What's Different about Economic Development in Indian Country?

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Good morning, and welcome to Washington, D.C., and the home of the Federal Reserve System's Board of Governors. Actually, I am a guest here myself. My own home base is the Federal Reserve Bank of Minneapolis, one of 12 independently managed Federal Reserve Banks whose districts span the country. I'm delighted to see so many people joining in this conversation today. I think I speak for all of us here when I thank the staff at the Board of Governors for graciously hosting this event. I should note that the following views are my own, and not necessarily those of others in the Federal Reserve.

I just mentioned the Federal Reserve System's regional structure. This structure, in place for nearly 100 years now, was established by Congress for a very deliberate reason. Congress wanted to ensure that the nation's central bank keeps in touch with economic issues at the grass-roots level across the United States. The Fed benefits greatly from this regional structure and the community access it allows.

In our critical monetary policy responsibilities, it helps us understand how economic policies affect Main Street as well as Wall Street. In our financial supervision and regulation responsibilities, it gives us a window into the operations and impact of the entire financial system, from global giants to local banks. In our role as a provider of payments services to the public and the U.S. Treasury, it allows us to perceive and respond quickly to changes in technology and demand. Finally, the Federal Reserve's decentralized structure also helps us monitor and respond to regional economic issues affecting low- and moderate-income communities, including Native American reservations, through our Community Development departments.

The Federal Reserve System made good use of this regional structure last year, when it co-sponsored six *Growing Economies in Indian Country* workshops across the country. Community Development staff at the Federal Reserve Board of Governors and the Reserve Banks of Minneapolis, Boston, Chicago, and San Francisco helped organize these well-attended and thought-provoking events. Our invaluable partners in this effort included nine federal agencies and numerous national, local, and tribal organizations and individuals.

Two crucial differences that shape Indian Country development

Today we gather to discuss and respond to the concerns and recommendations that were voiced at those workshops. We're honored to have a number of distinguished presenters who will address issues raised separately or commonly at the six forums. Before we hear from them, however, I hope you'll allow me a few minutes to offer some thoughts on economic development in Indian Country.

My ideas have clearly been influenced by the Minneapolis Federal Reserve Bank's work in this area. For the past 20 years, our Community Development department has worked from the ground up with tribal and private sector leaders in Indian Country to strengthen the institutional foundation for economic growth on reservations. Most notably, they have helped develop and implement secured transactions laws and related initiatives. The aim of these efforts: to facilitate the flow of credit and entrepreneurial opportunities on reservations.

Today we will be hearing many additional ideas for institutional and policy reforms that may enhance economic development in Indian Country. I will try to frame our discussion by asking what I hope is a clarifying question: How does Indian Country economic development differ from rural economic development more generally? I realize that a number of reservations and homelands are in or near urban areas. Nonetheless, I think that the rural location of many of the larger and poorer reservations justifies a comparison between Indian Country and rural development. And I should say that by "Indian Country," I mean the self-governing Native American and Alaska Native communities and reservations throughout the United States, as recognized in federal law.

My thinking will be guided by a crucial assumption. In particular, I assume that Indian Country residents and leaders place a high value on preserving their native cultures and their tribal sovereignty. This statement may seem obvious to most of you, but I will argue that it clarifies what is special—and perhaps unique—about Indian Country economic development.

The goal of preserving tribal cultures and sovereignty creates two key differences between rural economic development in general and Indian Country economic development in particular. One difference involves the often painful and disruptive process of population loss through out-migration. Despite such costs, large-scale out-migration from poor rural regions has been a major force for poverty reduction around the globe. But in Indian Country, it is an especially unattractive option, because population loss would threaten the viability of the tribe as a distinct cultural entity. Heightened resistance to out-migration is therefore a special characteristic of economic development in Indian Country.

The second important difference arises from the distinctive legal arrangements required to maintain meaningful tribal political sovereignty. The most prominent example is a topic we will hear more about today—special restrictions on the ownership of land that are necessary to preserve the reservation land base. Although critical for maintaining tribal sovereignty, Indian Country's special restrictions on land ownership raise economic development issues that are rarely encountered in other rural economies. In Indian Country, therefore, conventional thinking about rural development needs to be adjusted for two special factors—population retention and restrictions on land ownership. Many of the issues we are discussing today deal, directly or indirectly, with how to make the required adjustments to our thinking.

I hasten to add that I offer my views with a great deal of humility and an open mind. Unlike almost everyone else in the room, I am not an expert on Indian Country. Nor am I here to tell you what needs to be done. I speak as an economist and as a Federal Reserve Bank president with concerns for his district. I hope you will find my comments useful in organizing your own thinking today and perhaps in the future. By the same token, I look forward to hearing your views and refining my own thinking through our dialogue. Please note that, to simplify my discussion, I will hereafter focus my remarks on Native Americans and their reservations. These are the peoples and geographies I am most familiar with in the Minneapolis Federal Reserve district. I ask the audience to make appropriate adaptations of my language to apply, where relevant, to other Indian Country geographies and peoples as well.

The economic gap

Today, as you know, Native Americans on reservations continue to face economic disadvantages relative to other Americans. For example, the American Community Survey assesses the employment status of working-age individuals, defined as 16 years and older. From 2006 through 2010, just over 45 percent of working-age Native Americans on reservations were employed, compared with almost 60 percent of all working-age Americans. Partly as a result, the median annual income among Native American households on a typical reservation was under $35,000 during that period. This compared with $52,000 for all American households and about $37,000 for all Native American households, on and off reservations. As a further consequence, about 25 percent of the Native Americans on reservations lived in households with incomes below the official poverty level during this period, compared with 14 percent of Americans overall.

These gaps are even larger on more remote reservations, including several in my district. Consider, for example, North Dakota’s portion of the Standing Rock Reservation, which exactly coincides with Sioux County, North Dakota. For 2006 through 2010, about 84 percent of Sioux County’s residents were Native American. On average, over this period, just 37 percent of the working-age Native Americans in Sioux County were employed. This contributed to a median household income of only $31,000 and a 47 percent poverty rate for Native Americans in Sioux County during these years. Again, this is compared with $52,000 for all American households and a 14 percent poverty rate for all Americans.

Of course, it may not be fair to compare a very rural location, like Sioux County, with national averages heavily weighted toward major metropolitan areas. However, Sioux County still lags significantly when compared with rural nonreservation counties, even its immediate neighbor, Grant County, North Dakota. Grant County is equally rural and remote, but its population is 97 percent white. Almost 62 percent of its working-age population was employed during the 2006-2010 period. Higher employment helped households there earn a median income of almost $37,000, more than 25 percent higher than the Native American households in Sioux County. Only about 13 percent of Grant County residents lived in poverty during 2006-2010.

By these very basic economic measures, therefore, Sioux County's Native Americans lagged well behind other Americans not only nationally, but also just next door in Grant County. To be sure, not all reservations fit this pattern, especially those with small populations and gaming operations located near major metropolitan areas. Nonetheless, the economic gaps between Sioux County and Grant County, North Dakota, are not uncommon among the large reservations in remote rural areas. Our conversations today will largely focus on how to close those gaps.

A success that points to one distinctive feature: Retaining population

The economic gaps I've just cited may not tell the whole story about Sioux and Grant counties and the many other rural reservation and nonreservation areas like them. As I mentioned, population retention is of fundamental importance to Native American tribes. By that measure, Sioux County has been significantly *more* successful than Grant County.

Between 2000 and 2010, Sioux County's population grew by over 2 percent, while Grant County's population dropped by almost 16 percent. Other nearby counties with mostly white rural residents also experienced large population declines. Although there are again exceptions, similar patterns prevail in and around many of the remote rural reservations in the American West. It seems to me that the relatively strong retention or growth of the Native American population on rural reservations is an important success in its own right. It shows that these reservations are not fading away. Indeed, it indicates that many Native Americans value the way of life there, despite continuing economic disadvantages.

At the same time, reservations' success in population retention points to another of the challenges of Indian Country economic development. Over the past century in the United States and around the world, one of the most pervasive responses to rural poverty has been out-migration. Voting with their feet, workers shift from low-paid rural agricultural and resource-based jobs to higher-paid urban work. As workers leave, the rural labor supply contracts. The result is higher wages and incomes for the remaining rural workers, compared with what they would have earned in the absence of rural-urban migration.

As a response to rural poverty, out-migration has been lamented by most rural communities, but ultimately accepted as nearly inevitable. For tribes, however, the stakes are higher;

accepting out-migration as the cure for reservation poverty would threaten the very existence of the tribe as a viable cultural and political entity. Many reservations in remote rural areas thus face a special challenge. They must raise residents' incomes *without* resorting to the levels of out-migration that have helped raise personal incomes in many other rural counties.

Looking once again at Sioux County on the Standing Rock Reservation, we find 3.8 residents per square mile in 2010. This compares to 2.4 or even fewer residents per square mile in the neighboring nonreservation counties of North Dakota. Standing Rock's tribal leaders probably see this relatively high population density as a measure of success. And I suspect that, compared with nearby county commissioners, they are even more determined to raise residents' incomes in place rather than accept population decline as a response to poverty.

I think that this difference applies to most reservations. And it is one of the distinctive challenges we confront as we seek to promote Indian Country economic development. Several broad topics identified in this conference's white paper are directly germane to boosting reservation household incomes without shrinking the reservation workforce and tribal population. These topics include education, workforce development, and physical infrastructure.

A failure pointing to another distinctive feature: Preserving land base

A strong population base alone may help preserve distinctive Native American cultures. But preserving tribal political sovereignty requires a land base. Tribal sovereigns, like sovereigns in general, rule only over the real estate that is officially under their jurisdiction.

The political sovereignty that is based on tribal land sometimes creates development opportunities. The tribal gaming industry is probably the most familiar example. However, special institutions are needed to preserve the reservation land base. And these institutions are a second factor that differentiates Indian Country and rural economic development.

History suggests that reservations do require special arrangements to preserve their land base. The 1887-1934 Allotment Period can be viewed as an experiment in what can happen with weak restrictions on the transfer of tribal land to outside entities. The results were stark, and damaging to tribal sovereignty. Between 1887 and 1934, the land area clearly under tribal jurisdiction fell by 65 percent. In addition, the land within official reservation boundaries often became a hard-to-administer checkerboard. Tribally controlled parcels were frequently scattered among those not under tribal control.

To reestablish tribal sovereignty and stem further loss, the Indian Reorganization Act of 1934 made it more difficult to remove tribal lands from the trust system administered by the Bureau of Indian Affairs. These changes were largely successful in preventing further loss of tribal land. However, many of the participants in last year's conferences raised concerns about the trust system. They pointed out that it also makes it hard to conduct some basic business transactions, such as using trust land to collateralize business loans or home mortgages.

This gives rise to one of the special challenges of Indian Country economic development. That challenge? To develop creative methods to safeguard the tribal land base while simultaneously facilitating the efficient economic use of reservation land. Is an *incrementally improved* version of today's trust land system the best solution? Or do we need a *more radical* change? If the latter, what would the new system look like? I don't have the answers to those questions, but they seem very important, and I look forward to hearing your thoughts on this matter. We may also want to expand our dialogue to include new participants with relevant expertise in the design of financial contracts.

Finding harmony between tribal traditions and economic development

I have discussed population retention and preservation of land-based tribal sovereignty as two special objectives that make Indian Country economic development different from conventional rural economic development. I don't mean to say that these are the only differences. For example, the difficult historical experience of Native Americans has left a number of obstacles that will still take time and considerable effort to address. Examples include lower personal wealth, and in some instances, ill-fitting tribal constitutions written by outsiders.

Compared with off-reservation localities, reservations also deal with a distinctive array of federal programs and often more distant relationships to surrounding state governments. In addition, tribal governments are actively establishing additional business laws and legal institutions in order to protect tribal interests and cultural values on reservations.

The recent adoption of updated tribal secured transactions laws is a good example of this. My Community Development staff has worked on this effort for many years with tribal leaders across the country. Like the institutions that govern reservation land ownership, tribal business laws need to be artfully crafted to achieve their intended cultural or political objectives. And the challenge, in part, is to do so while imposing the least possible burden on access to capital, economic efficiency, and overall economic development.

In fact, that's how I see our two-part task today. We must seek policies, laws, and institutions that enable tribes to pursue the cultural and political objectives they truly value. And we must design them so that they won't unduly impede necessary development. Success in this effort is extremely important. I believe it will contribute significantly to closing the large and regrettable economic gaps that prevail in Indian Country today.

That's an ambitious goal for just one day, but I can sense that the people in this room have a lot of motivation, and plenty of energy: So, let's get to it.