Research on economic development efforts among 70 American Indian tribes, mostly in rural areas, yields information that may be applicable to rural areas generally. Local control matters—when decisions move into the hands of those whose future is at stake, the decision makers bear the consequences of their decisions, resulting in better decision making over time. Current trends in governmental devolution support the importance of local control. Local control must be backed up by effective institutions, which are characterized by four elements: stability in the rules themselves, depoliticizing day-to-day business decisions, depoliticizing dispute resolution, and bureaucratic structures and procedures that can get things done predictably and reliably. The significance of effective local institutions of governance rises dramatically as local control rises. Successful economic development requires strategic thinking, a systematic examination not only of assets and opportunities but of priorities and concerns characterized by long-term thinking, systemic thinking, and a broad societal focus. Good leadership is important. Good leaders are precipitators, breaking with past habits and establishing new kinds of behavior; they are conduits for information; they encourage leadership on the part of others; and they build governing institutions that are not themselves dependent on good leadership. Rural leadership training is needed, along with research-derived models of institutional structures that work best in particular community circumstance. (Contains 37 references.) (TD)
Enhancing Rural Leadership and Institutions

Stephen Cornell

My assigned topic in this paper is leadership and institutions and how we might improve both in rural America. However, a felt obligation to be fair to the reader (or listener) compels me to begin with a disclaimer. I like to think that I know something about institutions; I may know something about leadership, which is the trickier topic. But I cannot claim to know a great deal about rural America. Or perhaps I should say: I cannot claim to know a great deal about the parts of rural America that are probably of most concern to the participants in this conference.

Let me explain. Like many of those participants, I have spent much of my professional life studying economic development in rural parts of the United States. But unlike most of them—at least so I imagine—I have spent virtually all of that time looking at a distinctive set of cases: American Indian nations. The question that has organized much of my research energy and consulting work over the last ten to 15 years has been a rather simple but specialized one: why are some American Indian nations better at economic development than others? It is a straightforward question that has turned out to have some interestingly complex answers.

You may wonder, however, just what relevance Indian reservation economic development has for rural economic development more generally. After all, the focus of this conference is not Indian country, except to the extent that most of Indian country is both rural and poor. In fact, to some people, Indian reservations seem as if they are not really part of rural America at all but constitute another country altogether. I expect that a fair number of people think that much of what applies in the rest of rural America probably doesn’t apply on American Indian reservations, and vice versa. What might a student of reservation economic development have to offer at a conference such as this?

If that’s what you’re thinking, you’ve echoed certain of my own thoughts, some months ago, when Larry Meeker of the Federal Reserve Bank in Kansas City first asked me to write this paper. Indeed, that’s basically what I said to Larry: what do I know about economic development in rural America? I study development on Indian reservations, including some that aren’t even rural.

It took Larry a couple of tries to persuade me that there might be lessons in what I and my colleagues have learned about economic development on American Indian reservations, lessons that might be helpful in other, non-Indian, development situations. But Larry has read the work we’ve done; he thinks about these things a lot; and if he was convinced, then I had to figure there might be something to it. So here I am. But there’s a buyer beware clause in here: if I have any demonstrated expertise, it is not on rural development per se but on Indian reservation development. I’ve come around to Larry’s viewpoint, but you will have to be the judges of whether or not I’m right. What I can do in this paper is tell you what I and my colleagues in this...
work have seen and learned and identify the more general significance that—in my naivete—I think I can draw from our work. But ultimately, I do not know enough to tell just where you might find helpful resonances or “ahah!” moments. You’ll have to decide that for yourselves.

In what follows I’m going to do several things. First, I want to explore rather briefly the general topics of leadership and institutions and the role they play in economic development. Second, I am going to examine some of the most remarkable development stories currently being put together in rural America—or anywhere else, for that matter—stories that are transforming some of the poorest communities in the country into, if not economic powerhouses, at least viable, economically productive, hopeful places. And third, I am going to try to mine those stories for lessons about leadership and institutions that may be helpful to the development effort in other parts of the rural United States.

One thing I cannot do, however, here or anywhere else: evaluate the current state of leadership and institutions in rural America. This is simply beyond both my expertise and my research resources.

LEADERSHIP AND INSTITUTIONS
IN ECONOMIC DEVELOPMENT

Leadership gets a lot of attention in discussions of economic development, at least in Indian country. It is not uncommon to hear a tribal member, frustrated by the repeated banging of the head against the wall that constitutes so much of the development experience on some reservations, exclaim that “what we need is a real good leader!” or words to that effect.

This is understandable. The history of many Indian nations often is communicated as a history of leadership; figures such as Sitting Bull, Crazy Horse, Cochise, and numerous others loom large in the history of the first peoples of this land and typically are credited with nation-shaping or nation-saving deeds. It is hardly surprising that often desperately poor Indian nations might look to some as-yet-unidentified leaders to come up with the answers they have sought for so long. But the concern with leadership fits mainstream American culture as well, with its individualist ethos and its colloquial “great man” interpretations of history. We’re good at celebrating leadership, better yet at criticizing it, and often in search of it, and the rural development arena is no exception. Numerous commentaries and studies treat leadership as a critical element in the development puzzle, and are concerned about where leadership will come from (Shively 1997), whether it will be up to the challenge (Chiras and Herman 1997), or how to prepare it for the tasks at hand (Murray and Dunn 1996).

Unfortunately, we are not as good at saying just what leadership is or what it does. As Ronald Hustedde pointed out nearly a decade ago in a discussion of leadership and rural development, it is difficult enough to define leadership, “and even more difficult to practice it or teach it” (1991, p. 111). One of the things I hope to explore in this paper is what leadership concretely contributes to economic development.

Institutions are easier to think about because so much thinking has already been done. While there are plenty of big questions that remain to be answered about institutions, it is now well established that they are a critical, determining factor in the economic fortunes of human societies. From studies of both historical and contemporary economic growth across nations (Barro 1991; Egnal 1996; Knack and Keefer 1995; North 1990) to studies of international investment (La Porta et al. 1997, 1998), from studies of how communities can successfully manage common-property irrigation systems (Ostrom 1992) to the study of Chinese collective agriculture (Oberschall 1990), there has been a convergence in much of social science
around the theme that institutions—the authoritative rules societies put in place to organize individual and collective behavior—determine much of the ability of human societies at all levels to act effectively in pursuit of their purposes, including economic purposes (DiMaggio and Powell 1991). They matter through their relative capacity or incapacity for organizing cooperation, resolving conflicts, guiding action into productive channels, reducing free-riding by societal members and, more generally, getting things done.

Institutions have received a good deal of attention in the rural development literature in the United States as well, although at times the concern appears to be largely with the organization of development efforts—for example, with intergovernmental relationships, changing power distributions between national and local levels of government, or policy concentrations on certain sectors such as agriculture (Galston and Baehler 1995; Radin et al. 1996; Murray and Dunn 1996)—paying relatively little attention to the issue of how institutional structures shape behavior, including the behavior of investors. Part of my purpose in this paper is to point to some of the other institutional issues that rural developers face.

But first: the Indian case.

The Indian Reservation Development Context

Let's look for a minute at Indian country, a term of convenience that—if we depart slightly from its precise legal meaning—can be used to embrace both Indian reservations and other predominantly indigenous communities, such as Alaska Native villages, in the United States. First of all, it is hugely diverse. Just as the term “rural America” suggests a largely fictional commonality among rural places, so the term “Indian country” suggests a consistency among Indian places that is only partially the case. The full set of Indian reservations ranges from the Gila River Indian Community on the outskirts of Phoenix to the Pine Ridge Sioux Reservation in a rural region of South Dakota. Indian country includes tiny California rancherias with populations of under 100 and the Navajo Reservation with a population of close to 200,000. Natural resource endowments, social conditions, demographics, and cultural practices all vary enormously across Indian country. One of the important things these diverse places have in common, however, is a distinctive relationship with the federal government and with the United States that both constrains them—sometimes severely—in ways other communities in the country do not experience and, on occasion, offers them opportunities that other communities do not have.

The vast majority of them also share both a 20th century history and a 21st century present of poverty. We all know that, in recent decades, rural America as a whole has tended to lag behind the rest of the country economically, with generally higher rates of unemployment, lower wages, lower household income, and higher rates of poverty (Agriculture Fact Book 98; Murray and Dunn 1996; Radin et al. 1996). As we also know, this aggregate picture hides massive variation, from bright spots where economic development is vigorous and appears sustainable to areas where little is happening economically and little seems likely to happen any time soon (Fitchin 1991).

Most Indian reservations are part of rural America and fit this overall picture. They, too, lag behind the rest of the country on major economic indicators, and they, too, are various. But the degree to which they lag behind the rest of the country is dramatic: the aggregate pattern is far worse than it is for rural America as a whole.

By way of illustration: For administrative purposes, the federal Bureau of Indian Affairs (BIA) divides the United States into a number of “administrative areas.” Table 1 shows aggregate unemploy-
UNEMPLOYMENT RATES BY BUREAU OF INDIAN AFFAIRS (BIA) AREA, 1997

<table>
<thead>
<tr>
<th>BIA area</th>
<th>Unemployed as percent of labor force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen</td>
<td>71</td>
</tr>
<tr>
<td>Albuquerque</td>
<td>29</td>
</tr>
<tr>
<td>Anadarko</td>
<td>35</td>
</tr>
<tr>
<td>Billings</td>
<td>67</td>
</tr>
<tr>
<td>Eastern</td>
<td>53</td>
</tr>
<tr>
<td>Juneau</td>
<td>55</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>46</td>
</tr>
<tr>
<td>Muskogee</td>
<td>44</td>
</tr>
<tr>
<td>Navajo</td>
<td>58</td>
</tr>
<tr>
<td>Phoenix</td>
<td>47</td>
</tr>
<tr>
<td>Portland</td>
<td>53</td>
</tr>
<tr>
<td>Sacramento</td>
<td>47</td>
</tr>
</tbody>
</table>

Note: BIA labor force and unemployment estimates are given by reservation and aggregated by administrative area. Figures are self-reported by tribes and, given tribes' variable resources and capacities to gather such data and the inherent difficulty of gathering labor force data in large rural areas, are difficult to evaluate and should be used with caution. They nonetheless are useful indicators of the general state of reservation economies.

Source: Bureau of Indian Affairs 1997.

Clearly the overall picture is grim. In the Aberdeen and Billings areas, more than two-thirds
of the reservation labor force is unemployed, and even in the area with the lowest aggregate unemployment—Albuquerque—the percentage is still approaching one third. There is no reason to believe that in the last couple of years these numbers have significantly changed.

This is only one indicator; we could review others. For present purposes, suffice it to say that the unemployment indicator is hardly anomalous: taken as a whole, Indian reservations are much poorer not only than metropolitan America but than the rest of rural America as well. And they not only show high indicators of poverty; they also show high indices of many of the social problems that we normally associate with entrenched poverty: ill health, poor housing, crime, domestic violence, suicide, and so forth.

But the other characteristic of rural America that I've already noted is also true of Indian country: there is massive variation from the mean. On the one hand, there are some reservations with astonishingly high unemployment rates. For example, in 1997 unemployment at the Cheyenne River Sioux Reservation in the Dakotas was reported at 80 percent, 77 percent at Rocky Boy's in Montana, 62 percent at Red Lake Chippewa. On the other hand, the Jicarilla Apaches in New Mexico reported 15 percent unemployment, Cochiti Pueblo reported 7 percent, and the Grand Traverse Band of Ottawa and Chippewa Indians in Michigan reported no unemployment at all in its labor force of 2,200 people (Bureau of Indian Affairs 1997).

This variation is apparent not only in static, snapshot form but also longitudinally. Consider the 1980s. This is an interesting period to consider because it was a time when rural America in general was not doing well. The burst of rural population growth in the 1970s had run its course, returning rural America to the preceding, extended pattern of population loss, while rural poverty rates, after dropping through much of the 1970s, increased in the following decade (Rural Sociological Society 1993). It was a tough decade for Indian country as well, with the percentage of all reservation Indian adults with incomes in excess of the poverty rate falling, if not by much. But the variation was substantial. Table 2 shows changes in the percentage of adults with incomes in excess of BIA-determined poverty levels in the period from 1977 to 1989 for ten Indian reservations, chosen to illustrate the range.

The overall picture, then, conveys a compelling message: Indian country is poor, and often desperately so. But the variation within that picture likewise conveys a message: It is not uniformly poor, and the range of variation is high. To the social scientist, here is where the interest lies. The variation suggests that there's a story here, and perhaps an instructive one.

Some Stories

In fact, there is more than a single story here; there is a set of stories. Here are a few of them.

The Citizen Potawatomi Nation of Oklahoma is one of the striking success stories in Indian country today. In the mid-1970s, according to its current chairman, John Barrett, this tribe had $550 in the bank, high unemployment among tribal members, and no recent history of successful economic development. Twenty-five years later, as we enter the 21st century, the tribe owns the First National Bank of Shawnee, Oklahoma, as well as a number of retail and media enterprises in the region. It is a major regional employer that provides jobs not only for its own membership but for nonmembers as well. The most recent data I have, for 1997, show an unemployment rate of 10 percent—high enough, but dramatically lower than the average for Indian reservations. In 1997, only 16 percent of tribal members holding Potawatomi jobs were employed in the government sector (Bureau of Indian Affairs 1997). This is one of the lowest figures in the country for
Table 2

CHANGES IN POVERTY LEVELS ON SELECTED AMERICAN INDIAN RESERVATIONS, 1977-89

<table>
<thead>
<tr>
<th>Reservation</th>
<th>Percent change in income, 1977-89</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flathead (MT)</td>
<td>16</td>
</tr>
<tr>
<td>Ft. Apache (AZ)</td>
<td>12</td>
</tr>
<tr>
<td>Cochiti Pueblo (NM)</td>
<td>10</td>
</tr>
<tr>
<td>Mescalero (NM)</td>
<td>9</td>
</tr>
<tr>
<td>Muckleshoot (WA)</td>
<td>6</td>
</tr>
<tr>
<td>Pine Ridge (SD)</td>
<td>-1</td>
</tr>
<tr>
<td>San Carlos (AZ)</td>
<td>-7</td>
</tr>
<tr>
<td>Rosebud (SD)</td>
<td>-10</td>
</tr>
<tr>
<td>Yakama (WA)</td>
<td>-12</td>
</tr>
<tr>
<td>Northern Cheyenne (MT)</td>
<td>-15</td>
</tr>
<tr>
<td>All reservations</td>
<td>-1</td>
</tr>
</tbody>
</table>

Note: Change in income refers to the change in the percentage of adults with incomes in excess of BIA-determined poverty levels ($5,000 in 1977, $7,000 in 1989).

Source: Bureau of Indian Affairs 1989.

Indian reservations, suggesting significant productive economic activity. By Barrett’s account, the tribe has moved from pariah status (“lazy Indians”) to a position of recognized political and social power in the region.

In the 1960s, the Mississippi Band of Choctaw Indians—located in a poor region of eastern Mississippi and lacking significant natural resources or market access—was mired in poverty. Unemployment was close to 30 percent and less than half of Choctaw families were earning at least $1,000 a year. A third of adult Choctaws had no formal education; fewer than 10 percent had finished high school. The better educated members—particularly men—were steadily leaving the reservation for better economic opportunities elsewhere (Ferrara 1998). Today, the tribe has created more than 6,000 on-reservation jobs. Only a quarter of them are in tribal government; the rest are in productive enter-
prise, from manufacturing to service industries. The Choctaws have become the largest employer in east central Mississippi and one of the ten largest in the state. Every day, thousands of Mississippians—black and white—drive onto the Choctaw reservation to take jobs in Choctaw-owned and -operated businesses. Over the last decade, incomes in the Choctaw region of Mississippi have been rising faster than the state average, and unemployment has fallen to just over half the state average, thanks in large measure to Choctaw-led economic development. Importantly, the tribe has put together this impressive development record while maintaining a high degree of Choctaw language retention, even among young tribal members, and a continuing engagement with traditional cultural practices (Ferrara 1998; NCAI 1998, p. 8; U.S. Bureau of the Census 1993).

During the 1980s, as reservation economic conditions in general were deteriorating across Indian country, the White Mountain Apache Tribe in Arizona was a successful operator of nine tribally owned enterprises, including a ski resort, a trophy elk hunt, an aerospace manufacturing enterprise, and a major forest and sawmill operation. Their timber enterprise was among the most productive in the western United States, regularly outperforming Weyerhaeuser and other private operators, and they were managing their huge ponderosa pine forest for sustained multiple use. The tribe had become one of the economic anchors of east central Arizona. Its ski resort was filling motels in non-Indian towns during the previously slow winter months, and local chambers of commerce, when considering the economic future of the region, were looking to the Apaches as critical partners in planning and development. This is a striking turnaround in Indian-white relations in that part of Arizona, known for its history of violent conflict.

These stories are striking, but they are by no means the only ones of their kind in Indian country. A significant number of tribes have broken away from the long-standing pattern of reservation poverty, building productive and sustainable economies in the process. This phenomenon became especially notable in the 1980s, a decade in which federal support for Indian country was declining and unemployment among all reservation Indians rose (Bureau of Indian Affairs 1989). Among others, the Confederated Salish and Kootenai Tribes of the Flathead Reservation in Montana, the Confederated Tribes of the Warm Springs Reservation in Oregon, the Muckleshoots in Washington, and both Cochiti Pueblo and the Mescalero Apaches in New Mexico showed significant economic improvements during that decade (Cornell and Kalt 1992, p. 4). Only in the Muckleshoot case was gaming a major factor in economic growth in this period. And the trend has continued. In the 1990s, tribes such as the Grand Traverse Band of Ottawa and Chippewa Indians in Michigan, the Eastern Cherokees in North Carolina, the Gila River Indian Community in Arizona, and others have stepped aboard the development train.

To be sure, these stories do not constitute a majority of Indian nations—not by a long shot—but there are enough of them for us to talk seriously about a major change under way in Indian country: a significant group of Indian nations has broken away from the prevailing pattern of relentless poverty and hopelessness and is writing a new, dramatic, and hopeful chapter in rural economic development.

How might we account for these exceptions to the overall pattern?

A RESEARCH ENTERPRISE

A dozen years ago, an economist named Joseph Kalt and I decided to try to find out. We were at Harvard University, where Joe still teaches, and we shared some interests in the political economy of Indian country. We were aware that something was afoot out there: things were changing. Some of the
stories I've just related hadn't been written yet—they were under way—but there was growing evidence of this breakaway pattern. We wanted to find out what was going on. How could we account for it? Why were some Indian nations “better,” so to speak, at economic development than others were, and were the differences transferable?

This was an interesting question for obvious reasons but in part because some of our top-of-the-head answers didn't seem to fit the economic development evidence. In the 1980s a lot of common development wisdom assumed that those nations with good natural resources or good market access would be successful developers. But the Mississippi Choctaws, with very little in the way of natural resources and poor market access, were putting on a scintillating development performance, while the Crow Tribe of Montana, with perhaps the most lavish set of natural resources of any tribe in the country and crossed by a major interstate highway, was locked in the development doldrums.

Another assumption was that better education would lead to better development. But some of the most impressive development stories from the 1980s were being written by tribes with educational achievement below the reservation mean, including the White Mountain Apache Tribe in Arizona and the Mississippi Choctaws.

Another idea was that access to financial capital was a key element in getting development under way. But the tribes we were looking at seemed to say something else: what was important about them was that they appeared to be capable of attracting capital, not that they started out with it. Capital was clearly important, but something else preceded capital availability and facilitated access to dollars. Other tribes had difficulty persuading investors to invest, but these had solved the problem.

So we were intrigued. We started a research enterprise called the Harvard Project on American Indian Economic Development to see if we could find some answers. We used three research strategies: (1) systematic comparison of economic development policies and outcomes in a field sample of a dozen or so Indian nations, (2) statistical analysis of such data as we could assemble on the 70 largest tribes in the country, and (3) pro bono consulting projects carried out by graduate students on tribe-specific policy issues identified as critical by various Indian nations.

FINDINGS AND IMPLICATIONS

A number of results have emerged from this research. The following summary is not intended as comprehensive, although it includes much of what we've learned. It's purpose instead is to organize our findings in terms that seem applicable to other rural development situations. Some may confirm things that are strongly suspected—perhaps even well established—for rural America. Some may be new. But these are the ones that strike me, with limited knowledge beyond the Indian case, as helpful.

(1) Local control matters

In the Indian case, the issue is sovereignty: the right of Indian nations to control their own strategic decisions, resources, internal affairs, relationships with other sovereigns, and so forth—in short, to govern themselves. This is a matter, at one and the same time, of law (the legal right to self-rule), of policy (active federal support of that right), and of practice (tribal assertions of self-rule). After a dozen years of work on this topic, Harvard project researchers have been unable to find a single case of an Indian nation demonstrating sustained, positive economic performance in which somebody other than the Indian nation itself is making the major decisions about resource allocations, development strategy, and related matters.
This is supported by all of the cases I've outlined above. For example, the economic turnaround for the White Mountain Apache Tribe began when the tribe put itself in the driver's seat in reservation affairs. After years of federal control of tribal decision making, in the 1960s the Apaches moved aggressively to shift the federal government from a decision-making role to a resource role. As the tribe began to make its own decisions, assemble strategic plans that reflected its own priorities, and take responsibility for its own actions, its economic performance began—and continued—to improve.

In the case of rural economic development more generally, the issue is devolution: shifting decision-making power downward in the governance structure from federal and even state levels to regional and local levels. This is a major theme of the Integrated Rural Development and “new governance” paradigms (Murray and Dunn 1996; Radin et al. 1996), and it finds strong support from the Indian experience. The research evidence from Indian country, in fact, is unequivocal: the chances of sustained economic development decline rapidly the further decision-making moves from the community whose future is at stake.

The reasons for the importance of local control are several, not least the fact that local decision making puts the development agenda in local hands. David Lester, Executive Director of the Council of Energy Resource Tribes, once said that “economic development is about becoming what you want to be.” The corollary is that it is not about becoming what others want you to be. If so, then control over the development agenda is a crucial element in successful economic development.

But perhaps the most important reason for local control is simply the link between decisions and their consequences. Outsiders seldom bear the consequences of their decisions about the economic future of a community, and consequently there is little in the way of a dependable—i.e., disciplined—learning curve producing better decisions over time. When decisions move into the hands of those whose future is at stake, the decision makers themselves begin to bear the consequences of their decisions, reaping the rewards of good decisions and paying the price of bad ones. The result is that, over time, the quality of the decisions improves. This certainly has been the experience in Native America; there is little reason to believe it would not be the same elsewhere.

The local control finding has implications of its own, likewise supported by Indian country evidence. It is the reason why, other things equal, block grants make more sense than project funding; why the appropriate role for federal agencies in local development is not a decision-making role but a resource one; and why local-level capacity building is so important.

(2) Institutions matter

Devolving decision-making power to local communities has another implication, one that emerges clearly from the Indian development experience. Decision-making power that is not backed up by effective institutions of governance is unlikely to lead to sustained economic development. In other words, institutions matter, and in Indian country, they matter a great deal. The second finding that has emerged from this research is that sovereignty—local control—that is not backed up with effective institutions of governance is unlikely to yield sustainable economic development.

This is evident in the cases I've already discussed. John Barrett, chairman of the Citizen Potawatomi Nation, claims that the key to economic transformation in the Potawatomi case was reform in tribal governing institutions. Barrett tells how, in the 1970s, as a new member of the tribal council, he tried to persuade non-Indian businesses to relocate to poor Potawatomi communities. They were interested, he says, but they kept asking difficult ques-
tions. Do you have a legal code? Do you have a tribal court? What happens if I have a dispute with the tribe over how I do business? Will I be treated fairly in that court? What happens to my relationship with the tribe when there's a change in tribal administrations? Will my investment be secure? And so forth. Barrett returned to the tribal council with sobering news: we have got to reform our institutions if we're going to attract investment. It took a while, but eventually the tribe put in place the kinds of institutions that communicated to investors that the Citizen Potawatomi Nation was a safe and attractive place to invest. The result has been a transformation in tribal economic and social fortunes. More than 20 years after those early efforts, Barrett is crystal clear on what the lesson is: "If you're not talking about constitutional reform," he says, "you're not in the economic development ballgame."8

A number of factors joined together to produce the Mississippi Choctaw success story, among them skilled, assertive, and creative leadership; smart recruitment of potential investors; the tribe's vigorous and long-term focus on education, including tribal takeover of numerous educational services, leading to a much more educated and skilled labor force; and an insistence on tribal determination of strategic priorities and tribal control of reservation affairs. Also involved: political reorganization. The tribe undertook constitutional reform in the 1970s, leading to separations of powers, and made a major effort to professionalize and streamline the tribal bureaucracy. In essence, the Choctaws made themselves the most attractive place to invest in the region, with the result that not only have joint venture partners and other investors brought money and jobs onto the reservation, but tribal members are returning to the reservation in significant numbers (Ferrara 1998, p. 83).

"Institutions," writes Douglass North, who has contributed a great deal to our thinking on the topic, "are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (1990, p. 3). Effective institutions reduce uncertainty and bring stability into human relationships. Whether it's a commercial code, an independent court system, a reliable structure of governmental decision making, or a dependable system for implementing the decisions government makes, institutions make sustained, productive economic activity possible.

Our research suggests that, in Indian country at least, the institutional foundation of successful economic development is characterized by at least four elements. The first is stability in the rules themselves so that potential investors know the rules of the game won't change with changing administrations or local conditions. The second is depoliticizing day-to-day business decisions. Restricting political decision making to strategic issues while putting day-to-day business decisions in the hands of professionals separates constituent service to voters from fiduciary service to shareholders, thus increasing the chances of profitability (Jorgensen and Taylor 2000). In Indian country, at least, tribally owned and operated enterprises that are buffered from political interference by elected leaders are four times as likely to be profitable as those that aren't (Cornell and Kalt 1992). The third is depoliticizing dispute resolution. Indian nations that are able to establish genuinely independent, strong courts or other dispute resolution mechanisms do significantly better, other things equal, than those that have no such mechanisms. Our evidence shows that the depoliticization of dispute resolution has bottom-line effects on reservation unemployment (Cornell and Kalt 1992). The fourth element is bureaucratic structures and procedures that can get things done predictably and reliably.

Why are institutions so important? Institutions send a message to potential investors. If the message is positive (stability, depoliticized business management and dispute resolution, procedural reliability, etc.), the chances of investment rise. If the message is negative (the reverse of the above parenthetical), the chances of investment fall. And I should empha-
size that I intend here a broadly inclusive meaning of the term “investors,” embracing not only those with dollars but those with ideas, energy, time, or any other resource that can be an asset to development. Thus, local residents of only average means are as much potential investors in the future of their communities as anyone else is. Importantly, they are likely to make investment decisions on much the same basis as outsiders or as those with substantial financial means: where is my investment—of time, energy, ideas, or money—likely to be most productive and secure?

Institutions represent, in effect, a major part of the community’s answer to that question, and therefore are one of the central pivots on which development turns. Furthermore, the significance of effective local institutions of governance rises dramatically as local control rises. Devolution puts a premium on local institutional efficacy; without it, devolution simply leads to increased uncertainty for investors, who are asked to leave a realm of relative predictability (national institutions) to work in the unknown.

(3) Strategic thinking matters

Indian country has seldom been characterized by strategic thinking. There are good reasons for this. If political and economic control lies largely in the hands of outsiders, what’s the point of strategic thinking? Without the resources and powers necessary to implement a thought-through development strategy, why spend the time coming up with one?

Another reason is the often desperate economic and social conditions of many Indian reservations. Such conditions place enormous pressures on elected tribal leadership to “get something going.” The “something” can be almost anything, as long as it produces jobs. Faced with typically short terms of office, frequent political turnover, and an endless stream of petitioners looking for relief, tribal leaders tend to look for quick fixes for development problems. The development strategy, in effect, becomes band-aids and firefighting; it pursues whatever can be funded, typically via federal grants; pays less attention to sustaining businesses than to starting them; and puts a premium on hitting home runs instead of building economies incrementally. It also pays little attention to long-term goals, priorities, or concerns.

The alternative is strategic thinking: a systematic examination not only of assets and opportunities but of priorities and concerns. What kind of society do we hope to build? What do we want to change? What do we want to preserve or protect? What kinds of prices are we willing to pay for development, and what kinds of prices are we unwilling to pay? For example, many Indian nations vigorously pursue development options but are wary of those that might involve net losses in political sovereignty. Their strategic thinking has to take that into account. Others are concerned about environmental impacts, about significant increases in the numbers of nonmembers present on the reservation, about levels of indebtedness, and other issues. Unless such considerations are thought through, decision making occurs in a strategic vacuum, simply reacting to the pressures of the moment, the mood of the voters, the funding decisions made thousands of miles away by people with divergent interests and limited local knowledge.

A strategic approach to development involves a shift from reactive thinking to proactive thinking (focusing not only on circumstances but also on what we want to create); from short-term thinking to long-term thinking (looking not for quick fixes but for strategic development trajectories); from opportunistic thinking toward systemic thinking (asking not what can be funded but what fits our conception of our community); from a narrow problem focus to a broader societal focus (thinking not simply in terms of jobs and income but of the development of the community as a whole). Obviously communities have to deal with the hard real-
ties of opportunities and assets as well; not all strategic visions can be achieved. But this is not merely a visionary exercise, producing little more than cerebral popcorn (tastes great during the meeting but doesn't last long). Instead, it produces a set of concrete criteria by which development decisions and choices among options can be made.

Which is not to say that communities should not be opportunistic—it's to say that opportunism alone is a limited strategy. The larger picture matters. For example, the Grand Traverse Band of Ottawa and Chippewa Indians in Michigan—one of the more successful tribes in the country—took advantage of the 1988 Indian Gaming Regulatory Act to open a casino: certainly an opportunistic move. But what is interesting about the tribe's initiative is the strategic context within which they consciously acted. When I asked them in the early 1990s if they had an overall development strategy, their response was immediate: to use gaming revenues to build an economy that could survive the end of gaming revenues. This was not all there was to it—the tribe also had a sense of what kinds of economic activities it wanted to enter and could realistically consider; a sense of priorities regarding links between economic development and other community issues; and a thoughtful list of concerns that it needed to bear in mind as it moved forward. The point is that its move into gaming was neither conceived independently nor functioned separately from a larger conception of what the tribe was trying to do, how it wanted to go about it, and where the potential dangers lay. In this case, there was the potential federal prohibition of casino gaming on the one hand, leading to a shutdown, and the potential loosening of state-imposed gaming constraints on the other, leading to increased competition with non-Indian entities. The tribe's development thinking took both possibilities into account, and planned accordingly.\(^9\) The fact that the tribe went into gaming is unimportant to the present discussion. The point is not to pursue any particular strategy; it is to think strategically.

(4) Leadership matters

In case after case across Indian country, we have seen leadership playing a significant role in economic development, but that role is not everywhere the same, and leadership sometimes looks very different from one reservation to another. For example, the western Apache peoples have a long tradition of strong, charismatic leadership embodied in single individuals. Their indigenous governing structures—the ways they governed themselves under conditions of freedom—reflected that. They were relatively simple structures that put a great deal of power in the hands of single executives. The legislature or council was relatively weak, and there was no provision for an independent judicial system; dispute resolution rested largely in the hands of the leader.

The Lakota peoples of the northern Plains governed themselves very differently. They seldom concentrated power in the hands of a single person on more than a temporary or task-specific basis. Their executives served at the pleasure of a relatively powerful council—it was in essence a parliamentary system. There was a strong and politically independent judicial and law enforcement arm in the akicita or warrior societies, who were charged with making sure that the executives observed the law along with everyone else.

Leadership in these cases looked very different. The traditional Apache leader was something of an autocrat, while the Lakota leader had to be a consensus builder (Cornell and Kalt 1995). Leadership, according to these examples at least, is not a one-size-fits-all proposition.

These traditions continue to find support in Apache and Lakota communities today. The Apaches have a contemporary history of strong chief executives who serve for long periods and exercise enormous influence in reservation affairs. The Lakota, on the other hand, have been stuck with a set of contemporary governing institutions—
designed and imposed by outsiders—that are at significant odds with indigenous ideas about how authority ought to be organized and exercised. The current system is a strong chief executive system with weak legislative and judicial branches—nothing like traditional Lakota government—and the survival of Lakota tradition is apparent in its lack of legitimacy among tribal members. They do not feel it is their government, and it has difficulty mobilizing their energies for development or very much else.

Part of the problem this points to is institutional design: governing institutions need to have legitimacy if they are going to produce results. One way to establish legitimacy is to pay attention in the design of those institutions to what constituents believe is appropriate. But the other part of it has to do with leadership; leaders need legitimacy, too, or they will find themselves without any followers. Over the last 50 years, almost no chief executive has ever been re-elected on the Pine Ridge Sioux reservation in South Dakota, home to the Oglala Lakota people. On the White Mountain Apache Reservation in Arizona, one individual has served as tribal chairman for more than 20 of the last 30 years. Institutions and leadership work arm in arm.

But what do legitimate and effective leaders actually do in the economic development puzzle? Our evidence suggests several things.\(^\text{10}\)

They are precipitators. Over and over again, in tracing the history of the more economically successful Indian nations, we have run into accounts of times when some individual or small group of persons said, in effect, “Enough! We’re not doing things this way anymore!” This is what happened when the White Mountain Apache Tribe forced the federal government to relinquish the primary decision-making role on their reservation. It is what happened when the Mississippi Choctaws turned their attention to the reform of political institutions. And it is happening more and more frequently around Indian country today as a new generation of leaders turns its attention to escaping dependency on federal dollars and the constraints that dependency always brings with it.

In short, development frequently requires new kinds of behavior and new kinds of actions. Breaking with past habits or established ways of doing business often requires an innovator or a set of innovators willing to stick their necks out and do things differently. This is not intended to be a “great man” theory of history, but merely to recognize that new circumstances often demand new responses, and somebody has to start.

They are interpreters. In the 1980s, as bingo began to make its way into Indian country, the Mississippi Choctaws decided not to participate. There was no significant history of games of chance in Choctaw society and most Choctaws did not view gaming as an appropriate economic development strategy. Then, in 1988, Congress passed the Indian Gaming Regulatory Act. Throughout Indian country, gaming became not only a matter of economics but a matter of politics: entering the gaming industry became a demonstration of tribal sovereignty. Philip Martin, Chairman of the Mississippi Choctaw Tribe, presented it to his people in those terms and the attitude toward gaming changed. Today the Choctaw nation is a successful gaming tribe.

Leaders interpret circumstances, events, and opportunities to their people. The interpretations they make can have significant impacts on what communities are or are not willing to do.

They are conduits for information. When John Barrett of the Citizen Potawatomi Tribe discovered that investors wanted to see major institutional changes before they would bet on the Potawatomi future, he brought that information back to the nation. The information constituted a new perspective on economic development, one that put political institutions at the heart of the development process. In fact, Barrett was playing three leadership roles at
once: bringing new and important information to the tribe, interpreting rejection by investors not as anti-Potawatomi but as anti-instability and risk, and precipitating action by demanding change, by making clear that the tribe could not continue to act in the same old ways and expect to be economically successful.

They make themselves dispensable. We have worked with one tribe that has a long tradition of strong leaders and has been governed by one or two powerful individuals for the last couple of decades. Unfortunately, it also has a long history of underdeveloped governing institutions. Given that fact, the tribe has been lucky that the individuals who have led it have tended to be honest and capable. Eventually, however, the tribe chose a leader who attempted to turn the office to his own advantage. The problem the tribe faced was twofold: it had set up no institutional structures—rules, procedures, a court capable of enforcing them—that could protect the tribe from corrupt or incompetent leadership. And few other people had leadership experience and could step into the breach.

The most effective leaders, over the long haul, are those that (1) encourage leadership on the part of others, and (2) build governing institutions that are not themselves dependent on good leadership. In doing these two things, they make themselves dispensable, empower their communities, and make successful development more likely.

CONCLUSION

In reviewing our findings from Indian country, I have focused on four things: local control, effective institutions, strategic thinking, and leadership. But in fact, these are interrelated. Good governing institutions, for example, make local control effective; without them, it is toothless. And leadership is often what it takes if a community is to move from band-aids and firefighting to a strategic vision and plan of action.

How do you enhance both? As far as institutions are concerned, I have tried to make clear at least some of what distinguishes "good" or effective institutions from "bad" or ineffective ones. What we need is models to work with: institutional structures that work and clear indications of which ones work best in what sorts of community circumstances. This is in part a research task: we need systematic, comparative analysis that explores the three-way fit between communities, institutional structures, and circumstantial demands.

Leadership, as always, is harder to get a grip on. The fundamental task, I think, is educational. Leadership may be difficult to teach as an art, and it may be dependent to some degree on intangible qualities that some people have and some do not. But surely it can be taught as understanding and technique. Those who understand the critical role of institutions in economic development, for example, are more likely to take the lead in creating and defending them.

Having said all of this, however, I have to return to the disclaimer with which I began: my limited expertise prevents me from knowing just what, in all of it, might be most useful to the participants in this conference. Are our findings relevant? Or is the Indian country context too distinctive to produce transferable lessons?

Certainly the differences are substantial. Some are legal: Indian nations both enjoy a degree of sovereignty that not all other rural communities share and suffer from a degree of external political control that few other rural communities experience. Some are strategic: In their development decisions, most Indian nations attach a far higher degree of importance than other rural communities do to the maintenance and maximization of political autonomy and the protection of long-standing cultural practices and resources. Some are cultural: Language, kinship relations, some patterns of land use, collective identity, and other cultural differences can complicate the
development task. And some are historical: The embittering legacy of colonization, catastrophic violence, comprehensive land and resource loss, lethal attacks on indigenous culture, and rampant federal paternalism is itself a developmental obstacle that Indian nations struggle daily to overcome.

But there are similarities as well. For the most part, Indian nations in the United States are small, rural communities. Many of them, like other rural communities, have economic histories of massive, externally controlled resource extraction. They, too, have experienced significant demographic losses in the latter half of the 20th century, especially among the talented young. Like others, they face the uncertain impacts of a rapidly changing, global, technologically sophisticated economy. And like other parts of rural America, they are searching for the secrets of a particular kind of success: How do you create an increased measure of prosperity that does not, in the process of its achievement, destroy what you most value in your land, your community, and your way of life? The fact that some of them seem to have found those secrets is enough to suggest that we pay attention to what they've done.
ENDNOTES

1 In February 1998, the U.S. Supreme Court ruled that lands held by Native entities under the terms of the Alaska Native Claims Settlement Act (ANCSA) are not "Indian country." This in effect prevents Alaska tribes from exercising over ANCSA lands certain powers commonly exercised on reservation lands by Indian nations in the lower 48 states. See Alaska v. Native Village of Venetie Tribal Government, 118 S. Ct. 948 (1998). For discussion of the implications of this decision for Native peoples in Alaska, see Kendall-Miller 1998. On the legal meaning of the term "Indian country," see Pevar 1992.

2 The long-term trend, however, is unclear. As Nelson and Beyers (1998) note, the first half of the 1990s showed significant population growth in much of the rural West, including some relatively remote regions, with income and employment sometimes rising quite dramatically as well.

3 For some discussion of the White Mountain Apache case, see Cornell and Kalt 1995.


5 In his presentation at the Reservation Economic Summit (RES/99), Phoenix, Arizona, March 9, 1999.

6 This is the familiar principal-agent phenomenon in political economy. For discussion of the issue in one Indian development sector, see Krepps and Caves 1994; more generally, see Jensen and Meckling 1976.

7 Indeed, the Indian findings on local control—or what in the Indian case amounts to self-rule—are hardly anomalous. For interesting national-level examples from Eastern Europe, see Rona-Tas 1998, and Stark 1996.

8 This story is drawn largely from John Barrett's speech at the conference on "Building American Indian Nations for the 21st Century," Tucson, Arizona, November 12, 1999. The quotation is from my telephone conversation with Barrett, August 1999.

9 This account draws on my field notes from visits to the Grand Traverse Band in the early 1990s and subsequent conversations with tribal leaders.

10 The remainder of this section draws on Begay, Cornell, and Jorgensen, forthcoming.

REFERENCES


Enhancing Rural Leadership and Institutions


Enhancing Rural Leadership and Institutions: Discussion

Moderator: Larry Meeker

Mr. Meeker: We have time for one question, and then we'll take a break.

Joe Dudick, Rural Communities, Inc.: I have a question really for the panel. That is, how do we reestablish the ruling class, if you want to call it that, when the factor that killed off the ruling class is probably not going to change, and let me explain what I mean by that. When I was a kid growing up in a small rural community not too many years ago, we had three locally owned banks. The men that controlled the economic destiny lived in the community. We had a number of small, I'll call them “old economy” industries, manufacturing and that sort of thing, locally owned that created good family-sustaining jobs. This was before the age of the big box stores, so Main Street was loaded with lots of locally owned shops and businesses. These were the people that served on the library board and the school board that really set the agenda and had the vision for that community. People traveled to places, so they brought back ideas. They contributed money to, and helped raise money for, all of the things that were needed to keep that community viable. What's happened over the past quarter century across rural America, as a result of economic consolidation and globalization, is that those businesses, those banks, those stores, those manufacturing plants have either gone out of business because they couldn't compete or they've been bought up by somebody somewhere else, as was mentioned here, so those decisions as to that entity are now made by somebody in New York, or Zurich, or God knows where, with no commitment to that place. We're not going to turn the tide back on consolidation of the economy and globalization. In that regard, how can we reestablish that ruling class in rural communities across rural America?

Mr. Meeker: I'll let Steve respond to this and we'll have panel discussion later on.

Mr. Cornell: Well, it's bad to argue by anecdote, but as you were talking I was reminded of the story of Solidarity, the union in Poland that eventually ended in the collapse of the Communist Regime there, and it was started by a shipworker who leapt over the fence and yelled to the workers, “Let's do it differently!” His name was Lech Walenzo.

For one thing, you mentioned where the ideas come from and so forth. We've been hearing about telecommunication, and the Internet and so forth. The ideas are now available. We may not be fully wired in rural America, but increasingly, there are no boundaries on ideas. They're available and what we simply need are people who are willing to act on the basis of those ideas. And I personally think that can come from anywhere. And certainly we've seen that in communities where it's not always who you might have expected who eventually stand up and say, “Look, let's do things differently, and I'll get a group of people together and we'll talk about it, and we'll go talk to the other folks and make this thing happen.”

I think it's less a ruling-class notion than simply an idea of where do you find the innovators, and most people have the capacity to innovate. It just...
has to be released.

Mr. Meeker: Thank you very much. I think it's been an outstanding panel. We will break now and come back here sharp at 3:30 to conclude this panel session for the afternoon.
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