ABSTRACT
Canadian provinces and territories reliant on natural resource extraction are vulnerable to national and global economic fluctuations, which negatively impacts their economic growth and capacity to maintain quality programs and services for residents. The result is a depressed economy, greater net-debt to GDP ratio, population loss and ultimately, a declining standard of living. This paper charts the precarious fiscal situation facing the Northwest Territories and argues for a multidimensional policy strategy designed to ensure its long-term sustainability in a post-resource world. The author analyzes the scope and nature of the problem, identifies the strengths and limitations of the fiscal policy instruments available to the government, and then proposes a three-part strategy that incorporates elements of technological innovation in service delivery, strategic intergovernmental relations and advancements in land claim agreements with Indigenous governments. The author also considers the rhetorical or argumentative discourse the government might employ to make its business case to the federal government. The purpose of the author’s policy analysis is to propose a shift in emphasis in the way regional governments plan for and manage their economic futures, as well as to highlight the linkages between governments, Indigenous and otherwise, that could yield surprising results for economic development. Resource extraction, an inescapable foundation of most regional economies in Canada, is unsustainable in the long-term. Modern approaches to policy development, which include investments in technology, innovation and capacity-building, represent an important way in which regional governments might overcome their conundrum. The author concludes that ensuring a prosperous future for the territory hinges on 1) successfully persuading the federal government to invest in the north and 2) working alongside Indigenous governments to increase their capacity for self-government and economic development. The strategy put forward in this paper has broader implications and utility for regional governments throughout Canada.

Introduction
Since the 1930s, the Northwest Territories (NWT) economy has been dominated by resource extraction. Mining has shifted from base metals, such as uranium and gold, to diamonds, now its biggest industry. Diamond mines are now maturing, and the looming economic consequences echo the disappearance of the gold mines in the early 1990s. With its hands tied, the Government of the Northwest Territories (GNWT) will need novel ideas to adapt to its coming fiscal situation. Like many governments, it must do more with less.

Achieving economic sustainability involves a mixture of fiscal policy, technology, innovation and intergovernmental relations. To unpack this complex issue, I examine, in Part I, the economic outlook of the NWT and the government’s fiscal position. Part II summarizes and assesses the current government’s response. Part III analyzes the effectiveness of fiscal policy options available to the government. Part IV builds on this analysis and proposes three recommendations for the GNWT: 1) innovate service delivery; 2) align with the federal Advisory Council on Economic Growth; and 3) complete unsettled land claim agreements. Part V reviews the literature on northern extractive economies and offers a concluding discussion.

In addition to the proposed recommendations, a central component of this paper, woven
throughout, is a discussion of the arguments, economic and otherwise, that the GNWT might employ to achieve its objectives.

* The Northwest Territories. The NWT has a population of 44,381 (2017). 50% of the population is Indigenous. Yellowknife, the capital, has roughly 21,000 residents and is 24% Indigenous. The majority of its other 32 communities are Indigenous.¹

Part I: Economic Outlook and Fiscal Position

The economic outlook over the next 5 years is mixed at best. The effects of the economic and financial crisis of 2008 continue to be felt. Growth has slowed to 2.8% a year, real GDP is 7.5% lower than the five-year average before 2008 and the next 5 to 15 years will see a protracted decline in resource production.² Identified resource development projects will not replace the economic activity of

current operations.³ Growth is concentrated in the diamond industry. Resource extraction accounts for 1/3 of GDP.⁴ No production is planned past 2031, and beyond 2023 all diamond mines will begin closing as resources are exhausted.⁵ The result is a flat revenue outlook, meaning less money to sustain programs and services. In the medium-term, expenditure growth is projected to increase, causing the projected surplus to fall from $147 million in 2015-16 to $13 million by 2019-20.⁶

![Resource Revenue Forecasts](image)

Source: Peter Eglington and Lew Voytilla⁷

The economy is inextricably linked to global commodity prices, which, with the current slump in prices, magnifies downward pressure on the economy.⁸ Potential new mines are struggling to obtain financing, low oil prices have depressed oil and gas activity, and new exploration projects have been put on hold.⁹ Compared to peak production in 2001, real GDP in the oil and gas sector is down by two-thirds as of 2014.¹⁰

As the diamond industry contracts, so too will other sectors tied to its prosperity. Research

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³ Ibid.
⁵ Passing the Mace, 4.
⁶ Ibid., 22.
⁸ Passing the Mace, 2.
⁹ Passing the Mace, 2.
¹⁰ Ibid., 5.
shows that in the Canadian north, the most significant economic impacts tied to mine closures are not the closures themselves, but rather the induced effects related to economic and demographic shifts in the household sector followed by consumption. In the NWT, ripple effects will occur elsewhere, including in construction, transportation, wholesale and retail trade and real estate. Construction and transportation companies will likely see a decline in profits. Residents can expect the housing market, currently marked by high prices and limited availability, to cool off as more people leave and fewer move north.

Population growth has also been flat over the last decade. This is problematic, in part, because the Territorial Formula Financing (TFF) transfer from the federal government accounts for a whopping 68% of government revenues and is calculated primarily on the basis of population. As the population stagnates, so too does the value of this crucial transfer. The population is also aging—the number of children aged 5 to 18 years is declining and the number of persons aged 60 and up is increasing.

The government must steer the economy in a direction that allows it to remain an attractive place to live and work. But resource reliance, while unavoidable to a certain and perhaps large extent, is unsustainable. The so-called “resource curse”, which reports a negative association with mining and economic development, has been well-documented. As the literature suggests, however, context-appropriate management of resource revenues can lead to positive economic development. The next section will briefly summarize and assess the current government’s approach to this situation.

Part II: Current Government Strategy

The Minister of Finance’s mandate letter commits to “responsible spending and prudent and affordable debt management to ensure the long-term fiscal sustainability of the government.” In 2015, the government introduced the Fiscal Responsibility Policy (FRP), requiring operating cash surpluses to pay down debt and at least half of the annual capital budget to be funded by cash from operating surpluses. Among other things, the Minister of Finance is responsible for implementing a new Financial

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11 Andrey Petrov, "Post-staple bust: modelling economic effects of mine closures and post-mine demographic shifts in an arctic economy (Yukon)", Polar Geography 33(2) (2010), 55. This paper examines the phenomenon of post-staple shock occurring in the Yukon after mine closures in the 1990s.
12 Population growth measures a response to economic growth and provides a base for further growth through economic diversification. See Passing the Mace, 11.
13 Peter Eglington and Lew Voytilla, 3.
14 Passing the Mace, 14.
Administration Act to improve overall fiscal responsibility. The previous government also established a heritage fund for future generations.18

Regarding the economy, the mandate of the government commits to, broadly speaking, investments in infrastructure, investments in renewable resources, efforts to increase population and immigration and efforts to reduce the cost of living.19 It also commits to renewing its federal engagement strategy and settling outstanding Land Claim Agreements. The government is guided by the Mineral Development Strategy20, the Economic Opportunities Strategy21 and a 2015-2040 Transportation Strategy22.

The right priorities have been identified, but more is needed. In exploring the linkages between the resource curse and economic sustainability, scholarship has advocated for a policy of prudently saving and investing rents from resource extraction.23 The GNWT’s approach achieves this. But a distinction should be drawn between responsibly managing the benefits of resource extraction and acting sustainably to plan for the absence of resource revenues in the future.

To this end, the GNWT must also respond by reducing costs, securing additional revenue streams and growing the economy and population. This is no easy task. Given fiscal opportunities and limitations, addressed next, the economic future of the NWT hinges on its ability to persuade other governments and stakeholders to complement its own policy objectives. The GNWT’s current strategy would therefore benefit from incorporating the arguments proposed in Part IV to advance these goals.

Part III: Fiscal Policy Options and Prospects

The recommendations in Part IV are tailored to the NWT’s fiscal context and policy options. Understanding the opportunities and limitations of these options in an arctic economy is therefore essential. The structure of the NWT’s economy is typical of other arctic economies. These trademark characteristics include a formal economy based primarily on large-scale resource production, a secondary economy comprising traditional activities and small scale/family resource production, and transfers from higher levels of government supporting consumption through public sector jobs, direct payments to residents and provision of services.24

In this fiscal and economic context, the GNWT’s primary fiscal policy instruments are taxes,

government expenditure and cuts to programs and services. I examine each in turn, and then base my recommendations on the most effective tools available.

Taxes

The GNWT is in a bind when it comes to taxes. The cost of living is incredibly high already, which contributes to a declining population. Residents leave the territory because it is unaffordable. Raising taxes is therefore not a viable instrument for own source revenue generation as it reinforces these trends. As discussed above, the TFF is partially calculated based on population. It is critical to preserve this revenue stream. The tax base is also too small to raise enough to fund programs and services. Even a large tax increase would not yield a proportional increase in total revenue.\(^{25}\) The cost of business is already very high, so a corporate tax would also be detrimental.\(^{26}\)

Government Expenditure

Government expenditure is a viable tool for stimulating economic growth. In 2015, the federal government approved an increase in the GNWT’s borrowing limit from 800 million to 1.3 billion.\(^{27}\) Expenditures are still constrained by the FRP. Given the uncertain economic forecast, the FRP is a prudent choice and should remain. Infrastructure projects must be enabled within the framework of fiscal responsibility. The government must borrow to spend, but it must also avoid unsustainable levels of debt. The solution to this shortfall, as the second recommendation will discuss, is to identify and access collaborative investment models with other levels of government where shared interests exist.

Cuts to Programs and Services

Increasing expenditure growth combined with flat or declining revenue will squeeze operating surpluses.\(^{28}\) Pressure will build from ongoing demand for government programs and services. As the 17\(^{th}\) Assembly’s recommendations to the 18\(^{th}\) advise, “[m]eeting these demands from within fiscal targets will require difficult decisions, including possibly changing the mix of programs and services the GNWT delivers.”\(^{29}\) It may prove necessary for the GNWT to scale back, but it should do so cautiously. As the first recommendation will argue, there may be ways to reduce costs without compromising availability of service.

\(^{25}\) Passing the Mace, 19.
\(^{27}\) Passing the Mace, 22.
\(^{28}\) Ibid.
\(^{29}\) Ibid.
Part IV: Recommendations

1) Reduce costs by redesigning and revolutionizing the way government delivers services

Scaling back programs and services will further diminish the appeal of living in the territory. The GNWT, where possible, needs to deliver the same quality of programs and services for less money. Matthew Mendelsohn, Deputy Secretary to the Cabinet (Results and Delivery) in the Privy Council Office, suggests three ways a government might approach this goal.\(^{30}\)

A) Adopt a fiscal lens for otherwise non-fiscal policy choices. The GNWT should apply a rigorous fiscal lens to ordinary policy decisions that in the past were not thought of as fiscal items. This would involve wide ranging and comprehensive fiscal reviews to identify duplication and inefficiency. Anything from sports camps to medical transfers could qualify.

B) Streamline bureaucratic processes. The GNWT should conduct whole-of-system reviews that include other levels of government, including Aboriginal governments, in order to harmonize functions. The NWT has a complex system of multilevel governance tied together by automatic financing mechanisms.\(^{31}\) Streamlining is about more than just cutting excess; it also attempts to improve governance through more direct lines of decision-making and information transfer. The amalgamation of multiple health authorities into a single territorial authority is a case in point.

C) Embrace technological innovation in service delivery. Reducing costs without compromising quality requires replacing cumbersome mechanisms with more efficient models. As Mendelsohn argues, “governments should apply a transformative lens to the choices they face, choosing those investments that are likely to transform the way government works so as to ensure fiscal sustainability over the medium and long-term.”\(^{32}\) Single window service centres in remote communities, in which a single office becomes a one-stop shop for all community services, is one such example of success through innovation.\(^{33}\)

The principle objection to this approach is that adopting a fiscal lens and streamlining bureaucracy will erode the quality of services that cannot be measured in dollars and cents. However,


\(^{31}\) “Aboriginal multilevel governance is characterized by growing interdependencies between Aboriginal and non-Aboriginal governing actors, leading to a partial displacement of formal rules of authoritative decision-making in favor of joint decision-making processes and negotiated solutions to policy disputes.” See Martin Papillon and André Juneau, *Canada: The state of the federation 2013: Aboriginal multilevel governance* (Montreal, Institute of Intergovernmental Relations, School of Policy Studies, Queen's University, McGill-Queen's University Press: 2013).

\(^{32}\) Mendelsohn, 12.

this recommendation asks only that the GNWT seek efficiency where quality can be preserved. It emphasizes finding ways to deliver the same service, or even improving that service, with less expenditure. Recall that the NWT must remain an attractive place to live, work and raise a family. Technology will be instrumental in this process, as fiscal and bureaucratic efficiency has only a moderate window of reduction before services are negatively impacted.

**Narrative**

To advance this goal, the GNWT will need a strategic communications plan that renders fiscal sustainability palatable to the public. The message could be that government is pursuing ways to reduce costs without cutting programs and services. It is using taxpayer money more efficiently and planning for the long-term sustainability of the territory. It is investing in becoming more flexible and responsive to the needs of residents.

The argument could also be framed in terms of the need for government to combat increasing expenditures in preparation for impending mine closures. This re-frames the issue as an opportunity to innovate, revolutionize and redesign the way government delivers services to the public. Mendelsohn observes, “governments should look at their need to reduce spending as an opportunity to capitalize on new technologies, governance models and financing mechanisms that can help re-shape government.”

Redesigning service delivery through technological innovation could significantly reduce costs associated with vast geographical distances.

2) **Align government objectives with the federal Advisory Council on Economic Growth**

In March 2016, the federal Minister of Finance established the Advisory Council on Economic Growth (the Council) to develop policy actions for economic growth. The GNWT should recalibrate its federal engagement strategy to align with the objectives of the Council in order to maximize potential for cooperative projects. The importance of federal subsidies for resource development and infrastructure projects cannot be overstated. If the federal government is persuaded that territorial projects further its own objectives, cooperative funding models can be secured for otherwise unfunded projects. The Council’s recommendations are as follows:

**Infrastructure**

The Council recommends “investing strategically in infrastructure to stimulate the economy, and create opportunities down the line for more investment in other and social and environmental

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34 Mendelsohn, 25.
projects.” Specifically, it states “improve quality, accessibility and sustainability of infrastructure services, in order to promote economic development in First Nations communities as well as in rural and northern regions.” The GNWT should focus on this particular alignment when negotiating. Securing federal funding for infrastructure will allow the GNWT to stimulate the economy without compromising the FRP and its prudent debt management approach.

**Immigration**

The Council recommends increasing annual immigration from 300,000 to 450,000 over 5 years. Population growth is critical to economic growth, prosperity and productivity. This alignment can satisfy two policy objectives simultaneously: the federal government’s, as recommended by the Council, and the NWT’s issue of population stagnation. The GNWT should negotiate with the federal government to align processes such that additional immigrants are resettled in areas of need in the NWT’s labour market.

**Foreign Direct Investment (FDI)**

The Council recommends that the federal government encourage more FDI to “turbo-charge Canadian businesses and help fund infrastructure and innovation.” It suggests creating a “one stop shop” that acts as a concierge service to help facilitate FDI. Since private investment has slowed significantly in the territory, the GNWT should highlight where opportunities for investment exist and create a prospectus that foreign investors can readily access when using this concierge service.

Critics might raise two concerns: 1) the GNWT should not rely on unconfirmed federal investments and projects, and 2) by altering its strategic approach based on the federal government of the day, the GNWT is vulnerable to a regime change with different priorities in the future. No part of this recommendation advocates for up-front territorial investments that assume similar federal investments will follow. Rather, it is about engaging in a persuasive dialogue with the federal government on shared priorities to capitalize on and complement the federal government’s mandate. Joint initiatives would be launched simultaneously and in partnership. In the event of future regime change, the GNWT would be free to simply re-evaluate its federal engagement strategy at such a time.

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38 *Unleashing Productivity Through Infrastructure*, 7.
Narrative

The Council’s recommendations parallel The GNWT’s opportunities for economic growth. The GNWT should also draw on other arguments relevant to federal objectives when framing the conversation. For example, the GNWT might advance the argument that more economic activity and population will legitimize Canada’s Arctic sovereignty claims. Areas like the Beaufort Sea, rich in resources and increasing accessible due to climate change, continue to be disputed. Many foreign governments view Canada’s claims to sovereignty as merely token interests.42

Secondly, the GNWT should emphasize that the mandate of the Minister of Indigenous and Northern Affairs commits to promoting economic development and creating jobs for Indigenous peoples.43 The shared funding model used in the construction of the Inuvik-Tuktoyaktuk highway is a good example of this. Most of the territory’s communities would benefit immensely from road access. The federal government has ambitious goals with respect to Indigenous peoples, so the GNWT should appeal to these shared priorities in as many ways as possible.

3) Finalize remaining Land Claim Agreements

Lastly, the GNWT should increase efforts to finalize outstanding land claim agreements and establish additional Indigenous multilevel governance arrangements.44 This would create a stable investment environment and provide certainty for government and industry alike. “Settled land claim agreements provide certainty...which...yields local and regional economic growth, employment and terms of engagement for governments and access to land use.”45 This is already on the government’s radar; however, the importance of this step must be underscored. There are good reasons for prioritizing this above other commitments:

First, in 1974, the Berger Inquiry called for a moratorium on mineral development and exploration until all land claims were settled.46 Justice Berger’s findings highlight the importance of political stability to equitable resource development. Second, it would complement efforts to streamline bureaucratic processes by increasing reliance on multilevel governance networks and decentralizing service delivery. Third, strengthening Indigenous self-government in the territory lends weight to the GNWT’s arguments that the federal government should provide additional assistance through

42 Jennifer Parks, Canada’s Arctic Sovereignty: Resources, Climate and Conflict (Edmonton: Lone Pine Publishing: 2010), 55.
44 “The emergence of new regional governance actors, including the Inuvialuit Settlement Region in the Northwest Territories, necessitates a re-evaluation of traditional federal structures and intergovernmental processes that have been used to explain administration in the Arctic.” See Gary N. Wilson, Christopher Alcantara and Thierry Rodon in “Multilevel Governance in the Inuit Regions of the Territorial and Provincial North,” In Martin Papillon and André Juneau, Canada: The state of the federation 2013: Aboriginal multilevel governance (Montreal, Institute of Intergovernmental Relations, School of Policy Studies, Queen’s University, McGill-Queen’s University Press: 2013), 43.
45 Passing the Mace, 17.
46 Slowey, 357.
infrastructure investment and capacity-building.

Of course, settling outstanding land claim agreements carries no promise that sustainable economic development will follow. Land claim beneficiaries could choose to stonewall development projects, and greater certainty provides little respite if suppressed commodity prices are discouraging exploration and development in the first place. However, the success of the Inuvialuit’s business initiatives under the Inuvialuit Final Agreement (IFA), including its development and investment corporations, indicate that Indigenous governments are well situated to develop and expand their business interests. Beyond continued reliance on the extractive resource industry, stronger Indigenous self-government, a priori, improves the sustainability of the territory by entrenching Aboriginal rights under section 35(1) of the Constitution and thus increasing the federal government’s fiduciary obligations in the region.

Narrative

Historically, there have been major differences in Indigenous governments’ willingness to compromise on treaty agreements. Interim land withdrawals hinder growth and complicate would-be development projects and conservation zones. The politics of natural resource extraction creates division among these groups. But negotiations do not have to be a zero-sum game. Settling land claims should be viewed as a vehicle for both respecting Aboriginal rights and creating a stable environment for investment and business (including Indigenous businesses). For example, Berger argues that land claim agreements have “made Aboriginal peoples major landowners and significant players in the economy.”

Land claims are the first step in decolonization. At the same time, they create space for Indigenous governments to improve education and employment outcomes, increasing economic potential.

As land claims are finalized, the capacity to govern and participate in economic activity should accompany the transfer of legal authority. The GNWT, the federal government and Indigenous governments must collaborate to achieve this through infrastructure investment and collaborative governance models. The effect is twofold. First, economic growth is stimulated outside of the capital, reducing regional inequality and unemployment. And second, the more entrenched Indigenous governance and economic activity becomes in the NWT, the greater its case for continued financial assistance and support from the federal government.

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48 Slowey, 360.
50 Ibid., 34.
Part V: Getting Beyond Boom and Bust?

On its current path, impending mine closures will force the NWT to look beyond extractive industries to ensure its long-term economic viability. Perhaps this is a good thing. The effects of a bust cycle can be particularly severe for Indigenous peoples.\(^5\) Moreover, the regional benefits of resource development are limited, with most of the income flowing to non-Northern owners of the capital and skilled labour residing outside the region.\(^5\) But is economic sustainability even possible in a region with few alternatives?

Scholarly debate on this question is divided. Some argue that sustainability means changing the exploitative nature of mining through negotiating economic and social agreements between industry, government and communities. Others argue for co-management between Indigenous and non-Indigenous actors.\(^5\) More recent scholarship adopts the perspective that natural resource reliance is acceptable provided that regional actors are poised to manage the benefits appropriately and sustainably.\(^5\) None of these perspectives solves the conundrum at the heart of the matter: the underlying structure of the arctic economy.

A notable exception is the concept of the “social economy”, which advocates for a strategy to develop and enhance the vitality and social and educational capital of northern communities through organizations that are more directly controlled by the communities themselves.\(^5\) The social economy is primarily concerned with serving the social goals of communities based on participatory democratic principles. It is premised on the idea that northern economies are service sector communities that benefit from hunting, fishing and other traditional activities.

Fortunately for the GNWT, developing a sustainable economy in the medium-term need not be an either/or scenario that embraces one of the above approaches while ignoring others. It can follow the recommendations outlined in this paper to responsibly manage its current fiscal situation while preparing for future mine closures. At the same time, it can invest in initiatives to diversify its economy while propping up the social economies of communities. Most importantly, it can take solace in the security of the TFF transfer, the single largest contributor to government revenues. Pursuing a multidimensional policy strategy that weaves these disparate considerations together is the territory’s


\(^5\) For a critique of the neoliberal agenda of the mining industry, and the scholarly debate surrounding the evolution of this agenda on more sustainable and equitable terms, see Karen Everett and Heather Nicol, “Economic Development, Indigenous Governance, & Arctic Sovereignty”, Arctic Yearbook (2014), 9-10.


best plan for a sustainable future.

Conclusion

The NWT has time to plan for mine closures and the narrowing surpluses that come with it. The NWT’s economic standing is still relatively strong compared with the provinces. In 2013-2014, net debt to GDP was only 9.5%, though this increased to 20.3% in 2014-2015.\textsuperscript{56} With minimal own source revenue, the critical variable keeping the territory afloat is federal transfers. As population stagnates alongside the TFF, the NWT’s ability to persuade the federal government to continue, or perhaps increase, its support is vital.

The recommendations outlined here are designed to work in concert with one another for the economic development and sustainability of the NWT. They are premised on the assessment that, based on the GNWT’s fiscal opportunities and limitations, fiscal responsibility, innovation and strategic investments are the most effective tools at the government’s disposal in a post-resource world.

The GNWT will need to innovate service delivery, invest in infrastructure and create a politically and economically stable environment by finalizing unsettled land claim areas. Doing so will position the territory to persuade other levels of government to contribute to its long-term sustainability. These arguments should emphasize shared economic objectives, the need for more legitimate claims to arctic sovereignty and the importance of capacity building for Indigenous self-government. The NWT has enormous potential—proven resource deposits, natural beauty and a diverse and culturally rich population. The key is to convince everyone else.

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