CHAPTER TEN

Paternalism versus Sovereignty

The Long Run Economic Effects of the Indian Reorganization Act

Dustin Frye and Dominic P. Parker

Ever since U.S. Chief Justice John Marshall ruled in 1831 that American Indians are “wards” of the federal government, tribes have struggled to retain their independence and political sovereignty. The allotment era from 1887 to 1933 represents a low point in this struggle. During this era, millions of tribal acres were allotted to individuals, weakening tribal control over the land base and undermining local governance. The Indian Reorganization Act (IRA) of 1934 halted allotment, and it ostensibly provided a blueprint for tribes to regain sovereignty.

In this chapter, we argue that following the blueprint actually reduced tribal sovereignty, and it lowered average long run economic growth. To test our argument, we exploit the fact that the adoption of the IRA was voluntary and that each reservation had a limited time of 18 months to vote on whether or not to adopt the IRA. If adopted, IRA reservations had immediate access to funds through government revolving credit programs and they had government consulting resources available to them. As a consequence, the IRA adopters were subject to more administrative oversight from the Secretary of Interior and the Bureau of Indian Affairs (BIA) (Clow 1987; Philp 1999). On one hand, access to additional resources may have enabled some tribes to develop economic industries not feasible in the absence of formal federal support. On the other hand, the additional constraints limited the sovereignty of tribes and tied their economic fate to federal agencies lacking local knowledge and strong incentives to maximize local resources (Legters and Lyden 1994).
The upshot of this history is that tribes who did not adopt the IRA maintained their own tribal governments and constitutions, free from BIA oversight. This created two types of tribal governments across American Indian reservations. This chapter empirically measures the impact of these two different types of governance on recent and current reservation economic conditions by comparing IRA and non-IRA reservations. In doing so, we provide one of the first empirical accounts of this landmark legislation, which remains understudied despite Scudder Mekeel’s (1944, 217) appeal in 1944 for an evaluation of “the Indian Reorganization Act in terms of its social and economic effects on the various American Indian societies.”

The findings can be summarized as follows. First, there were higher rates of Bureau of Indian Affairs (BIA) involvement with the business affairs of IRA tribes when compared to non-IRA tribes after 1934 into the early 1990s. This finding lends quantitative support for qualitative concerns that the IRA would result in paternalism. Second, presumably as a consequence of BIA oversight, the average IRA tribe had weak economic growth through 1990, when compared to the average non-IRA tribe. The non-IRA tribes that forged their own governance path, however, experienced more volatility in long-run economic performance. This evidence suggests the IRA provided a “paternalism” blueprint that helped tribes avoid low-end outcomes, but suppressed robust success. By contrast, the “sovereignty” route was riskier, but it encouraged the kind of local entrepreneurship necessary for robust economic success.

The IRA and Federal Involvement in Indian Business

Congress passed the IRA, also known as the Howard-Wheeler Act, on June 18, 1934, for the purpose of restoring tribal self-governance, thus departing dramatically from the assimilationist policies that had dominated for nearly a century. By placing tribal resources under the trusteeship of the Secretary of the Interior and establishing a fund to help tribes restore their reservation land base, the IRA ended the allotment era. It also established a revolving credit account to give tribal governments and tribal corporations better access to credit (Carlson 1981).

Within 18 months after the passing of the IRA by Congress, each tribe voted on whether to accept the provisions of the IRA and enter into that governance regime, or to reject the provisions and craft their own governance regime. Prior to these votes, the BIA sponsored regional meetings intended to increase support for IRA acceptance on reservations. These meetings were attended by tribal representatives from each reservation...
and were one of the primary methods for learning about IRA benefits and structure. Each tribe that adopted the IRA was required to form a new tribal constitution or charter, although in practice some did not. These constitutions were reviewed and amended by the BIA, which, in many instances, resulted in the BIA imposing a model of tribal governance based on a corporate structure that differed from traditional tribal democratic systems (Rusco 2000).

The IRA voting results from 217 federally recognized reservations (see Haas 1947) indicate that 146 reservations adopted the provisions of the IRA and 71 elected to govern outside of the IRA. Figure 10.1 shows the spatial distribution of IRA and non-IRA reservations and reveals two patterns. First, the majority of reservations in the southwest and in the plains states voted in favor of the IRA. Outside those regions, the number of IRA adopting reservations was closer to the number of reservations rejecting it. Hence, IRA adoption was not strictly correlated with geographical location and often pairs of neighboring reservations voted for different governance. One such pair is the Crow Creek and Lower Brule reservations in South Dakota. Both reservations held contested elections and, despite only being separated by the Missouri River, they have been governed under two very different systems since the 1930s.

Prior to voting, tribal leaders debated the potential advantages and disadvantages to IRA adoption and raised questions about how the IRA

Figure 10.1. Map of Current Reservations by IRA Status
would work in practice. The debate centered on sovereignty and trust (or distrust) of the federal government’s motives, and whether it made sense to surrender authority over tribal affairs to the Secretary of Interior (Deloria 2002). The questions focused on which specific powers would be granted to IRA-adopting tribes and which specific powers were going to be reserved for the Secretary of Interior. For most tribes, the most attractive feature of the IRA was access to a revolving federal credit account that could be used for business development, expanding the reservation land base, and investments in education. In the midst of the Great Depression, when credit was tight, the potential to access funds for development projects was particularly alluring.4

Only as time passed, after IRA adoption, did it become clear that IRA reservations were in fact subject to much more administrative oversight from the Secretary of Interior and the BIA. This administrative oversight was executed in three ways. First, any transaction involving land and natural resources or state and local governments required the approval of the Secretary of Interior (Clow 1987). Despite the original intent of reestablishing sovereign tribal governments, the IRA ultimately granted the Secretary of Interior authority to review tribal resource use decisions and it effectively enabled BIA control over tribal resource governance (Michigan Law Review Association 1972). Second, many IRA reservations were required to draft new constitutions and business charters. These new constitutions transferred power to the Secretary of Interior by expanding the number of decisions that required approval (Clow 1987). Third, any tribal or corporate project using revolving credit funds was subject to close supervision from local BIA officials who were assigned to monitor the funds and minimize losses (Mekeel 1944).

Given these administrative barriers, some historians and legal scholars conclude that the IRA granted tribes a weak and limited form of sovereignty (Legters and Lyden 1994) and others claim that IRA reservations remained under federal government control despite the promise of self-rule (Furber 1990; Philp 1999). Lemont (2006), for example, claims that it was not until the early self-determination acts of the mid-1970s that IRA tribes truly gained authority over their own reservations.

How did this limited sovereignty manifest itself in the daily operations of tribal government? There are informative anecdotal accounts from tribal government meetings and related documents. These accounts reveal cases in which “Indian service personnel considered the new tribal governments … as mere advisory bodies to the Office of Indian Affairs” (Clow 1987, 132).
Young (1997) describes how the tribal councils of the Southern Ute and Ute Mountain reservations “often appeared as if they were not in control of their affairs” (120). He goes on to portray the federal government officials as dominating every aspect of the council meetings and exerting a severe degree of federal oversight. This type of hands-on approach was common among newly formed IRA tribal governments.

Historical data from annual press releases of the BIA allow us to measure its involvement and determine whether or not the anecdotes represent typical patterns of federal oversight over IRA tribes relative to non-IRA tribes. We measure BIA involvement with a particular tribe by comparing the incidents of press releases that name the tribe. This empirical measure assumes the BIA was involved in a project if the press release contains information regarding project development, management, or spending, as well as information on contract enforcement or resource management. The empirical measure excludes activity related to BIA staff positions and administrative changes, choosing to focus on projects that were occurring on the ground.

Comparing the rate of incidents (see table 10.1) we find that between 1953 and 1999, the BIA was involved in 7.83 projects on the average IRA reservation and 5.51 projects on the average non-IRA reservation. This suggests that BIA involvement was over 42 percent higher on IRA reservations compared to non-IRA reservations. When we examine the data by decade we find that this measure of BIA involvement has diminished over time. Prior to the self-determination laws of the mid-1970s, the number of projects that the BIA was involved with was substantially higher for both IRA and non-IRA reservations, with the BIA being involved in over 50 percent more projects on IRA reservations. This changes dramatically by the late-1970s when BIA involvement with projects falls, and the rate of involvement converges between IRA and non-IRA reservations.

<table>
<thead>
<tr>
<th></th>
<th>1950s</th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA</td>
<td>2.17</td>
<td>2.90</td>
<td>2.13</td>
<td>0.37</td>
<td>0.26</td>
<td>7.83</td>
</tr>
<tr>
<td>Non-IRA</td>
<td>1.72</td>
<td>1.70</td>
<td>1.70</td>
<td>0.33</td>
<td>0.07</td>
<td>5.51</td>
</tr>
</tbody>
</table>

Note: The calculations represent the authors’ calculations, based on 1953–1999 data, retrieved in December 2015, from BIA press releases published on www.bia.gov.
The Impacts of the IRA on Long Run Growth

How did the greater involvement of the federal government in tribal affairs after passage of the IRA affect long run growth? To address this question, it is useful to consult broader literatures on decentralization of governance and economic development (Bardhan 2002; Akai and Sakata 2002; Thorton 2007; Lin and Liu 2000) and on fiscal federalism (Oates 1999; McKinnon and Nechyba 1997). Both literatures articulate tradeoffs between centralized and decentralized governance, although the fiscal federalism literature is more focused on U.S. governance and the development literature is more international.

The literature points to several hypothesized advantages of decentralized government. One is that it is less costly for citizens (principals) to monitor and hold accountable public officials (agents) when those officials are local. It is also easier for citizens to create rules, laws and procedures that match local customs, culture, and norms through small units of government. By contrast, centralized governments are less responsive to—and less knowledgeable of—local heterogeneity in preferences and resources. Hence, centralized governments tend to impose one-size-fits-all standards and rules for local communities. Moreover, the transaction costs of dealing with decentralized governments on a routine basis can be much lower than those related to dealing with the bureaucracies of centralized governments (see Wilson 1989).

The advantages of centralization relate to scale and uniformity. Centralization facilitates policy coordination across jurisdictions and it enables scale economies when government provides goods and services. Centralization creates uniformity because a single set of rules—for example, constitutions, bylaws, and uniform codes—govern private activity for individual citizens and businesses. When rules are uniform, businesses and entrepreneurs know what to expect and do not have learn a separate set of rules for each jurisdiction they operate in. Relative to local governments, central governments also typically have access to a larger set of creditors (through taxation or borrowing) and hence can undertake larger projects.

For our setting, the literature described above suggests key tradeoffs with respect to having a relatively independent non-IRA government versus a relatively dependent IRA government. The key disadvantages of IRA government and BIA oversight are: 1) BIA agents may not understand local conditions and local resources sufficiently well to identify development projects that could realize high economic returns; 2) BIA agents are not held accountable by local electorates for pursuing bad development projects or failing to capitalize on good economic opportunities; and 3) because of high
transaction costs of getting plans approved, IRA tribes may be delayed in their attempts to capitalize on economic opportunities, particularly because the IRA constitutions did not put a time limit on bureaucratic approval (Clow 1987, 131).

The key advantages of IRA government and BIA oversight are: 1) IRA tribes have access to centralized funding sources unavailable to non-IRA tribes; 2) IRA tribes are perhaps better connected to a uniform network of Department of Interior resources and potential business partners; and 3) IRA tribes were given a uniform template for governmental design that may have eased the transition into self-governance. These potential advantages of BIA oversight via the IRA were likely most beneficial to tribes that were (or are) relatively dysfunctional. For those tribes in particular, IRA oversight could conceivably help tribes avoid a worst-case scenario in which no credit can be attained, and in which the tribe cannot collectively agree on self-governance rules.

Based on the tradeoffs outlined here, two hypotheses follow regarding empirical comparisons of long-run economic growth between IRA and non-IRA tribes.

- Hypothesis 1: IRA oversight stunted long run economic growth, on average, for tribes governed by the IRA.
- Hypothesis 2: IRA oversight also compressed variation in economic growth among IRA tribes by discouraging both low and high-end levels of growth.

To assess the theoretical ideas just described we have compiled data on American Indian reservation level incomes from two sources. To measure income at the time the IRA was passed, we collected 1938 income data from Bureau of Indian Affairs reports from the U.S. National Archives. The year 1938 is the closest year to 1935 for which we were able to find comprehensive income data. We consider 1938 a good proxy for 1935 income, and we doubt substantial growth occurred during this short window of depression era time. The 1980, 1990, and 2000 data come from decadal U.S. Census reports. To this we add 2010 data from American Community Surveys. We adjust all income variables for the CPI, and present the data in 2010 dollars.

Isolating the Causal Effect of IRA Adoption

Our approach assumes that the mean performance of non-IRA reservations represents a valid counterfactual for how economic outcomes would have
otherwise unfolded for IRA tribes. Therefore, all of our comparisons of IRA and non-IRA reservation-level growth control for 1938 income, to account for any systematic differences in starting income across the two groups.

In-state comparisons account for systematic geographical differences in the location of IRA and non-IRA reservations by holding constant some of the systematic differences in regional economic activity since the 1930s that are unrelated to IRA governance. This focuses attention on differences in growth between IRA and non-IRA reservations within seven states—California, Idaho, Montana, North Dakota, Oregon, South Dakota, and Washington.

Using non-IRA reservations as a counterfactual necessitates accounting for any systematic self-selection of tribes into IRA governance. The main selection bias concern is that tribes selecting into the IRA were fundamentally ill-suited for robust long run growth. For example, poorly organized tribes in 1934 may have adopted the IRA because of the high organization costs associated with forming their own constitution and government structure. This organizational dysfunction might persist through time and impair contemporary economic development. Alternatively, tribes that adopted the IRA may have been better suited for long-run growth if the BIA selectively promoted the IRA to a subset of tribes it thought were good candidates for success (Lemont 2006).

To identify a subsample of IRA and non-IRA tribes for which self-selection biases are likely small, we employ data on IRA vote tallies from Haas (1947). Using these data, we construct an index measuring the ‘closeness’ of the voting outcome. The index is: (yes – no)/eligible voters. As the index approaches 0, the vote becomes closer.

In some empirical tests, we confine the sample of reservations to those for which the voting index is between -0.4 and 0.4. This subsample eliminates tribes who voted strongly in favor or strongly against IRA governance. The subsample therefore constrains our comparisons to the set of tribes who would have chosen an alternative governance regime if just a few families had voted differently. Hence, the different voting outcomes (and choice of IRA governance) in this subsample reflect only differences in preferences across a few families rather than systematic differences in preferences across entire tribes. For this reason, comparisons of growth across IRA and non-IRA tribes within this subsample more credibly isolate the causal effects of the IRA.

Figure 10.2 illustrates our sample restrictions. The most restrictive comparisons focus on differences between IRA and non-IRA reservations within states, for the subset of reservations with a voting index between -0.4 and 0.4. These comparisons are confined to reservations in Washington, South Dakota, Montana, Idaho, and California.
Notes: Reservations to the right of the dashed line adopted the IRA and hence have a voting index greater than zero. The solid vertical lines contain the sub-sample of reservations with “close” IRA votes (e.g., those with a vote index between -0.4 and 0.4).

Table 10.2 presents evidence that the state and voting index sample restrictions help balance mean 1938 per capita incomes across IRA and non-IRA reservations and hence help to construct a more valid counterfactual set of reservations. Column 1 presents results from the following cross-sectional regression equation:

\[\text{pre-IRA pci}_r = \alpha + \beta \text{(IRA)}_r + \epsilon_r\]

Here the notation \(r\) indicates a reservation and the notation \(\text{IRA}\) is an indicator for an IRA tribe. Column 2 includes state fixed effects, forcing the within-state comparisons described above. Column 3 restricts the sample to only those 55 reservations with a “close” vote\(^{10}\) and column 4 employs the restricted voting sample including state fixed effects.

The results in table 10.2 show that the sample restrictions eliminate systematic differences in pre-IRA income means. Column 1 indicates that IRA
reservations had average incomes that were $444.9 smaller than non-IRA reservations. The differences in mean incomes are not statistically significant, however, once we add sample restriction in columns 2 and 3. With these added restrictions in column 4, mean incomes are actually $145.3 higher on IRA reservations, but this coefficient is effectively zero with a standard error that is nearly three times larger than the coefficient.

### Long-Run Growth Comparisons

To assess the potential impact of the IRA on long run income growth, we begin by focusing on the 1938 to 1980 time period. This period pre-dates two landmark pieces of legislation during the 1980s: the Indian Gaming Regulatory Act and the Indian Self-Determination and Education Assistance Act, both of which reduced BIA oversight for tribes (see Dippel 2014). This reduced oversight should have disproportionately benefitted IRA tribes if our theory about the negative impacts of IRA paternalism on average growth is correct.

The histograms in figure 10.3 summarize average annual per capita income growth for the period 1938 to 1980. They provide visual evidence that mean and standard deviations were higher on non-IRA reservations, especially if we focus on panels C-F. For IRA reservations with close votes, the mean annual growth rate was 3.26 percent with a standard deviation of 0.86 (panel D). This compares to a mean growth rate of 3.52 for non-IRA reservations with a standard deviation of 1.07 (panel C). For IRA reservations in states with both types of reservations, the mean growth rate was 2.79 with a standard deviation of only 0.48 (panel F). This compares to a mean growth rate of 3.31 for non-IRA reservations with a standard deviation of 0.87 (panel E).

The figure 10.3 histograms provide visual evidence consistent with our theory of IRA governance. In general, reservations governed by the IRA
experienced more modest growth than their non-IRA comparison groups during the 1938–1980 period. The IRA set of reservations also had relatively compressed growth percentages. In panel F sample, none of the IRA reservations grew faster than 4 percent or slower than 1.5 percent. By contrast, 28 percent of the IRA reservations experienced growth faster than 5 percent and a few non-IRA reservations experienced growth slower than 1.5 percent (see panel E). These visual results are consistent with our theoretical reasoning that paternalism through IRA governance prevented low-end, and especially high end, economic development.

To more rigorously test for differences in mean growth across IRA and non-IRA reservations, we employ a regression model that allows us to control for the level of income in 1938. The dependent variable is average annual growth, as illustrated along the horizontal axis in figure 10.3. Table 10.3 shows the results. Column 1 utilizes the full sample, column 2 adds state fixed effects, column 3 employs the subsample of reservations with close votes, and column 4 adds state fixed effects to that subsample. In all cases, the mean

![Histograms of Average Annual Growth for IRA and Non-IRA Reservations, 1938–1980](image)

Notes: The horizontal axis shows average annual growth, in percentage points. The vertical axis shows the percentage of observations in each bin. The line with curvature shows the kernel density plots.
Table 10.3. OLS Regressions of Per Capita Income Growth, 1938–1980

<table>
<thead>
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<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA Indicator</td>
<td>-0.584***</td>
<td>-0.467*</td>
<td>-0.628***</td>
<td>-0.582*</td>
</tr>
<tr>
<td></td>
<td>(0.184)</td>
<td>(0.234)</td>
<td>(0.205)</td>
<td>(0.334)</td>
</tr>
<tr>
<td>1938 Per Capita</td>
<td>-0.0008***</td>
<td>-0.0008***</td>
<td>-0.0009***</td>
<td>-0.0008***</td>
</tr>
<tr>
<td>Inc.</td>
<td>(0.00007)</td>
<td>(0.00008)</td>
<td>(0.00010)</td>
<td>(0.00010)</td>
</tr>
<tr>
<td>State Fixed Effects</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>“Close” Vote Restriction</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>N (reservations)</td>
<td>69</td>
<td>69</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Adj. R2</td>
<td>0.642</td>
<td>0.716</td>
<td>0.635</td>
<td>0.664</td>
</tr>
</tbody>
</table>

Notes: * p<0.1, ** p<0.05, *** p<0.01. Robust standard errors are shown in parentheses. OLS refers to ‘ordinary least squares.’

growth was slower on the IRA reservations as reflected by the negative coefficients on the IRA indicator variable.

The IRA coefficients are statistically significant and economically important. To appreciate the magnitude of the column 4 coefficient of -0.582, for example, consider the long-run effect of an additional annual growth rate of 0.582 percent to a base starting income of $2,689, which was the mean across reservations in 1938. Over a 50 year time span, this growth rate implies an additional $905 in per capita income or a 33 percent increase in income levels relative to the mean IRA reservation growing at a 0.582 slower rate. Over a 75 year time span, it implies an additional $1,466 of per capita income or a 53 percent increase in income levels relative to the mean IRA reservation growing at a 0.582 slower rate.

The regression results in table 10.4 assess the relationship between IRA governance and growth over different time periods. In general, the impact of the IRA appears to decay after 1980, when the IRA tribes in particular are afforded more autonomy as we show above in table 10.1. Considering the entire time period from 1938 to 2010, the effect of the IRA is statistically inconclusive. The IRA coefficient is sensitive to whether we control for casino gaming on reservations, as measured by the number of slot machines on reservations divided by the reservation’s American Indian population. In particular, if we consider casinos to be endogenous to IRA governance, by not including slot machines in the regression, there remains modest evidence that IRA governance has continued to stunt growth in recent years.

The role of the IRA in affecting casino investment merits further study, but here we point to three channels through which the IRA could have plausibly slowed casino growth. First, casinos must be on tribal land and the
Table 10.4. OLS Regressions of Per Capita Income Growth over Different Periods

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>IRA Indicator</td>
<td>–0.400*</td>
<td>–0.233</td>
<td>–0.120</td>
<td>–0.307</td>
<td>–0.0896</td>
</tr>
<tr>
<td></td>
<td>(0.199)</td>
<td>(0.152)</td>
<td>(0.169)</td>
<td>(0.251)</td>
<td>(0.169)</td>
</tr>
<tr>
<td>1938 Per Capita Inc.</td>
<td>–0.0007***</td>
<td>0.0006***</td>
<td>–0.0006***</td>
<td>–0.0005***</td>
<td>–0.0005***</td>
</tr>
<tr>
<td></td>
<td>(0.00010)</td>
<td>(0.000089)</td>
<td>(0.000069)</td>
<td>(0.00012)</td>
<td>(0.000076)</td>
</tr>
<tr>
<td>Slot Machines per capita, 2000</td>
<td></td>
<td></td>
<td>0.261*</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>(0.152)</td>
<td></td>
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<td>Slot Machines per capita, 2010</td>
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<td></td>
<td>0.459***</td>
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<td>(0.167)</td>
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<td>No</td>
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<td>“Close” Vote Restriction</td>
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<td>Yes</td>
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<td>N (reservations)</td>
<td>49</td>
<td>54</td>
<td>54</td>
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<td>49</td>
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<tr>
<td>Adj. R²</td>
<td>0.584</td>
<td>0.605</td>
<td>0.666</td>
<td>0.313</td>
<td>0.644</td>
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</table>

Notes: * p<0.1, ** p<0.05, *** p<0.01. Robust standard errors are shown in parentheses. The slot machines variable takes on a value of zero for all reservations prior to the 1990 Census. The data on slot machines for 2000 were compiled by Anderson and Parker (2008) and also used in Cookson (2010). The data on slot machines in 2010 were compiled by the authors from www.500nations.com/Indian_Casinos.asp. This site provides the number of slots/gaming machines for all American Indian casinos in the U.S. Each casino can be tied to a reservation by looking at which tribe owns the casino and where the casino is located. We downloaded gaming machine data from the site in 2013, so our measure may include casinos built after 2010.
IRA requires Secretary of Interior approval before fee land can be converted to tribal land (see Waples 2012). Second, the apparatus of the IRA with its requirement of formal approvals, may have slowed IRA tribal efforts to get casino plans approved. Third, the long legacy of BIA oversight over IRA tribes during the 1930s through the 1970s may have stunted the business experience of IRA tribes and hence left IRA tribes less-well suited to quickly exploit gaming opportunities even after the burdens of BIA oversight were lifted in the 1990s and 2000s.

Case Study
Comparing the Lake Traverse reservation, which adopted the IRA, with the Standing Rock reservation, which did not, further illustrates the effect of the IRA on reservation development. These reservations are ideal for comparison for several reasons. First, they are only separated by only about 150 miles, making them geographically similar. Second, both are mostly contained within South Dakota, thus exposing them to the same state government forces. Third, both reservations were initially formed from members of the Sioux nation. Fourth, the two reservations endured similar changes to their land base during the allotment era. Following the introduction of the Dawes Act of 1887, both reservations had large tracts of land designated as surplus and sold to non-Indian settlers. Non-surplus land that remained under tribal ownership on both reservations was aggressively broken into individually owned parcels through the allotment process (Office of Indian Affairs 1935). Fifth, both reservations attended the same Plains Congress in March of 1934 at Rapid City Indian School to learn more about the IRA. This indicates there were not informational asymmetries between the two reservations prior to voting for the IRA. Indeed, accounts from the meetings show that leaders from both tribal groups had doubts about surrendering tribal sovereignty following the meetings (Deloria 2002). Finally, both reservations held contested elections on October 27, 1934, with very few eligible voters abstaining from voting. After the final votes were tallied Standing Rock reservation narrowly adopted the IRA and Lake Traverse narrowly rejected it.11

We measure BIA involvement on the two reservations through the historical press releases summarized above in table 10.1. Between 1953 and 1980, the BIA reported on its involvement in 25 separate projects on the Standing Rock reservation compared to only 10 on the Lake Traverse reservation. A closer examination of these projects reveals that the BIA was actively involved in different types of projects on the two reservations. The BIA was involved in road and school construction projects on both reservations. On the Standing Rock reservation, however, the BIA also described projects targeting work training and adult education, industrial development, and the
construction of the Oahe Dam. The Oahe Dam, aided by the Army Corp of Engineers, infamously flooded over 200,000 acres of land on the Standing Rock and Cheyenne River reservations leading to a massive relocation of reservation residents (Lee 2015). The number, magnitude, and type of BIA projects on IRA reservations, like Standing Rock, show how different the BIA treated IRA and non-IRA reservations.

Over the course of 60 years, these differences in BIA involvement apparently caused subtle but important differences in income growth across the two reservations. In 1938, immediately following the institution of the IRA, per capita income was similar on the two reservations. However, between 1938 and 1990, the Lake Traverse grew at 2.63 percent per year and the Standing Rock only grew at 2.45 percent per year. For Standing Rock, this subtle difference in growth rates resulted in approximately $550 less income per capita by 1990 and approximately $1650 less income per capita by 2010. These differences in growth rates and subsequent differences in income are consistent with our empirical findings. The similarities in findings suggest that the experience of Standing Rock and Lake Traverse are more broadly representative of the causal effects of IRA governance on long run income growth.

**Conclusions**

Qualitative research regarding the effect of the IRA on tribal sovereignty and tribal economic welfare is mixed. On one hand, the IRA ended the allotment era, which most commentators conclude had negative effects on both sovereignty and welfare. On the other hand, the IRA is often portrayed as a missed opportunity for Congress to support full tribal sovereignty and instead created a new version of federal paternalism. The new version simply formalized the “guardian” to “ward” relationship through codes, charters, and tribal constitutions.

The evidence presented in this chapter contributes to this debate in three ways. First, it draws attention to the fact that not all tribes accepted IRA provisions and compares the performance of these tribes with those that adopted the IRA to quantify the effects of IRA governance. In particular, close votes over IRA adoption created natural experiments in which some pairs of nearby reservations include one tribe that did adopt the IRA and one that did not. Second, the chapter quantifies the impacts of the IRA on self-governance through measures of BIA involvement in tribal decisions based on BIA press releases. This evidence shows the BIA was involved in more projects on IRA reservations. This involvement only began to fade during the self-determination decades of the 1990s and 2000s. Third, the chapter
provides statistical evidence and one case study suggesting that IRA oversight stunted long-run income growth for the average reservation.

The important conclusion from this evidence is that tribal sovereignty and economic development usually co-align. Although the self-governance path may involve more risk and may create more varied levels of success across tribes, it usually outperforms the path marked by paternalism and oversight from a distant and less informed federal government.

Notes

1. Akee, Jorgensen, and Sunde (2012) provide evidence that the structure of tribal constitutions—many of which were written at the time of the IRA—is important for development. This is important scholarship but it does not directly assess the impacts of IRA adoption on reservation development.

2. For more information regarding land tenure on Indian reservation see Anderson and Lueck (1992), Anderson and Parker (2009), and Frye (2012).

3. For a more complete description of these meetings see Deloria (2002).

4. Congress later recognized the growing cost of carrying out the IRA, particularly the cost of offering credit, and attempted to repeal the IRA in 1939 in an effort to cut spending and reduce the administrative burden introduced by the IRA (Sturtevant 1978). Following the failed repeal attempt, Congress was slow to extend the promised credit (Kelly 1975). Ultimately, only about half of the credit originally promised to tribes was made available and only half of the IRA tribes satisfied the eligibility requirements (Kelly 1975). By limiting the access to credit, Congress greatly reduced the potential benefits that were promised to IRA reservations, leaving them with few benefits of IRA inclusion.

5. We collected these data from the Dept. of Interior website in December 2015.

6. For this reason, BIA agents may endorse one-size-fits-all development projects for a large set of IRA tribes when the projects are suitable only for a small set.

7. These types of information and incentive problems of BIA oversight can have large economic costs, as demonstrated by empirical studies of forest management by Krepps (1992) and Krepps and Caves (1994). These researchers compared profitability of timber logging for tribes under BIA control and tribes who managed the logging independently. According to Krepps (1992, 179), “as tribal control increases relative to BIA control, worker productivity rises, costs decline, and income improves. Even the price received for reservation logs increases.”

8. Comprehensive income data for 1928 are reported in the Merriam Report, and BIA reports for 191–1918 also report comprehensive income data.

9. The 2010 data come from the American Community Survey (ACS) which differs from the earlier decennial reservation census reports in certain ways. For geographic areas with populations less than 20,000, the ACS reports 5-year estimates (i.e. 2006–2010 averages). Because of this, the only data available for most reservations are the 5-year estimates which are what we use in our analysis.
10. Although we have IRA voting data for 217 reservations, the number of reservations in the sample is limited by the much smaller set of reservations for which 1938 income data were available. In general, the reservations we use in the sample had relatively large American Indian populations at the time the IRA was passed.

11. The voting index for Standing Rock was 0.10 and it was −0.06 for Lake Traverse.

References


Chapter Ten


