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 NINTH DISTRICT  
 NOTES
 

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# Persistent Poverty on Indian Reservations: New Perspectives and Responses<sup>1</sup>

Narayana Kocherlakota

President  
Federal Reserve Bank of Minneapolis

*Editor's note: The following is based on remarks delivered at the Federal Reserve System Community Development Research Conference on April 3, 2015, in Washington, D.C.*

I want to talk to you about the community development needs and opportunities on American Indian reservations, by which I mean the self-governing American Indian communities collectively defined in federal law as Indian Country. But before I begin, let me note that the views I express today are my own, and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

To set the stage for my discussion, recall that, in the 19th century, hundreds of formerly independent and culturally distinct tribes were forced onto reservations, often in remote areas. For many decades thereafter, their cultures and traditional governing institutions were suppressed, their land base was further stripped away and their affairs were largely controlled and governed by federal officials who permitted little local autonomy. Not surprisingly, economic development lagged on most reservations, leaving them as pockets of extreme rural poverty and underdevelopment. By the 1970s, however, civil rights activism and a shift toward decentralized economic policymaking created a consensus in support of greater tribal self-government. A combination of executive orders and federal legislation finally put tribal sovereignty and self-governance on firmer footing. At about the same time, other initiatives—separate in specifics, but similar in spirit—led to the passage of the Community Reinvestment Act (CRA) and the formation of the Federal Reserve System's community development function. Thus, meaningful tribal sovereignty within



the United States and the Federal Reserve System's formal commitment to community development both began about 30 to 40 years ago.

The community development needs of American Indian reservations immediately stood out by the CRA's criterion of low-to-moderate income. In 1970, the per capita income of Indians on reservations was, in units of 2009 dollars, not far above \$5,000 per year. This was about half to two-thirds of the income of blacks, Hispanics and nonreservation Indians and about a third of the income of whites. The per capita income of reservation Indians did not reach \$10,000 per year until Census 2000 and is still not far above that low threshold. Even now, poverty rates on reservations are nearly triple the national rate, and over 40 percent of children on reservations live in poverty.<sup>2</sup>

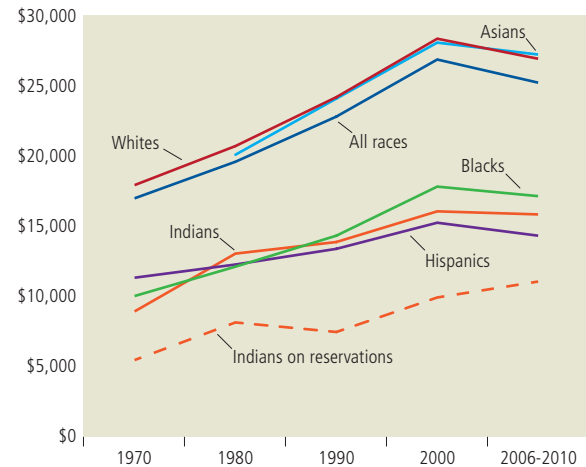
It is also important to note that progress has been made. Growth in real per capita income on Indian reservations accelerated in the 1990s and has outpaced U.S. per capita income growth since then (see Figure

1). As a result, the gaps have narrowed somewhat over time, and especially since the year 2000. I won't go into the details, but this is occurring even on many reservations without large casinos and reflects a lot of hard work by tribes and tribal members across the country. There's still a long way to go. But we should take heart, and draw inspiration for research, from the fact that on hundreds of reservations, representing over 90 percent of the reservation Indian population, per capita income has grown relatively fast over the past two decades.

The community development efforts of the people in this room and their partners around the world and in the Federal Reserve System also may have contributed, at least on the margin, to this relatively rapid growth in reservation Indian income since 1990. The Federal Reserve System's own work in Indian Country escalated in the early 1990s, after the denial of a proposed banking industry merger due to concerns that one of the institutions involved was not adequately serving an Indian reservation's credit needs. Partly as a result of this case, the Minneapolis Fed was encouraged by banks and tribes to assist in the development of enhanced tribal commercial laws, to facilitate the flow of credit on reservations. That effort blossomed into a major commitment and partnership with the Uniform Law Commission (ULC) to develop and provide national outreach and technical assistance for a model tribal secured transactions law and continues today in further work with tribes and the ULC toward a model tribal probate code.<sup>3</sup> To complement the commercial law initiatives, the Minneapolis Fed helped organize Indian business alliances in several states, so that Indian business owners and others can advocate for good business laws and address financial and other barriers to business development on reservations. Other Reserve Banks, notably San Francisco and Kansas City, undertook related initiatives, such as programs to promote mortgage lending on reservations, and worked hard to build partnerships with the relevant federal agencies as well. Together and with staff at the Board of Governors, we organized periodic national listening sessions and conferences with tribal leaders, such as the Walking the Native Path conference in 1999, the Banking Opportunities in Indian Country conference in 2002 and a series of events across the country in 2011-2012. These last culminated in the Growing Economies in Indian Country national summit meeting at the Board of Governors in Washington, D.C., in

FIGURE 1

### Real per capita income by census racial or ethnic category 2009 dollars



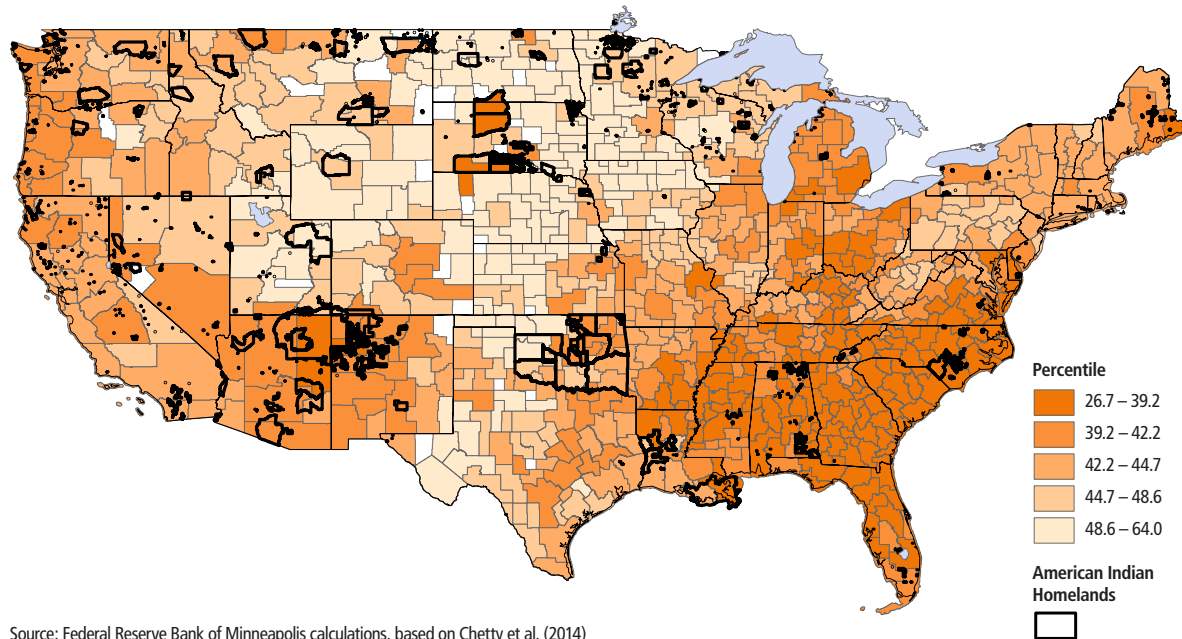
Source: Akee and Taylor (2014)

April 2012, where I was honored to deliver a keynote address on Indian Country economic development.<sup>4</sup>

Despite some encouraging progress, real per capita income remains disturbingly low on Indian reservations relative to the rest of the country. I will now discuss how the more recent research on intergenerational mobility presented at this conference adds another layer of concern about the level of economic development in Indian Country.

The seminal paper on intergenerational mobility by Chetty, Hendren, Kline and Saez has already been highlighted at this conference. However, let me reintroduce some of its key concepts before I apply them to Indian Country. One concept is a commuting zone, which is just a small group of contiguous counties, such as a metropolitan statistical area (MSA) in urban areas that serves as a spatial definition of a local labor market. The other concept is absolute intergenerational mobility.<sup>5</sup> For each commuting zone, the Chetty study determines how children who matured there ultimately rank in the national income distribution as adults, at about age 30. Then they regress children's ranks on their parents' rank in the national income distribution about 14 years earlier. This determines a linear relationship, for each commuting zone, that predicts

## Absolute upward mobility and American Indian reservations, by commuting zones



Source: Federal Reserve Bank of Minneapolis calculations, based on Chetty et al. (2014)

a child's rank based on the parents' rank. Finally, the Chetty research focuses on children whose parents' incomes were below the national median income, as represented by a child whose parents ranked at the 25th percentile of the national income distribution. The higher the child's rank compared to the parents' rank, the greater the level of absolute mobility. For the 1980-82 birth cohort, children of parents at the 25th income percentile typically rose to about the 43rd income percentile by age 30, where "typical" refers to the median commuting zone. In other words, median absolute mobility is about 43. However, the measure ranges considerably among commuting zones, from as high as 64 to as low as 27, a fact that has stimulated a lot of discussion at this conference.

Indian Country is a part of that discussion, as I know well. That lowest absolute mobility figure of 27 occurs in the Minneapolis Federal Reserve District in a commuting zone that is dominated by reservation land.<sup>6</sup> However, the association of Indian reservations and low absolute economic mobility is not limited to my part of the country. The accompanying map shows the distribution of the absolute mobility measure by commuting zones, with darker colors indicating

lower mobility.<sup>7</sup> It also shows the outlines of Indian reservations in the contiguous 48 states. The map shows, especially in the western states where the majority of the reservation population resides, a tendency for reservations to fall within the more darkly colored commuting zones. A similar pattern shows up if I ignore reservation boundaries and simply pick out commuting zones with a relatively high percentage of American Indian, Alaska Native or Native Hawaiian individuals.

In fact, for statistical purposes, let me focus on commuting zones where at least 5 percent of the population identifies as American Indian (alone). This picks out 72 commuting zones across the country, generally with significant reservations or Alaska Native settlements, and eliminates commuting zones where the American Indian population is too small to strongly affect the overall results. For those 72 commuting zones, the correlation between absolute mobility and the percentage of the population that identifies as American Indian is -0.7. The least mobile of the 72 are 17 commuting zones that fall in the bottom three deciles of the absolute mobility distribution reported in the Chetty study.<sup>8</sup> These 17 have American Indian

populations ranging from 5,000 to over 150,000 and are found not just in the Great Plains, but also in Alaska, Hawaii, the Southwest and the Southeast.

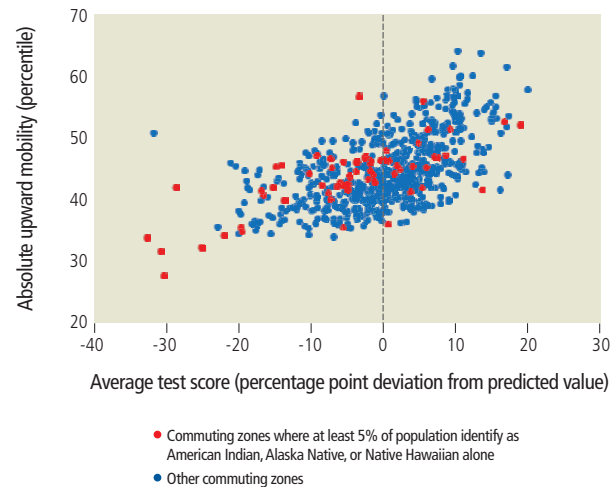
We can see, then, that American Indian reservations and population centers are significant in the lower tail of the intergenerational mobility distribution revealed by the research of Chetty and his co-authors. In my view, these findings of low intergenerational mobility underscore the urgency of addressing economic underdevelopment in Indian Country. It's not just that incomes have been very low on reservations for decades; we now have large-scale and very current evidence of poverty persisting across generations within individual families in many reservation-dominated commuting zones. This persistence represents a social and economic failure to develop the full productive and human potential of many of our children.

What then can be done to facilitate more rapid intergenerational mobility? Our understanding of effective solutions remains incomplete. However, it's worth noting that the Chetty study also shows that low mobility correlates with certain economic and social factors that vary across commuting zones. Commuting zones with a high percentage of American Indian, Alaska Native and Native Hawaiian individuals do not rank low on all of these factors. But they do on some of the most closely correlated factors, including *school quality*, as measured by either test scores or dropout rates.

Figure 2 shows the relationship between test scores, on the horizontal axis, and absolute mobility, on the vertical axis. The test score measure is expressed as the deviation, in percentile units, of the commuting zone's actual average test score from the test score predicted for that commuting zone in a regression of test scores on parental income. Thus, half of the mass of all the dots is to the right of zero and half is to the left. The red dots show commuting zones where American Indian, Alaska Native and Native Hawaiians make up 5 percent or more of the population. Although there are important exceptions to learn from, the mass of the red dots is shifted to the left, with low test scores (adjusted for parental income). Indeed, the far left-hand tail of the test score distribution consists primarily of commuting zones with a high percentage of American Indian, Alaska Native and Native Hawaiian individuals and low mobility. Again, this is only a correlation, not necessarily a causal relationship. But it suggests that we consider education as a factor in the low mobility

FIGURE 2

## Mobility and test scores



Source: Federal Reserve Bank of Minneapolis calculations, based on Chetty et al. (2014)

seen in Indian Country and as an area where additional community development assistance and learning from best practices may be valuable.

More generally, though, the observations on low intergenerational mobility in Indian Country call for better research on the often complex causal relationships with factors like segregation, low-quality schools and single-parent households. They also call for sustained and well-coordinated multidimensional work on community development in Indian Country.

At the Federal Reserve Bank of Minneapolis, we are responding to these calls and intend to take the Federal Reserve System's long-standing work with tribal communities to a new level. In 2015, the Bank will establish a new Center for Indian Country Development. Its mission is "to help self-governing communities of American Indians in the United States attain their economic development goals." Note that this mission is national in scope. This reflects our intent that the Center provide energy and coordination to Indian Country development initiatives across the Federal Reserve System and take a lead role in forging Federal Reserve partnerships with other national and regional organizations.

Our current Indian Country experts will continue their work through the Center. Some of you know Sue Woodrow, currently our Helena Branch officer and




formerly a member of our community development staff. She has led many of our Indian Country initiatives since the early 2000s, including our core work on tribal business law development and implementation. I am happy to announce that Sue will serve as a co-director of the Center.

Sue's leadership will allow the Center to build on our Bank's past work on business law in Indian Country. But the mission of the new Center is deliberately broad in scope. It allows us to engage in a range of new issues, potentially including intergenerational mobility and related topics such as Indian Country education and workforce development. Accordingly, we are currently in the process of searching for a second co-director and expect to find an executive with a record of strong accomplishments in Indian Country. At the leadership level, the two co-directors will give the Center continuity as well as new energy and insights.

In addition, and even more importantly over the long term, we are establishing an external leadership council composed of 10 to 12 regional and national experts in Indian Country development matters. Its purpose will include advising on and assisting with the development of the Center's strategy and priorities. We also expect the leadership council to advise on emerging issues and policy matters and to assist in building important partnerships and support for the work of the Center.

Our plan is to officially launch the Center, and its website, by mid-year. Until then, we are posting information and updates at [minneapolisfed.org/indiancountry](http://minneapolisfed.org/indiancountry).

As you may know, I have decided to not seek reappointment when my term as president of the Minneapolis Federal Reserve Bank ends next February. I expect to look back on the establishment of the Center for Indian Country Development as an important part of my legacy and am happy to say that it has the strong support of our management team and board of directors. When you meet again for the 2017 Federal Reserve System Community Development Research Conference, I hope you will be hearing good things about the work and research of the Center for Indian Country Development. Even more importantly, I hope you will also hear about improvements in education, income, business development and economic mobility in lower-income communities across the nation, including our American Indian reservations.

Thank you. 

## Endnotes

<sup>1</sup> The author thanks Susan Woodrow and especially Dick Todd for much help in developing these remarks.

<sup>2</sup> See Akee and Taylor (2014, pp. 42-43).

<sup>3</sup> For more background on this and related work, see Kocherlakota 2011 and <https://www.minneapolisfed.org/community/indian-country>.

<sup>4</sup> See Kocherlakota (2012).

<sup>5</sup> Chetty et al. (2014) also define a relative mobility measure that I will not make use of. Loosely speaking, an area's relative mobility compares children from the area's lower-income families with children from the area's upper-income families according to the typical difference between their respective places in the national distribution of income when they are adults. Intergenerational mobility in Indian Country is much closer to national norms by the relative mobility measure than by the absolute mobility measure. I focus on the absolute mobility of children from low-to-moderate income families, who account for the majority of children on reservations.

<sup>6</sup> See Wirtz (2014).

<sup>7</sup> Including Alaska and Hawaii would not change the overall pattern significantly.

<sup>8</sup> See Chetty et al. (2014, Figure VIIIA).

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