

Economic Development Lessons for and from Indian Reservation Economies

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Executive Summary

Since the writings of Adam Smith, economists have searched for the causes of “the wealth of nations.” Though less attention has been paid to Indian nations than to developing countries, there is mounting evidence that human capital, physical capital, and natural resources are not sufficient to cause growth unless they are coupled with an institutional environment that gets the incentive right. American Indians have a rich history of crafting institutions that do this as evidenced from anthropological data. In the case of modern Indian reservation economies, two institutions stand out as important to economic development. One is the mosaic of land tenure on reservations and the BIA trust constraints that shackle natural resource use. The other is a perceived lack of a rule of law necessary to give outside investors enough confidence to do business on reservations.

This presentation will summarize data from research on both of these institutions suggesting that reducing high transaction costs imbedded in BIA trust constraints could increase land productivity and that creating credible commitments to contracting on reservations could improve economic growth. As always the challenge is to blend the institutions necessary for transactions in a global economy with those necessary for maintaining Indian cultures.

Summary of Findings

Land tenure is a significant explanatory variable in explaining economic activity on reservations. Agricultural productivity on a sample of approximately 40 large reservations in 1987 was 30 to 40 percent less on individual trust lands than on fee simple lands and 80 to 90 percent less on tribal trust lands than on fee simple lands, controlling for other factors that might influence agricultural productivity. Moreover, reservations with more than 50 percent of land in fee simple had average incomes in 1999 of \$9,531 compared to \$8,613 on reservations with less than 50 percent of land in fee simple. Between 1969 and 1999, reservations with more than 50 percent of land in fee simple saw per capita incomes grow 91 percent compared to 69 percent on reservations with less than 50 percent of land in fee simple.


The rule of law also matters to economic activity. Reservations subject to state jurisdiction (P.L. 280) had per capita incomes in 1999 equal to \$10,713 compared to \$7,966 for those with tribal jurisdiction. Per capita income growth rates between 1969 and 1999 show similar disparities: reservations subject to state jurisdiction grew 86% compared to 68% for tribal jurisdiction.

Policy Implications

High transaction costs associated with trust status must be overcome if productivity on Indian lands is to improve significantly. Clarifying title, reducing fractionation, and allowing


land to be used as collateral are crucial to more productive land use on reservations.

Improving the rule of law by waiving sovereign immunity and by contracting for private adjudication procedures should be considered as ways for improving the investment climate on reservations.





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Property Rights & Economic Development

- ◆ Peru & Argentina
 - urban dwellers given title to property
- ◆ Results
 - Increased investment in housing
 - Increased women labor force participation
 - Smaller families
 - Greater investment in education of children





Causes of Amazonian Deforestation


- ◆ Clearing establishes property rights
 - Clearing by Cattle ranchers: 60-70%
 - Clearing by subsistence agriculture: 30-40%
- ◆ Clearing forests helps large land owners protect their property rights.
- ◆ Lack of title means no collateral and little investment



My Childhood Hero




Francis Calf-Looking



Am. Indian Income & Unemployment Rates


RIA Region(s)	1999 Am. Indian per-capita income (in 1999 \$)		1998 Am. Indian unemployment rates	
	un/jnl. em.	adj/jnl. em.	un/jnl. em.	adj/jnl. em.
Eastern	62.4	61.4	11.4	11.3
Great Plains	54.2	61.0	26.5	16.7
Midwest	63.1	65.9	16.3	11.7
Norajo, Southwest, and Western	45.9	65.2	23.6	11.5
Northwest and Rocky Mountain	58.9	65.8	22.2	13.2
Pacific	52.2	61.8	18.3	12.4
PGIAC	48.5	63.9	22.8	22.8





Why Stagnation


- ◆ Powerlessness, dependence, and expropriation
- ◆ Lack of resources
- ◆ Intrinsic aspects of Indian culture
- ◆ Absence of effective institutions



Getting the Incentives Right





Secure Prop Rights & Capital Investment





Clam Gardens






Reservation Property Rights


- ◆ Mosaic of land tenure--fee simple, individual trust, and tribal trust
- ◆ Individual trust 30-40% less productive than fee simple
- ◆ Tribal trust 80-90% less productive than fee simple


1999 Per-Capita Income of American Indians





1969-1999 PCI Gr. Rates for American Indians






Rule of Law on Reservation


- ◆ **Public Law 280**
 - Takes away sovereignty
 - Creates credible commitments
- ◆ **Approx. 30% of reservations with state jurisdiction**




1999 Per-Capita Income of American Indians




Group	Per-Capita Income (1999)
All Americans	~10,000
American Indians	~5,000



1969-1999 PCI Gr. Rates for American Indians




Group	PCI Gr. Rates (1969-1999)
All Americans	~100%
American Indians	~50%



Jurisdiction Matters


Kennerly v. District Court of Montana (U.S. Supreme Court 1971) & *Security State Bank v. Pierre* (Montana Supreme Court 1973)

"A result of the Kennerly decision was to dry up credit sources throughout the state to responsible Indian citizens . . ."



Take-Aways

- ◆ Reservation economies no different from developing countries—**INSTITUTIONS MATTER**
- ◆ Rich history of getting the incentives right
- ◆ More secure p.r. & rule of law crucial for growth
- ◆ Bottom up vs. top down more likely to be successful
- ◆ More case studies will help identify what works



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