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Recovering From Globalization: New Models For First Nations Economic Development

NEW MODELS FOR FIRST NATIONS ECONOMIC DEVELOPMENT

ABSTRACT

How can native peoples in Northwest BC be masters in their own house? And how can economic dependency be eliminated? In this paper we argue that it will be by conscientiously repairing what we see to be the damage from 19th Century globalization, while minimizing the opportunity costs of missing globalization opportunities in the 21st Century. This means fostering high levels of transaction cognitions (as defined herein) in a larger portion of the on-reserve population, providing equal opportunities for on-reserve capital formation through attention to property rights, and adjusting or transforming native governance structures to minimize transaction costs.

INTRODUCTION

Globalization has not been kind to native peoples in Northwest British Columbia[1]. During the first era of globalization, the strengths of native peoples were dissipated, weaknesses were magnified, opportunities were denied, and ongoing threats to traditional economic means of support were entrenched. As the second era of globalization unfolds (Friedman, 2000), we now ask what is needed to reverse the present unacceptable economic status quo, and to accomplish effective economic development. Through an in-depth analysis process undertaken by the SNDS Think Tank (the Skeena Native Development Society First Nations Think Tank on Wealth Building), economic development has been defined to mean: *prosperity and cultural well being* (Nyce, 2003). In this paper we attempt to increase understanding of how economic development so defined, can be accomplished for native peoples by expanding somewhat on the work of the SNDS Think Tank (Nyce, 2003). In this process, we explain more fully how the foundations of prosperity and cultural well being worldwide can be applied effectively in Northwest BC.

The SNDS Think Tank analysis revealed some surprising insights, and has rigorously documented one uncomfortable reality: People who attempt to engage in transacting on native reserves find too many fingers in the pie as a result of band council and Canadian government interference in market processes (Nyce, 2003). Consequently this SNDS Think Tank identified at least three essential milestones for economic development:

1. An economic model: what is needed for effective entrepreneurship,
2. Capital formation: the proper role of on reserve property rights, and
3. On reserve governance: enabling the market system.

How can native peoples in Northwest BC become masters in their own house? And, how can economic dependency be eliminated? In this paper we further develop the answers to the foregoing questions proffered by the SNDS Think Tank (Nyce, 2003) and relate them to an unlikely source: globalization.

According to Friedman (2000), past centuries have seen two waves of globalization: one in the 19th century and one at the end of the 20th century. These two waves of globalization appear to be at the root of poverty among native peoples in Northwest British Columbia:

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

It also appears that mistakes have occurred in both eras—by all parties concerned—that have lead to the present economic situation on native reserves. Unfortunately, mistakes continue to occur that need to be corrected. In the balance of this paper we therefore introduce an economic model that points to situations where transacting is problematic and to potential solutions.

THE ECONOMIC MODEL

The Present Situation

As noted in the introduction, globalization has not been kind to native peoples. We now discuss how, during the first era of globalization, the strengths of native peoples were dissipated, weaknesses were magnified, opportunities were denied, and threats to traditional economic means of support were introduced.

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[1] From this point forward, all references to native peoples, aboriginal peoples, First Nations, etc. should be assumed to apply to the Northwest BC area unless otherwise noted; although it appears to be likely that some of our insights and conclusions will apply more generally.

Strengths dissipated. Although this paper is not the place to list the many ways in which the economic strength of native peoples has been compromised, it is clear from history that prior to the first contact with Europeans during the first wave of globalization, the native economy in Northwest BC was vibrant and successful (Robinson & Wright, 1962 (1936)). Now, as the result of a series of compounding mistakes (Flanagan, 2002; Nyce, 2003), this has been reversed: from full employment prior to first contact, to 65% unemployment presently (SNDS, 2000), and the marginalization of many on-reserve stakeholders (Mitchell, 2003).

Weaknesses magnified. At the time of first contact, native peoples were not in possession of the technologies required to lead in the first wave of globalization. These technologies included, among other things, intercontinental ships and modern firearms (Coates, 1998). Lack of such technologies made native peoples susceptible to colonization through the use of coercive power (Etzioni, 1988). Furthermore, native peoples possessed no natural immunity to such diseases as smallpox, and had little if any cultural preparation for combating the dangers of dependency (Boldt, 1993) (e.g., economic, substance abuse, etc.). 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 native peoples (Coates, 1998: 4-5).

Opportunities denied. Both extensive discussions within SNDS Think Tank meetings that surface recent native experience, and a widely accepted reading of native history in NWBC, intimate that colonial policies applied toward native peoples at the time of colonization were designed intentionally (Boldt, 1993: 3) to dispossess them of power, both economically and politically (Coates, 1998: 4), and were effective in doing so. As a result of the reserve

system (Flanagan & Alcantara, 2002: 112), and—as we will argue—the continued lack of access to the requisite tools (de Soto, 2000), fair access to the modern economy has not been available.

Threats introduced. In addition to all of the above, economic threats have been introduced that have compromised the native economy (Boldt, 1993: 223). Large areas of land have been occupied without treaty, the fishery has been intruded upon, and physical displacement of people has been the norm when the presence of native peoples has been seen as an impediment to non-native economic plans (Flanagan & Alcantara, 2002; Poelzer, 1998). Perhaps the greatest threat in the present era of globalization has been the systematic marginalization of native peoples (Coates, 1998), 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 (Nyce, 2003).

As the second era of globalization unfolds, we now ask what is needed to: 1) reverse the present unacceptable economic status quo, and 2) accomplish effective economic development: *prosperity and cultural well being*. To understand how this can be accomplished for native peoples, we have relied on what we believe to be the economic basics of prosperity and cultural well being worldwide. It is on the foundation provided by these ideas that we have based our analysis.

The Basics

Whereas the first era of globalization required ships and guns, the second era of globalization now requires knowledge (Friedman, 2000). Thus, it appears to us that solutions to present economic dilemmas are likely to be found in the "people side" of economic

development. Specifically, we have thoroughly investigated a new cognitive approach (Mitchell et al., 2002).

It was William James who stated that the greatest discovery of the modern age is that we become what we think about (James, 1890). There is now a proven relationship between thinking and doing that is very well documented (Charness, Krampe & Mayer, 1996; Ericsson & Charness, 1994). Thus, we assert that the basics of economic development begin with the thinking processes of the people concerned. We therefore investigated the questions: What are the thinking processes that people need to be successful in a market economy? And, how do on-reserve economies compare? This led us to examine more closely the attributes of the core element in all economic activity: the basic transaction, which in turn leads to a better understanding of transaction thinking and to an analysis of the required mental models for effective economic engagement.

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 (Gardner, 1993) as illustrated in Figure 1.

(Inset Figure 1 about here)

Transaction cognition theory is an analytical framework that attempts to thoroughly explore the relationship between people's thinking and their capability to transact successfully. It asserts that there are three sets of cognitions that work together to create a successful transaction:

- Planning cognitions
- Promise cognitions
- Competition cognitions.

Each of the above transaction cognitions consist of specialized mental models or scripts (Arthur, 1994; Neisser, 1967; Read, 1987) that guide individuals' responses to three principal sources of market opportunity. Planning-related thinking skills are important because levels of planning affects the levels of difficulty in making transactions happen. Promise-related thinking skills are necessary because transactions must happen through the willing participation of each party to the transaction, which only occurs where the transaction "promises" to be beneficial. Similarly, competition-related thinking skills are necessary because as human beings, we typically 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, the difficulty of transacting is reduced, and economic development happens (Mitchell, 2001a).

Transaction costs. Difficulties in transacting are 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, and are equivalent to friction in a physical system (Arrow, 1969: 48; Williamson, 1985: 19). Economic opportunity occurs when entrepreneurs utilize planning, promise and competition cognitions to enact transactions that would otherwise fail due to transaction costs, which is why economic development may be considered to be a cognitive process (Mitchell, 2001a).

On-reserve transacting has been shown to be many times more difficult than ordinary transacting in a market (please see Mitchell & Morse, 2002; Nyce, 2003 for an in-depth analysis of these added difficulties). Our assertion here is that such difficulties stem from the economic development errors that began in Globalization 1 (G1), continue in Globalization 2 (G2), and have yet to be corrected.

PROBLEM AREAS

As also previously stated, The SNDS Think Tank analysis has identified an uncomfortable reality: Transacting on reserve has too many fingers in the pie. As illustrated in Figure 2, and explained in more detail in Table 1, 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 cognitively-speaking (please also see Mitchell & Morse, 2002), resulting in increased transaction difficulty, and decreased transaction success. Where are these obstacles to efficient transacting, why are they such a problem, and what can be done about them?

(Insert Table 1 and Figure 2 about here)

Current analysis suggests that these transacting obstacles have arisen due to mistakes made in the past (Boldt, 1003; de Soto, 2000; Flanagan, 2002, Nyce, 2003). In our view, many of these mistakes—both economic and political—are the result of misperceptions (often the result of ignorance) on the part of parties involved at the time. This view follows Stoessinger's (1998) explanatory model of low-performance political results (e.g. where violence is the chosen solution mechanism), which suggests that nations go to war as a result of cognitive errors: misperceptions on the part of decision-makers. Building on the Stoessinger (1998) model, Mitchell (2001b) suggests that a decision maker's misperception is the equivalent in the political domain to lacking the successful transaction cognitions needed to reduce transaction costs due to bounded rationality, opportunism, and specificity in the socioeconomic domain. Thus, when analyzing low performance political results, it is critical to include a discussion of the political transaction cognitions necessary for high political performance. Mitchell and Morse (2002) identify the political cognitions in the native transacting environment that affect the economic outcomes of that transacting environment: compliance

cognitions, self-protection cognitions, and authoritarian cognitions (please see Table 1 and Figure 2).

The applicability of the above discussion to enhancing on-reserve economic development turns upon the key distinction between the first and second waves of globalization: G1 was based on resource acquisition, whereas G2 is based on people—more specifically the knowledge that people possess (Friedman, 2000). Below we argue that the economic development challenges faced by on-reserve native peoples in a G2 world are in large part the effects of G1. And, since political cognitions are based on the misperceptions of decision-makers, this has profound implications in a knowledge-based wave of globalization. Thus, trying to solve the economic problems faced by native peoples through a G1- or resource-based approach is insufficient. The second wave of globalization requires a second type of problem solving. It is to this analysis that we now turn.

Mistakes from the Past

Although it is not our intention to attribute blame for past mistakes to any particular group or individual, new analytical tools that are now available suggest 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. All parties can now recognize that these mistakes occurred because the parties involved lacked sufficient information: both the facts (e.g., the devastating nature of smallpox), and the analytical techniques needed for the parties to recognize the scope of their errors. We suggest that this lack of information resulted in the compounding of negative consequences that resulted.

The Native Case. It can be assumed without harm to the argument that the compounding of the error in the case of native peoples can have occurred with the best of

intentions (the most demanding construction of the analysis). However, without the clear knowledge of the economic basics that has really only come into currency within the last few decades (e.g., Mitchell, 2001a; Williamson, 1985; Williamson, 1996) it appears to have been impossible to foresee how the effects of past mistakes were likely to have compounded.

Thus, rather than simply attending to the necessities of reducing the transaction costs of economic development through the enhancement within native peoples of the transaction cognitions that are necessary for transacting anywhere in the world (Mitchell, 2003), which would have begun to repair the damage caused by the original error; instead, in attempts to redress the wrong, two complicating elements were introduced with profound negative economic consequences: (1) the ownership of native 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.

It has been demonstrated (Mitchell & Morse, 2002), that the mandatory addition of these two additional parties to all transactions expands the cognitive complexity of successful transacting from the mastery of 3 necessary cognitive maps, to the mastery of 10 such maps (as previously illustrated in Figure 2 and described in more detail in Table 1). Thus, attempted redress has NOT been effective repair. And as with any short circuit, productive energy is continuing to be re-channeled into useless purposes or to purposes that are even dangerous to economic development (Nyce, 2003). From an economic standpoint, these added layers hinder rather than help. Transaction costs are up, and economic development is down.

The mandatory addition of the Minister of Indian Affairs (Indian and Northern Affairs Canada: INAC) and the reserve system to the basic transaction creates transaction costs due to "dead capital" (deSoto, 2000). 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. Extensive property rights analysis (Nyce, 2003) addresses this topic in more detail.

The mandatory insertion of band councils into transacting is the equivalent of allowing the referees to also play in the game. The resulting confusion, opportunities for corruption, or for venal decision-making, also add transaction costs to economic development that doom it to bear burdens that ordinary transactions within the general Canadian and global market economy are not saddled with. Thus transactions fail, and wealth that could and should be created is dissipated in ineptly conceived bureaucracy.

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

The general case. We note that identification of the original error and the reasons for its compounding are possible using the transaction cognition model. The original error occurred when native peoples were economically sidelined. Because G1 was based upon the acquisition of natural resources, the colonialist model was necessarily geared toward the exploitation of colonies. Thus, the people side of economic development was vastly under

considered, as was manifest by the sweatshops of the industrial revolution, or by the economic marginalization of native peoples. The short-sightedness of this error and its compounding negative consequences are still begin being felt throughout the world—especially as G2 replaces the Cold War system as the dominant transacting system on the planet (Friedman, 2000). It turns out that G2 is vastly larger than G1, and that rather than natural resources at the wealth creating core, that it is now people, within the knowledge economy that are the key factor in economic development.

Thus, the earlier marginalizations under the first globalization system and its aftermath system, the Cold War, turn out to have created—due to the sheer size of G2—the greatest economic setbacks in the history of the world. 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 native peoples. Under the new rules of G2, any mind that is under or uneducated creates inevitable negative consequences for economic development as we have defined it.

NEEDED SOLUTIONS

What therefore is needed to repair this broken economic system? As noted earlier, a Think Tank on Native wealth creation (Nyce, 2003) has concluded that there are at least three cornerstones of mastery within the native house, and the elimination of dependency:

1. Effective transaction cognitions,
2. Property rights, and
3. Governance.

The economic model upon which our suggestions and recommendations are based implies that through repair v. redress, we provide a means to restore equality to the playing

field. It doesn't mean that we suggest that INAC or band councils be eliminated. It doesn't mean that we advocate individual v. collective property rights. It doesn't mean that we suggest all business to be good.

The economic model that we recommend, however, does mean lowering transaction costs. First and foremost, such reductions are expected to be more likely where the real enemy of economic development is identified as lack of knowledge—specifically, the LACK of transaction cognitions (Mitchell & Morse, 2002; Nyce, 2003). Additionally, reductions in transaction costs can come from eliminating transaction cost-adding players from the field. For example, it has been recommended that First Nations should consider adopting the provisions of the First Nations Land Management Act (Nyce, 2003), to allow dead capital (de Soto, 2000) to come alive for purposes of economic development. Under the First Nations Land Management Act, a land use code takes the place of the politicizing of land use decisions within a case-by case Band Council approval process, thus reducing transaction costs and assisting capital to "come to life." It therefore also means that governance systems be revised to support the foregoing.

Research has found that wealth creation is directly connected to transaction cognitions in many countries around the world (Mitchell, et al., 2000, 2002). We believe that as research continues, that we will also find that poverty is the result of the absence of these cognitions, 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 have found no differences between the level of transaction cognitions of native pre-entrepreneurs, and those of non-native pre-entrepreneurs represented by entrepreneurship students at a large BC university.

Thus the pathway seems to be clear. Foster high transaction cognitions in a larger portion of the on-reserve population[2]. Provide equal opportunities for on-reserve capital formation through attention to property rights. And adjust or transform governance structures to minimize transaction costs.

How can native peoples in Northwest BC be masters in their own house? And how can economic dependency be eliminated? We believe that it will be by conscientiously repairing the damage from G1, while minimizing the opportunity costs of missing the opportunities of G2.

SUMMARY & CONCLUSION

Returning to Friedman (2000), we note that the first wave of globalization was based in resources. In this paper we have argued that the economic challenges that came as a result of G1 are also resource-based. Left here, it could be argued that the solution to the economic problems of G1 should also be resource based (e.g., the economic problems faced due to lack of ships and modern firearms could likely be overcome with ships, modern firearms, a return of the land, etc.). Thus, it might be argued, G1 problems viewed in isolation are resource-based and consequently have only resource-based solutions as credible redress.

For good or for bad, however, G1 is not the end of the story; we go beyond redress and thus argue for repair. With the end of the Cold War also came G2 (Friedman, 2000), and contrary to G1, G2 is people-based. Thus, the abovementioned resource-based solution to the problems of G1 can no longer be seen to be sufficient, because with the increased importance placed on knowledge in G2, redress of the physical resources lost under G1 will be insufficient

[2] We hope that it is not lost on the reader that the foundation for increasing transaction cognitions is a strong commitment to education. However, we have discovered that there are some methods of education that are more

to address the informational problems and opportunities of G2. Thus, these new problems require informational solutions.

The arbitrary inclusion of resource-focused solutions (i.e., the directives of the band council and INAC) has only complicated matters, and has dissipated the energies needed to achieve greater benefits under G2 by confounding the use of information-based solutions that G2 requires. For example, as noted above, Mitchell and Morse (2002) suggest that 10 cognitive maps must be mastered for successful "on-reserve" transacting as compared to the 3 cognitive maps required in "ordinary" transacting. Furthermore, within the set of 10 cognitive maps identified, Mitchell and Morse (2002) note 3 political cognitions that must be mastered. It is our assessment that these cognitions are required due to the conflict between the G1 and G2 solution sets. The resource-based solution set or *modus operandi* under the current band council and INAC regimen, directly conflicts with the knowledge-based solution set required by G2 for successful transacting.

The implications of this analysis are that a change must be made to minimize the conflict between solution sets. Again, this is not to say that band councils and INAC need be eliminated for successful native transacting. Rather, changes must be made that reconcile the differences between G1 and G2 solution sets. These changes are seen in the milestones introduced in the preliminary paragraphs of this paper.

- First, economic actors must possess the *knowledge* necessary to fully engage the economic model of G2;

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likely to produce transaction cognitions than are others (Mitchell & Chesteen, 1995). And so we advocate models consonant with individual learning styles and the cultural pre-preparation that we find already exists in NWBC.

- Second, on-reserve property rights must support the G2 solution set rather than replace it (e.g., the development of a land code under the First Nations Land Management Act to bring life to dead capital on-reserve);
- Lastly, on-reserve-governance structures (i.e., band councils and INAC) need to reflect and support the G2 solution set (e.g., the adoption of a Prosperity Code (Nyce, 2003)), as opposed to continuing to attempt the solution set focused only in G1 economic challenges.

Thus, by better understanding the nature of transactions—both political and economic—we better understand how three clear milestones for economic development can effectively respond to the challenges and opportunities of globalization.

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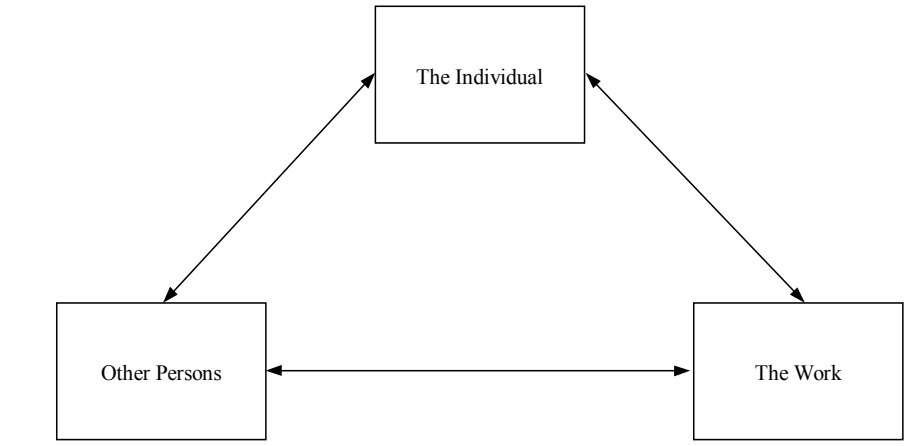
TABLE 1: Transaction Cognitions Required Due to section 20 of the Indian Act

Transaction Cognitions	Description
Planning Cognitions-1 (PnC)-1	Mental models that assist in developing analytical structure to solve previously unstructured market problems in the provision of the work to those other persons who consume it (e.g., the business plan, which answers the question: What plan is necessary to deliver the work to customers?) (Stevenson, Roberts, and Grousbeck 1994)
(PnC)-2	Mental models that are necessary to ensure band council support of work produced.
(PnC)-3	Mental models that are necessary to ensure that work is approved by/not opposed by, the Minister-INAC.
Promise Cognitions	Mental models that help in promoting trustworthiness in economic relationships with, e.g., stakeholders (Agle, Mitchell, and Sonnenfeld 1999; Mitchell, Agle, and Wood 1997). Stakeholder identification and salience cognitions (Mitchell and Agle 1997) are essential in market relationships. But see political cognitions (below) for the additional promise cognitions required due to section 20 of the Indian Act.
Competition Cognitions-1 (CC)-1	Mental models that can create sustainable competitive advantage in creator-customer interactions about the work (e.g., I/O strategy: differentiation or cost competitiveness (Porter 1980)).
(CC)-2	Mental models needed to manage creator ↔ band council interactions where there is external power exercised with respect to the work (e.g., Resource Dependence strategy (Pfeffer and Salancik 1978)).
(CC)-3	Mental models needed to manage creator ↔ Minister/INAC interactions about the legitimacy of the work (e.g., Institutional theory-based strategy (DiMaggio and Powell 1983)).
Political Cognitions-1 (PoC)-1	**Compliance Cognitions**: Mental models needed to manage the relationship between market actors (such as customers) and the band council, in light of the statutory duties of INAC.
(PoC)-2	**Self-protection Cognitions**: Mental models needed to manage the relationship between the band council and INAC, in light of the self-interest concerns of market actors (such as customers).
(PoC)-3	**Authoritarian Cognitions**: Mental models needed to manage the relationship between market actors (such as customers) and INAC, in light of the power concerns of the band council.

(Source: Mitchell and Morse, 2002, emphasis added)

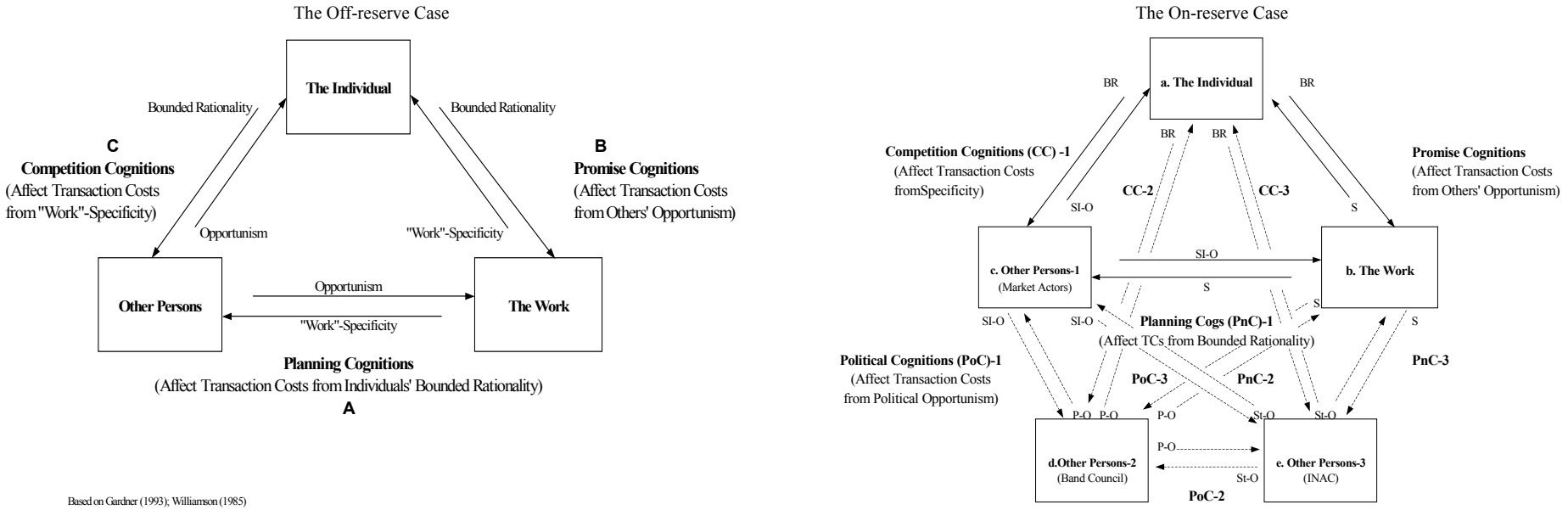
FIGURE 1
The Elements of a Basic Transaction



Based on Gardner (1993)

(Source: Mitchell, 2001a)

Figure 2
Entrepreneurial Thinking Complexity
Off- and On-reserve



(Source: Nyce, 2003)