



# INVESTING IN INDIAN COUNTRY FOR A STRONGER AMERICA

## INTRODUCTION

Since the 1970s with the passage of federal policies reinforcing Indian self-determination and self-government, tribal leaders have dramatically improved conditions throughout Indian Country in terms of health<sup>18</sup>, education, entrepreneurship<sup>19</sup>, income<sup>20</sup>, and numerous aspects of physical infrastructure and human capital. However, considerable potential for economic growth remains because much of the economic and infrastructure improvement has stalled since 2010.<sup>21,22</sup> Fulfilling the federal trust responsibility is essential to realizing the economic potential of Indian Country. This FY 2018 Tribal Budget Request presents numerous opportunities for public investment in Indian Country by our partners in Congress and the Administration.

**THE FEDERAL TRUST RESPONSIBILITY:** Indian treaties have the same status as treaties with foreign nations, and because they are made under the US Constitution are “the supreme law of the land.” Treaties and laws have created a fundamental contract between Indian Nations and the United States: tribes ceded millions of acres of land that made the US what it is today, and in return tribes have the right of continued self-government and the right to exist as distinct peoples on their own lands. That fundamental contract – the federal trust relationship – ensures that tribal governments receive funding for basic governmental services. As governments, tribes must deliver a wide range of critical services, such as health, education, workforce development, first-responder, and public safety services, to their citizens. Federal funding that meets federal Indian treaty and trust obligations also provide significant contributions to tribal and surrounding regional economies.

## IMPORTANT ROLES FOR TRIBAL AND FEDERAL GOVERNMENTS

For Indian Country to make continued and sustained economic progress, federal and tribal governments have important responsibilities, including crafting broad public investment portfolios. Public investment is spending that provides benefits in the future and can fund core infrastructure, such as new highways or fund non-core investments, such as better-educated children. Tribes currently face decades of underinvestment in physical infrastructure as well as ongoing disparities in public and social services.

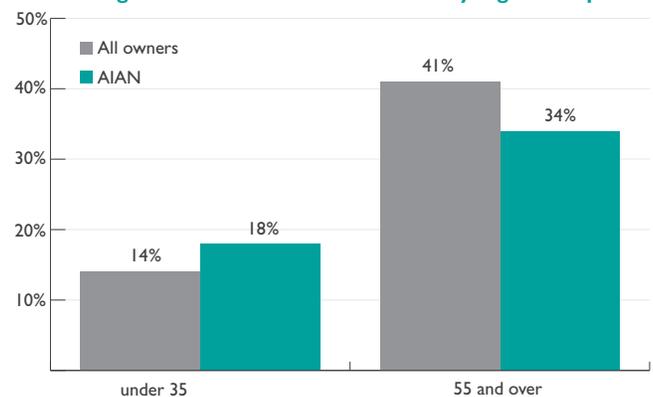
**TRIBAL GROWTH BENEFITS STATES AND REGIONS:** While the federal treaty and trust relationship calls for federal funding of education, healthcare, and other government services, upholding Indian treaty and trust obligations is also an important component of tribal and surrounding regional economies. Economists have found that tribal economic growth leads to economic growth in surrounding regions. In particular, too often throughout Indian Country, physical and human capital goes underutilized. When underutilized tribal land, infrastructure, and other capital are put to better use, such development adds to gross state product. Tribal economic activity produces regional multiplier impacts for the off-reservation economy.<sup>23</sup> Economic research on tribal colleges, timber, procurement, and casinos has shown direct, indirect, and induced impacts on gross regional product and employment.<sup>24</sup>

Well-functioning governments are essential to market economies. Governments provide local and national public and quasi-public goods that the private sector would otherwise under provide<sup>25</sup>, such as public safety and justice – essential for conducting business on reservations and tribal lands. In addition, federal and tribal governments fund public investments in core infrastructure, such as roads, bridges, and water and sanitation systems that provide high economic rates of return.<sup>26</sup> Such core infrastructure in Indian Country has faced insufficient public investment for decades. Additionally, governments must not neglect noncore public investments, such as early childhood education, early childcare, health care, and a range of human services, which provide at least as much of a near-term economic boost as core infrastructure.<sup>27</sup>

## TAKING STOCK

As an indicator of progress during the Indian self-determination era, entrepreneurship has grown in recent years, and Native business owners are younger compared to all business owners. The number of Native-owned businesses in the United States increased to more than a quarter million, an increase of 15.3 percent (or 36,228 American Indian/Alaska Native-owned businesses) between 2007 and 2012, with receipts from these businesses totaling \$38.8 billion.<sup>28</sup> The rate of increase in the number of Native-owned businesses of 15.3 percent was larger than the increase for all U.S. firms (2 percent). However, entrepreneurial parity is still yet to be realized. Setting the stage for continued private sector growth requires addressing the historic underinvestment in tribal infrastructure, educational institutions, Indian Country's public capital stock, as well as basic public services.

Figure 1: % of Business Owners by Age Group



Source: U.S. Small Business Administration, Office of Advocacy, Survey of Business Owners Facts, AIAN-Owned Businesses in the United States

Compared to all business owners, a larger share of American Indian and Alaska Native business owners are under age 35.

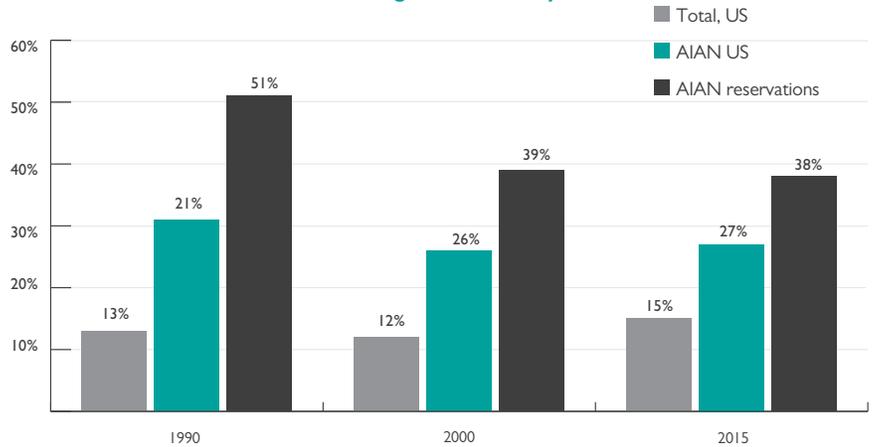
## NEED FOR CONTINUED ECONOMIC PROGRESS

Progress in social and economic conditions in recent decades includes reductions in poverty and increases in educational attainment (see figures below). While poverty rates for American Indians and Alaska Natives on and off tribal lands has decreased, disparities remain. On reservations, the poverty rate was 51 percent in 1990, but stood at 39 percent in 2000 and 38 percent in 2015.

### EDUCATIONAL ATTAINMENT:

Similarly, since 1980, the percent of Native people 25 or older with at least a bachelor’s degree has doubled to nearly 15 percent in 2013, but this figure is only half of the percentage of the bachelor’s degree attainment for the total population (nearly 30 percent). McKinsey Global Institute notes that the “extent to which a society utilizes its human potential is among the chief determinants of its prosperity” and that the underutilization of human potential is very costly to the United States.<sup>29</sup> For instance, if the performance gap between Black/Latino racial minority students and white students were eliminated, GDP in 2008 would have been between \$310 billion to \$525 billion higher.<sup>30</sup> Eliminating the Native student achievement gap would also contribute to economic improvements not only to Indian Country, but surrounding regions and states.

Figure 2: Poverty



Source: U.S. Census, 1990 Census, 2000 Census, 2015 American Community Survey 1-Year Estimates

Figure 3a: Percent 25 or Older with a Bachelors or Higher

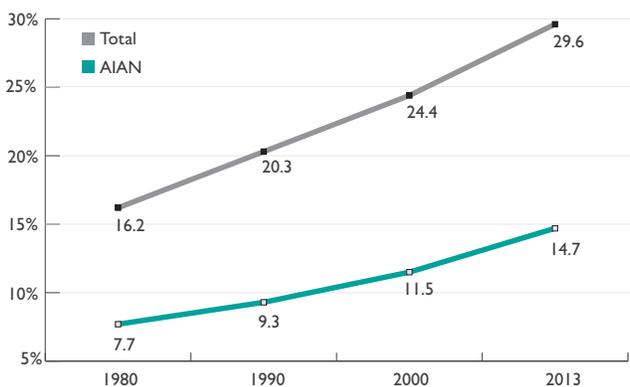
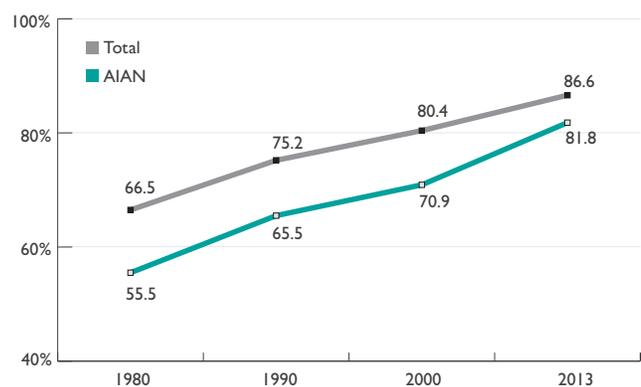


Figure 3b: Percent with High School or Higher



SOURCE: U.S. Department of Commerce, Bureau of the Census, 1980 Census, 1990 Decennial Census, Minority Economic Profiles; 2000 Decennial Census, Summary File 3; American Community Survey, 2008 and 2013

## STATE OF INFRASTRUCTURE IN INDIAN COUNTRY

**INDIAN COUNTRY IS INTEGRAL TO RURAL AMERICA:** Native people represent America’s most rural population. More than a third of American Indian/Alaska Native people live in rural areas, compared to one in five Americans.<sup>31</sup> The percentage of Natives that lived in rural places for all tribal areas (reservations and Alaska Native and Oklahoma statistical areas) was 72 percent in 2010, almost the inverse of the percent of all Americans (20 percent) that lived in rural places.<sup>32</sup>

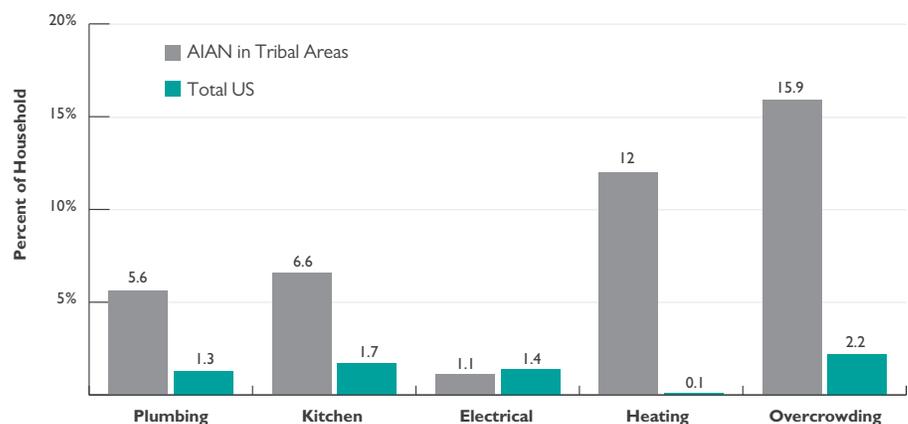
To address basic infrastructure needs, federal and tribal policy must address the lack of economies of scale that often benefits dense populations. Urban and rural America possess complementary assets and interdependencies that must be taken into account for well-considered public investments.

**INFRASTRUCTURE NEEDS:** Tribal governments and people face even more pronounced infrastructure challenges and economic obstacles than are evident in many rural communities. In Indian Country, unsafe and unreliable roads contribute to the alarmingly high rates of unintentional injury (including motor vehicle crashes), the leading cause of death among people aged 1-44.<sup>33</sup> Addressing the large backlog of deferred road maintenance in Indian Country is not only essential from a public health perspective, but also to the economic vitality of tribes and their surrounding regions. Deferred infrastructure maintenance represents a burden to future generations just as public debt does. Transportation infrastructure continues to be problematic and programs for road improvement are chronically under-funded by the federal government.

Housing also represents an area needing policy attention and investment. While most American housing policy now focuses on affordability problems, Indian Country housing conditions still require efforts to address basic physical deficiencies, such as in plumbing, heating, and kitchens.<sup>34</sup> As of the end of FY 2015 about 24,200 or 6 percent of all tribal homes lacked access to adequate sanitation facilities and about half of AI/AN homes needed some form of sanitation facilities improvements.<sup>35</sup>

Overall, a third of tribal households had one or more physical problems compared to just 7 percent for U.S. households, on average.<sup>36</sup> Not only is housing often substandard in Indian Country, but private-sector housing is often unavailable for principals, teachers, facility managers, public safety officers, and staff of Bureau of Indian Education (BIE) schools. The deferred maintenance backlog of BIE employee housing was \$107.8 million in the FY 2017 budget estimate, with more than three quarters of units in poor condition in 2014.<sup>37</sup> A lack of housing supply inhibits professionals who want to live and work in Indian Country.

**Figure 4: Housing Problems in Tribal Areas and United States**



Source: Urban Institute Household Survey 2013-2015. American Housing Survey, 2013

## TRIBAL SELF-DETERMINATION: KEY TO SUCCESSFUL PUBLIC INVESTMENT

**ECONOMIC POLICY OBJECTIVES OF PUBLIC SPENDING:** Public budgeting and public investment in Indian Country currently takes place in a highly decentralized fiscal system. Economists generally agree on the economic policy functions of the public budget, which is that the public sector should ensure efficient use of resources (allocation function for public goods and addressing market failures), establish equitable distribution (distribution function), and address macroeconomic problems of unemployment, inflation, and economic growth (stabilization function).<sup>38</sup> Federal funding of certain tribal programs upholds the federal treaty and trust obligations to tribes, but it also meets specific economic policy objectives of public budgeting.

**IMPORTANCE OF LOCAL DECISION-MAKING:** A decentralized public sector provides public goods that can be tailored to the preferences of communities, leading to improved efficiency of the allocation function for some public goods.<sup>39</sup> Self-determination contracts and self-governance compacts comprise an important component to the decentralized provision of public goods and leads to innovation as well as better sensitivity to varying needs in Indian Country. Tribal leaders are most aware of and responsive to public service needs at the local level.

Similar to other governments, tribes manage natural resources and electrical utilities, monitor environmental quality, operate schools and hospitals, build and maintain infrastructure, operate correctional facilities, administer social service programs, maintain water and sewer systems, and provide public housing. However, due to bureaucratic hurdles “tribal governments have to perform these functions in a legal environment that deprives them of the usual means of raising government funds.”<sup>40</sup>

Until a solution (federal legislative, regulatory, or state level solution) unburdens tribes from the bind of double taxation, federal funding will remain essential. The federal role is to uphold the federal trust responsibility as well as address a type of vertical imbalance due to double taxation.

**ECONOMIC CONTRIBUTIONS AND VALUE ADDED OF FEDERAL TREATY AND TRUST RESPONSIBILITY:**

Federal funding that meets federal Indian treaty and trust obligations also provide significant contributions to the economy. In just the Department of the Interior, the Bureau of Indian Affairs (BIA) and Bureau of Indian Education (BIE) “contribute substantially to economic growth in tribal areas through advances in infrastructure, strategic planning, improved practices of governance, and the development of human capital.”<sup>41</sup> In FY 2012, Indian Affairs “contributed over \$14 billion in value added, \$18 billion in economic activity and supported nearly 93,000 jobs, many of them on Indian lands.”<sup>42</sup> Value added is the contribution of an activity to overall Gross Domestic Product (GDP). Indian Affairs specific funding to support tribal governments provided value added of \$0.9 billion and economic contributions of \$1.2 billion. These estimates for GDP included energy, minerals, forestry, irrigation, support for tribal government, and loan guarantees. Education and public safety also provide significant social and economic benefits that are difficult to measure. Justice service programs provide economic benefits of: protection of property rights, support of health and safety, lower medical costs from crime, human capital development, and other positive spillover effects.<sup>43</sup>

**CONCLUSION: NOW IS THE TIME FOR PUBLIC INVESTMENTS IN INDIAN COUNTRY**

Modernizing Indian Country infrastructure and sustainably managing natural resources while ensuring the quality of human services, public safety, and education systems are all critical to strengthening tribal and the surrounding, often rural, economies. Indian Country has faced insufficient public investment for decades in housing, roads, education, criminal justice systems, water and sanitation systems, and human services.<sup>44</sup> Now is the time to address this historic underinvestment in Indian Country.

This NCAI FY 2018 Budget Request offers recommendations for ways the federal government, partnering with tribes, should meet the educational needs of Indian youth; provide adequate health care via the Indian Health Service, for both direct and self-governance tribes; ensure responsible resource development for the future; provide safe and secure tribal communities; and supply the long-term investments in tribal public infrastructure and services required to ensure every American Indian and Alaska Native enjoys a decent quality of life and has an opportunity to succeed.