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The Failure of State-Led Economic Development on American Indian Reservations

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RACHEL L. MATHERS

Most of the literature on state-led economic development focuses on development at the international level.¹ An intriguing case much closer to home—that of American Indians—is rarely considered in discussions of state-led development. In spite of decades of state-led economic development efforts, American Indians remain among the poorest groups in the United States. The 2000 U.S. census reveals that the median income per capita for American Indians is less than half that of all U.S. citizens. Poverty levels among American Indians are more than twice the poverty level for the United States as a whole. Perhaps more striking is the lack of adequate infrastructure—water, sewerage, telecommunications, and so forth—in many American Indian communities (U.S. Government Accountability Office [GAO] 2004). “Broadly speaking, one constant has characterized Indian reservations since their creation—poverty” (Harvard Project 2008, 112).

These facts are particularly perplexing because state-led economic development efforts on American Indian reservations face fewer problems than international state-led

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1. For example, see Easterly 2003, 2006; Ovaska 2003; Svensson 2003; Sachs 2005; Leeson 2008; Moyo 2009; Williamson 2009.

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economic development. For example, American Indian economic development planning does not face problems of international political economy, such as numerous international bureaucracies, differing national strategic goals, and so forth. Although political economy issues still exist domestically, we would expect them to be smaller than those in the international arena for at least two reasons.

First, U.S. government resources in many American Indian communities are extensive, including access to significant amounts of funding and highly trained bureaucrats (relative to bureaucrats in underdeveloped countries). Therefore, domestic state-led development provides a somewhat “cleaner” test of state-led development because these issues are minimized. Second, American Indian reservations and the U.S. government are geographically in the same country, making sheer physical distance a nonissue. The country providing development assistance—the United States—lies within the same borders as the American Indians, making interaction between the two groups much easier and less costly. Monitoring of domestic economic development programs is also much easier than monitoring international programs. However, as Peter Boettke, Christopher Coyne, and Peter Leeson (2008) note, geographic distance is not what matters; knowledge distance is more decisive. The greater the knowledge distance between where the rule is designed and where it is to be implemented, the less likely the rule is to “stick.” Although the geographic distance between American Indians and the U.S. government is minimal, the knowledge distance between the two can be great: the U.S. government may simply be unable to acquire the relevant knowledge to achieve the desired end.

Domestic state-led development, in theory, should be easier than international state-led development. However, the results of development efforts on reservations do not match the expected outcome. In this article, I examine two factors that contribute to the failure of top-down, state-led economic development on American Indian reservations: (1) the state’s inability to perform economic calculation and (2) the political allocation of resources. The first factor is important because it provides a reason for the state’s inability to achieve its stated goals with the given means. Because the state operates outside the market, economic calculation is impossible, leading to the second factor, political allocation of resources outside the market, which yields several political economy problems related to bureaucracy, including perverse incentives and lack of adaptability to changing conditions.

To analyze how these two factors contribute to the failure of state-led development on American Indian reservations, I focus on the Economic Development Administration’s (EDA) efforts to stimulate economic growth there. I focus on the EDA² because this agency is concerned solely with economic development, whereas the other agencies involved with the reservations (for example, the Bureau of Indian Affairs, the Department of Housing and Urban Development, and the Department

2. It is important to note that all of the agencies face the same incentives and problems as those the EDA faces, so my analysis applies equally well to the other agencies involved.

of Agriculture) deal with a variety of services besides pure development efforts, which makes it much more difficult to separate economic development projects from their other activities.³

My analysis contributes to at least two strands of literature. The first is the aforementioned literature on international economic development. The second is the literature on development among American Indian populations (see Graham 2004; Rosser 2005; Cornell and Jorgensen 2007). For example, Stephen Cornell and Joseph Kalt (2006) emphasize what they term the “nation-building” approach to economic development on reservations, an approach that emphasizes tribal sovereignty and institution building as opposed to the standard approach, which is often short term and under the control of individuals outside the reservation. In a volume edited by Terry Anderson, Bruce Benson, and Thomas Flanagan (2006), the argument is made that property rights, along with sovereignty, are the key to successful economic development on American Indian reservations. My article complements the existing literature on economic development and American Indians by emphasizing the role of economic calculation (Mises [1922] 1981, [1920] 1990; Hayek 1935) and the political economy of bureaucracy (Tullock 1965; Niskanen 1971) in explaining the failure of state-led development efforts.

The History of the Economic Development Administration

The EDA was created in 1965 as a replacement for the Area Redevelopment Administration (ARA), the first federal agency devoted to regional economic development. During the ARA years (1961–65), it was thought that lack of capital was the reason for underdeveloped or distressed communities, so the ARA sought largely to provide capital in the form of long-term, low-interest loans that could cover up to 65 percent of the cost of an industrial development project (Sorkin 1971). However, by the time the EDA was created to replace the ARA, the consensus about the path for economic growth in these areas shifted from capital to infrastructure. The idea was to make blighted communities attractive to business by improving basic infrastructure (for example, sewerage, water supplies, and telecommunications).

Both agencies’ primary goal has been to increase jobs in depressed regions, though the EDA introduced an added emphasis on making blighted communities attractive to business by improving basic infrastructure. To designate a region as depressed and hence qualified to receive EDA funds, several measures have been used, including high unemployment and low income. American Indian reservations are among the poorest regions in the United States, so many of them have qualified for federal assistance from the EDA. Between 1993 and 2002, for instance, 143 of

3. The U.S. GAO (2006) reports that there are eighty-six federal economic development programs in ten different federal agencies, which makes gross economic development spending on reservations difficult to estimate.

219 federally recognized tribes and tribal organizations received total funding of \$112 million from the EDA (U.S. GAO 2004, 4). An EDA annual report notes that the agency “provided over three-quarters of a billion dollars in assistance to Native Communities to promote and support their sustainable development from 1965 through 1999” (U.S. EDA 2000, 14).

Given that high unemployment and low income define a distressed region, the EDA’s clear goal is to help these regions experience economic growth that will assist them in emerging from the distressed classification by means of increased employment and decreased poverty. As David A. Sampson, former assistant secretary for economic development in the U.S. Department of Commerce, stated,

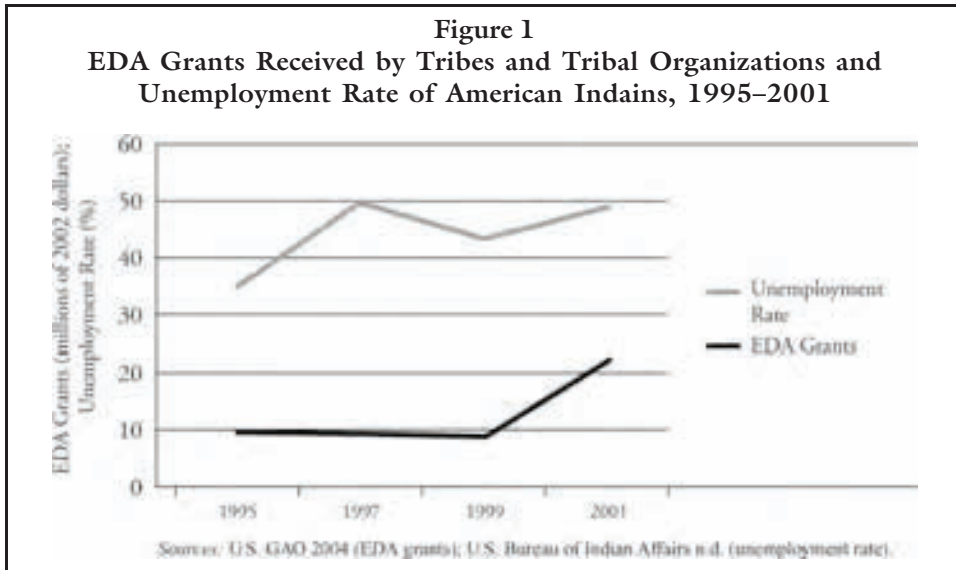
The Economic Development Administration (EDA) was established to work with states and localities to generate new jobs, retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas and regions of the United States. The purpose of its program investments is to provide economically distressed communities with a source of funding for planning, infrastructure development, and business financing that will induce private investment in the types of business activities that contribute to long-term economic stability and growth. EDA’s investments are strategically targeted to increase local competitiveness and strengthen the local and regional economic base. (qtd. in Lake, Leichenko, and Glasmeier 2004, v)

The EDA’s mission statement has been altered over time, but the stated ends remain the same—to create jobs, build infrastructure to attract business, and provide capital.

One simple way to analyze whether the EDA has achieved its mission objectives is to examine the poverty and employment rates for American Indians. Figure 1 depicts the total EDA grants received by Indian tribes and organizations (in millions of constant 2002 dollars) and the unemployment rate for American Indians from 1995 to 2001.

There is no clear relationship between EDA grants and American Indians’ unemployment rate. Given the agency’s mission, it seems that well-allocated and well-spent EDA grants would be used for projects that create wealth and jobs. However, the data suggest that such has not been the case. Figure 2 depicts American Indian family poverty rates versus the poverty rates of all U.S. families from 1979 to 2010, and figure 3 shows the unemployed as a percentage of the labor force for American Indians versus for the U.S. population from 1982 to 2005.

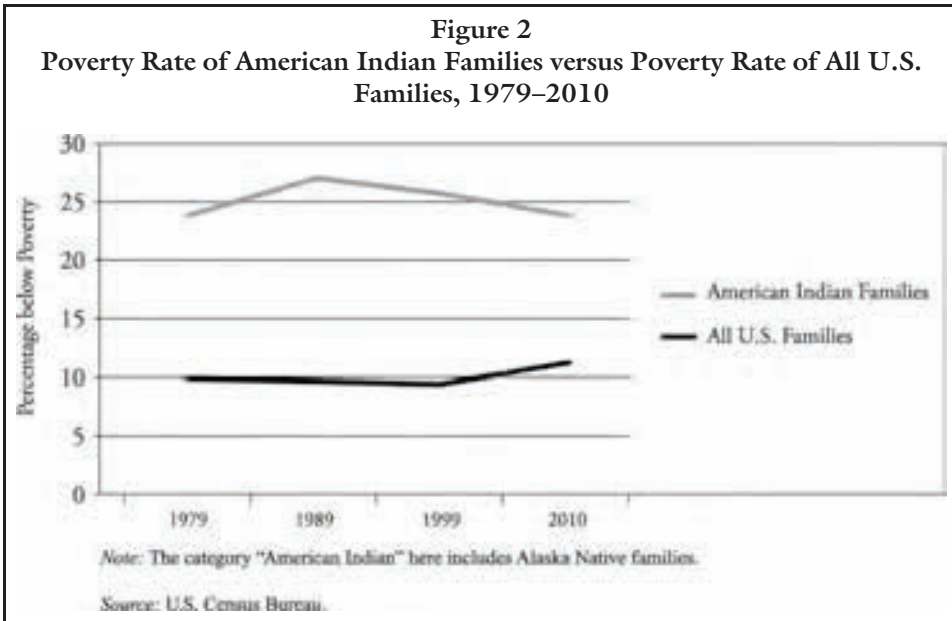
The consistent pattern of declining poverty rates that we would expect if the EDA were achieving its stated mission does not appear in the data. Even with many agencies involved in economic development projects on American Indian reservations and much more total money invested than indicated here, no clear and consistent progress has occurred toward the EDA’s and other agencies’ goals. In fact,



the most recent family poverty figures for American Indians are nearly identical to figures for the situation three decades ago, indicating little real progress. Moreover, the poverty rates for American Indian families are more than twice those of all American families in all years depicted. The unemployment figures are similarly dismal, with the American Indian unemployment rate being at least three times the national rate in every year and more than ten times the national rate in some years. Again, these figures demonstrate the lack of progress toward the EDA’s stated goals, especially in light of the fact that the American Indian unemployment rate is much *worse* than it was two decades ago. In the next section, I provide insights into why the EDA’s means have failed to achieve its stated ends.

Economic Calculation

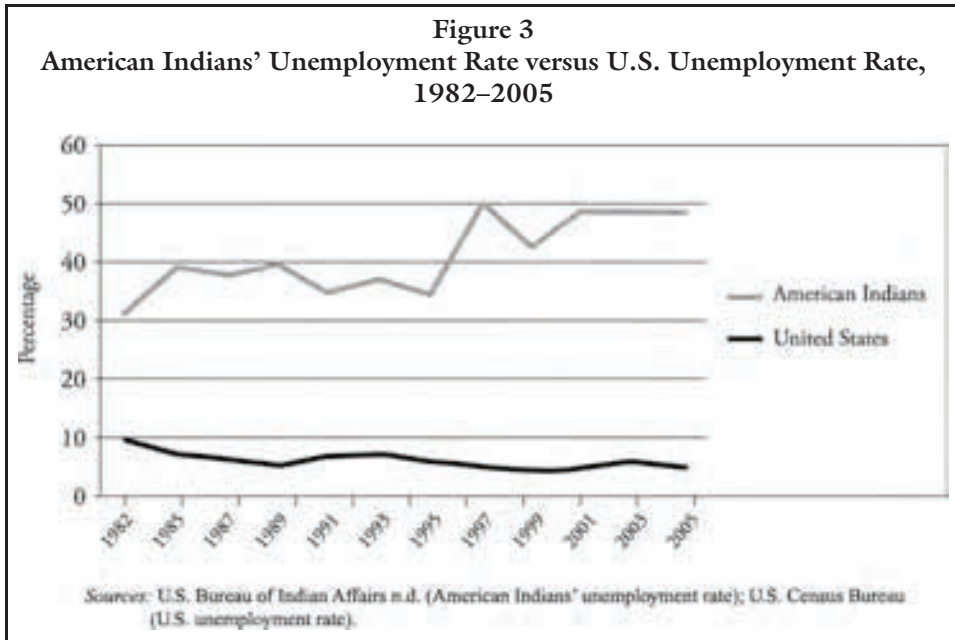
Ludwig von Mises’s (1927, 1949, [1922] 1981, [1920] 1990) and Friedrich Hayek’s (1935, 1945) work on economic calculation and the knowledge problem are critical in understanding why state-led economic development on American Indian reservations has not had the expected effect on unemployment or poverty. As Peter Boettke notes, “[E]conomic calculation refers to the decision-making ability to allocate scarce capital resources among competing uses” (1998, 134). In other words, economic calculation is the process by which the economic problem of how to allocate scarce resources is solved. Prices as well as profit and loss provide continual feedback to economic actors regarding how resources should be allocated and reallocated in order to maximize their value. As Donald Lavoie notes, “[P]rice information represents knowledge about a continually and



rapidly changing structure of economic relationships” (1985, 82). For rational economic calculation to be possible, there must be a system of private-property rights that allows free price changes and the resulting profit-and-loss accounting. Without these prerequisites, rational economic calculation cannot occur because the necessary feedback will be distorted or absent, and individuals will be unable to figure out how to (re)allocate scarce resources among different uses in an economically efficient manner.

Further, as Hayek (1945) emphasizes, for central planning to work, all relevant data, including the dispersed knowledge of “time and place” would have to be known by one central figure or a small group of central figures in government. He concludes that this centralized possession of the relevant knowledge is unattainable because much of the relevant data is not given to any one person at a point in time but instead must be discovered through the dynamic market process. Hence, government cannot perform the rational economic calculation necessary for economic progress because the kind of knowledge required for such a task is dispersed among all individuals producing and consuming in a society rather than being centralized in one omniscient figure.

As noted previously, state-led development on Indian reservations benefits from a short physical distance between government agencies and the targeted recipients in contrast to the large distances involved in international development efforts. However, one of the main implications of the “knowledge problem” logic is that “knowledge distance” is more important than geographic distance (Boettke, Coyne, and Leeson 2008). Relevant local knowledge might relate to culture, workforce skills,



viable resources, and a variety of other factors important to the process of development and business planning. Although the geographic distance between American Indians and the U.S. government is minimal, the knowledge distance between the two seems to be great, so that the U.S. government simply cannot acquire the relevant knowledge to achieve the desired end.

Although the U.S. government has property and input prices, it cannot engage in economic calculation because it does not price its outputs and therefore cannot utilize profit-and-loss accounting. Instead, its services take the form of unilateral transfers from the government to the Indians, and no profit or loss calculation is possible. In a market economy, profit and loss provide important feedback information to producers for both current and future decisions. Expected profits affect current production decisions, and actual profit or loss affects future decisions. Outside of the market, rational economic calculations are impossible. As Ludwig von Mises (1944) explains, the absence of profit and loss is precisely why government bureaucracies cannot perform economic calculation. David Skarbek and Peter Leeson (2009) apply this argument to international aid and its inability to solve the economic problem. American Indian reservations provide a domestic case of the same issue and require application of the same logic.

Myriad examples illustrate the state's inability to engage in rational economic calculation when selecting and implementing economic development projects on American Indian reservations. For example, consider a cultural center built in 2001 in which the EDA invested \$1.3 million toward construction. When GAO officials visited the site in 2004, they found the building almost empty, save for a few offices,

and that the building was used only once a year to host an arts-and-crafts festival. Because the building sits empty for much of the year, the tribes must subsidize its operating costs. The GAO report produced from this visit also notes that the cultural center was built without a business plan, leaving the tribes to create one after construction was completed. Nevertheless, the report states, “an EDA official we spoke with considered the project a success” (2004, 22).

In addition to errors in the selection and implementation process caused by the inability to perform rational economic calculation, the absence of profit-and-loss accounting makes it necessary to find other measures of achievement. One such measure is the number of jobs EDA projects create. To suppose that a simple measure of jobs created is equivalent to a measure of wealth creation or value added to the economy is a fallacy. For example, the government might create jobs by hiring people to dig ditches and fill them back in, but such jobs would not add value because they would not increase productivity or create goods and services that consumers value, which is the essence of economic progress. In order to evaluate the EDA’s year-to-year success, the agency self-reports several measures, including an examination of how close its actual results for both private investment and jobs compare to its stated targets.⁴ However, these targets are not the same thing as economic progress because they are centrally planned—planners select the ends to pursue and the means to employ in pursuing those ends.

In a recent *Wall Street Journal* op-ed, Senator Jim DeMint (R–S.C.) notes that “multiple studies by the Government Accountability Office have found that EDA programs ‘did not have a significant effect,’ achieved ‘inconclusive’ results, and ‘may even detract’ from a more flexible and educated work force” (DeMint 2011). If we recognize that the EDA does not have the market mechanism and economic calculation to guide its decisions, it is unsurprising that the GAO finds that EDA programs have an insignificant and possibly even damaging effect.

As another example of the implications of the absence of economic calculation, consider that the EDA spent \$67 million on tourism on tribal lands between 1967 and 1977, but a Department of the Interior task force reported that the projects were operating at a deficit of \$5 million annually as of 1977 (Wilkins and Stark 2011). Much like the cultural center project mentioned previously, the funds spent on tourism were not supported by a sound business plan based on profit-and-loss accounting. Many of the reservations were simply not well suited for tourism at the time, some lacking the proper climate, transportation, knowledgeable workforce, and other amenities such as accommodations for visitors, that are necessary for successful tourism. Before investing in tourism, a private entrepreneur operating in the market would have had the profit-and-loss mechanism guiding his decisions, and no savvy entrepreneur would have invested in what seemed a likely failure. However, with the

4. It is unclear how the EDA measures private investment and job creation.

EDA providing the funding for these projects, success is not measured by expected profit and loss because the projects operate outside the market, so economic calculation is impossible.

One potential response is that although the EDA is ineffective in picking initial projects, it can adapt through a process of trial and error to correct its mistakes. However, the evidence indicates that such adaptation does not occur: many EDA-supported projects are kept continually operational with subsidies or additional help from other agencies. For example, the GAO (2004) reviewed thirty-one EDA projects with Indian tribes from 1993 to 2002 and found that about half of these projects had either failed or were being subsidized, and almost one-quarter of them were being subsidized. Given that a business's need for subsidies indicates a failure to satisfy customer wants, these continually subsidized projects should also be considered failures. They are also failures from the standpoint of adaptability because rather than being shut down, they are being propped up and kept in operation by subsidies.

Though many examples are available to illustrate the EDA's struggle to pick "winning" projects, there have not been many studies regarding the effect of EDA projects on regional development, much less on development on American Indian reservations in particular. The only study to examine the effectiveness of EDA projects overall (including American Indian and non-Indian projects) suggests that the EDA's aid had little effect on the growth rates of income during the time the aid was given and no significant effect afterward (Martin and Graham 1980). This study highlights an important point: the EDA simply cannot plan economic development. This outcome reflects the logic of the economic calculation argument. As much as policymakers wish to plan development centrally, they cannot do so successfully without market signals and individual entrepreneurs' efforts (see Skarbek and Leeson 2009).

As Peter Bauer aptly states, "[T]hroughout history innumerable individuals, families, groups, societies, and countries—both in the West and [in] the Third World—have moved from poverty to prosperity without external donations" (2000, 16). Bauer highlights how trading on a small scale leads to economic development, indicating that individual entrepreneurs operating in local markets ignite the spark that starts the fire of economic development. Development is achieved through the market process of experimentation, risk taking, and profit-and-loss signaling (Mises 1949; Kirzner 1973; Holcombe 1998). The players' ever-changing rational economic calculations, based on prices as market signals, guide innovation and ultimately produce economic growth.

The Political Economy of Economic Development

Given that the EDA cannot rely on markets and economic calculation to allocate resources, political rather than economic forces guide its decisions. Several political economy issues affect the outcomes of government-sponsored economic development projects.

The economics of bureaucracy sheds light on some pitfalls in economic development planning outside the market. This body of analysis assumes that bureaucrats behave like other self-interested individuals. They are not able to ignore their self-interest for the sake of the “greater good.” Given the incentives they face, they seek to maximize their individual well-being within their constraints. The incentives created by a bureaucratic structure of operations unfortunately are perverse in that they encourage different outcomes than the stated goals of economic development projects on American Indian reservations. William Niskanen (1971) notes that the bureaucrat’s desired ends—greater fame, power, prestige, a larger agency—are all consistent with one primary goal: budget maximization. Each of the variables related to a bureaucrat’s utility—“salary, perquisites of the office, public reputation, power, patronage, ease of managing the bureau, and ease of making changes”—is positively related to the size of the agency’s budget (Niskanen 1968, 293–94). Thus, by maximizing the agency’s budget, a bureaucrat simultaneously maximizes his own utility.

In the case of American Indian economic development projects funded by the EDA, many actions are consistent with bureaucratic incentives. One outcome of efforts to maximize the agency’s budget is an incentive to overstate the agency’s achievements. By overstating achievement, the agency can prove that it is worthy of even more funding in the coming years. Such exaggeration is exemplified by the EDA’s May 1998 report on its Public Works Program, which states that the program “does indeed produce permanent private-sector employment at a relatively low cost. The estimates clearly suggest that the program is having its intended effect” (5).

However, a 1999 GAO report regarding this assessment states, “We do not believe that the conclusion in the EDA report about the linkage between its public works program and increases in permanent private sector jobs is warranted. Our analyses produced different results from the EDA study” (2). As mentioned previously, Randolph Martin and Robert Graham’s 1980 study similarly concludes that the EDA’s activity does not produce long-term increases in income.

In spite of these contrary reports, the EDA does not have an incentive to report poor figures for its own work, especially given that it is its own evaluator. In order to continue receiving funds, it instead has an incentive to overstate its achievements. As an example, consider the EDA’s most recent self-report for the fiscal year 2010. Here the EDA measures its success in part by an examination of how close the actual results in stimulating both outside private investment and job creation come to the agency’s stated targets. The report gives the results of investments as far back as 1999 and as recent as 2010, noting that the targets were met for both jobs and private investment for every year’s EDA investment, with success rates as high as 597 percent of the target for some years (U.S. EDA 2011). These numbers are difficult to take seriously because they indicate greater than 100 percent success for every year, a lofty and unreasonable goal even for the savviest entrepreneur in the private sector.

Given the goal of budget maximization, another expected result is that agencies will strive to make themselves politically well connected because incumbent legislators determine discretionary budgeting for bureaucracies. It pays to use resources to stay politically well connected. With these incentives in place, the EDA resembles any other agency, using political favor to garner a larger budget. Former EDA director Orson Swindle calls the EDA a “congressional cookie jar,” noting that politics obscures rational economic decisions (qtd. in Larson 1995). Senator DeMint similarly notes that “the EDA has given taxpayers little return on their investment and instead become a slush fund for the well-connected” (2011). The EDA explicitly listed “partnership with Congress” as one of five management priorities in an October 2, 2008, address to EDA staff by then Deputy Assistant Secretary Ben Erulkar. According to a transcript of this address, Erulkar said, “We’ve done a lot to strengthen our partnership with Congress, as evidenced by the additional appropriations that have come our way.” He further notes, “[W]e will maintain close contact with Members of EDA’s authorizing and appropriating committees to ensure that EDA remains highly visible.”⁵ It is therefore no secret that the EDA’s senior leadership directs resources toward the appropriation of additional funds from Congress by nurturing relationships with those who can directly affect the agency’s budget.

In addition to the perverse incentives created within bureaucracy, the grants given to communities in need also create perverse incentives for the people they are ostensibly supposed to help—American Indians themselves. By supplying grant money and other forms of federal assistance that end up composing a large percentage of American Indians’ income, the state creates a “Samaritan’s dilemma” (see, for example, Buchanan 1975; Clark et al. 2005), wherein a donor intending to help those in need inadvertently increases the amount of need. In other words, by continually providing aid to those in poverty, we provide an incentive for them not to invest wisely or to become a self-starter because if they should do so, the aid will stop. This situation creates an incentive for aid recipients to remain wards of the state, dependent on government handouts to survive. As Claudia Williamson notes, aid can have a range of undesirable and unintended effects, including “creating dependency on aid, undermining local markets, destroying institutions, increasing conflict, increasing rent-seeking activities, and altering incentives to engage in less productive activities” (2009, 29).

The stated goal of economic development programs is to increase employment; underlying this goal is the related task of increasing productivity. Entrepreneurship can be productive, unproductive, and in some cases destructive (Baumol 1990; Murphy, Shleifer, and Vishny 1991; Boettke and Coyne 2003; Coyne and Leeson 2004). Entrepreneurs can seek profits by creating wealth or through rent seeking.

5. Transcript available at <http://www.eda.gov>.

Private-sector jobs create wealth; public-sector jobs do not. Worse, public-sector jobs are sometimes destructive.

The American Indian dependency on aid and government work is evident in data from the 2000 U.S. census. One indicator of dependence on government and the extent of unproductive entrepreneurship is the percentage of all jobs that are in the public sector. In many American Indian communities, this figure is higher than 50 percent, and some communities have as much as 82 percent of jobs in the public sector (U.S. Census Bureau 2000). This situation creates a powerful incentive to maintain government intervention on reservation lands. More intervention means more government jobs. The Bureau of Indian Affairs provides a count of the number of private- and public-sector jobs for American Indians in its biannual *American Indian Population and Labor Force Report*. These figures have unfortunately been available only in the past several years. Although firm conclusions cannot be drawn from such limited data, the available figures suggest the trend in public-sector jobs. Table 1 provides the gross percentage of private- and public-sector jobs on American Indian reservations and the growth rate of each. The data in the Bureau of Indian Affairs reports are striking. Public-sector jobs have grown, whereas private-sector jobs have diminished, so that as of 2005 public-sector jobs began to outnumber private-sector jobs.

With the government dollars flowing onto American Indian reservations for economic development projects comes the incentive for rent seeking. Gordon Tullock (1967, 1993) and Anne Krueger (1974) explain rent-seeking incentives and the economic impact of rent seeking. American Indians have used political means to obtain large sums of government money for aid and development projects on their reservations. As long as abundant rents are available to be sought, the incentive to undertake productive activity is reduced. Hence, resources are shifted from production to lobbying, and the entrepreneurial activities necessary for economic growth are diminished. Public job holders “profit” by rent seeking, so the more rents are available, the larger we should expect the public sector to grow as entrepreneurs seize the opportunity to acquire these available yet socially unproductive gains.

A recent study by the Harvard Project on American Indian Economic Development notes that American Indians involved in economic development planning

Table 1
Changing Proportion of Private-Sector and Public-Sector Jobs

Year	% Public-Sector Jobs	% Private-Sector Jobs	% Growth in Public-Sector Jobs	% Growth in Private-Sector Jobs
2001	36.36	63.64		
2003	44.03	55.97	21.72	-11.59
2005	54.70	45.30	37.29	-10.57

Source: Bureau of Indian Affairs n.d.

“were (and, in many cases, still are) grant seekers whose success was and is measured solely on the basis of how much federal largess they can direct toward their tribes” (2008, 113). The perverse incentives created by such a system only encourage further rent-seeking activities and institutionalize the idea that American Indians must continue to depend on the government for their survival. This system of bureaucracy, budget enlargement, and rent seeking has contributed to the lack of economic development on many American Indian reservations. In the absence of economic calculation, resource-allocation decisions must be made through the political process. However, this process creates perverse incentives that contribute to the persistence, if not the worsening, of the situation that the initial intervention was supposed to remedy.

Conclusions

Although state-led economic development efforts on American Indian reservations face fewer problems than international state-led economic development efforts, many American Indians’ economic status has not changed dramatically in the past five decades of funding. Several conclusions emerge from my inquiry into this situation.

First, economic development agencies’ inability to achieve their stated goals does not reflect a lack of resources. In spite of the great amount of resources—both financial and human—devoted to economic development over many decades, American Indians have not achieved the same levels of economic well-being as the rest of the U.S. population. Increases in resources committed to these goals have not corresponded to increases in economic well-being for American Indians. This disconnect implies that the solution to economic development is *not* allocation of more resources to the means already being employed. Instead, the means themselves must be altered in order to change the course of economic development on American Indian reservations. Second, knowledge distance is a more significant factor than geographic distance. Although American Indians live within U.S. borders, the U.S. government has been unable in general to stimulate growth on the reservations. The planners lack the relevant knowledge necessary to plan economic progress. The policy implication is that no matter how geographically close the targeted economic development area, economic growth cannot be planned from above. Third, to create incentives for productive entrepreneurship and to minimize unproductive rent seeking, economic development efforts need to focus on general rules instead of on microplanning. Such rules would allow for economic calculation and private entrepreneurship. The implication is that throwing more money at the problem without changing the “rules of the game” will not have the desired effect and, in fact, may have the opposite effect.

The EDA’s program is but one example among many of attempts to bring about economic development on American Indian lands. All state-led efforts suffer

from the same problems the EDA encounters. Though state handouts may appear to yield immediate benefits for American Indians, these short-run solutions come at the cost of long-run economic stagnation and the institutionalization of incentives inconsistent with entrepreneurship and, ultimately, economic growth and development. For American Indians to have the best environment to cultivate entrepreneurship and economic growth, a bottom-up approach directed by individuals living on reservation lands must replace the current method of top-down, state-directed, economic development planning. American Indians themselves have the capacity to remedy their current plight by using local knowledge and creative entrepreneurship.

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