SOVEREIGNTY AND NATION-BUILDING
The Development Challenge in Indian Country Today

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The Indian nations of the United States face a rare opportunity. This is not the occasional business opportunity of reservation legend, when some eager investor would arrive at tribal offices with a proposal "guaranteed" to produce millions of dollars for the tribe — although such investors still appear, promises in hand. Nor is it the niche economic opportunity of gaming, although that has transformed some tribes' situations in important ways. This opportunity is a political and organizational one. It is a chance to rethink, restructure, reorganize — a chance not to start a business or exploit an economic niche but to substantially reshape the future. It is the opportunity for nation-building.

This opportunity has been unfolding during the last two decades. It is a product of changed relations between Indian nations and the federal government, relations with roots in the Indian politics of the 1960s and in the failure of a century of United States Indian policies that established the federal government as the primary decision maker in Indian country. Since the mid-1970s, partly in response to the demands of Indians themselves, federal policy has shifted toward something called "self-determination": a belief, often more stated than acted upon, that Indian nations should determine their own futures. This shift toward self-determination has allowed those nations that have been willing to do so to engage in genuine self-governance, to turn sovereignty as a legal matter into de facto sovereignty: sovereignty in fact and practice. They still face many constraints, not least the power of the courts and of the United States Congress, but since 1975 a significant number of Indian tribes have become the effective decision makers in their own affairs, often with strikingly positive results.

This new degree of control, unprecedented in the twentieth century history of these nations, constitutes an opportunity of major proportions. It is the opportunity for Native American peoples to re-envision their futures and rebuild their governments and their economic strategies so as to realize those futures. It also may be a short-lived opportunity. In the late 1990s, we have seen a mounting assault on tribal sovereignty.

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Recent decisions in the United States Supreme Court have chipped away at the sovereignty that Indian peoples have struggled for a century to re-establish. Disputes over gaming and other issues have led to significant interference in the affairs of Indian nations on the part of states such as California, Arizona, and New Mexico. At century's end, a flurry of congressional proposals threaten tribal sovereignty and powers. But for the time being at least, the opportunity is there. It is still federal policy that Indian nations should determine their own futures, and determined Indian nations can still do so. But shaping those futures will require not simply the assertion of sovereignty — a claim to rights and powers — it will require the effective *exercise* of that sovereignty. The task tribes face is to use the power they have to build viable nations before the opportunity slips away. This is the major challenge facing Indian country today.[1] It also is the key to solving the seemingly intractable problem of reservation poverty. Sovereignty, nation-building, and economic development go hand in hand. Without sovereignty and nation-building, economic development is likely to remain a frustratingly elusive dream.

THE PUZZLING PATTERN OF RESERVATION DEVELOPMENT

The economic development situation in Indian country presents a puzzle. Most people think of Indian reservations as poor, and many of them are. The facts are sobering. Across Indian country, we find astonishingly high unemployment rates, average household incomes well below the poverty level, extensive dependency on welfare and other transfer payments, and high indices of ill health and other indicators of poverty.

As striking as the degree of poverty, however, are the exceptions to this pattern. Some are well known: In particular, a relative handful of tribes have generated enormous revenues in the niche gaming market and have attracted commensurate media attention as a result. Less well known, but much more intriguing, are those tribes that have broken from the prevailing pattern without depending on gaming as their primary revenue stream or source of employment. Consider the following examples:

- The Mississippi Choctaws are one of the largest employers in the state of Mississippi. Several thousand non-Indians migrate onto the reservation every day to work in the Choctaws' manufacturing, service, and public sector enterprises. The Choctaws are importing labor because there aren't enough Choctaws to fill all the jobs they've created. Choctaw unemployment has fallen dramatically.
- The White Mountain Apaches' forest products, skiing, recreation, and other enterprises have made it the economic anchor of the economy of east-central Arizona. Towns there look to the Apaches as the motor force that pulls them through the winter and as a major player in the regional economy. Their timber operation is one of the most productive in the western United States, regularly outperforming private operators like Weyerhaeuser.
- In Montana, the Salish and Kootenai tribes of the Flathead Reservation have built a successful private sector economy based on tourism, agriculture, and retail services. Unemployment on the Flathead Reservation is often lower than in the rest of rural Montana. The tribal college now get non-Indian applicants who want the quality of education the Flatheads provide.
- At Cochiti Pueblo in New Mexico, effective unemployment is close to single digits — one of the lowest rates among western reservations — thanks to the tribe's ability to employ in tribally owned enterprises most of their own people who want on-reservation jobs.

What is odd or puzzling is that these stories — and others like them — do not conform to a lot of common, top-of-the-head ideas about economic development. For example, simply having resources — natural, human, or financial — does *not* account for what the relatively successful tribes have been able to achieve. It is *not* the case that relatively successful tribes are those that have good natural resources or high rates of educational attainment, or the ones that have been able to get their hands on the most financial capital.

Obviously, having more resources to work with is better than having less. The Apaches, for example, are blessed with a major Ponderosa pine forest, superb elk habitat, and wonderful ski country. But just having resources is not *the* key — or even necessarily *a* key — to getting a reservation economy off the ground. The Crow tribe of Montana has as rich a natural resource endowment as any tribe, possessing some of the largest coal reserves in the world, extensive tim-

ber, rich wheat-growing land, and arguably the best grazing land in the West. The Crows also have experienced significant infusions of capital through federal programs and a number of large monetary claims settlements. High school graduation rates at Crow are well above the national reservation average. Yet official unemployment is almost 60 percent and real unemployment much higher. The return on Crow wealth — what the tribe and its people earn from that enormous resource endowment — is minuscule. All those resources have not produced wealth, nor have they produced a viable, working economy. In contrast, the home of the Mississippi Choctaws, centered in the town of Philadelphia, Mississippi, is by no means rich in natural resources, and Choctaw development got going before the recent improvements the tribe has made in its educational system. Neither natural resources nor education was the key to the Choctaws' success.

If natural, human, and financial resources aren't the key to economic development — if they cannot explain the development pattern in Indian country — then what can? This is the problem that the Harvard Project on American Indian Economic Development has been working on for the better part of the last decade.[2] On the one hand, there is widespread poverty on Indian reservations. On the other, a number of Indian nations have broken away from the legacy of poverty and are building successful economies on their own terms. What do these breakaway tribes share? What distinguishes them from other tribes? What explains the emerging pattern?

TWO APPROACHES TO ECONOMIC DEVELOPMENT

In our research in Indian country, we encounter two very different ways of approaching economic development. The first we call the "jobs and income" approach. Tribes that work with the "jobs and income" approach begin by saying, in effect, "we've got a problem here. The problem is not enough jobs and not enough income, and the solution is to get some businesses going on the reservation." Often that means calling in the tribal planner and saying, "Go get some businesses going." The tribal planner goes off and writes some grant proposals or looks for some investors or comes up with some business ideas, and everyone hopes that somehow the problem will be solved. A persuasive logic is attached to this approach to economic development: There aren't enough jobs on most reservations; there isn't enough income; too many people are poor; too many people are on welfare. So jobs and income are critical.

The problem is that this approach typically doesn't work. It may produce lots of ideas but it seldom produces lasting businesses. The stories are familiar. An enterprise gets started but fails to live up to its advance billing. Or the tribe obtains a grant that provides start-up funding for a project, but when the grant runs out there's no more money and the project starts going downhill. Or an investor shows up but gets entangled in tribal politics, loses heart, and eventually disappears. Or a new business get underway with lots of hoopla and has a good first year, but then the tribal government starts siphoning off the profits to meet its payroll or some other need, and as a result there's no money to fix the leaky roof or upgrade the accounting system, and soon the business is in trouble. Or the enterprise becomes primarily an employment service as people demand that it provide lots of jobs, costs rise, it finds itself unable to compete with non-reservation businesses whose labor costs are less, it becomes another drain on the tribal treasury, and two years later it folds and the jobs it provided disappear. Or the new tribal chair decides the business is a source of patronage, personnel are hired based on their votes in tribal elections instead of their business skills, with each election the business gets a new manager and a new set of operating guide-lines, customers get cynical, quality declines, and the business collapses. One way or another, the tribe ends up back at square one, once again asking the planner to "get something going," and the cycle starts over. Eventually, planners and tribal council feel as if they're banging their heads against the wall. This pattern, familiar on many reservations, makes one wonder if the economic development problem can be reduced to "getting some businesses going" or winning grants or talking an investor into a joint venture. Maybe it's time for a new approach.

This is where the second approach to economic development comes in. It is a "nation-building" approach. This approach begins with the same perception — we've got a problem — and it recognizes that a big part of the problem is the lack of jobs and income. But it argues that solving the problem will require a solution both more ambitious and more comprehensive

than trying to start businesses or other projects. The solution is to build a nation in which both businesses and human beings can flourish. The nation-building approach says the solution is to put in place an environment in which people want to invest. They want to invest because they believe their investment has a good chance of paying off. It may produce monetary profits. It may produce satisfaction in a job well done. It may raise the quality of life in the community. It may reduce dependence on the federal government or bolster tribal sovereignty. The point is that most investors have choices. If they don't see a decent possibility of a payoff here, there is little to stop them from going somewhere else or doing something different.

This problem involves more than money. Our definition of "investors" is broad. An investor may be a cash-rich joint venture partner, but it also could be a tribal member considering a job with tribal government or with a tribal enterprise, or someone with a new solution to a reservation problem, or a tribal member hoping to start up a feed store or a beauty salon or some other reservation business and employ a couple of family members, or a newly trained schoolteacher hoping to return to the reservation. Investment is not just a financial matter. An investor is anybody with time or energy or ideas or skills or good will *or* dollars who's willing to bet those assets on the tribal future. Attracting investment is a matter of attracting those people, of persuading them to make that bet. A development plan that ignores the problem of persuading investors — of all kinds — to invest is a development plan in trouble. Nation-building is a solution to that problem.

A nation-building approach to development doesn't say, "let's start a business." Instead, it says, "let's build an environment that encourages investors to invest, that helps businesses last, and that allows investments to flourish and pay off." A nation-building approach requires new ways of thinking about and pursuing economic development. Telling the planning office to go get some businesses going doesn't begin to crack the problem. The solutions lie elsewhere: in the design and construction of nations that work.

Table 1 compares the two approaches to reservation development. The "jobs and income" approach sees development as first and foremost an economic problem and consequently focuses attention on getting grants, finding a joint venture partner, or any other strategy that might produce usable capital. The nation-building approach, on the other hand, sees development

TABLE 1
Two Conceptions of Economic Development

"Jobs and Income"	*"Nation-Building"*
Reactive	*Proactive*
Responds to anyone's agenda (from the feds or off the street)	Responds to your agenda (from strategic planning for the long-term future)
Emphasizes short-term payoffs (especially jobs and income *now*)	Emphasizes long-term payoffs (sustained community, well-being)
Emphasizes starting businesses	Emphasizes creating an environment in which businesses can last
Success is measured by economic impact	Success is measured by social, cultural, political, *and* economic impacts
Development is mostly the tribal planner's job (planner proposes; council decides)	Development is the job of tribal and community leadership (they set vision, guidelines, policy; others implement)
Treats development as first and foremost and economic problem	Treats development as first and foremost a *political* problem
The solution is money	The solution is a sound institutional foundation, strategic direction, informed action

as first and foremost a political problem. It focuses attention on laying a sound institutional foundation, on strategic thinking, and on informed action.

Most important, the nation-building approach produces different outcomes. Our research consistently finds that the "jobs and income" approach can occasionally lead to some quick business start-ups and perhaps some short-term successes, but it does not produce a sustainable future for the nation. A nation-building approach is no guarantee of economic success, but it vastly improves the chances that economic development will take root and be sustainable. It is far more likely to produce prosperity for the nation and its people. Along with sovereignty, it is the key to economic[1] development.

THE COMPONENTS OF NATION-BUILDING

If we look back at the activist Indian politics of the 1960s and 1970s, it is apparent that sovereignty was the core issue at stake. Who would call the shots in Indian country? Would the federal government continue to make decisions for tribes, to promote its own version of the tribal future, to control the use of tribal resources, and to wield veto power over tribal actions, or would Indian nations be allowed to govern themselves? The self-determination policy launched formally in 1975 and attendant court decisions and legislative actions answered that question, at least in the abstract. The sovereignty of Indian nations was affirmed.

This left tribes with two major tasks. First, they have had to *assert* the sovereignty promised by policy. Against the entrenched interests of federal bureaucracies, the resistance of state governments, and the efforts of numerous other interests making claims to tribal resources, tribes have had to struggle to make their sovereign status a practical reality, to turn the abstract promise of sovereignty embedded in the self-determination policy into genuine decision-making power. This has not been easy. It has involved court battles, lobbying in Congress, and in some cases a good deal of chutzpah as tribes have seized control of their affairs, displacing federal and other decision makers.

Second, tribes have had to back up their assertions of self-governance with the ability to govern effectively. It is one thing to have the power to govern; it is another to deliver effective governance. The shift in governance from outsiders to tribes — a shift that many tribes have not yet been able to make — puts the spotlight directly on tribal capability. This is a fact the opponents of tribal sovereignty have been quick to point out, pouncing on every indication of tribal incapacity or incompetence in tribal government.

Real self-governance is a bit of a two-edged sword for tribes and tribal leaders. Once tribes are in the driver's seat in reservation affairs, they begin to bear more responsibility for what happens in those affairs. When things go well, they are entitled to credit; when things go badly, they bear a larger share of the blame. As tribes exercise more and more real power, the argument that the federal government or some other set of outsiders alone is responsible for what's wrong becomes less convincing. This doesn't mean that responsibility rests solely with tribes. The long history of warfare, imported disease, land loss, cultural suppression, racism, and paternalistic federal control of reservations has had a lasting impact on Indian nations that continues to handicap them today. But the decisions tribes make now and the capabilities they bring to the tasks of self-governance are crucial determinants of tribal futures.

Assertions of sovereignty will have little impact on tribal socioeconomic conditions in the absence of effective governing capability. But what does effective governing capability involve? If successful development requires effective self-governance, what does effective self-governance look like? The key is the institutions through which tribes govern, the ways they organize themselves to accomplish collective tasks. One of the unfortunate consequences of a century of federal control of Indian nations is a legacy of institutional dependency, a situation in which tribes have had to rely on someone else's institutions, someone else's rules, someone else's models, to get things done. On many reservations, tribal government has become little more than a grants-and-programs funnel attached to the federal apparatus. On others, tribes simply have adopted the institutions of the larger society without considering whether those institutions, in fact, are appropriate to their situations and traditions. Such dependency and blind imitation are the antithesis of self-determination.

For sovereignty to have practical effects in Indian country, tribes have to develop effective governing institutions of their own. Harvard Pro-

ject research indicates such institutions will have to provide the following:[3]

- Stable institutions and policies.
- Fair and effective dispute resolution.
- Separation of politics from business management.
- A competent bureaucracy.
- Cultural "match."

Stable Institutions and Policies

The institutions of governance are the formal mechanisms by which societies organize themselves to achieve their goals. Through formal constitutions, charters, laws, codes, and procedures, and through informal but established practices and norms, a society establishes relationships among its members and between the society and outsiders, distributes rights and powers, and sets the rules by which programs, businesses, and even individuals operate. Those who deal with that society, whether members or not, look to those institutions to understand the rules of the game. They look to those institutions to fell them what their rights are, to tell them which decisions are likely to be politicized and which ones aren't, to tell them how to act in order to achieve their own goals, to tell them what to expect in their dealings with that society, and so forth.

As many developing countries around the world can attest, if governing institutions are subject to abrupt and frequent changes, then the rules of the game become uncertain. Faced with uncertain rules, investors are less likely to invest. Tribal members are less likely to put their energy and skills into the tribal future if they're uncertain what role politics will play in their jobs. Small business owners are less likely to start or expand their businesses if they think the rules of the game might change at any moment. A joint venture partner is less likely to commit if tribal policies and practices are inconsistent. In other words, instability in governing institutions discourages investment.

Instability comes not from changes in personnel, but from the changes personnel and politics make in institutions. Measured by unemployment and by sustained enterprise success, Cochiti Pueblo is one of the most successful tribes in Indian country. But the senior tribal administration changes on a yearly basis. One of the characteristics of Cochiti governance is that the tribal executives you are dealing with this year probably will not be the ones you are dealing with next year. But while the senior personnel frequently change, the institutions of Cochiti governance — the rules of the game — seldom do. Rooted in Pueblo traditions and indigenous governing structures, they have enormous stability. This encourages both tribal members and nonmembers to invest energy and time and skill in the tribal future.

Governing institutions at some other reservations lack this stability. Sometimes the rules are unclear to begin with or are set on an ad hoc basis, making it impossible for anyone to know what to expect in dealings with tribal government. Sometimes newly elected officials change the rules to serve their own interests or those of their supporters. Sometimes the rules are simply ignored, having only a paper reality. In such cases, stability disappears. All too often, investment goes with it.

Fair and Effective Dispute Resolution

Governing institutions have to be able to provide consistently nonpoliticized, fair dispute resolution. They have to be able to assure people that their claims and disputes — including disputes with the tribe itself — will be fairly adjudicated. The key to doing this for most tribes is a strong and independent judicial system.

On many reservations, the tribal court is controlled by the tribal council. Either the judges can be fired by the council or president and serve at their pleasure, or the decisions of the court can be appealed to the council. Either way, the council or the president has the last word in disputes. This is not a promising environment for a potential investor. Consider a tribal member trying to start a small business on the reservation who has a complaint against the tribal council. Perhaps this person thinks the council unfairly canceled a lease on tribal land or is pressuring the new business to hire certain people, and the member goes to tribal court to complain. On some reservations, the tribal council is going to have the last word, either via appeal to the council or through political pressure brought to bear on tribal judges. In other words, the decision finally will rest with the very people who are the target of the complaint. Under those circumstances, the chances that the tribal member is going to get a fair shake are slim. Given the prospects, such investors are likely to take

their money or ideas or time or energy — and the jobs they might have produced — somewhere else.

At the Harvard Project we have examined sixty-seven tribes for which comparable information is available, and have found that those tribes that have strong, genuinely independent judicial systems outperform — economically — those that don't. The measure we used was employment. If you control for the effects of other factors on employment, you find that simply having an independent judicial system reduces unemployment, on average, by 5 percent.[4] Thus, if a tribal council is looking for ways to reduce long-term unemployment on the reservation, one of the best things it can do is establish a strong, genuinely independent judiciary that can settle disputes and adjudicate claims fairly.

This illustrates the difference between a jobs-and-income strategy and a nation-building strategy. The jobs-and-income strategy says go find an investor or start a business. The nation-building strategy says build a judicial system that reassures investors, levels the playing field, and gives both tribal and nontribal businesses an opportunity to flourish. In fact, the lesson from Indian country is the same one that is being learned in the former Soviet Union, where investment in legal systems is the necessary foundation on which economic development is being built.

Separation of Politics from Business Management

Tribal governments have to be able to separate politics from day-to-day business decisions. On many reservations the tribal government — typically the tribal council or the tribal president — controls tribal businesses. Business decisions are made by the council; administrative and personnel disputes are referred to the council; and the council or president often assumes responsibility for much of the day-to-day running of the enterprise. At first glance, this may make sense to some people. After all, tribal enterprises belong to the tribe and the government represents the tribe; therefore, the government should run the enterprises. But most societies don't choose leaders on the basis of their ability to read market conditions or manage a labor force or negotiate purchasing agreements with suppliers. Societies ideally choose leaders on the basis of vision, integrity, ability to make wise long-term decisions, leadership attributes, and so forth. When it comes to running businesses, what societies typically need is to find the best business people available, people who know how to make businesses succeed and become lasting sources of income, jobs, and productive livelihood.

To sustain businesses as businesses, rather than temporary welfare programs, requires a clear division of responsibility. The elected tribal leadership is responsible for the long-term future of the nation. Among other[1] things, leaders consider strategic issues: What kind of society are we trying to build? What uses should we make of our resources? What relationships with outsiders are appropriate? What do we need to protect and what are we willing to give up? These are proper matters for political debate and are the sorts of questions elected leaders appropriately deal with. But when it comes to things like hiring the new foreman at the plant; working out the payroll at the casino; dealing with personnel issues, purchasing, or operating hours; putting together the business plan for next year; or deciding how much the middle managers should be paid — these are not appropriately political matters. They are business matters, which should be decided by skilled business people working within the strategic directions set by the tribe but free of the interference of tribal leadership. When politics gets involved in business operations, businesses typically either fail or become a drain on tribal resources, preventing those resources from being used to the full advantage of the tribe. Businesses cannot compete successfully when the decisions are being made according to political instead of business criteria.

The Harvard Project has been carrying out a running survey of tribally owned businesses on reservations. To date, we have surveyed approximately 125 such businesses on more than thirty reservations. The results are compelling. Those tribally owned businesses that are formally insulated from political interference — typically by a managing board of directors and a corporate charter beyond the direct control of council members or the tribal president — are four times as likely to be profitable as businesses that are directly controlled by the council or the president. To be sure, there are some council-controlled businesses out there that are successful. But the evidence from Indian country shows that the chances of being profitable rise *400 percent*

where businesses are insulated from political interference in day-to-day operations.[5]

Of course a tribe might decide that it is not interested in profits; it is interested in jobs. The enterprise, in this view, should employ as many people as possible; if it also makes money for the tribe, that's gravy. But our experience has been that, in a competitive environment, enterprises urn as employment services invariably run into difficulties which typically threaten to bring the whole business down. Tribal enterprises in such situations have cost levels higher than is efficient. Their products therefore are expensive; sales tend to fall; and eventually the tribe — which typically doesn't have much money — has to subsidize the business, which often fails as political support evaporates. If an enterprise in a competitive market is not itself competitive, the jobs it creates won't last very long. On the other hand, a strategy that reinvests profits to maintain and expand the business, eventually employing more people, or that invests profits in new businesses, accomplishing the same thing, may produce fewer jobs today but far more jobs tomorrow.

A Competent Bureaucracy

The White Mountain Apache tribe in Arizona recently reached an agreement with the U.S. Fish and Wildlife Service under which the tribe is able to manage its forest and recreational resources in conformance with the Endangered Species Act. This agreement was a product of negotiations between the two entities over the Service's concerns about endangered species on the Apache reservation. The agreement avoided potentially costly litigation that would have pitted the Service's concerns against the Apaches' right to manage their own resources. Under the agreement, the Service recognizes Apache sovereignty, while the Apaches put in place a conservation plan that recognizes the endangered species concerns of the Service.

One of the key elements in the success of these negotiations was the Apaches' resource management capabilities. Over the years, the White Mountain Apache tribe has developed sophisticated forestry, wildlife, and recreational management capabilities. Among other things, they boast one of the most productive sustained-yield timber operations in the West and the country's premier commercial elk hunting operation. In other words, they have a competent, sophisticated resource management bureaucracy. It gets things done and does them well. This capable bureaucracy has enabled them to assume the driver's seat as far as their natural resources are concerned. Without this capability, their claim to control over endangered species management would not have been credible. The Apache case illustrates how important it is to negotiate from strength — in this case the organizational and managerial strength of tribal government.

As Indian nations increasingly take over the management of social programs and natural resources on reservations, as they undertake ambitious development programs, as their governing tasks become more financially and administratively complex, their overall success. Attracting, developing, and retaining skilled personnel; establishing effective civil service systems that protect employees from politics; putting in place robust personnel grievance systems; establishing regularized bureaucratic practices so that decisions are implemented and recorded effectively and reliably — all of these are crucial to a tribe's ability to govern effectively and thereby to initiate and sustain a successful program of economic development.

Cultural "Match"

The task of governing institutions is to back up sovereignty with the ability to exercise that sovereignty effectively. That's where sovereignty pays off — in its effective exercise. But where do those institutions come from? Should they simply be imported from somewhere else?

Cultural "match" refers to the match between governing institutions and the prevailing ideas in the community about how authority should be organized and exercised. Such prevailing notions are part of the culture of a tribe or of any cohesive society Governing institutions "match" a society culture when governing authority is exercised when, where, and by whom the society's norms — often unspoken and informal — regard as legitimate. Where cultural match is high, the institutions of governance tend to have a high degree of support in the community, commanding allegiance and respect. Where cultural match is low, legitimacy is low, and governing institutions are more likely to be toothless, ignored, disrespected, and/or turned into vehicles for personal enrichment.

Two of the tribes that the Harvard Project on American Indian Economic Development has worked with extensively are the White Mountain Apaches of the Fort Apache Reservation in Arizona and the Oglala Sioux of the Pine Ridge Reservation in South Dakota. Both have tribal governments organized under the provisions of the Indian Reorganization Act (IRA) of 1934. Both governments are classic IRA systems: Power is centralized in the tribal government, chief executive officers exercise extensive power, there is no independent judiciary, and there is executive oversight of business operations. In short, the tribal constitutions at Fort Apache and Pine Ridge are near replicas of each other, and the institutions of governance are largely the same on both reservations. But the performances of these two Indian nations are radically different. Economically, as we already have noted, the White Mountain Apaches are one of the most successful tribes in the country, having built a number of successful tribal enterprises in timber, manufacturing, and recreational tourism. Pine Ridge, on the other hand, is statistically the poorest Indian reservation in the country. The record of failed tribal enterprises at Pine Ridge is long and depressing. It has some of the highest rates of unemployment and related social problems in Indian country.

What's the difference? Resources certainly are part of it. The Fort Apache Reservation is blessed with a rich natural resource endowment, while Pine Ridge has comparatively less to work with. But resource differences cannot explain the very different record in the performance of tribal enterprises. Tribal businesses at Fort Apache tend to be productive and to last. Tribal businesses at Pine Ridge typically do poorly.

Our research strongly suggests that a central part of the difference has to do with the institutions of governance. Those institutions are essentially the same in structure. But in the Apache case, there is a much closer match with Apache traditions. In the Sioux case there is no match at all. A comparison of Apache and Sioux systems of governance prior to the mid-nineteenth century, before either tribe had come under the effective control of the United States, shows substantial differences between them. This comparison is summarized in Table 2.[6]

Traditional Apache government was centralized. It put enormous power in the hands of a single, charismatic leader. That leader selected the legislature or council, which was looked to for advice, but over which the executive had the last word. There was no independent judiciary; the chief executive resolved major disputes as chief judge and jury. He made the major economic decisions as well.

TABLE 2
IRA, Western Apache, and Lakota Governing Structures

Typical IRA Governments (1930s...)	*Western Apache Government c. 1850*	*Lakota Government c. 1850*
Centralized (single units, power concentrated in chairs or presidents)	Mixed (local band autonomy, power concentrated in single chiefs)	Decentralized (local band autonomy, power dispersed among individuals and institutions)
Modest separation of powers (strong executive, weak legislature)	Minimal separation of powers (strong executive, weak legislature)	Separation of powers (executive, legislative, judical)
Directly elected executive oversees representative council	Directly elected executive selects council	Parliamentary design (council selects executive)
No independent judiciary (council or chair is court of appeal)	Judicial functions in hands of executive	Independent judicial and law enforcement functions (*Akicita* societies)
Executive or legislative oversight of business operations	Executive oversight of business operations	Separation of strategic affairs from day-to-day business operations

This traditional Apache system looks very much like the contemporary IRA government. By chance, when they adopted their IRA constitution, which was written by the federal government, the Apaches got a governing system that in many ways resembled the system they had developed over centuries on their own. As a result, the people tended to believe in that government, and still do so. The institutions of governance at For Apache have community support because they fit Apache conceptions of the appropriate organization and exercise of political authority.[7] They have cultural match.

The situation is very different at Pine Ridge. Traditional Lakota government looked radically different from the contemporary IRA version. It placed little power in the hands of single individuals. A legislative council exercised the largest degree of power. In parliamentary fashion, that council chose four executives, called Shirt Wearers, who served at the pleasure of the council. The council also oversaw selection of a police force from among the warrior societies, called the *akicita*, and assigned them responsibility for enforcing the law and settling disputes. Once appointed, the *akicita* and their judicial powers were remarkably independent. There are cases in the historical record, for example, of the *akicita* physically beating members of the legislature and Shirt Wearers — chief executives — for failing to observe the law. Being able, by general cultural assent, to punish chief executives and legislators is persuasive sign of culturally legitimate judicial independence. Historic Lakota government also provided for a clear separation between strategic decisions and day-to-day business management. The council might decide where the camp should move next, or when to gather for the buffalo hunt, or whether to engage in raiding against another nation. When it came to the business of actually moving or hunting or going to war, the council chose individuals known to be superbly skilled in those managerial functions, and put responsibility in their hands. Once the hunt began, it was not the leaders of the nation, but the most skilled and knowledgeable hunters who held decision-making power. Indeed, traditional Lakota government was a highly sophisticated system, complete with its own separation of powers, checks and balances, and clear division of authority. What's more, it worked.

The IRA government at Pine Ridge looks very different today. It places enormous power in the hands of single leaders, has no effective separation of powers, muddies lines of authority, fails to place checks on the behavior of leaders, and offers no independent, impartial means for settling disputes. At almost every point; it departs from the political ways of the past. As a result, it has little legitimacy among the people. Few of them are willing to invest in those activities where the government exercises significant power. Those who do invest take significant risks. Some get burned, resources are squandered, and the chances of long-term prosperity disappear. What is at issue here is cultural match and the legitimacy of governmental institutions that it produces. The institutions of governance at Fort Apache match the culture of the people — their ideas about how authority should be organized and exercised — and therefore have legitimacy. The virtually identical institutions of governance at Pine Ridge have legitimacy with the Lakota people.

In short, the institutions of governance have to have legitimacy with the people if they are going to work. This is not necessarily a signal to revive traditional governing systems — those systems were designed to meet the problems of their time. Tribal governments operate in a very different environment today and often have to solve very different kinds of problems. Furthermore, not only have the demands on tribal governments changed, but in many cases the ideas carried in the community — tribal cultures — have changed as well. The trick is to invent governments that are capable of operating effectively in the contemporary world, but that also match people's ideas — traditional or not — about what is appropriate and fair.

THE BUILDING BLOCKS OF DEVELOPMENT

Putting in place effective institutions of self-governance is a critical piece of the development puzzle, but it is not the only one. Institutions alone will not produce development success. Sound institutions have to be able to move into action. In our research and in our work with Indian nations, we think about development as having four central pieces or building blocks: sovereignty, effective institutions, strategic direction, and decisions/action.

Sovereignty is the starting point; without it, successful development is unlikely to happen in Indian country. But, as we have argued above,

sovereignty has to be backed up with effective governing institutions. These provide the foundation on which development rests. Development itself, however, still needs focus. For most Indian nations, not just any kind of development will do. Most nations have priorities: aspects of their society or situation that they wish to change, features that they wish to preserve or protect, directions they see as compatible with their views of the world, directions they wish to avoid. The crucial issues for societies to decide as they put together a development agenda are these:

- What kind of society are we trying to build?
- What do we hope to change in our society?
- What do we hope to preserve or protect? What are we willing to give up?
- What are our development priorities (e.g., sovereignty, health, employment, income, skill development, etc.)?
- What are our development concerns (e.g., cultural impacts, environmental impacts, changing demographics, out-migration, etc.)?
- What assets do we have to work with?
- What constraints do we face?

The answers to these questions form the basis of a development strategy. They provide criteria against which development options can be evaluated and development decisions can be made. They do not tell a tribe what to do in every case, but they orient decision making to long-term goals and to the realities of the tribe's situation. Without a sense of strategic direction, there is a danger that the tribe will move into a reactive mode, responding to the agendas of funding agencies or outside investors instead of proactively pursuing its own goals and seeking ways to achieve them.

Finally, there are practical development decisions to be made and implemented: This is the action piece of the puzzle. In our experience, many tribes focus the bulk of their development attention on decisions/action, at the expense of institution-building and strategic direction. Faced with urgent problems and often transitory opportunities, tribal councils deal with development on a short-term basis, as a set of decisions that have to be made. A funding agency is willing to provide start-up funds for tourism; let's do that. An outside investor has offered an opportunity to start up a company but needs a decision now; what shall we do? The new tribal planner has put three business proposals before us; which ones should we pursue? Timber prices are up; shall we increase the cut? all of these are real issues that need attention. But without appropriate and effective institutions, the council probably is trying to answer these questions with only limited information. And some may not be council business at all. Moreover, without some sense of strategic direction, it is not clear which options make sense. 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.

Thus institutions and strategic direction are not only pieces of the development puzzle; they are building blocks: Successful development rests in part on them. These building blocks are shown in Figure 1. The arrow indicates the appropriate sequence of steps.

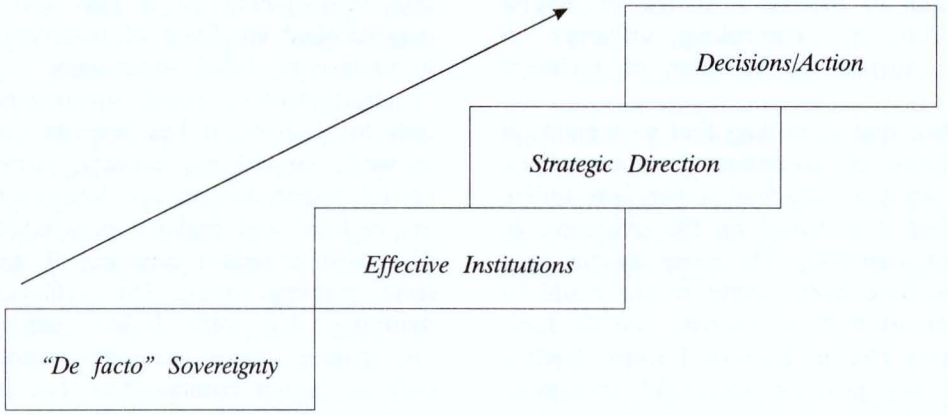
THE ARGUMENT FOR SOVEREIGNTY

Of the building blocks of development shown in figure q, three are substantially under tribal control. It is up to tribes to put in place institutions that work, to determine their own strategic directions, and to make informed decisions and act on them. Sovereignty is different. Sovereignty is fundamentally a matter of the relationship between political entities, of the rights and powers they recognize each other as possessing. For example, the treaties signed between Indian nations and the United States typically included, among other things, explicit recognitions and specifications of relevant sovereign powers belonging to each party.

Figure 1, however, refers not simply to sovereignty, but to de facto sovereignty. By "de facto sovereignty" we raise the question. Who is acting as the effective decision maker in tribal affairs? Who is really deciding the economic strategy? Who is really deciding how many trees will be cut? Who is really deciding whether the joint venture agreement with an outside investor will go forward? Who is really deciding how the housing money will be spent? When the answer to these questions is "the tribe," we have de facto sovereignty — sovereignty in fact and in practice.

We have argued that a distinctive feature of the last twenty-five years in Indian-white

FIGURE 1
The Building Blocks of Economic Development



relations — and a critical foundation of tribal economic success — has been federal acknowledgment of tribal sovereignty as not only a legal but a practical matter. For tribes that have been willing and able to assert it, these have been decades of de facto sovereignty, of practical self-governance.

The attack on tribal self-governance — on sovereignty — which began in the mid-1990s is not new; tribal sovereignty has been under attack many times before. But the attack now comes at a time when many tribes, through the assertion of their sovereign powers and the development of institutions that can exercise those powers, have begun to put their sovereignty to effective use. At century's end, the attack continues in the Congress, the courts, state legislatures, and to some degree in public and media debate. This attack is both misguided and dangerous. There are legal and historical arguments for tribal sovereignty that we need not rehearse here. Another important argument, however, gets too little attention. Among the most powerful arguments for tribal sovereignty is the simple fact that it works. Nothing else has provided as promising a set of political conditions for reservation economic development. Nothing else has produced the success stories and broken the cycles of dependence on the federal system in the way that sovereignty, backed by capable tribal institutions, has done.

The history of Indian policy is amply clear on this point. The United States has been concerned to overcome the dismal economic situation on Indian reservations at least since 1928, when the so-called Meriam Report marshaled massive evidence of reservation poverty and hopelessness.[8] In its attempts to deal with those conditions, subsequent federal Indian policy has ranged across the map, from assimilationism to the termination of federal responsibility for tribes to multiplying social programs and explicit support for tribal governments. To date, however, only one federal policy orientation has been associated with sustained economic development on at least those Indian reservations that have exercised de facto sovereignty through their own institutions: the self-determination policy that emerged in the 1970s. In other words, not only does tribal sovereignty work, but the evidence indicates that a federal policy of supporting the freedom of Indian nations to govern their own affairs, control their own resources, and determine their own futures is the *only* policy orientation that works. Everything else has failed.

In our work, we cannot find a single case of successful economic development and declining dependence where federal decision makers have exercised de facto control over the key development decisions. In every case we can find of sustained economic development on Indian reservations, from the Salish and Kootenai at Flathead in Montana to the Mescalero Apaches in New Mexico to the Muckleshoots in Washington to the Choctaws in Mississippi, the primary economic decisions are being made by the tribe,

not by outsiders. In every case, the tribe is in the driver's seat. In every case, the role of the BIA and other outside agencies has shifted from decision maker to merely a source of helpful resources, from the controlling influence in decisions to advisor or provider of technical assistance.

We realize that in finding that sovereignty is the precondition of economic development on reservations we have reached a very pro-Indian conclusion, but it is based on the evidence. In fact, it is not surprising. The same lessons enumerated here have been taught to the world by former Soviet attempts to exercise the de facto decision-making role in Eastern Europe. Such a strategy did not produce successful economies there. It should come as no surprise that it does not work in Indian country.

The underlying logic to the finding that only sovereignty works in overcoming the long-standing problems of reservation poverty, dependence, and social ill-being is clear. As long as the BIA or some other outside organization carries primary responsibility for economic conditions on Indian reservations, development decisions will reflect the goals of those organizations, not the goals of the tribe. Furthermore, when outsiders make bad decisions, they don't pay the price of those decisions. Tribes do. As long as the outside decision maker doesn't pay the price of bad decisions, there's no incentive for that decision maker to make better decisions. Once the tribe is in the driver's seat, the situation changes. The quality of the decisions improves as the tribe pays the price of bad decisions and reaps the reward of good ones. Making the federal government bear responsibility for improving economic conditions on Indian reservations may be good political rhetoric, but it is bad economic strategy. When tribes take responsibility for what happens economically on reservations *and have the practical power and capacity to act on their own behalf*, they start down the road to improving reservation conditions.

In short, de facto sovereignty is an essential precondition for reservation economic development. A decade of Harvard Project research has been unable to uncover a single case of sustained development that did not involve the recognition and effective exercise of tribal sovereignty: the practical assertion by tribes of their right and capacity to govern themselves. There is a major policy lesson here: Sovereignty is one of the primary development resources any tribe can have. The reinforcement of tribal sovereignty should be the central thrust of public policy. One of the quickest ways to bring reservation development to a halt and prolong the impoverished condition of reservations would be to undermine tribal sovereignty.

Furthermore, tribal sovereignty works not only for Indians; it has benefits for non-Indians as well. Around the country, economically successful Indian nations are becoming major players in local and regional non-Indian economies. The most abundant evidence of this fact comes from gaming tribes. The evidence is rapidly mounting that some Indian gaming operations are making major economic contributions not only in Indian communities, but in non-Indian ones: creating jobs, providing new business to non-Indian vendors of various kinds, attracting increased tourism to certain areas, expanding sales by local retailers, moving people off state welfare rolls, and increasing state income and sales tax receipts.[9] On top of that are the major investments in non-Indian enterprises that some gaming tribes are making with their profits, becoming significant contributors of investment capital for non-Indian businesses.

Of course gaming is an easy activity to point to. The money involved is often substantial, it makes a big splash, and it captures the attention of the media. But other tribal economic activities also contribute to the economies of Indian and non-Indian communities. Tribes with successful economies — whether gaming is involved or not — typically become net contributors to the larger economies around them. We have already noted the Mississippi Choctaws, who are importing non-Indian labor because there aren't enough Choctaws to fill all the jobs they've created. Some non-Indians now look to the Choctaws for an economic future that is otherwise unavailable to them in that part of Mississippi. as noted above, the White Mountain Apache tribe has become a keystone of the non-reservation economy in east-central Arizona, bringing both people and dollars into Pinetop and Snowflake and other communities. When the tribe's natural resource economy was threatened by federal endangered species policies, not only did the tribe put itself in the position to exercise de facto sovereignty on species issues, but non-Indian communities around them organized *in support of* the tribe's assertions of self-rule. In Montana, it was not gaming that turned the Confederated Salish and Kootenai tribes of the

Flathead Reservation into a major economic force in the Flathead Valley, where their economy accounts for a significant part of the growth taking place in the corridor running from Missoula north toward Kalispell and Glacier National Park. Elsewhere, too, tribes that are engaged in successful economic development — with and without gaming — are moving tribal members off welfare, reducing the need for some social programs, helping families survive, taking over functions previously filled by the federal government, supporting the education of tribal members, and improving the quality of life on reservations. These activities reduce the support burdens on the rest of the society — on taxpayers — and reduce the squandering of human resources that has plagued Indian country for more than a century.

Such benefits as these also give states like Arizona, Mississippi, and Montana a major stake in tribal economic prosperity. And what is the foundation of tribal economic prosperity? It all comes back to sovereignty: rights and powers of self-governance and the ability to exercise them effectively. This set of connections — from sovereignty to reservation development to non-reservation payoffs — is largely left out of the thinking and tactics of those who would now squash tribal sovereignty. But what is the alternative? We believe the alternative to sovereignty and real progress on reservation development is a return to a system dominated by federal and state programs that perpetuate institutional and individual dependence and consign tribes to debilitating futures of poverty and despair.

CONCLUSION

The policy implications of this research can be summarized briefly Economic development on Indian reservations is first and foremost a political problem. At the heart of it lie sovereignty and the governing institutions through which sovereignty can be effectively exercised.

This directs attention first to the federal and state policy levels, for it is at these levels that sovereignty, as a set of rights and powers, will be either affirmed or reined in. The lesson of the research is clear. It is increasingly evident that the best way to perpetuate reservation poverty is to undermine tribal sovereignty. The best way to overcome reservation poverty is to support tribal sovereignty. Furthermore, the evidence is mounting that successful tribes, whether in gaming or skiing or timber or manufacturing or some other activity, can make important contributions to local, regional, and national economies.

At the tribal level, the lesson is that those tribes that build governing institutions capable of the effective exercise of sovereignty are the ones most likely to achieve long-term, self-determined economic prosperity. They are the ones who will most effectively shape their own futures, instead of having those futures shaped by others. For tribes, nation-building is the only game in town.

NOTES

1. We use the term *Indian country* loosely here to refer not only to the Indian reservations of the lower forty-eight states but to predominantly Native communities in Alaska. Although the U.S. Supreme Court ruled in February of 1998 in *Alaska v. Native Village of Venetie Tribal Government* that lands held by Native entities under the terms of the Alaska Native Claims Settlement Act (ANCSA) — in other words, most Native lands in Alaska — are not technically Indian country, Alaska's Native peoples face many of the same challenges as reservations. The legal and political conditions under which they have to operate differ significantly from reservation conditions in the lower forty-eight states, partly as a consequence of the court's decision. Nonetheless, the fundamental tasks of self-governance and nation-building remain much the same.
2. The Harvard Project on American Indian Economic Development is a research project operated under the auspices of the Kennedy School of Government at Harvard University and the Udall Center for Studies in Public Policy at The University of Arizona. The project is directed by Dr. Manley Begay (Harvard), Professor Stephen Cornell (Arizona), and Professor Joseph P. Kalt (Harvard).
3. Harvard Project results have been published in a number of places, but see especially the following papers by Stephen Cornell and Joseph P. Kalt: "Reloading the Dice: Improving the Chances for Economic Development on American Indian Reservations," in *What Can Tribes Do? Strategies and Institutions in American Indian Economic Development*, eds. Stephen Cornell and Joseph P. Kalt (Los Angeles: American Indian Studies Center, UCLA, 1992), 1–60; and "Where Does Economic Development Really Come From? Constitutional Rule among the Contemporary Sioux and Apache," *Economic Inquiry* 33 (July 1995): 402–26. See also the various papers published in the Harvard Project Report Series, available from the Harvard Project on American Indian Economic

Development at the John F. Kennedy School of Government, Harvard University.

4. See Stephen Cornell and Joseph P. Kalt, "Successful Economic Development and Heterogeneity of Government Form on American Indian reservations," in *Getting Good Government: Capacity Building in the Public Sectors of Developing Countries*, ed. Merilee S. Grindle (Cambridge: Harvard Institute for International Development, Harvard University, 1997), 272.
5. Some of this evidence is presented in Cornell and Kalt, "Reloading the Dice," 32.
6. For a more detailed version of this comparison and for the sources on which it draws, see Stephen Cornell and Joseph P. Kalt, "Where Does Economic Development Really Come From?" 402–26.
7. This is not to say that those institutions are conflict-free or that the individuals who serve in those institutions necessarily enjoy the same degree of support, but only that the institutions themselves appear to be viewed by most tribal members as legitimate.
8. Lewis Meriam and Associates, *The Problem of Indian Administration* (Baltimore: Johns Hopkins Press, 1928).
9. For a summary review, see Stephen Cornell, Joseph P. Kalt, Matthew Krepps, and Jonathan Taylor, "American Indian Gaming Policy and Its Socio-Economic Effects: A Report to the National Gambling Impact Study Commission," Cambridge: The Economics Resource Group. Inc., July 31, 1998. See also Joseph P. Kalt, *Testimony before the National Gaming Impact Study Commission*, March 16, 1998; Center for Applied Research, *The Benefits and Costs of Indian Gaming in New Mexico* (Denver: Center for Applied Research, 1996); Center for Applied Research, *Indian reservation Gaming in New Mexico: An Analysis of Its Impact on the State Economy and Revenue System* (Denver: Center for Applied research, 1995); John M. Clapp, et al., *The Economic Impacts of the Foxwoods High Stakes Bingo & Casino on New London County and Surrounding Areas* (Arthur W. Wright & Associates, September, 1993); Steven C. Deller, Amy Lake, and Jack Sroka, *The St. Croix Casino: A Comprehensive Study of Its Socioeconomic Impacts* Madison: University of Wisconsin Extension, 1996); Stephen A. Hoenack and Gary Renz, *Effects of the Indian-Owned Casinos on Self-Generating Economic Development in Non-Urban Areas of Minnesota* (Plymouth, MN: Stephen A. Hoenack and Associates, 1995); James M. Klas and Matthew S. Robinson, *Economic Benefits of Indian Gaming in the State of Minnesota* (Minneapolis: Marquette Advisors, 1997); James M. Klas and Matthew S. Robinson, *Economic Benefits of Indian Gaming in the State of Oregon* (Minneapolis: Marquette Advisors, 1996); Minnesota Indian Gaming Association and KPMG Peat Marwick, *Economic Benefits of Tribal Gaming in Minnesota, 1992* (Minnesota Indian Gaming Association, April 1992); James M. Murray, *Direct and Indirect Impact of Wisconsin Indian Gaming Facilities on Wisconsin's Output, Earnings, and Employment* (Madison: University of Wisconsin Extension, 1997); James M. Murray, *The Impact of American Indian Gaming on the Government of the State of Wisconsin* (Madison: University of Wisconsin Extension, 1993). Dennis J. Nelson, Howard L. Erickson, and Robert J. Langan, *Indian Gaming and Its Impact on Law Enforcement in Wisconsin* (Attorney's Process and Investigation Services, Inc., 1996).