

Reservation “Capitalism” and International Development

Larry Chavis
UNC Kenan-Flagler Business School

Outline

- ▶ Overview of *Reservation “Capitalism”*
- ▶ Compare with some issues in international development
- ▶ Meant to be stimulate conversation and thought rather than being comprehensive

“Capitalism” Lost

Our people don't understand business. After 10 or 15 generations of not being involved in business, they've lost their feel for it. Capitalism is considered threatening to our identity, our traditions. Successful entrepreneurs are considered sell-outs, they're ostracized. We have to promote the dignity of self-sufficiency among Indians. Instead we have a culture of malaise: 'The tribe will take care of us.' We accept the myth of communalism. And we don't value education. We resist it.

Bill Yellowtail in Forbes, 12/13/2011

Miller begins by dispelling this myth

Wealth accumulation by Indians in the pre-contact period that “led to ample leisure time” and allowed for the “manufacture of art and handicrafts, the practice of elaborate social and religious ceremonies, and even public displays of wealth” (p. 17)

Nootka people of the Pacific Northwest carried individual ownership to an “incredible extreme”, with individuals owning “land and houses, clam beds, beaches, the salvage rights on those beaches, river fishing spots, and even fishing spots and sea lion rocks in the ocean!”(p. 14-15)

This is No Myth: The Weight of History

Chapter 3: Euro-American Impacts on American Indian Economies

- ▶ **Federal Policies Impacting Economic Activities in Indian Country**
 - ▶ Federal Relationship with Tribes
 - ▶ The Trade and Intercourse Era
 - ▶ Removal Era
 - ▶ Reservation Era
 - ▶ Allotment Era
 - ▶ Indian Reorganization Era
 - ▶ Termination Era
 - ▶ Self-Determination Era

These 7 era's still has an impact on tribal economic development.

The State of Things

Possible Advantages

- ▶ **Gaming**
 - ▶ Funding
 - ▶ Building of Human Capital
- ▶ **Federal Funds**
 - ▶ Tribes taken responsibility for providing some services
 - ▶ Section 8(a)
- ▶ **History of adaptation and entrepreneurship**

Obstacles

- ▶ **Marginal places**
 - ▶ Rural, dispersed
 - ▶ Lack of local businesses
- ▶ **Overlapping jurisdictions**
- ▶ **Inadequate institutions**
- ▶ **Poverty**
- ▶ **Trust status**

Solution: Create Indian Entrepreneurs

“Today, Indians own private businesses at the lowest rate per capita of any racial or ethnic group in the United States.” (p.113)

More obstacles

- ▶ Poverty
- ▶ Lack of human capital
- ▶ Health
- ▶ Tribal governments
- ▶ Federal and state governments
- ▶ Lack of infrastructure

...but every rock is a stepping stone.

- ▶ Tribal business loans
- ▶ Tribal colleges
- ▶ Uniform Commercial Codes
- ▶ Buy Indian Act of 1910 (think 1% of \$19 billion)
- ▶ No lack of success stories in *Reservation Capitalism*

A Lumbee Success Story

- ▶ 2007 Small Business Persons of the Year
- ▶ Started with 10K in credit card debt
- ▶ \$12 million revenue by 2009
- ▶ 28 acre campus



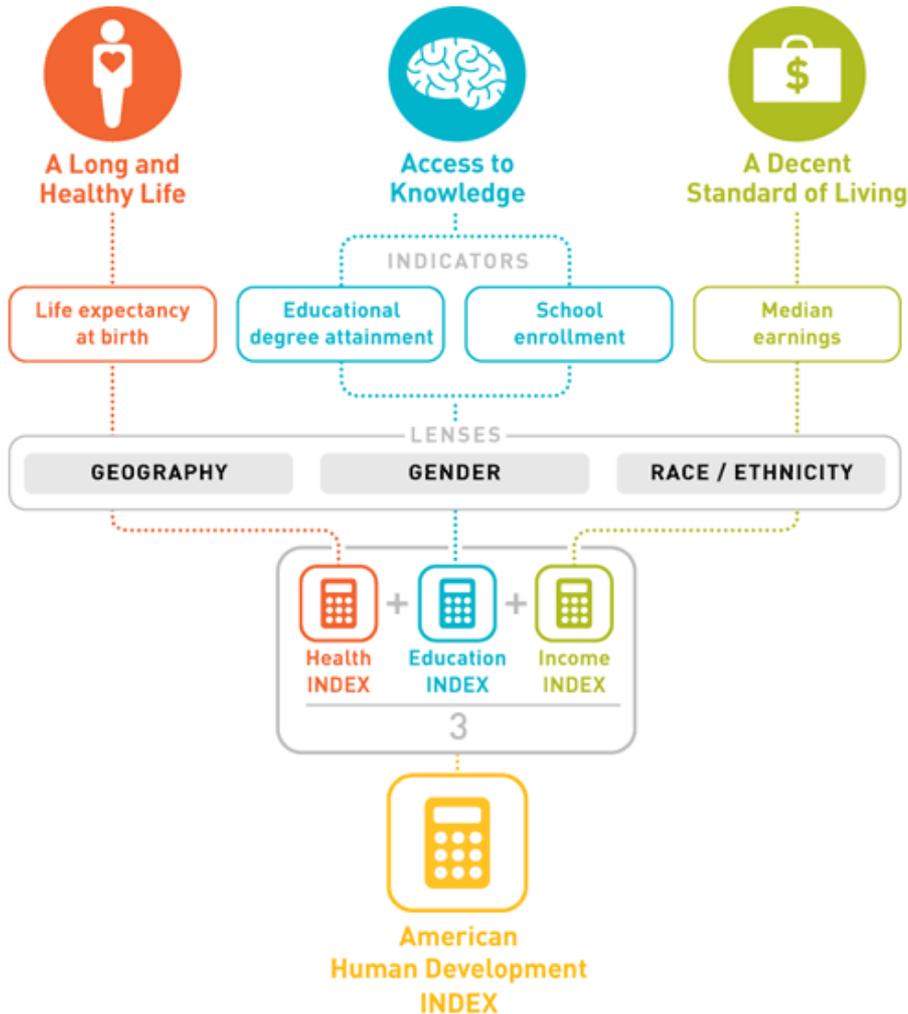
A screenshot of a CNN Money article. The top of the page features the CNN Money logo and navigation links for FORTUNE, Money, Home, Video, Business News, Markets, Term Sheet, Economy, Tech, and Personal Finance. The article title is "Where are they now?" and the sub-headline is "FSB checked in with past winners of the Small Business Administration's National Small Business Person of the Year award to find out how they and their companies are doing today." The main heading of the article is "More sales and space for Native Angels". The article text describes the success of Bobbie Jacobs-Ghaffar and Lesa Jacobs, who won the award in 2007. It mentions that their company, Native Angels Home Care and Hospice, has grown from \$9 million in annual sales in 2007 to \$12 million in 2009. A photograph of the two women is included on the right side of the article. The page number "1 of 5" and "Back Next" buttons are visible at the bottom of the article content.

Measuring more than income



<http://www.measureofamerica.org/>

Human Development Index



- ▶ Median hhld income
 - ▶ \$33,000 AI
 - ▶ \$46,200 overall
- ▶ Poverty rate
 - ▶ 21.2% AI
 - ▶ 10.2% overall
- ▶ Life Expectancy
 - ▶ 72.6 AI
 - ▶ 77.8 Overall
- ▶ 20% Higher Mortality Rate

Homahota Consulting LLC & Indian Health Services

Comparing the education gap: Graduation rates

Country	Total Population	Indigenous	Percentage Gap
Australia ^a	49	23	26
Canada ^b	65	37	28
New Zealand: Māori ^c	76.1	62.9	13.2
USA: Native American/ Alaska Natives	80.4	70.9	9.5
USA: Native Hawaiian/ Pacific Islander	80.4	78.3	2.1

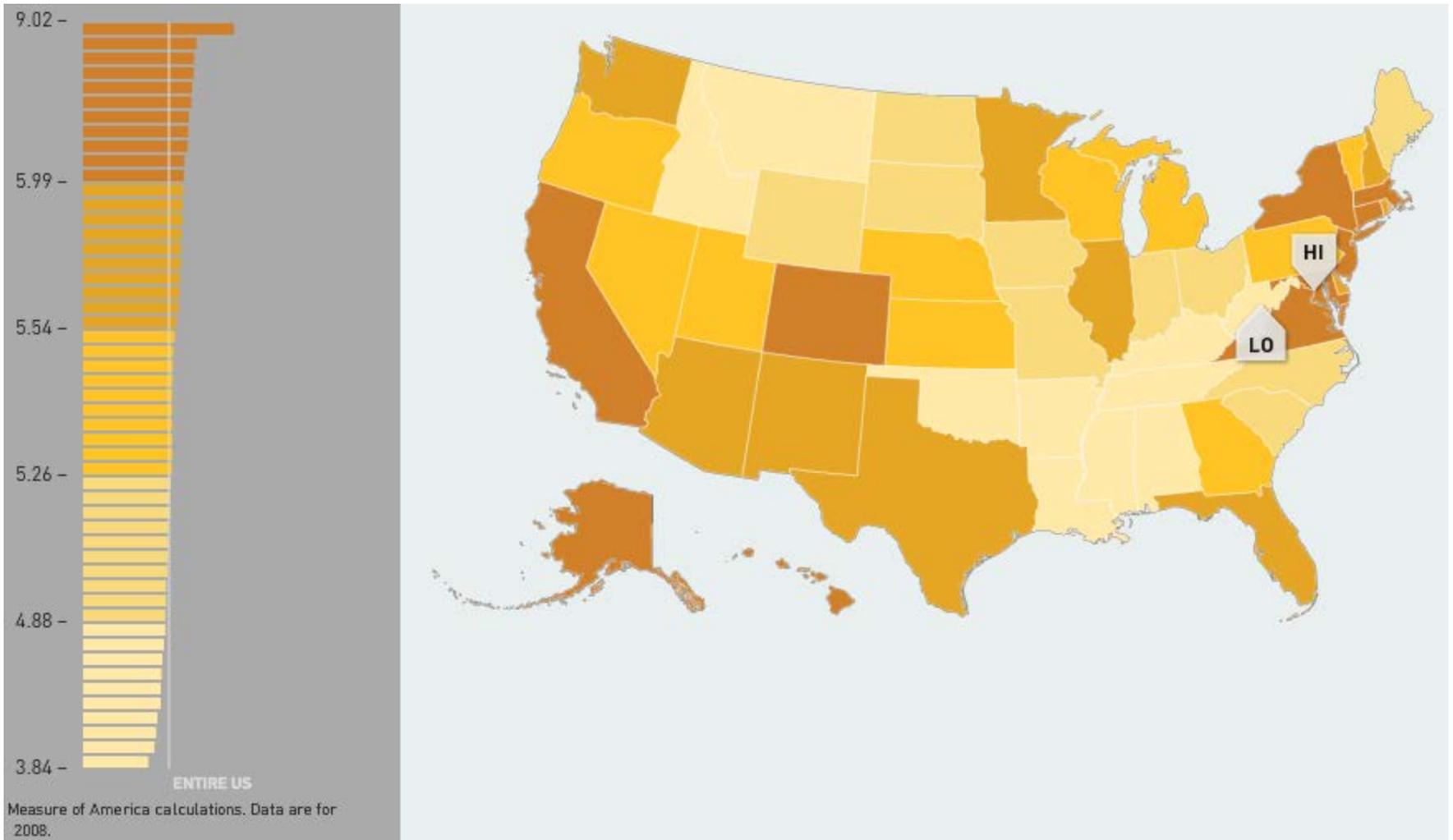
UNESCO, 2009

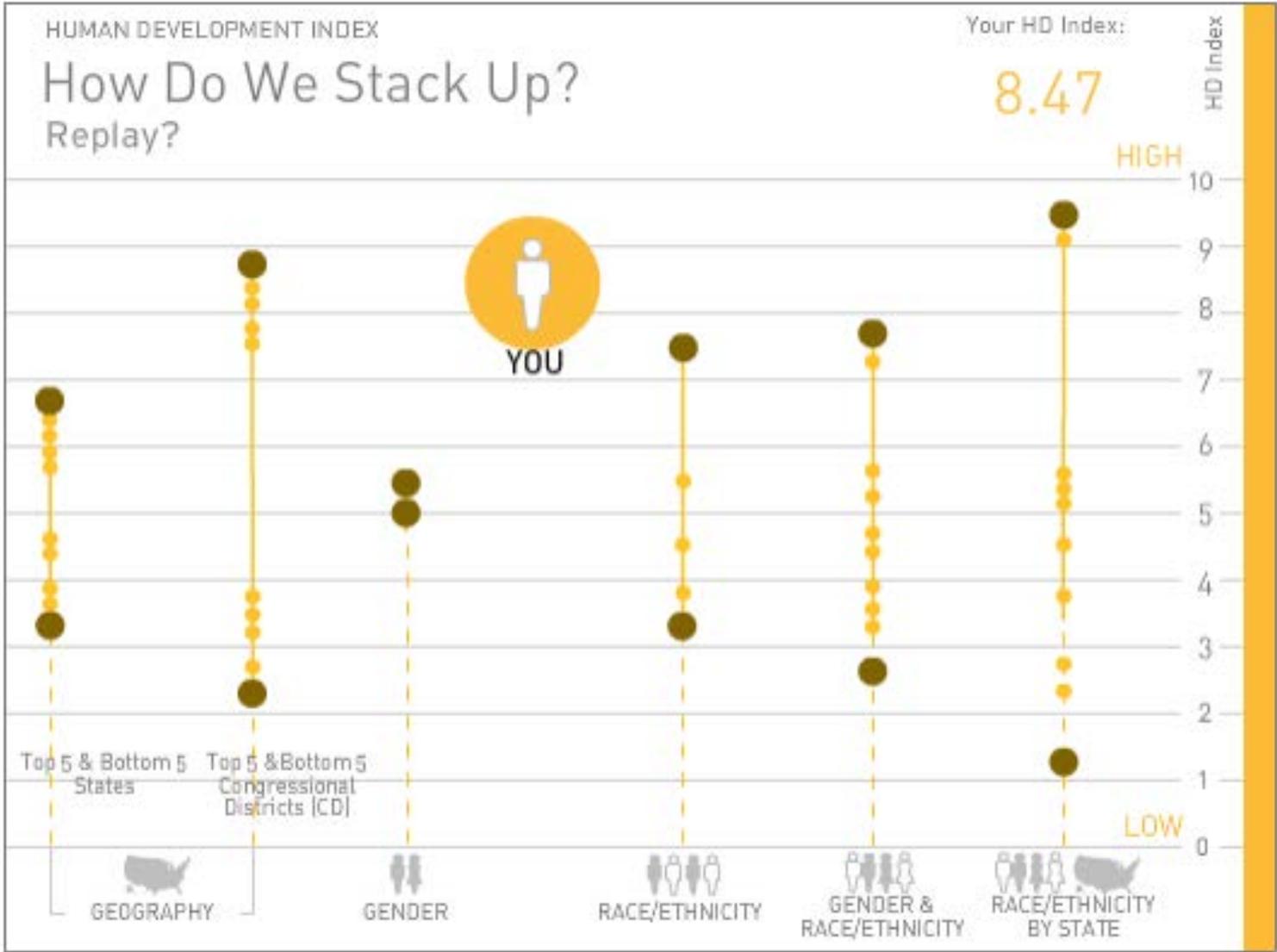
...but this hides substantial variation.



► Graduation Rates for select states. Faircloth and Tippeconnic, 2010.

HDI Across the US: Average is 5.17





AI

AI Males

AI in SD



HDI Calculated for Aboriginal Groups

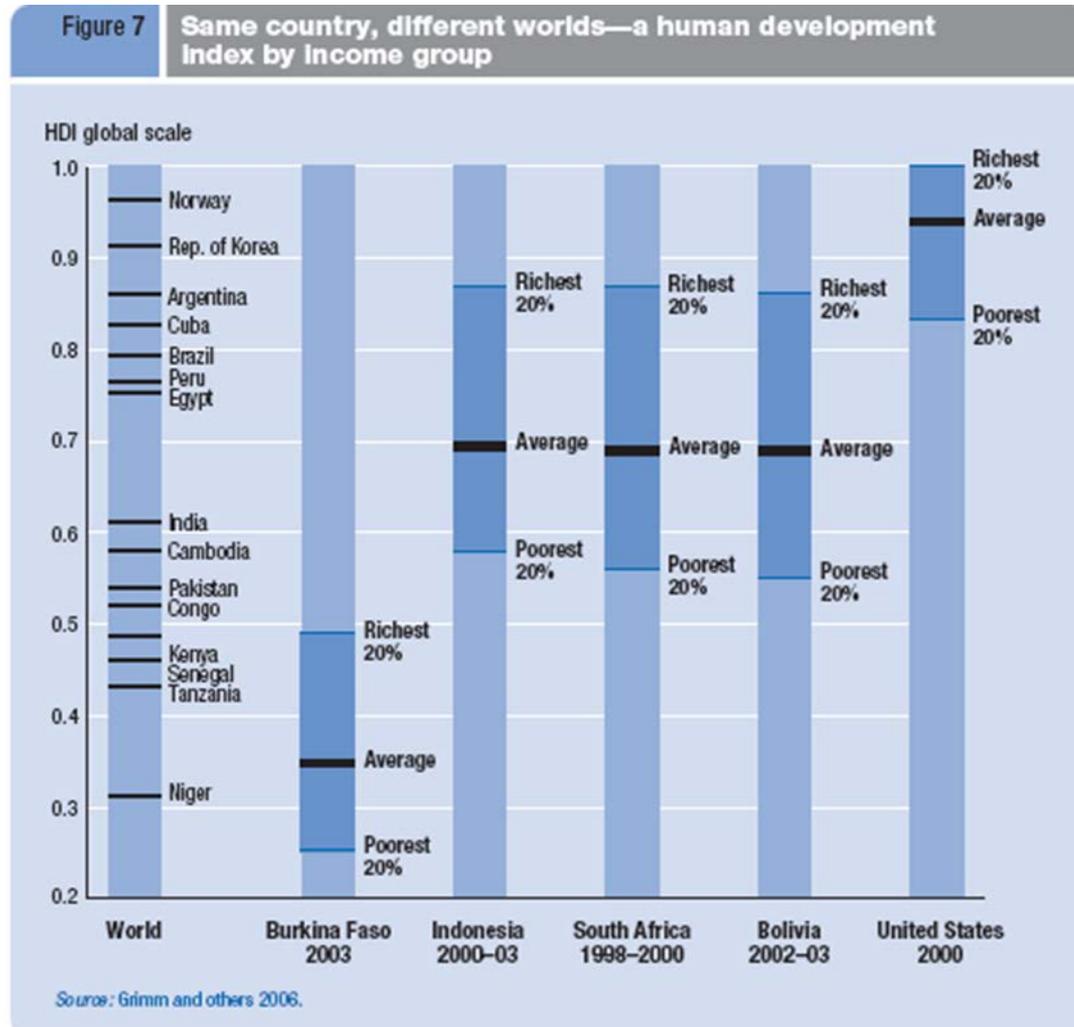
1	Norway	0.94
2	Iceland	0.94
3	Sweden	0.94
4	Australia	0.94
5	Netherlands	0.94
6	Belgium	0.94
7	United States	0.94
8	Canada	0.94
9	Japan	0.93
13	United Kingdom	0.93
16	Austria	0.93
17	France	0.93
19	Spain	0.93
20	New Zealand	0.92
23	Portugal	0.90
30	Republic of Korea	0.88
	<i>U.S. AI & AN</i>	0.88
32	Czech Republic	0.86
	<i>Canadian AP</i>	0.85

73	Saudi Arabia	0.77
	<i>New Zealand Māori</i>	0.77
75	Ukraine	0.77
85	Philippines	0.75
94	Dominican Republic	0.74
103	Cape Verde	0.73
	<i>Australian Aboriginal</i>	0.72
104	China	0.72

Cooke, et al 2007



At a minimum AI are worse off than the richest citizens in many developing countries



This Impacts the Quality of Human Capital

- ▶ High mortality rates lead to short sighted behavior (Lorentzen, McMillan, Wacziarg 2006)
 - ▶ Avoiding activities with short-term cost and long term benefit (investing, education)
 - ▶ Choosing activities with short-term benefit and long term costs (smoking, promiscuous sexual activity, alcohol abuse)
 - ▶ For example: American Indians 514% more likely to die from alcohol abuse

Figure 1 – Log Income Per Capita 1990 and Adult Mortality

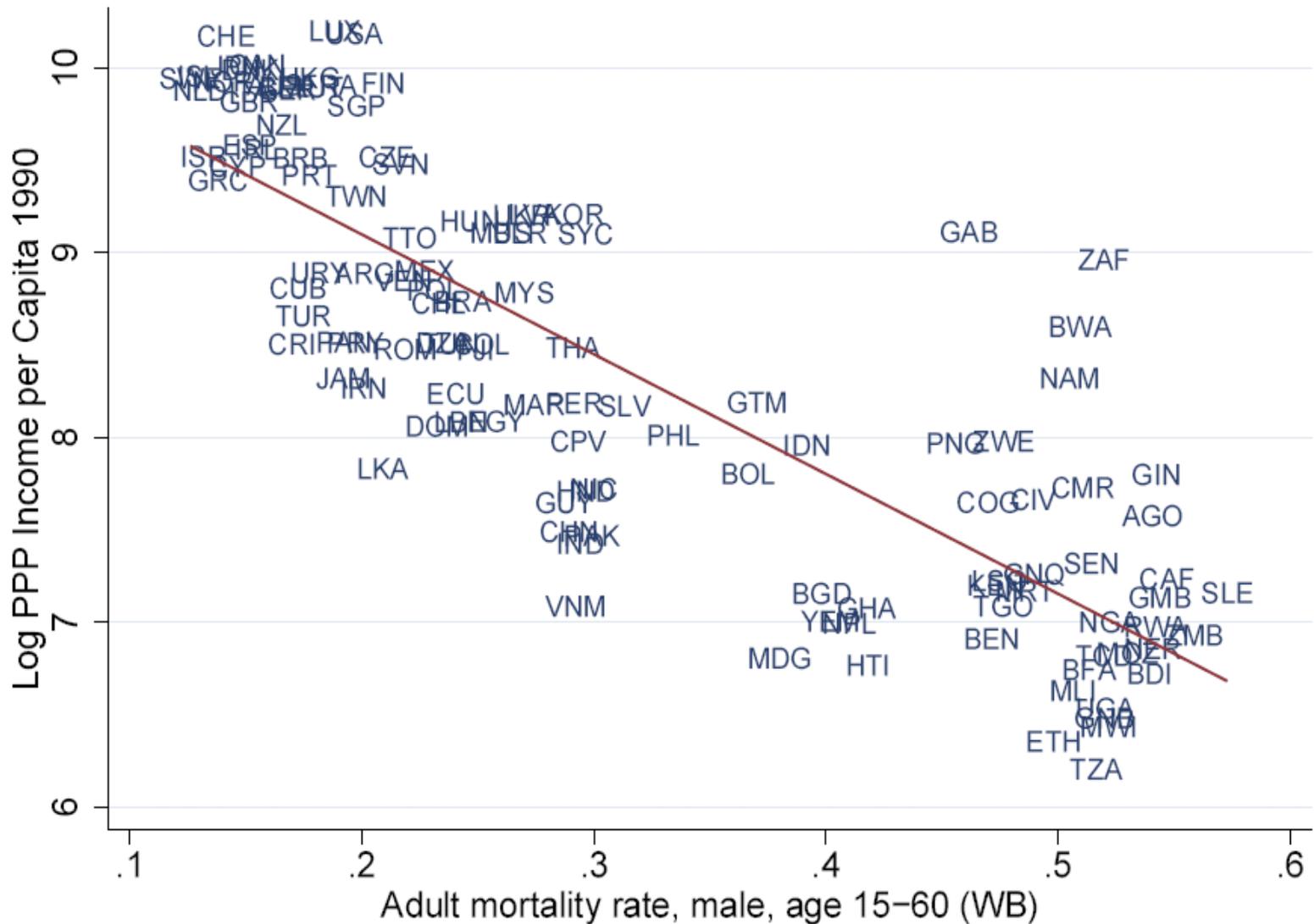


Figure 2 – Growth 1960–2000 and Adult Mortality

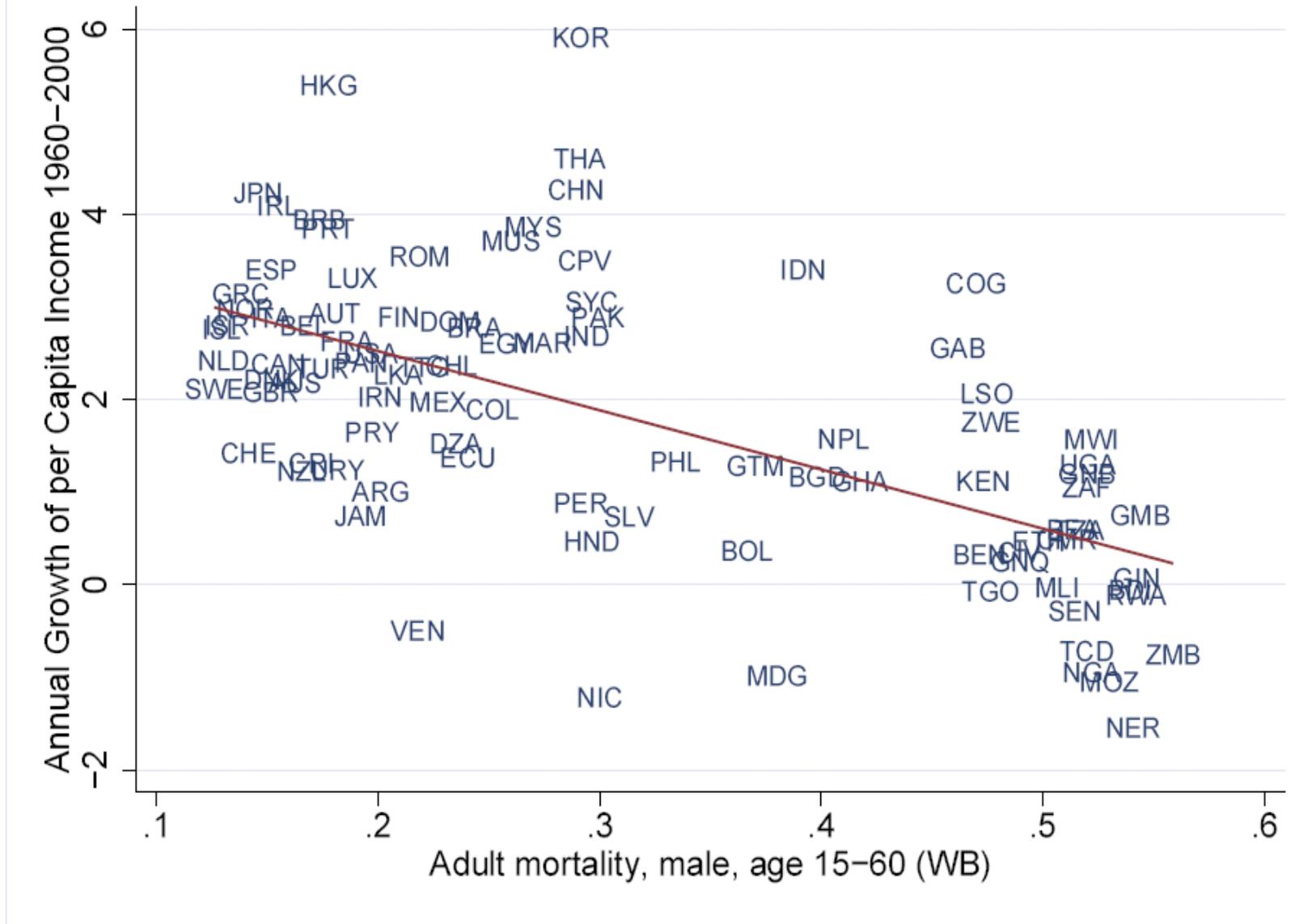


Figure 3 – Investment Rate 1990 and Adult Mortality

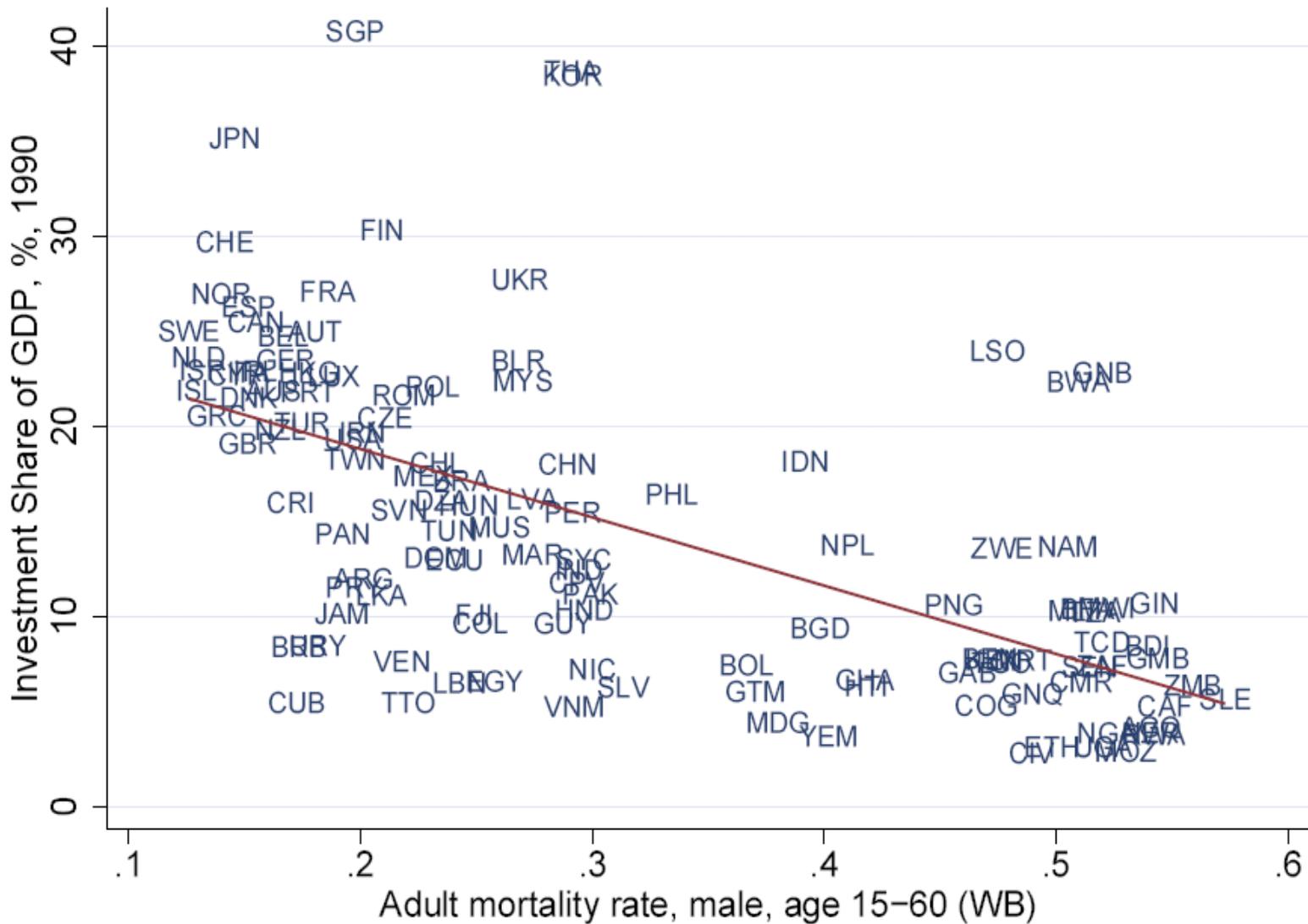


Figure 4 – Enrollment Rate 1990 and Adult Mortality

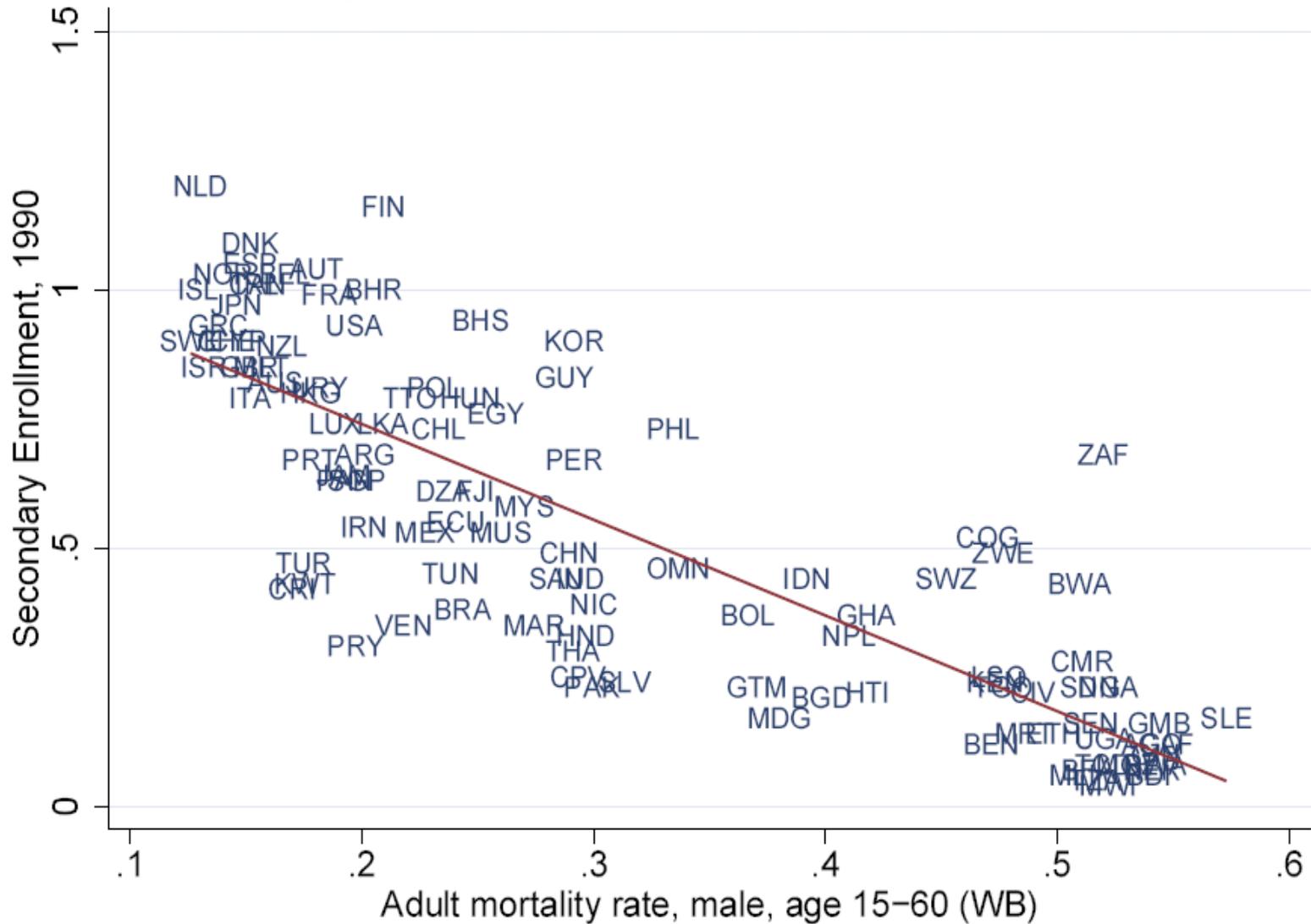
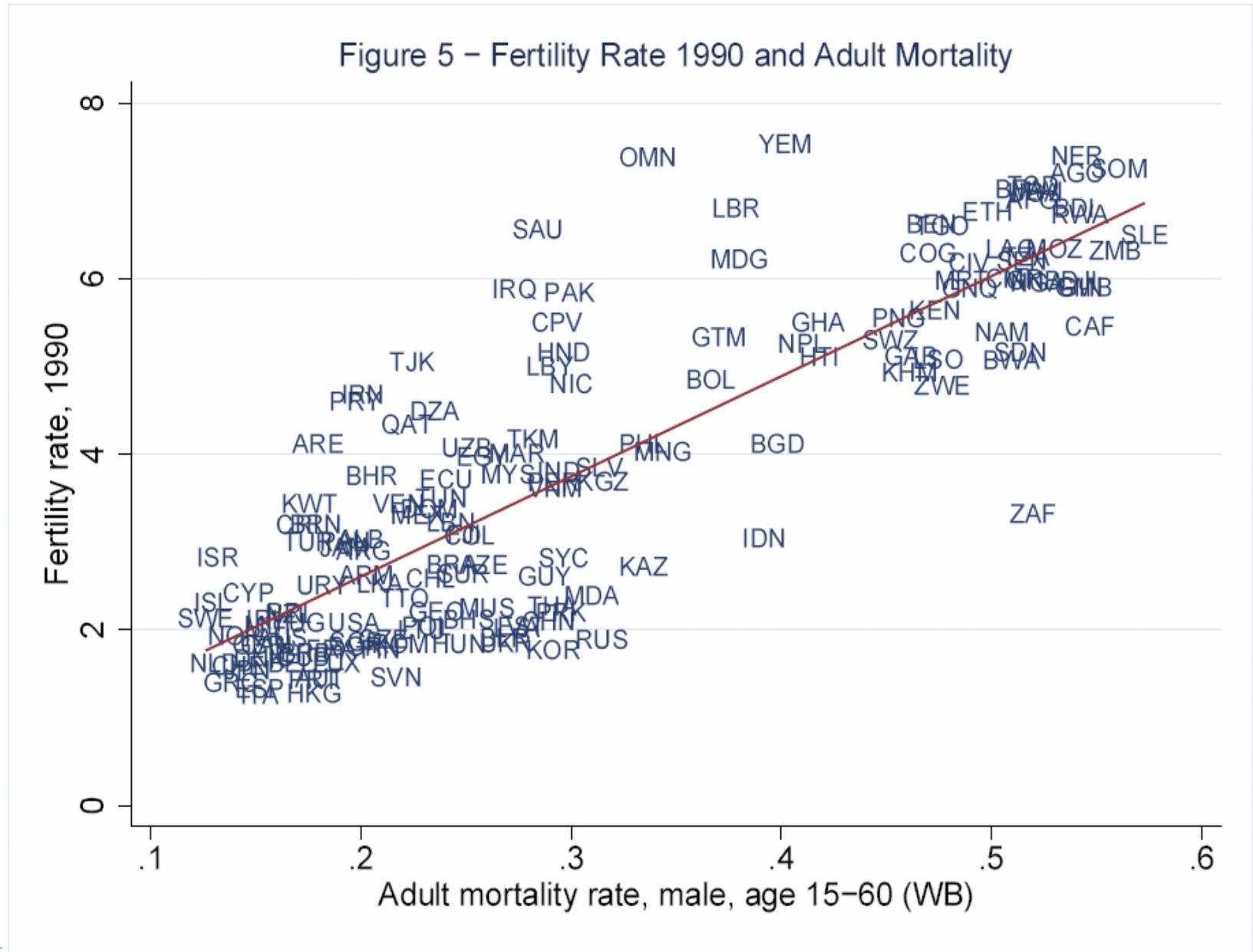


Figure 5 – Fertility Rate 1990 and Adult Mortality



Health and Growth

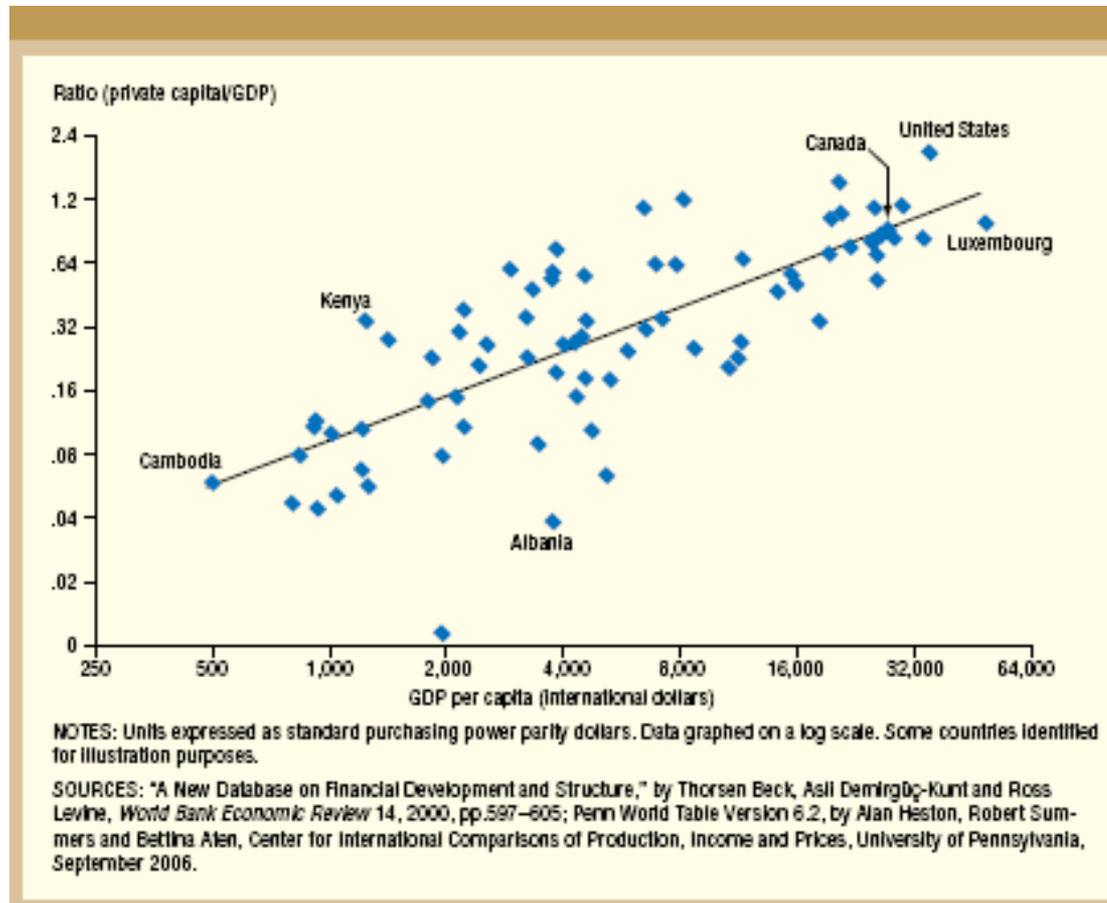
- ▶ Poverty leads to poor living conditions and lack of health care causing higher adult mortality
- ▶ Higher adult mortality leads to lower investment in physical and human capital leading to lower growth and poverty

\$44 Billion Dollar Investment Gap

- ▶ **Poverty creates lack of financial and human capital**
- ▶ **Lack of access to credit**
 - ▶ Difficult to use assets as collateral
 - ▶ Lack of accumulated wealth
- ▶ **Legal and Institutional issues**
 - ▶ **Sovereign Immunity**

...tribes are more often involved in business than state and federal government. This is so because tribes own or control most of the businesses, land and natural resources on the typical reservation. (p.96)
 - ▶ Few tribal constitutions contain clauses that prevent the adoption of laws that impair the obligation of contracts.

Private Investment Matters



Institutions matter

South Koreans are rich; North Koreans face an ever-present threat of famine

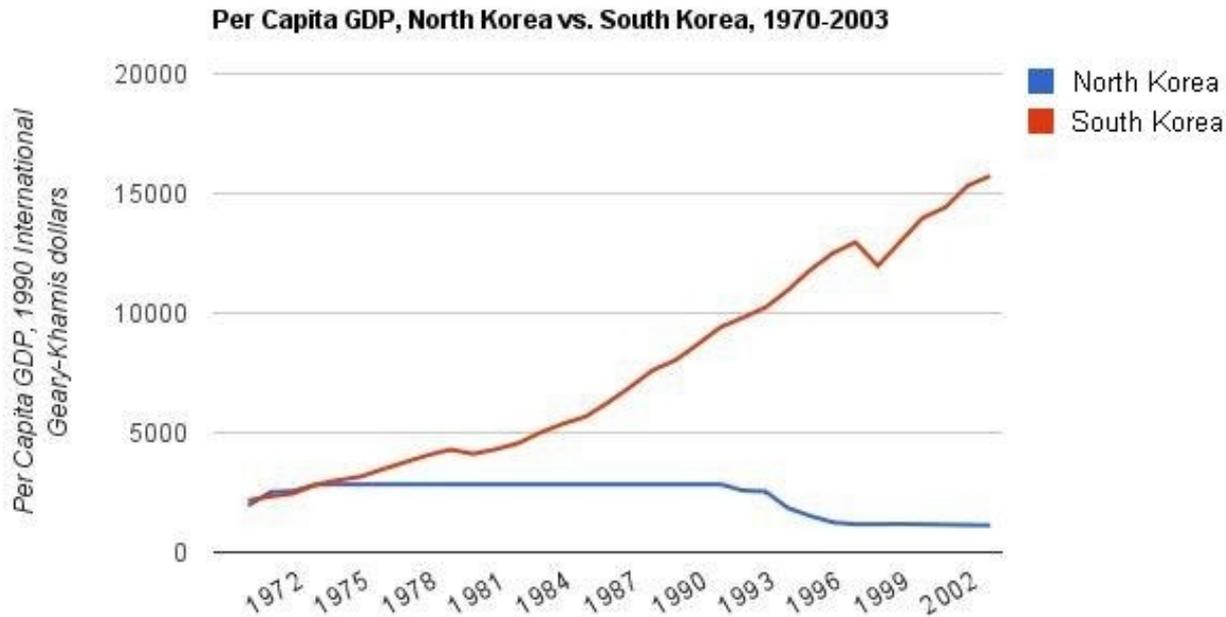
- the average South Korean earns 14 times more than the average North Korean.

Same culture, history, climate, resources.

The vast living-standard gap traces to their political, economic, and legal institutions.

"Today, I will introduce you to tasty and healthy ways to eat wild grass." – North Korea TV, 1996

More on North and South Korea



- ▶ Could take \$2 to \$5 trillion dollars to bring North Korea up to just 80% of South Korea's (SK GDP is about \$1 trillion) (Pethokoukis, 2011)

Contracting Problems Associated with Lower Levels of Development

	Low Income	Lower-mid Income	Upper-mid Income	High Income	All
Rule of Law	-0.65	-0.62	0.29	1.11	-0.23
Credit Information Index	1.54	2.57	3.10	4.71	2.59
Contract Enforcement Cost	40%	28%	13%	14%	26%
Debt Recovery Rate	19%	25%	32%	64%	29%
GNI per Capita	\$ 433	\$ 1,615	\$ 4,865	\$20,766	\$ 3,934

(Brown, Chavis and Klapper 2010)



Governments can impede the creation of new businesses

Registering a New Business

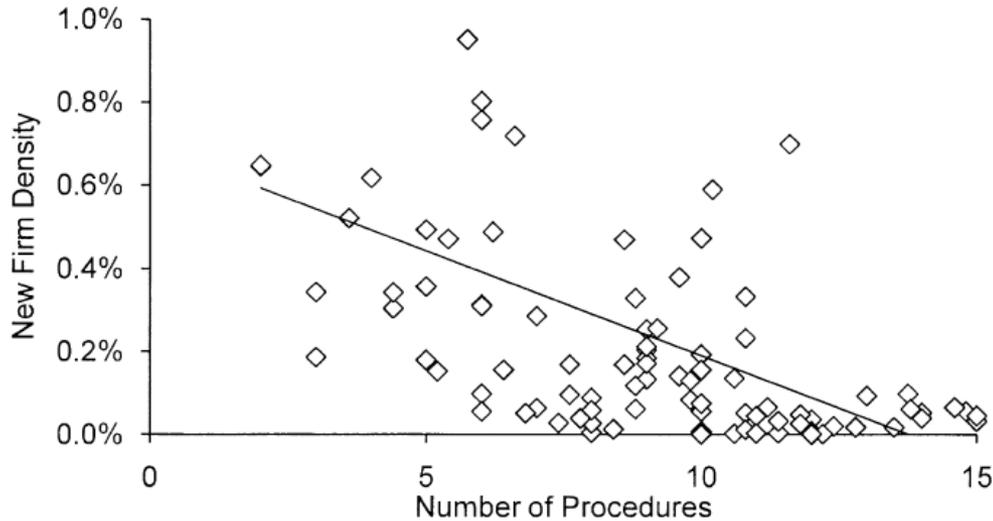
Region	Procedures	Days	Cost	Min. Capital
OECD	5	12	4.7	14.1
Chile	8	22	6.8	0
China	14	38	3.5	100.4
SSA	8	37	81.2	129.8
US	6	6	1.4	0

Getting a business lease on the Navajo Reservation

20 steps...at least a year....“applicant had to provide bonds, certificate of deposit, letters or credit or cash deposit equal to one year’s rental.” (Miller p. 121)

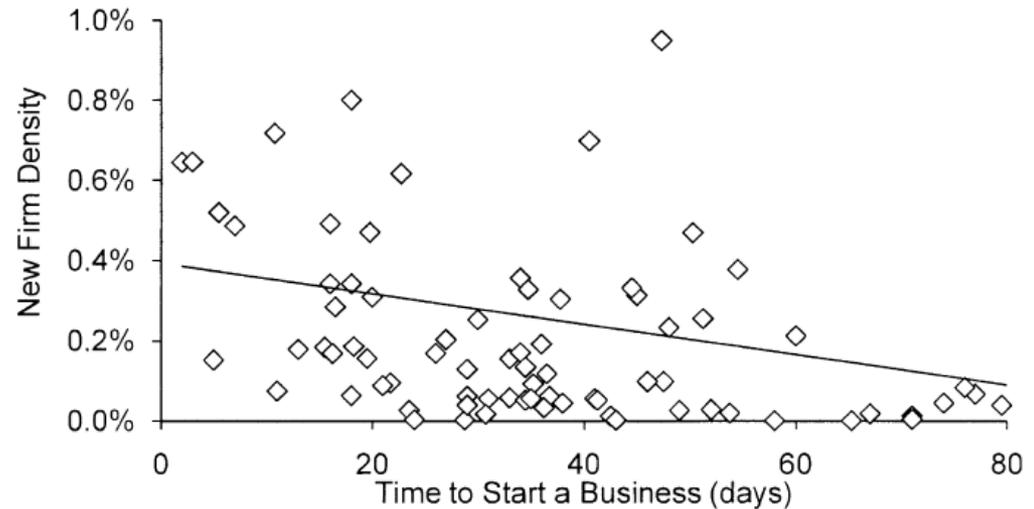
- ▶ One country has 20 or more procedures: Equatorial Guinea, 21
- ▶ One country takes more than 1 year: Suriname, 694 days
 - ▶ Next is Republic of Congo at 160 days
- ▶ 101 out of 183 countries do not have minimum capital requirements

Regulations slow down new firm formation



“Business density is calculated as the number of registered businesses as a percentage of the active population (aged 15 to 64) in that year.”

Klapper, Amit and Guillen, 2010



...this matters for growth.

“Improving from the worst quartile of business regulations to the best implies a 2.3 percentage point increase in annual growth.”

Larger than impact of moving up in rate of primary school enrollment.

– Djankov, McLiesh and Ramalho, 2006

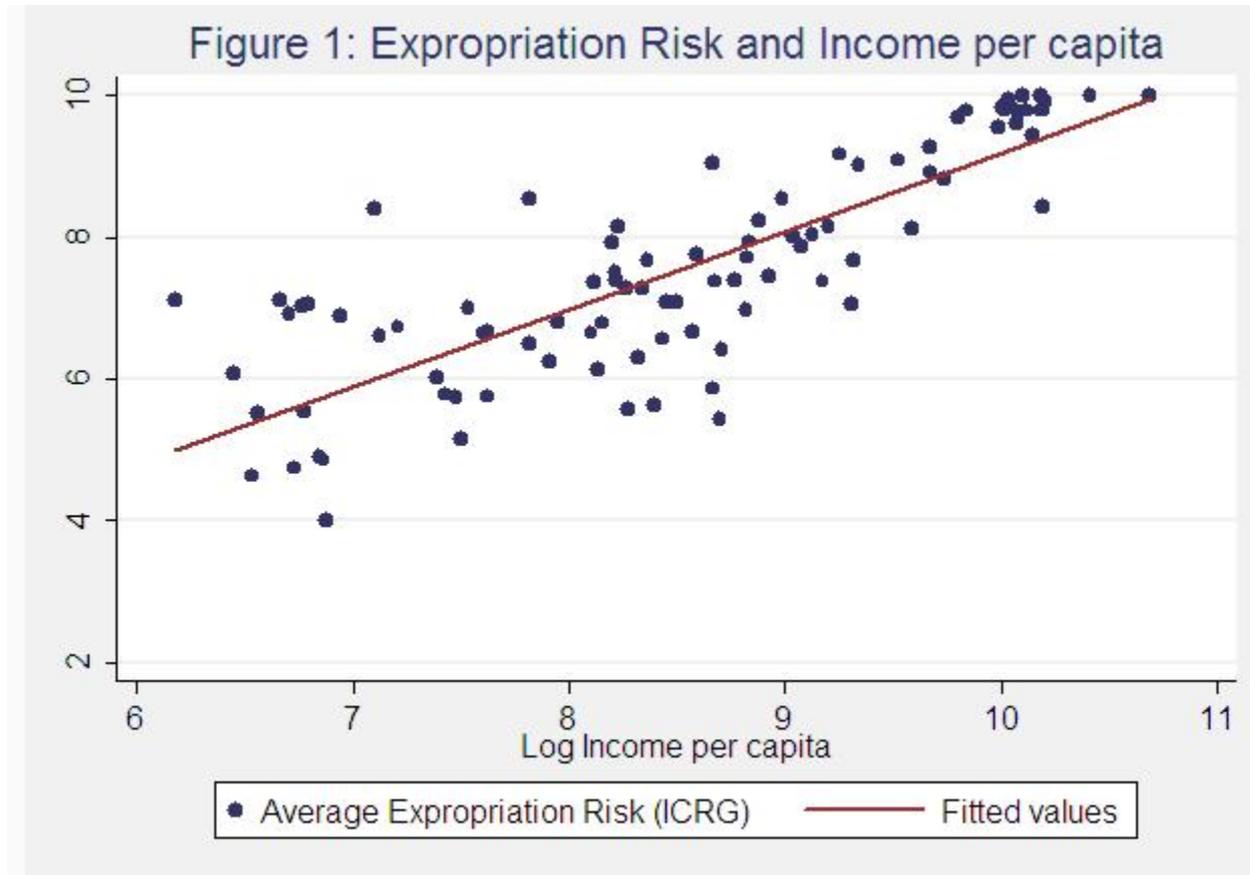
Another key component of the institutional environment: *Contracting*

When customers who live and work on the nearby Crow Indian reservation don't make their car payments, there's not much Square One Finance of Billings, Montana, can do. Going to state court to repossess the car or garnish wages is not an option. Instead, Square One enters the murky realm of international affairs. The reservation is a separate nation—judgments in American courts can't be enforced. And the chances of finding the customer and the car on the sprawling rural reservation, or winning in the unpredictable Crow courts, are slim. "We take on such a huge extra risk with someone from the reservation," says Square One's Nancy Vermeulen. "If I knew contracts would be enforced, then I could do a lot more business there."

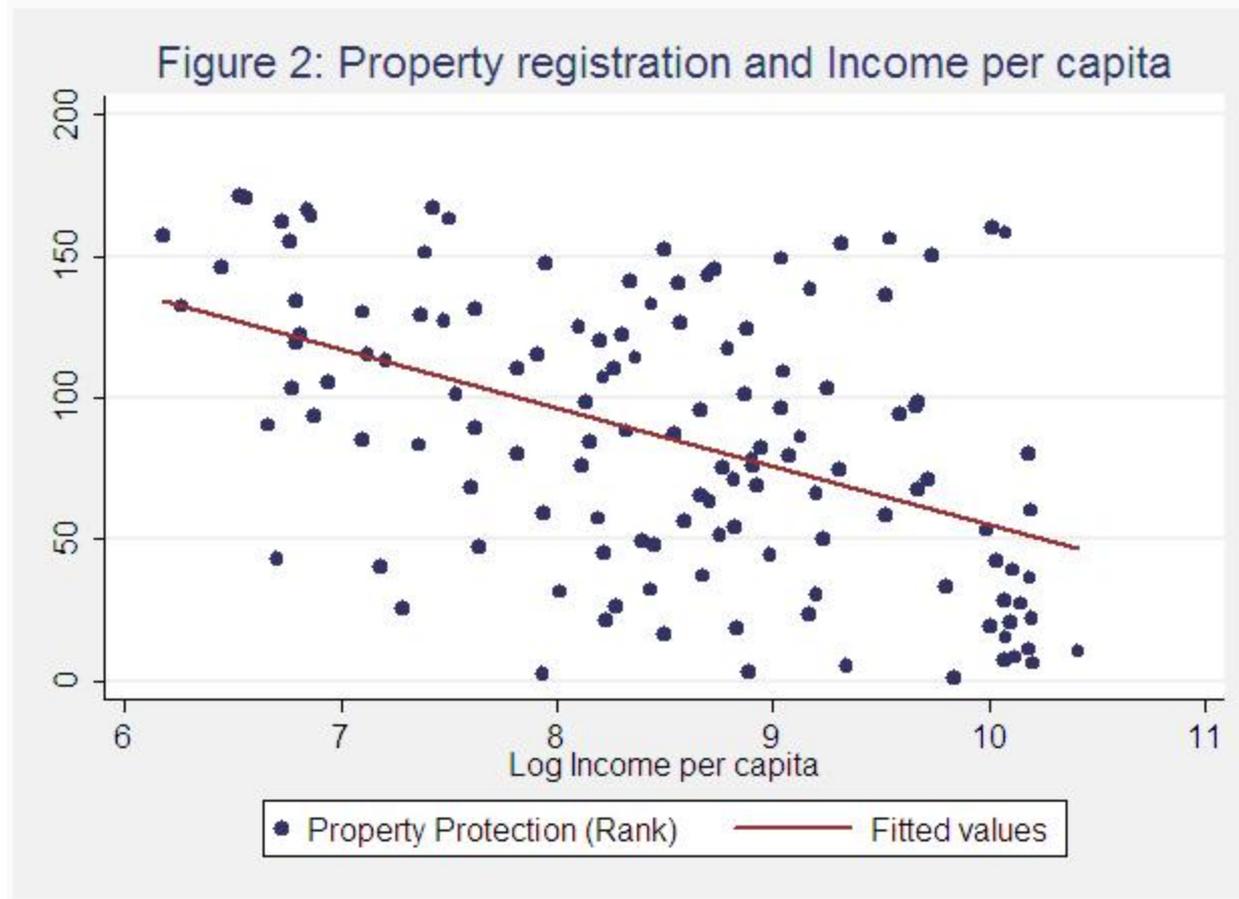
--Forbes, 12/13/11

Contracts are a key determinant of incentives

Higher income associated with better protection of property rights



Importance of property registration



These issues in Indian Country

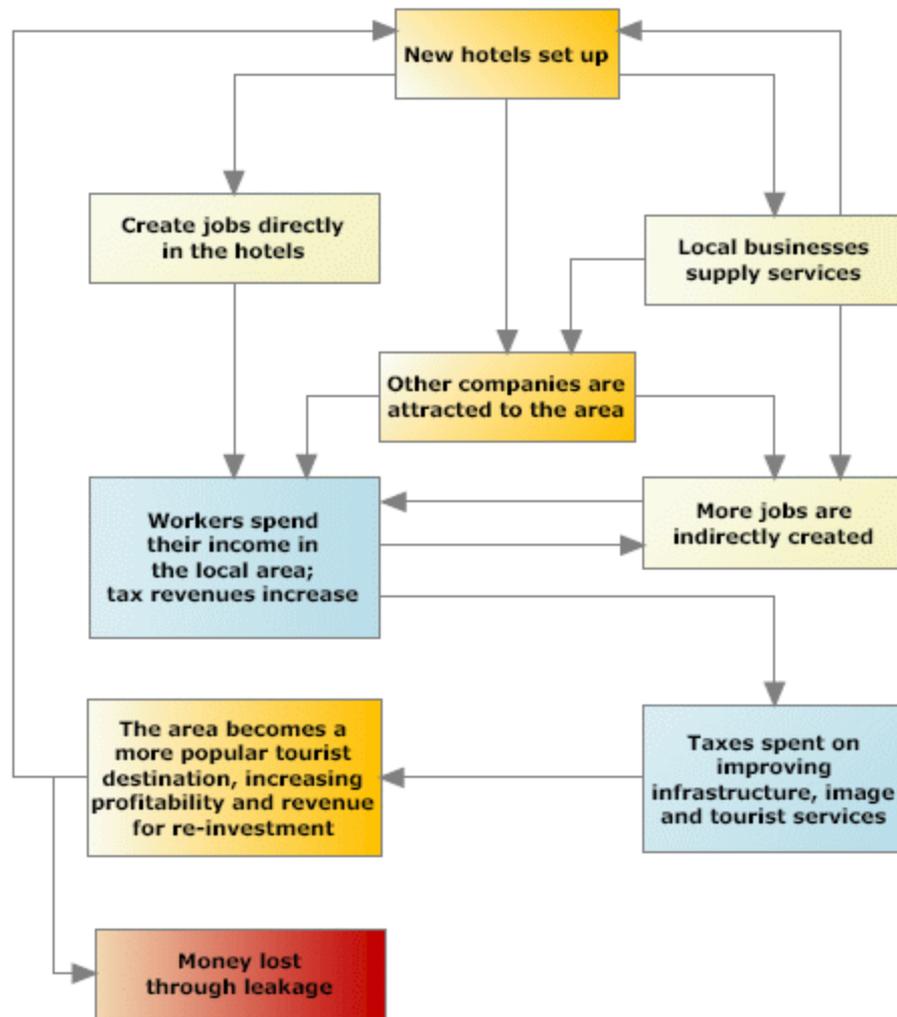
- ▶ Per capita income grows faster on reservations with more stable judicial environments (Anderson and Parker, 2008)
- ▶ Also higher probability of having home loan approved (Parker 2011)
- ▶ Agua Caliente lands are developed as length of lease is increased to 65 years (Akee 2009)

The usual impact is a lack of medium and large firms

	<9	10 -49	>50
USA	4%	15%	81%
India	42%	20%	38%
Philippines	66%	5%	29%
Honduras	68%	8%	24%
Ghana	84%	1%	15%
Sierra Leone	90%	5%	5%

Lack of private businesses leads to Leakage

\$200 million from tribal, reservation and BIA salaries create \$1 billion yearly impact in Montana. This money “leaks” off the reservations before the impact can be felt there. (Miller p. 137)



What makes “buying Indian” different than the buy local movement?



Consumers in South Carolina are willing to pay an average premium of 27% for local produce and 23% for local animal products. (Carpio and Isengildina-Massa 2008)

A symbol of this leakage (and health concerns)...

Whiteclay, Neb: Population 10

Beer Sales: 4.9 million cans



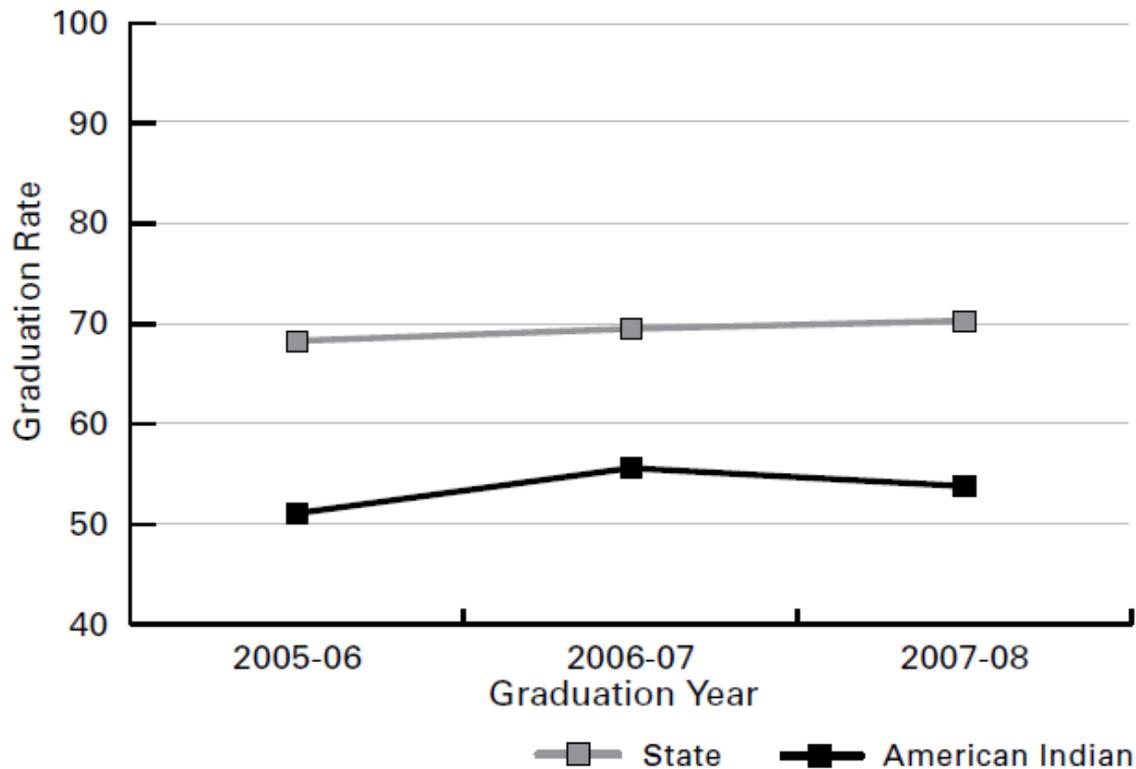
Weak institutions or culture of poverty?

What is the relative impact of “losing” the feel for entrepreneurship versus the impact of weak institutions?

Answer could lie in carefully comparing

- ▶ Indians on reservations
- ▶ Indians off reservations
 - ▶ Tribes with reservations
 - ▶ Tribes without reservations

NORTH CAROLINA 4-YEAR COHORT GRADUATION RATES



2009 SACIE Report

Similar to AK, AR
and CA.

Infant mortality
almost 60% higher
than American
Indian average.

This will be
relevant later.....

Child Trends Data Bank
NCAIHB.org



Conclusion

Markets, then, are the most potent antipoverty engine there is – but only where they work well.

--John McMillan, *Reinventing the Bazaar*

Tribal governments need to build functioning economies on their reservations. This is the only way to keep money circulating on reservations and to capture the maximum economic value from the money that tribes and Indians possess. The only way to enjoy the multiplier effect, the re-spending of money in the Indian Country, is to create more privately owned businesses on reservations and functioning economies. And the only way to do that is to encourage and support Indian entrepreneurs.

--Robert Miller (p.132)

Questions

- ▶ Do you see a tension between a history of entrepreneurship and individual ownership and the current central role of tribes in economic development?
- ▶ Who is the audience for this book?
 - ▶ Who do you think is reading it and what should they get from it. It seems to have important messages for both Indians and non-Indians.
- ▶ What is your vision for reservations economies.
 - ▶ What types of businesses might open?
 - ▶ What if non-Indians move in?