

**PUBLIC POWER AND THE PUBLIC PURSE:  
GOVERNMENTS, BUDGETS AND ABORIGINAL PEOPLES IN THE  
CANADIAN NORTH**

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## INTRODUCTION

The overriding purpose of this study is to present a comprehensive descriptive account of public finance in Canada's Territorial North since 1980. Other purposes are to highlight the conditions and factors which influence Northern public finance, to encourage interest in and further work on territorial budgeting, and to inform other research by the Royal Commission on financial aspects of Aboriginal self-government and public government.

The study examines the following research questions. What are the key features of the Territorial context and their implications for Northern public finance? What is the history and current nature of federal-territorial fiscal relations? What is the total public expenditure in the North? What is the extent and nature of federal government spending in the two territories? What are the patterns of public finance in the Yukon and Northwest Territories (NWT)? What are the major expenditure and revenue categories and trends? What is the extent of total government employment in the Territorial North? In what ways are the public finances of the territorial governments similar to, and different from budgeting in the provinces? What are the implications of restraint measures by Ottawa on the territorial governments and Aboriginal peoples in the North? What are the implications of the division of the NWT in 1999, and the introduction of self-government for the funding of territorial and aboriginal governments? What issues are of importance to Northern public finance in the 1990's?

In the remainder of the Introduction we briefly review the Canadian literature on public finance in order to place the study in relation to existing works and to argue the case for analysing Northern public budgeting. We also outline the scope and approach of the study, including its focus and limits, data sources and research methods.

## **Canadian Literature on Public Finance and Budgeting**

The story of Northern fiscal developments over the last 30 years, developments which have been significant, is essentially neglected in the Canadian literature on federalism, public finance and public policy. The territories rely heavily on transfers from Ottawa; indeed, federal grants form about 75 percent of government revenues for the NWT and Yukon. Thus, fiscal arrangements are of critical importance to the budgeting, policy and service delivery of the territorial and local governments, in addition to the well-being of Aboriginal peoples and others who live in the North.

The Canadian literature on public finance and budgeting has focused primarily on the federal government (for example, see Doern, Maslove and Prince 1988; Gillespie 1991), although some analyses on provincial budgeting have been done, especially in recent years (Ip 1991; Maslove, Prince and Doern 1986; and McMillan 1991). In contrast, there is little attention to, or analysis of territorial budgeting in the NWT and Yukon. There are some helpful exceptions (Aird 1988; Canadian Tax Foundation, Provincial and Municipal Finances; and Slack 1991). Unfortunately, though perhaps understandably, most of the existing literature on Canadian public finance does not even mention the territories (for example, Strick 1985) or at best makes a passing reference (Maslove, Prince and Doern 1986: 93). In a recent study of provincial government finances in Canada, Irene Ip ignores the two territorial governments because, "their finances are virtually in the hands of the federal government" (1991: 7).

While it is true that the Yukon and NWT governments are heavily reliant upon Ottawa for transfers, in our view, Ip's comment overlooks some important points. One is that the fiscal relations of provincial and federal governments are intertwined and several provinces also rely significantly on federal transfers as a revenue source. A second is that public power and influence are not simply a function of transfer payments and, in any case, much of the transfers to the



territories are for general rather than specific purposes. It overlooks the difference between financial self-reliance and budgetary freedom. Fiscal dependence does not necessarily equate to policy dependence (Black 1975: 81-89). According to Rebecca Aird, "the territorial governments have acquired a large measure of control over spending, even though they directly raise only a relatively small proportion of their budget (1988:4). A third point is that the federal government has been transferring provincial-type programs and responsibilities to the territories over the past decade and more. Finally, the fiscal and political reality in the North is that two levels of government, federal and territorial, are taxing the same taxpayers. Aboriginal organizations, businesses and other groups look to both Ottawa and the territorial governments for various forms of policy action and assistance. Aird has noted, "Though revenue dependence on the federal government remains high, increasing political autonomy in the North is being reflected in the diminished role of the federally appointed commissioners, and in greater territorial spending discretion via formula financing and programme devolution" (1988: 4). Similarly, Slack has remarked that, "the territories are part of the Canadian federation and, in some ways, are moving closer to provincial status" (1991: 314).

The governments of the NWT and Yukon are important features in the political and economic landscapes of the Canadian North. "They are elected representatives of the entire population of Canada's territorial North and have a significant population of Aboriginal Peoples within their boundaries" (Abele and Graham 1988: 127; see also Dickerson 1992: xi). Further, Peter Clancy points out that, "While the federal government takes the lead in settling comprehensive aboriginal claims, the territorial governments play a central role in determining institutional change *within* their borders. This includes shaping an agenda for northern constitutional change, and for any internal devolution, self-government, or power sharing within territorial jurisdictions" (1992: 234).

Public Power and the Public Purse is thus based on a recognition that the role of the state is well developed in the Territorial North. "The governments of the Yukon and the NWT are modern governments that operate almost the whole range of programs that Canadians associate with provincial governments" (Dacks 1981: 209). Public spending and taxing are two core functions of the state and offer a good measure of governmental policy choices and activities. Frank Duerden outlines the importance of public spending in the North in that,

it influences the level of social service; it largely determines the basic physical infrastructure; it affects public safety; it provides employment; it may be designed to induce entrepreneurial development; and, as a reflection of expenditure in all these categories, it may also have a significant multiplier effect [on the local economy] (1988: 338).

The importance of government spending and taxation is also underlined by the weakness of other sectors of the Northern economies. At the same time, as Sharon Sutherland, among others, has noted, "reviews of expenditure present only a partial description of government, because taxing and spending money is only one [or two?] of the ways governments implement their policies;" and therefore, government employment is worthy of study because, "[g]overnments are in most countries the pre-eminent creators and providers of work. Governments are employers before they are virtually anything else" (Sutherland 1987: 38). Indeed, Ken Coates and Judith Powell remark that government employees have a sizable and strong presence in the Canadian North: "Civil servants form a vital component of northern society, providing a much-needed measure of economic and social stability, as well as generating and administering the programs" (Coates and Powell 1989: 81; also see Dacks 1981: 18-19).

Given the relatively large size of the public sector in the North, fiscal matters are central to understanding the Northern experience. An examination of financial arrangements can reveal

much about Canadian federalism, policies and politics, and living standards and opportunities in the North. Black (1975:12) notes that, "public finance is a good indicator of the authority structure of a state, an even more accurate indicator than is the constitutional distribution of legislative authority." As a procedure essential to policy making in the modern state, the public finance system offers a large window on the workings of the Canadian federation. In the words of Bird (1990:109), "How financial and administrative responsibilities are allocated between governments is a central political question. The answer to this question reflects a country's style, it concerns, and its goals."

Intergovernmental fiscal arrangements are closely linked with economic, political and social issues. Besides being the major source of funds for the northern governments, transfers by Ottawa are a source of friction between the orders of government over the appropriate level of financial support, the process, and the terms for determining these fiscal arrangements (Dean 1981, 1989b). Federal transfers to the territorial governments have also been a key factor in the evolution of responsible government (Michael 1989; White 1991) and public service management in the North (Pielak 1985; Zarwiny 1977). Associated with these fiscal arrangements are administrative and political players, power relations, various processes, perceptions, policy, principles and, of course, public funds. These fiscal matters will have considerable bearing on the debate over, and direction for, continued strengthening of responsible government in the North, dividing the NWT into two new territories, and implementing First Nation self-government.

Aboriginal aspirations for greater self-determination and economic and social development depend, in no small way, on the nature of fiscal arrangements reached among aboriginal self-governments and between them and other governments in Canada. Gibbins and Ponting (1986:178) remind us that proposals put forward by all First Nations for self-government in recent

decades assume some continuing fiscal support from the Canadian government, and that Aboriginal groups recognize "self-government without adequate fiscal resources would be a trap rather than an opportunity." Reforming fiscal arrangements can enhance or hinder First Nations governance. Developments in the funding relationships between Ottawa and First Nations over the last 10 years show that fiscal arrangements are not simply administrative means for transferring federal monies to Aboriginal communities. Rather, funding arrangements explicitly and deliberately have become devices for:

- ensuring that Canada's constitutional and statutory obligations to the Indian and Inuit peoples are addressed;
- empowering First Nations governments through decentralized administration and increased authority and accountability;
- enhancing program and service delivery effectiveness through development of greater local management skills and decision-making by First Nations communities; and
- evolving and elaborating the accountability relationships of the minister to Parliament, the minister to First Nations, First Nations government to the minister, and First Nations governments to their communities.

Funding arrangements thus express certain values and embody power relationships in terms of authority, autonomy and accountability. Such arrangements are an important forum in which the policy, administrative and financial roles of Canadian parliamentary government, the federal Department of Indian Affairs and Northern Development, and First Nations are being worked out (Prince 1994b).

## **Scope and Approach of the Study**

Public finance, as used in this study, involves the raising of revenues, their expenditure and the employment of personnel to manage and deliver public services. While recognizing that public budgeting has political, economic and management dimensions (Doern, Maslove and Prince 1988), we examine public budgeting as a resource allocation activity. Our focus is on employment levels and revenue and expenditure outputs. By outputs we mean aggregate data on budgetary decisions and trends over time. We do not examine budgetary processes or outcomes. Some brief reference is made to processes and outcomes in the study, but they are not the focus of the study (see Aird 1988; Coates 1986; Heartwell 1987). Our priority has been to acquire and analyze primary information on territorial budgeting. We address three aspects of the Royal Commission's terms of reference. With intergovernmental fiscal relations providing the prime focus, Public Power and the Public Purse examines relations between Aboriginal peoples and Canadian governments; the role of the Department of Indian Affairs and Northern Development; and the special needs and challenges of Aboriginal peoples who live in the North. We consider both the expenditure and taxation sides of federal-territorial financial relations, with an emphasis on the Formula Financing Agreements (FFAs) between Ottawa and the Yukon and NWT governments. Other elements of fiscal federalism will be noted briefly. In particular, we examine four features of these fiscal relationships: (1) the budgetary and program linkages between the governments of Canada and the North; (2) the impact of federal restraint measures on the territorial governments and Aboriginal peoples in the North; and the possible financial options and implications for (3) dividing the NWT into two new territories by 1999, and (4) implementing First Nations self-government.

Throughout when we speak of "northern," "the North" and "Territorial North," we are referring to the NWT and Yukon governments and societies. The time frame for the analysis is generally from 1980 into the 1990s, and some data span a longer period, providing a medium term

view of fiscal performance. Some limits to the scope of this study need to be mentioned. One is that our focus on spending, taxation and public sector employment have not been related to other basic policy instruments and processes of government, such as land use planning and regulation (see Aird 1988: 357-386; Coates and Powell 1989; Dacks 1981) or political development (Dacks 1990; Dickerson 1992; Jull 1988; Pielak 1985; Whittington 1990). A second is that we do not make any policy recommendations as this was outside the study's frame of reference.

Numerous other issues on the contemporary aboriginal and northern political agendas lie outside the scope of this report. For example, we do not explore whether one or other territorial governments should or will achieve provincial status, and if so, how. Provincial status for the Yukon and NWT has been called an old dream, a mistaken goal and a logical end in northern political development (Robertson 1985; Smyth 1990). In brief, our own view is that it is unlikely, at least in the near future, given the land claims, self-government and division processes underway. There may also be constitutional and fiscal hurdles to provincehood (Smyth 1992; Stabler 1987). Nor do we examine the likelihood of a constitutional amendment creating a Yukon or NWT Crown, making Canada lands the property of the territorial governments. We do expect, however, that the federal statutes setting out the powers of the territories, the Yukon Act and the NWT Act, will be amended and modernized, as a result of self-government initiatives in the Yukon, the upcoming division of the NWT, and the continuing development of responsible government in both territories.

The title of our study, Public Power and the Public Purse, suggests a unifying theme underlying the different focal points of our analysis. Fiscal federalism, examined in Chapters 2 and 3, is about the allocation of taxing and spending powers across levels of government. In presenting the "big picture" of government budgeting in the Territorial North in Chapters 4 to 7, we are

looking at the basic structure of public finance. Who is spending how much, on what and for whom? Where does the money come from? What is the nature of federal-territorial fiscal relations? How many government employees are there at all levels and what does it say about the character of public policy and administration at particular levels? Federal government restraint - Ottawa tightening the national purse strings - is considered in Chapter 8. It is seen by many, including provincial and territorial governments, as the Canadian government unilaterally altering how the public purse is determined and divided; reducing the share it pays for key social programs including health care, post-secondary education, social housing and welfare. Fiscal futures, the topic of Chapters 9 and 10, refers to the rethinking and restructuring of funding arrangements in the North into the next century, in view of supporting First Nation governments in the Yukon and of splitting the NWT into two new political entities. The public purse is not just about distributing the spoils of taxation (Ip and Mintz 1992), but also about the benefits of spending powers, the responsibilities for programs and complements of public employees, plus the assets and liabilities of governments. The public purse is tied to ideas of what the Canadian political community should be or can be in the North. Black's (1975:2) comment on federalism aptly applies here too: "large issues are at stake, significant questions about who will get, or keep, what share of the public purse and public power."

## **Methods and Sources**

One of this country's most distinguished scholars of government, Donald Smiley, once remarked that the most complex and difficult aspect of Canadian federalism to understand was the fiscal side. Reasons for this complexity, Smiley (1976:114) suggested, include the mystifying, specialized vocabulary in the field; the presence often of competing statistics, assumptions and

analyses in government publications; and the large number of policy issues linked to intergovernmental fiscal relations. Other complexities are the contending views and principles on sound fiscal policy; and the variety of fiscal arrangements which exist in Canada with varied histories, goals and mechanisms for calculating entitlements and payments.

To deal with these challenges inherent in our topic area, we have used several research methods and sources: historical analysis, documentary analysis, literature review, systematic speculation, and multiple viewpoints. Perry (1989) has said that in the area of Canadian public finance history is everything. As a contribution to the fiscal history of Canada, we closely examine federal, territorial and intergovernmental financial relations over the past 25 years. For purposes of documentary analysis, we examined: federal and territorial government budget addresses and discussion papers; legislative debates and statements; financing agreements and budgetary statistics; studies commissioned by governments or government departments (Bird 1983; Bird and Slack 1989; Coopers and Lybrand 1991a and 1991b; Dean 1980 and 1989a; Drury 1980; Foot and Slack 1992; Price Waterhouse 1992); and other correspondence (Courneyea 1994). The literature review involved surveying mainly Canadian published works on fiscal federalism (e.g. Boadway 1980; Leslie 1993), northern studies (e.g. Pielak 1985; Stabler 1987), government restraint (e.g. Prince 1987, 1994a) and Aboriginal peoples (e.g. Gibbins and Ponting 1986; Inuvialuit and Gwich'in 1993).

Using historical statistics on public expenditures, revenues and employment allow us to categorize and trace these outputs over time, determining rates of change and comparing patterns in structure and composition. Documenting and analysing public finances in this way is a useful means for (i) estimating the relative importance among policy fields such as social policy or economic development; (ii) revealing policy trends and changes in the spending or taxation



priorities of governments; (iii) comparing policy activities or employment levels across jurisdictions; and (iv) raising fundamental social choices as well as research questions (Chandler and Chandler 1979: 3; and Sutherland 1987: 76). To document and analyze public finance in the Territorial North, we use three research approaches. First, we provide a multi-jurisdictional portrait of public budgeting in the North. This involves a consideration of expenditures, taxation and employment by three levels of government in the two territories. Second, we provide individual jurisdictional accounts of public finance in the NWT and Yukon. Third, we provide a comparative study in two ways--we compare the territories with one another and then with all 10 provinces. As far as we know, this is the first academic study to present an integrated analysis of public expenditures, taxation and employment at the federal, territorial and local levels of government in the North. We have endeavoured to advance the analysis of Northern public finance so that the Royal Commission's research can build on both existing and new work.

Systematic speculation, while it may sound like an oxymoron, is an essential tool of public policy analysis. It is a form of forecasting what may or may not happen in a given context, recognizing certain trends and identifying constraints and choices. The aim of systematic speculation, "is not accurate prediction of events presumed to behave according to their own inherent laws," but rather, "to articulate the alternative futures that seem to be implied by particular networks of assumptions," thereby heightening awareness of issues and stimulating public debate (Stone and MacLean 1979:vi). It seems to fit with Canadian political culture in that, "political speculation in this country has been more practical than abstract. We have worried more about how to get along and how to continue doing public business with each other in a mutually satisfying way than we have about ideal forms of governance" (Black 1975:xi). Finally, we have endeavoured to fairly represent the multiplicity of perspectives on these matters of fiscal federalism, restraint, self-government and division of the NWT. These distinctive viewpoints are evident

between the federal and territorial governments, in the North and even among Aboriginal communities.

The rest of the study is presented in ten chapters. Chapter 1 presents a brief review of the economic, political and social context in which public finances are raised, allocated and governed in the territories. Chapter 2 focuses on the fiscal *structure* of the federal system, the formal arrangements by which the public purse is divided and coordinated between the levels of government. The main question considered is: how do the territorial governments and Aboriginal organizations in the North fit in the system of Canadian fiscal federalism? After presenting the concept of fiscal federalism, the chapter outlines the main intergovernmental financial arrangements in order to locate contemporary federal-territorial relationship within the overall Canadian approach. Chapter 3 gives attention to the *dynamics* of the fiscal relations, that is, the process of adjustments made and issues generated by the relationships between the federal government and the territorial governments. This chapter offers an historical record of fiscal federalism in the North over the last three decades, with a concentration on the FFAs. What has been the budgetary performance or financial state of the territorial governments over this period?

Chapter 4 provides an initial overall portrait of public finance in the North. This is followed by specific looks at both territories. Chapter 5 presents an inventory of public finances in the NWT, while Chapter 6 surveys the Yukon. Chapter 7 compares the expenditure, revenue and employment patterns of the territorial governments with each other and with the rest of the country.

We consider here the degree to which the budgetary profiles of the NWT and Yukon are fiscally unique in Canada. Chapter 8 examines federal government restraint as a major policy and budgetary trend since the mid-1980s. To what extent, and in what ways have the territories experienced the brunt of federal restraint and, in the words of Aird (1988:7), "a beggared federal

purse?" What are the impacts or implications of federal restraint for the territorial governments, fiscal relations, and Aboriginal peoples in the North? Chapter 9 considers the outlook for fiscal federalism in the North, both for territorial and First Nations governments. After division and self-government, will existing funding arrangements be adequate to finance the expenditure responsibilities of the new territories? What are the areas of likely future growth in own-revenue sources for northern governments? Will the territories continue to be fiscally dependent on the federal government? Chapter 10 presents concluding observations. Will the FFAs remain the key part of fiscal federalism in the North? Should other financing arrangements be considered? If so, what are the fiscal options? Moreover, what objectives need to be considered? Guiding principles are noted for reforming fiscal arrangements in light of restraint, self-government and NWT division. Conclusions are also drawn on what these developments tell us about federalism and our political community in Canada.

## **CHAPTER 1**

### **CONTEXT OF PUBLIC FINANCE AND POLICY IN THE NORTH**

A starting point for looking at Northern public finance is to examine the environment within which government budgeting for the Yukon and NWT takes place. The information on expenditures, taxation and government employment presented in subsequent chapters gets its meaning from this context. There is a large literature on the North which we make no attempt to review here, a literature detailing the land and its peoples, the ecology and climate, modern and traditional economies, political cultures and systems, constitutional processes, land claims and Aboriginal self-determination (Aird 1988; Clancy 1992; Coates and Powell 1989; Dacks 1981; Dickerson 1992; Jull 1988; Malone 1988; Rea 1968; Slack 1991; Whittington 1991). Instead, we outline key features of the Northern context and their implications for public finance in the territories. For the general reader, much of this may be new ground. For specialist readers on the North, most of this will be familiar terrain, although we hope they will see some new perspectives or connections.

Three sets of contextual features will be outlined here. These are the geography, population and cultural dynamics; economic structures; and political and governmental factors. These features are sources of resources and power, opportunities and constraints, interests and structures, cooperation and conflict in the North. In a sense, these features act, in a variety of ways, as determinants of public finance, "because they generate both demands for public action and limitations on possible policy responses" (Chandler and Chandler 1979: 17). In outlining these sets of features we ask, what are the consequences, direct or indirect, for public finance and governmental activities in the Territorial North?

## **Geography, Population and Cultural Dynamics**

Under this set of contextual features, the following characteristics are basic to understanding Northern public finance: vast land areas and severe climate; a small population that is relatively young, growing rapidly, and ethnically diverse with substantial Aboriginal presence; a population sparsely distributed, especially in the NWT, across many small and remote communities; and a complex set of languages and cultures.

The NWT is an area of over 3.4 million square kilometres, roughly a third of Canada's land mass. There are two main landscapes separated by "the tree line." Above the tree line is the arctic region known as "the barrens," the traditional land of the Inuit. Below the tree line is the taiga, the forested subarctic region, the traditional homeland of the Dene. Despite its huge size, the NWT has a population (1993 figures) of only 62,000 people who live in about 75 communities, ranging in population from one dozen to more than 16,000. The Aboriginal population comprises 58 percent of the total NWT population and ranges from nearly half in the west to nearly 90 percent in the Inuit lands of the east (Abele and Graham 1988: 115). Approximately 35 percent of the NWT population is Inuit, 16 percent Dene, and 7 percent Métis. Given the ethnic mix of the NWT, there are eight working languages, one which has several dialects (GNWT, Strength at Two Levels, 1991). The Yukon is an area of 482,515 square kilometres, more than three times larger than the three maritime provinces combined, but with only a population of 31,000 people. About 25 to 30 percent of the population is Aboriginal (Abele and Graham 1988: 115; Duerden 1988: 344). While much of the Yukon populace is concentrated in Whitehorse, the capital city, 12 of the 16 communities are "isolated settlements of less than 700 persons" (Duerden 1988: 344), and many communities have a mixed population of Aboriginal and non-aboriginal peoples.

Over the past 40 years or so, the population of the Territorial North has grown at a relatively rapid annual rate--twice the national average; and the birth rate for Aboriginal peoples about three times the national average. In both territories, the proportion of the population under 15 years of age is relatively high and the portion over 65 years of age is exceptionally low (McMillan 1991: 16). The large Aboriginal population and ethnic mixture in the North produces a range of cultural dynamics. Among these are the continued importance of traditional cultures, the emergence of active Aboriginal organizations in the political and economic spheres, "differing aspirations of white versus native, young versus old, and transient versus permanent residents" (Aird 1988: 3). Differing cultural aspirations are also evident in the contending visions of provincehood, devolution, Aboriginal self-government and community governance (Clancy 1992).

At its core, the northern exposure of public finance means government budgeting being exposed to the climatic elements and geographic influences. For public finance in the Yukon and NWT, "sparse populations and isolated communities combine with a harsh climate to result in high transportation costs, high heating costs, and high costs for services generally" (Slack 1991: 314). These factors also result in high costs in operating businesses and in providing comparable public services relative to those in the provinces. Consequently, the Yukon and NWT spend more than the average provincial government on a number of measures, as we will show in later chapters, and the effective tax rates and burdens for Northern residents are also likely higher than in the rest of the country (Slack 1991: 337). This may help to explain why neither territorial government has introduced a retail sales tax. The small, sparse populations mean that economies of scale in public service provision and administration enjoyed by most provinces are not possible for the territories. They also mean that the territories face major infrastructure requirements such as for roads and community facilities (Aird 1988: 17). The implications for public finance are that the tax base and

tax capacity of the territories is highly limited and that expenditures are higher on a per capita basis than for the provinces (Guertin 1988: 191-193). That the populations of the territories are growing at relatively fast rates and are younger than in the rest of Canada probably puts pressure on government expenditures, particularly "the cost of providing certain public services" (McMillan 1991: 17), such as education, as well as reducing the size of the tax base.

In their political and economic policy framework for the North, the Mulroney government identified demographic pressures as underscoring the need to reassess northern economic policy.

The demography of the northern native population points to an impending crisis. The unemployment rate among native northerners, at 50 percent in some communities, is one of the highest in Canada. This situation is aggravated by the fact that 55 percent of the native population is under 20 and is just becoming economically active. In contrast, more than half of the non-native people, many of whom occupy prime administrative, technical and professional jobs, are found in the 20 to 45 age group.

The possibility of replacing non-native employees with native northerners, thereby decreasing unemployment among native people, is limited by low native educational attainment and the wide dispersion of native settlements (Indian and Northern Affairs Canada, 1988: 11-12).

Thus, both the overall demographic profile of the North as well as the distribution of age groups between the native and non-native populations interact with the economy, geography and cultures to generate problems and pressure points for public policy and finance.

### **Economic Structures**

Studies of the North stress the importance of economic structures in understanding the politics, policy developments and living conditions of natives and non-natives in the Yukon and NWT. In these studies, the most widely emphasized feature of the economic context is that the

economy of the North is not a single system but rather two distinct economies — the industrial/wage economy and the traditional/non-wage economy. Indeed, the suggestion has been made that there is a third economy, "the public welfare economy" (Richard Simeon in Whittington 1985:16). The dual economies of the North are evident in the widely varying economic bases of communities; from hunting and gathering camps to administrative centres with satellite uplinks with headquarters, to space-age mining operations supplied by jet transports from the south. "The focus of the wage economy is the large-scale, capital intensive, high-technology 'mega-projects'" (Dacks 1981:13). Key elements of the wage economy in the North include, first, the export of staple goods (for example, oil and minerals) to Canadian and international markets. Second, large primary and service sectors, including government, but a small manufacturing sector. For example, the Yukon has traditionally relied on government, mining and tourism for economic activity. Third, most workers in the modern economy are non-natives, and many are temporary residents in the North.

Table 1.1 presents some economic indicators for the territories, totals for Canada, and the territories' as a proportion of total Canadian economic activities for 1992. Average per capital personal incomes are higher in the Yukon than the national average and those in the NWT are about equal to the national level. "However, in the smaller communities, native incomes are about one-third those of non-natives. While non-native northerners are among the most highly educated Canadians, educational attainment among native people remains far below national standards" (Indian and Northern Affairs Canada 1988:10).

In both territories, unemployment is usually higher than the national average. In 1991, for example, while the unemployment rate for Canada as a whole was 10.3 percent, it was 16 percent in the NWT. In turn, the NWT non-native unemployment rate was 5 percent, while the native



unemployment rate was 30 percent. "There is a rapidly growing, immobile labour force, which, although skilled in traditional pursuits, is largely unskilled in most other occupational fields. This work force is growing in excess of current rates of job growth" (GNWT 1991).

Mineral production, as Table 1.1 shows, is a relatively major part of the modern economies of both the Yukon and NWT. "During the past two decades, mining and oil and gas have been particularly important sources of income and employment in the territories" (INAC 1988:12). Moreover, governments look increasingly to tourism, already the third most important sector in the Yukon formal economy after government and mining, and the "commercialization" of the renewable resource sector to create employment and provide revenues. Aird notes that "both territorial governments have identified economic development as the dominant issue for policy making" (1988:8). For the NWT, export values for 1991 were as follows: mining production \$530 million; oil and gas production \$212 million; tourism, including sales of arts and crafts, added over \$100 million to the NWT economy; and commercial fur production, fish harvest and logging totalled \$6 million in sales.

The "other" economy in the North is a land based hunting, fishing and trapping economy, commonly called the traditional or Aboriginal economy (Coates and Powell 1989:51-54; Dacks 1981:12-24; and McArthur 1987:58-62). Key elements of the traditional, Aboriginal economy are that work can be non-wage, usually small-scale production and labour intensive. The traditional economy requires low capital investment and primarily involves Aboriginal peoples, based in small communities, engaged in the use and management of renewable natural resources (Dacks 1981; McArthur 1987). While distinct, the two economies are not completely unconnected. Both, in their own ways, are small, remote, resource-dependent systems subject to external influences and

controls. The Aboriginal Hunters and Trappers Federation, for example, was formed in the NWT in 1984 in response to the international anti-fur lobby.

Native development corporations (CARC 1988: 161-186; Whittington 1986), symbolize a bridge between the dual economies of the North. Created in the 1980s and 1990s, these include the Kaska Dena and Yukon Indian Development Corporations in the Yukon, and the Dene, Métis, and Inuvialuit Development Corporations in the NWT. Over the past five to ten years, the number of Native development corporations in the Eastern Arctic has rapidly expanded. With the signing of the Nunavut Final Agreement, on the division of the NWT, the Nunavut Trust has been set up as the principle investment body of \$577 million the Inuit will receive over the next several years. Interest made through Nunavut Trust investments is turned over to Nunavut Tunngavik Inc. which, in turn, develops a budget based on its own administrative operations and those of the three regional Inuit Associations (Kitikmeot, Keewatin, and Baffin). These three Inuit Associations use part of the proceeds to invest and accumulate wealth through their own regionally based development corporations. In the Western Arctic, the present and future growth of aboriginal development corporations is a regional tribal phenomena and is directly linked to the settlement of regional land claims.

Slack notes two consequences of these economic features for Northern public finance. "First, the average per capita income of the employed population is relatively high (since wages in the public sector and the resource industries are relatively high). Second, the private-sector tax base is sensitive to fluctuations in the world markets for natural resources" (1991:333; also see Malone 1988). We can note other policy and budgetary implications. The boom-and-bust cycles in economic activity — typical of a resource export-based economy- make economic diversification a priority issue on the policy agendas of territorial governments. The decline of world metal

markets in the early 1980's led to the collapse of the mining industry in the Yukon into the mid-1980's. Ten years later, however, there is a revival in the northern mineral sector. The nature of the Northern economies also places demands on governments' capital expenditure budgets to address infrastructure requirements. Further, the small size of the economies means that the revenues which can be generated are insufficient to finance the costs of the full range of government programs and services. A limited tax base constrains the flexibility of the territorial governments, limiting their ability to establish new policies and programs (Aird 1988; Chandler and Chandler 1979:6-7). Other economic policy issues concern the effectiveness of government initiatives for native and non-native economic development (Coates 1986:16-23), native participation in the modern economy (Stabler and Howe 1990), differences in the employment rates and income levels between natives and non-natives in the North (INAC 1988), and "achieving a more equitable distribution of government employment" (Aird 1988:8; Franks 1988).

### **Political and Governmental Features**

Northern public finance and public policy is also made in the context of political ideas and structures as well as within a larger set of national and territorial governmental institutions and processes. The political structures and ideas include a party system in the Yukon and a non-partisan system in the NWT; native organizations and land claims as well as other organized interests; and, political cultures and aspirations. The governmental institutions and processes basic to understanding public finance in the Territorial North include the federal government's northern policy framework, constitutional and fiscal relations, and the evolution of northern governments. Similar to the process of "province-building," each territory has undergone "substantial institutional maturation" (Chandler and Chandler 1979: 98) in their legislative, political executive, bureaucracy and policy processes (Aird 1988; Dickerson 1992). While we will briefly profile here these

political and governmental features, we recognize that they are interconnected and interact with public budgeting in a number of ways.

"At one level, the political landscapes in the Northwest and Yukon territories are very different. For example, the Yukon Territory has a well-established system of political parties, while party politics are not a feature of territorial elections in the NWT" (Abele and Graham 1988: 127). In the Yukon, party politics were formally introduced in the legislative assembly in 1978, and since 1980 a fully elected Executive Council (cabinet) has operated the territorial government, reporting to the Government Leader (first minister) instead of the Commissioner (Coates and Powell 1988; Michael 1989). For the period under review in this study, there was a Progressive Conservative government from 1980 to 1985, and a new New Democratic government from 1985 to 1993. In contrast, the NWT "has taken on an indigenous character of its own. Its leaders, and many northerners, have rejected partisan politics. At present, the legislative process is based on 'consensus'. The process has created its own dynamic between the government leader, ministers of the Crown, and 'ordinary' members of the legislature" (Dickerson 1992: xii-xiii; White 1991). Under this consensus approach to governing and with the absence of political parties, the government leader and members of the executive are elected by and from among all 24 members of the legislative assembly. For public budgeting and policy development this means that "the leader can wield neither party discipline nor control of appointment to Cabinet as a means of ensuring Cabinet adherence to a given set of priorities" (Aird 1988: 18).

Despite these differences in the electoral systems of the territories, the Yukon and NWT share some other political features. One, "is a growing recognition of the importance of the Native population in the political life of each territory. Native People comprise a comfortable majority of the electorate in the NWT, while they make up approximately one third of the permanent Yukon

population. Since 1979, the majority of seats in the NWT Legislative Assembly have been held by Native People, while Natives have played prominent roles as members of the Territorial Executive (Cabinet). In the Yukon Territory, the ... (NDP) government... received significant electoral support from the Native population at large. These two developments have moved both territorial governments into the forefront as advocates of Native interests, as well as being main points of political reference on northern issues" (Abele and Graham 1988: 127-128). A second shared political feature concerns Aboriginal land claims settlements. Among other impacts, claims "are also important to the two existing territorial governments in the sense that resolution of one or more claims will likely bring a much needed infusion of capital into the territories as a result of the financial component of any settlement. Thus, the resolution of claims will also have an impact on creating sustained economic development in the North" (Abele and Graham 1988: 128; Whittington 1990: 37-40).

A third common characteristic is that Aboriginal organizations are among the most active in the political economy of the territories. The number of Indian Bands in the Yukon is 14 and 17 in the NWT. The total for the territories is the same as for the Atlantic region. In the Yukon, there is one umbrella Aboriginal organization, the Council for Yukon Indians (CYI), formed in 1980 from a merger of the Yukon Association of Non-Status Indians and the Yukon Native Brotherhood. The Aboriginal sector in the Yukon also includes the CYI Economic Development Office, Yukon Indian Development Corporation, First Nations Education Commission, Native courtworkers and tribal justice workers. Since the early 1970's, Aboriginal political organizations have been established in the NWT and are "an integral part of politics in the region" (Dickerson 1992: 100). The major Western Arctic Aboriginal organizations in the NWT are as follows:

- Gwich'in Tribal Council, representing the Gwich'in of the Beaufort/Delta in the implementation of the regional claim final agreement and in political matters;
- Sahtu Tribal Council, representing the Sahtu Dene and Metis in a regional comprehensive claim that was ratified in 1993;
- Dogrib Treaty 11 Council, representing western Arctic Dogrib in regional claim negotiations and political issues;
- Deh Cho Tribal Council, representing the Deh Cho in aboriginal rights and political issues;
- NWT Treaty 8 First Nations, representing Treaty 8 Dene in claims negotiations based on treaty entitlements, and in political issues.

In addition, there are the Inuit Tapirisat of Canada for the Inuit of the NWT, Northern Quebec and Labrador; the Inuvialuit for the Inuit of the Western Arctic; and the Métis Association for Métis and non-status Indians in the Mackenzie Valley (Dickerson 1992: 100-105). Other organizations in the territories that can be seen, at least in part, as interest groups include business associations, health and social service-oriented groups, environmental groups and public sector unions.

Political culture is another feature of the context for public finance in the Territorial North. "Citizens in the region have grown impatient with the dependent status of their governments, while successive federal governments have sought to shape and then reconcile regional demands to suit the "national interest" (Abele 1968: 168. On northern political cultures see also Coates and Powell 1989; Clancy 1992; Dacks 1981 and 1991; and, Whittington 1990). "Northern political expectations are strong and have built a considerable momentum over the years," a federal report has noted, however, "the fulfillment of these expectations is ultimately and critically linked to the ability of the northern economy to provide employment, income and government revenues" (INAC

1988: 10). A report to the NWT government points to the challenge of reconciling public expectations with revenue constraints:

The government lacks a significant tax base from which to draw revenue and yet strives to provide a wide range of programs and services equally throughout the North. A large proportion of the population view these services and programs as entitlements. The heritage and traditions of the federal Government's involvement in the Northwest Territories, and the fiscal growth over the last two decades, have supported these expectations. The GNWT is now facing increasing expectations on the part of the public coupled with reduction in revenues (GNWT 1991).

The policy orientation to state intervention in the North has been characterized as ideologically flexible.

Within the boundaries of responsibility defined by Canadian political culture, neither territorial government is dogmatically wedded to a particular ideology on the role of the state. For example, there is, even among northerners leaning to the political right, widespread acceptance of the inevitability of a mixed economy; and among those of the social democrat persuasion, perhaps a growing sense that this "mix" should be dictated by pragmatism (i.e., fiscal and economic realities (Aird 1988: 17-18).

We will consider this matter of policy "mix" in subsequent chapters.

While the governments in the NWT and Yukon make policies and manage programs like other governments in Canada, the territories are not provinces. In Dack's words, "The dominant political fact in the North is its territorial status. Rightly or wrongly, debate on political development in the North focuses on the evolving terms of the colonial relationship between the territorial governments and Ottawa" (1981: 5). More recently, Dickerson has noted that, with two important exceptions, the territorial governments have acquired, by convention, "constitutional powers almost equivalent to those of the provinces." The exceptions are: "The federal government has retained control of Crown lands and non-renewable resources, and neither the NWT nor the Yukon has any formal part in the process of amending our constitution" (1992: 3). A main

element, however, of the federal government's political and economic framework on the North is to transfer all remaining provincial-type programs to the territorial governments, including responsibility for managing the North's natural resources (INAC 1988). The fact that Ottawa has jurisdiction of over 90 percent of the territories' land and resources has meant, from a public finance view, that a potentially lucrative revenue source does not belong to the territorial governments. In implementing the transfer of provincial-type programs to the territories, a process called devolution, the Yukon and NWT governments have, each in their own way as later chapters show, assumed new administrative, personnel and expenditure responsibilities (Dacks 1990).

In addition to this devolution of programs, federal-territorial government relations have undergone a transformation over the past 15 years marked by: income tax agreements, formula financing arrangements, and progression toward responsible government in the Yukon and NWT. The NWT entered into a income-tax collection agreement with the federal government in 1978 and the Yukon did so in 1980. Under these agreements, which provinces also have with Ottawa, the territories "are required to accept the federal base and bracket structure for the personal income tax and the federal base for the corporate income tax" (McMillan 1991: 11). It also means that the federal government collects these taxes for the territories, without charge, with each territorial government setting its basic rate as a percentage of the federal tax (Ip 1991: 302).

During the 1980s important changes were made in the fiscal relations between the territorial and federal governments. "Before 1985, the territorial governments received most of their funding from the federal government in the form of negotiated annual grants. These negotiations occasionally involved federal approval of territorial policies" (INAC 1988: 6). This was less than ideal as the territorial governments were treated like another tentacle of the federal bureaucratic octopus, being directed on how and where to spend the money received from the federal



government. The annual negotiations ended in 1985 with the introduction of Formula Financing Agreements between the governments. As we will discuss in Chapters 2 and 3, this is a predetermined formula which allows the GNWT or YTG to allocate their resources according to their priorities. The formula mimics the system of equalization payments to the provinces but is based on fiscal need in the territories rather than fiscal capacity. Guertin has observed that "the innovative formula-financing agreement between the federal and territorial governments marked a major step on the path to self-government in the North" (1988: 194). By reducing Ottawa's direct control on territorial public finances, formula financing has brought the Yukon and NWT more in line with the provinces, at least on the fiscal side of Canadian federalism.

In both the NWT (Bird and Slack 1989; Guertin 1988) and Yukon (Courchene and Powell 1992; Smith 1988), the shift from annually negotiated grants to multi-year formula-based financing has real or potential implications for greater predictability in the level of transfer payments; increased territorial autonomy and authority of the budgetary process; and, enhanced accountability of the territorial governments for fiscal management, including tax effort and expenditure control (Clancy 1992).

The evolution of territorial governments toward responsible and modern government is one of the most significant features of the political context of northern public finance. Both the Yukon and NWT have, over the past 25 years, undergone a process akin to province-building, involving extensive institutional growth. Michael Whittington has argued in reference to the NWT, that four distinct characteristics define the territorial state's growth since the late 1960's: 1) because of the vast distances, the cultural differences and the avowed political will to have a government that is close and responsive to the people in the communities, decentralization is a theme that consistently appears in the bureaucracy of the NWT; 2) similarly, because of the cultural distinctiveness of the

peoples of the NWT, a significant goal of the public administration in the North is the indigenization of the bureaucracy; 3) a third set of features which has to do with the fairly rapid devolution of political power from the federal to the territorial government is a distinctive pattern of departmentalization in the territorial bureaucracy; 4) finally, although the trend is a bit later here than in other Canadian jurisdictions, the GNWT is currently in the throes of professionalization of the public service (1984: 242-243). In both territories, however, this process has not just involved the construction of elaborate state bureaucracies. The phenomenon that can be called territory-building has also involved an evolution to responsible government since the late 1960's, the democratization of the territorial governments:

A series of institutional changes over the past decade have transformed the territorial governments from essentially administrative bodies into governments acting in much the same way as any provincial government. The most significant change in this evolution toward responsible government is the change in the role of the commissioner. Since 1979 in the Yukon, the commissioner, acting upon instructions from the federal government, has not been involved in the day-to-day operations of the government and has acted in much the same way as a provincial lieutenant governor. A similar change occurred in 1986 in the Northwest Territories when the commissioner withdrew from active participation in government affairs. (Up until this time the commissioner of the Northwest Territories continued to chair Executive Council meetings and retained responsibility for the Department of Personnel.) These changes have resulted in a greater level of responsible government. They reflect both the desire of northerners to exercise greater control over government activities that affect their daily lives, and the federal government's commitment to foster self-government in the North (Smith 1988: 157-158).

Other changes relevant to public budgeting can be noted. In the Yukon, the Legislative Assembly established a Public Accounts Committee in 1979. A Financial Administration Act was passed in 1983, modernizing the fiscal management system of the Yukon government and providing for a Management Board similar in role to provincial treasury or management boards (Yukon Annual Reports: various years). In the NWT, a Financial Management Board was formed in 1980; the next year, the territorial budget was introduced for the first time by an elected member

as Finance Minister; in 1983, the Finance Minister replaced the Commissioner as the chair of the Financial Management Board; and, in 1986, the Government leader became chair of Executive Council and took over management of Public Services, the last formal administrative responsibility of the Commissioner (Dickerson 1992: 121).

The governmental systems in both territories also have a network of local governments and local agencies for financing and delivering public services to communities. The number of incorporated municipal governments in the Yukon, grew modestly from seven in 1980 to ten in 1990: one city, three towns, four villages and two hamlets. The slow pace of the "municipalization" of communities in the Yukon and delays in implementing reforms to local government in the 1980s has been attributed to concerns by the Council for Yukon Indians that these changes "could interfere with land claims" (Dacks 1981: 457). By comparison, the number of incorporated municipalities in the NWT more than doubled, going from 17 in 1980 to 44 in 1990. As of 1990, there was one city, five towns, two villages, and 36 hamlets. In addition, there are regional and tribal councils, settlement corporations, and one settlement which are essentially quasi-local governments. The 44 municipal governments are incorporated under the *Cities, Towns and Village Act* or the *Hamlets Act*. The settlement corporations and one settlement are established under the *Settlements Act*. The *Charters Communities Act*, which came into effect on January 1, 1988, allows for communities to become incorporated as charter communities. Deline (Fort Franklin) recently became the first community to incorporate under the *Charter Communities Act*. This legislation allows Band Councils to combine with non-band members under a local government structure, but covers the entire local (band and non-band) population.

In terms of the public financing of local services, both territorial governments have a larger responsibility for schooling than do several provincial governments. Other than in Yellowknife,

the GNWT finances education, and in the Yukon the local property tax is not used to fund schools. As McMillan explains: "The fact that the population of the territories is distributed among numerous very small communities with limited tax bases puts the demand for service at the territorial level" (1991: 6-7). This means that relative to total territorial-local spending or taxation, the share of local government finances is modest.

## **Conclusion**

To understand Northern public finance, one needs to examine the context associated with federal, territorial and local government budgeting. Our aim in this chapter was to review features of the social geography, economics and politics within which public monies are raised, transferred, allocated and governed in the territories. "By definition, a territorial government is a government in transition" (Dickerson 1992: 3). The context of territorial governing and budgeting is also in transition. Indeed, this context is constantly evolving at the same time the nature of government is still changing. The impact of these contextual features can be direct or indirect, immediate or longer term. On the general effect of the context on Northern public finance, we can be clear: "The physical and economic conditions in the North necessitate considerable government intervention at every level. Government is the dominant economic force throughout the North. It is the largest spender and employer" (Duerden 1988: 337). In the chapters that follow, we closely examine the nature of this government intervention in terms of expenditure, taxes and public employment.

**TABLE 1.1**

**Selected Economic Indicators for the  
Yukon, NWT and Canada, 1992**

	<b>Yukon</b>	<b>NWT</b>	<b>Canada</b>	<b>Territories as a % of Canada</b>
Population	28,000	56,000	27,409,00	0.31
Personal Income per person	25,893	22,554	22,615	Yukon 114.5 NWT 99.7
Consumer Price Index	123.1	124.5	128	Yukon 87.7 NWT 97.2
Gross Domestic Product (\$ millions)	1,014	2,142	687,334	0.46
Retail Sales (\$ millions)	182	377	184,608	0.30
Mineral Production (\$ millions)	468	653	35,411	3.20

Source: Statistics Canada, Catalogue no. 13-213P, 1992.

\*1986 = 100.0

## **CHAPTER 2**

### **FISCAL FEDERALISM IN NORTHERN CANADA**

A central feature of the governmental system in the North is the fiscal arrangements between the federal government and the territorial governments. This chapter will present a brief overview of Canadian fiscal federalism, to show how the Northern version compares and contrasts with the more familiar federal-provincial relationships. In doing so, we will highlight the common *and* unique arrangements by which funds are transferred from Ottawa to the territories. We will argue that while the territorial governments are highly reliant on federal transfers as a revenue source the fact that a comparatively high proportion of those transfers are unconditional grants suggests a greater degree of policy manoeuvrability than the transfer amounts imply.

#### **A Divided Purse**

Under federalism the public purse is a divided purse. The taxpayer's money is collected and disbursed from a multiplicity of governments. In Canada, fiscal federalism is commonly discussed and examined in terms of federal-provincial transfer arrangements. In a constitutional sense, fiscal federalism involves the assignment of governmental powers, expenditure responsibilities and tax fields between the federal and provincial governments. In recent decades, new conventions of relations between the federal and territorial governments have been established through structures and practices, which can be regarded, in a broad sense, as part of the Canadian constitution. The situation today, which is still evolving, is that both the national and northern governments make final decisions over some areas of public affairs. In a political sense, fiscal federalism involves the negotiation and manipulation (as we will see in later chapters) of agreements concerning the allocation of tax revenues and transfer payments. In a policy sense, it involves the formulating, funding and delivering of public services, among them many of Canada's

key social programs. In reference to fiscal federalism, one commentator has recently written that, "federal and provincial revenue raising and program spending are now almost hopelessly intertwined in a complex mesh of agreements, arrangements, and accommodations" (Ip 1993:131).

We offer a profile of this complex mesh of fiscal federalism in order to highlight the main characteristics of federal-territorial financial relations. Fiscal federalism in Canada has been examined extensively in many ways. Approaches in the literature include: outlining the constitutional basis for fiscal relations (Boadway and Hobson 1993; Canada 1981); tracing historical developments in transfer arrangements (Leslie 1993; Norrie 1993; Perry 1989); examining the structures of intergovernmental relations in the policy and political processes (Smiley 1975; McRoberts 1993); describing the programs and transfers (Boadway 1992; Canada 1991); and, identifying issues and calling for reforms (Bird 1990; Butler 1993; Courchene 1994; De Koven 1993; Ip 1993; Robinson 1993). Given this rich literature, it is our intent to give only a brief description of the main intergovernmental transfers, to show how federal-territorial fiscal relations fit into the general system of contemporary fiscal federalism in Canada. Fiscal federalism is not only about spending and taxing responsibilities of different orders of government, but is also about the overall amount of money that Ottawa transfers to the provinces and territories, and the degree of federal control over how that money should be spent by provincial or territorial governments. We will show that intergovernmental fiscal arrangements are a crucial part of the context of territorial and federal policy making and service delivery. Chandler and Chandler (1979:155) emphasize the significance of fiscal arrangements in the Canadian political system: "The fiscal network is the key component of federal-provincial relations and reflects the distribution of power within a federal system." This comment, we believe, is also applicable to the North and federal-territorial relations. Fiscal arrangements reflect, as well as shape, the interdependence of governments and the evolving role of the territories and Aboriginal groups.

With the provinces, the Yukon and NWT participate in many of the existing arrangements by which funds are transferred from Ottawa to other governments. The northern brand of federalism is marked by substantial entanglement of federal and territorial policies and finances. This feature is also evident in federal-provincial relations (Chandler and Chandler 1979:170; McRoberts 1993:154; Smiley 1976:118). From a recent inventory of intergovernmental programs and activities (Canada 1991), we estimate that each territorial government participates in about 100 programs with Ottawa. Most of these linkages are multilateral agreements (federal/provincial/territorial), some bilateral (federal-territorial) and others regional (federal-Yukon-NWT). The main policy fields in which interaction occurs are environment, Indian affairs and northern development, health and welfare, and housing. This complex of intergovernmental links include major shared-cost program as well as undertakings that entail joint governmental administration. Our focus is on the major financial arrangements, which include: tax collection agreements, Established Programs Financing (EPF) cash and tax transfers for health care and post-secondary education, and the Canada Assistance Plan (CAP) for income assistance and social services.

The goals of the tax agreements which began in 1962 for the provinces and which the territories joined in the late 1970s, are: fiscal harmonization; minimization of administration and compliance costs; the avoidance of double taxation; and the avoidance of discriminatory taxation measures. Like all elements of fiscal federalism, these goals are balanced in the context of the political right of governments to pursue, within de facto political and economic limits, their own social and economic goals. Under the agreements, the federal government offers to collect either taxes on personal income or corporate profits or both for any province or territory, provided the province or territory meets certain conditions. For personal tax, this means that the territory must



adopt the federal personal income tax base and must set a single rate of tax expressed as a constant percentage of the basic federal tax payable. Corporate tax revenues are collected in a similar fashion but the rules for determining the division of revenues among provinces are more complicated. Seven of the ten provinces and the two territories are a part of the corporate tax agreement. (Only Ontario, Quebec and Alberta collect their own corporate taxes, largely because they feel it gives them more leeway to practice fiscal and industrial policy objectives.) A further feature of these agreements is the provision of a revenue guarantee. Because the provinces and territories are essentially locked into federal rules about the tax base, any federal change in that tax base could alter provincial/territorial revenue. Provinces and territories are therefore compensated for losses in revenues from any such changes if the loss exceeds one percent of the federal basic tax in the province/territory.

Under EPF, which began in 1977, the provinces and territories may use the federal transfer of equal per capita cash payments and tax points for purposes of their own choosing, not only for health care or post-secondary education; although for health care, some conditions are attached to the cash payments, as expressed in the Canada Health Act. Under CAP, which started in 1966, the federal government cost shares with the provinces and territories the cost of eligible expenditures on income assistance and social services (Hobson and St. Hilaire 1993). Regional economic development programs are another block of federal expenditures significant in intergovernmental transfers (Neumann 1993). For the territories, economic development activities are implemented through several mechanisms: the Canada/NWT Economic Development Agreement, the Canada/Yukon Economic Development Agreement, the Inuit Economic Development Program, and Special ARDA (which wound up in 1993). The current Economic Development Agreements, with several subsidiary cooperation agreements, are five year deals covering the period 1991 to 1996. These agreements involve direct public expenditures of \$49.9 million in the NWT and

\$37.7 million in the Yukon (Canada 1991). These programs aim to expand and diversify the Northern economies, and focus on resource development, small business and tourism. The Yukon and NWT, like the provinces, also receive certain general purpose transfers from Ottawa like grants in lieu of property tax, and other relatively low cost transfers. Other common arrangements are specific purpose transfers for official languages education, young offenders, social housing, alcohol and drug treatment and justice.

Unlike all the provinces, the territories do not receive crop insurance transfers because of their climatic conditions, and do not receive statutory subsidies because of their constitutional status as federal creations. Statutory subsidies are a system of unconditional transfers, begun in 1867 and payable in perpetuity, to the provinces as part of the terms of confederation. Today, they are a minor part of fiscal relations, accounting for less than one percent of general purpose federal transfers to the provinces.

### **Why Formula Financing Rather than Equalization?**

The most important difference between the provinces and territories in fiscal federalism, is that the NWT and Yukon are not part of the Fiscal Equalization program. This program transfers to seven lower income or so-called "have-not" provinces C Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Québec, Manitoba and Saskatchewan C fiscal resources enabling them to provide comparable levels of public services at comparable levels of taxation to a national average fiscal capacity. The national average is calculated using five provinces, British Columbia, Saskatchewan, Manitoba, Ontario and Québec. (For more details on Equalization, see Bird and Slack 1989; Leslie 1993; Norrie 1993; Robinson 1993).

In contrast, the territories receive "Equalization-like" funds under Formula Financing Agreements (FFA) with a grant formula, based on expenditure needs and fiscal capacity, which is unique to the Northern governments. Chart 2-1 compares the territorial FFAs with the provincial Equalization program. The FFAs do share some features with Equalization. Both provide cash transfers which are unconditional, that is, not tied to any specific programs; both are subject to sunset clauses, the only major federal transfer programs with defined expiry dates; and both seek to assist governments with lower fiscal capacities to provide reasonably comparable levels of public services.

The FFAs between the territorial and federal governments differ significantly from Equalization, however, in the way transfers are calculated and adjusted over time. Courchene and Powell (1992:40) note of the Yukon Territorial Government's (YTG) FFA: "The novel feature of YTG formula financing is that the definition of "reasonably comparable level of public services" is divorced from the strictures of the formal equalization-payments formula (i.e., it is not driven by the standardized revenue yields) and is given a life of its own." FFA transfer payments are based on an historical gross expenditure base and escalated each year by factors that relate to population growth and inflation. In other words, while Equalization is about transferring funds to "poor provinces" to help offset inequalities in provincial revenue capacities, the FFA is about transferring funds to the territories to help offset differences in the high cost of providing public services in the North.

But why are the Yukon and NWT not part of the Equalization program? The Equalization formula implicitly assumes that the per capita costs of providing public services is comparable from one province to another. Thus, the program rests on the belief that provinces receiving Equalization payments to compensate for their relatively low revenue raising capacity will then have sufficient revenues to provide reasonably comparable levels of public services at

reasonably comparable levels of taxation. As Boadway (1992:46) notes, "Equalization operates through the tax-capacity side and does nothing to equalize differences in the ability of provinces to provide comparable public services arising from such things as differences in the need for, or the cost or provision of, various public services." The problem for the territories, however, is that under the existing Equalization formula, neither the Yukon or NWT government would be entitled to receive payments. As early as 1967, a federal government committee on federal-territorial fiscal relations examined the implications of adopting the Equalization program to the territories but concluded there was "no advantage" because the payments would not be sufficient (Canada 1967:37). The reason is that their revenue raising capacities, as determined under the Equalization program, would be greater than the national average of fiscal capacity.

Yet this does not mean that the NWT and Yukon are "have" jurisdictions in terms of fiscal federalism. As the Drury Report (1980:112) observed: "The equalization formula was never intended to be used as a basis for making comparisons between jurisdictions that have widely differing costs of providing public services." In per capita terms, the own-source revenues of the NWT and Yukon governments are at or above the national average (Bird and Slack 1989). The average assessed income and thus the income tax capacity of the territories seems relatively high because the employed population in the formal economy is concentrated in the comparatively well paying public sector and natural resource sector (Bird and Slack 1989), jobs held mostly by non-Aboriginal people (Gardner 1994; Stabler 1987). In both the NWT and Yukon, personal income per person has been above the national average, by about 15 percent or so, for many years (Statistics Canada 1991). In public finance terms, the territories' fiscal capacity looks solid but is seriously constrained by their extraordinary expenditure needs in providing a level of public services comparable to other Canadians. Furthermore, their tax effort in collecting revenues is

affected by the high living costs in the North. Consequently, as a NWT budget document has noted:

Including the territories in the Equalization system would therefore require changing the Equalization formula. The current formula uses revenue raising capacity as a proxy for a jurisdiction's capacity to provide "reasonably comparable levels of public services at reasonably comparable levels of taxation." It would have to be changed to a formula that would directly incorporate measures of costs differences between the regions, or at least between the territories and the provinces (GNWT 1990:52).

### **The Importance of Federal Transfers**

Direct federal cash transfers to the provinces and territories on a per capita basis are given in Table 2-1, for selected years. The three provinces that do not receive Equalization payments - Alberta, British Columbia and Ontario - receive the lowest amounts of federal transfers. The seven provinces that do receive Equalization along with other federal payments range, on a per capita basis in 1989, from \$1,180 in Saskatchewan to almost \$2,400 in Newfoundland. Most dramatic, though, is the scale of transfers to the territories, \$13,218 per person in the North in 1989. This is one indicator, among many, of the heavy dependence of the Yukon and NWT on federal transfers as a source of revenue (Robertson 1985). It is also an indicator of the profound impact of the northern exposure on territorial budgeting and service provision. For the 1990-91 fiscal year, for example, the NWT government calculated that own-source revenues amounted to approximately \$2,800 per capita while their per capita expenditures were \$18,700. Such high costs reflect the need to provide a full range of public services to residents in a large number of small, scattered communities in a hostile climate: high utility and transportation costs; relatively high population growth rate; and strong demand for capital infrastructure (Dean 1989a; Drury 1980; GNWT 1990:51-52; Slack 1991; Stabler 1987). These factors, "make it difficult to reap economies of scale in the provision of services" (Bird and Slack 1989:13). As a variant of the Equalization

program, the territorial FFAs "are intriguing in their own right" (Courchene and Powell 1992:41), since they allow the concept of reasonably comparable levels of public services to reflect the special costs and needs associated with providing programs in the North.

Comparing revenue structures, the biggest difference between the NWT and Yukon on one hand and the provinces on the other is that the territories are far more dependent on federal transfers. In 1970, federal transfers made up 60 percent of total revenues for the Yukon and 80 percent for the NWT. In 1990, they made up about 74 percent for both territorial governments. In contrast, for the provinces as a whole, federal transfers represented only 19.5 percent of total revenues in 1970 and 15.1 percent in 1990. For even the most transfer dependent provincial governments, those of the Atlantic region, federal payments represented from 37 to 44 percent of total revenue in 1990, well below the ratios for the Yukon and NWT. In other words, territorial reliance on federal transfers has been about 80 percent greater than that of the most dependent provinces in recent years. In the early 1960s though, PEI and Newfoundland relied on federal transfers for approximately 65 to 70 percent respectively of their revenues (Black 1975:88), levels not dissimilar from recent territorial experience.

Table 2-2 shows federal transfers to the territories together in economic context for selected periods from 1967 to 1989. We can see again the major importance of federal transfers to territorial revenues and as a share of the Northern economy. Indeed, as a share of the gross territorial product, federal transfers have increased over the 25 years, representing now about 30 to 33 percent of the North's economic activity. An interesting policy-relevant difference between the territories and provinces lies in the relative importance of federal transfers to persons *and* to governments to their economies. For all provinces, a larger share of federal transfers and hence of their economies is accounted for by transfers to persons such as unemployment insurance, child

benefits and pensions for seniors and veterans, than by federal cash transfers in the form of CAP, EPF and Equalization to the provincial governments themselves. For the NWT and Yukon, the situation is reversed. Federal transfers to the territorial governments are a far larger share of their economies than are transfers to families and individuals. For example, in 1990 transfers to the territories represented 34.7 percent of their economies while transfers to persons accounted for only 4.7 percent (Leslie 1993).

### **Policy Objectives in Fiscal Relations**

The major federal-provincial transfer programs traditionally have had three main objectives:

- to enable a better balance between revenue-raising capabilities and expenditure responsibilities at each level of government;
- to create and maintain social programs with national standards in areas of exclusive provincial jurisdiction; and
- to give provinces the fiscal capabilities to provide reasonably comparable levels of public services at reasonably comparable levels of taxation (De Koven 1993:45; Black 1975; Boadway 1980).

These objectives help reveal some similarities and differences between fiscal federalism in the provincial and territorial domains. As noted earlier, the territories receive most of the same transfers as the provinces designed to achieve the first and second objectives. With respect to the second objective, however, the transfers and shared-cost program are not, as yet, in areas of exclusive territorial jurisdiction because the territories are federally created political entities rather than sovereign sub-national governments. The third objective, the Equalization principle, has been substantially altered and adapted to fit the Northern context. Federal documents describe the purpose of the FFA grants as to assist the governments of the Yukon and NWT to provide "a full range of public services for their residents," thus helping fund the normal operational requirements of the territorial governments, as a standard comparable to those provided other Canadians (INAC

Estimates Part III, 1984, 1985 and 1992). There are no references to providing those services at levels of taxation comparable to a provincial average, no doubt because of the relatively small yield of revenues generated in the territories. For the territories, then, the third objective could be recast as: to give the territories the fiscal capabilities to provide reasonably comparable levels of public services based on their historic expenditure needs and their revenue capacities.

Three other objectives are implied by the FFAs in federal-territorial fiscal relations. These objectives are:

- to encourage tax effort by the territorial governments so as to increase their own-source revenues relative to federal financing;
- to assist the territorial governments in becoming responsible governments by gaining greater control over their spending and taxing; and
- to limit federal budgetary costs under intergovernmental transfer programs to the territories and provinces (Bird and Slack 1989; Canada/GNWT 1985; Guertin 1988; Smith 1988).

The first and second of these objectives are considered in Chapter 3 while the third is examined in Chapters 8 and 10.

### **Intergovernmental Processes**

Another unique aspect of federal-territorial fiscal and political relations concerns the transfer of provincial-type programs and powers to the Yukon and NWT. This transfer process or devolution is an important part of the territories' transition from essentially colonial governments to responsible governments. The transfer of most provincial-type programs took place in an initial wave during the late 1960s and early 1970s. Another wave of devolution occurred through the 1980s and early 1990s, and a number of powers are still to be transferred from Ottawa. The most critical is responsibility for natural resources, including oil and gas, a topic we will examine in



Chapter 3 as an intergovernmental issue, and in Chapter 9 as part of the fiscal futures of the North. Most lands in the North are public lands which are under federal ownership and control. Since the territorial governments cannot tax federal Crown land or resources, an important revenue-source available to the provinces is not yet available to the NWT or Yukon.

The transfer of provincial-type programs includes the transfer of existing base resources from the appropriate federal department or agency. Program transfers from Ottawa to the Yukon over the past 10 years are shown in Table 2-3. There have been 11 transfers of programs to the territory in this period. Their share of the territorial budget has grown to approximately 12 percent of expenditures or \$57.2 million in 1994-95. Program transfers have been in the policy areas of fisheries, mine safety, transportation, health care, income assistance and the Northern Accord. By the 1990s, the devolution process entails that each transfer requires the approval of the Treasury Board and Cabinet at the federal level, and at the territorial level, approval by the YTG and Council of Yukon Indians in that territory, and approval by the GNWT in consultation with the Déné-Métis and Inuit in that territory. The transfer of such program areas as land, forest and water management are intrinsically linked to land claims, and are of great interest and concern to Aboriginal Peoples in the North.

Thus, a distinctive and expanded form of "executive federalism" has emerged in federal-territorial relations. Smiley (1976) coined the phrase "executive federalism" to describe relations between appointed and elected officials across the two levels of government. These consultations were often behind closed doors, dealing with broad policy and partisan politics. In the Canadian North, "executive federalism," as a type of intergovernmental process, involves senior officials and political leaders of the federal and territorial governments as well as of Aboriginal organizations in making decisions on the transfer of remaining provincial-type programs to northern

governments. This process involves more players, is relatively more open, and is addressing issues of First Nation identity in Canadian society. One example of institutionalized federal-territorial-aboriginal collaborations, is the Canada-Yukon-NWT-Council for Yukon Indians-Inuvialuit Game Council-Dene Nation and the Métis Association, Porcupine Caribou Herd Management Agreement. This 1985 agreement established a board to manage the caribou herd in the Porcupine Region which spans parts of the Yukon and NWT. The board has eight voting members: one from Ottawa, two from the Yukon government, one for the NWT government, and four aboriginal members (Canada 1991).

The process of program transfers points to a more general trend of structural change in federal-territorial fiscal relations. While the basic form of most components of federal-provincial fiscal arrangements has remained unchanged for some decades (Boadway 1993:4), financial relations between Ottawa and the territories have been marked by a series of key reforms. We discuss these reforms in detail in the next chapter, so will briefly note them here. In 1978, the territories were included in the tax collection agreements for the first time, which led to the NWT government levying personal and corporate income taxes in 1979 and the Yukon government in 1980. In 1985, the process for transferring funds to the territories was changed from negotiation to a more global formula, the FFA. Before then, transfer payments were determined annually through consultation and negotiation among the Minister of Finance, the President of the Treasury Board, the Minister of Indian Affairs and Northern Development, and representatives from both territorial governments. These annual payments were divided into operating and capital funds. The territories could use the operating funds at their discretion but major capital spending required approval by approval by the federal Treasury Board. FFAs commenced in 1985, were modified in 1988, and in 1991, with further changes to the original funding formula, new five-year agreements began.

## **Decentralizing the Purse Strings**

Along with other political and administrative developments in northern government, the move to FFAs has reduced the influence of federal officials and agencies in territorial matters. Table 2-4 presents federal transfers to the Yukon, NWT and provincial governments on average by type of intergovernmental grant for 1992-93. While the exact percentages may shift slightly from one fiscal year to another, the general pattern has been the same for some time. The general purpose grant refers to the FFAs for the territories and to statutory subsidies, other grants and Equalization for the provinces. The FFAs provide between 80 to 90 percent of federal payments to the Yukon and NWT, while across all provinces, general purpose transfers represent about one-quarter of federal funding. Equalization provides between 60 to 70 percent of transfers to the low-income provinces. As a type of grant, EPF accounts for half of federal transfers to the provinces on average, but only a fraction of that for the territories. There are, of course, interprovincial variations. For equalization-recipient provinces, EPF transfers represent between 15 to 23 percent of federal funding, whereas for the three "have-provinces" these transfers are about 52 to 57 percent of their payments from Ottawa. The post-secondary education part of EPF is essentially unconditional though the health component is at least partly a conditional transfer because of the Canada Health Act of 1984. Even with the consolidation of CAP and EPF transfers into the new Canada Health and Social Transfer in 1996-97, the federal government has declared that the five principles of the Canada Health Act and one or more principles of CAP will be maintained (Martin 1995). On specific purpose grants as well there are notable differences between the territories and the provinces. Specific purpose or conditional grants are for shared-cost programs for which the federal government sets out some conditions. This category includes CAP, crop insurance, economic development, and several other shared-cost programs in

justice, housing and transportation. These specific purpose or conditional grants are two to three times as large a share of federal payments to the provinces as for the territories.

If money talks, most of the federal monies transferred to the Yukon and NWT are unconditional, maximizing the territorial governments' ability to initiate the policy dialogue. Conditional grants, on the other hand, restrict the way recipient governments may use such funds (Boadway 1980:2; Slack 1991: 327-28). As Black (1975:81) expresses it:

If conditional grants did not significantly affect the independence of a provincial cabinet in at least some of its policy choices, the grant program would have failed its basic rationale. The whole point of a conditional grant is to persuade recipient governments to take decisions they would not adopt in the absence of the grant program.

The territorial governments have high financial dependence on Ottawa, but enjoy a degree of policy and budgetary autonomy. Even though the NWT and Yukon are quite reliant on federal transfers (Table 2-1) and raise only a small share of their tax revenues for governing (Table 2-2), with the unconditional nature of transfers under the FFAs as their major grant, the territories have a significant measure of control over spending choices. On average, as Table 2-4 shows, conditional specific transfers are two to three times more important to provincial budgets than to the territories. While specific purpose grants accounted for 22.7 percent of provincial revenues in 1992-93, they constrained about 45 percent of provincial budgets because these grants usually must be matched by provincial funds, thus structuring provincial priorities (Black 1975:82; Chandler and Chandler 1979:163). The unconditional or general purpose terms on which the FFA funds are transferred means that relatively few federal dollars require matching funds from the territorial governments for certain program rather than others. Since the introduction of the FFAs in both territories in 1985, the federal government has little direct control on how territorial monies are spent. The purse strings have been decentralized. The federal government sets no conditions on the FFA transfers;

payments are not tied to any specific public services. These multi-year formula funding agreements enable Whitehorse and Yellowknife to plan, set priorities and allocate resources without having to justify the expenditures to Ottawa (Aird 1988:4; INAC 1988:6-7). Such decisions on spending and taxing are the business of the territorial governments. Territorial flexibility and control in budget making is further enhanced by their positive equity positions and low debt servicing costs, especially compared to the provinces (Ip 1991; Statistics Canada 1994). We consider the financial position of the NWT and Yukon governments in Chapters 5, 6, 7 and 8.

## **Conclusion**

In the byzantine world that is Canadian fiscal federalism, the territorial governments participate in many of the financial arrangements and intergovernmental programs operative across the country. Ottawa provides extensive financial assistance to the territories in the form of intergovernmental transfers. The federal and territorial governments interact within elaborate processes of intergovernmental relations. And like the provinces, developments since the late 1960s have resulted in a strengthening of the territories relative to the federal government. At the same time, territorial-federal financial relations display several distinctive features. These differences are a reflection of the territories' constitutional status, political evolution and social geography. In fiscal terms, the most notable difference is that the NWT and Yukon are not part of the Equalization program but rather have their own financing vehicle, the FFAs.

The objectives of Northern fiscal federalism include supporting the political development of the territories as responsible governments; assisting the northern governments to provide a full range of public services for their residents; facilitating the transfer of provincial-type responsibilities to the territorial governments; and, funding First Nation self-government. These objectives are in addition to, or in place of the traditional goals of federal-provincial transfers.

Intergovernmental transfers are of far greater weight for the northern governments and economies than for the provinces, and the devolution of provincial program areas is an ongoing theme in federal-territorial relations. Though the territories are highly reliant on federal transfers as a source of revenue, most of these transfer payments are an unconditional grant through the FFAs. So despite the substantial financial dependence on Ottawa for funds, the territorial governments have some flexibility within the context of fiscal and political federalism to organize and shape their public services, policies and budgets.

The distinctive Northern version of fiscal relations illustrates a general feature of Canadian federalism: that there is considerable variation in the working relations between the federal government on one hand, and the provinces, territories or First Nations on the other (Prince 1994b).

This asymmetry in intergovernmental arrangements no doubt reflects differing interests, resources and preoccupations of governments (McRoberts 1994). Over the past few decades the degree of fundamental change in federal-territorial relations has been greater than in the federal-provincial arena. The scale, form and process of the fiscal and political arrangements between the federal government and the territorial governments have undergone significant changes. These changes have included program transfers, participation in the tax collection agreements and, perhaps most substantial, the introduction of the FFAs. They have all been important contributors to political and economic developments and the move toward responsible government in the territories. It is this record of change in Northern fiscal federalism that we turn to in the next chapter.

**CHART 2.1**

**COMPARING TERRITORIAL FORMULA FINANCING  
AND PROVINCIAL EQUALIZATION**

PROVINCIAL EQUALIZATION	TERRITORIAL FFA	
Origin:	1985	1957
Purpose:	To enable the territories to provide reasonable standards of public services to residents of the North.	To ensure that provinces have sufficient revenues to provide reasonably comparable levels of public services at comparable levels of taxation.
Mandate:	Department of Indian Affairs and Northern Development (DIAND) Act and Appropriation Acts.	Principle enshrined in Section 36(2), Part III of the Constitution Act, 1982 and Federal-Provincial Fiscal Arrangements Act.
Administered by:	DIAND	Finance Department
Time Frame:	5 year period since 1990	Traditionally 5 year periods
Expenditures:	Explicitly included with actual territorial expenditures for a given year.	Proxied by average revenues per capita.
Nature of Grant:	Unconditional	Unconditional
Escalator:	Explicitly by 3 year moving average of provincial-local expenditures.	Implicitly by growth of provincial-local revenues (subject to GDP ceiling).
Tax Rate:	Fixed at a base year level (1985).	National average tax rate, based on a representative tax system, which changes yearly.

Impact of a Tax Rate Increase:	Increases territories's own-source revenues only.	Increases a recipient province's own-source revenues <u>and</u> its equalization payments.
Allowance for differential expenditure costs/needs:	Yes partially.	No.
Subject to Federal Restraint:	Yes since 1988.	Yes since 1982.

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Source: Based on Bird and Slack 1989; Boadway 1992; Canada 1991; Dean 1981 and 1989b.



**TABLE 2-1**  
**FEDERAL TRANSFERS TO PROVINCES AND TERRITORIES PER CAPITA,**  
**1961-1989**

	1961	1971	1981	1989
(dollars per capita)				
Newfoundland	127	421	1,325	2,392
Prince Edward Island	11	131	1,453	2,331
Nova Scotia	95	294	1,108	1,802
New Brunswick	100	364	1,124	2,021
Quebec *	41	285	858	1,335
Ontario	51	147	377	591
Manitoba	80	248	816	1,524
Saskatchewan	79	259	572	1,180
Alberta	77	171	378	806
British Columbia	91	142	403	734
Yukon & NWT	54	1,208	5,994	13,218
<i>Canada</i>	62	200	622*	1,055*

\* Includes Quebec's personal income tax abatement.

Note: Expenditure is total provincial, local and hospital spending adjusted by subtracting public service superannuation funds and capital consumption allowances.

Source: Adapted from Irene K. Ip, Big Spenders, Toronto: C.D. Howe, 1991, Table 4.10.

**TABLE 2-2**  
**FEDERAL TRANSFERS TO THE TERRITORIES IN ECONOMIC CONTEXT:**  
**1967-1989**

<b>FISCAL PERIOD</b>	<b>SHARE OF NORTHERN ECONOMY</b>	<b>SHARE OF TERRITORIAL REVENUES</b>
(Average Percentage)		
1967-71	13.6	73.2
1972-76	25.3	81.5
1977-81	30.8	78.4
1982-86	29.7	75.5
1987-89	33.3	80.3

Note: Territories include the territorial and local governments and hospital sectors of the Yukon and NWT.

Source: Provincial Economic Accounts, Statistics Canada.

**TABLE 2-3**  
**PROGRAM TRANSFERS TO THE YUKON: 1985-1994**

<b>Fiscal Year</b>	<b>Cumulative # of Transfers</b>	<b>% of YTG Expenditures</b>
1985-86	-	-
1986-87	1	-
1987-88	1	-
1988-89	1	-
1989-90	4	0.8
1990-91	5	3.7
1991-92	5	3.6
1992-93	6	8.9
1993-94	11	11.5
1994-95	11	12.1

Source: Our calculations from information by the Department of Finance, Yukon Government, 1994.

**TABLE 2-4**  
**FEDERAL TRANSFERS TO THE YUKON, NWT AND**  
**PROVINCIAL AVERAGE BY TYPE OF GRANT, 1992-93**

GRANT TYPE	NWT	YUKON	PROVINCIAL AVERAGE
(percentage)			
General Purpose	85.4	82.4	23.9
Established Programs Financing	4.3	7.6	53.4
Specific Purpose	<u>10.3</u>	<u>10.0</u>	<u>22.7</u>
Total	100.0	100.0	100.0

Note: Transfers include cash payments and tax points.

Source: Authors' calculations from Federal-Provincial Programs and Activities: A Descriptive Inventory. Ottawa: 1992.

## **CHAPTER 3**

### **RECENT HISTORY AND CURRENT STATUS OF FEDERAL-TERRITORIAL FISCAL ARRANGEMENTS**

Our analysis of the recent history and current status of federal-territorial financial relations is divided into two time periods: pre-formula financing 1967-1985; and the advent of formula financing 1985 to present. The latter period includes a critical discussion around the key components of the current Formula Financing Agreements (FFA) and the negotiation of new Agreements to take effect April 1995 with the federal government. These negotiations involve resolving a number of outstanding fiscal issues, which we will discuss. The impending division in 1999 of the NWT into two new territories and the fiscal issues surrounding division is also examined.

The earlier "deficit grant" period, 1967-1985, is approached by examining highlights of the political debates and discussions that took place during sittings of the Council of the Northwest Territories (later renamed the Legislative Assembly of the NWT in 1976). We look as well at two federal government commissions and one task force that were responsible for recommending important administrative and financial autonomy measures that moved the Government of the Northwest Territories along the path to increasing financial independence and accountability during the 1967 to 1985 period.

## **The 1967-1985 Period**

To obtain the historical context, it is useful to briefly review the initial postwar period, 1945 to 1967, in order to more fully appreciate the issues and developments in the 1967-1985 and more recent periods. Before 1967, the territorial governments were not really governments but essentially small, colonial administrations. Both the NWT and Yukon had limited powers of taxation, collecting revenues mainly from licence fees, liquor sales and taxes on fuels. The federal government did not require the territories to impose an income tax (Drury 1980:51), and so both abstained from levying taxes on corporations or individuals. The territories had a modest range of program responsibilities participating in some cost-shared programs with Ottawa in welfare, police and health services. As most services were delivered by federal agencies and employees, there was no real territorial civil service in the North during this period. A small staff was engaged in operating certain programs and such services as the liquor distribution systems.

Fiscal transfer relations between Ottawa and the territories were in the form of five year agreements. Operating and capital funds were separate and supplied on different bases - for operating requirements, federal grants and territorial revenues; and for capital needs, federal loans. The fiscal arrangements were decided upon, reviewed and revised within the federal government, in an interdepartmental process. Before each five year agreement was to expire, the deputy ministers of Finance and Indian Affairs and Northern Development appointed an Interdepartmental Committee on Federal-Territorial Financial Relations. Committee members were from Finance, Treasury Board, Indian Affairs, and an administrative representative for each territory. These committees reviewed the financial relations and the allocation of functions between the federal government and the territorial governments, and recommended terms of new fiscal agreements to the federal government. Even though an elected Legislative Council had existed in the Yukon since 1908, until the 1960s, "the legislature had no input into preparation of the territorial budget or

legislation before they were introduced into the legislature: the Council only reacted to budgets and bills put before them" (Smyth 1990:289). In sum, the elements of responsible government in the North, in both political and budgetary terms, were totally absent in this early period.

The 1967-1985 period represents the era of annual grant financing in the North. This is a period when the size of the principal federal grant to the territories was really determined by annual negotiations about the size of the "deficit," that is, the difference between expected "approved" territorial expenditures and expected territorial revenues (Bird and Slack 1989:3). The annual negotiations were a part of the federal government's budget process making it difficult for the territorial administrations to take charge of their own expenditures and act like "responsible" governments. More importantly, however, the 1967 to 1985 period represents an era in the North's financial history that is best characterized by increasing fiscal responsibility and accountability. In September 1967, the seat of the Government for the Northwest Territories was transferred from Ottawa to Yellowknife. Over the next nearly two decades, both the GNWT and YTG expanded to become modern provincial-type governments. The GNWT's budget, for example, expanded from \$15 million in 1967 to \$535 million in 1985.

The introduction of formula financing in 1985 was a crucial step in the devolution of fiscal responsibility and accountability to the territorial government. Key events in federal-territorial fiscal relations over the 1967 to 1994 period are listed in Chart 3-1.

### **Antecedents to Formula Financing**

Administrative responsibility for the Northwest Territories was the subject of an Advisory Commission (Carrothers Commission) set up by the Minister of Indian Affairs and Northern Development in 1965. The Commission was appointed in response to a unanimously adopted

motion to set up such a body by the Territorial Council at Frobisher Bay in November 1964 (Report of the Advisory Commission, Vol. 1, 1966). The Commission was charged with the responsibility of advising the Minister of Northern Affairs on matters related to the political development of the Territories. The Commission submitted their report August, 1966 and recommended substantial changes in the structure and responsibilities of the Government of the NWT. The Commission's recommendation to transfer administrative functions from Ottawa to the territorial government posed a particular set of problems around the new five-year Federal-Territorial financial agreement that was to become effective April 1, 1967.

In a sense, the problems were similar to the current negotiations between the Territorial and Federal government over a new Formula Financing Agreement. As was the case then, substantial changes in the structure and responsibilities of the territorial government were imminent. Unlike the current situation, however, where a fair amount of work has been completed in the area of costing division, the problem then was that the draft five-year agreement being recommended by the Interdepartmental Committee on Federal-Territorial Financial Relations and considered by the Council of the Northwest Territories did not include the costs associated with the Carrothers Commission recommendations. Simply, "it is obvious that the manner and extent in which these recommendations will be implemented will not be known in time to reflect the changes in the new financial agreement commencing 1st of April, 1967" (Council of the Northwest Territories, Thirty-Third Session, 1966:823).

The solution recommended by the Interdepartmental Committee on Federal-Territorial Financial Relations was to have an interim agreement until the results of the Carrothers Commission recommendations were known, to be replaced by a second agreement which would reflect the changes in the structure and responsibilities of the Territorial Government as finally



adopted. The interim agreement was to last two fiscal years in order to permit a comparison with past five-year agreements and be prepared for any unseen difficulty which might arise during the life of an interim agreement.

The draft agreement was tabled for debate during the thirty-third session of the Council of the Northwest Territories, held in Resolute Bay, NWT. It contained a five-year expenditure forecast with the understanding that only the amounts shown under the years 1967-68 and 1968-69 would be included in the new two-year agreement. A central part of the discussion and debate over the new financial agreement revolved around the structure of taxation in the NWT, and particularly, taxation of gas, heating oil and fur exports as found in the old financial agreement and as were being continued in the new financial agreement. Mr. Trimble, (NWT 1966:833-834) with support from other elected Members of the Council argue that these taxes unfairly impacted Aboriginal peoples:

**Mr. Trimble:** ... very definitely that the average income of the indigenous people is a great deal lower than the Canadian average. Now, when we look at this situation, we find that in the Northwest Territories, the greatest percentage of the white population consists of government employees. Let us take a look at the taxes that we have in the Territories.

Fur export tax doesn't touch them. It touches those who receive the least, the indigenous people. Heating oil tax, government employees, almost all, not entirely, but almost all live in government housing and pay a flat rate levied by the Federal Government. The increase in tax normally would not effect them. Diesel tax would not affect them.

Vehicle license tax, most of the government employees who use vehicles use government vehicles. Therefore, the vehicle license tax and the fuel tax on those vehicles doesn't affect them because they are using government vehicles and government fuel. Property tax, that also does not affect them. This means that the people in the Territories who receive the smallest income, which is, incidentally, lower than the Canadian average, are paying the taxes in the Territories and the government personnel, who receive the most, are paying very, very little. I think there should be some change in the structure of our taxation.

**Mr. Pryde** (Western Arctic Member): Does the Territorial Government impose any form of income tax?

**Mr. Davidson** (Interdepartmental Committee Member, Department of Indian Affairs and Northern Development): No, the Territorial Government doesn't and this follows from the agreement. Part of the agreement is that the Territories, in keeping with this whole agreement whereby they get these grants and loans, will not impose a tax on corporate incomes and private incomes or on successions.

**Mr. Pryde:** Why not? Those are the people who can afford it.

**Mr. Davidson:** I can't answer for the Federal Government, but if the Federal Government is going to provide money under this agreement, the arrangement is that indirect taxation will go to that government.

**Mr. Pryde:** Mr. Davidson, I would suggest that the Federal Government live on \$426 cash income per year, which is approximately the per capita income of the Eskimo.

**Mr. Williamson:** If I understand the expression of opinion around this table, we are not asking for a reduction of the degree of our responsibility in the Northwest Territories. We are anxious to become a responsible government and this means we have to take a part in the program of our taxation system. We did raise a question about one form of taxation, because we in Keewatin, and everybody else, are concerned about the inequities as they affect poor people. But we are not asking for a reduction in our degree of responsibility. We did suggest in this discussion this morning a compromise that the Federal Government, during the period of this interim agreement, leave the existing taxes at the present level.

Debate over the new financial agreement took place again during the thirty-fourth session held in Ottawa the following March and April, 1967. During the second reading of Bill 4 (the new federal/territorial financial agreement, 1967-72), concern over the ability of the Interdepartmental Committee to come up with an acceptable agreement came under discussion. The elected members' concerns reflected a recommendation made by the Carrother's Commission - the need for substantial changes in the structure and responsibilities of the Government of the NWT.

Elected members from the NWT were troubled with the membership of the Interdepartmental Committee and whether the Committee could be trusted to come up with the best possible agreement for residents of the NWT. Mr. Trimble, an elected member from the Western Arctic, requested that Council be given a copy of the Interdepartmental Committee's Financial Agreement Report that led to the drawing up of the actual agreement. The spirit of the discussion is summed up in the following quote taken from the closing minutes just before Council passed Bill 4:

... all personnel on this Committee are responsible for their actions to the federal government. The Committee drew up a report which led to the Bill we have before us, a financial agreement between two governments. Yet, as I have said, everyone is responsible to the federal government. Therefore, I think it only reasonable that this Council, which is mostly responsible to the people in the Territories and are the only ones who are responsible to the people in the Territories, have the benefit of seeing that report. If this Council does not see that report, then it means that this agreement is not an agreement at all. It is a set of rules laid down by the federal government under which the territorial government must abide (Council of the Northwest Territories, thirty-fourth Session, Ottawa, April 1967:580).

The Council did vote in favour of the Financial Agreement Ordinance, 1967, on a promise that the federal Minister responsible permit Council to review a copy of the Interdepartmental Committee's report on the background to the Financial Agreement. Council's concerns surrounding this Bill reflected, in part, the frustrations many of the elected Members were feeling regarding the awkward position in which the Commissioner was placed under the existing system and the necessity of implementing the Carrothers Report.

Shortly after the Carrothers Commission was appointed in June 1965, the Deputy Ministers of Finance and Indian Affairs and Northern Development appointed an Interdepartmental Committee on Federal-Territorial Financial relations (the primary function, however, of this

Committee was to recommend to the Minister the content and financial requirements for the preparation and signing of the Financial Agreement) "to review the financial relations and the allocation of functions between the Federal and Territorial Governments, with a view to recommending terms of an agreement to be entered into by the Federal and Territorial Governments when the present financial agreement expires March 31,1967" (Report on the NWT, Interdepartmental Committee on Federal-Territorial Financial Relations, 1967:3).

This review reiterated many of Carrothers' recommendations respecting administrative and financial autonomy measures for the Northwest Territories and with it a number of important legislative and administrative changes were made in 1967: the Northwest Territories Act was amended to create the NWT Consolidated Revenue Fund; there was adoption of a Public Service Ordinance and a Financial Administrative Ordinance for the Government of the NWT; and, the Government of the NWT moved to Yellowknife from Ottawa.

The major outcome of the Carrothers Commission was that administrative responsibility for the Northwest Territories - that previously had been performed in the Mackenzie district by the field staff of the Northern Administration Branch of Indian Affairs and Northern Development - was transferred to the territorial government on April 1, 1969 (Pielak 1985:9). Within a period of three years (Yellowknife became the capital May 1, 1967), major provincial-type responsibilities were transferred to the Mackenzie District, and in 1970, these same programs for the Keewatin district and the Eastern Arctic came under territorial control. By 1975-76, the territorial state had grown to 13 departments and 2965 employees (Zarwiny 1977:18). Chart 3-2 represents, in chronological order, the transfer (devolution) of provincial-type responsibilities from the federal to the territorial state from 1967 to 1984.

In 1978, the federal government appointed the Drury Commission to advise it on matters concerning the future course of territorial constitutional development. The Commission's report was released in early 1980 and, on the matter of financial arrangements for the territory, noted that there were serious deficiencies with the present approach to public finance, in particular that it was not conducive to the development of fiscal responsibility in the territories (Drury 1980:107). Drury therefore recommended the need for greater autonomy for the territorial government and, more specifically, recommended that changes to the budgetary process were essential to the evolution of both local and territorial government in the NWT.

Around the time the Drury Commission was appointed, the Interdepartmental Committee on Federal-Territorial Relations changed its name to the Inter-Governmental Committee on Finance, to recognize the special "government-to-government" relationship between the GNWT and Federal government. The "departmental" review process, which supported the Territorial Government's level of funding, moved from a process of detailed examination to one of providing an overview or "fiscal framework" approach in which percentage growth seems to be the main criteria for year to year (GNWT 1980:3). However, two years after the Committee changed to one of an intergovernmental committee on finance, the then territorial Minister of Finance, Tom Butters, in a statement to the Territorial Council, made clear all was not as it was intended to be respecting the changed role and posture of the new Committee:

Unfortunately, the negotiation portion of the process has been severely limited and funding levels over the past few years have been arbitrarily and unilaterally determined by the federal government.

In a financial sense then, this government has effectively remained as an arm of the Department of Indian Affairs and Northern Development so that while we are expected to perform as a government, we are recognized financially as a federal government program (Legislative Assembly of the Northwest Territories, Jan. 31, 1980:84).

In a meeting held two months later on April 1, 1980, between the Minister of Indian Affairs and Northern Development and the Territorial Executive Committee (Cabinet), a number of territorial concerns were raised with the Minister regarding financial arrangements with the federal government. Some of the major difficulties were:

- The funding and negotiation process make it impractical for the Government of the Northwest Territories to achieve a reasonable level of financial management and planning. Decisions on federal funding are made in terms of percentage increases over prior years' expenditures with little or no consideration of northern circumstances.
- Percentage increases carry no direct reference to specific "factors of change" nor to Treasury Board submissions on capital project. The procedure seems to reconcile the Territorial "fiscal framework" approach with the Federal system of percentage incremental funding, but this procedure does not seem to support the reality of a "government-to-government" relationship.
- The operating and capital grants are voted in the departmental budget as two separate contributions. It seems that the "Department" is being placed in an unreasonable position. Because of the methods of voting, the Department naturally feels a responsibility for the expenditure, and while the Department might wish to play a supportive role, overall Treasury Board instructions might suggest that offsets be required between Departmental and Territorial Government expenditures to satisfy overall guidelines for the "Northern Program" (GNWT 1980:2-3).

The Executive Committee argued that federal-territorial financial arrangements were cumbersome, they did not facilitate future planning, and they did not recognize the difference between the GNWT and a federal department. In light of these problems, the Executive Committee recommended to the Minister of Indian Affairs and Northern Development the following changes to be made to Federal-Territorial financial arrangements:

- To facilitate improvements to the financial management and planning process of the GNWT, the funding process should provide for multi-year financing arrangements on the basis of realistic growth rates (e.g., provincial moving averages) adjusted for northern circumstances. Recognition must be given to those items of expenditure which the Government has limited opportunity to control in the short term (non-discretionary expenditures) and which presently form more than 40 percent of the Government's expenditures.

- The financial negotiation process should be changed to permit the GNWT to deal directly with the Government of Canada on a government-to-government basis, thus reducing the operational role currently performed by the Department of Indian Affairs and Northern Development, while at the same time providing for a strong advisory function for the Minister.
- The budget for the GNWT could be voted by Parliament as a Ministerial rather than a departmental item for the 1981-82 fiscal year. For future years, with the negotiation, money could be voted directly to the GNWT based on the "revenue-needs" identified as part of the long-term plan.

The Minister of Indian Affairs and Northern Development was not being told anything new.

The Drury Report released earlier that year recommended similar financial autonomy measures for the GNWT. Bird and Slack (1989:3) argue that the federal government also was not happy with the system: "In particular, the federal government was understandably unhappy with the way the deficit grant system actively encouraged the GNWT to act irresponsibly with respect to both expenditures and revenues, since the higher the former and the lower the latter, the larger the grant would be."

Shortly after the April 1, 1980, meeting between the territorial Executive Committee and the Minister of Indian and Northern Development, a Federal Government Task Force with members from DIAND and from the Government of the NWT and Yukon Government was set up to investigate the possibility of modifying the existing financial arrangements between the federal and territorial government. The goals were to come up with formula based financing for the territorial governments that would significantly enhance financial planning with funding levels having a reasonable level of predictability. The predictability issue was perceived to be key in the move towards greater financial autonomy and independence. Dean (1981) argued at the time that pressures for a revised financial arrangement was part of the new assertiveness by Northerners to have more control over affairs which directly touch them. A 1981 federal parliamentary task force

on fiscal federalism (Canada 1981) also supported the idea of placing federal-territorial fiscal relations on a multi-year formula basis.

Examining an early version of the Task Force's proposed financial arrangements, Dean (1981:408) concluded that "the proposal has a number of desirable features but is flawed by a failure to establish the appropriate level of assistance to the NWT as a basis for the agreement." According to Dean, the greatest problem with the proposed funding formula related to the expenditure side of the GNWT's budget and the much higher per capita expenditures required to provide a reasonable standard of services in the Northwest Territories.

Nearly two years later, in November 1982, John Munro, Minister of Indian Affairs and Northern Development, addressed the Legislative Assembly of the NWT on the occasion of the announcement of "four new policy thrusts" (Munro 1982:812). The first of these policy thrusts was the decision by the federal government to accept the principle of dividing the Northwest Territories. The second policy thrust was the commitment of the Government of Canada to the principle of responsible and politically accountable government in the Territories. The third element was the decision by the Federal Government to move to formula financing. "This new approach is in keeping with the steady progress in the development of responsible government. What will formula financing mean to the NWT? First of all, formula financing will enable your government to plan. Second, it will provide you with a predictable cash flow. Third, it will free you from the present bureaucratic process for program planning and fiscal accountability" (Munro 1982:814). The final policy thrust was a proposal to establish and distribute discretionary revenues in lieu of costs incurred by the territorial government in support of non-renewable resource development.



Following Munro's statement at the Legislative Assembly, the territorial Minister of Finance, Tom Butters, presented the Executive Committee's response to the proposal of moving towards a formula-based financing arrangement.

The federal government's acceptance of a formula-based financing approach is a milestone on the road toward more autonomous government in the North.

It is important to understand that introduction of a formula financing approach will not eliminate the need for deliberation between the two governments. A negotiation element will continue to be required, but I am confident that the new arrangement will provide a far superior framework for those discussions. Both myself and the Government of the Northwest Territories look forward to the ongoing discussions over the next few months in which we will actively participate in the development of an appropriate formula. The federal-territorial task force that was formed to recommend an alternative funding approach recommended using a fixed tax rate formula and identified the need to use an appropriate base and escalator. These principles must be considered as basic requirements in the development of an equitable formula financing arrangement. As a matter of fact, it is vital that this government be assured these principles will be applied so that the revenue rate decisions we will be making can be done in an atmosphere of fiscal responsibility (Ibid.:818-819).

Fourteen months later, the same territorial Minister of Finance was asked by Bob MacQuarrie, an MLA from Yellowknife, where the formula financing agreement was at, when it would be fully implemented and what the implications were for the GNWT. The Minister responded with the following:

The concept of formula financing was tabled with this House some two or three sessions ago. It has been under discussion for something like, I believe, six or seven years when it was first considered by a joint committee of federal and territorial officials. It has moved rather slowly for various reasons. But it would appear that the concept has received a certain amount of resistance from federal officials in certain departments and this has resulted in delays. I think also the federal government would like to see the two territories go forward in this process together and the Yukon has been slightly tardy in moving into this mode, although I do believe they have since indicated to the federal government their desire to move to formula financing within a number of provisions incorporated into the agreement (Legislative Assembly of the NWT, 1st Session, 10th Assembly, Feb. 14, 1984:321).

In his same response to MacQuarrie's question, the territorial Minister of Finance voiced two general concerns that his officials and those of the federal government were grappling with:

There is still a discussion phase to be carried out between senior officials of this government and the federal government, mainly because there is a concern that once we have moved to a formula, then we are locked into the increases that are predetermined every year by moving average of provincial and municipal cost increases.

We would be concerned, as we have been in the past, where there is a delegation or devolution of federal programs to the territorial administration that such programs would be clothed with adequate financial resources to carry out the level of service that the federal government provided.

In February 1984, the federal Minister of Indian Affairs and Northern Development was in Yellowknife to address the recently convened 10th Assembly, which ushered in a new Executive Council made up entirely of elected Members, excepting the Commissioner, who continued to hold on to the Personal Portfolio. The 10th Assembly also made history with the nomination and election of Richard Nerysoo as Government Leader. He was the first northern aboriginal to head the Territorial government. The federal Minister, in his address to the House, reminded the Members that we are working hard on a formula-based approach to federal financing in the North. The following March, 1985, an entire year after the last public discussion in the Legislative Assembly on formula financing, the Minister of Finance, Tom Butters, briefly updated the Assembly during deliberations on the government's budget. He informed the House that "the agreement and the Memorandum of Agreement and the Memorandum of Understanding, of which drafts have been seen by the Standing Committee on Finance, remain with DIAND. I am advised that ... it looks like it could go to Treasury Board next week and Cabinet the week after (Legislative Assembly of the NWT, 4th Session, 10th Assembly, March 13, 1985:605).

During February and March, the Standing Committee on Finance reviewed Bill 8-85(1) which authorized the Commissioner and the Minister of Finance to enter into a financial agreement

with the Government of Canada - the Formula Financing Agreement - for the financial period from April 1, 1985 to March 31, 1988. The major issue the Standing Committee had with the agreement was a basic philosophical concern with authorizing the Commissioner and the Minister of Finance to enter into a three-year financial agreement which could be extended indefinitely, amended, varied or terminated without the necessity for ratification by the Legislative Assembly. In our opinion, the original wording of the legislation conferred carte blanche on the Commissioner and the Minister of Finance with respect to financial arrangements with the federal government in the present and in subsequent years. Formula financing is the most critical step to date in our progress towards financial autonomy and we felt that the ultimate authority to formally sanction these financial arrangements should rest with the Legislative Assembly. We are not prepared to support the Bill in its original form and we so indicated to the Minister (Standing Committee on Finance, March 1986:3).

As an indicator of the growing power of the Legislative Assembly's elected Members, in this case through their membership on the Standing Committee on Finance, the Minister of Finance agreed to an amendment to Bill 8-85(1) that read, "The Legislative Assembly shall vote on the agreement and any variation, amendment, extension or termination of the agreement laid before the Legislative Assembly" (Legislative Assembly of the NWT, 1985).

### **The Era of Formula Financing - 1985 to present**

With the coming into force of the first formula financing agreements (FFA) between the Government of Canada and the GNWT and YTG on April 1, 1985, the territorial governments entered a new era of fiscal relations with the federal government. The new agreements were for three years to March 31, 1988, with the option of extending them to March 31, 1990. The two year extension was to take place through an amendment to the April 1, 1985 agreement upon mutual agreement of both the territorial and federal governments. Transfer payments to the territorial governments for the 1980 to 1994 period are given in Table 3-1, covering the final years of the deficit grant approach and the new era of formula financing.

The FFAs are an expenditure-based formula. One of the key features of the new agreement was that the annual grant from Canada was now calculated according to a predetermined formula rather than be subject to annual negotiations. The payment became an unconditional grant and allowed the territorial governments to allocate their resources according to the priorities of the Legislative Assembly and the Financial Management Board (FMB). In its most general terms, the Formula consists of two elements:

- The Gross Expenditure Base (GEB) - an approximation of the GNWT's expenditure needs; and
- Eligible Revenues - an approximation of the GNWT's revenues from sources other than the Grant.

The grant is meant to make up the difference between the GNWT's revenue raising capacity and its expenditure needs. There are many variables which enter the calculation of the GEB and eligible revenues. The GEB is established at a fixed amount and escalated annually. The escalator is based on the annual growth in national, provincial and local government spending. However, beginning with new amended two-year agreements in 1988-89, the escalator is subject to a ceiling, based on the growth of the national Gross Domestic Product (GDP). With the second five-year agreements starting in 1990-91, the escalator was adjusted for the difference in population growth between the NWT or Yukon and Canada. Other changes were introduced to the 1990-91 agreement, which will be discussed below. According to the GNWT, these changes "radically alter the territories' fiscal outlook and the basic principles underlying the previous Formula Financing Agreement" (GNWT Budget Address 1990-91:54).

The expenditure needs of the territorial governments are therefore assumed to grow at the same rate as those of the provinces and local governments, adjusted for different population growth rates. However, with the introduction in 1988-89 of the GDP ceiling, a federally-imposed restraint

measure, the GEB is prevented from growing faster than the Canadian economy. This GDP ceiling (based on the growth rate of the Canadian economy) impacts only those provinces considered "have" provinces (Ontario, Alberta and British Columbia) and not under the federal government's Equalization Program. The ceiling on the "have" provinces, which also includes the Northwest Territories and the Yukon, has resulted in a growth rate in federal funding of approximately two percent over the last few years. The GNWT Minister of Finance recently explained the impact of the GDP ceiling on territorial finances as follows:

The difference between the two percent rate of growth that we get through our formula and Yukon gets the same thing, and the five percent rate of growth the provinces get... would amount to some \$70 million... which would just about cover, in two years, the cost of housing (Standing Committee on Finance, Briefing, Jan. 26, 1994:5).

The federal government cuts to social housing is one of a number of issues facing Northerners that we will return to in Chapter 8. The question of equalization as an alternative to Formula Financing will be addressed in Chapter 9.

The other major component of the 1985 formula financing agreement is "own-source revenues" or "eligible revenues." This component includes "hypothetical" own-source revenues and recoveries, transfer payments from Canada, and other revenues and recoveries. "Hypothetical" revenues refer to tax and other revenues which are calculated using rates in a particular base year and multiplying these rates by the given year's volume. They are revenues that would hypothetically be collected if the GNWT or YTG still had tax rates that were in effect during the base year. This particular approach to calculating territorial own-source revenues was intended to achieve two main objectives:

- to stabilize territorial revenues by eliminating the effects of wide fluctuations in tax revenues which are inherent in economies with narrow and volatile tax bases. The formula achieved this since all increases or decreases in tax collection that were due to changes in economic conditions or federal tax policies were accompanied by compensating decreases or increases in the grant.

- it clearly recognized that if the Government of the Northwest Territories [or Yukon] wished to enhance its programs and needed to fund expenditures beyond what was provided under the Formula, it would have to increase its tax rates. The Formula ensured this result since the revenue effect of tax rate initiatives, either the introduction of new taxes or changes to existing tax rates, did not affect territorial hypothetical own-source revenues for purposes of calculating the grant (GNWT 1990: 53).

As previously mentioned, the federal government introduced a GDP ceiling in 1988-89, which tied the growth of the territories base funding to national economic growth. On December 21, 1989, three additional major changes to the formula were announced by the federal government.

First, the expenditure base was now adjusted for the growth in the population of the Northwest Territories, compared to that of Canada as a whole. Second territorial own-source revenues used in calculating the grant to be adjusted, for the duration of the Arrangement, by a fixed factor reflecting territorial "tax effort" relative to the average provincial tax effort. Territorial tax effort will be measured by the Representative Tax System used for determining entitlements under federal-provincial Equalization. And third, territorial own-source revenues used in calculating the grant are further adjusted, on a yearly basis, by a variable reflecting year-over-year changes in provincial tax effort.

The change to a population growth factor in determining the expenditure base recognized the high and volatile population growth rate in the NWT as compared to southern Canada. For example, if the population in the Northwest Territories and in Canada grow at, say, 2 and 1 percent per year respectively, the expenditure base will grow by roughly 1 percentage point more than the provincial and local expenditure escalator.

The second change means that a portion of hypothetical own-source revenues is adjusted for the territories' relative "tax effort." The relative "tax effort" is a measure of tax rates imposed by the GNWT and YTG compared to those imposed by other Canadian provinces and municipalities. There are two tax effort adjustment factors. The "catch up" factor compares the tax effort of the GNWT with the provinces in 1987-88. The "keep-up" measures change in provincial tax effort since 1987-88. These adjustment factors are used to gross-up hypothetical revenues and thereby decrease the grant. These factors were imposed by the federal government and, in effect, penalize the YTG and GNWT financially for having perceived below-average tax effort and for not keeping pace with the growth of provincial tax effort. These changes to the formula, excepting the population growth factor, reduced the grant payable to the GNWT. Under the new 1990-91 formula financing regime, it was estimated that transfer payments to the territorial government would be reduced by \$110 million over the next five years. "Not only are these cuts damaging to the Government's fiscal position and to our ability to respond to the pressing needs of our residents, but the new Formula contains serious flaws which will limit our ability to develop the northern economy" (GNWT Budget Address 1990-91:3). The structure of the current FFA for the NWT is presented in Table 3-2.

By far the most contentious flaw is the "tax effort" factor. This factor serves to reduce the size of the grant as a penalty for a perceived below-average tax effort on the part of the territories. The Grant would be determined using a measure of what the GNWT would have collected if its tax rates were equal to 85 percent of national average tax rates. This factor is appropriately named the "*perversity factor*" by GNWT finance officials and politicians. It is in the measure of fiscal capacity of the Northwest Territories used in the current Formula Financing Agreement that gives rise to the "perversity factor." Fiscal capacity is a measure of the amount of own-source revenues that the GNWT could raise if it levied the same taxes as the provinces, at the same average rates as

the provinces. An example of how this "cashes-out" is that for every \$1.00 of tax revenue that enters into the Formula, this revenue figure is inflated and the federal grant is reduced by approximately \$1.30. The only way to avoid this effect is to raise tax rates. Given the high cost of living in the North, it is felt taxes are high enough already. In the words of the 1993-94 Budget

Address:

The flexibility of the Government of the Northwest Territories to raise revenues through taxation is limited by the high tax burden that Northwest Territories residents face. This high tax burden arises from the fact that residents must earn higher incomes to compensate for higher prices for goods and services in the Northwest Territories and that this higher income places them in a higher tax bracket.

Based on indexes of living cost differentials prepared by Statistics Canada, costs across the Northwest Territories are an average of 43 percent higher than in southern Canada. Northwest Territories residents must earn approximately 43 percent more to compensate for the higher prices in the North.

Principles of equity dictate that northern residents should pay a similar proportion of their incomes in tax as southern residents with incomes of the same purchasing power (GNWT Budget Address 1993-94: 42).

An example of the perverse nature of the tax effort adjustment factor is that the GNWT revenues would increase if all the mines in the NWT shut down. This situation applies to all sectors of the economy which generate tax revenues, not just mining. In other words, the GNWT ends up being penalized for encouraging economic development and awarded for discouraging economic development.

In order for the NWT to come up to 85 percent of the average tax rates across Canada, major tax increases would need to be made across the board. For example, as Table 3-3 shows, in the area of personal income tax, in 1994 the NWT is at 45 percent and the Yukon is at 50 percent of the federal tax base. By comparison, the average personal income tax across Canada is 55.6 percent of federal tax. This puts the NWT 10.6 percent and the Yukon 5.6 percent behind on



personal income tax. Across the spectrum of taxes, from income and corporate tax to sales tax, the NWT and Yukon are about 10 percent behind the Canadian average and may be falling even further behind. Being this far behind affects the NWT at about 30 cents on the dollar. When revenues decline, the NWT picks up 30 cents on the dollar for every dollar they decline. And, the amount of money the federal government deducts each year because of the perversity factor increases every time the provinces increase their tax rates. In order for the "perversity factor" not to be a factor, the NWT's income tax rate would have to rise to slightly more than 52 percent. Corporate taxes would have to rise to 16 or 17 percent. Diesel fuel, now at 8.2 cents, would have to rise to 12 to 14 cents a litre. Table 3-4 reports provincial and territorial tax burdens on a per capita basis for own-source taxes and levies. It shows that the territories have the second lowest tax burden, after PEI. A more complete picture on income tax burdens is given in Table 3-5, comparing Ontario and the NWT. It indicates that the average tax rate is higher for an individual living in the NWT than in Ontario (see also Aird 1988:9-12).

The GNWT takes the position that the original formula signed in 1985 was based on six underlying principles or objectives that guided the design of the Formula. These principles or objectives are outlined as follows:

- *Adequacy* - The Grant from Canada, when combined with territorial own-source revenues, should be sufficient to allow the GNWT to provide services to its residents that are comparable to those provided to residents of the provinces.
- *Responsibility and Accountability* - The GNWT should be fully responsible and accountable to its constituents for budgetary decisions.
- *Flexibility* - The GNWT should have the flexibility to increase its expenditures beyond the level guaranteed through the Formula through tax rate increases which are to be for the benefit of the GNWT. Conversely, reductions in tax rates are to be borne by the GNWT.
- *Certainty* - The use of a Formula should allow both orders of government to project, with reasonable certainty, the level of resources available to the Northwest Territories.

- *Stability* - The Formula should help stabilize year-to-year fluctuations in territorial revenues caused by changes in economic conditions.
- *Neutrality* - The Agreement, once in force, should protect the financial arrangements from the discretionary actions of both governments (GNWT 1994c:22).

These objectives, to a large degree, were achieved in the first three years of the Agreement. However, with the federally imposed GDP ceiling in 1988-89 and the introduction of the "tax effort adjustment factor" in the new five-year Agreement of 1990, a new principle was introduced to the Formula, the principle of federal government affordability. We explore this principle in more detail in the next chapter and in Chapter 8.

### **Negotiating a New Formula**

Negotiations on a new FFA involve the resolution of a number of other fiscal issues facing the North. The impending division of the Northwest Territories into two new territories in 1999 has further complicated negotiations of a new FFA. As previously discussed, there are two outstanding issues related to the FFA, the GDP ceiling and the perversity factor. The territories are attempting to eliminate these elements from the FFA that they argue are costing them millions of dollars of lost revenue each year. As the GNWT Minister of Finance explained in a recent Budget Address:

One element of the Formula which we would like to see addressed is the GDP ceiling. This ceiling, which has cost us hundreds of millions of dollars in lost revenues, links the growth of our base funding to economic growth in southern Canada. While we disagree in principle, with the application of a ceiling unrelated to our expenditure requirements, we understand the federal government needs to limit its fiscal exposure. However, the ceiling on Formula Financing is more restrictive than the one applied to federal-provincial Equalization payments. We have asked the federal government to apply the Formula Financing ceiling in a more equitable way.

Secondly, the Formula currently contains an element which penalizes the GNWT when our tax revenues increase as a result of economic growth, since for every \$1.00 earned in additional taxes, the Formula Financing Grant falls by \$1.30. This aspect of the Formula creates the wrong incentives for economic growth and development. We have made a proposal to the federal government that would eliminate this element, and the disincentives it creates, without increasing federal spending (GNWT Budget Address Feb. 14, 1994:14).

At the time of writing, there is no indication from the federal government what their position is respecting these two Formula related issues. Without the elimination of the perversity factor, the only way the GNWT can capture volume increases in taxes from increased economic activity is to raise tax rates up to 85 percent of the average tax rates across Canada. This is unlikely, given the already high tax rates in the NWT. There is also no indication that the federal government will either eliminate the GDP cap or the treatment of the territories under it.

### **Oil, Gas and Minerals Accord: Implications for Aboriginal People**

Mineral exploration activity in the NWT is booming, not just for diamonds, but also for gold and base metals. Over the next ten years, we will probably see at least six new mines open in the NWT, bringing thousands of new jobs and billions of dollars worth of new investment.

Without the Legislative tools to manage these industries, and without access to resource revenues, this government will continue to have minimal control over non-renewable resource development and will realize no fiscal benefits from mining and oil and gas activity (GNWT Minister of Energy, Mines and Petroleum Resources, Legislative Assembly of the NWT, February 15, 1994:127)

In May 1994, the GNWT produced a proposed draft *Canada/NWT Oil and Gas, Minerals Accord*. The proposed *Accord* will usher in the most important jurisdictional transfer so far from Canada to the territories. It will give the NWT and Nunavut "provincial"-type powers over sub-surface management and over government revenues flowing from sub-surface activity in the

two territories. These powers are currently held by the federal government in the NWT and are primarily exercised on its behalf by DIAND.

The Accord will require Canada to amend the NWT and Nunavut Acts to give the NWT and Nunavut Legislative Assemblies law-making powers over all aspects of oil, gas and minerals management and rights issuance. Under the transfer, the two territorial governments will also gain authority over revenues deriving from sub-surface development, including royalties and taxation. As well, they will take over responsibility for managing "Northern Benefits" programs. The transfer will take effect when the Legislative Assembly passes territorial legislation implementing the Accord. This legislation will be "based substantially" upon federal oil, gas and minerals legislation, which seems to mean that it will be similar to the *Canada Mining Regulations* and to the *Canadian Petroleum Resources Act*. The Accord deals mainly with the transfer of jurisdictional authority over sub-surface management to the "onshore." In the interim between the Accord's signing and the actual transfer, the GNWT will participate with Canada in an Onshore Management Committee (where the federal Minister will have final say). The GNWT's draft Accord foresees the territorial government(s) eventually coming to share jurisdiction with Canada in managing the sub-surface in the "offshore." For now, it simply seeks Canada's commitment to begin negotiations, within three years of the "onshore" transfer, on sharing of revenues and management authority over offshore oil and gas.

How the draft Accord deals with Aboriginal people is difficult to interpret. It seems to say the "right" things - that the proposed transfer won't harm Aboriginal and treaty rights, and that its implementing legislation will be consistent with legislation implementing land claim settlements. The actual goals of the territorial government become clearer in the "Preamble," where it says the Accord will not "identify or define" any Aboriginal or treaty rights. The GNWT seems determined

that this Accord will not recognize any rights of Aboriginal peoples relating to sub-surface management in the NWT. All legislation and management rights and powers are either to be transferred to the GNWT or else shared by Canada with the GNWT. In short, the Accord does not guarantee the NWT's Aboriginal peoples any rights or powers in sub-surface management, or in setting and collecting resource revenues, that is, royalties and taxes. The text of this Accord has been through drafting sessions between Aboriginal representatives and GNWT officials. With prompting from Ottawa, the GNWT is seeking consensus amongst Aboriginal organizations on the Accord. Some key issues at this time (April 1995) remain. One concerns clarifying the meaning of the inherent right of self-government to include the power to make laws in relation to oil, gas and minerals located on or under Aboriginal lands and waters and the sea. Another issue concerns "flow through provisions." This could mean that whatever the GNWT acquires under the Accord would flow through to aboriginal and regional governments when they are created. The fiscal viability of the NWT and aboriginal governments could be significantly enhanced through the devolution of jurisdictional authority over non-renewable resources. This aspect of non-renewable resource devolution will be dealt with in Chapter 9.

### **Financing Two New Territories**

The division of the Northwest Territories and the creation of two new Territories will occur on April 1, 1999. The territorial government is in the early stages of a process which will create the structure and organization of the new governments. In February 1994, the Legislative Assembly of the Northwest Territories passed a motion to establish the Special Joint Committee on Division (SJCD). Its mandate is to facilitate information exchange and joint decision making on division issues by Cabinet and the Legislative Assembly. The SJCD is made up of MLA's and Cabinet Ministers equally representing the Western Arctic and Nunavut. The GNWT has

established the Division Review Committee (DRC) which is made up of Deputy Ministers and Regional Directors. It is the focal point for all bureaucratic business relating to division.

In June 1994, the SJCD created five special project panels to examine a number of major areas related to the planning for and implementation of division of the Northwest Territories. The Special Project Panels are as follows: Administrative Structures of Government for Public Government; Financing the two Territories; Nunavut Infrastructure; Legislation; and Economic Opportunities prior to and after Division. Of particular relevance to our research is the Special Project Panel on Financing Two Territories. The terms of reference attached to this Panel outline a number of principles, assumptions and objectives to guide the Panel's research activities:

- Federal financial support for division should take into account that division means the creation of two new territories, not just an administration in Nunavut.
- The Federal Government will fund the incremental costs associated with implementing division.
- Post-division Federal funding available for the two territories should be sufficient to ensure that the scope and quality of government programs and services provided after division are maintained at their pre-division levels.
- The elements of fairness, equity, simplicity and comprehension by NWT residents must be the primary considerations in selecting a methodology for the division of assets and liabilities.
- The method for the determination of revenue for the two territories will be based on an equitable distribution.
- The next federal-territorial formula financing agreement must contain transition arrangements to allow for the creation of the two new territories and extend beyond April 1, 1999 (Legislative Assembly of the NWT 1994:1-2).

The Panel's workplan is to examine the financial framework of the GNWT and provide recommendations on financial issues including the funding of the territories and the equitable division of the revenues, assets and liabilities of the GNWT in 1999 with the creation of Nunavut

and a new western territory. The Panel is to "produce a report outlining the various issues surrounding financing two new territories, the implications and options for each issue and recommendations regarding the financial agreements required, the gross expenditure base, determination of revenues, and methodology for division of assets and liabilities" (Legislative Assembly of the NWT 1994:4).

If these arrangements have the same structure as the current FFA, two different sets of values have to be determined for each element in each of the Formulae: the Gross Expenditures Base; the level of own-source revenues; and a measure of tax effort. In considering what type of financial arrangement would be the most appropriate for the two new territories, a number of strategic issues need to be addressed:

- Since the current Agreement expires on 31 March 1995, possible changes introduced in the 1995-96 to 1989-99 Agreement could cause one or both territories to reassess the desirability of the structure of the Agreement.
- The federal government could decide to forego the Agreement model for a federally determined funding mechanism that would not involve territorial assent.
- The differences in financial self-sufficiency between the two new territories could cause the federal government and/or the territorial governments to seek significantly different granting formulae for the East and the West.
- Finally, determining the level of federal financial assistance, under whatever type of formula, will be a lengthy exercise that has not yet begun (GNWT 1994c:21).

We will return to these issues in Chapter 9, where we address different scenarios for funding the territorial governments, and in Chapter 10, where we consider some guiding principles for reforming fiscal arrangements in the North.

## **Conclusion**

In the earlier "deficit grant" period, the territorial budgetary process was largely controlled by the federal government with little financial accountability exercised by the Territorial Council. This began to change after the Carrothers Commission's report recommended transferring administrative function from Ottawa to the territorial government. We outlined some of the attitudes and positions taken by territorial politicians engaged in the struggle over the public purse. During the later part of the 1970's, the Drury Commission's report recommended the need for greater autonomy for the territorial government while the financial relationship with the federal government began to move more to a "government-to-government" one. The eventual outcome of the Drury Commission's recommendations, and a May 1980 federal task force set up to investigate the possibility of modifying existing financial relationships between the federal and territorial governments, was the introduction in 1985 of Formula Financing Agreements for the NWT and Yukon. In the latest round of formula financing negotiations, the territorial governments are attempting to eliminate the GDP ceiling and the perversity factor and resolve various issues including the devolution of oil, gas and minerals. In the NWT, these negotiations are further complicated by the need to include "transition arrangements" in the new formula to allow for the creation of the two new territories in 1999.



### CHART 3-1

#### KEY EVENTS IN FEDERAL-TERRITORIAL FISCAL RELATIONS: 1967-1995

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- |      |  |
|------|--|
| 1967 | <ul style="list-style-type: none"><li>· NWT Consolidated Revenue Fund established.</li><li>· Fur export tax abolished by federal government.</li></ul>   |
| 1968 | <ul style="list-style-type: none"><li>· Budget Programming Committee created in Yukon (replacing an Advisory Committee on Finance) to assist the Commissioner in preparing the Territorial Budget.</li></ul>   |
| 1973 | <ul style="list-style-type: none"><li>· The Annual Northern Expenditure Plan providing a regional overview of federal and territorial government spending and employment on the NWT and Yukon, first published.</li></ul>  |
| 1977 | <ul style="list-style-type: none"><li>· Intergovernmental Committee on Federal-Territorial Financial Relations established, replacing Ottawa's Interdepartmental Financial Committee which had operated since the 1950's.</li><li>· NWT and Yukon included in the tax collection agreements for the first time.</li></ul>  |
| 1978 | <ul style="list-style-type: none"><li>· NWT began levying personal and corporate income taxes.</li></ul>   |
| 1980 | <ul style="list-style-type: none"><li>· Yukon began levying personal and corporate income taxes.</li><li>· Drury Report on Constitutional Development in the NWT by special federal representative, called for more government autonomy in the NWT including reforms to fiscal relations.</li><li>· Federal committee of officials established to consider how federal-territorial relations in both territories should be reformed.</li></ul>                                       |
| 1981 | <ul style="list-style-type: none"><li>· NWT Budget introduced for first time by an elected member as Finance Minister rather than by federally appointed commissioner.</li><li>· The 1981-82 Estimates of the federal government show, for the first time, the operating and capital grants to the territories as separate votes.</li><li>· Federal-Territorial Task Force recommends that a formula funding mechanism replace annual grants process in the NWT and Yukon.</li></ul> |

- 1985
  - Office of Devolution established by the GNWT.
  - Transfer Payments to the Territorial Governments Program begun. Initially these Formula Financing Arrangements (FFA) were for a 3 year period.
- 1986
  - Northern Mineral Policy announced by the federal government. It noted, among other things, that the transfer of responsibility for mining to the territorial governments would proceed.
- 1987
  - Federal government approved a Northern Political and Economic Framework which has four objectives: transferring to the territories province-like responsibilities which Ottawa still holds; negotiating the settlement of all outstanding native land claims; assisting the territories in strengthening their economies; reinforcing Canadian sovereignty in the Arctic.
- 1988
  - FFAs with both territories extended for two years with some changes to the original formula. Ottawa introduces a GDP ceiling on the FFAs, tying growth of funding to national economic growth.
- 1990
  - New 5-year FFAs between the federal and territorial governments.
- 1991
  - Umbrella Final Agreement, concerning land claims, self-government and financial transfers, signed by representatives of the Yukon and Canadian governments and the Council of Yukon Indians.
- 1992
  - NWT public approve a boundary to divide the territory.
  - Nunavut Political Accord signed, setting out process and principles for achieving division and creating a new government.
  - Gwichin Land Claim settled.
- 1993
  - Nunavut Act and Nunavut Land Claim Settlement Act proclaimed to establish the new territory of Nunavut by April 1999.
  - Constitutional Development Steering Committee formed regarding division of NWT.
  - Sahtu Land Claim settled
- 1994
  - Preparing for negotiating new FFAs.
- 1995
  - Federal legislation on the Umbrella Final Agreement proclaimed.

## CHART 3-2

### Chronology of Transfer of Powers to the GNWT: 1967-1984

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1967	Naming of Yellowknife as capital
1969-70	Mackenzie and Eastern Arctic take-overs: <ul style="list-style-type: none"><li>- Education</li><li>- Social Assistance</li><li>- Municipal Services</li><li>- Local Government</li><li>- Public Works</li><li>- Development of Small Industries</li><li>- All matters of a private or local nature</li></ul>
1971	Workers compensation
1973	Administration of Justice (excluding Attorney-General)
1974	Low Rental Housing
1976	Sports Fishing
1978	Income Tax
1978	Territorial Elections
1981	Mining Safety
1982	Frobisher Bay Hospital
1984	Road Construction

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Source: Office of Devolution, Government of Northwest Territories.

**TABLE 3-1****TRANSFER PAYMENTS TO THE TERRITORIAL GOVERNMENTS: 1980-1994**

	<b>Yukon</b>	<b>NWT</b>	<b>Total</b>
	(thousands of dollars)		
1980-81	50,961	215,546	266,507
1981-82	62,146	273,914	336,060
1982-83	72,619	289,553	362,172
1983-84	105,790	356,203	461,993
1984-85	113,249	381,596	494,845
1985-86	138,788	447,390	586,178
1986-87	155,408	469,416	624,824
1987-88	167,418	571,002	738,420
1988-89	184,699	666,191	850,890
1989-90	195,385	725,689	921,074
1990-91	216,752	747,918	964,670
1991-92	230,097	812,277	1,042,374
1992-93	251,020	822,244	1,073,264
1993-94	261,766	880,574	1,142,340
1994-95	311,156	882,265	1,193,421
-			

Note: Figures for all years are actuals except 1993-94 which are forecasts, and 1994-95 which are estimates.

Source: Public Accounts of Canada Vol. II, and 1994-95 Estimates Part III, Indian and Northern Affairs Canada.

**TABLE 3-2**  
**Structure of the Current Formula Financing Agreement**  
**and 1991-92 Values**

<b>Gross Expenditure Base</b>	\$1,012 million	Approximation of the GNWT's spending needs which are financed through the Formula
LESS ...		
<b>Own-Source Revenues at 1987-88 tax rates</b>	\$138 million	
TIMES ...	1.26	Approximation of the GNWT's capacity to raise revenues at national average
<b>Tax Effort Adjustment Factor</b>		
Adjusted Revenues	= \$174 million	
LESS ...		
<b>Other Revenues and Transfers subtracted from the GEB</b>	<u>\$61 million</u>	
EQUALS ...		
<b>Grant from Canada</b>	<b>\$777 million</b>	Represents the difference between spending needs and revenue raising ability
PLUS ...		
<b>Actual Own-Source Revenues and other Transfers</b>		
• Own-Source Revenues at 1987-88 rates	\$138 million	Includes both revenues subtracted from the grant and revenues not included in the formula, such as tax rate increases since 1987-88
• Other Revenues and transfers subtracted from the GEB	\$ 61 million	
• Other Revenue not subtracted from the GEB	<u>\$133 million</u>	
EQUALS ...		
<b>Total GNWT Financial Resources</b>	<b>\$1,109 million</b>	

**Notes:**

- Structure of the Current Formula Financing Agreement based on information obtained from Fiscal Policy Division, Department of Finance, GNWT.
- Assuming that arrangements between the two new territories and the federal government have the same structure, values for each of these elements have to be determined for both Nunavut and the Western Territory.

**TABLE 3-3**

**INTER-PROVINCIAL/TERRITORIAL TAX RATE COMPARISONS, 1994**

	Personal Income Tax	Retail Sales Tax	Corporate Income Tax		Payroll
			Small	Large	
	% of 1 Federal Tax	%	(%)	(%) (%)	2
Northwest Territories	45	5	14	1.00	
Yukon	50		6	15	
British Columbia	52.5	7	10	16.5	
Alberta	45.5		6	15.5	
Saskatchewan	55	9	8.5	17	
Manitoba	52	7	10	17	2.25
Ontario	58	8	9.5	15.5	1.95
Quebec	N/A	8	5.75	8.90	3.75
New Brunswick	64	11	9	17	
Nova Scotia	59.5	11	5	16	
Prince Edward Island	59.5	10	7.5	15	
Newfoundland	69	12	5	16	2.00
Canadian Average (a)	55.6	7.4	8.0	14.1	1.80

(a) Average of all provincial and territorial rates weighted by population.

Note: 1.Except for the NWT and Newfoundland, all other governments also impose various kinds of a flat tax and or a surtax on income.

2.Rates shown are for payrolls over \$400,000.

Source: Adapted from the GNWT Budget, 1994-95.

**TABLE 3-4****PROVINCIAL AND TERRITORIAL TAX BURDENS PER CAPITA, 1989**

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<b>Own-Source Taxes and Levies</b>		
<hr/>		
	<b>(dollars)</b>	
Newfoundland	2,588	
Prince Edward Island		2,305
Nova Scotia		2,703
New Brunswick		2,721
Quebec	4,095	
Ontario	4,908	
Manitoba		3,549
Saskatchewan		3,189
Alberta	2,990	
British Columbia		3,761
Yukon & Northwest Territories		2,400

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Source: Adapted from Irene K. Ip, Big Spenders, Toronto: C.D. Howe, 1991, Table 4.9.

**TABLE 3-5**

**Income Tax Burden  
for NWT vs. Ontario, 1993**

	<b>Individual A Ontario</b>	<b>Individual B NWT</b>
Income	30,000	43,000
Northern Deduction	0	2,700
Basic Federal Tax	3,773	6,392
Surtax	133	192
Federal Tax	3,889	6,583
Provincial Tax	2,075	2,876
Total Tax	5,964	9,459
Average Tax Rate	19.9%	22.0%

**Notes:**

Based on indexes of living cost differentials prepared by Statistics Canada, costs across the Northwest Territories are an average of 43 percent higher than in southern Canada. Northwest Territories residents must earn approximately 43 percent more to compensate for the higher prices in the North.

Individual A lives in Ontario and has an annual income of \$30,000. Individual B lives in the Northwest Territories. His income, to be equal in purchasing power to that of Individual A, is assumed to be 43 percent higher or \$43,000. Individual B is assumed to claim a partial Northern Deduction of \$2,700. Data from taxation statistics indicate that the average Northern Deduction claim for individuals without dependents is about half the maximum. As shown above, Individual B in the Northwest Territories pays \$9,459 or 22 percent of income in federal and territorial income tax, whereas Individual A in Ontario pays only \$5,964 or 19.9 percent of income in federal and provincial tax.

In recognition of this higher tax burden, the Northwest Territories has attempted to maintain a lower rate of income tax than in the rest of Canada. If the Northwest Territories were to increase its personal income tax rate to the national average of 54 percent, the tax burden facing its residents would far exceed that of southern residents. With the exception of taxes on alcohol and tobacco, Northwest Territories tax rates are lower than the national average.

**Source:**

GNWT Budget Address, 1993-94: Appendix A



## **CHAPTER 4**

### **PUBLIC FINANCE IN THE TERRITORIAL NORTH: AN OVERVIEW**

This chapter provides an overall portrait of public finance in the Territorial North. Since each of the three governments examined - federal, NWT and Yukon - has a rich history in this regard, the word overview is deliberately used. Our intent is to sketch key aggregate features of northern public finance in six ways. First, we take note of total government expenditures in the Territorial North over a nearly 20-year period. How much government spending has there been in the territories? Second, we look at this spending by level of government. How much has each government spent? Third, and closely related, we present the distribution of spending. What has been the three governments' shares of expenditures in the North and to what extent have these shares changed over time? Fourth, we examine the record of federal transfers to the territories. How much has the federal government transferred by way of cash payments and tax points to the territorial governments? Fifth, we outline the total revenue collected by the federal government from the territories. Sixth, we report evidence on the extent of government employment in the Territorial North. How big is government northern employment and what is its character? These initial sketches pave the way for the further examination of public finance in the NWT in Chapter 5 and for the Yukon in Chapter 6.

A key source of data for this overview is the Annual Northern Expenditure Plan (ANEP) published consecutively since 1973-74 by Indian and Northern Affairs Canada. The ANEP provides a regional overview of government spending in the Territorial North by consolidating "in one document an expenditure and person-year series of ... utilization of the Northwest Territories and Yukon and those of federal departments and agencies with expenditures on programs and activities in or on behalf of the North." Our aim in this chapter, therefore, is to provide an overall look at macro budgetary trends and outputs for the Territorial North, usually for the 1973-1991

period. The following tables present a fairly general account of the northern expenditures of the two territorial governments and 27 federal departments and agencies. In addition, we use revenue and employment data as indicators of government activity in the Territorial North to help address the research questions noted above.

### **Northern Expenditures**

Table 4.1 provides data on total government expenditures in the Territorial North from 1973 to 1991 in terms of magnitude, growth rates and as a percentage of total government spending in Canada. Three six-year intervals are presented to gain a longer-term perspective and to compare the more recent period (1985-91) to earlier periods. Over the 18 years, the trend in total government northern expenditures has been an overall current dollar increase in each successive fiscal year. Compared to the actual \$353 million level in 1973-74, the 1990-91 expenditure is \$2,414 million. While the pattern is of consecutive increases since 1973, the trend is of a declining growth rate. The average annual increase for the 1973-78 period was 15.4 percent, for the 1979-84 interval it was 12.6 percent, and for the 1985-91 period the annual expenditure growth rate averaged 8.9 percent. Moreover, using constant dollars (1986 dollars equal to 100), total northern expenditures actually declined in real terms in 1988-89 by 2.0 percent and in 1990-91 by 1.0 percent. In other words, the increase in current dollars was less,

in percentage terms, than was the level of inflation. Table 4.1 also compares total northern spending to total government expenditure in Canada, which includes federal, provincial and local governments, the public hospital sector and the Canada and Quebec Pension Plans. Compared to this universe of public expenditures in Canada, northern spending has been and remains a small fraction, less than one percent. This is worth keeping in mind whenever the issue of government restraint is raised.

Table 4.2 presents government expenditures in the Territorial North by government for the 1973-91 period. These expenditures are net of transfers as well as sales and purchases between governments. Thus, the expenditures are assigned to the agency that has final responsibility for managing them. The federal government was the single largest spender in the Territories until 1988-89 when spending by the NWT exceeded that of the federal government by 12 percent, then by 10 percent in 1989-90, and 7 percent in 1990-91. Evidence of restraint is apparent in the latest period with federal expenditures decreasing 4 percent in 1988-89 and Yukon expenditures declining 2 percent in 1990-91.

Table 4.3 displays the federal and territorial governments' average annual percentage shares of northern expenditures for three six-year periods. We see that the federal government's share, though still major, is no longer dominant, declining from 53.3 percent in the 1973-79 period to 43.2 percent in the 1985-91 period. Most of the lost federal share has been occupied by the NWT which has increased from 34.5 percent of total northern expenditures over the 1973-79 period to 43.5

percent in the 1985-91 period. The Yukon's share has also increased but much more modestly. In large part, these shifts in the shares of expenditures by government reflect the devolution of federal programs to the territorial governments. Recent devolution initiatives have included: the transfer of forestry management and fire suppression responsibilities from Indian and Northern Affairs Canada to the Government of the Northwest Territories (GNWT) 1987-88; the transfer of health services from Health and Welfare Canada to the GNWT in 1988-89; and the transfer of community airports from Transport Canada to the Yukon Territorial Government (YTG) in 1989-90 and to the GNWT in 1990-91 (see ANEP 1990-91:7; and Dacks 1990).

That the territorial governments rely much more on federal transfers than provincial governments has been noted in the literature by others (Guertin 1988; Slack 1991; and Ip 1991). Table 4.4 aggregates federal transfers to the territories over the 1980-1992 period. Three types of transfers are included here. One type is the formula transfers budgeted by Indian and Northern Affairs. As we noted in the previous chapter, since 1985-86, these transfer payments have been made under the multi-year FFAs between the federal government and the GNWT and YTG. As general purpose grants, these formula transfers are intended to assist the territorial governments in providing a full complement of public services. These formula transfers are also by far the largest among the federal transfers to the territories. We shall examine formula transfers in more detail in the next two chapters. In 1991-92, territorial formula financing grants were estimated at \$230.1 million for the YTG and \$810.6 million for the GNWT. The second type of transfers encompass specific purpose cash grants and "are transferred to the territorial governments to fulfil functions such as education, health care, housing, social services, economic development, employment programs and highway maintenance" (ANEP, 1990-91: 10-11). The third type of federal transfer is the tax point transfers. For the GNWT and YTG, these refer to the Established Programs Financing Tax Transfer of 13.5 personal income tax points and 1.0 corporate income tax point for insured health services and post-secondary education. In 1991-92, these tax point transfers were an estimated \$9.7 million for the YTG and \$21.8 million for the GNWT. For both territorial governments, the growth rate of federal transfers has been uneven, with little stability in the degree (small or large) or direction (decrease or increase) of year-to-year changes. Lastly, we can note that as a share of total federal transfers, those to the territories represent a small but growing portion over the 1980-1992 period.

## **Northern Revenues**

Table 4.5 provides information on how much revenue the federal government collects from the two territories for 1977 to 1987. The ANEP unfortunately does not indicate what revenues are generated by the federal departments and agencies reported in the survey. The data in Table 4.5 come from Provincial Economic Accounts, and while "these estimates may not be completely reliable (because is difficult to determine in many cases what proportion of federal expenditure or revenue can be attributed to any province or territory" (Slack 1991: 338), they do include both direct taxes levied on income from employment and capital gains and indirect taxes such as sales and property taxation. According to Slack, "the major components of what the federal government collects from the territories are direct taxes on persons and corporations and investment income (which are somewhat larger in the NWT than in the Yukon)." Based on this admittedly simplified analysis, Slack concludes: "The federal government spends considerably more money in the territories than it collects there in revenue (especially when one includes PIP [the Petroleum Incentives Program introduced by Ottawa in 1982] in the NWT). In other words, the taxpayers of Canada, through the federal government, are subsidizing the territories" (Slack 1991: 338). Such subsidies are, and always have been, a central feature of the Canadian federal system. This issue of federal subsidization is complex and involves determining the capacity of the territorial governments to raise revenues from their own taxpayers, the value of providing reasonable standards of public service in the North in relation to other jurisdictions in Canada, and the costs the territories incur in providing public services. These issues are addressed in varying ways in the literature (see, for examples, Bird and Slack 1989; Cunningham and Dickerson 1988; Guertin 1988; McMillan 1991; and Smith 1988).

## **Northern Public Employment**

Our final indicator in this overview of public finance in the Territorial North is public

service employment. Table 4.6 shows total government northern employment for 1980 to 1991 in terms of the number of person-years. "A person-year is a standard unit of employment: 12 months of work in any given capacity, rather than a headcount of one person" (Sutherland 1987:80). To provide another analytic perspective, in the next two chapters we will use the headcount approach for measuring government employment in the territories. Table 4.6 shows that total employment for the federal and territorial governments grew marginally from 1980-81 to 1985-86, peaking at 12,085 person-years. Since then, the trend has been of decline. By 1990-91, total government employment in the North was 13.4 percent or 1,514 person-years less than in 1980-81. Most of this decline is recent and has occurred in the federal government. The federal decline is due to "the reduction by National Defence of ground force operations (1,296 person-years in 1988-89) in support of the North" and the transfer of various services to the GNWT and, to a lesser extent, the YTG (ANEP 1990-91: 14). Part of this recent decline is at the level of the territories. "Since 1985-86, approximately 1,300 person-years in health and education or 36.3 percent of the total GNWT person-years reported in 1990-91 continue to be paid through GNWT ... expenditures, but have been removed from the territorial person-year count" (ANEP 1990-91: 15). These person-years have been removed because the employees of GNWT created regional health boards and regional school boards are considered board employees rather than territorial government employees. In a similar fashion, the Yukon government showed a net decrease of 93 person-years in 1988-89 when employees of the Yukon College, who had previously been reported as territorial person-years, were no longer reported as such. Because these transferred person-years in the NWT and Yukon are still funded by territorial grants and contribution expenditures, they represent "a paper decrease rather than a real decrease" (ANEP 1990-91: 15). This reporting practice helps explain the apparent paradox of federal program transfers to the territories and declines in territorial government employment at the same time.

## **Conclusion**

This initial overview of public finance in the Territorial North yields the following observations:

- Over the 1973-1991 period, the trend in total government northern expenditures (in current dollars) has been an increase in each successive fiscal year but at a declining growth rate. In constant dollars, total northern expenditures declined in real terms in 1988-89 and 1990-91.
- Government spending in the Territorial North has been, and remains, a small fraction of total public expenditures in Canada.
- Significant shifts in the shares of spending by government have taken place. The federal government was the largest spender in the territories until 1988-89 when GNWT expenditures surpassed federal spending in the north. In large part, these shifts reflect the devolution of federal programs and activities to the territorial governments, especially to the GNWT where devolution has proceeded more quickly than in the Yukon.
- The YTG and GNWT are both heavily reliant on federal transfer payments. The trend in federal transfers to the territories has been uneven with little stability in either the degree or direction of yearly changes.
- The federal government spends more in the territories than it collects there in revenue. This raises the complex issue of federal subsidization in the confederation.
- Total government northern employment (person-years) for the federal and territorial governments grew marginally from 1980 to 1985. Since then it has generally declined with most of the decrease in the federal domain.

These observations take us partway to understanding the nature and evolution of government expenditures, taxation and employment in the Territorial North. With this background, we can now examine in more detail the public finance outputs and trends of the NWT and Yukon.

**TABLE 4.1****Total Government Expenditures in the Territorial North, 1973-1991**

<b>Fiscal Year</b>	<b>Total (\$ millions)</b>	<b>Yearly Growth (%)</b>	<b>% of Total Government Expenditure in Canada</b>
1973-74	353.2	--	0.78
1974-75	416.8	18.0	0.75
1975-76	515.7	23.7	0.75
1976-77	600.8	16.5	0.78
1977-78	672.3	11.9	0.77
1978-79	718.6	6.9	0.74
1979-80	794.2	10.5	0.74
1980-81	851.0	7.2	0.68
1981-82	1,021.0	20.0	0.70
1982-83	1,172.9	14.9	0.68
1983-84	1,323.7	12.9	0.70
1984-85	1,459.7	10.3	0.71
1985-86	1,627.4	11.5	0.73
1986-87	1,837.6	12.9	0.79
1987-88	1,977.2	7.6	0.80
1988-89	2,027.5	2.5	0.76
1989-90	2,368.4	16.8	0.82
1990-91	2,414.4	1.9	0.77

Source: Annual Northern Expenditure Plan, various issues, and The National Finances 1991. All fiscal years are actual expenditures except 1989-90, forecast, and 1990-91, planned expenditures.



**TABLE 4.2****Government Expenditures in the Territorial North by Level,  
1973-1991**

	Federal	NWTG	YTG
	(\$ millions)		
1973-74	197.1	115.4	40.7
1974-75	228.9	134.8	53.1
1975-76	284.4	163.6	67.1
1976-77	321.3	211.2	68.3
1977-78	348.0	247.1	77.2
1978-79	352.0	274.0	92.6
1979-80	367.8	305.5	120.9
1980-81	410.6	314.2	126.1
1981-82	496.8	397.0	127.2
1982-83	550.3	480.4	142.2
1983-84	645.9	525.5	152.3
1984-85	724.2	569.4	166.0
1985-86	750.9	668.8	207.8
1986-87	831.0	751.2	255.4
1987-88	863.2	858.2	255.8
1988-89	829.0	926.0	272.5
1989-90	978.7	1,077.6	312.1
1990-91	1,017.9	1,090.6	305.9

Source: Annual Northern Expenditure Plan, various editions.

**TABLE 4.3**

**Percentage Shares of Government Expenditures in the  
Territorial North by Level for Selected Periods, 1973-1991**

	Average Annual Percent Share*		
	1973-79	1979-85	1985-91
Federal Government	53.3	48.1	43.2
GNWT	34.5	39.0	43.5
YTG	12.2	12.9	13.3
TOTAL	100.0	100.0	100.0

Source: Calculated from Table 4.2

\*Averages are calculated on the basis of the annual percentage share of expenditures in current dollars for each government in each of the six fiscal year periods.

**TABLE 4.4****Total Federal Transfers to the Territories, 1980-1992**

	(millions of dollars)		
	<b>NWT</b>	<b>Yukon</b>	<b>Territories as % of Canadian Total</b>
1980-81	242.3	74.7	1.9
1981-82	309.4	81.0	2.1
1982-83	337.6	83.1	2.0
1983-84	384.5	117.6	2.1
1984-85	427.8	131.0	2.2
1985-86	523.2	164.4	2.5
1986-87	564.5	190.5	2.6
1987-88	619.6	193.4	2.7
1988-89	740.8	208.2	2.9
1989-90	822.2	225.1	3.1
1990-91	818.3	228.7	3.0
1991-92	913.5	227.9	3.3

Source: Main Estimates. Transfers include total cash payments and tax point transfers.

**TABLE 4.5****Total Federal Revenue from the Territories, 1977-1987**

	<b>Yukon</b>	<b>NWT</b>	<b>Total</b>
	<b>(millions of dollars)</b>		
1977	67	127	194
1978	75	130	205
1979	92	151	243
1980	93	178	271
1981	106	193	299
1982	106	219	325
1983	106	257	363
1984	120	302	422
1985	124	327	451
1986	138	301	439
1987	154	340	494

Source: Statistics Canada, Provincial Economic Accounts, Catalogue No. 13-213

**TABLE 4.6****Total Government Northern Employment, 1980-1991**

	<b>Person-Years</b>	<b>Yearly % Change</b>
1980-81	11,061	--
1981-82	11,274	1.9
1982-83	11,527	2.2
1983-84	11,734	1.8
1984-85	11,780	0.4
1985-86	12,085	2.6
1986-87	11,694	-3.2
1987-88	11,378	-2.7
1988-89	9,606	-15.6
1989-90	9,784	1.9
1990-91	9,760	-0.2

Source: Annual Northern Expenditure Plan, 1989-90 and 1990-91  
Person-year totals are actuals except 1989-90, forecast, and 1990-91,  
planned person-years.

## CHAPTER 5

### PUBLIC FINANCE IN THE NORTHWEST TERRITORIES

Our purpose in this chapter is to provide an inventory of public finances in the Northwest Territories since 1980. More specifically, we examine federal expenditures in and on behalf of the NWT; expenditure and revenue trends of the Government of the Northwest Territories (GNWT); local government expenditure and revenue patterns; and total government employment in the NWT, including information on the employment of Aboriginal peoples in the GNWT.

#### **Expenditures in the NWT**

The NWT-related expenditures of 26 federal government departments and agencies for the 1980-1990 period are shown in Table 5.1. NWT-related federal spending includes expenditures directly undertaken in the territory; those made to achieve federal objectives exclusively for the NWT; and those that involve the NWT in a national program where the territorial component of the program can be identified. Included, therefore, are federal expenditures *in* the NWT and those undertaken in the South when the expenditure is *on* the NWT. To be sure, Table 5.1 summarizes a complex package of information. Each one of the 26 federal agencies with NWT-related spending could be broken down by programs and activities. There are over 200 activities which comprise the ANEP. Particularly relevant agencies such as Indian and Northern Affairs, Transport Canada, and (the former) Health and Welfare Canada would be among the key federal organizations to look at in more detail.

The ANEP, upon which Table 5.1 is based, "was developed to facilitate a balanced and coordinated approach in the allocation of the [federal] government's financial and manpower resources in relation to the Northern objectives" (ANEP 1982-83: 1). The *policy framework*

driving the ANEP, articulated in the document, Canada's North: 1970-80, stressed that government objectives had been altered, moving "from defence to people programmes, from resource development to ecological problems." (Dosman 1975: 96). However, according to a Canadian Arctic Resources Committee (CARC) document, the reality has been that "despite this reordering, development characterized by short project life, little involvement of Native people, or temporary assimilation of Natives, into wage economy to the detriment of traditional lifestyles continued to be the norm" (CARC, 1979: 4). Further, "there has been a profound lack of internal consistency in stated policy objectives, actual goals, and the policies and programmes that have been implemented." That is, while Canada's North places social improvement of northern Natives and the encouragement of renewable resource development at a higher priority than non-renewable resource development, the record shows that a far greater amount of state dollars has been transferred to resource capital (oil and gas and mining industries) than towards the employment and training of Natives and the encouragement and stimulation of the development of renewable resources.

If there has been a notable reordering of federal priorities since the Liberal Government's 1972 Canada North, it is found in the June 1988 Conservative Government document, A Northern Political and Economic Framework (NPEF). NPEF lists objectives towards strengthening of political and economic institutions in Yukon and the Northwest Territories concerning devolution; strengthening territorial economies; and reinforcing Canadian sovereignty. Much more could be said respecting federal development policy in the North since the 1970's and particularly during the 1980-1990 period. However, the task at hand is to point out some of the more obvious trends in federal northern expenditures during our study period.

The four agencies expending the largest proportion of federal dollars in the NWT during the 1980/81 to 1990/91 period were:

- Transportation - 20.5 percent or \$567.9 million
- National Health and Welfare - 18.0 percent or \$497.5 million
- Indian and Northern Affairs - 13.3 percent or \$368.6 million
- Royal Canadian Mounted Police - 8.8 percent or \$224.0 million

Total expenditures decreased from \$235.1 million in 1980 to \$191.9 million in 1990, a 18.7 percent decline. Much of the decrease in expenditures after 1987 can be explained by the devolution of provincial-type programs to the Government of the Northwest Territories (GNWT). For instance, the Health Service Transfer Agreement between the federal government and the GNWT came into effect on April 1, 1988. Earlier, in 1986, the federal government and the GNWT entered into an agreement for the transfer of a health care program in the Baffin. The 1988 Agreement covers responsibility for delivery of a health care program in the Inuvik, Mackenzie and Keewatin zones of the NWT together with certain other health services in the Baffin. Financially this is reflected in the decrease in National Health and Welfare expenditures from \$65.2 million in 1987/88 to \$12.0 million in 1988/89. Another major expenditure area devolved to the GNWT was responsibility for forest and fire management that was transferred on March 31, 1987. Prior to the transfer, this program was carried out through the DIAND's Forest Resources Program. DIAND expenditures dropped from \$48.6 million in 1986/87 to \$22.7 million in 1987/88.

What have been the overall policy emphases of federal spending in the NWT over the 1980 to 1990 period? Table 5.2 provides a simple way of tracing federal government expenditure priorities by noting the funding shares of four broad categories or policy fields: general government, protection, social development, and economic development. General government here includes expenditures by Canada Post, Finance, the Public Service Commission and Revenue Canada. The



protection category encompasses National defence, Federal Judicial Affairs, Justice and the RCMP.

Social development expenditures include Canada Mortgage and Housing Corporation, CBC, Communications, Employment and Immigration, Indian and Northern Affairs, Health and Welfare, National Museums, Secretary of State, and Veterans Affairs. The economic development policy field refers to spending by the departments of Agriculture; Energy, Mines and Resources; Environment; Fisheries and Oceans; Public Works; Regional Economic Expansion/Industry; Science and Technology; and Transport.

Over the 1980 to 1990 period, general government expenditures became more significant in federal spending in the NWT. This reflects a major increase in Canada Post expenditures in the later 1980's. Within the protection policy field, although defence spending was a lower priority, expenditures by the RCMP expanded notably, helping to increase the share of federal NWT spending in this field from 13.0 percent in 1980 to 25.5 percent in 1990. Federal spending in the social development field declined over the 1980's, particularly in the second half of that decade. From 1985-86 to 1990-91, spending by Indian and Northern Affairs declined nearly 28 percent; Health and Welfare Canada expenditures dropped 95 percent (mainly because of the transfer of several health responsibilities to the GNWT); and, overall, social development spending fell from representing fully one-half of federal expenditures in the NWT to just over one-third. This shift in the relative funding of federal social policy coincides with, and no doubt reflects, one of the key objectives of the 1987 Northern Political and Economic Framework, namely, to transfer all remaining provincial-type programs to the territorial governments. Economic development spending has fluctuated as a share of the federal expenditure plan in the NWT, as can be seen in the budgets for Environment, Public Works or Transport. By 1990, however, economic development rivalled social development as the major policy field in federal spending in the NWT.

Over the last 25 years, the role of the GNWT has changed dramatically. The federal Department of Indian Affairs and Northern Development (DIAND) has devolved most of its Northern Programs Branch's responsibilities. DIAND has retained responsibility for most areas with the Indian and Inuit Affairs Program which includes treaty matters with the Native people of the NWT. Education was assumed by the GNWT in 1967 with the transfer of the Territorial Council, the NWT Commissioner and his staff from Ottawa to the newly-created capital of Yellowknife. This was the forerunner to establishing the Territorial government. Responsibility for health, social services and public works were also assumed early. These were followed more recently by other programs such as: intra-territorial road construction (1985), highway programs, Science Centres, Forestry (1987), Baffin Health (1986), the rest of Health (1988) and the responsibility for inter-territorial highways and community access roads and for Arctic "B" and "C" Airports.

For GNWT public administration and finance, this evolution has meant that there are numerous separate government department, several secretariats and directorates, and substantial operating and capital budgets (see Gillies 1993; GNWT 1991; Pielak 1985; and Whittington 1984).

The operation and maintenance (O & M) expenditures for the GNWT for 1980 to 1990 are presented in Table 3.3. O & M expenditures increased from \$257 million in 1980-81 to \$887 million in 1990-91, an increase of 245 percent. As of 1990-91, close to 60 percent of total O & M expenditures by the GNWT came from the following four departments:

- Health - \$160.7 million or 18.1 percent
- Education - \$159.8 million or 18.0 percent
- Public Works - \$111.9 million or 12.6 percent
- Social Services - \$81.4 million or 9.2 percent.

The largest and fastest growing area of territorial government O & M expenditures is Health, which increased by over 488 percent between 1980/81 and 1990/91. Health expenditures in the NWT, as compared to the rest of Canada "represent a much smaller proportion of expenditures in the Yukon and NWT than the rest of Canada, a fact explained in part by the younger population of the North and in part by the historical federal responsibility for native health" (Slack 1991: 317).

Table 5.4 summarizes GNWT capital budget expenditures for the 1980 to 1990 period. Capital expenditures increased from \$55.0 million in 1980 to \$162.4 million in 1990, an increase of 195 percent. As of 1990/91, over 75 percent of the total capital expenditures came from the following four departments:

- Local Government - \$45.2 million or 27.9 percent
- NWT Housing Corporation - \$29.2 million or 18 percent
- Education - \$25.3 million or 15.6 percent, and
- Transportation - \$22.8 million or 14.1 percent of total capital spending.

Between 1980 and 1990, the fastest growing area of capital expenditures was the Department of Municipal and Community Affairs (formally Local Government) which increased by over 175 percent.

Tables 5.3 and 5.4 suggest that in terms of public finance allocation and reporting at an aggregate level, Aboriginal peoples are dealt with in the same manner as non-natives in territorial expenditures. We should note, however, that Aboriginal leaders in the NWT have long argued that the GNWT is merely acting in the capacity of an "agent" under management agreements for the delivery of the federal government's financial obligations to the North's Aboriginal peoples in such areas as education, health and social welfare. In the context of aboriginal self-government, a critical public finance question is: what proportion of the territorial government's budget should be

transferred directly to Aboriginal governments from the federal government, thereby bypassing the GNWT's consolidated revenue fund?

GNWT total expenditures are set out in Table 5.5 by the expenditure function classification used in Statistics Canada's System of Government Financial Management Statistics and also applied to the ANEP financial data. Actual expenditures by function increased from \$313.8 million in 1980 to \$1,106.5 million in 1990. As of 1990/91, over 62 percent of the total expenditures came from the following four functional areas:

- General Services - \$212.6 million or 19.2 percent
  - Health - \$186.2 million or 16.8 percent
  - Education - \$182.8 million or 16.5 percent
  - Resource Conservation and Industrial Development - \$128.8 million or 11.6 percent
- of total expenditures.

The fastest-growing area of functional expenditures is resource conservation and industrial development which increased from \$16 million in 1980/81 to \$128.8 million 1990/91, an increase of over 700 percent.

While this Table, based on Statistics Canada figures, indicates a running deficit beginning in 1987/88 and carrying through on a yearly basis to 1990/91, the GNWT Minister of Finance's Budget Address for fiscal years 1993-94 makes the following observations respecting the debt/surplus position of the GNWT:

At the end of 1988-89, the Government of the Northwest Territories had an accumulated surplus of \$67 million. The surplus was the result of conservative financial management on the part of the government, and represented a "cushion" against unexpected revenue shortfalls or expenditure requirements. By the end of 1993-94, the surplus will be less than \$2 million. This decline is entirely attributable to the effects of federal restraint on the GNWT.

To highlight territorial priorities, Table 5.6 provides a breakdown of GNWT spending by major policy fields for selected years. General services includes expenditures for executive and legislature functions, administration, intergovernmental services and public work activities. The proportion of expenditure going to general services, notwithstanding the political and administrative development of the GNWT in recent decades, declined over the 1980 to 1990 period, though still comprising a sizable portion of the GNWT budget. The share of territorial expenditures directed to the protection of persons and property has remained at around five percent. This is in contrast to the larger and growing share of federal spending for the protection function. The proportion of expenditures for social development declined from 1980 to 1985 but increased to a dominant share by 1990. While education and social service spending shares have not increased over this period, health expenditures experienced major growth in relative terms, no doubt in part because of the devolution of health services to the NWT.

The economic and resource development efforts of the GNWT have been discussed by many writers (Aird 1988: 253-336; Coates and Powell 1989; Dacks 1981; Stabler and Howe 1990). Here it is sufficient to note that the share of territorial expenditures going to this policy field grew over this period, and represents a significant part of the GNWT budget; and that the participation of Aboriginal groups in the industrial economy and resources sector has often occurred through joint ventures between Native organizations, such as the Inuvialuit Development Corporation, and petroleum resource businesses.

GNWT spending on debt charges represents but a fraction of the territorial budget. Slack suggests two reasons why debt charges are so relatively small: (i) "significant dependence on federal transfers to make up the difference between expenditures and revenue;" and (ii) historically

the GNWT and YTG "did not have the power to incur debt without the approval of the federal government" (1991: 320).

### **Revenues in the NWT**

The revenue sources of the GNWT from 1980 to 1990 are set out in Table 5.7. Own source revenue increased from \$71.7 million in 1980/81 to \$242.7 million in 1990/91, an increase of 238.5 percent. Revenue collected from personal income tax increased during this same period by 202 percent, while revenue generated from corporation taxes increased by only 47.2 percent. Income taxes, personal and corporate, were not introduced in the NWT until 1978. Before then, northerners paid the federal government an additional tax at rates similar to the provincial rates.

In 1980/81, GNWT own source revenue amounted to \$71.7 million, or 16.5 percent of total revenue. By 1990/91, own source revenue had increased to \$242.7 million or 22.1 percent of total revenue, an increase of 5.6 percent over 1980/81. In the 1993/94 Budget Speech by the GNWT Minister of Finance, the following observations regarding the growth of government revenues during the late 1980's in the NWT and the effect of the Formula Financing Agreement on revenue growth were made:

Since 1988-89, total revenue have grown at an average annual rate of 5.2% after programs transferred from the federal government, such as highways and arctic airports, have been excluded. In the absence of any revenue initiatives, the average growth rate would have been only 3.9%. The principal cause of the low growth in revenues is the imposition of cutbacks in the growth of federal transfer payments to the Government of the Northwest Territories.

Federal transfer payments have grown at a rate of only 3.8% since 1988/89, after program transfers have been excluded. In 1990, the federal government imposed two changes on the Formula Financing Agreement - the Tax Effort Adjustment Factor and the Population Adjustment Factor.

- The **Tax Effort Adjustment Factor** penalizes the Government of Northwest Territories for its perceived low tax effort. The grant is reduced because Northwest

Territories nominal tax rates in 1987-88 were less than 85% of national average rates. In addition, federal funding is further reduced by the increase in provincial tax effort since 1987-88.

- The **Population Adjustment Factor** adjusts the growth in the Grant for differences between the growth rates in the population of Canada and the Northwest Territories. This recognizes the fact that expenditure requirements are affected by population growth.

At the same time that these changes were made to the Formula, the slowdown in the Canadian economy triggered the GDP ceiling which had been imposed on the Formula in 1988. Prior to the imposition of the ceiling, funding growth in the formula had been tied to the growth in provincial and local government spending in Canada, since this has been agreed to be a good proxy for the changes in expenditure requirements of the GNWT. As part of its deficit reduction measure, the federal government introduced a ceiling on funding growth determined by the growth in the Canadian economy. Therefore, when the economy went into recession in 1990, the ceiling came into effect and, because the economic recovery is very weak, has remained in effect since (GNWT 1993: 21).

We examine the issue of federal restraint in Chapter 8. The single largest increase in own source revenue came from sales of goods and services which increased from \$14 million in 1980/81 to 72.8 million in 1990/91, an increase of 420 percent. Much of the revenue derived from sales of goods and services comes from the rental of property, largely residential property to GNWT employees. In 1993, the GNWT began the process of selling off its government housing in the North. This means that this important area of own source revenue for the territorial government will largely dry up over the rest of the 1990s.

New revenue generating measures undertaken by the territorial government during the early 1990's include a new NWT Payroll Tax; increases to personal income taxes, property taxes and liquor markups; and changes to a number of fees and licences. "The initiatives undertaken have been significant and will raise considerable revenues. This was necessary for the Government of

the Northwest Territories to meet uncontrollable expenditure demands and avoid chronic deficits. The Government implemented its revenue initiatives on a broad spectrum and has attempted to ensure that no one sector on the Northwest Territories economy is disproportionately affected" (GNWT 1993: 33).

The first representative local governments in the NWT were established as towns and villages in 1963 (Pielak 1985). Since the establishment of the Department of Municipal and Community Affairs in 1967 (its name was changed in 1986 from Department of Local Government), it has been assigned the responsibility for the political and administrative development of local governments and for guiding the overall land use planning and provision of municipal infrastructure within communities. Table 5.8 summarizes NWT local government expenditures. Local government expenditures increased from \$39.6 million in 1980 to \$141.1 million in 1990, an increase of 256 percent. As of 1990, most local government expenditures came from the following four functional areas:

- Environment - \$37.2 million or 26.3 percent
- General Services - \$22.4 million or 15.9 percent
- Transportation and Communications - \$20.8 million or 14.7 percent
- Education - \$20.4 million or 14.4 percent of total expenditures.

The largest and fastest growing area of functional expenditures is found in the area of the environment which increased from \$8.7 million to \$37.2 million in 1990, an increase of 328 percent.

With respect to financing local government, the GNWT provides the following types of assistance for capital borrowing:

The Cities, Towns and Villages Act allows all municipal taxing authorities (villages, towns, and the City of Yellowknife) to borrow money for municipal purposes.



Money is borrowed on the security of municipal debentures, which have all been purchased by the government of the Northwest Territories. In addition to capital borrowing, municipal taxing authorities are eligible for capital contributions toward water and sanitation works, road and sidewalk construction, and recreation facilities.

There is provision in the property Assessment and Taxation Act for hamlets and charter communities to become municipal taxing authorities; the Hamlets Act and the Charter Communities Act allow such municipalities to borrow money for municipal purposes, subject to the same borrowing restrictions that apply to villages (Canadian Tax Foundation, 1991: 3-20).

And with respect to borrowing, the GNWT sets out the following restrictions:

The legislated limit to capital borrowing is 10 percent of the total taxable assessment in villages and 20 percent of the total taxable assessment in towns and the City of Yellowknife. Temporary borrowing, by overdraft or similar means, is restricted to 85 percent of the annual budget in cities, towns and villages and 10 percent of the annual budget in hamlets and charter communities. Settlement corporations may not borrow.

Table 5.9 shows NWT local government revenue by main sources from 1980 to 1990. Own source revenues increased from nearly \$17.4 million in 1980 to \$63.5 in 1990, an increase of 265 percent. The single largest source of Local Government own source revenue, \$39.6 million, or 29.3 percent of total revenue, came from sale of goods and services, which presumably is rental income from residential and commercial property. Property taxes is the second largest own source revenue, making up 13.3 percent of total expenditures in 1990. Transfers from the GNWT make up the single largest source of Local Government revenues, increasing from \$23.5 million in 1980 to \$70.4 million in 1990, an increase of close to 200 percent. Annual revenues increased on an average of 9.1 percent between 1980 and 1990, with the single largest annual increase in revenue taking place in 1987, where revenues increased 35.2 percent over 1986. This is attributed to a 56.7 percent increase in revenue derived from sales of goods and services.

To gauge the presence of government expenditures in the territorial economy, Table 5.10 sets out spending in the NWT by level of government as a percentage of the territorial gross domestic product (GDP). Overall, government spending represents an important and growing part of the NWT economy over the 1980-1990 period. Territorial government expenditures increased from 33.0 percent of GDP in 1980 to 57.1 percent in 1990. This indicates the expansive nature of the northern state over this period and the very large role public expenditures play in the northern economy. Local government expenditures have also increased as a share of the NWT economy from 4.2 percent in 1980 to 7.3 percent by 1990. This trend reflects the expanded number of incorporated municipalities and the continued transfer of programs, staff and finances to local and regional agencies (Clancy 1992; Gillies 1993). Conversely, federal expenditures in the NWT have declined from representing one-quarter of GDP to only one-tenth by 1990. This trend is largely explained by the devolution of a number of programs to the GNWT and, to some extent, federal restraint of northern expenditures.

### **Public Employment in the NWT**

A decade of steady devolution from federal to the territorial government and the expansion of local government in the NWT is clearly evident in the government employment statistics of the 1980 to 1992 period, as shown in Table 5.11. The size of the territorial bureaucracy increased from 3,075 employees in 1980 to 6,444 employees in 1992. During this same period the federal bureaucracy decreased from 2,367 employees to 1,567. The growth in local government is the most impressive, increasing from 232 employees to 1,426 employees in 1992, an increase of over 514 percent. Government provides almost half of all jobs in the NWT. Government employment as a percentage of total NWT employment increased from over 42 percent to close to 47 percent between 1984 and 1991. The percentage would be even higher if indirectly government-related

work was measured. Government employment is also important in the NWT as it "includes the better-paying jobs in the territory" (Franks 1988: 390).

The proportion of government employment in the NWT by level, which is shown in Table 5.12, has undergone some significant shifts over the 1980-92 period. Most notably, the federal share of public employees in the NWT fell sharply from 41.7 percent to 16.6 percent. In a sense, this echoes the trend of federal spending as a share of territorial GDP presented in Table 5.10. The territorial share, by comparison, has increased, especially since the mid-1980's. The local government share of public employment has also increased more so in the early 1980's but continuing over the period. As devolution and decentralization initiatives continue (Dacks 1990; GNWT 1991; and Gillies 1993), the proportion of government employees at the local level will likely surpass the federal share by the mid-1990's.

A serious issue in government employment and in public administration more generally is the representativeness of the northern public service, particularly as it concerns the participation of Aboriginal peoples who comprise over half of the NWT's population (Franks 1984 and 1988; Stabler and Howe 1990; and Whittington 1984). The issue relates to fairness in employment opportunities, sensitive program administration to client groups and responsive policy development.

In 1969, there were 624 full-time employees in the GNWT public service, of which 149, or 23.8 percent, were Aboriginal (GNWT 1969: 663). In 1975, while the total number of Aboriginal GNWT public servants increased to 250, the proportion fell to 7 percent. In 1985, Aboriginal employment increased to 1,136 employees, or 30 percent of the territorial public service. Three years later, in 1988, Aboriginal employment represented 32 percent of the territorial public service, or 1,378 employees (GNWT 1988).

The territorial government almost from its inception in the late 1960s, began to set aside an increasing number of native in-service-training positions. The 1973 GNWT Task Force on Personnel Policy is said to represent the roots of what became in 1985 the Native Employment Policy (Bell 1989:6). In 1976, the Task Force published its final report and made specific recommendations which laid the foundation for the present Native Employment Policy. The Task Force recommended that the Territorial Public Service should reflect at all levels the ratio of native northerners to the population of the Northwest Territories. To meet this objective, the Task Force proposed that training positions be created, available to northerners, up to ten percent of the total establishment of the Public Service. Following the release of the Task Force's recommendations, the Commissioner created the Office of Native Employment (ONE) in 1976, in the Department of Personnel. While given this mandate, "the Office of Native Employment did not meet expectations. One of its major handicaps was the lack of a specific native employment policy." (Bell 1989:7)

In 1985 the Department of Personnel was directed by the Executive Council to review the mandate of the ONE and to assess its future role. As a result of this review the Department of Personnel established a Native Employment Policy (NEP) in 1985. Bell (1989) points out that by 1985 the Executive Council had taken over the responsibilities of the Commissioner and there was strong support within the Council and the Legislative Assembly to increase the representation of native people with the public service.

The new NEP was to "stimulate the employment, training and promotion of native people in the Territorial Public Service so that the service would become more representative of the population it services" (GNWT 1985). Following the announcement of the Native Employment

Policy in February 1985, a staffing directive was sent out to all territorial government departments that stated:

Native people who are eligible for affirmative action as per the Native Employment Policy will be given priority for appointment to all positions in the Territorial Public Service that are filled by competition. To receive this priority, a native person must be qualified and suitable for appointment to the position.

Bell's (1989) assessment and review of the NEP four years after it began, a review guided by a strict reading of the statistical targets set out in the NEP, concludes that the Native Employment Policy has failed to meet its primary policy objectives -- to significantly increase the number of native people in the GNWT Public Service. Bell's analysis of the failure shows that the GNWT seriously misjudged the significance of "systemic barriers" and discrimination in the hiring of natives. And in the end, according to Bell, "the main reason for the lack of native representation within the GNWT Public Service is the severe shortage of native people with the required education and skills in the general population" (1989:22).

Aboriginal employment in the GNWT at the end of 1992 is reported in Table 5.13. Information is provided on the number and proportion of Aboriginal employees and managers for territorial government departments, boards of education and regional health boards. Aboriginal people (Inuit, Dene and Métis) make up slightly more than 34 percent of total GNWT employment, or 2,065 employees. For GNWT departments, the largest proportion of Aboriginal employees is found in the Department of Renewable Resources. The Sahtu Divisional Board of Education has the largest proportion of Aboriginal employees for Boards of Education with approximately 54 percent Aboriginal employment. For boards of health, the Kitikmeot Regional Health Board has the largest proportion of Aboriginal employees with approximately 50 percent Aboriginal employment.

Aboriginal managers represent slightly more than 13 percent of the total number of managers in the GNWT public service. The largest proportion of Aboriginal managers are found in the Department of Education, Culture and Employment. Here, 30 percent of managers, 9 out of 30, are Aboriginal. It is interesting to note that in September 1988, out of 231 managers in the GNWT public service, 21 were Aboriginal, or just over 9 percent (GNWT 1988).

## **Conclusion**

Three general conclusions emerge from this inventory of public finance in the NWT. The first is that government represents an important and growing part of the territorial economy and society. In recent years, government employment has directly accounted for about 42 to 47 percent of the labour force and total government spending in the NWT has accounted for about 70 to 75 percent of the territorial GDP. The second conclusion is that the transfer of provincial-like programs to the GNWT has had several impacts, influencing the overall level and nature of federal northern expenditures as well as the role of the GNWT, its spending patterns and administrative arrangements, most notably in health services. The third is that in terms of public finance allocation and reporting, especially at the aggregate level examined here, Aboriginal peoples are dealt with in the same way as non-Aboriginal in territorial expenditures. In terms of GNWT employment, efforts continue at increasing the proportion of Aboriginal employees and managers.

**TABLE 5.2**

**Percentage of Federal Spending in the NWT  
by Major Policy Fields for Selected Years, 1980-1990**

<b>Years</b>	<b>Policy Fields</b>			
	<b>General Government</b>	<b>Protection</b>	<b>Social Development</b>	<b>Economic Development</b>
1980-81	2.2	13.0	53.0	31.8
1985-86	2.4	19.5	50.8	27.3
1990-91	5.9	25.5	34.8	33.8

Source: Calculated from Table 5.1

**TABLE 5.6****Percentage of GNWT Spending by Major Policy Fields for  
Selected Years, 1980-1990**

	Policy Fields					
	General Services	Protection	Social Developmen t	Economic and Resource Development	Transfers	Debt Charges
1980-81	27.8	4.8	39.5	17.7	9.7	0.5
1985-86	23.1	5.8	37.8	23.7	8.7	--
1990-91	19.2	5.5	43.8	21.6	9.5	0.4

Source: Calculated from Table 5.5

For 1985-86, other expenditures represented 0.9 per cent.



**TABLE 5.10**

**Government Spending in the NWT as a  
Percentage of Territorial GDP, 1980-1990**

	<b>Territorial</b>	<b>Local</b>	<b>Federal</b>	<b>Total</b>
1980	33.0	4.2	24.8	62.0
1981	38.6	5.5	19.4	63.5
1982	37.8	4.7	18.6	61.1
1983	38.7	4.7	25.3	68.7
1984	39.4	4.9	26.1	70.4
1985	40.5	5.5	16.0	62.0
1986	47.0	5.5	16.7	69.2
1987	52.9	7.0	15.7	75.6
1988	53.4	7.3	11.7	72.4
1989	55.9	6.9	10.9	73.7
1990	57.1	7.3	9.9	74.3

Source: Calculated from Tables 5.1, 5.5 and 5.8 Territorial Gross Domestic Product (GDP) at market prices from NWT Economic Accounts.

**TABLE 5.12**

**Percentage Shares of Government Employment by Level in the NWT  
for Selected Years, 1980-1992**

	<b>1980</b>	<b>1986</b>	<b>1992</b>
<b>Federal</b>	41.7	29.7	16.6
<b>Territorial</b>	54.2	56.7	68.3
<b>Local</b>	4.1	13.6	15.1
<b>Total</b>	100.0	100.0	100.0

Source: Calculated from Table 5.11

## **CHAPTER 6**

### **PUBLIC FINANCE IN THE YUKON**

In this chapter, we consider several dimensions of public finance in the Yukon. Our aim is to highlight the scope of federal spending in and on behalf of the Yukon; to convey an overall sense of Yukon Territorial Government (YTG) expenditures and revenues as well as local government spending and taxing; to report on the scale of total government spending in relation to the territorial economy; and to present information on government employment in the Yukon. As in the previous chapter, the focus here is on summarizing and highlighting budgetary data and trends for the 1980 to 1990 period.

#### **Expenditures in the Yukon**

Yukon-related expenditures of 26 federal government departments and agencies are presented in Table 6.1. These federal expenditures encompass spending undertaken in the Yukon; spending to achieve federal objectives specifically for the Yukon; and spending that involves the Yukon in a national program where the territorial part of the program can be identified. The table provides a reasonably comprehensive account of federal expenditures in and for the Yukon by the departments and agencies responsible for administering the monies.

Over the 10 year period, the trend in federal spending in the Yukon increased steadily to 1984-85, dropped in 1985-86 and 1986-87, and then increased again in the late 1980's. Federal spending grew from \$95.5 million in 1980-81 to a planned \$166.4 million in 1990-91, an average annual growth rate of 6.9 percent. This compares to a 10.4 percent growth rate in YTG spending over the same period. Consequently, federal spending in the Yukon represented 76.3 percent of YTG spending in 1980-81, but only 45.4 percent by 1990-91.

Though 26 federal agencies have northern programs with expenditures in the Yukon, about 90 percent of those expenditures flow through seven agencies: Indian and Northern Affairs,

National Health and Welfare, Public Works, Employment and Immigration, RCMP, Transport Canada, and Environment Canada. Whittington has observed that, "A dominant, if declining, bureaucratic force in the Northwest Territories and Yukon to this day is the federal Department of Indian Affairs and Northern Development (DIAND), which functions as a kind of 'colonial office' for the North" (1990:33). DIAND's mandate is, of course, to provide services to Status Indians and Inuit, while other federal department may and do provide programs to all Aboriginal peoples. From an expenditure viewpoint, the federal agencies with major Aboriginal programs are DIAND, National Health and Welfare, Canada Mortgage and Housing Corporation (CMHC), and Employment and Immigration (INAC 1993).

DIAND is responsible for coordinating federal activities in the Territorial North, funding economic development agreements and discharging quasi-provincial responsibility for land and resource management. Under the Northern Affairs Program, DIAND's activities include transfer payments to the YTG and GNWT, Native health services, support to Indian and Inuit business enterprises, Native training and employment as well as grants and contributions to Aboriginal organizations, social assistance and welfare services. The expenditure figures in Table 6.1 show that DIAND remained the dominant federal spender in the Yukon over the 1980 to 1990 period, averaging an annual 29.6 percent share of federal spending. The figures do not capture or reveal the trend of developing responsibility for the delivery of programs to First Nations.

Many health services in the Yukon, unlike in the NWT, are funded for the most part by National Health and Welfare. Federally funded and operated health services include community health programs, nursing stations, hospitals, environmental health, and the National Native Alcohol and Drug Abuse Program introduced in 1982. It was not until October 1990 that a Health Transfer Framework Agreement was signed between the federal government, the YTG and the Council of Yukon Indians (CYI) for the transfer of the Whitehorse General Hospital and community health

services.

Federal spending on social housing programs is also a notable feature of Ottawa's presence in the Yukon. DIAND provides, through its on-reserve housing program, assistance to Yukon Indians. CMHC funds the territorial government housing agency, the Yukon Housing Corporation (YHC) and the CYI to deliver housing programs. The YHC concentrates on non-profit and rent-supplement programs for the general population and the CMHC administers its own programs directly or through the CYI. Thus, some Aboriginal management of housing programs exists in the Yukon.

How have major policy fields fared in federal northern expenditures in the Yukon over this period? The funding shares of four broad policy fields are given in Table 6.2, providing one means of tracking of federal expenditure priorities. The four policy fields are general government, protection, social development, and economic development. General government includes expenditures by Canada Post, Finance, Public Service Commission and Revenue Canada. The protection policy field refers to National Defence, Federal Judicial Affairs, Justice and the RCMP. Social development spending encompasses CMHC, CBC, Communications, Employment and Immigration, DIAND, Health and Welfare, National Museums, Secretary of State, and Veterans Affairs. Economic development includes spending by the federal departments of Agriculture, Energy, Mines and Resources, Environment, Fisheries and Oceans, Public Works, Regional Economic Expansion/Industry, Science and Technology, and Transport.

Over the 1980 to 1990 period, general government expenditures were a relatively small portion of federal spending in the Yukon. The share of federal Yukon spending on the protection policy field has fluctuated between 7 to 10 percent reflecting, in part, shifts in National Defence

activities. Federal spending in the social development field generally increased over the 1980's, representing about two-thirds of Ottawa's expenditures in the Yukon by the end of the decade. The continued predominance of this policy field shows, among other things, that the devolution of provincial-type programs, many of which are in the social sector, "has proceeded at a slower pace" in the Yukon than in the NWT (ANEP 1990-91: 7). Economic development spending as a share of the federal expenditure plan in the Yukon increased in the early 1980's, peaking at 32.2 percent in 1984-85, but then declined in the later half to 22.1 percent by 1990-91. Social development remains the pre-eminent policy field in federal spending in the Yukon.

Turning to spending by the territorial government, Table 6.3 sets out YTG expenditures by function. Total YTG expenditures increased from \$125.2 million in 1980-81 to \$366.8 million in 1990-91, an increase of 192 percent. As of 1990-91, about 58 percent of the total expenditures came from the funding four functional areas:

- Education - \$72.0 million, or 19.6 percent;
- Transportation and Communications - \$64.7 million, or 17.6 percent;
- General Services - \$42.3 million, or 11.5 percent;
- Health - \$34.8 million, or 9.5 percent of total expenditures by the YTG.

The fastest growing area of functional expenditures is resource conservation and industrial development, which increased from \$6 million in 1980-81 to \$32.2 million in 1990-91, an increase of 436 percent. Other significant increases over the period took place in recreation and culture as well as general services. Expenditures on several functional areas are comparatively small in the YTG budget, including debt charges, environment, housing, labour and employment. Spending on some functions has declined in relative terms. Perhaps the most interesting example is health expenditures which in 1980 equalled 13.4 percent of the YTG spending. By 1990, the health share was 9.5 percent of territorial expenditures. Finally, we can note that the YTG ran a current account

deficit in 1980-81 and in successive years from 1986-87 to 1990-91.

To emphasize territorial macro expenditure patterns and priorities, Table 6.4 summarizes the distribution of YTG spending by major policy fields. General Services refer to the executive and legislative functions, administration, intergovernmental activities and public works. The share of expenditures directed to general services has increased over the period, although in an uneven fashion. The proportion of expenditures going to the protection of persons and property jumped from 7.6 percent in 1980 to 12.6 percent in 1985 but then declined again to 8.6 percent in 1990. Much of this category is for RCMP services purchased for territorial policing. The share of territorial expenditures for social development declined from 1980 to 1985 but partially rebounded by 1990. Spending on health, education and social services all grew at rates less than the average growth rate for total expenditures over the period.

The share of YTG expenditures going to economic and resource development declined from 1980 to 1985 but expanded through the late 1980's. Economic policy priorities included revitalizing the mining sector, which had badly slumped in the early 1980's, maintaining jobs and creating new ones, and diversifying the territorial economy. In 1986, the YTG formally established the Yukon Development Corporation and spent \$565 million to buy a lumber company and sawmill in Watson Lake. In 1987, the YTG bought the Northern Canada Power Commission, a federal Crown corporation, making it a subsidiary of the Yukon Development Corporation. A background study for the Yukon 2000 economic strategy process, conducted over the 1986-88 period, concluded that government programming was a constraint to economic and community development (Heartwell 1987). This study found that 6 Yukon government departments and agencies and 10 federal departments provided over 100 types of financial assistance to businesses in the territory. Types of assistance included loans, grants, loan guarantees, tax incentives, wage

subsidies, infrastructure assistance and business advice. Not surprisingly, the study expressed concerns about undue complexity and duplication, inefficiencies in delivery and the ineffectiveness of programs.

In 1989-90, the YTG created the Business Development Fund (BDF) and the Community Development Fund (CDF) by consolidating several existing financial assistance programs, with the intent of simplifying the application procedures and enhancing the effectiveness of economic development programs. The BDF supports the expansion of tourism businesses, among others, including guided tours and canoe rentals. The Council of Yukon Indians formed a Yukon Indian Tourism Association in 1983. The CDF supports capital projects of recreational infrastructure and of human resource development, including management and board training for several First Nations. In the Yukon, economic development programs specifically for Aboriginal peoples include the Canada/Yukon Special Agriculture and Rural Development Agreement, the Indian/Inuit Economic Development Fund, and DIAND's Native Economic Development Program (Coates 1986; Heartwell 1987; McArthur 1987; Stabler 1985; and Yukon Government, Annual Report). Table 6.4 also shows that YTG spending on transfers to other levels of government and spending on debt charges both constitute minor shares of the territories' budget. Slack has suggested that debt charges are so small in the territories because of their "significant dependence on federal transfers" and that historically, they could not incur debts without approval by the federal government (Slack 1991: 320).

### **Revenues in the Yukon**

Revenues for the YTG are set out by sources, 1980 to 1990, in Table 6.5. Total revenue went from \$123.6 million in 1980 to \$344.4 million in 1990, an increase of 178.6 percent. Own-source revenue increased from \$47.2 million in 1980 to \$77.1 million in 1990, a growth of



63.3 percent. The YTG first levied its own personal income tax in the 1980 taxation year. Revenue collected from personal income tax during this period increased from \$11.9 million to \$31.7 million, or 166 percent, while revenue generated from corporation income taxes fluctuated over the period. In 1980, YTG own-source revenue represented 41.7 percent of total revenue. Throughout the decade, it declined and by 1990, own-source revenue only represented 25.3 percent of total revenue. The fiscal culture of the Yukon includes an inclination of not introducing a retail sales tax. Further, health care insurance premiums were abolished as of April 1987. Transfers from the federal government made up 6.18 percent of YTG total revenues in 1980-81 and an estimated 77.6 percent of 1990-91 total revenues.

Table 6.6 summarizes Yukon local government expenditures. As of January 1, 1990, the Yukon had one city, three towns, four villages, and two hamlets. Except for hamlets, all are full municipal governments. Hamlets, which provide specified services in particular areas, are run by the YTG with the support of an elected advisory council. For the municipal governments, the following borrowing restrictions and capital budgeting rules apply:

Cities, towns and villages are permitted to borrow for short terms amounts of no more than 75 percent of unpaid taxes and transfers due in the year from other levels of government. Long-term borrowing is limited to 2 percent of assessment (including the assessment on properties for which the municipality receives grants in lieu), unless the territorial government and the ratepayers give permission. Individual capital projects in excess of 0.25 percent of assessment as defined above must also be approved by the ratepayers unless they are for local improvements or primary municipal services such as roads, sewerage, water, and fire protection. Every year, the municipalities must prepare five-year capital expenditure programs. They are permitted to establish reserves for capital purposes (Canadian Tax Foundation, 1991: 2:21).

Local government expenditures essentially doubled from \$16.4 million in 1980 to \$34.0 million.

As of 1990, about 90 percent of total expenditures came from the following five functional areas:

- Transportation and Communications - \$10.4 million, or 30.6 percent of total

expenditures;

- Environment - \$6.3 million, or 18.8 percent;
- General services - \$5.8 million, or 17.1 percent;
- Recreation and culture - \$4.9 million, or 14.7 percent;
- Protection of persons and property - \$3.4 million, or 10.3 percent.

While much of Yukon local government expenditures deal with infrastructure and administration, Table 6.6 reports the lack of local spending on education and social services.

Yukon local government revenues by sources from 1980 to 1990 are shown in Table 6.7. Total revenues increased from \$13.9 million in 1980 to \$32.6 million in 1990, a 12.2 percent annual average growth rate. The single largest source of local government own-source revenue comes from real property taxes, representing 43.3 percent of own-source revenue and 23.4 percent of total revenue in 1990. The second largest own-source revenue is sales of goods and services, accounting for 33.2 percent of own-source revenue and 16.4 percent of total revenue. Except for 1982, transfers from the YTG make up the single largest source of revenue for local governments in the Yukon. In 1980, transfers from the YTG were 47.4 percent of total revenues for local governments, and in 1990 were 50.5 percent.

Table 6.8 provides a breakdown of spending in the Yukon by level of government as a percentage of the territorial gross domestic product (GDP). Overall, government spending constitutes a major, though fluctuating, share of the Yukon economy - rising from 1980 to 1983, largely reflecting the effect of the recession in that period, then declining to 1988, increasing in 1989 and slipping again in 1990. Territorial government expenditures went from 29.5 percent of GDP in 1980 to 39.5 percent in 1990 while local government expenditures' share of the Yukon economy has remained in the 4 percent range. The underlying trend of federal expenditures in the

Yukon is a declining share of the GDP. This is particularly apparent from 1985. It is due to federal restraint and, to a lesser extent, the devolution of programs to the YTG.

### **Public Employment in the Yukon**

Table 6.9 presents information on government employment by level and as a proportion of total employment in the Yukon from 1980 to 1992. Federal government employment over this period declined by 102 employees or 7.8 percent. The territorial bureaucracy, after some fluctuations in size in the early 1980's, has steadily increased since 1987. By 1992, territorial government employment was 1,252 employees, or 62.2 percent larger than in 1980. The number of local government employees in the Yukon has steadily increased through this period, doubling from 170 in 1980 to 341 in 1992. During the 1980's and into the early 1990's, total government employment has averaged one-third of total employment in the Yukon. These figures do not include employment in the Aboriginal public sector, such as Band government and management, which "provides a significant source of full-time employment for the native population" (Duerden 1988: 349).

As shown in Table 6.10, the distribution of government employment in the Yukon by level changed somewhat over the 1980-1992 period. The federal share of government employment declined by 12.4 percentage points and most of this decline was replaced by the territorial government which increased its share of the total by 10.3 percentage points. Local government's share also increase but retains a relatively small presence in public employment in the Yukon. Not only have employee shares shifted, but so have payroll shares by level of government. Interestingly, the federal proportion of total government payroll in the Yukon declined by 12.4 percent from 1980 to 1992 and the territorial level increased by 12.3 percent. Thus, the YTG bureaucracy has expanded in terms of employees and well-paying jobs.

## **Conclusion**

Three dimensions of public finance in the Yukon have been examined: federal northern expenditures; spending and taxation by the territorial government and local government sectors; and finally, government employment trends. From this examination, we can make some general conclusions. One is that the federal Department of Indian Affairs and Northern Development remains a dominant presence in the Yukon, expenditure-wise at least, if not administratively and policy-wise also. The major federal expenditure involvement in the Yukon is in the social development policy field, especially through DIAND's northern affairs program, Health and Welfare's health services and CMHC's social housing programs. The fact that about two-thirds of federal expenditures for the Yukon are social policy related reflects in part that the devolution of provincial-type programs has moved at a slower pace in the Yukon than in the NWT. A second observation is that the budgetary kaleidoscope can be turned in different ways, revealing different fiscal patterns with each turn. For example, while federal spending as a proportion of GDP has declined and the number of federal employees working in Yukon has also dropped, the territorial government became more dependent on federal transfers as a source of revenue over the 1980's. Concurrently, the YTG has emphasized economic policy initiatives in an effort to expand employment, diversify (and thus better stabilize) the economy, and create business opportunities for Aboriginal peoples. Even this descriptive inventory, then, yields a rich and complex picture of public finance in the Territorial North. A final observation is that, in the Yukon, the government sector is the big spender, a major employer and, lest we forget, the tax collector. Total government spending in the Yukon represents about 60 percent of the territorial economy and government employment has averaged 33 percent of total employment in the Yukon labour force over the 1980's and early 1990's.

In this and the previous chapter, we have sketched what the overall public finance picture looks like in the NWT and Yukon. The next chapter places these sketches in a wider perspective by comparing the two territories with one another and with public finance trends among the provinces.

TABLE 6.1

## Federal Government Expenditures by Spending Agency in the Yukon, 1980-81 to 1990-91

Federal Agencies:	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90 <sup>a</sup>	1990/91 <sup>b</sup>
Agriculture Canada	-	-	-	-	-	98	78	110	85	146	113
Canada Mortgage and Housing	379	149	207	3,166	2,186	328	385	408	508	597	648
Canada Post Corporation	1,318	1,472	1,669	2,126	2,254	2,281	2,326	2,394	2,756	2,812	3,365
Canadian Broadcasting Corp.	2,053	1,519	-	-	-	-	-	-	-	-	-
Communications	109	128	192	138	222	211	143	129	199	143	235
Employment & Immigration	9,093	11,896	23,807	25,563	23,051	23,687	22,398	23,734	25,266	26,714	28,272
Energy, Mines & Resources	558	286	234	1,303	2,139	783	990	1,065	811	618	573
Environment Canada	3,892	5,043	7,089	5,866	7,251	7,388	9,693	10,736	10,351	9,967	9,161
Federal Judicial Affairs	83	88	95	132	118	152	155	179	207	209	217
Finance	450	-	-	-	-	-	-	-	-	-	-
Fisheries and Oceans	397	750	872	1,547	1,184	808	1,365	1,317	1,380	1,350	1,296
Indian & Northern Affairs	28,892	28,824	32,982	38,002	35,893	39,439	45,956	45,093	48,983	64,308	48,382
Justice	233	293	362	381	384	491	577	689	766	790	936
Labour	55	80	83	93	101	96	80	79	-	-	-
National Defence	1,035	732	889	879	881	903	841	874	1,719	1,271	1,273
National Health & Welfare	16,799	13,207	16,297	26,642	27,294	20,474	23,251	25,397	27,314	29,473	30,071
National Museums	51	-	-	99	99	-	-	-	-	-	-
National Revenue	-	766	769	-	-	620	615	1,360	1,381	1,522	1,603
Northern Pipeline Agency	-	346	372	-	-	-	-	-	-	-	-
Public Service Commission	653	672	736	827	802	579	330	577	537	504	1,025
Public Works	14,203	17,429	14,247	16,755	27,098	17,621	9,348	4,266	5,539	7,612	16,413
Regional Economic Expansion <sup>c</sup>	2,156	2,646	2,559	2,733	2,373	1,993	2,256	2,303	2,150	2,872	3,967
Royal Canadian Mounted Police	7,067	9,017	8,952	8,677	10,026	9,846	10,440	10,889	13,247	12,656	13,552
Secretary of State	711	-	60	2,039	3,100	-	54	38	152	115	108

Transport Canada	5,035	6,323	7,926	9,157	11,497	12,191	8,275	8,190	11,050	11,849	5,284
Veterans Affairs	325	-	-	420	479	-	-	-	-	-	-
<b>Total Federal Expenditure</b>	<b>95,547</b>	<b>101,666</b>	<b>120,309</b>	<b>146,545</b>	<b>160,432</b>	<b>140,007</b>	<b>139,556</b>	<b>139,748</b>	<b>154,401</b>	<b>175,528</b>	<b>166,494</b>
<b>Annual Percentage Change</b>	<b>13.6</b>	<b>6.4</b>	<b>18.3</b>	<b>21.8</b>	<b>9.5</b>	<b>-12.7</b>	<b>-0.3</b>	<b>0.1</b>	<b>10.5</b>	<b>13.7</b>	<b>-5.1</b>

Source: Annual Northern Expenditure Plan, Indian and Northern Affairs Canada. Total expenditures for 1979/80 = \$84,109 million

a = forecast expenditures

b = planned expenditures

c = Industry, Science and Technology as of 1985-86

**TABLE 6.2**

**Percentage of Federal Spending in the Yukon  
by Major Policy Fields for Selected Years, 1980-1990**

	Policy Fields			
Years	General Government	Protection	Social Development	Economic Development
1980-81	2.5	8.8	61.1	27.5
1982-83	2.6	8.6	61.1	27.4
1984-85	2.0	7.1	57.6	32.2
1986-87	2.3	8.6	66.0	23.0
1988-89	3.0	10.2	66.3	20.3
1990-91	3.6	9.6	64.7	22.1

Source: Calculated from Table 6.1. Totals may not equal 100 due to rounding.



TABLE 6.3

## Yukon Territorial Government Expenditures by Function, 1980-81 to 1990-91

Function	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Millions of Dollars											
General Services	11.2	15.0	20.0	21.3	22.8	33.2	31.7	36.5	39.4	41.7	42.3
Protection of persons and property	9.5	11.5	13.1	14.4	14.6	27.7	22.9	21.8	26.1	28.1	31.6
Transportation and communications	28.9	30.9	33.9	41.4	48.2	47.3	68.7	60.6	74.3	69.9	64.7
Health	14.2	16.5	25.5	20.6	21.9	22.7	24.8	27.0	28.5	32.3	34.8
Social services	11.2	13.4	13.0	16.5	18.5	14.0	15.8	18.9	16.1	18.4	28.3
Education	25.0	34.6	34.3	35.4	37.0	40.6	59.6	62.0	64.7	71.4	72.0
Resource conservation and industrial development	6.0	6.4	8.2	9.9	9.2	15.2	22.5	19.7	26.6	31.9	32.2
Environment	1.9	0.8	0.7	1.5	0.7	0.2	-	0.6	-	-	5.5
Recreation and culture	4.2	4.3	3.5	4.7	4.1	6.4	6.2	9.2	7.7	7.9	17.6
Labour, employment and immigration	-	-	-	-	0.2	0.8	2.7	3.3	2.2	1.4	0.8
Housing	0.5	0.5	0.7	0.8	0.8	1.3	3.1	2.3	1.0	0.5	-
Regional planning and development	9.2	6.2	6.9	6.6	11.3	7.5	5.5	15.1	13.3	26.0	27.7
General purpose transfers to other levels of government	-	-	-	-	-	-	1.1	3.2	1.9	1.9	3.2
Transfers to own enterprises	1.5	1.8	1.4	2.8	3.9	2.7	4.4	34.9	14.3	17.7	4.9
Debt charges	1.9	2.9	3.1	1.3	1.1	1.0	0.9	1.1	-	1.3	1.2
<b>TOTAL EXPENDITURE</b>	<b>125.2</b>	144.8	164.3	177.2	194.3	220.6	269.9	316.2	316.1	350.4	366.8
Surplus (Deficit)	(1.6)	6.7	6.6	15.3	13.2	26.2	3.1	(22.9)	(10.3)	(19.9)	(22.4)
Annual percentage change in	-1.0	15.6	13.5	7.9	9.7	13.5	22.3	17.2	-0.04	10.9	4.7

total expenditures (a)											
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Source and Notes:

Statistics Canada Cat. No. 68-512. Figures for 1988-89 are estimates and revised estimates for 1989-90 and 1990-91.  
(a) Total expenditures for 1979-80 = 126.5

**TABLE 6.4**

**Percentage of YTG Spending by Major Policy Fields  
for Selected Years, 1980-1990**

	Policy Fields					
	General Services	Protection	Social Development	Economic and Resource Development	Transfers	Debt Charges
1980-8 1	8.9	7.6	44.0	36.8	1.2	1.5
1985-8 6	15.0	12.6	38.9	31.8	1.2	0.5
1990-9 1	11.5	8.6	41.9	35.5	2.2	0.3

Source: Calculated from Table 6.3

TABLE 6.5

## Yukon Territorial Government Revenues by Source, 1980-81 to 1990-91

Revenue Source	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Millions of Dollars											
OWN SOURCE REVENUE	47.2	67.4	61.4	53.5	58.4	60.3	67.1	74.6	66.8	77.7	77.1
Income taxes	15.4	23.8	18.8	15.3	16.4	19.7	19.1	24.5	26.6	27.6	31.7
Personal income taxes	11.9	16.0	21.8	13.9	14.8	19.4	16.7	21.3	20.9	22.6	28.0
Corporation income taxes	3.5	7.8	(3.0)	1.4	1.6	0.3	2.4	3.2	5.7	5.0	3.7
Taxes on payments to non-residents	-	-	-	-	-	-	-	-	-	-	-
Property and related taxes	2.5	3.0	3.5	2.8	2.8	2.5	2.4	3.2	2.9	3.3	3.3
Real property taxes	2.5	3.0	3.5	2.8	2.8	2.5	2.4	3.2	2.9	3.3	3.3
Other property and related taxes	-	-	-	-	-	-	-	-	-	-	-
Consumption taxes	6.0	9.0	6.5	6.6	7.2	6.5	8.1	8.8	7.2	9.1	8.6
General sales taxes	-	-	-	-	-	-	-	-	-	-	-
Motive fuel taxes	4.3	6.2	3.9	4.0	4.5	3.9	3.8	4.3	4.4	4.5	4.1
Alcoholic beverages and tobacco taxes	1.7	2.8	2.6	2.6	2.7	2.6	4.3	4.5	2.8	4.6	4.5
Customs duties	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Health and social insurance levies	7.2	9.6	7.4	7.2	7.4	6.7	7.6	4.5	5.3	6.2	3.8
Petroleum and natural gas taxes	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous taxes	0.3	0.3	0.3	0.3	0.3	0.5	1.0	1.2	3.4	6.2	0.6
Natural resource revenues	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.9	0.8
Privileges, licences and permits	2.0	2.6	2.3	2.3	2.6	2.5	2.9	3.0	2.2	2.0	3.2
Sales of goods and services	3.9	4.9	7.6	5.3	5.6	4.4	7.0	12.0	4.3	5.2	4.4
Return on investments	9.3	13.5	14.2	13.1	15.4	16.9	18.4	16.4	14.2	17.0	20.2
Other revenues from own sources	0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.5	0.2	0.2	0.5
TRANSFERS	76.4	84.1	109.5	139.0	149.1	186.5	205.9	218.7	239.0	252.8	267.3
Transfers from other levels											

of government	76.4	84.1	109.5	139.0	149.1	186.5	205.9	218.7	239.0	252.8	267.3
Transfers from government enterprises	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL REVENUE</b>	<b>123.6</b>	<b>151.5</b>	<b>170.9</b>	<b>192.5</b>	<b>207.5</b>	<b>246.8</b>	<b>273.0</b>	<b>293.3</b>	<b>305.8</b>	<b>330.5</b>	<b>344.4</b>
Annual percentage change in total revenue (a)	11.9	22.6	12.8	12.6	7.8	18.9	10.6	7.4	4.3	8.1	4.2

Source Notes:

Statistics Canada, Cat. No. 68-512. Figure for 1988-89 is an estimate and the figures for 1989-90 and 1990-91 are revised estimates.

(a) Total revenue for 1979-80 = 110.5

**TABLE 6.6**  
**Yukon Local Government Expenditures, 1980 to 1990**

Function	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	thousands of dollars										
General services	1,816	2,438	2,387	3,226	3,251	3,318	3,757	6,196	4,786	5,309	5,816
Protection of persons and property	1,542	1,648	1,742	1,722	2,083	2,011	3,281	2,898	2,548	3,278	3,494
Transportation and communications	4,124	5,456	3,707	4,588	3,591	3,752	6,213	8,660	9,897	11,435	10,425
Health	202	58	58	54	66	53	87	53	152	88	135
Social services	-	-	-	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-	-	-
Resource conservation and industrial development	39	38	44	50	165	160	276	341	184	184	275
Environment	6,083	3,407	3,430	2,936	3,216	3,504	3,863	4,076	5,940	3,856	6,397
Recreation and culture	1,344	2,143	1,855	3,738	5,784	6,974	3,924	4,354	4,894	5,684	4,994
Housing	20	52	39	76	71	49	62	175	71	120	126
Regional planning and development	71	100	468	103	123	75	476	337	258	324	360
Transfers to own enterprises	337	442	382	450	556	531	532	523	649	714	750
Debt charges	893	1,092	1,337	1,751	1,245	1,281	1,120	1,165	1,020	897	802
Other expenditures	-	-	97	291	247	142	9	4	2	5	483
<b>Total Expenditures</b>	<b>16,471</b>	<b>16,874</b>	<b>15,546</b>	<b>18,985</b>	<b>20,398</b>	<b>21,850</b>	<b>23,600</b>	<b>28,782</b>	<b>30,401</b>	<b>31,894</b>	<b>34,057</b>
<b>Surplus (Deficit)</b>	<b>(2,552)</b>	<b>13</b>	<b>830</b>	<b>771</b>	<b>(234)</b>	<b>(262)</b>	<b>504</b>	<b>(383)</b>	<b>1,125</b>	<b>(1,332)</b>	<b>(1,457)</b>
<b>Annual percentage change in total expenditures (a)</b>	<b>20.6</b>	<b>2.4</b>	<b>-7.9</b>	<b>22.1</b>	<b>7.4</b>	<b>7.1</b>	<b>8.0</b>	<b>22.0</b>	<b>5.6</b>	<b>4.9</b>	<b>6.8</b>

Sources/Notes: Statistics Canada, Cat. No. 68-512

Figures for 1988 to 1990 are revised estimates

(a) Total expenditures for 1979 = \$13,653

TABLE 6.7

## Yukon Local Government Revenues by Source, 1980 to 1990

Revenue Source	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Thousands of Dollars											
OWN SOURCE REVENUE	7,233	9,938	10,583	10,148	10,258	11,087	10,939	12,219	13,533	15,376	16,088
Income taxes	-	-	-	-	-	-	-	-	-	-	-
Personal income taxes	-	-	-	-	-	-	-	-	-	-	-
Corporation income taxes	-	-	-	-	-	-	-	-	-	-	-
Taxes on payments to non-residents	-	-	-	-	-	-	-	-	-	-	-
Property and related taxes	4,079	4,983	6,125	5,787	5,765	6,294	6,047	6,359	7,046	7,787	8,376
Real property taxes	3,587	4,427	5,468	5,195	5,179	5,723	5,610	5,867	6,514	6,948	7,615
Other property and related taxes	492	556	657	592	586	571	437	492	532	839	761
Consumption taxes	-	-	-	-	-	-	-	-	-	-	-
General sales taxes	-	-	-	-	-	-	-	-	-	-	-
Motive fuel taxes	-	-	-	-	-	-	-	-	-	-	-
Alcoholic beverages and tobacco taxes	-	-	-	-	-	-	-	-	-	-	-
Customs duties	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Health and social insurance levies	-	-	-	-	-	-	-	-	-	-	-
Petroleum and natural gas taxes	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous taxes	-	-	-	-	-	-	-	-	-	-	-
Natural resource revenues	-	-	-	-	-	-	-	-	-	-	-
Privileges, licences and permits	244	318	252	278	310	355	470	449	461	481	505
Sales of goods and services	2,349	3,170	3,170	3,316	3,443	3,561	3,627	4,127	4,435	5,106	5,338
Return on investments	255	376	484	185	241	361	413	769	981	1,262	1,149
Other revenues from own sources	306	1,091	552	582	499	516	382	515	610	740	720
TRANSFERS	6,686	6,949	5,793	9,608	9,906	10,501	13,165	16,180	17,993	15,186	16,512
Transfers from other levels of government	6,598	6,858	5,691	9,513	9,808	10,399	13,081	16,116	17,744	15,114	16,450
Transfers from government								64			

enterprises	88	91	102	95	98	102	84		219	72	62
<b>TOTAL REVENUE</b>	13,919	16,887	16,376	19,756	20,164	21,588	24,104	28,399	31,526	30,562	32,600
Annual percentage change in total revenue (a)	12.2	21.3	-3.0	20.6	2.1	7.1	11.7	17.8	11.0	-3.1	6.7

Source/notes: Statistics Canada, Cat. No. 68-512

Figures for 1988 to 1990 are revised estimates.

(a) Total revenue for 1979 = 12,411



**TABLE 6.8**

**Government Spending in the Yukon  
as a Percentage of Territorial GDP, 1980-1990**

	<b>Territorial</b>	<b>Local</b>	<b>Federal</b>	<b>Total</b>
1980	29.5	3.8	22.6	55.9
1981	33.0	3.9	23.2	60.1
1982	38.1	3.6	26.7	68.4
1983	48.1	4.9	38.0	91.0
1984	43.4	4.5	35.8	83.7
1985	46.5	4.6	29.5	80.6
1986	47.0	4.2	24.4	75.6
1987	42.1	3.9	18.6	64.6
1988	37.8	3.6	18.0	59.4
1989	39.4	3.6	19.8	62.8
1990	39.5	3.7	17.9	61.1

Source: Calculated from Tables 6.1, 6.3 and 6.6. Territorial Gross Domestic Product (GDP) at market prices from Yukon Economic Accounts, Yukon Bureau of Statistics.

**TABLE 6.9**

**Government Employment by Level  
and as a Share of Total Employment in the Yukon, 1980 to 1992**

Government	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Federal	1,315	1,365	1,415	1,388	1,401	1,267	1,204	1,213	1,187	1,178	1,154	1,172	1,213
Territorial	2,013	2,053	2,141	1,876	1,990	2,136	2,356	2,330	2,608	2,860	2,954	3,094	3,265
Local*	170	213	222	214	228	229	237	242	259	286	304	322	341
TOTAL	3,498	3,631	3,778	3,478	3,618	3,631	3,797	3,785	4,054	4,324	4,412	4,588	4,819
Total Employment Yukon	10,016	11,763	11,118	10,087	10,913	10,554	10,911	11,403	12,728	13,137	13,260	13,487	13,709
Total Government Employment as % of Total Yukon Employment	34.9	30.9	34.0	34.5	33.2	34.4	34.8	33.0	31.9	32.9	33.3	34.0	35.2

\*Effective January 1981, the local improvement districts are included.  
These figures exclude school boards and hospitals under federal jurisdiction.

Sources: Statistics Canada, Cat. No. 72-004, 72-007 and 72-009, and Yukon Statistical Review.  
The figures for 1992 are estimates.

**TABLE 6.10**

**Percentage Shares of Government Employment  
by Level in the Yukon for Selected Years, 1980-1992**

	1980	1986	1992
Federal	37.6	31.7	25.2
Territorial	57.5	62.0	67.8
Local	4.9	6.3	7.0
TOTAL	100.0	100.0	100.0

Source: Calculated from Table 6.9

## **CHAPTER 7**

### **COMPARING TERRITORIAL AND PROVINCIAL PUBLIC FINANCES**

In what ways are the public finances in the Territorial North similar to and different from public finances in the provinces? According to Slack, "Public finance in the Yukon and the Northwest Territories (NWT) differs from that in the Canadian provinces because of the unique nature of the territorial economies, sparse populations and isolated communities ... [and] harsh climate" (1991: 314). Gurston Dacks, however, has said, "Northern residents receive the full range of services and bear the same regulatory burdens as do all Canadians. While factors of distance, sparse population, climate, and the ethnic makeup of the North cause these government activities to vary somewhat from their southern counterparts, by and large they are cut from the same policy cloth as southern programs" (1981: 2). How fiscally unique then are the budgetary and policy profiles of the NWT and Yukon in the contemporary Canadian context? This chapter presents a comparison of the expenditure, revenue and employment patterns of the territorial governments with each other and with the averages for those of the provincial governments.

#### **Comparing Expenditures**

The distribution of expenditures by eight functional categories for the Yukon, NWT and the Canadian average in 1979 and 1989 are shown in Table 7.1. These eight categories capture approximately 78 percent of Yukon expenditures, 70 percent of NWT expenditures and 88 percent of expenditures across Canada. In terms of comparing the Yukon and NWT at this macro functional level, there are more similarities than differences in the territories' expenditure records. The main difference is that the NWT spends significantly more on general services, and that the Yukon spends proportionately a much higher amount on transportation and communication.

E.M.R. Cotterill (1984:188) points to some obvious, yet significant, differences between the two territories that help to understand these variations in expenditures:

The first and most obvious difference between the two territories is size. In practical terms, this allows Yukon permanent, all-weather transportation and communications linkages, not only with southern Canada, but internally within their own communities. Virtually all communities in Yukon can be, and are, serviced by road throughout the year, providing Yukon residents with relatively rapid and trouble-free inter-community contact and communications, as well as access to the Territory's capital at Whitehorse.

In contrast to the Yukon, road systems within the much larger and geographically disparate Northwest Territories are largely confined to the southern Mackenzie. The numerous small communities scattered throughout its one and one-half million square miles are both physically and socially separated and isolated. They are separate from each other, from their regional centres, and from the territorial capital at Yellowknife. The impact of this separation, in terms of the provision and cost of public services, and in terms of developing an integrated society with some reasonable degree of political consensus, constitutes a major difference between the two territories.

Beyond these differences, both territories spend roughly similar proportions on protection, education, health, social services and debt charges.

Comparing the expenditure profiles of the territories with the rest of the country, several contrasts are evident. Indeed, unlike the inter-territorial comparisons, there are more differences than similarities between the territorial expenditure budgets and the average for provincial expenditure budgets. For provincial governments, the social policy field accounts for the bulk of provincial spending. The functions of health, education and social services, which form the core of social policy, are clearly associated with the emergence of the modern "welfare state" in Canada. Whereas the major portion of provincial government spending (61 percent in 1979 and 1989) is for these social policy functions, in the territories, social spending represents about 35 percent. By this standard, the territorial governments are far less "welfare states" than the provinces. Spending on health and social services represent a smaller proportion of expenditures in the Yukon and NWT

than in the rest of Canada probably because of "the younger population of the North ... the historical federal responsibility for native health," and that "direct federal transfers to persons are very high in the territories" (Slack 1991: 317 and 320).

Three other differences between expenditures of the territories and the provinces can be identified. One is the interest payments on government debt. The territorial governments do not have heavy debt burdens, nor do they have "serious debt-service problems" like several provinces (Ip 1991: 171). "Debt charges, which now run about 12 percent of total expenditure for Canadian provinces, are virtually zero in the territories. Presumably, the reason is the territories' significant dependence on federal transfers to make up the difference between expenditure and revenue" (Slack 1991: 320).

A second difference is in expenditures on transfers to business. Since the early 1970's, the territorial governments have been above the national average, both as a percentage of GDP and on a per capita basis (Ip 1991: 169-71). The trend has been continual growth of transfers to business as a budgetary item of the YTG and GNWT. By the late 1980's, the Yukon and NWT were the biggest spenders on subsidies to and assistance for capital investment by business on a per capita basis and share of the economy. These measures of assistance, however, do not capture tax measures, regulatory policies, or the use of Crown corporations in providing assistance to business - policy instruments all actively used by provinces.

The third difference is in the proportion of expenditures for transfers to persons. The territories are the only governments in Canada where transfers to business represent a bigger share of spending than transfers to persons. Territorial spending on transfers to persons, that is, welfare assistance and other income support programs, has consistently been below the national average (Ip

1991: 167-169). The reason is probably because the federal government retains responsibility for many social programs, particularly for Aboriginal peoples.

### **Comparing Revenues**

To compare revenue structures, Table 7.2 reports own-source revenue sources as a share of total revenue for the Yukon, NWT and the provinces. From the eight sources reported here, the Yukon raised only 15.9 percent of total revenue in 1979 and 13.7 percent in 1989.

Likewise, the NWT raised but 13.8 percent of total revenue from these sources in 1979 and 21.0 percent in 1989. For both territories, most of their revenue comes from federal transfers. Another common feature in revenues between the territories is that neither levies a general retail sales tax. Still another similarity is that the Yukon and NWT are relative newcomers to the income tax field. The GNWT first imposed personal income taxes in 1978 and the YTG did for the 1980 taxation year. Before then, residents in the Territorial North "paid the federal government an additional tax at rates similar to the provincial rates" (Slack 1991: 322).

A difference between the territories which emerged over the 1980's is that personal income taxes grew more quickly in the Yukon and by 1989 represented 7.4 percent of total revenue compared to 4.8 percent in the NWT. According to Slack (1991: 322), "That the personal income tax brings in a greater proportion of income in the Yukon than in NWT reflects, in part, differences in tax capacity. Although income and taxable income are similar in the two territories, the percentage of returns that are taxable is smaller in the NWT owing to its population's greater proportion of dependants." A second difference in revenue structure between the territories is that since the mid-1980's, sales of goods and services accounts for a much larger proportion of total revenue in the NWT than in the Yukon. This difference reflects the importance in the NWT of

public housing which generates rental property income for the territorial government (McMillan 1991: 23).

Comparing the revenue structures of the territories to those of the provinces highlights radically different tax regimes. From the eight revenue sources listed in Table 7.2, on average the provinces generated in 1979, 61.6 percent and in 1989, 60.6 percent of their total revenue. The provinces are far less reliant on federal transfers. All the provinces rely heavily on personal income taxes for raising revenues. Moreover, all the provinces except Alberta levy a retail sales tax. In 1989, this tax generated 13.4 percent of the average total provincial revenue. Health and social insurance levies account for a larger share of total revenue in the rest of Canada: 8.2 percent compared to less than 2 percent for the territories in 1989. And natural resource revenue represents a much larger share of total revenue in the rest of Canada (the provincial average) than in the Yukon and NWT, reflecting the fact that the federal government has jurisdiction over natural resources in the Territorial North.

In comparing revenue structures, the biggest difference between the NWT and Yukon on the one hand and the provinces on the other is that the two territories are substantially more dependent on federal transfers. Table 7.3 shows federal transfers as a share of total revenues for the Yukon, NWT and Canadian average for selected years over a 20-year period, 1970 to 1990. It shows the degree to which one level of government depends financially on another level of government. By far, federal transfers represent the largest source of revenue for the territorial governments. The history of public finance for both territorial governments is a history of strong dependence on federal transfers. In 1970, federal transfers made up 60 percent of total revenues for the Yukon and 80 percent for the NWT. In 1990, they made up about 74 percent for both the YTG and GNWT. In contrast, for the provinces as a whole, federal transfers represented



only 19.5 percent of total revenues in 1970 and 15.1 percent in 1990. There are, of course, interprovincial variations which we will examine briefly in Table 7.4. Over the 20 years there has been convergence in the two territories' fiscal dependence on Ottawa, with the NWT declining from 80 to 75 percent of total revenues consisting of federal transfers, and the Yukon rising from 60 to 75 percent.

Table 7.4 illustrates federal transfers as a share of total revenue in 1990-91 for each territory and province. The ten provinces and two territories are ranked from the least dependent on transfers from Ottawa to the most dependent. For even the most dependent provincial governments, those of the Atlantic region, federal transfers represented from 37 to 44 percent of total revenues in 1990, well below the ratios for the territories. And for the more advantaged provinces, less than 20 percent of their revenues came from Ottawa by way of transfer payments. That 74 percent of total revenues in 1991 for the Yukon and NWT came from federal transfers gives some credence to the statement that the finances of the territorial governments "are virtually in the hands of the federal government" (Ip 1991: 7).

A final comparative analysis of revenue and expenditure is given in Table 7.5, which summarizes revenue and expenditure growth rates for the territories and the Canadian average from 1980 to 1990. Overall, revenues and expenditures at both levels of government grew more quickly in the territories than in the provinces. Also noteworthy is that for the territorial and local sectors in both the NWT and Yukon, revenues grew at a rate equal to or greater than the expenditure growth rate whereas the general Canadian pattern for this period was that spending growth exceeded revenue increases. One could infer from these trends that the territorial governments were more successful at practising "fiscal prudence" than the provinces on average.

## **Comparing Employment**

Table 7.6 compares the proportions of government employment in the two territories by levels of government for 1980 and 1991, and also reports the percentage changes. In general, the trend is similar in both territories in that the territorial governments are the largest public employers; federal government employment is a declining share; and that the shares of employment by the territorial and local governments have increased. In the NWT, the federal share of employment has experienced a greater decline and the local government share a greater increase than in the Yukon. Increases in the absolute and relative size of territorial and local employment are evidence of the evolution of Northern governments as more complex and active institutions. Such employment trends also raise issues of administrative effectiveness, democratic accountability and community responsiveness (Whittington 1985: 13; Gillies 1993).

In a comment on government employment in the NWT, which can also be applied to Yukon, Franks has observed, "Government employment includes the better-paying jobs in the territory, and government is proportionally much more important as an employer than in Canada as a whole" (1988:390). Table 7.7 summarizes government payroll as a share of total expenditures and the number of employees per 1,000 population for the Yukon, NWT and Canada as a whole. Proportionally, both territories have large payrolls and a major public servant presence in their societies. In 1990, in the NWT, employee remuneration accounted for 24.4 percent of combined territorial-local government expenditures. For the Yukon, the comparable figure was 30.6 percent of expenditures. These are the highest ratios across the provincial-local sectors in Canada. On the basis of employees per 1,000 population, the territories are also the largest public employers. The NWT, with 140.9 employees per 1,000 population in 1990, had the highest proportion of public sector employees in the country. The Yukon was the second largest employer with 114.9 employees per 1,000 population. The national average was 85.6 employees. Among the

provinces, B.C. was the smallest public employer in 1990 with 25.2 employees and New Brunswick the largest with 58.9 employees per 1,000 population (Canadian Tax Foundation, 1991:3:21-3:25). No doubt these differences between the territories and the provinces in employment costs and proportions reflect the sparse populations, isolated communities and harsh climate in the Territorial North (Slack 1991: 333-336).

## **Conclusion**

The comparative analysis of public finance data in this chapter supports the conclusion by Slack "that territorial government finance resembles provincial government finance to some extent but that there are significant differences" (1991: 332). Slack identified three main differences: "1) Expenditures per capita are considerably higher in the territories than in the rest of Canada. 2) The territories do not levy a retail sales tax. 3) Federal transfers are much more significant in the territories than elsewhere in Canada" (1991: 333). Our own analysis reveals other differences as well as some similarities, which can be summarized as follows:

- There are more commonalities than differences in the two territories' expenditure profiles and employment trends. The NWT and Yukon, for example, spend similar proportions on protection of persons and property, education, health, social services and debt charges.
- More differences than similarities exist between the territorial expenditures and the provincial average for the rest of Canada. The NWT and Yukon, for example, spend proportionately less on social policy, including transfers to persons, and debt charges and proportionately more on transfers to business and general services.
- Both territorial governments are relative newcomers to the income tax field in Canadian fiscal policy.
- Revenues and expenditures grew at a faster rate in the Yukon and NWT than in the provinces on average over the 1980 to 1990 period. Moreover, revenue growth covered

expenditure increases in the territories but not for the provinces, suggesting that the Yukon and NWT practised "fiscal prudence" more effectively than the general provincial record.

- The NWT and Yukon territorial and local governments have, on a proportional basis, the largest payrolls and, on a per capita basis, are the biggest public sector employers in the country.

**TABLE 7.1**

**Percentage Shares of Expenditures by Function for the  
Yukon, NWT and Canadian Average, 1979 and 1989**

Expenditure Function	Yukon	NWT	Canadian Average
	(percent)		
1979			
General Services	8.7	25.9	6.0
Protection	6.5	4.4	3.3
Transportation & Communication	22.7	3.4	7.5
Health	12.2	10.8	23.9
Education	17.9	17.6	22.5
Social Services	8.0	5.7	14.6
Debt Charges	1.2	0.6	7.6
Transfers to Local Govt's.	0.0	0.0	2.8
1989			
General Services	11.9	21.8	5.2
Protection	8.5	7.5	3.1
Transportation & Communication	24.2	2.8	4.7
Health	9.2	11.2	26.1
Education	19.1	15.7	19.0
Social Services	5.3	8.5	16.0
Debt Charges	0.0	0.0	12.4
Transfers to Local Govt's.	0.6	2.9	1.6

Source: Calculated from Statistics Canada, Provincial Government Finance, Catalogue No. 68-207.

**TABLE 7.2**

**Own-Source Revenue Sources as a Share of Total Revenue  
for the Yukon, NWT and Canadian Average, 1979 and 1989**

Revenue Source	Yukon	NWT	Canadian Average
	(percent)		
1979			
Personal Income Tax	0.0	5.6	22.2
Corporate Income Tax	0.0	1.9	5.2
General Sales Tax	0.0	0.0	9.1
Health and Social Insurance Levies	4.3	2.6	7.9
Natural Resource	0.3	0.1	11.0
Property Tax	2.5	0.5	0.4
Motive Fuel Tax	3.1	0.9	3.3
Sales of Goods & Services	5.7	2.2	2.5
1989			
Personal Income Tax	7.4	4.8	23.4
Corporate Income Tax	0.8	1.3	4.7
General Sales Tax	0.0	0.0	13.4
Health and Social Insurance Levies	1.5	1.2	8.2
Natural Resource	0.2	0.0	4.6
Property Tax	1.0	0.5	0.9
Motive Fuel Tax	1.4	1.0	3.4
Sales of Goods & Services	1.4	12.2	1.9

Source: Calculated from Statistics Canada, Provincial Government Finance, Catalogue No. 68-207.

**TABLE 7.3****Federal Transfers as a Percentage of Total Consolidated Revenues  
for the Yukon, NWT and Canadian Average, Selected Years**

Fiscal Year	Yukon	NWT	Canadian Average
	(percent)		
1970-71	60.0	80.6	19.5
1975-76	68.7	82.5	21.0
1980-81	58.3	80.7	17.7
1985-86	72.5	69.6	17.8
1990-91	74.8	74.4	15.1

Source: Calculated from Statistics Canada, Public Finance Historical Data 1965/66-1991/92, Catalogue No. 68-512.

**TABLE 7.4**

**Federal Transfers as a Percentage of Total Revenue  
for the Territories and Provinces, 1990-91**

	Federal Transfers a % of Revenue	Rank*
Newfoundland & Labrador	43.8	10
Prince Edward Island	42.4	9
Nova Scotia	32.2	7
New Brunswick	37.7	8
Quebec	16.8	4
Ontario	8.7	1
Manitoba	23.5	6
Saskatchewan	19.1	5
Alberta	12.4	3
British Columbia	11.2	2
Northwest Territories	74.4	11
Yukon	74.8	12
AVERAGE	15.1	

Source: The National Finances, 1991.

\*The ten provinces and two territories are ranked from lowest percentage share (1) to highest (12).



**TABLE 7.5**

**Revenue and Expenditure Growth Rates for the Yukon, NWT  
and Canadian Average by Level of Government, 1980-81 to 1990-91**

	Revenue	Expenditures
	(average annual percent)	
All provincial and territorial governments	9.1	9.6
Yukon	11.0	10.4
NWT	13.0	13.0
All local governments in Canada	8.1	8.5
Yukon	9.5	9.0
NWT	13.8	12.3

Source: Calculated from Statistics Canada, Public Finance Historical Data 1965/66-1991/92, Catalogue No. 68-512.

**TABLE 7.6**  
**Percentage Shares of Total Government Employment**  
**in the Yukon and NWT by Levels, 1980 and 1991**

Level	1980	1991	Percentage Change
	(per cent)		
YUKON			
Federal	38.2	27.1	-11.1
Territorial	56.9	65.8	8.9
Local	4.9	7.1	2.2
TOTAL	100.0	100.0	
NWT			
Federal	41.7	16.5	-25.2
Territorial	54.2	68.8	14.6
Local	4.1	14.7	10.6
TOTAL	100.0	100.0	

Source: Calculated from Tables 5.12 and 6.10.

**TABLE 7.7****Government Employment by Remuneration and Per Capita for the  
Yukon, NWT and Canadian Average, 1986 and 1990**

	Remuneration as a percentage of total provincial-local expenditures		Employees per 1,000	
	1986	1990	1986	1990
All provincial/territorial and local governments	15.1	14.7	31.0	85.6
NWT territorial and local governments	38.5	24.4	98.7	140.9
Yukon territorial and local governments	31.6	30.6	105.1	114.9

Source: Calculated from Provincial and Municipal Finances, 1991, Tables 3.14-3.16.