Indian Lands, Indian Subsidies, and the Bureau of Indian Affairs

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Introduction

The federal government runs a large array of programs for the roughly 1 million American Indians who live on reservations. Many of the programs are housed within the Department of the Interior's Bureau of Indian Affairs (BIA) and Bureau of Indian Education (BIE). These two agencies have about 9,000 employees and spend $2.9 billion annually.1

Since the 1970s, the federal government has promoted Indian "self-determination," but tribes still receive federal subsidies and are burdened by layers of federal regulations. In addition, the government continues to oversee 55 million acres of land held in trust for Indians and tribes.2 Unfortunately, Indians who live on reservations are still very dependent on the federal government.

Indians and the federal government have a long, complex, and often sordid relationship. The government has taken many actions depriving Indians of their lands, resources, and freedom. A former top BIA official admitted that federal policies have sometimes been "ghastly," including the government's "futile and destructive efforts to annihilate Indian cultures."3

The BIA has administered federal Indian policies since 1824, and its history is marked by episodes of appalling mismanagement. Some of the BIA's scandals are reviewed here, including the Indian trust-fund mess that was recently resolved in a $3.4 billion legal settlement—after a century of federal bungling.

This essay also reviews the effects of two special regulatory regimes for Native Americans. One regime is tribal gaming, which has exploded in size since changes to federal law in the 1980s. A number of Indian tribes have become wealthy from casinos, but gaming has also spawned lobbying and litigation because special preferences are given to some tribes and not to other tribes or other Americans.

Another problematic regime discussed here is the system of procurement rules that Congress has created for Alaska Native Corporations. American Indians and Alaskan Natives have a unique history and a special relationship with the federal government. However, subsidies and regulatory preferences are not a good way to create broad-based and durable economic growth for these peoples. Subsidies are also inconsistent with the movement toward Indian self-determination. A better way to generate a lasting rise in Indian prosperity is to make institutional reforms to property rights and tribal governance on reservations. These reforms are discussed in the last section.

Brief History

The U.S. Constitution empowered the federal government to engage in relations with Indian tribes. The tribes have broad and general powers of government within reservation areas, subject to limitations imposed by the federal government. Reservations are generally independent of state and local government power, and Indian trust land is not subject to state and local taxation.

The federal government and Indian tribes have engaged in a complex struggle over the last two centuries, with Indians usually getting the short end of the stick. The aims of federal policies have gyrated wildly over the decades, and most policies have failed, as is evident from the continued high poverty rates on most reservations. Here is an overview of federal policies through the decades:

- 1777 to 1871: Federal relations with Indian tribes were centered on trading, wars, and treaty making. In an 1831 decision, the Supreme Court described tribes as "domestic dependent nations" that had broad latitude to create their own laws within tribal areas.4 In an 1832 decision, the Court ruled that only the federal government could regulate Indian affairs, not state governments.5 The federal government signed more than 400 Indian treaties during this period, with tribes usually receiving various payments and benefits in return for ceding land.6 State governments, settlers, and businesses pressured the federal government to seize Indian lands for their own use, and more than 100,000 Indians from the Southeast were pushed off of their lands and moved to reservations west of the Mississippi River.7
• 1871 to 1934: Congress ended making Indian treaties in 1871, and it adopted the policy of Indian assimilation under the Dawes or General Allotment Act in 1887. The Act aimed to reduce tribal power by dividing tribal lands into individual parcels. Between 1887 and 1934, Indian lands were dramatically reduced from 138 million acres to 48 million acres. Under the Dawes Act, the BIA was supposed to keep track of individual Indian land holdings and the income generated from the use of these lands, but it completely botched the job, which ultimately led to a $3.4 billion legal settlement in 2009.

• 1934 to 1953: The Meriam task force report in 1928 detailed the failure of the Dawes Act and federal Indian policies in general, and it helped to usher in the "Indian New Deal" of the 1930s. The 1934 Indian Reorganization Act secured remaining Indian lands in trust status and encouraged the development of tribal governments and tribal constitutions.

• 1953 to 1968: Congress reversed course and once again tried to assimilate Indians in a heavy-handed manner. The government ended federal recognition of more than 100 tribes, reduced tribal land holdings, and relocated Indians to urban areas.

• 1968 to today: The Indian Civil Rights Act of 1968 reversed the federal policy direction again, and launched a new era of Indian "self-determination." In recent decades, federal policies have generally aimed at facilitating tribal sovereignty or self-rule. Today, the government still controls many aspects of reservation life, but tribes have more flexibility in pursuing economic opportunities. However, "tribal sovereignty" is not the same thing as the sovereignty of Indian individuals, and reforms are still needed to enhance individual rights and improve the rule of law on reservations.

The 2010 Census found that there are 2.9 million American Indians and Alaskan Natives in the United States. Of this total, about 954,000, or 33 percent, live on Indian reservations and in Alaskan native villages. The largest reservation is the Navajo Nation, which covers 24,000 square miles and is inhabited by 176,000 people.

There are 565 federally recognized Indian tribes and native groups, including 340 in the lower 48 states and 225 in Alaska. The number of recognized tribes has increased in recent decades. Federal recognition gives tribes certain powers of self-government, access to federal subsidies, and gaming privileges.

The BIA and BIE cost federal taxpayers $2.9 billion in fiscal 2011. The agencies have about 9,000 employees, of which about 90 percent have Indian ancestry—apparently because of long-standing preferences in federal hiring. The agencies operate about 50 different subsidy programs, including programs for education, economic development, tribal courts, road maintenance, agriculture, and social services. The BIE provides primary and secondary education to 41,000 students in 183 schools.

Aside from the BIA and BIE, many other federal agencies have subsidy programs for American Indians. The Department of Health and Human Services houses the Indian Health Service, which has a budget of about $4 billion. The Department of Housing and Urban Development runs the Native American Housing Block Grant Program, which has a budget of about $800 million. And the Department of Education spends more than $300 million a year on BIE schools. However, this essay focuses mainly on the programs, policies, and management of the BIA and BIE.

A Legacy of Mismanagement

The federal government has had an agency dealing with Indian affairs for more than two centuries. In 1806, the Office of Indian Trade was created in the War Department. In 1824, that office was replaced by the Bureau of Indian Affairs, which was also known as the Office of Indian Affairs. In 1849, the office was transferred to the new Department of the Interior.

In the 19th century, the BIA ran America's first "welfare state." The welfare state included an administrative bureaucracy, numerous aid and subsidy activities, and various regulatory controls. Indian treaties usually provided various types of aid to tribes in exchange for their ceding of land. For example, between 1794 and 1871, more than 150 treaties were signed that provided teachers, schools, and other education benefits to tribes. By 1838, the federal government was running 93 Indian schools that had 3,700 students.

The federal government provided health services, food rations, infrastructure, and farm implements to Indian tribes. It provided courts and police to some reservations, and it made regular annuity payments to tribes as a part of treaties. In 1819, Congress began annual appropriations of $10,000 for a "civilization fund," part of which went to missionary groups to "civilize" Indians. Until 1822, the federal government provided subsidized goods to tribes through the "factory" trading system. The government also imposed numerous regulations, including controls on the fur trade and bans on Indian religious ceremonies.

Thus, today's Indian bureaucracy, spending programs, and regulations have a very long history. The number of BIA employees grew from 108 in 1852 to 3,900 by 1897. In addition to these regular employees, the BIA workforce included a large number of contractors such as translators, missionaries, and teachers. By the end of the 19th century, "the presence of the federal government, through the BIA, became the dominant force in reservation life." Unfortunately, that has been the case ever since.

The dominance of the BIA in Indian life has not produced good results. One reason is that the BIA has been inefficient, mismanaged, and sometimes corrupt since the beginning. Only four years after the 1824 creation of the BIA, the noted Indian expert H. R. Schoolcraft said: "The derangements in the fiscal affairs of the Indian department are in the extreme. One would think that appropriations had been handled with a pitchfork … there is a screw loose in the public machinery somewhere." In 1834, a House report investigating the department found that "its administration is expensive, inefficient, and irresponsible.

Fraud, corruption, and bribes were common in the BIA during some periods in the 19th century. One reason was because local BIA officials had substantial discretionary control over cash, goods, trading licenses, and other items handed out by the agency. In the years following the Civil War, "Indian rings" of government agents and contractors colluded to steal funds and supplies from taxpayers and the tribes. The New York Times railed against the "dishonesty which pervades the whole Bureau." And the newspaper argued that "the condition of the Indian service is simply shameful. It has long been notorious that rascally agents and contractors have connived to cheat the Indians. … It now appears that a ring has long existed in the Indian Bureau at Washington for the express purpose of covering up these
An essay in the Encyclopedia of North American Indian Wars notes that "substantial portions of the supplies and annuity payments owed to the tribes were routinely siphoned off by traders, in cooperation with corrupt federal Indian agents." Another essay in the Encyclopedia notes: "Often BIA officials charged with doling out aid to Native Americans engaged in thievery and chicanery, which only further antagonized the Native Americans. By the early 1860s the BIA was rife with corruption."

More than a century later, BIA management problems continued. A 1992 report from a House committee found "an appalling array of management and accountability failures" at the BIA. The report noted that "Schoolcraft's assessment of the BIA's financial management still rings true."

In 2011, the Department of the Interior's Inspector General (IG), Mary Kendall, testified to Congress about the "gross program inefficiencies at many levels of Indian Affairs and in tribal management of federal funds." The IG described, for example, how the BIA funded a fish hatchery at a reservation for 14 years and yet no fish were hatched. Eventually, a BIA official visited the reservation and found that the alleged hatchery was actually a real estate development that the tribes had been funneling taxpayer money into.

In another incident, the BIA spent $9 million for public ferryboat service in Alaska, but the money was redirected to a private tour boat operation. And in Montana in 2011, 10 people—including BIA employees—were indicted for a decade-long scheme that embezzled $1.2 million from a tribal lending program operated by the Fort Peck Tribe.

The IG found that in one BIA region, millions of dollars were wasted on road projects that were never competed. She noted that "internal management controls were so broken down that wage-grade employees were earning over $100,000 a year, with overtime, without explanation." On one of the road projects, $2.4 million had been spent, but the IG couldn't find any of the work that was supposed to have been done.

BIA's detention centers on reservations have suffered from severe mismanagement. The IG found that the BIA has "failed to provide safe and secure detention facilities throughout Indian Country. Our assessment revealed a long history of neglect and apathy on the part of BIA officials, which resulted in serious safety, security, and maintenance deficiencies at the majority of facilities we visited." After a 2004 IG report that called BIA detention centers a "national disgrace," spending was substantially increased. However, the IG reported in 2011 that "the state of these facilities remains largely unchanged."

Many federal agencies suffer from waste and inefficiency, but the BIA seems uniquely unresponsive to criticism. The IG routinely refers allegations of employee misconduct, such as fraud and theft, to the BIA, but the agency often fails to correct the abuses. The IG testified: "For many years, the BIA has demonstrated tremendous inefficiency and has poorly managed the matters that we refer to them for action."

Pork-barrel politics adds to the BIA's inefficiency. Michigan's wealthy Saginaw Chippewa tribe, for example, hit the jackpot after they hired infamous lobbyist Jack Abramoff and gave campaign contributions to former Senator Conrad Burns (R-MT) and other politicians. In his recent book, Abramoff brags about how he helped direct all kinds of subsidies to the tribe.

As with other types of federal subsidies, the best way to end the waste and mismanagement of Indian programs is to repeal them. Repealing Indian subsidies and closing down the BIA would be a logical end goal of the Indian self-determination movement. Of course, such a reform would be politically controversial and it seems unlikely to happen in the near term.

Meanwhile, a good reform to pursue would be to consolidate all BIA funding for each tribe into a single block grant of a fixed amount. That would give tribes an incentive to allocate and spend funds more efficiently, and would it prevent Congress from micromanaging Indian affairs or earmarking funds to favored tribes. The tribes would be able to use the block grants to provide tribal services in-house or to contract them out to local governments or businesses.

Federal policies have already moved in this direction. The 1975 Indian Self-Determination and Education Assistance Act, for example, allowed tribes to contract with the BIA to administer the delivery of some programs. Today, a substantial share of BIA funding is delivered to tribes through "self-determination contracts" and "self-governance compacts." However, the BIA bureaucracy still has 9,000 employees, so we are still a long way from full Indian self-governance.

It is true that the federal government signed many treaties with tribes promising various types of benefits. Treaties "established unique sets of rights, benefits, and conditions for the treaty-making tribes who agreed to cede of millions of acres of their homelands to the United States." However, Supreme Court decisions in the early 20th century "held that Congress has the power to modify or terminate Indian treaties without Indians' consent. These decisions opened the way for Congress to treat all Indians the same, regardless of the treaties they had signed." The Snyder Act of 1921 ended the delivery of the particular benefits specified in treaties. The Act unified federal benefits for the tribes, and made Indian social programs subject to the same congressional spending adjustments as other programs.

Another issue is that the federal government has a long-standing "trust responsibility" to Indian tribes. That means that while Congress holds ultimate power over tribal governments, it is supposed to consider the best interests of the tribes when it makes decisions. The BIA says that the trust responsibility is "a legally enforceable fiduciary obligation on the part of the United States to protect tribal treaty rights, lands, assets, and resources."

However, as the tribes move further toward self-governance, the trust responsibility becomes less relevant, as the Supreme Court has suggested. That is, as tribes gain greater control over their lands, natural resources, and trust funds, it becomes their own responsibility to manage them well, not the federal government's responsibility. It had long been understood that the BIA was supposed to "work itself out of a job" as it helped Indians become self-sufficient.

Indian advocates sometimes say that the federal trust responsibility includes not just the protection of Indian lands and resources, but the protection of subsidies as well—as if tribes should receive subsidies in perpetuity. But BIA expert Theodore Taylor noted that this is "loose use" of the trust idea that is factually incorrect, and that legally, Indian subsidies are "gratuitous" benefits that can be cut off whenever
Recent data show that the high spending continues. In 2010, total federal spending on BIE schools—including day schools and boarding schools—was 57 percent higher than average per-pupil spending on all U.S. public schools.

Indeed, the 2001 GAO report found that per-pupil spending on BIE primary and secondary day schools was 56 percent higher than average per-pupil spending on all U.S. public schools. The usual policymaker response to these problems has been to increase subsidies. But a funding shortfall does not seem to be the problem. The study found that BIE student scores on standardized tests was generally "far below the performance of students in public schools." In one prominent case during the 1960s, the BIA gave a major coal company a long-term mining lease on Navajo and Hopi lands and set the royalty rate at far below the market rate. That was bad enough, but when the contract came up for renewal in the 1980s, the Secretary of the Interior ignored a higher rate proposed by the tribes and secretly cut a deal with the company at a lower rate. The case was only recently settled after a lengthy court battle.

Dean Howard Smith, an expert on Indian policies, argues that "federal officials have been found to ignore the best interests of the tribes for which they are responsible for" when it comes to natural resources. He discusses the BIA's bungling with respect to timber harvesting:

> Since timber-harvesting activities were historically supervised by the BIA there is considerable bureaucratic red tape and opportunity for mismanagement. A government audit of Red Lake Chippewa of Minnesota discovered that the BIA had misplaced as much as $500,000 per year. In other instances, BIA timber sale accounts have not been balanced in over 70 years.

In another case, Smith says that the BIA leased timber owned by the Quinault tribe at only about 2 percent of the market value. He concludes that "forestry is a good example of how BIA over-regulation of Indian resources often interferes with reservation economic growth." Indeed, in places where Indian tribes have been given control over their timberlands, they appear to be more efficient managers than the BIA.

In 2004, a court-appointed investigator looking into BIA's handling of Indian trust lands found that it was standard practice for officials to negotiate deals giving energy companies access to Indian resources at a fraction of the market value. The Washington Post reported: "Special Master Alan L. Balaran said the Bush administration worked to thwart him beginning last summer after he uncovered a two-decades-old practice by Interior officials of negotiating leases with oil and gas companies that gave Indian landowners a small fraction of the royalties that private landowners received in similar deals."

Another problem with BIA control of Indian resources is that one-size-fits-all regulations may not allow tribes to optimize their income. A former BIA official described an absurd situation with regard to the leasing of Indian lands to outside farmers. At the time, regulations required that the BIA not lease Indian land at less than the appraised value. But in situations where no farmers were willing to pay that much, the land would go unused and the Indian landowners would receive nothing. In normal markets, a private landowner would simply negotiate a lower price, but Indians were not allowed to do that.

In sum, the BIA is a costly and unneeded middleman for Indian tribes that want to maximize the returns from their lands and resources. The federal government often hasn't cut fair deals for Indian tribes, and it puts too many bureaucratic obstacles in the way of resource development on Indian lands.

Indian Education

Since the earliest Indian treaties, the federal government has provided educational aid to tribes. In the 19th century, that aid included subsidizing religious groups to set up missions on reservations to "civilize" the Indians. It also included separating many Indian children from their parents and sending them to dozens of off-reservation federal boarding schools.

Today, most Indian children attend regular public schools and the federal government kicks in subsidies to local governments to help cover the costs. However, the federal government, through the Bureau of Indian Education, also owns 183 Indian schools, which have about 41,000 students. A large number of the students are in Arizona, New Mexico, South Dakota, and North Dakota. The BIE operates about one-third of these schools, and tribal governments operate the other two-thirds. Note that these Indian schools were transferred from the BIA to the new BIE in 2006.

Federal schools have long failed Indian children. In 1980, for example, the GAO found that, "BIA has failed over the years to provide Indians a quality education. … All of our reviews show that severe management problems have persisted for years." A 2001 GAO study found that BIA student scores on standardized tests was generally "far below the performance of students in public schools." The study found that BIE students had higher dropout rates, much lower scores on college admission tests, and much lower college entrance rates than students in public schools. More recently, a much higher share of BIE schools than public schools have failed to make "adequate yearly progress" under the No Child Left Behind law.

The usual policymakers response to these problems has been to increase subsidies. But a funding shortfall does not seem to be the problem with Indian education. Indeed, the 2001 GAO report found that per-pupil spending on BIE primary and secondary day schools was 56 percent higher than average per-pupil spending on all U.S. public schools.

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Indian self-determination is inconsistent with continued Indian dependence on the government for subsidies. Besides, Indian subsidies have similar negative economic effects as other government subsidies, such as farm subsidies and welfare subsidies. Subsidies reduce the incentive of recipients to pursue productive activities. As far back as the 1928 Meriam report, experts have observed that BIA subsidies reduced the incentive of Indians to work.
schools—was more than $1 billion, which included BIE spending of $736 million and Department of Education spending on BIE schools of $354 million. That works out to an enormous $26,585 per student in BIE schools. By comparison, average federal, state, and local spending on K–12 public schools in the United States in 2009 was $12,449.

Thus, BIE spending per pupil is more than double the spending per pupil in U.S. public schools, although that figure includes spending on BIE boarding schools, which are more costly than day schools. BIE funding does purchase substantial resources. The GAO reported, for example, that class sizes in BIE schools are generally smaller than in public schools and that BIE students had good access to computers.

Why do BIE students perform so poorly then? The economic situation of many Indian children is likely one negative factor, but the poor quality of federal management is surely another. For example, Indian schools have a long record of safety violations and student violence. A 2011 analysis by Interior's IG, Mary Kendall, found "deficiencies in school policies aimed at preventing violence, and substantial deficiencies in preventative and emergency safety procedures. As a result, many schools are dangerously unprepared to prevent violence and ensure the safety of students and staff." A recent two-year investigation of New Mexico's Indian schools found that "the BIA routinely wrote up potentially disastrous safety violations at Native American schools in New Mexico but then did nothing about them." A basic problem with BIE schools—and public schools in general—is that they are monopolies. In any industry, monopolies usually result in higher costs and lower quality, and education is no exception. As such, Cato Institute scholars support injecting competition into public school by allowing parents to allocate funding to the schools of their choice through either vouchers or tax credits. Such reforms should be considered for Indian reservations as well.

A good step toward reform would be to further Indian self-determination by ending the federal operation of schools and converting all BIE funding to block grants. Tribal governments would be allowed to use the block grants to competitively source the management of their schools or to pass through the funds to Indian parents in the form of vouchers. The important thing is to get Washington out of the business of running schools because decades of experience reveal that it isn't very good at it.

**Indian Gaming**

Indian casinos have multiplied across the nation in recent decades. Indian gaming began growing in the 1970s and 1980s as a result of the move toward tribal self-determination and favorable Supreme Court rulings. But it was the Indian Gaming Regulatory Act of 1988 that put in place the legal structure that has allowed for the explosion in tribal gaming. Federally recognized tribes are allowed to pursue gaming on Indian lands within those states that do not ban such gaming. "Indian lands" may include reservation lands and other lands owned by tribes. For Class III gaming—which includes slot machines and house-banked table games—tribes must enter into a "compact" or agreement with the state government.

The 1988 law aimed at promoting tribal economic development. It required that net revenues from tribal gaming operations be used to fund tribal programs and provide for the general welfare of tribe members. Tribes may also distribute net gaming revenues to individual tribal members under a plan approved by the BIA. The 1988 law also created the National Indian Gaming Commission (NIGC) within Interior to regulate gaming on Indian lands.

Revenues from Indian gaming exploded from $100 million in 1988, to $13 billion in 2001, to $27 billion in 2010. That is more than twice the annual revenue raised by all Nevada casinos. In 2009, 233 tribes—about 40 percent of all federally recognized tribes—operated 419 gaming operations. However, Indian gaming revenues are concentrated, with the top 5 percent of operations generating 39 percent of all revenues. Some tribes have paid members $15,000 or so a month in gaming profits.

The $27 billion generated from tribal gaming in 2009 dwarfs the $2.9 billion budget of the BIA. Federal taxpayers may wonder why they should have to pay for Indian subsidy programs when tribes are making that sort of cash. It seems particularly absurd that wealthy tribes receive federal hand-outs. Time profiled one "tribe" in California that had dwindled in size over time to a single individual. She partnered with a Las Vegas gaming company and opened an Indian casino on a stretch of desert near Palm Springs. At the same time, this single-member "tribe" was also able to haul in $1 million over a two-year period from various federal Indian subsidy programs.

The lucrative nature of Indian gaming has led to a rush for real and not-so-real tribes to get official federal recognition, and these efforts have sometimes been bankrolled by nontribal gambling businesses. The idea is to find "tribes" and "Indian lands" near major urban centers, given that casinos are a service industry. The owners of the world's largest casino, Foxwoods in Connecticut, are the Mashantucket Pequot tribe, which is a tribe that had disappeared until "Congress re-created it in 1983." The few Indians in this tribe never even lived together on a reservation.

Lobbying on Indian issues, such as seeking official tribal recognition, was the specialty of Jack Abramoff. Abramoff raised $80 million in fees from a half dozen tribal clients in the early 2000s. The tribes also gave millions of dollars to individuals and nonprofit groups that aided Abramoff in his lobbying battles. Some of the politicians who aided Abramoff in gaining favors for tribes included former Representatives Bob Ney (R-OH) and Tom DeLay (R-TX), and Senators and former Senators Thad Cochran (R-MI), Ben Nighthorse Campbell (R-CO), Harry Reid (D-NV), and Conrad Burns (R-MT), who received $150,000 in contributions from Abramoff. Abramoff called Reid his "secret weapon." Another secret weapon for Abramoff was Stephen Gries, a former Deputy Secretary of Interior under Bush. Abramoff, Ney, Gries, and others were convicted and served jail time for various illegals that they committed related to Indian lobbying.

Abramoff lobbied on tax and regulatory issues that would either help his tribal client or hurt a competitor tribe. For the Mississippi Choctaws, he helped defeat a tax on gaming, put the tribe's taxable lands into nontaxable status, exempted the tribe from NIGC regulation, and fought off tribal gaming competitors. Abramoff helped the Coushatta of Louisiana block potential tribal casinos in Texas, and he lobbied for the Agua Caliente of California, the Saginaw Chippewa's of Michigan, and the Tiguas of Texas.

At his lobbying peak, Abramoff was charging his tribal clients $150,000 a month, but he claims that most of his clients received benefits that were larger than that. Sometimes Abramoff lobbied to remove an unfair restriction on a tribe, while other times he lobbied to gain an advantage.
In cases like this, the effect of ANCs is to distort federal procurement by giving certain businesses an unfair advantage in winning contracts.

Aside from tax and regulatory changes, Abramoff also fought to win his clients federal spending subsidies. In his book, Abramoff describes how he won the wealthy Saginaw Chippewa tribe a range of benefits from federal subsidy programs. Interestingly, *Time* found that wealthy Indian tribes often manage to grab relatively more subsidies from the government than poor tribes. The reason may be that wealthy tribes have more resources to devote to lobbying.

Consider the wealthy Chocotaw tribe, which was Abramoff's most important Indian client. *Time* found that during 1997 to 2002, the Choctaws received $245 million in federal subsidies from about 70 different federal programs. During that period, the tribe was so bloated with gaming cash that it bought itself a $4.5 million corporate jet.

There is a great deal of lobbying surrounding Indian gaming because the regulatory scheme has created "rents" or above-normal profits for the lucky tribes. You can see the effects of this in the battles over tribal membership. On the one hand, some tiny Indian groups have added hundreds of dubious members in order to strengthen their case to gain official tribal status for a casino. On the other hand, some tribes that already have casinos have tried to purge their memberships in order to boost per-person gaming profits.

State governments have also fought for a share of Indian gaming profits, which they are able to do because tribes are required to enter compact agreements with them. Some state governments have given quasi-monopolies to certain tribes in their states, or in parts of their states, in order to maximize profits for the tribes and for the state coffers. Conferring exclusive benefits on certain tribes may also be a way for politicians to maximize their intake of campaign contributions.

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The good news about tribal gaming is that it has illustrated that Indians can be just as entrepreneurial as other Americans. And it has shown that Indians can lift themselves out of poverty if they can find good business opportunities. The bad news is that the current Indian gaming regime creates unequal treatment, and it has generated a large and wasteful lobbying industry. Another possible negative of tribal gaming is that while it has empowered tribal governments, it hasn't necessarily empowered individuals. One reason is that tribes have an incentive to hoard gaming profits and provide services to their tribal members rather than paying out the profits because individuals would face federal income tax on the payments.

The libertarian policy for gaming would be simply to repeal all government restrictions, and to treat gaming like any other industry. That would eliminate the above-normal profits and the related lobbying, and it would create a more equal and competitive playing field for Indians and non-Indians alike. Besides, as tribal and nontribal gaming continues to expand, the profit margins on tribal gaming are likely to decline. Indian gaming is thus not likely to be a stable platform for long-term economic development. A more durable strategy for Indian prosperity is to make pro-market reforms on reservations to encourage broad-based investment in a diversity of industries.

Alaska Native Corporations

Another economic development scheme based on preferential regulations is the procurement regime created for Alaska Native Corporations (ANCs). ANC preferences were carved into federal law with the help of a former Republican senator who was infamous for his pork-barrel politics: Alaska's Ted Stevens. ANC preferences have become a scandal-prone instrument of federal policy towards Native Americans.

Stevens helped create ANCs in 1971 as part of the Alaska Native Claims Settlement Act. In the 1980s and 1990s, the senator helped get new rules passed that gave ANCs special advantages in federal procurement under the Small Business Administration's Section 8(a) program. The rules allow ANCs to win no-bid federal contracts of any dollar amount without the usual competition between contractors.

ANCs are supposed to advance the general welfare of individuals in Alaskan tribes. However, an investigation by Senator Claire McCaskill (D-MO) found that ANCs provide relatively few benefits to individuals compared with the large size of ANC contracts that are being awarded. And while ANCs receive preferences under "small business" rules, a large share of ANCs contracts goes to a small number of large firms.

Unlike other small businesses that receive federal contracts, ANCs "can subcontract with businesses of any size. This privilege coupled with the sole-source privilege makes the firms attractive to contracting officers who may want to pass work through to a large government contractor." As a result, ANCs are sometimes little more than fronts for large nontribal corporations. One ANC on Alaska's Kodiak Island won a $28 million contract to replace windows on a federal building in Boston, but it contracted out 80 percent of the job to a firm in Alabama. Another ANC, which is owned by the Yup'ik Eskimos and Athabascan Indians, won a $57 million contract to build bridges in California, and then turned around and subcontracted two-thirds of the job to one of the world's largest construction companies.

Here is what the *Washington Post* found out about one ANC in 2011:

For years as a lawyer in Washington, Paralee White had helped small and disadvantaged firms break into the federal contracting market. Then she decided to help herself. She started a business and was soon making more than $500,000 a year through a contracting program intended to help poor Alaska natives, even though she isn't an Alaska native. White also helped her family. She hired her sister and brother, paying them as much as $280,000 a year. She helped her sister's boyfriend set up his own firm in partnership with Alaska natives. He made more than $500,000 a year.

Over several years, White and her associates landed more than $500 million in construction contracts for the Navy and other Pentagon departments, nearly all of them through an SBA program aimed at boosting Alaska native corporations. But less than 1 percent of that money made it back to the native-owned corporations.

In cases like this, the effect of ANCs is to distort federal procurement by giving certain businesses an unfair advantage in winning contracts.
In other cases, ANCs win contracts and keep them in-house even when they have little expertise in the activity. The effect is to steer federal work to possibly inferior businesses. As one example, a half-billion-dollar contract for scanning machines at U.S. border crossings was given to an ANC in 2002 that had little related experience. The established leaders in the scanning machine field were not allowed to bid on this project.

ANCs are becoming an important issue because they are no longer a small and obscure part of federal contracting. The value of federal contracts won by ANCs soared from $508 million in 2000 to $5.2 billion in 2008. Before the distortions caused by ANCs get any worse, federal policymakers should repeal these special contracting preferences.

**Indian Trust Fund Mess**

One of the more disturbing sagas in BIA’s history is the century-long mishandling of hundreds of thousands of trust accounts for individual Indians. The saga may be finally coming to an end with the $3.4 billion settlement in 2009 of the Cobell v. Salazar class-action lawsuit. However, it is worth reviewing because it reveals the BIA’s severe mismanagement and it sheds light on problems in the land-tenure system of Indian reservations.

The trust-fund scandal began with the 1887 General Allotment Act, which aimed at assimilating Indians by allotting tribal lands to individual tribe members. The Act ultimately led to the division of about 10 million acres of Indian lands into 40- to 320-acre parcels that were assigned to individual Indians. The government didn’t give control of the lands to individuals, but instead held the parcels in trust for them.

Much Indian land generates lease and royalty income from farming, mining, grazing, logging, oil and gas drilling, and other activities. The BIA was supposed to keep track of this income and allocate it to individual Indian trust accounts. But from the beginning, the government’s bookkeeping for Indian lands and trust accounts was a mess—the government failed to collect billions of dollars from the users of Indian lands, and the money that it did collect was allocated to the accounts in a haphazard manner.

The situation got worse over time. Indians generally didn’t use wills, and as each generation died their interests in trust lands were divided by probate among numerous heirs, with each receiving an undivided interest. The effect was to split the ownership of each land parcel between an increasing number of people over time—the lands became “fractionated.” Today, some parcels of Indian trust land have 1,000 different owners. The government currently collects about $400 million a year from the use of Indian trust lands.

The fractionation of land ownership has had at least two damaging effects on Indian welfare. The first is that it has reduced the productivity of Indian lands because it has made the leasing and selling of lands very difficult. The second is that it has made accounting for land interests increasingly difficult, with the result that individual Indians have lost billions of dollars of income over the years.

The BIA did a terrible job of accounting for Indian lands and the related income, but Congress deserves blame as well for not solving the problem earlier. A 1915 congressional report warned that the agency's poor accounting was leading to “fraud, corruption and institutional incompetence almost beyond the possibility of comprehension.” In reports dating back to the 1950s, the GAO discussed fractionated Indian trust lands, the undercollection of mineral royalties on Indian lands, and the BIA’s financial disarray. In 1960, the chairman of the House committee overseeing the BIA recognized the growing problem of fractionated land, but Congress didn’t address the problem.

Concern over BIA trust funds started increasing in the 1980s. The more that the GAO, private auditing firms, and Indian groups dug into the matter the more they realized that BIA’s management of the funds was a disaster. A 1989 Senate report found “fraud, corruption and mismanagement pervading the [trust management] institutions.” A 1992 House report examining the problem described the BIA with phrases such as “inexcusable slowness,” “utterly failed,” “affront to Congress,” and “dismal history of inaction and incompetence.”

Frustrated by the lack of BIA reforms, Congress created an Office of the Special Trustee for American Indians (OST) within Interior in 1994. However, the OST’s reform efforts were repeatedly blocked by Interior’s leaders. Department officials dug in their heels and resisted efforts to sort out the mess, and they misplaced and destroyed trust-related documents.

Elouise Cobell, a member of the Blackfeet tribe in Montana, led the charge to investigate federal mismanagement of Indian trust funds. She testified to Congress in 1995 that the “government now utilizes every possible mechanism of bureaucratic and legalistic delay, obfuscation and misrepresentation to prevent it from doing what it did from being made right.”

In 1996, Cobell was the lead plaintiff in the Cobell v. Babbitt (later Cobell v. Salazar) class-action lawsuit, which charged that the government failed its fiduciary duties in managing the trust funds. The purpose of the suit was to force the government to account for trust-fund monies, to replace lost monies, and to fix the broken trust-fund system. Cobell tenaciously kept on the offensive against the government until the historic 2009 legal settlement.

The case was initially presided over by Federal District Court Judge Royce Lamberth, who condemned the BIA’s ineptitude in handling the trust funds and its unresponsiveness to court orders. Interior Secretaries Bruce Babbitt and Gale Norton, and Treasury Secretary Robert Rubin, were held in contempt of court for their failures to comply with various orders. In a 1999 ruling, Lamberth said “it would be difficult to find a more historically mismanaged federal program than the Individual Indian Money (IIM) trust. … It is fiscal and governmental irresponsibility in its purest form.” In 2002, Lamberth proclaimed that the trust fund scandal “has served as the gold standard for mismanagement by the federal government for more than a century.”

The head of the OST from 1995 to 1999, Paul Homan, testified to Congress that “the vast majority of upper and middle level management at the Bureau of Indian Affairs were incompetent” during his tenure. He noted that even after years of rising concerns about trust-fund management, there had been “a near complete failure” to make reforms. Thomas Slonaker, head of the OST from 1999 to 2003, testified to Congress that the BIA cannot be reformed, defies the law, and does not “hold people accountable for their actions.”

The Cobell lawsuit was a 13-year battle that spanned 3 presidents, 7 trials, 10 appeals, and dozens of court opinions. While the government appears to have lost tens of billions of dollars of Indian monies, the Cobell team settled in 2009 for $3.4 billion. Of the total, $1.5 billion will be paid to a few hundred thousand Indian plaintiffs, and the other $1.9 billion will go into a fund to consolidate fractionated
Indian lands.

Today, there are about 267,000 Indians who have 4.1 million ownership interests in more than 10 million acres of Indian trust lands.\textsuperscript{123} Hopefully, the Cobell settlement will start to fix this fractionation problem because it is one factor that reduces the productivity of Indian lands and harms economic growth on reservations, which are topics discussed in the next section.

**Indianlands and Institutions**

Indians have lower income levels and higher poverty rates than other Americans. The median household income of American Indian and Alaskan Native (AIAN) households was $35,062 in 2010, compared with $50,046 for the overall U.S. population.\textsuperscript{124} The poverty rate of AIAN individuals was 27 percent in 2008, compared with 15 percent for the U.S. population.\textsuperscript{125} These figures include all AIAN individuals, but the economic situation of Indians living on reservations is typically worse than those living off of reservations.\textsuperscript{126} Indians’ low incomes and high poverty rates have persisted for decades, although the rise in gaming has changed the situation for some tribes.

Reservations have long been micromanaged by government subsidies and regulations, which have both suppressed private enterprise and private initiative. Another major problem on reservations are the shortcomings in legal and political institutions. Reservations often lack individual property rights in land, dependable security of contract for business dealings, efficient administration, and impartial legal proceedings. As a result, reservations often have underdeveloped commercial lending, real estate development, entrepreneurship, and business investment.

Land ownership on reservations is typically divided into three categories: fee simple, individual trust, and tribal trust. Fee simple means land that is privately owned by individuals. Individual trust means land allotted to tribal members but held in trust by the BIA. Tribal trust means land managed by the tribal bureaucracy and held in trust by the BIA.\textsuperscript{127} Trust land generally can’t be leased, mortgaged, or transferred without discretionary approval by the BIA, and land transactions usually need to go through cumbersome environmental reviews. Terry Anderson and Dominic Parker, who study tribal economies, estimate that land on Indian reservations is 75 percent tribal trust, 20 percent individual trust, and just 5 percent fee simple.\textsuperscript{128}

Trust lands on reservations are often “frozen capital” because they cannot be easily developed or used as collateral for loans. Anderson and Dean Lueck performed a statistical analysis on the different types of land on reservations.\textsuperscript{129} They found that individual trust lands were 30 to 40 percent less productive than fee simple land, while tribal trust lands were 80 to 90 percent less productive.\textsuperscript{130} Those are dramatic differences.

The low productivity of most land on reservations translates into a lower standard of living for Indians. Anderson says that when you drive through reservations and “you see 160 acres overgrazed and a house unfit for occupancy, you can be sure the title to the land is held by the federal government bureaucracy. In contrast, when you see irrigated land in cultivations with farm implements, a barn and a well-kept house, you can be sure the land is held fee simple.”\textsuperscript{131}

Some of the land inefficiencies on reservations stem from land fractionation, as already discussed. The 1867 Dawes Act set in motion a cascading problem whereby ownership of some land parcels has become ever more divided. With multiple owners, it is difficult to get agreement to develop or improve land. Today, there are 4.1 million fractionated interests in 99,000 land parcels on 10 million acres of Indian trust lands.\textsuperscript{132} Unless a tribe owns at least a majority interest in the fractionated tract, the tribe must seek the approval of other owners in order to lease the tract for economic development purposes. This need for approval has essentially stopped economic development on some tracts of land.\textsuperscript{133}

These problems have fostered a long time. A 1956 GAO report noted: “The complications which prevent the sale of fractionated interests in lands also prevent Indians from purchasing Indian-owned tracts for the purpose of consolidating their holdings into economic units for farming, grazing, or other purposes.”\textsuperscript{134} Even the leasing of trust land can be difficult: “The necessity of obtaining the signatures of many owners discourages potential lessees and may deprive Indians of income from the land.”\textsuperscript{135} Hopefully, the funds available from the Cobell settlement to consolidate land interests will begin to solve the problem.

Owners of individual trust land can decide to go through an administrative process to convert their land to fee-simple status. However, a long-time hurdle to such conversions is that trust land is exempt from state and local taxes while fee simple lands are not. The 1956 GAO report noted, “Indians are reluctant to voluntarily terminate the trust status of their lands because of the personal advantages accruing from the trust status to such Indians, such as exemption from real estate taxes on trust land, and the services rendered by the Bureau in connection with the management of Indian trust property usually without charge or with relatively low fees.”\textsuperscript{136}

There has been an increase in trust-land acreage in recent decades, partly because the tax exemption has encouraged tribes to buy land and convert it to trust status.\textsuperscript{137} The rise of Indian gaming has provided a new incentive to make such conversions.\textsuperscript{138} This “fee to trust” process—which is administered by the BIA—is causing concerns in many communities that are near Indian lands.\textsuperscript{139} Local governments, for example, object to the process because they lose part of their tax base.

There are other hurdles to the efficient development of Indian lands. Any business transaction dealing with Indian trust land can get bogged down by the BIA because it is responsible for title, probate, leasing, and other basic land functions.\textsuperscript{140} As far back as the 1950s, there have been backlogs in BIA’s processing of land transactions.\textsuperscript{141} And these days, land transactions often require costly environmental reviews, which many tribes cannot afford.\textsuperscript{142} Furthermore, acquiring rights-of-way on Indian trust lands is difficult, with the result that building infrastructure such as telecommunications, electricity, or gas facilities can be costly and time-consuming.\textsuperscript{143}

Indian prosperity also suffers from “rule of law” shortcomings on reservations. On most reservations, tribal courts have jurisdiction over certain civil and criminal matters. The problem is that these courts are often subservient to politicians on tribal councils, and the courts are sometimes perceived to be biased against outsiders. Also, “Indian tribes are immune from lawsuits unless they have waived their sovereign immunity in a clear and unequivocal manner or a federal treaty or law has expressly abrogated or limited tribal sovereign immunity.”\textsuperscript{144} These legal factors deter investment on reservations by both Indians and outside businesses. Terry Anderson notes, for
The importance of this problem can be estimated because not all reservations are subject to tribal judicial systems. Public Law 280, passed in 1953, required some tribes to turn over jurisdiction for civil disputes and criminal offenses to state governments. In those states, non-Indian plaintiffs can sue Indian defendants in state courts. About one-third of the 81 largest Indian reservations are under state judicial control.

Anderson and Parker analyzed the economies of these 81 reservations between 1969 and 1999, and they found that per-capita incomes on reservations under state jurisdiction grew about 30 percent more than incomes on other reservations. One explanation, say the authors, is that "non-Indian investors and contractors prefer the relative security of state jurisdiction" for settling business disputes.

By taking steps to strengthen the security of contracts, Indian reservations can attract more business investment. Stephen Cornell and Joseph Kalt, who are experts on Indian economic development, concur on this point. They studied features of tribal governments that explained differences in reservation prosperity. One of their findings is that tribes with judicial systems that are independent of tribal politics have better economic performance than other tribes.

Professor Jacob Levy has raised other issues regarding how the legal structures of Indian reservations may affect investment. He observes that "because reservation governments lack criminal jurisdiction over non-Indians, their ability to protect the safety of residents (Indian or non-Indian) is eroded by any influx of non-Indians." Consider that investments by outsiders would entail an inflow of non-Indian workers and consumers to businesses on reservations. That inflow would undermine the ability of tribal governments to protect the lives, limbs, and property of reservation residents. Inflows of outsiders would also "imperil the jurisdictional autonomy of reservation governments," Levy notes. The upshot is that tribal governments have an incentive to dissuade inward investment, a situation that creates a hurdle to Indian economic development.

A further hurdle to development is that tribal politics often interfere with business activities on reservations. Indeed, tribal politicians often try to stimulate development by "picking winners" and interfering with business decisions. However, that approach has usually failed. "Indian country is dotted with failed projects," notes Cornell and Kalt. Tribal officials are no better at picking winners that are federal officials, who have blown taxpayer money on boondoggles such as Solyndra. Rather than backing big tribal businesses, tribal governments should pursue institutional reforms to make the ground fertile for a diversity of entrepreneurs. As Jacob Levy describes, however, tribal government micromanagement of the economy will be a challenge to deter because tribes have legal and economic incentives to favor tribal enterprises over private enterprises on reservations.

Cornell and Kalt lament "the failure of a century of United States Indian policies that established the federal government as the primary decisionmaker in Indian country." Many experts agree with that assessment. However, the rise of tribal self-determination creates a risk that federal decisionmakers will be replaced by equally bad tribal decisionmakers. If "self-determination" simply means "tribal sovereignty," it won't lead to prosperity if tribal governments prove to be as harmful to individual freedom as the federal government has been.

One Indian scholar, Bill Yellowtail, argues that the real goal should not be "tribal sovereignty" but "Indian sovereignty—the autonomy of the Indian person." He means that Indians should be able to live "with the dignity of self-sufficiency, the right not to depend upon the white man, the government, or even the tribe." Yellowtail decries the "learned helplessness" or dependency of too many Indians today.

Cornell and Kalt argue strongly in favor of tribal sovereignty: "Nothing else has produced the success stories and broken the cycles of dependence on the federal system in the way that sovereignty ... has done." But they urge that tribes should use their expanded sovereignty to put in place sound political and legal institutions. Some tribes have done that, and they have prospered.

One of the historic reasons why the federal government variously exploited, coddled, and micromanaged Indians was because of the belief that they were primitive socialists with no understanding of market institutions such as property rights. But research has found that stereotype to be false. One recent study argues that "most if not all North American indigenous peoples had a strong belief in individual property rights and ownership." Various tribes in North America developed systems of property rights in farm lands, garden plots, horses, fishing streams, fur-trapping territories, hunting grounds, and other resources. Research has also found that Indians were very entrepreneurial and had extensive trading networks.

In sum, rather than subsidizing and regulating life on reservations, federal and tribal policymakers should focus on building a legal and economic environment to allow individual Indians to prosper. Congress and the tribes should focus on expanding individual property rights, making rule-of-law reforms, and removing barriers to investment and entrepreneurship. There has been progress in many Indian communities in recent decades, and with further reforms Indians could finally realize their full potential within the broader American economy.

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2. Bureau of Indian Affairs, "Who We Are," [http://bia.gov/WhoWeAre](http://bia.gov/WhoWeAre).


The Institute for Government Research issued the Meriam Report in 1928.

These numbers include only people who self-identified as Indians alone, not those with mixed heritage. Data from the 2010 Census is in this map: www.census.gov/geo/www/maps/aiann2010_wall_map/aiann_wall_map.html.


This is the count of programs in the Catalog of Federal Domestic Assistance at www.cfda.gov.


In an interesting 2010 book, Stephen Rockwell provides a different and minority view on this. He argues that the BIA and federal Indian policies were ultimately "effective" at Indian removal and other goals, even if the BIA was somewhat corrupt and the policies were unethical. See Stephen J. Rockwell, Indian Affairs and the Administrative State in the Nineteenth Century (Cambridge, UK: Cambridge University Press, 2010).


Mary L. Kendall, Acting Inspector General, Department of the Interior, testimony before the House Subcommittee on Technology,
Mary L. Kendall, Acting Inspector General, Department of the Interior, testimony before the House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and Procurement Reform, April 7, 2011.


The 1984 Presidential Commission on Indian Reservation Economies recommended replacing the BIA with an Indian Trust Services Administration that would protect Indian resources and deliver block grants to tribes. See Presidential Commission on Indian Reservation Economies, "Report and Recommendations to the President of the United States," 1984.


Some tribes and policymakers have recently expressed concern that federal rules are blocking energy developments on Indian lands. See Matthew Daly, "Indian Leader: Unleash Energy on Tribal Lands," Associated Press, January 27, 2011; and House Natural Resources Committee, "Obama Admin. Roadblocks on Indian Land Hamper Energy Development, Stifle Job Creation, Hurt Tribal Economies," press release, April 1, 2011.


"Mary L. Kendall, Acting Inspector General, Department of the Interior, testimony before the House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and Procurement Reform, April 7, 2011.


"Donald L. Bartlett and James B. Steele, "Indian Casinos Have Fallen Short of Benefiting the Wider Native American Population," Time, December 8, 2002.


96 However, Indian gaming would still have an advantage in open competition with nontribal gaming because it is generally tax-free while nontribal gaming is often heavily taxed.

97 For background on ANCs, see Michael Grabell and Jenifer LaFleur, "What are Alaska Native Corporations?" www.propublica.org, December 15, 2010.


112 For example, see Government Accountability Office, "BIA’s Tribal Trust Fund Account Reconciliation Results," GAO/AIMD-96-63, May 1996.


Elouise Cobell, testimony to the House Committee on Natural Resources, December 8, 2005.


Paul Homan, Former Special Trustee for American Indians, testimony before the Senate Committee on Indian Affairs, September 24, 2002.

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Mary L. Kendall, Acting Inspector General, Department of the Interior, testimony before the House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and Procurement Reform, April 7, 2011.

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For an example of the importance of land status to gaming, see Clifton Adcock, "Ruling Raises Stakes," Tulsa World, April 12, 2010.

For a summary of the issue, see "Land Into Trust" at www.citizensalliance.org.

Robert Chicks, National Congress of American Indians, testimony to the Senate Committee on Indian Affairs, October 4, 2007.


Robert Chicks, National Congress of American Indians, testimony to the Senate Committee on Indian Affairs, October 4, 2007.


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