Executive Summary

For 15 years, the Harvard Project on American Indian Economic Development has been conducting on-the-ground research into the relationship between governance on Indian reservations and its effects on prosperity. Reserve communities that have higher levels of economic health tend to be those that have higher degrees of effective sovereignty.

Although self-government has been the goal of both governments and aboriginals, achievement of that status has often been a stop-and-go affair, or produced worse economic outcomes. Tribes that are building successful economies tend to share certain features of governance:

- Stable political institutions and policies bring predictability to the process, a prerequisite for capital investment.
- A judicial system independent of political influence allows for the reliable resolution of disputes.
- Where firewalls exist between the management of enterprises and tribal governance, those enterprises are more profitable and sustainable.
- Competent, professional bureaucracies are required to administer the complexities of governance.
- Governing institutions have to reflect the cultural traditions of the tribe or lose legitimacy.

Building successful reserve economies requires agreement over strategic direction, or what sort of activities the tribe is interested in pursuing. Reservations that pay attention to these fundamentals before charging ahead with economic development have a much higher chance of success. They are exercising de facto sovereignty.

Introduction

The most extensive on-the-ground research into aboriginal economies has been conducted for fifteen years by the Harvard Project on American Indian Economic Development. Its scholars have visited and assessed the economic health of hundreds of Indian reservations. They looked for common links for success and failure. What attributes and policies do successful reserves share? What barriers prevent less successful reserves from improving their fates?

Some of the findings are summarized in a paper by Stephen Cornell of the University of Arizona and Joseph P. Kalt of Harvard University, called Sovereignty and Nation-Building: The Development Challenge In Indian Country Today. Available in full at www.ksg.harvard.edu/hpaied/, the paper makes a direct connection between economic health and the autonomy of a reserve’s government. “[T]hose tribes that build governing institutions capable of the effective exercise of sovereignty are the ones that are most likely to achieve long-term, self-determined economic prosperity,” Cornell and Kalt write.

The case studies used in the paper look at American reservations, but they have obvious application in Canada. In both countries, aboriginal people have shared almost identical histories, and their legal and political structures are twins. Their reserve societies are rife with the same kind of grinding poverty and social problems, and income levels remain at the bottom of the ethnic totem pole on both sides of the border. Further, the lessons of the Harvard Project are being transmitted directly to Manitoba’s reserves, some of whose chiefs have attended governance workshops with the Project.
Frameworks Matter

The paper shows that the framework of authority implicit in the reservation system may conflict with the ethnic tradition of some tribes. It holds that centralized, powerful government systems – whether expressed through federal control of reserves or a self-governing model that is patterned on the same lines – are particularly unsuited to the Lakota, or Sioux, whose cultures were highly individualistic. Kalt and Cornell set out the contradiction in graph form, where summaries of tribal characteristics are compared with the imperatives of collectivist regimes on reserves. The comparison explains a great deal about the failure of the Sioux in Canada or the United States to eke even a modicum of economic success out of such arrangements.

The paper’s position that sovereignty is a necessary condition of aboriginal prosperity is coercively argued and supported by case studies. The conclusion’s validity is undoubtedly true, yet much evidence exists to suggest that self-government is not a sufficient condition for economic progress. Indeed, many of the tribes whose ethno-cultural histories reflect a high degree of authority vested in chiefs have not prospered. Tribes of various backgrounds, some freer than others, some more authoritarian, have had better luck than others. Other reasons for the problem are suggested in Frontier Centre Policy Series paper number four, The Search for Aboriginal Property Rights, (June 2000) available at www.fcpp.org. But the fact that the Harvard Project has not managed to discover all the reasons for native poverty does not diminish the value of its conclusion that ill designed self-government is an important part of the problem.

The Winds of Political Change

Federal government control of Indian life through the reserve system, it is almost universally acknowledged, has been an abject failure. The indicators of poverty converge on reserves with an intensity almost unique in North America. In the 1970s, native politicians began to pressure federal governments for more control over decision-making on reserves. Since then, most tribes have adopted a policy of self-determination and embraced the promise of rebuilding their futures and their economies.

The achievement of that goal has been decidedly mixed. Bureaucratic reluctance to relinquish power, and the publicity accorded to reserves where tribal politics and mismanagement diluted the promise of self-government, have created conditions under which autonomy has often been a stop-and-go affair. But the opportunity offered by the move to self-government should not be squandered. More than just the assertion of a claim to rights and powers, Indian self-government requires the effective exercise of sovereignty. Without it, the authors write, “economic development is likely to remain a frustratingly elusive dream.”

Patterns of Reservation Development

Some Indian reservations, even ones who have not embraced gambling as a revenue source, have broken away from the pattern of poverty. The Choctaws are one of the largest employers in the state of Mississippi, and must import several thousands of non-Indians to staff their numerous enterprises. The White Mountain Apaches in east central Arizona have become major players in the regional economy, with tourist and forestry industries that outperform private competitors. The Flathead Reservation in rural Montana often reports a lower unemployment rate than the non-Indian economy, and the quality of its tribal college draws many outsiders. In New Mexico, the Cochiti Pueblo employs most of its people at tribally owned enterprises.

These tribes do not succeed because they are blessed with more natural, human or financial resources than others. The Crows in Montana have an abundance of such advantages, yet their unemployment rate is at least 60%. The Choctaws, on the other hand, have prospered with neither natural resources nor high levels of education. It is important to understand why some Indian nations are building successful economies on their own terms.

Two Approaches to Economic Development

The “jobs and income” approach, common on reserves, tries to remedy poverty by seeking government or private capital grants to start enterprises. It produces lots of ideas, but few lasting businesses. Such
enterprises tend to fail when the money runs out and they are often compromised by politics and patronage, the siphoning off of profits, and their use as employment agencies.

The “nation-building approach” is more ambitious and comprehensive. It creates an environment favourable to investment and the creation of continuous profitability by laying a sound institutional foundation. By concentrating on the fundamentals of policy and allowing other to establish and run enterprises, it improves the chances that they enterprises will be sustainable. It treats development as primarily a political problem, not an economic one.

**Nation-Building**

Self-government is easier to assert than implement. It necessarily entails the ability to govern effectively. Once shed of the mentality of victimization, tribes have only themselves to blame if things go badly. A long history of outside control created “a legacy of institutional dependency, a situation in which tribes have to rely on someone else’s institutions, someone else’s rules, someone else’s models to get things done... without considering whether those institutions... are appropriate to their situations and traditions. Such dependency and blind imitation are the antithesis of self-determination.”

The Harvard research indicates the need for the following components if nation-building is to lead to improved financial outcomes:

- **Stable institutions and policies.** The formal mechanisms by which societies organize themselves must be known and predictable. This lowers the risks to outside investors from arbitrary changes in government and policy and allows tribal members more security for the fruits of their own efforts. The rules of the game must be certain, nor need they change because different people are elected to political positions. At the Cochiti Pueblo in New Mexico, one of the most successful tribes in terms of unemployment rates and sustained enterprises, the senior administration turns over every year. But the institutional rules of governance remain the same.

- **Fair and effective dispute resolution.** The assurance of fair adjudication for claims and disputes requires a strong, genuinely independent judicial system. Of the 67 tribes examined by the Harvard Project, those who have that feature economically outperform those that don’t. On reservations where the tribal court is controlled by the tribal council, plaintiffs have little chance for redress because the outcome is often determined by the same people who are the target of the complaint. Legal disputes often involve economic issues like leases or licenses to operate businesses on reserves, and low expectations of neutral treatment deter efforts to create those enterprises. On average, the existence of an independent judicial system lowers unemployment rates by five per cent. The lesson is that investment in legal systems provide an important foundation for development.

- **Separation of politics from business management.** Political involvement in the operation of businesses means that they fail or become a drain on tribal resources. The skills needed to run a business are different from political ones. Harvard’s survey of 125 enterprises on 30 reservations shows that when tribally owned businesses are formally insulated from political interference – with a managing board and charter beyond the direct control of a council or chief – are four times as likely to be profitable in a competitive market. Many aboriginal societies adopt a non-profit policy, but their companies tend to act as employment agencies, with higher cost levels that make them less efficient and their products more expensive.

- **A competent bureaucracy.** Tribes with personnel capable of competent, sophisticated resource management become credible economic actors. Increasing financial and administrative complexity under self-government accentuates the need for these skill sets. Crucial to developing and retaining them are an effective civil service system, a robust process for grievances and regularizing bureaucratic practices for the reliable implementation and recording of decisions. Reservation economies often depend on the exploitation of natural resources, actions which require compliance with a body of environmental and regulatory law. The White Mountain Apaches have
built one of the most productive timber operations in the western states and the country’s premier elk hunting operation by capable negotiation with the U.S. Fish and Wildlife Service.

- Cultural “match.” The organization and exercise of authority must reflect prevailing ideas in the community if they are to be considered legitimate. The tribal constitutions of Arizona’s White Mountain Apaches and South Dakota’s Oglala Sioux are near replicas, yet the former is one of the most successful in economic terms and the latter one of the poorest. The difference is that the similar institutional structures reflect Apache traditions but not those of the Sioux. Apaches had a history of placing political, judicial and economic power in the hands of a single, charismatic individual, while the Sioux culture was much more decentralized and individualistic. To have legitimacy, governing institutions need to accommodate such differences. When a high degree of cultural match exists, it encourages more support from the wider community. If the match is low, that sense of illegitimacy destabilizes the community and enterprises may turn into vehicles for personal enrichment.

Building Blocks of Development

The four elements of successful economic development on reserves are sovereignty, effective institutions, strategic direction and decisive action. Sovereignty is only a starting point and must be backed up by effective governing institutions. But these foundations may lack focus. In order for them to be effective, tribes must consider the criteria for evaluating development options. These involve fundamental decisions about the nature of the society natives want. What should be changed and what should be preserved? What are the best priorities for development and what are their drawbacks? What assets are available and what constraints are faced? In short, a sense of strategic direction must be established.

The Harvard Project reports that many tribes pay attention only to decisive action without considering the first three elements. “Under these conditions, development becomes a haphazard affair. In contrast, a tribe that has effective institutions in place and has developed a clear strategic direction not only is in a better position to make development decisions, but is more likely to see those decisions pay off.”

The Argument for Sovereignty

Sovereignty involves the relationship between political entities, the mutual recognition of “the rights and powers they recognize each other as possessing.” But “de facto” sovereignty means the power to execute day-to-day, real life decisions. Governments now for the most part acknowledge legal sovereignty for natives, but genuine self-governance requires that the people affected be willing and able to assert their decision-making in practice. Tribes that have accomplished this have been the only ones to break the cycle of dependency and become economically independent.

As long as outside organizations carry the primary responsibility for economic conditions on reserves, “development decisions will reflect the goals of those organizations, not the goals of the tribe.” Outsiders don’t pay the price of bad decisions, and they have few long-term incentives to improve. No single case of sustained development has occurred outside a framework of “de facto” sovereignty.

About the Author:
Dennis Owens is the Senior Policy Analyst at the Frontier Centre for Public Policy. A native of Portage la Prairie, Manitoba, and a descendant of homesteaders, Dennis Owens moved to Winnipeg to attend United College in 1965. He graduated from the University of Winnipeg in 1970 with a Bachelor of Arts in English and Political Science. Over a 20-year career in the transportation business, he rose to the position of operations manager of a Winnipeg-based firm. Since then he has researched and written about Canadian public policy issues for a variety of organizations including the Manitoba Taxpayers Association and the Prairie Centre.