

# CHAPTER 1

## New Models for First Nations Economic Development



“Moon Face”, was carved by Master Carver, Clifford Bolton, a well respected Elder Tsimshian from Kitsumkalum. Moon face presides over the world and its inhabitants with peace, kindness, and patience. This piece is displayed in the boardroom of the Skeena Native Development Society.



## New Models for First Nations Economic Development

Beginning in 1999, the Think Tank on First Nations Wealth Creation, initiated and sponsored by the Skeena Native Development Society (a native organization specializing in capacity building and business development, met to consider two questions:

1. How can First Nations people in Northwest British Columbia be masters in their own house?
2. How can economic dependency be eliminated?

We came together motivated by a unifying theme: Why are First Nations communities economically impoverished and how can these communities find and follow a pathway to prosperity? To this end, we examined our own experience with on-reserve economies, particularly in the Northwestern region of British Columbia<sup>1</sup>. We then considered these experiences within a more global context, reviewing the work of authors such as de Soto [18], relevant research findings such as those at the University of Victoria<sup>2</sup> [19] and the results of the Harvard Project on American Indian Economic Development [23]. We were successful in our analysis, being now more able to discern and to integrate previously unconnected patterns and systems that are at the core of what plagues First Nations economies and, more importantly, to discover and assemble new ideas for how to change what has gone before... to make it possible to achieve prosperity.

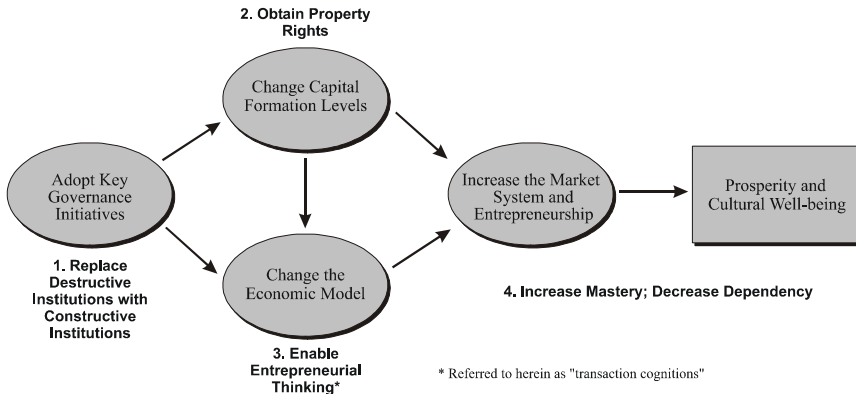
The approach we have taken is illustrated in the following diagram (Figure 1). As our deliberations progressed, we worked right to left in the diagram: from the desired end point towards the necessary beginning point. Thus, to increase mastery in the Native House and to decrease dependency, we first investigated the relationship between prosperity and increases in the market system and entrepreneurship. This led next to our considering changes in the economic model that would produce entrepreneurial thinking and also the needed changes in capital formation levels that come from viable property

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<sup>1</sup> *From this point forward, all references to native people, aboriginal people, First Nations, etc. should be assumed to apply to the Northwestern BC area unless otherwise noted; although it appears to be likely that some of our insights and conclusions will apply more generally.*

rights (moving from “dead capital” to “live capital” in de Soto’s language [18]). Finally, with these intermediate steps specified, we then addressed the key governance initiatives that would need to be adopted so that the on-reserve economic climate would be more favourable: to replace the present destructive institutions with constructive ones. Thus in this report, we identify the necessary beginning point for governance institutions, next property rights and then entrepreneurial thinking which will result, we believe, in increased economic mastery and decreased dependency.

**FIGURE 1**  
The Think Tank Approach



Helpfully, our conclusions about a beginning point (reached independently) have been recently validated in a study of 72 former colonies throughout the world, in which William Easterly of the Centre for Global Development and Ross Levine of the University of Minnesota analyzed the relative importance for economic growth of various factors [24]. These researchers compared and contrasted geography, economic policy and institutions (meaning political stability, property rights, legal systems, patterns of land tenure etc.) to identify which of these is the most critical factor. They concluded that the creation of good institutions is the predominant reason for economic success and, hence, that the first challenge for development economics is to get from bad to good institutions. This is precisely the conclusion that we have drawn in our own deliberations; and this formed the foundation for the approach that we recommend. We explain the elements of our solution in this book,

but we describe them first in this introduction, presented according to the approach shown in Figure 1.

What do these “good institutions” look like? What institutional reforms are necessary? What model will move First Nations people from the current state of economic dependency to prosperity? As has been chronicled in other economic successes globally, how can a market economy and entrepreneurship within the context of cultural well-being be enabled? Through the Think Tank approach (Figure 1), we have identified the three essential cornerstones that form the foundations for this process:

1. The availability to First Nations people of governance powers and jurisdiction that will enable the market system to function;
2. The ability of First Nations people to control the use and development of their lands to enable capital formation;
3. The thorough understanding by First Nations people and relevant stakeholders of the economic model itself: the entrepreneurial thinking that needs to be enabled for effective entrepreneurship to flourish.

A system that successfully embraces these cornerstones will, in our view, create the institutions, make available workable property rights and enable the entrepreneurial thinking necessary to produce the prosperity and cultural well-being of First Nations people that comes from mastery in the Native House. This chapter introduces each cornerstone in turn, with more detailed emphasis on the economic model because of the previously noted requirement that it needs to be thoroughly understood to be fully useful.

## **1. FIRST NATIONS GOVERNANCE**

We believe that, for a vibrant on-reserve economy to flourish, there is a need for genuine self-rule by First Nations people. This is because the economic environment that we envision can only be achieved by the creation of effective institutions of governance that are enabling of the market system and of entrepreneurial endeavour. With auspicious timing, the Federal

Government's currently proposed First Nations Governance Act, Bill C-7, provides for First Nations people to adopt individually tailored codes in three crucial areas: leadership selection, administration of government and financial management and accountability. Moreover, under the provisions of Bill C-7, First Nations people will be empowered to make laws in such areas as the regulation of business activities. We consider this proposed legislation to be a tremendous advance over the economically repressive provisions of the Indian Act, but still do not view it to accomplish enough in the creation of the necessary institutions.

To make Bill C-7 truly effective for the facilitation of the prosperity of First Nations people, we propose an additional provision for a fourth optional code, one that we are calling "the Prosperity Code," a system of institutions that flows from grass-roots community strategic plans. Using the criteria for governance that creates vibrant First Nations economies offered by Cornell and Kalt [23] and for governance that creates vibrant non-First Nations economies in general offered by Thompson [25], we have been able to identify a more comprehensive set of institutional conditions that are needed to replace the present destructive institutions with constructive ones. Further, we have ascertained that it comes down to what Cornell & Kalt [23] have called "cultural match" that will weigh heavily in determining whether an individualistic or collective model, for example, would be culturally appropriate for a particular community. To be "masters in your own house" should encompass the ability of a First Nation to implement whichever model its community chooses. It is our belief that a First Nation operating under all four codes and with a First Nation Strategic Plan in place (to ensure that a cultural match is created from the grass roots up) would have everything it needs to create the "good institutions" that are one of the crucial preconditions for prosperity.

Having made this claim, we do not wish to be misunderstood. For us, genuine self-rule means the kind of legal autonomy enjoyed by the Nisga'a and Sechelt, not a governance regime imposed by an umbrella Federal statute. Our recommendations do not do this. Rather, for First Nations that wish to do so, our recommendations provide a minimum set of necessary steps to put them on a path to prosperity that is based upon an increased market system and entrepreneurship. As noted earlier, these intermediate steps include mak-

ing changes to capital formation levels and changes to the on-reserve economic model. We introduce our ideas for capital formation next as we summarize our approach to rights to the land.

## **2. RIGHTS TO THE LAND**

Our next conclusion is that property rights to their own land are critical for First Nations; this is a fundamental of being “masters in your own house”. We realized early in our deliberations that we must accept the reality that the Indian Act has stultified First Nations people and their economies, and that this statute is justifiably disparaged for its destructive effects on capital formation. In Chapter 3, we evaluate the extent to which any desirable level of economic mastery is available under the Indian Act and conclude that, overall, it is not. We argue therein that, in fact, it would be surprising indeed for legislation that had disrupted and substantially impaired the traditional economies that had sustained First Nations people for thousands of years could do anything but lead—as it has—to dependency and wretchedness. We have concluded that the bad institutions that flow from the Indian Act, as it presently operates, cannot be changed to good ones without systemic change.

To us, the solution to addressing the mastery-destructive institutions of the Indian Act is straightforward: First Nations people need to own their own lands. This clearly conveys what mastery really means. Without such ownership, it is highly likely that First Nations people will continue to be economically powerless and therefore remain the dubious “beneficiaries” of what de Soto [18] has termed “dead capital”: lands held in trust by Her Majesty the Queen in right of Canada that are unavailable to support capital formation. In our deliberations, we have noted the Nisga’a and Sechelt achievements of such mastery. We further noted, however, that, in the absence of ownership, an intermediate step towards mastery is offered by the First Nations Land Management Act. As more fully described in Chapter 3, we assert that, with a properly constructed Land Code under this statute, a First Nation could to some extent bring into being the property rights necessary to facilitate a market economy and the capital formation necessary to support entrepreneurship-based prosperity. We believe that even this inter-

mediate step represents a significant advance over the present Indian Act land regime.

One important facet of rights to their own land for First Nations is the ability to grant individual property rights. This we discuss in Chapter 3. It is not that we are advocating individual property rights per se; we are too aware of successful community-based property rights to be that simplistic. But the choice between an individualistic or collective model, or something in between, should be legally available to each First Nation, depending upon what it considers to be culturally appropriate. To be “Masters in your own house” when it comes to land rights should encompass the ability to implement whichever model a First Nation community wants for itself.

Of course, given the sufficient autonomy that is rooted in new governance methods and given the capability for capital formation that is rooted in land rights, there must still be a viable economic model available as an option to choose and to implement. We therefore turn to a discussion of the economic model that we recommend and how it can generate the new levels of entrepreneurial thinking needed.

### **3. THE ECONOMIC MODEL**

For most readers, this may be the most difficult cornerstone to address because of the new ideas and new terminology that must be mastered for a thorough and workable understanding to be gained. With clearing this hurdle in mind, we are providing a more comprehensive introduction of this cornerstone.

To develop the economic model that we present, we have taken a pathway beginning with things as they are and have followed it back to the basics. Along the way, we discovered answers to our questions that we believe have never been considered as a whole. In the following paragraphs, we tell the story of how we found these answers.

The story starts in a seemingly unlikely place: with globalization. We believe that two waves of globalization [4] are at the root of poverty among First Nations people in Northwest British Columbia:



1. Globalization 1: the 1800's;
2. Globalization 2: the late 1900's.

We believe that mistakes have occurred in both eras—by all parties concerned—that have led to things as they are. We also believe that mistakes continue to occur that need to be corrected. Our path of discovery has uncovered the mistakes that have led to the present situation and the basics that are needed to move beyond it.

Globalization has not been kind to First Nations people. During the first era of globalization and under its extension, the Indian Act, the strengths of First Nations people were dissipated, weaknesses were magnified, opportunities were denied and threats to traditional economic means of support were entrenched due to the substitution for the healthy institutions of trade and commerce that existed pre-contact with the unhealthy institutions that were based in colonialism and conquest.

As the second era of globalization unfolds, we now ask what is needed to reverse the present unacceptable economic status quo and to accomplish effective economic development. In the Think Tank process, we have defined economic development to mean: *prosperity and cultural well-being*.

To understand how this can be accomplished for First Nations people, we have identified the economic basics: the cornerstones of prosperity and cultural well-being. Our analysis has revealed some surprising insights, and it is on the foundation provided by these ideas that we have based our work on a viable economic model.

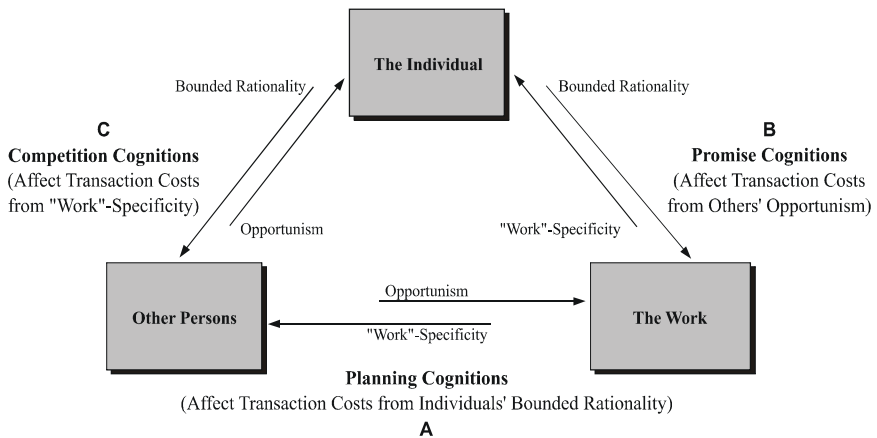
## **The Basics**

Whereas economic success during the first era of globalization required ships, guns and repressive institutions to overcome the objections of First Nations people to colonization, success during the second era of globalization now requires knowledge [4]. So, in the Think Tank process, we have naturally sought our solutions in the “people side” of economic development. Specifically, we have thoroughly investigated the new cognitive approach to economic development [5]. The cognitive approach is one that bases economic success upon effective economic thinking.

It was William James who stated that the greatest discovery of the modern age is that we become what we think about [6]. There is now a proven relationship between thinking and doing that is very well documented [7, 8]. Thus we realized in our work that the basics of economic development begins with the thinking processes of the people concerned. We therefore investigated the question: What are the thinking processes that people need in order to be successful in a market economy? This has led us to examine more closely the attributes of the core element in all economic activity: transaction thinking.

**Transaction Thinking.** By definition, a transaction occurs when an individual creates a “work” (some product or service) and then enters into an exchange relationship with other persons for the sale or acceptance of that work [9] as illustrated in Figure 2. Transaction cognition theory is the academic field that has most thoroughly explored the relationship of people’s thinking to the capability to transact successfully.

**FIGURE 2**  
The Elements of Transaction Thinking



Based on Gardner (1993); Williamson (1985)

We find that there are three sets of thinking skills that, as illustrated in Figure 2 (A, B & C), work together to create a successful transaction:

- Planning cognitions
- Promise cognitions
- Competition cognitions.

Acquiring these three thinking skill-sets is the primary means for a person to gain or expand the capability for entrepreneurial thinking.

The transaction cognitions that are the foundation of entrepreneurial thinking consist of specialized mental models or scripts [10-12] that guide individuals' responses to three principal sources of market opportunity. Planning-related thinking skills are important because better or worse planning affects the level of difficulty in making transactions happen. Promise-related thinking skills are necessary because transactions must happen through the willing participation of the other party in the transaction and this only occurs where the transaction "promises" to be beneficial. Similarly, competition-related thinking skills are necessary because, as human beings, we want to get the best product for our money—and so the work offered for sale must be the most competitive if it is to be purchased by the other person/customer. Where planning, promise and competition thinking skills (cognitions) are sufficient, then the difficulty of transacting that is caused by "transaction costs" is reduced and economic development happens. Recent research shows that entrepreneurs around the world have higher levels of transaction cognitions than do non-entrepreneurs [21].

**Transaction Costs.** The level of difficulty of transacting is the single greatest enemy of economic prosperity. Transactions become more difficult as "transaction costs" increase. Transaction costs are the costs of running the economic system. Transaction costs are like friction in a physical system [13: 48, 14: 19]. Economic opportunity occurs when entrepreneurs utilize planning, promise and competition cognitions to enact transactions that would otherwise fail due to transaction costs. This is why economic development may be considered to be a cognitive process [15] and why "entrepreneurial thinking" is essential to economic development.

In Chapter 4, we explain how this basic transaction cognition approach can be applied to assessing the difficulty of transacting among First Nations peo-

ple on-reserve. We have found on-reserve transacting to be many times more difficult than ordinary transacting in a market due to increased cognitive complexity.

### **Problem Areas to Address**

In our analysis, we uncovered an uncomfortable reality: transacting on-reserve has too many fingers in the pie that should not be there and too few of those that should be. When compared to transacting in an ordinary market economy (e.g. the Canadian economy in general) on-reserve transacting is over three times as complex! This means that, on-reserve, transaction difficulty is up, and that transaction success is down or is non-existent. Where are these problem areas, why are they such a problem and what can be done about them?

It is our belief that these problem areas have arisen due to mistakes made in the past,<sup>3</sup> many of which appear to have been due to greed, ignorance or a combination of both. These mistakes occurred because the parties involved lacked sufficient information: both the facts and the analytical knowledge needed for the parties to recognize the scope of their errors; and this resulted in compounding negative consequences due to both errors of commission and of omission.

### **Lessons from Hindsight**

In hindsight, it is much easier to see the nature of the economic error of past policies and how the consequences have been compounded over the years. If one were to assume for the sake of discussion, however, that throughout the world during the first era of globalization less powerful people were dispossessed and further that, during these periods of colonialism and imperialism, the mistakes made (in light of hindsight) were indeed horrendous; this nevertheless would not account for the disparity in results between those who were somehow able to correct the problems (e.g. in the case of Korea 1950

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<sup>3</sup> *It is not our intention to attribute blame for past mistakes to any particular group or individual. As far as we can tell, many of these mistakes were made from the sheer ignorance of the parties involved at the time. However, with new analytical tools that are now available, it is clear to us that there is no reason for these mistakes or their consequences to be prolonged, and that there is every reason for them to be repaired as soon as possible.*

to 2000, or Singapore 1965 to 2000) and those who have been unable to do so (e.g. Ghana 1950 to 2000, or First Nations people under the Canadian Indian Act). Why is this the case?

**The General Case.** We note that both the identification of earlier errors, and the reasons for their compounding, are possible using the transaction cognition model. One original error occurred when First Nations people were economically sidelined. Because Globalization 1 was based upon the acquisition of natural resources, the colonialist model was necessarily geared towards the exploitation of colonies to extract natural resources. Thus, the people side of economic development was vastly under considered as was manifest, for example, by the sweatshops of the Industrial Revolution or by the economic marginalization of First Nations people under the Indian Act. The short sightedness of this error and its compounding negative consequences are still being felt throughout the world—especially as Globalization 2 replaces the Cold War system as the dominant transacting system on the planet [4]. It turns out that G2 is vastly larger than G1 and that rather than natural resources retaining their status as the wealth creating core of globalization, it is now people within knowledge economies that are the key factor in economic development [4].

Thus, the earlier marginalizations under the first globalization system and its aftermath system, the Cold War, may turn out to have created—due to the sheer size of G2— one of the greatest economic setbacks in history. The opportunity costs of G1 thinking are thus enormous, whether it is from ethnic wars, cultural revolutions, the marginalization of women or reserve systems for First Nations people. Under the new rules of Globalization 2, any mind that is under - or uneducated creates inevitable negative consequences for economic development as we now know it.

**The Case of First Nations People.** It can be assumed, without harm to the argument, that compounding of error in the case of First Nations people has occurred with the best of intentions. However, without a clear knowledge of the economic basics that has really only come into currency within the last few decades [14-16], it appears to have been impossible to foresee how the effects of past mistakes can have so compounded.

Given the ideas presented in the foregoing paragraphs, which have high-

lighted the importance of transaction thinking, one might logically expect that a solution to the disastrous state of on-reserve economies would be to reduce the transaction costs of economic development through increasing the possession by First Nations of the transaction cognitions (entrepreneurial thinking) necessary for transacting anywhere in the world [17]. Based on this argument, it would follow that this course of action would have begun to repair the damage caused by the original errors committed in Globalization 1. Instead, in attempts to redress the wrong, two complicating elements were introduced with profound negative economic consequences: (1) the ownership of First Nation lands by the Crown (as represented by the Minister of Indian Affairs), and (2) the insertion of Band Councils into almost every element of transacting on-reserve.

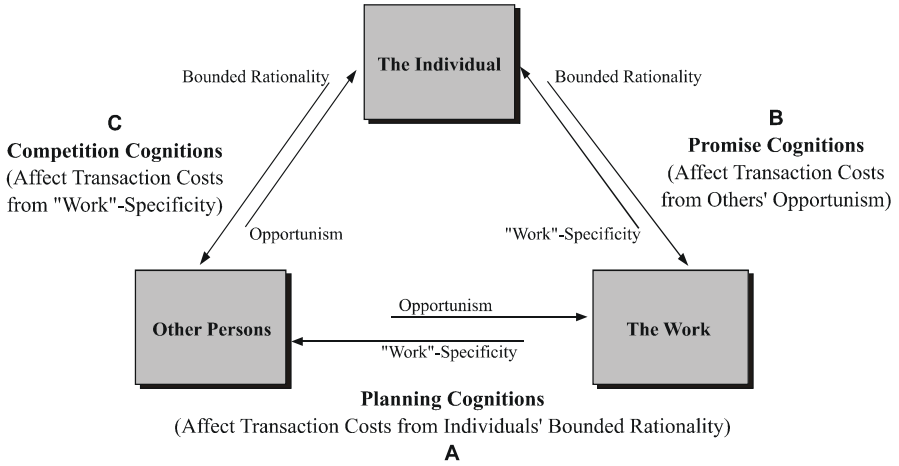
As we demonstrate in Chapter 4, the mandatory addition of these two additional parties to all transactions expands the cognitive complexity of successful transacting from the mastery of three necessary cognitive maps to the mastery of ten such maps (see Figure 3). Consequently, as in any “short circuit,” productive energy has been erroneously and dangerously re-channelled into purposes that are useless or damaging to economic development. From an economic standpoint, these added layers therefore hinder rather than help. Transaction costs are up, and economic development is down.

Thus, the mandatory addition of the Minister (Indian and Northern Affairs Canada: INAC) and the reserve system to the basic transaction creates transaction costs due to “dead capital” [18]. Dead capital means that people on-reserve have homes and buildings but not capital-building assets. Therefore, without the property rights (collective or individual) necessary to create capital, the complexity of capital formation is unduly burdened by transaction costs.

And the mandatory insertion of Band Councils into transacting is the equivalent of allowing the referees to also be “on-field” players in the game. The resulting confusion, opportunities for corruption and for venal decision-making also add transaction costs to economic development that doom it to bear burdens that ordinary transactions within a market economy are not saddled with. Thus, transactions fail and wealth that could and should be generated is instead dissipated in ineptly conceived bureaucracy. Chapter 4 will thoroughly explain and illustrate the two cases shown in Figure 3.

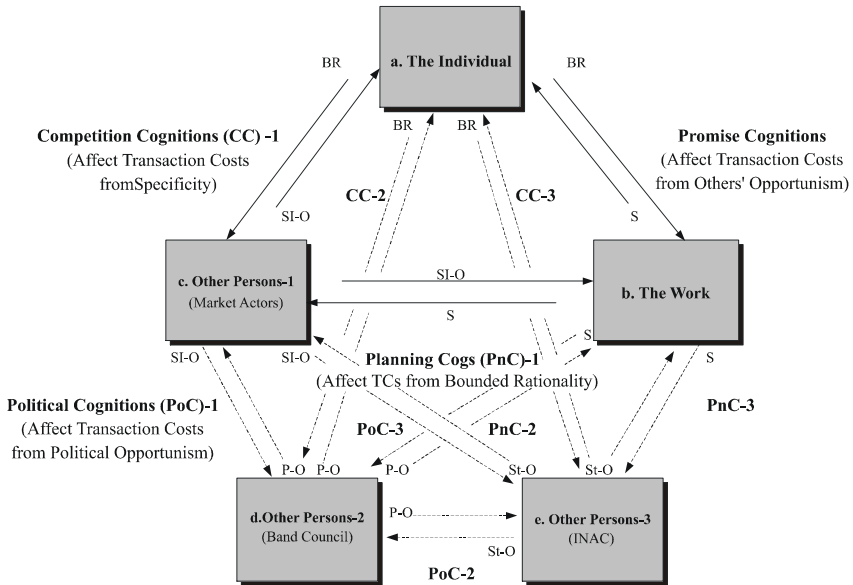
**FIGURE 3**  
**Entrepreneurial Thinking Complexity**  
**Off- and On-reserve**

The Off-reserve Case



Based on Gardner (1993); Williamson (1985)

The On-reserve Case



MASTERS IN OUR OWN HOUSE

## **Focal Areas**

It is the legacy of the Indian Act that the strengths of First Nations people have been dissipated, weaknesses magnified, opportunities denied and threats to traditional economic means of support entrenched. The First Nations economy in Northwest BC has flourished for many thousands of years more than it has languished. It is clear from history that, prior to first contact with Europeans during the first wave of globalization, the First Nations economy was vibrant and successful [1]. In the pre-contact economy in Northwest BC, economic strength among First Nations people consisted, for example, of highly expert knowledge in the utilization of the natural environment (e.g. use and management of the fishery). Now, as the result of a series of compounding mistakes that are rooted in the colonialist use of institutions, this has been reversed: from full employment prior to first contact to the present 64% overall unemployment rate [2].

At the time of first contact, First Nations people were not in possession of the technologies required to lead in the first wave of globalization which included, among other things, intercontinental ships, modern firearms and the institutions of imperialism. These weaknesses made us susceptible to the imposition of the institutions of colonization through the use of coercive power [3]. Further, First Nations people possessed no natural immunity to such diseases as smallpox or other European diseases. When confronted with European colonialism, therefore, these weaknesses magnified the dangers to economic well-being that are inherent to transacting among unequally powerful parties and, due to the power imbalance, minimized the likelihood of the continuation of economic prosperity for First Nations people after first contact.

From extensive discussions within our Think Tank meetings, it has become apparent that colonial policies applied towards First Nations people at the time were designed intentionally to dispossess us of power, both economically and politically. As a result of the reserve system and—as we will argue—the continued lack of access to the requisite tools, fair access to the modern economy has not been available. For example, in the on-reserve economy, it appears to be fairly common that there is pressure for the leadership to feel more accountable to the federal bureaucracy than they are to



their own people [26]. Economically, this institutional quagmire amounts to more than 130 years of damage under Indian Act institutions.

In addition to all of the above, economic threats have been introduced that have become entrenched and, as a result, continue to compromise the First Nations economy. Large areas of land have been occupied without treaty. The fishery and forests have been intruded upon. And, in the past, physical displacement of people has been the norm when the presence of First Nations people has been seen as an impediment to non-First Nations economic plans. And perhaps the greatest threat in the present era of Globalization 2 has been the systematic breaking of the spirit of First Nations people, such that an appreciation of education as an opportunity has instead been interpreted by many members of the on-reserve community to be a threat to cultural identity (because of misuse in past decades of education as a colonial tool). As a result, there is unfinished business: questions that must still be answered.

### **Unfinished Business**

The most important question that we have addressed is: What is needed to repair this broken economic system and to take advantage of the opportunity presented by the next era of globalization to recapture and revitalize, and indeed repair, the system such that the vibrant economy that is possible can be a reality?

As noted earlier, in our Think Tank deliberations, we have concluded that there are at least three cornerstones of mastery within the Native House and for the elimination of dependency:

1. Constructive governance institutions,
2. Property rights, and
1. Entrepreneurial thinking.

Accordingly, Chapter 2 that follows addresses governance, Chapter 3 presents the state of play in the area of property rights and, finally, in Chapter 4, the nature and scope of effective transaction cognitions/ entrepreneurial thinking in the First Nations case is explored in a rigorously peer-reviewed

and published research article [19].

It is the conclusion of the Think Tank that this published work offers a pathway that leads towards the repair of past mistakes and offers real hope for economic development that is built upon sound economic and legal foundations. The economic model upon which our suggestions and recommendations are based implies that, through repair v. redress, we can provide a means to restore equality to the playing-field.

It does not mean that we suggest that INAC or Band Councils be eliminated. And it does not mean that we advocate individual v. collective property rights. Nor does it mean that we suggest all business to be good.

The economic model that we recommend does, however, exclude extra transaction cost-adding players from the marketplace: the field of play. It also means that First Nations people should consider adopting the First Nations Land Management Act, to allow dead capital to come alive for purposes of economic development. Further, it means that governance systems should be revised to support the foregoing. And, most importantly, it means that the real enemy of economic development is ignorance—the LACK of transaction/ entrepreneurial thinking.

Research has found that wealth creation is directly connected to entrepreneurial thinking in as many countries around the world as have been studied<sup>4</sup> [20, 21]. We believe that, as research continues, it will also be found that poverty is the result of the absence of these thinking patterns which is a likely extension of the foregoing research. Interestingly, in our informal studies to date among prospective entrepreneurs on-reserve in Northwest BC, we found no differences between the level of entrepreneurial thinking of First Nations pre-entrepreneurs and those of the non-First Nations pre-entrepreneurs represented by entrepreneurship students at a large BC university.

Thus, the pathway seems to be clear: foster high levels of transaction/ entrepreneurial thinking in a larger portion of the on-reserve population<sup>5</sup>; provide

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<sup>4</sup> *As of this printing, data have been collected and analyzed from Australia, Belarus, Canada, Chile, China, Czech Republic, France, Germany, Italy, Japan, Mexico, Russia, the United Kingdom and the United States of America.*

equal opportunities for on-reserve capital formation through attention to property rights; and adjust or transform governance structures to minimize the on-reserve transaction costs related to a Band Council governance system that is in need of an economic development-friendly overhaul.

How can First Nations people in Northwest BC be masters in their own house and how can economic dependency be eliminated? We believe that, by adopting key governance initiatives, by changing capital formation levels and by changing the economic model, the benefits of the market system and entrepreneurship will be increased, that damage from the past will be repaired, that preparedness for the opportunities of the knowledge economy will be maximized and that, thereby, prosperity and cultural well-being can be achieved.

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<sup>5</sup> *We hope that it is not lost on the reader that the foundation for increasing transaction cognitions/ entrepreneurial thinking is a strong commitment to education. However, we have discovered that there are some methods of education that are more likely to produce transaction/ entrepreneurial thinking than are others [22]. And so we advocate models consonant with individual learning styles and the cultural pre-preparation that we find already exists in NWBC.*

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