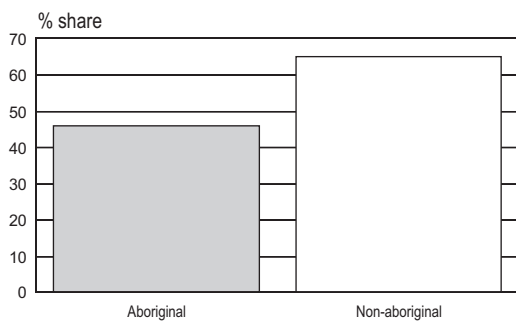
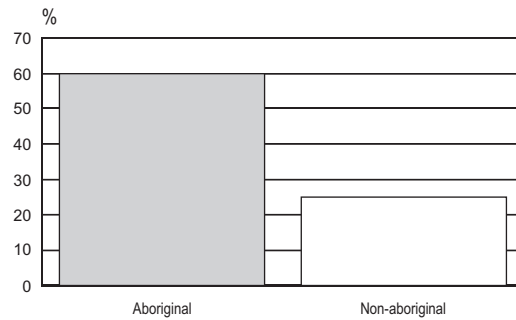
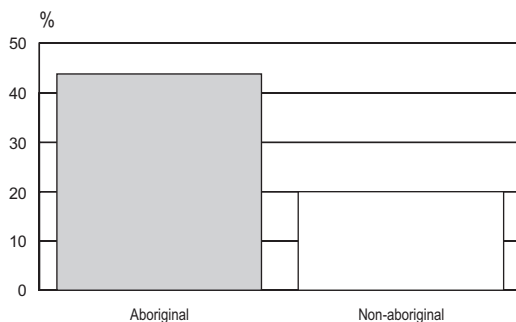
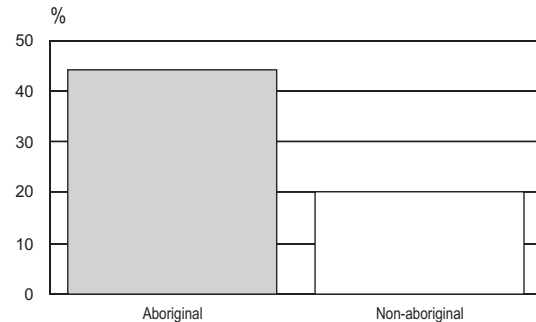
John McCallum, Chief Economist, Royal Bank of Canada



On the other hand, both the unemployment rate and the gap between aboriginals and non-aboriginals were much smaller for people with a university degree than for those who had not completed high school. (See Figures 4–5.)

Dependency

In 1991, 42% of people living on reserves received social welfare, as opposed to 8% for the Canadian population at large. (See Figure 6.)

FIGURE 7**High school graduates****FIGURE 9****Child poverty rate****FIGURE 8****Poverty rate****FIGURE 10****Children in single-parent families****Education**

In 1995, only 46% of the aboriginal population finished high school compared to 65% in the broader population. On the other hand, there has been some improvement. Among aboriginals aged 20–29, the proportion of high school graduates increased from 41% to 55% between 1981 and 1996. (See Figure 7.)

Poverty Rate

In 1995, the aboriginal poverty rate was 44% as compared with 20% for all Canadians. (See Figure 8.)

Child Poverty

In 1995, 60% of aboriginal children under the age of six were in low-income families as compared with a national rate of 25%. (See Figure 9.)

Single-parent Families

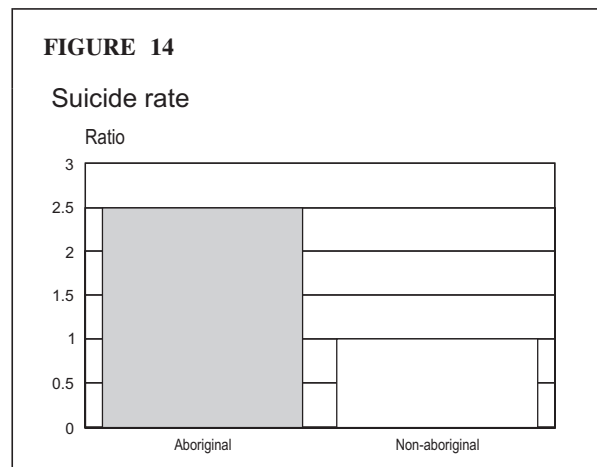
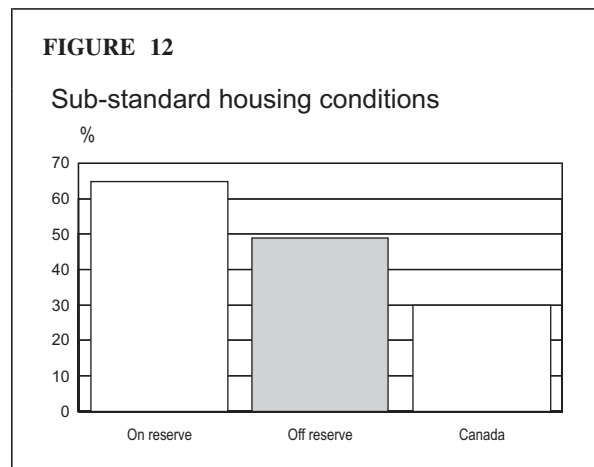
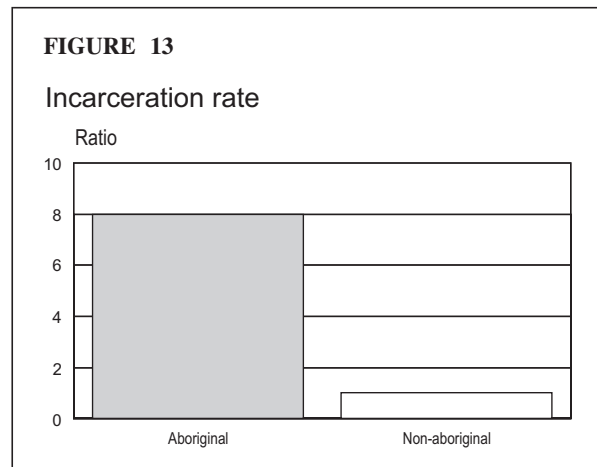
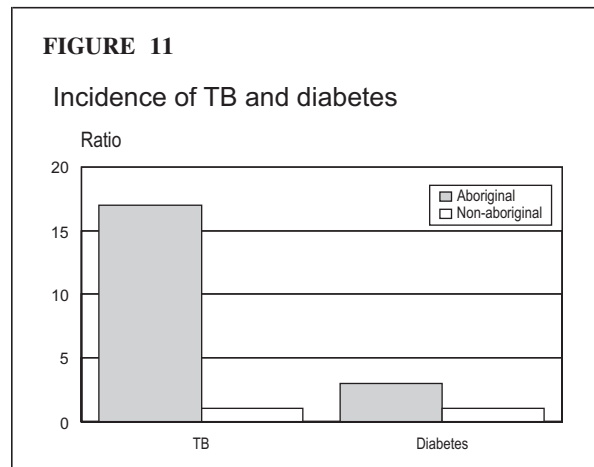
In 1995, a staggering 46% of “urban” aboriginal children lived in a single-parent family, versus a national average of 17%. (See Figure 10.)

Health

The incidence of TB and diabetes among aboriginals is, respectively, seventeen and three times that of the broader population. (See Figure 11.)

Housing

According to a report commissioned by CMHC, aboriginal housing conditions are below acceptable standards for 65% of on-reserve households and 49% of off-reserve aboriginal households. The corresponding figure for the non-aboriginal population is about 30%. (See Figure 12.)



Incarceration

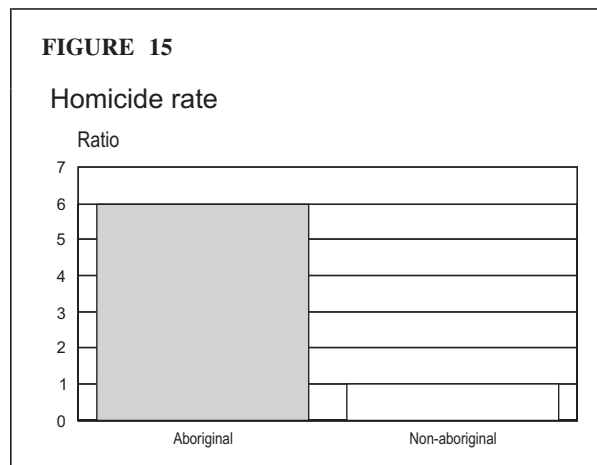
As of October 1996, the rate of incarceration in federal and provincial jails was about eight times greater for aboriginals than for non-aboriginals. (See Figure 13.)

Suicide

Suicide rates are 2.5 times higher among aboriginals than in the broader population. (See Figure 14.)

Homicide

Homicide rates are six times higher than in the broader population. So there is a strong social and moral case for measures to improve the living conditions of Canada's first peoples. This, however, is not the only strand in the argu-



ment, for a dollars and cents case can also be built, based on the high and rising cost of the status quo to the Canadian taxpayer. (See Figure 15.)

TABLE 1

Cost of the Status Quo in 1996 (\$ billions)

<i>Cost to aboriginal people</i>		<i>Cost to governments</i>	
Foregone earned income	5.8	Direct expenditures	2.5
Less income taxes foregone	-2.1	Revenues foregone	2.1
Less assistance from governments	-0.8		
TOTAL	2.9	TOTAL	4.6

Source: RCAP

II. THE RISING COST OF THE STATUS QUO

RCAP estimates the annual cost of the status quo at \$7.5 billion in 1996. Of this amount, \$2.9 billion is borne by the aboriginal people and \$4.6 billion is borne by government. For the aboriginal people, the cost is equal to the gap between their earned income and that of the rest of the population, minus the income taxes foregone and financial assistance from government. For governments, the costs consist of direct expenditures (over and above what governments spend on non-aboriginal Canadians) plus tax revenues foregone (see Table 1).

This, however, is not the end of the story, as there is a potential time bomb in the form of demographics. Between 1991 and 2016, the population with aboriginal identity is projected to rise by 52% (compared to 22% for non-aboriginal Canadians). More striking, because of differences in demographic structure, the working-age aboriginal population (aged 15–64) is expected to grow by 72% over this same period, as compared with only 23% for non-aboriginal Canadians. (See Figure 16.)

For Canada as a whole, this high growth rate of the working-age aboriginal population could be a blessing or a curse. It is sometimes said that the United States and Canada benefit from the inclusion of Mexico in NAFTA because Mexico's much younger population will provide a welcome offset to the aging populations of Canada and the United States over the next decade or two. It is equally true, but less recognized, that the same can be said of our own aboriginal population. As the country ages, there will be a premium on younger Canadians whose efforts will be needed, in part, to support the aging baby boomers. If, then, the more youthful

FIGURE 16

Population and working age population

% Growth, 1991-2016

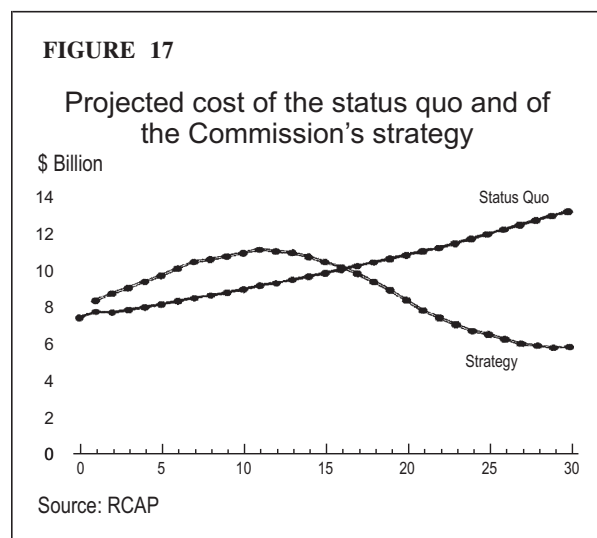


aboriginal population can become productive workers and taxpayers, they could make a significant contribution to the economic health of the country as a whole.

That, however, is a big “if”. Under status quo conditions, large numbers of the rising population of working-age aboriginal people will fail to get jobs and will be seen as an economic cost to the state rather than a benefit. Indeed, according to RCAP, for demographic reasons alone, the cost of the status quo will rise from \$7.5 billion in 1996 to \$11.0 billion in 2016.

III. RCAP'S ECONOMIC STRATEGY

RCAP proposes a strategy that is summarized in the following chart. Compared with the costs of the status quo, which rise without limit, the RCAP strategy calls for government expenditures that exceed the cost of the status quo for some 15 to 20 years. It is argued, however, that as economic and social conditions among the aboriginal people improve and some of the dismal statistics shown earlier reverse themselves,



the strategy will begin to pay off from a government finance point of view. As a result, the net cost of the strategy will eventually fall below the cost of the status quo. (See Figure 17.)

Relative to the status quo, the strategy calls for government expenditures that peak at \$1.5 billion to \$2 billion higher than is the case today. In the earlier years, priority is to be given to economic and social measures, but costs in these areas decline as progress is made. Land claims settlements represent a major part of the cost, estimated at \$1 billion in 2016, but these are offset and eventually more than offset by government revenue gains. (See Table 2.)

IV. AFFORDABILITY OF THE RCAP STRATEGY

Before commenting on the merits of the RCAP strategy, let us consider its affordability. Here the news is definitely good. For many years Canada was trapped in a vicious circle of rising government debt and interest payments. Now, however, we are at the point of a surpluses, or at least on the verge of a surpluses. We are about to enter a much happier time of a virtuous circle as healthy growth and falling interest rates and interest payments reduce the national debt, if not in absolute dollar terms then at least in relation to the size of the economy.

There is clearly a risk—indeed, a very major risk—of a premature declaration of victory over the deficit and debt. While we still have an unacceptably high unemployment rate, we are also living in the best of times in terms of job creation and economic growth. Times may not be so good a year from now when, for all we know today, we might be in the midst of a recession caused by the Asia crisis. This suggests that the federal government should display great caution before opening its purse strings too widely.

Nevertheless, the RCAP framework runs to 20 years or more and, in the context of that time frame, it is clear—barring major calamities—that the federal government will have a large and rising fiscal dividend at its disposal. As this chart shows, the federal government's fiscal dividend is likely to rise very rapidly over the

TABLE 2
 Changes in Government Finances under the Strategy (\$ millions)

<i>Additional allocation in the year:</i>	2001	2016
Structural measures*	150	475
Land claims settlements	—	1000
Healing†	525	(1050)
Economic opportunity and living conditions‡	900	750
Government revenue gains	—	(1550)
TOTAL	1575	(375)

* Includes tribunal and treaty commissions, nation rebuilding and nation governments.

† Includes education, health, social services, and justice.

‡ Includes economic development, income transfers, housing and infrastructure, and human resource development.

Source: RCAP

next twenty years, reaching \$24 billion in 2004, \$46 billion in 2010, and a massive \$79 billion in 2017. These numbers, which are denominated in dollars at the prices prevailing in 1997, are based on conservative assumptions.¹ (See Figure 18.)

So, if one asks whether the RCAP proposal is affordable, the answer must be “yes”. Certainly it is a whole lot more affordable today than a few years ago. This is not to say, however, that the federal government will necessarily buy into the RCAP proposal in full.

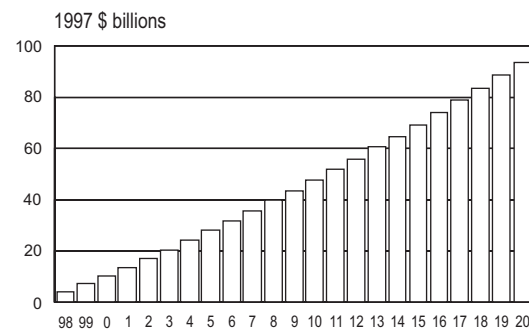
V. CONCLUSIONS

What we have established in this paper is that the economic state of Canada’s first peoples today is deplorable, that the costs of the status quo to the public purse are high and rising, and that any costs incurred by the federal government in addressing these problems are a lot more affordable today than was the case just a few years ago. We have also provided a brief outline of the economic strategy recommended by RCAP.

While all of this is certainly suggestive, we stop short of recommending that the government adopt the RCAP recommendations because we lack the expertise to comment intelligently on their viability or likely success. As well, it is not really the role of a bank to tell the federal gov-

FIGURE 18

Fiscal dividend



ernment how to conduct its policy. Nevertheless, it is our view that this is a matter of great national urgency and that the business community should lend its support to the goals, even if it lacks the expertise to assess the means by which public policy might best achieve these goals.

NOTE

1. For details, see “Fiscal Dividend,” Economics Department, Royal Bank of Canada, September 1997.