

Growing Economies in Indian Country: A National Summit

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Narayana Kocherlakota, President, Federal Reserve Bank of Minneapolis

Introduced by Joseph Firschein, Deputy Associate Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System

Joseph Firschein: My job is, is to do some welcome-- to welcome you to the Board of Governors to provide some context for how we got to this place and to help you understand sort of how we plan to use the day.

David already told you a little bit about what the Community Development function does, so I'm not going, I'm not going to go into that. But, I will say that sometimes when we try to explain it to people there's nothing better than an event like this to really kind of make the picture kind of come, come whole. And so, we sometimes talk about three components of what we do. And, and really it just couldn't fit better into sort of the structure of today.

We talk about convening stakeholders, conducting applied research and data analysis and identifying approaches that work. And as you'll hear throughout the day that's really what we're going to be doing.

In terms of-- oh, the other thing I do want to say is even though we have a full room and quite a distinguished one, I want to welcome everybody who's watching on the web streaming. We've been doing this now for a little bit and we know it's not possible for everybody who would want to be at an event like this to physically come to Washington; particularly an event like this, where it's sometimes far as far as where the folks are that are doing this kind of work. And so, really delighted that we have a live web streaming of this event and so we welcome the audience that's, that's watching on that.

As you'll note from the participant list that's in your packet, we have in the room a very distinguished group of thought leaders and we hope that you're going to share your diverse

perspectives with us. Not just the people that will be our moderators and our discussants, but really everybody in the room and we're going to have time in, in each panel for, for an opportunity for people to provide comments and questions, etcetera.

I want to do some particular thank yous. It's always dangerous at an event like this to start thanking people because you'll, you'll invariably leave somebody off. But, I would be remiss if I didn't thank a number of the people that, that made this possible. In particular I want to thank the Federal Reserve Bank of Minneapolis and also the Federal Reserve Bank of San Francisco for encouraging us to provide a national stage for the issues that are going to be discussed at today's summit. You're going to hear more in a moment about the role that they played and also a number of their staff are going to be leading some of the panels.

This event goes way beyond just the Federal Reserve System and I want to thank a number of federal partners that worked with us on this event. We had an interagency working group for Indian Affairs Committee on-- Committee on Economic Development, which is a group of federal agency representatives who work with Tribal Governments and that group partnered with us on the summit. And I want to especially note the contributions of several agencies that were represented on the Summit Advisory Committee that basically helped plan that, that-- today's meeting. First, the U.S. Department of Health and Human Services Administration of Native Americans, the CDFI Fund within the Treasury Department where I spent part of my career, the Office of Comptroller of the Currency and I know I see a number of my colleagues. I see Barry Wise out there and a number of colleagues from OCC and then the U.S. Small Business Administration, which has been a partner of ours on a number of events and, and this one as well.

I also want to acknowledge Anna Alvarez Boyd who's my boss and the Senior Associate Director for DCCA who really helped us take this from the idea stage about a year ago to sort of where we are today. And you'll be hearing more from her. She actually has the harder job of at the end of the day basically wrapping all this up and making some sense for you. So, you'll, you'll be hearing from Anna shortly.

I noted before that the Federal Reserve Bank of Minneapolis played a particular role in this and in particular they coordinated and corralled the advisory committee that was responsible for planning the content for the summit and they also took the lead on the summit publication that's in your folder. If you pull the publication out you'll notice on the very back cover is a list of contributors and it's, it's a cast of folks, I won't, I won't mention everyone. And then inside the front cover under the acknowledgements we actually list specific staff that worked so hard to make this a success. This report is also on our website and we encourage you to pass it on to folks that couldn't be here or may not, may not know about it. We think it really will be a nice springboard for today's events.

I also want to give a little shout out to my colleague at the Minneapolis Fed, Dorothy Bridges as well as Jackie King for really helping us put this thing together and then David Kaufman and his team. I'm not going to name everybody, but, but there was a whole host of folks from the board that did this. And really the, the most important thing is to thank literally the hundreds of people from at least thirty different states including more than a hundred tribal representatives from sixty three unique tribes for participating in our series of regional meetings that were organized by the four Federal Reserve Banks and including participation from nine federal agencies that we did last year. Without their commitment and time today's summit just would not have been possible.

So, let me just conclude by saying just a word about the regional meetings and the agenda. The summit publication talks about three objectives of the regional meetings, one was to provide a valuable opportunity to spur conversations on ways of effectively tackling economic development challenges. Second, they raised awareness of Federal Assistance Programs and finally they highlighted best practices of economic development strategies that are showing promise.

Today's summit is going to build on that work and if you take out your agenda, I just want to say a quick word about how we've structured the day. We're going to start with opening remarks from President Kocherlakota of the Federal Reserve Bank in Minneapolis. Then we're going to hear a brief framing of the issue-- of the issues that you're going to hear throughout the

day and then we're going to move into a panel that will summarize some of the economic development challenges that we heard at the series of regional meetings that we had last year. The remaining panels were-- are all going to focus on various opportunities for economic growth in Indian Country including strengthening Tribal enterprise development, strengthening entrepreneurship and small business access to capital, strengthening governance and legal structures and a number of other aspects. And then we're going to end with a next step panel and closing remarks followed by a networking reception so that we can continue to exchange ideas after the conclusion of the formal panel.

Our hope is that the conversation today will lead to promising practices, innovative partnerships and forward looking policy solutions in the days and months ahead. So, with that let's jump right into the, to the conference and if I can ask President Kocherlakota to please come up.

It's my distinct pleasure to introduce our first speaker today. Narayana Kocherlakota is President of the Federal Reserve Bank of Minneapolis. We have bios in the, in the folders and you can read the detailed bio, but I just wanted to point out a couple things.

President Kocherlakota became the twelfth president of the Federal Reserve Bank of Minneapolis on October 8, 2009. As President he serves on the Federal Open Markets Committee, the Policy Making Arm of the Federal Reserve System. And as you may know the FOMC meets every six to eight weeks in Washington, D.C. to determine monetary policy for the nation.

The Federal Reserve Bank of Minneapolis is responsible for the ninth Federal Reserve District, which includes Montana, North and South Dakota, Minnesota, Northwestern Wisconsin and the upper peninsula of Michigan.

Prior to becoming the President of the Federal Reserve Bank of Minneapolis President Kocherlakota was a Professor of Economics at the University of Minnesota where he chaired the

Economics Department and he previously held a number of key roles including at the National Bureau of Economic Research.

President Kocherlakota was born not too far from here in Baltimore, Maryland and earned his PhD in Economics from the University of Chicago and a Bachelor of Arts in Math from Princeton. Aside from his significant credentials he's shown an enthusiasm and support for economic development in Indian Country from the day he joined the Federal Reserve. I was talking to the Minneapolis staff and they echoed something that I certainly experienced; Anna and I went to the Minneapolis Fed shortly after President Kocherlakota joined the bank and in our very first meeting he was talking about this topic and showed a deep commitment to it.

Under his leadership the Federal Reserve Bank of Minneapolis has been committed to strengthening multiple aspects of Native American economies and today's summit is one good example of this work. So, we look forward to hearing his thoughts and suggestions. Please join me in welcoming President Kocherlakota.

[Applause]

>> Narayana Kocherlakota: Thanks Joseph. Good morning.

>> [Group response] Good morning.

>> Narayana Kocherlakota: Welcome. Like being a professor again. [Laughter] So, welcome to Washington, D.C. and the home of the Federal Reserve System's Board of Governors. As you just heard from Joseph, I'm really a guest here myself. My home base is in Minneapolis, the Federal Reserve Bank of Minneapolis. And that's one of the twelve independently managed Federal Reserve Banks whose districts span the country.

I'm delighted to see so many people here to join our conversation today. And I think I speak for all of us here when I thank the, the staff of the Board of Governors for graciously

hosting this event. And I should note that the, the views I'm going to express today are my own and not necessarily those of others in the Federal Reserve System.

So, I just mentioned the Federal Reserve Systems regional structure and this structure in place for nearly a hundred 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 grassroots level across the United States. I think the Fed benefits greatly from this regional structure and a community access that 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 operation and impact of the entire financial system from global giants to local banks. In our role as a provider of payment 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 to monitor and respond to regional economic issues affecting low and moderate income communities including Native American reservations through our community development departments.

So, the Federal Reserve System made good use of this regional structure last year when it cosponsored 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 valuable partners in this effort included nine federal agencies and numerous national, local and tribal organization individuals.

[Silence]

>> Narayana Kocherlakota: So, today we're going to 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.

So, before we hear from them I hope you'll allow me a few minutes to offer some thoughts on economic development in Indian Country. My ideas as you'll hear have clearly been influenced by the Minneapolis Federal Reserve Bank's work in this area. For the past twenty years for a span that goes well back beyond my own brief tenure at the-- as president, for the past twenty 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 secure transactions laws and related initiatives. The aim of these efforts has been to facilitate the flow of credit and entrepreneurial opportunities on reservations.

Today we'll 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?

Now, I realize that a number of reservations and homelands are in and are near urban areas. Nonetheless I think that the rural location of many of the larger and poorer reservations justifies a comparison, a comparison I just made to Indian Country and rural development. Now, I should say that by Indian Country I mean the self-governing Native American and Alaskan native communities and reservations throughout the United States as recognized by 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 data may seem obvious to 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 outmigration. Despite such costs, large scale outmigration from poor rural regions has been a major force for poverty reduction around the globe, not just in the United States. But, in Indian Country this is an especially unattractive option because population loss would threaten the viability of the tribe as a distinct

cultural entity. Heightened resistance to outmigration is therefore a special characteristic of economic development in the Indian Country.

So, the second important difference between rural economic development, in economic development in Indian Country in particular arises from the distinctive legal arrangements required to maintain meaningful tribal political sovereignty. The most prominent example is a topic we'll 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 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 that we're discussing today deal indirectly or directly with how to make the required adjustments to our thinking. Now, I hasten to add that I offer my own 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. It follows immediately from that, that I am not 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. And I hope you'll find my comments useful in organizing your own thinking today and perhaps in the future. And by the same token given my own base of knowledge I look forward to hearing your views and refining my own thinking through our dialogue.

And Joseph mentioned how excited and enthused I've been about this work since becoming president. And I think there's just been a long tradition of doing this kind of work at Federal Reserve Bank of Minneapolis. I think we've been able to make-- and I've been-- I think the excitement is both on policy dimension, but also an intellectual level. I think that we've, we've learned from, from the work we've done and that learning has made a real difference. And that's been I-- I think something that's been very exciting for me in my two and a half years as president.

Please note that to simplify my discussion; I will hereafter focus my remarks on Native Americans and their reservations. And these are the peoples and geographies I'm most familiar with in the Minneapolis Federal Reserve district that Joseph mentioned spans the Dakotas, Montana, Minnesota, Northwestern Wisconsin and the upper peninsula of Michigan. I ask the audience to make appropriate adaptations of my language to apply, where relevant, to other Indian Country geographies and peoples.

[Silence]

>> Narayana Kocherlakota: So, I want to begin by talking about 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 sixteen years and older. So, from 2006 to 2010 just over forty-five percent of working age Native Americans on reservations were employed; that's compared with almost sixty percent of all working age Americans.

Partly as a result the median annual income among Native American households on a typical reservation was under thirty-five thousand dollars during that period. That compared with fifty-two thousand dollars for all American households and about thirty-seven thousand dollars for all Native American households whether they on or off the reservation. As a further consequence about twenty-five percent of the Native Americans on reservations lived in households with incomes below the official poverty line, that's compared with fourteen percent of Americans overall.

Now, these gaps are even larger on more remote reservations including several in my district. For example, North Dakota's portion of the Standing Rock Reservation, which exactly coincides with Sioux County North Dakota, for 2006 through 2010 about eighty four percent of Sioux County's residents were Native American. On average over this period just thirty seven percent of the working age Native Americans in Sioux County were employed. This contributed to a median household income of only thirty-one thousand dollars and a forty-seven percent poverty rate for Native Americans in Sioux County during these years. Just-- again, by reference

this is compared to a median income of fifty-two thousand dollars for all Americans households and a fourteen percent poverty rate.

Now, when you do these kinds of comparisons it may not be fair to compare a very rural location like Sioux County with national averages, which are heavily weighted toward major metropolitan areas. However Sioux County's still lags when compared with rural non-reservation counties, even its immediate neighbor, Grant County, North Dakota. Grant County is equally rural and remote, but the population of Grant County is ninety-seven percent white. Almost sixty-two percent of its working age population were-- was employed during a 2006 to 2010 period. Higher employment helped households there earn a median income of almost thirty seven-thousand dollars, more than twenty-five percent higher than the Native American households in Sioux County. And only about thirteen percent of Grant County residents lived in poverty during 2006 to 2010.

So, by these very basic economic measures therefore Sioux County's Native Americans lag well behind other Americans not only nationally, but also just next door in Grant County. Now, 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 and our conversations today will largely focus on how to close these gaps.

Now, so I've talked about the gaps and now I want point to a measure of success. The economic gaps that I've just cited may not tell the whole story about Sioux and Grant Counties and the many other rural reservations and non-reservation areas like them. As I mentioned in the outset, population retention is of fundamental importance to Native American tribes. And by that measure, Sioux County has been significantly more successful than its neighbor Grant County.

Between 2000 and 2010 Sioux County's population grew by over two percent while Grant County's population dropped by almost sixteen percent. Other nearby counties with mostly white rural residents also experienced large population declines. Although there are again

exceptions, similar patterns prevailed, 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 important success in its own right. It shows 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, reservation 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 outmigration. 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 supply of labor contracts, the result is higher wages and incomes for the remaining rural workers compared with what they would have earned in the absence of this rural to urban migration. Now, as a response to rural poverty, outmigration's been lamented by most rural communities, but ultimately it's been accepted as nearly inevitable. But, for tribes the stakes are higher. Escaping outmigration is the cure for reservation poverty would threaten the very existence of the tribe as a viable cultural and political entity.

So, many reservations in remote rural areas face a special challenge. They must raise residences incomes without resorting to the levels of outmigration that have helped raise personal incomes in many other rural counties.

Now, one way to look at this is through population density so we look once again at Sioux County on the Standing Rock Reservation. We find three point eight residents per square mile in 2010. This sounds low, but this compares to two point four even fewer residents per square mile in the neighboring 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 residences incomes in place rather than accept population decline as a response to poverty.

I think this difference applies to most reservations and 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. So, now I want to-- I want to talk about preserving land base, which is the other-- the second of the two distinctive-- besides population retention, the second distinctive feature of Indian Country economic development I mentioned in my introduction.

So, a strong population base alone may 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. Now, the political sovereignty that is based on tribal land sometimes creates development opportunities and the tribal gaming industry is perhaps the most familiar example. But, special institutions are needed to preserve the tribal 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 to 1934 allotment period can be viewed as an experiment in what can happen with weak restrictions in 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 sixty-five 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.

So 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. And 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 in Indian Country economic development. And that challenge is 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 certainly don't have the answers to those questions, but they do seem very important ones. And I look forward to hearing your thoughts in this matter. We may also want to expand our dialogue to include new participants with relevant experience in the design of financial contracts.

So, I have discussed population retention and preservation of land based tribal sovereignty as this two special objectives that make Indian Country economic development different from conventional rural economic development. I don't mean to say that these are all--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; low 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 in reservations.

So, I think the recent adoption of updated tribal secure transaction 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. The challenge is to do that while imposing the least possible burden on access to capital, economic efficiency and overall economic development.

So, that's how I see our two part task today. You must seek policies, laws and institutions that enable tribes to pursue the cultural and political objectives that they truly value, but we must

also design them so that they will not unduly impede necessary development. Success in this effort is extremely important. I believe it will contribute significantly to closing the large and regrettable economic developments, large regrettable economic gaps I should say 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 and they've been fueled with coffee, so let's get to it. Thank you. [Applause]