

**Thad Beyle**  
Associate Director

**Hodding Carter**  
Leadership Fellow

**Kendra Davenport Cotton**  
Assistant Director

**Ferrel Guillory**  
Director

**Andrew Holton**  
Assistant Director

**Leroy Towns**  
Research Fellow

The Program on Public Life is a nonpartisan organization devoted to serving the people of North Carolina and the South by informing the public agenda and nurturing leadership.

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# SOUTH NOW

## The Fruits of Collaborations

*FERREL GUILLORY, director, Program on Public Life*

This issue of *SouthNow* developed out of two collaborations, one on the campus of the University of North Carolina at Chapel Hill, and the second between UNC-Chapel Hill and the University of Kentucky.

From September 2003 to December 2005, Jesse White Jr., director of the UNC Office of Business and Economic Development, and I, as director of the UNC Program on Public Life, co-convened the Carolina Seminars on Economic Development. In connection with these seminars, titled "After the Factories," we helped fund a summer research project by Emil Malizia, Nichola Lowe and several of their colleagues in the UNC Department of City and Regional Planning.

Their research tested to what extent Richard Florida's analysis in his book, *The Rise of the Creative Class*, plays out in cities in North Carolina and across the South. Malizia presented findings on North Carolina to one of our Carolina Seminars sessions. And, in these pages, Lowe describes their findings for Southern cities.

Several articles in this issue resulted from parallel class projects undertaken by students in my journalism course at UNC-Chapel Hill and students in the course taught by Al Cross at the University of Kentucky. Cross is the director of the Institute for Rural Journalism and Community Issues.

North Carolina is the nation's leading producer of flue-cured tobacco, and Kentucky leads the nation in growing burley tobacco. Cross and I had followed the politics and policy of tobacco for more than two decades, and both have a deep interest in how our states have used the proceeds from the settlement between state attorneys general and major cigarette manufacturers. As a learning experience for students, we put them to work researching, documenting and interviewing on this topic.

Inside you will find an article by Al Cross that pulls together the findings of his students, as well as his subsequent reporting. For more on his students'

writing on tobacco, see the Institute's Web site: <http://www.uky.edu/CommInfoStudies/IRJCI/reportspage1.htm>.

Inside you will also find articles reported by teams of UNC students on the Golden Leaf Foundation and the Health and Wellness Trust Fund. Daniel Blank, Rand Robins and Ryan C. Tuck formed the Golden Leaf team, and Chris Coletta, Carolina Kornegay and Anne Tate worked together on the Health and Wellness article.

In addition, Elliott Dube and Eric David, both currently students in the UNC law school, provided additional research during their summer work in our program. Also, Wayne Grimsley, who holds a Ph.D. from Mississippi State University and is a history instructor at Tidewater Community College in Norfolk, Va., updated the documentation and wrote an article putting the settlement in historical context. We have tried to offer as up-to-date an accounting of the foundation's and the trust fund's grants as possible, but of course they may have issued new grants before this *SouthNow* emerged from the press.

One more credit: Kendra Davenport Cotton, a Ph.D. candidate in political science at UNC who served as primary editor of this issue, assembled the pie-chart profiles of agriculture in North Carolina and Kentucky.

### News and Notes

- ◆ From the beginning, we knew the name was a mouthful: Program on Southern Politics, Media and Public Life. As the program expanded and as it now has its institutional base in the Center for the Study of the American South, it became time for clarity and simplicity. So, as you may have noticed, the name is shorter: The Program on Public Life. Still, we continue to work on "research brokerage" and leadership enrichment with the goal of making democracy work better.

SEE NEWS AND NOTES ON PAGE 2 →

### Contact Us

**Program on Public Life**

393 Carroll Hall  
Campus Box 3365  
Chapel Hill, NC 27599-3365

Email: [southnow@unc.edu](mailto:southnow@unc.edu)

Phone: (919) 843-8174

Fax: (919) 962-8931

[www.southnow.org](http://www.southnow.org)

# Medicines for Seniors; Stopping Teen Smoking

BY CHRIS COLETTA, CAROLINE KORNEGAY AND ANNE TATE

The North Carolina trust fund dedicated to public health and wellness has spent two-thirds of its money on a prescription drug benefit program for seniors and an initiative to stop teen smoking.

In 2000, the N.C. General Assembly created the Health and Wellness Trust Fund as one of the entities formed from the 1998 Tobacco Master Settlement Agreement. The fund receives 25 percent of the settlement money allocated to North Carolina, which will be paid in annual installments during the course of 25 years.

The fund's mission is to invest in and partner with statewide or local programs that address healthcare access, prevention, education and research. These local and statewide organizations — not the fund — execute the proposals. Community Outreach Coordinator Mark Ezzell said HWTF acts as a bank of sorts, putting out requests for projects and picking the groups it thinks will do the best job fulfilling them.

The first 18-member trust fund commission was appointed in 2001, with Lt. Gov. Beverly Perdue elected as chair. The state's governor, president

pro tempore of the Senate and speaker of the House have the authority to appoint six members each.

HWTF began with four health initiatives: **discouraging teen tobacco use, preventing obesity, teaching seniors about their medication and providing medication to them through Senior Care.** Thus far, the fund has invested about \$141 million in the four programs. Actual disbursements are far less than investment amounts, and reports

on these expenditures are only available through the last fiscal year.

Even with all the money that it's given out, the fund would be able to spend more had state lawmakers not intercepted more than \$100 million to plug budget holes since 2002. Legislative leaders have showed little sign of paying back the funding — they used money from the fund again to pay off debts stemming from the construction and renovation of medical facilities requested by colleges and universities.

The fund's programs are:

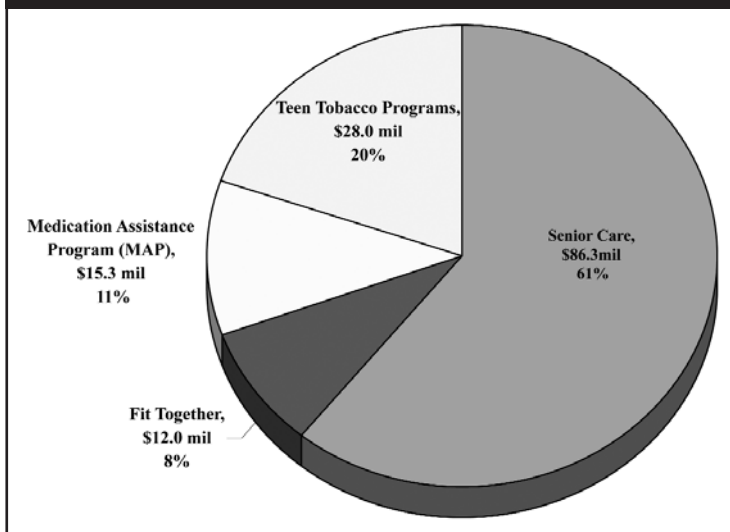
◆ **The Teen Tobacco Use Prevention and Cessation** initiative, a program designed in 2002 to discourage adolescent tobacco use. A total of \$28 million has been invested in this program.

The largest portion of the investment, about \$14.5 million, has been earmarked for local and statewide grants to fund teen tobacco prevention programs. That program also includes an unrelated, \$7.4 million advertising buy for the *TRU Tobacco.Reality.Unfiltered* campaign. The media project includes anti-tobacco ads and gets young people involved by encouraging them to submit creative anti-tobacco works such as raps, essays and videos.

A large portion of the teen tobacco grant money has gone to two major beneficiaries: public schools and organizations that serve

SEE **TEEN SMOKING** ON PAGE 3 →

## N.C. Health and Wellness Trust Fund Allocations, July 1, 2002 – June 30, 2006



### → NEWS AND NOTES FROM PAGE 1

- ◆ While shortening the name, we have worked on improving our Web site, [www.SouthNow.org](http://www.SouthNow.org). Under the guidance of Kendra Cotton and Andrew Holton, students are updating our collections of data and other information on campaigns and elections in the states of the South. We plan to unveil the revised site by the end of the summer and to resume regular reports on regional trends and developments in the fall semester. If you would like to join our email list, please contact us at [southnow@unc.edu](mailto:southnow@unc.edu).
- ◆ Since his appointment as University Professor of Leadership and Public Policy at the University of North Carolina at Chapel Hill in January 2006, Hodding Carter III has brought

his considerable experience to bear — as a journalist, State Department official and foundation executive — in giving the program guidance toward expanding. This summer, D. Leroy Towns joins the program after spending more than three decades as a political correspondent, gubernatorial press secretary and chief of staff for U.S. Senator Pat Roberts of Kansas. He plans to teach a course in political communication while serving as a research fellow in the program. Of course, Thad Beyle, our long-time colleague who teaches political science at UNC, continues to contribute from his vast storehouse of data.

- ◆ Though the Carolina Seminar on Economic Development has run its course, we have set in motion two recent initiatives: the Carolina Seminar on School Improvement, in collabo-

ration with Dean Tom James of the School of Education; and evening roundtables on North Carolina issues for state legislators. In November 2006, we plan to conduct the seventh Leadership Seminar for Southern Legislators, cosponsored with the Program in the Humanities and Human Values.

- ◆ We express abiding appreciation to our funders: to Rural Sourcing Inc. for support of the Carolina Seminars on Economic Development that provided a grant for the Malizia-Lowe research on the creative class data; to the Z. Smith Reynolds Foundation for its long-standing support of the program's policy and leadership initiatives; and to Progress Energy for its support of the *SouthNow* package of publications, both printed and online. ■

what the fund's documents call priority groups (Latinos, African Americans and Native Americans). Often, those grants go to target minority populations in less affluent counties. Examples include a \$200,000 grant to the Lumbee Tribal Nation in Robeson County and a \$294,000 grant to the public health department of Catawba County, which has a higher than average Latino student population.

◆ **The Medication Assistance Program (MAP)**, which also started in 2002. The program educates seniors on the proper use of their medication and trains pharmacists through the N.C. Area Health Education Centers program.

Almost \$15.4 million has been invested in this low-profile program. Almost \$6 million in grant funds have been designated since the start of fiscal year 2004–05, suggesting that MAP might be picking up steam.

◆ **Fit Together**, an obesity prevention campaign in which HWTF is collaborating with Blue Cross/Blue Shield of North Carolina. The program, which began awarding grants in 2004, has invested a total of \$15.5 million. The initiative has been both lauded for giving attention to an often overlooked health threat and criticized for spending money unwisely and ineffectively. The Associated Press reported that the federal Centers for Disease Control and Prevention questioned the program on the grounds that its public service announcements wouldn't get the job done.

Still, all the attention has attracted various health departments and private organizations interested in receiving grant money. In just one year, the fund has promised about \$8.55 million in 21 different grants, many of which involve multiple counties.

◆ Began in 2002 as a statewide prescription drug benefit program providing help for seniors at or below 250 percent of the federal poverty level who otherwise lacked coverage, **Senior Care** was redesigned in 2004 to supplement Medicare discount cards for state and federal benefits. The program, which accounted for roughly 60 percent of the Trust's outlays, was suspended following the Jan. 1, 2006, implementation of Medicare Part D. Roughly \$86 million had been invested in this program.

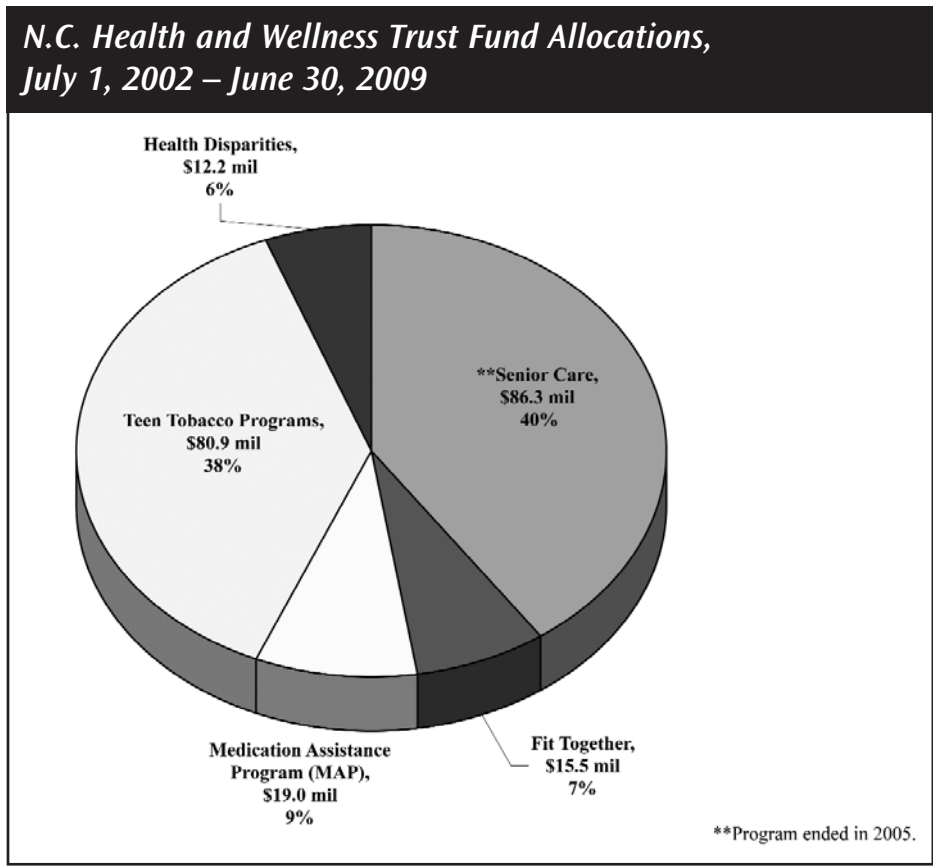
Almost all Senior Care money flowed straight from Health and Wellness to the N.C. Department of Health and Human Services, which, along with the Office of Rural Health, administered the program. At its peak, demand for Senior Care grew to 115,000 participants, which is why various news

reports contend that most of HWTF's money went toward the program.

◆ On May 1, 2006, the trust awarded its first grants totaling \$9.2 million to 23 organizations for its new **Health Disparities Initiative**, a program providing three-years of funding for projects that address the health status inconsistencies resulting from race and ethnicity as well as socioeconomic factors. Specifically, the program aims to reduce the

health disparities for children/youth and adults related to obesity and chronic diseases, including but not limited to, cardiovascular disease, diabetes and cancer.

Thus far, the trust fund's Senior Care and tobacco-related initiatives together have constituted more than two thirds of HWTF's overall investments. ■  
(Wayne Grimsley contributed to this analysis.)



**Top 10 Individual Grants (excluding program administration costs of almost \$80M for Senior Care)**

Grant	Counties To Be Served	Phase I/II Funding	HWTF Initiative
Question Why Eastern Region (Wilmington Health Access for Teens Inc. – WHAT)	Eastern N.C. counties	\$888,372	Teen tobacco
UNC – N.C. Institute for Public Health (on behalf of NENCPPH)	Northeastern counties	\$845,904	Teen tobacco
Old North State Medical Society	Statewide	\$785,000	Teen tobacco
Resources for Seniors Inc. (MEDS Program)	Wake, Franklin, Johnston, Lee	\$716,000	MAP
El Pueblo Inc.	Statewide	\$713,100	Teen tobacco
Cumberland County Hospital System Inc.	Cumberland	\$700,000	MAP
Guilford County Dept. of Public Health	Guilford	\$698,957	MAP
Carolina Family Health Centers Inc.	Edgecombe, Nash, Wilson	\$639,000	MAP
MedAssist of Mecklenburg	Mecklenburg	\$605,500	MAP
Isothermal Planning AAA	Rutherford, Cleveland, Polk, McDowell	\$604,521	MAP

# North Carolina's Growing Golden Leaf

BY DANIEL BLANK, RAND ROBINS AND RYAN C. TUCK

The Golden LEAF Foundation, which receives 50 percent of North Carolina's share of the Tobacco Master Settlement Agreement of 1999, began issuing grants in 2000. Golden LEAF's stated mission is to help North Carolinians make the transition from a tobacco-dependent economy by distributing funds that will "positively affect the long-term economic advancement of the state," giving priority to counties where tobacco has traditionally been a centerpiece of their economies.

A 15-member board of directors appointed by the governor, the House speaker and the Senate president pro tem runs the foundation. Most of the board members come from either counties that receive a large portion of the foundation's funding or such prominent counties as Wake and Mecklenburg.

The foundation is classified as a 501-C3 public foundation, making it very difficult for the state legislature to "intercept" its funding, as has been the case with the N.C. Health and Wellness Trust Fund.

The types of grants being made by Golden LEAF suggest that the foundation has become a significant component of the state's economic development infrastructure. This is evidenced by the organization's contributions to the state's biotech initiative. The foundation made \$60 million in Biotechnology Training Consortium Awards during the 2003-04 grant cycle. The largest chunk of this money filtered through North Carolina's public universities and community colleges. N.C. State University received almost \$33.5 million, N.C. Central

University was given about \$17.8 million and the state's community college system received almost \$8.7 million to support biotech efforts.

The structure of the foundation is such that its role in influencing and contributing to state policy can only grow. Having invested the original settlement money in a number of funds, the foundation makes grants from the profits earned from its capital. And it continues to add to its capital as each year's settlement payments are received. Valeria Lee, president of the foundation, said about 9,400 new jobs have been created for North Carolinians, about 1,900 people have been retrained, and almost 4,000 have retained jobs they otherwise would have lost because of Golden LEAF funding.

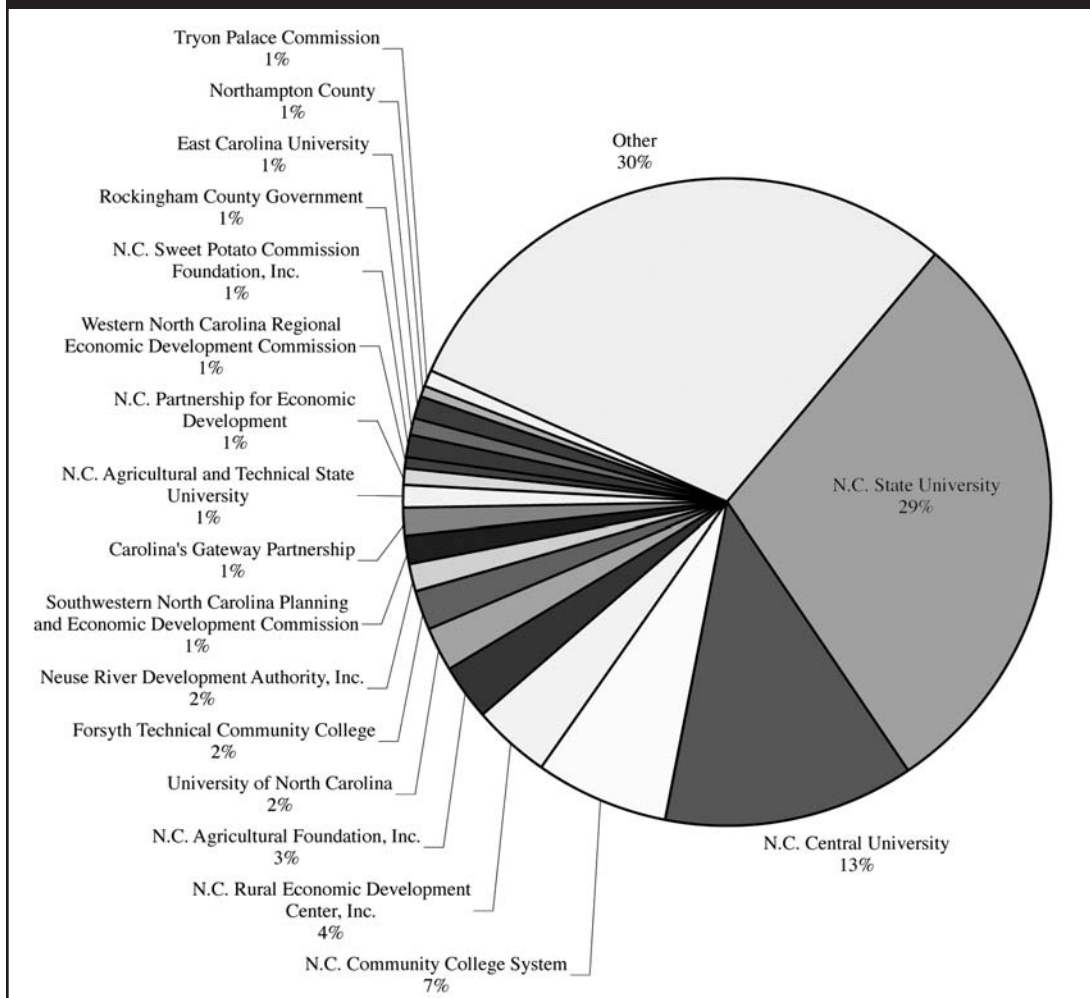
Thus far, the foundation has completed six annual grant cycles; the deadline for the seventh is Aug. 1, 2006. Outside of various special grants, Golden LEAF's awards since 2000 can be categorized as follows:

- ◆ About \$15.8 million has gone toward projects meant to improve farmers' growing, marketing and communication abilities. The foundation has allocated a substantial amount of that funding to researching new crops and products that might replace tobacco as a cash crop for some farmers. Since 2000, Golden LEAF gradually has decreased its investment in this vein while increasing the amount of money going toward business incentives and workforce development.

- ◆ About \$11 million has been tabbed for workforce development-related initiatives intended to train displaced employees for new occupations and to broaden the skills of rural workers in transition.

- ◆ About \$13 million has been directed to expand existing businesses in rural areas and to revitalize local economies by attracting new business.

## Recipients of the Most Golden LEAF Grant Money by the End of the 2005-06 Cycle



◆ About \$13 million has been designated for education-related initiatives: offering scholarships, improving schools and libraries, increasing Internet access in rural counties and accommodating the teacher certification process. Golden LEAF generally has increased its education investment since the first grant cycle.

◆ About \$5.5 million has been designated to spur tourism in rural parts of North Carolina and/or to preserve and emphasize historical aspects of those areas.

◆ More than \$3.8 million has gone toward improving health services in various parts of the state. This includes money for initiatives related to rural waste management.

◆ About \$2.7 million has gone toward research-specific projects — initiatives to gather information that might tie in to one or more of the aforementioned areas.

Outside of these “regular” awards, Golden LEAF began developing special categories of grants in 2002.

◆ For the 2002–03 cycle, the foundation expanded its giving to include “economic stimulus” grants, which are specifically aimed at attracting new industry or retaining existing industry. More than \$5 million went to these types of grants in their first year of existence, and about \$3.2 million was earmarked for the 2003–04 cycle.

◆ In 2004–05, the foundation changed the “stimulus” designation to “catalyst.” The most striking of this new set of grants, which totaled about \$5.2 million, was an award of almost \$2.8 million to Forsyth Technical Community College to facilitate the hiring of employees for the new Dell Corporation plant coming to the Piedmont Triad region. All grants in this category are related to job creation and retention.

◆ The 2005–06 catalyst grants totaled about \$3.9 million, with \$1.9 million directly earmarked for job creation and retention.

◆ As previously mentioned, Golden LEAF’s most significant initiative has been the 2003–04 Biotechnology Training Consortium Awards, totaling \$60 million. N.C. Central University was granted \$17.8 million to establish BRITE, the Biomanufacturing

## Largest Single Golden LEAF Grants at End of 2005–06 Cycle

Recipient	Name of award	Amount	Cycle
N.C. State University	Biotech Training Consortium Award	\$33,500,000.00	2003-04
N.C. Central University	Biotech Training Consortium Award	\$17,800,000.00	2003-04
N.C. Community College System	Biotech Training Consortium Award	\$8,700,000.00	2003-04
N.C. State University	Aerospace Alliance Initiative	\$5,383,626.00	2004-05
N.C. Rural Economic Development Center Inc.	Capital Access II	\$3,400,000.00	2002
Forsyth Technical Community College	Dell Training Initiative	\$2,763,237.00	2004-05
Neuse River Development Authority Inc.	Aerospace Ventures Fund	\$2,000,000.00	2004-05
N.C. Rural Economic Development Center Inc.	APEC Eastern North Carolina Technology Initiative	\$2,000,000.00	2003-04
Southwestern North Carolina Planning and Economic Development Commission	Western North Carolina Education Network (WNC EdNET)	\$2,000,000.00	2005-06
Franklin County Committee of 100	Industry Training Initiative	\$1,975,000.00	2001
Lenoir Community College	N.C. Community College Aerospace Alliance Initiative	\$1,948,681.00	2004-05
Rockingham County Government	Rockingham County Equestrian Center	\$1,500,000.00	2005-06
University of North Carolina	Golden Leaf Scholars Program	\$1,500,000.00	2005-06
Northampton County	Advanced Vehicle Research Center Test Track	\$1,000,000.00	2005-06
Tryon Palace Commission	North Carolina History Center: Final Design Phase – Construction Documents	\$1,000,000.00	2005-06

**NOTE:** No other single award exceeded \$1 million.

Research Institute and Training Enterprise. The money will be used to build a training facility and to develop bachelor, masters and doctoral degrees in Applied Process Research. The state’s community colleges were given \$8.7 million to develop “a comprehensive statewide BioNetwork” to train and educate workers, to attract and retain biotechnology companies and to sustain the initiative for a long period. The foundation awarded \$33.5 million to N.C. State University to establish the Biomanufacturing Training and Education Center. This grant will provide “world-class biomanufacturing skills training with commercial-scale biomanufacturing equipment and technologies.”

◆ After a hiatus during the 2004–05 cycle, the foundation reinstated its biotech award initiative during the 2005–06 grant cycle, giving \$1.5 million to both North Carolina Central and North Carolina State universities.

◆ For the 2004–05 cycle, Golden LEAF introduced Aerospace Alliance Initiative grants, totaling about \$9.3 million. Three separate

grants went to N.C. State University, Neuse River Development Authority and Lenoir Community College. The awards are meant to support aerospace firms in the state and to train workers for emerging businesses. Only one such grant was awarded during 2005–06. Haywood Community College received about \$1.6 million to create the Western Regional Advanced Maching Center at the college’s Regional High Technology Center (RHTC).

The foundation has distributed its monies following a discernible trend that favors the eastern portions of the state, which historically have been the most tobacco dependent, and the western portions of the state, which historically have been the state’s poorest regions. Craven, Greene and Lenoir counties — all in eastern North Carolina — have received the largest amounts of funding intended solely for them. Jones and Wayne counties in the east and Harnett, Hoke and Wake counties — located closer to the center of the state — have shared the largest amounts of grant money with other counties. ■

# Kentucky Invests Heavily in Farm Diversification

BY AL CROSS, director, Institute for Rural Journalism and Community Issues, University of Kentucky

No state has put as much of its tobacco-settlement funds into agriculture — half the total — as Kentucky, the state with the most tobacco growers. And the growers, or those who once grew the crop, continue to be the focus of officials who hand out the money.

The \$206 million invested so far in Kentucky agriculture has helped shake farmers' historic allegiance to tobacco, encouraged diversification and upgraded the state's cattle industry, the largest in the Eastern United States.

But the state has put virtually none of the money into research and development of biotechnology, which has been a major focus of settlement spending in North Carolina, the top tobacco-producing state.

Meanwhile, some legislators worry that the state is spending the settlement money too loosely, and the head of the office that oversees the spending acknowledges that it needs a larger compliance staff.

When hundreds of millions of dollars in settlement money began to rain down on the states in 2000, there was heavy political pressure on Kentucky legislators and the governor to funnel it into the pockets of farmers — who were going through a series of cuts in the tobacco-production quotas set by the fed-

eral government on the basis of cigarette companies' buying intentions.

At the time, the political leverage of tobacco in Kentucky far outweighed its contribution to the state's economy (less than 2 percent of the gross state product) because the economic interest in tobacco was so widely scattered among small growers, fractional quota holders and part-time tobacco workers.

Though Kentucky ranks second in tobacco production, it is first in the number of growers and quota holders. A poll by *The (Louisville) Courier-Journal* in 1997 showed that 18 percent of Kentucky adults had an economic interest in tobacco, and about 160,000 Kentucky households will share in the "buyout" payments that are part of the repeal of the federal program of quotas and price supports.

Those numbers made tobacco growers' political interests almost sacrosanct in the 2000 General Assembly. Former Gov. Brereton Jones, a Democrat, proposed that much of the money be put into a trust fund to cover health costs of the state's uninsured, but that idea got nowhere. (Meanwhile, North Carolina was investing its money and spending only the earnings.)

The legislature and Democratic Gov. Paul Patton soon agreed that half the state's settle-

ment money should be devoted to improving its agricultural economy, with the rest going to health, early-childhood development and other programs. (The legislature has since used the fund for water and sewer projects, more than \$20 million this year.)

There were turf battles over who would control spending about \$100 million a year, the largest discretionary pot of money in the state executive branch. In the end, a new state board representing agriculture, business and other interests was given control of the money, but 35 percent of it was allocated to counties based on their economic dependency on tobacco, and the spending priorities and immediate oversight were placed in the hands of local boards representing agricultural interests.

The feeling at the time was "We need immediate bang to help our farmers," said Keith Rogers, who has been executive director of the Governor's Office of Agricultural Policy, which oversees settlement spending, since late 2003. In 2000, Rogers was a tobacco, grain and livestock farmer, and district director for 2nd District U.S. Rep. Ron Lewis, R-Cecilia.

Rogers said the University of Kentucky and other state schools might have been interested in getting the money for research in agriculture or biotechnology, but kept quiet because they also wanted to see farmers get direct help and didn't want to be seen as competing with them.

Farmers' political clout was illustrated again in 2005, when the legislature reserved \$114 million in settlement money to make the final "Phase II" settlement payments due to farmers from cigarette companies. The companies eventually lost in court, and the money went back into the Agricultural Development Fund.

But with the buyout, and the departure of many growers from the industry, tobacco appears to have lost much of its political clout in Kentucky. It has declined from its historic position as Kentucky's No. 1 agricultural product to fourth, and the buyout and loss of price supports have encouraged many growers to leave the industry.

## Farming Income: Top 10 Leading Commodities for Cash Receipts, 2004

NORTH CAROLINA			KENTUCKY		
Commodity	2004 % of Total Sales	% of U.S. Value	Commodity	2004 % of Total Sales	% of U.S. Value
Hogs	25.3	14.5	Horses & Mules	23.0	81.8
Broilers	24.9	10.0	Broilers	16.7	3.4
Greenhouse & Nursery	10.1	5.9	Cattle & Calves	15.0	1.3
<b>Tobacco</b>	<b>7.6</b>	<b>40.8</b>	<b>Tobacco</b>	<b>10.2</b>	<b>27.8</b>
Turkeys	5.5	15.0	Soybeans	9.0	2.0
Cotton	3.7	5.6	Corn	8.3	1.5
Soybeans	3.5	1.6	Dairy Products	5.7	0.9
Cattle & Calves	3.1	0.5	Hogs	2.5	0.7
Chicken Eggs	2.9	4.5	Chicken Eggs	2.1	1.7
Corn	2.2	0.8	Greenhouse & Nursery	1.9	0.5

SOURCE: U.S. Department of Agriculture Economic Research Service, State Fact Sheets

SEE TOBACCO ON PAGE 8 →

## The Tobacco Settlement: A Scan of History

Eight years ago, cigarette manufacturers and 46 states made a landmark agreement to settle anti-tobacco lawsuits in exchange for payments that would bolster health care and undermine youth smoking. The states, including once tobacco-dependent North Carolina, created a means by which tobacco industry money would offset rising health costs that placed a strain on state budgets.

The seeds of the Master Settlement Agreement were planed in the 1950s when scientists reported links between lung cancer and cigarette smoking. The tobacco industry responded by creating the Council on Tobacco Research, which would hire scientists to explore the connection between smoking and health. Publicly, both the industry and its scientific organization argued that nothing proved the charges against tobacco. Privately, they listened to advisers who warned them that cigarette smoking was indeed harmful and that nicotine was an addictive ingredient within cigarettes. The industry did not heed the internal advice. Instead, it declared a 40-year war against health organizations and anti-smoking advocates.

In 1964, the first of 28 Surgeon General's reports on smoking and health was released. At that time, more than 4 out of 10 American adults smoked.

Despite a few setbacks, the tobacco industry did not lose too much ground for three decades. In 1965, Congress forced warning labels on cigarettes and five years later banned all broadcast advertising for tobacco products. Cigarette consumption in the United States began declining. A short-lived anti-tobacco crusade in the 1970s by Joseph Califano, U.S. Secretary of Health, Education and Welfare, ended when President Carter dismissed him from the Cabinet.

In the early 1990s, Mississippi Attorney General Michael Moore and plaintiff's attorney Dick Scruggs produced a class-action lawsuit against cigarette manufacturers to reclaim state Medicaid money spent on Mississippi citizens with tobacco-related illnesses. Until then, most lawsuits against the industry by former smokers failed. What the Mississippi lawyers had going for them was access to internal tobacco company documents dating back to 1963 indicating that some tobacco companies knew about the dangers of cigarettes and suppressed evidence. They had the help of a whistleblower in former Brown & Williamson Vice President Jeffrey Wigand.

Once one of the most powerful political forces in Washington, the tobacco industry found itself on the defensive. In congressional testimony that damaged the industry's image, chief executives of cigarette companies asserted their belief that nicotine was not addictive. Food and Drug Administration Director David Kessler announced his intention to regulate nicotine as a drug. His boss, President Clinton, waged a strong effort against youth smoking. Dozens of other states joined Mississippi in lawsuits to recover Medicaid expenses. By 1996, the tobacco industry hinted that it wanted to settle.

Yet an attempt to settle the tobacco lawsuits in 1997 foundered when Congress got involved in the process. In June 1997, the four largest cigarette manufacturers agreed to settle with 41 states for \$368.5 million to cover Medicaid costs. The U.S. Senate Commerce Committee expanded the settlement package to \$516 billion, including new cigarette taxes and new federal programs on tobacco prevention. The tobacco industry lobbied against the Senate bill, and the tobacco settlement collapsed.

A few months later, after negotiations between the states and the tobacco industry, cigarette manufacturers agreed to a new settlement. This time, Congress played no part in approving the deal, which was negotiated

between industry lawyers and state attorneys general, including then-North Carolina Attorney General Mike Easley. The Master Settlement Agreement of November 1998 involved 46 state attorneys general, five United States territories and the District of Columbia. Separate agreements were made with the four remaining states, bringing to an end of state-sponsored tobacco lawsuits. The agreement required the industry to pay nearly \$206 billion to the states over 25 years and prohibited cigarette manufacturers from misrepresenting the health consequences of smoking.

A few months later, Phase II of the agreement created the National Tobacco Growers' Settlement Trust Fund. The industry agreed to spend more than \$5 billion for 12 years to compensate tobacco growers for the decline in demand for their crop and to assist them in finding other ways to make a living. The subsequent buy-out of the federal tobacco program in effect superseded the Phase II agreement.

The Master Settlement Agreement had its critics. Former U.S. Surgeon General C. Everett Koop and David Kessler, then retired from the FDA, argued that the settlement did not go far enough in protecting health. They especially criticized the ban on local governments from suing tobacco companies. Other tobacco critics argued that the agreement did not ensure that the states would spend their money on smoking prevention. The chairman of the American Lung Association said the deal "concedes far too much to Big Tobacco and provides far too little to public health."

The Campaign for Tobacco-Free Kids, a major anti-tobacco lobbying organization, has monitored states' use of the Master Settlement funds. This year, the campaign reported that states spend less of their funds on anti-tobacco campaigns than four years ago. As a result, it said, teenage smoking, which had been declining, may even be on the rise. The Campaign for Tobacco-Free Kids declared that only four states follow the recommendations of the Center for Disease Control regarding spending on tobacco prevention.

States, of course, welcomed the settlement because it provided a new source of revenue. Many states incorporated the settlement payments into their regular budgetary decision making. North Carolina divided its settlement money into three parts: half goes to the Golden Leaf Foundation, one fourth to the Health and Wellness Trust Fund, and one-fourth was set aside for payments to farmers. During the budget shortfalls of 2001 to 2004, the General Assembly diverted some settlement proceeds to helping balance the state budget.

The tobacco settlement does not force states to spend CDC-recommended amounts on tobacco prevention. Thousands of Americans still buy tobacco despite its risks, some young people still find smoking cool, and the industry still makes profits from its product. About 45 million Americans smoke. Yet, the myth of healthy tobacco no longer dominates the thoughts of policy makers and farmers of the upper South. Both the politics and policy of tobacco has shifted dramatically as a result of the Master Settlement Agreement, the rise of foreign tobacco in competition with American leaf and ultimately the ending of the federal tobacco program.

— Wayne Grimsley

**SOURCES:** [www.tobaccofreekids.org](http://www.tobaccofreekids.org)  
[www.philipmorrisusa.com](http://www.philipmorrisusa.com), [www.apacweb.ag.utk.edu](http://www.apacweb.ag.utk.edu)  
[www.pbs.org/wgbh/pages/frontline/shows/settlement](http://www.pbs.org/wgbh/pages/frontline/shows/settlement)  
[www.healthwellinc.com](http://www.healthwellinc.com)  
[www.goldenleaf.org](http://www.goldenleaf.org)

In 2005, the state Agricultural Development Board rejected a grant application from tobacco growers, saying that funding tobacco would run contrary to the board's goal of diversification. Not long afterward, the legislature raised the cigarette tax from 3 cents a pack, then the nation's second-lowest state tobacco tax, to 30 cents a pack — and Republican Gov. Ernie Fletcher, a physician, wanted even more. (However, a lending agency revived with settlement money is making most of its loans for tobacco barns, officials say.)

Rogers said the initial strategy of immediate, direct payments to farmers was not just a tactical, political maneuver, but logical public-policy strategy — because it gave farmers an incentive to diversify, improve the quality of their livestock or invest in value-added processing of their products.

"We had to have a change of attitude and mindset in the Kentucky farmer to ever move beyond tobacco," and it has worked, Rogers said. He said that when he started work for the state, "I was shocked by the change I saw" in farmers' attitudes since 1997, the year before the settlement and the first congressional votes on a buyout.

Not only did the money provide incentives, each of the county-level programs — diversification, storage, fencing, forage, cattle handling, cattle genetics and on-farm water supplies — require farmers who get matching grants or forgivable loans to take training in the subject. Rogers said the programs are helping about 12,000 farmers per year.

Some legislators have complained about local management of the programs and said Rogers' office lacks the staff to properly audit the spending. Rogers agreed, and asked the

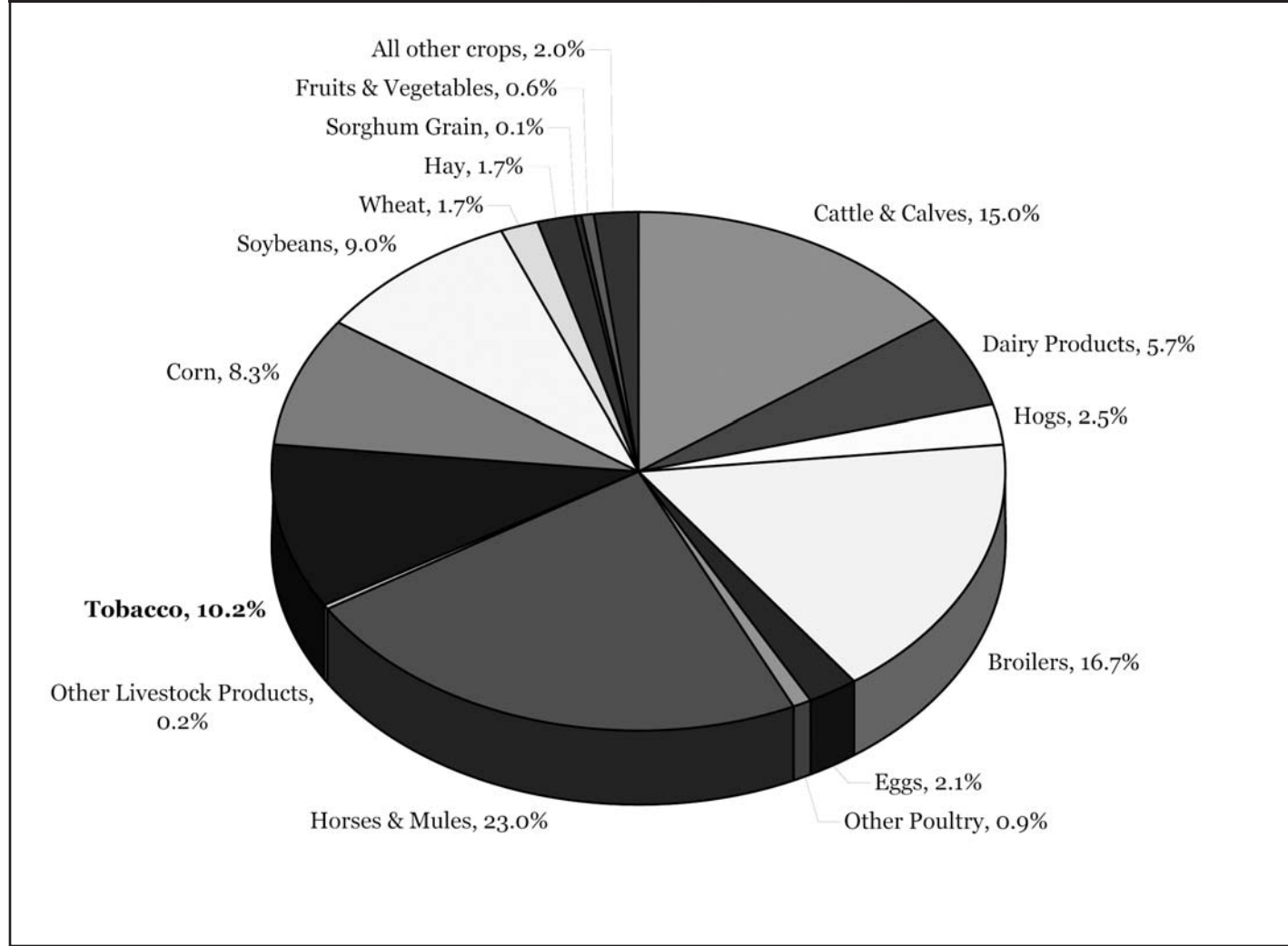
legislature for more staff this year, but the request was denied.

Rogers said that auditors have found scattered instances of local groups not following rules for allocation of the money, but that he knows of only one legal action — the indictment of a former agricultural extension agent and a farmer for defrauding a local group handling settlement funds. They pleaded guilty.

At least two other counties had problems following the rules, and in one, Casey, the local cattlemen's association will no longer get to handle the money, Rogers said, unless an upcoming audit shows it followed the rules this year. He said controversy over handling the money led to the departure of all the county's extension agents, who act as staff to the local settlement boards.

The chairman of the Casey County board

**Source of Farm Cash Receipts, Kentucky, 2004**



charged that the cattlemen, who were awarded \$130,180, refused to check for compliance by farmers who received matching grants, refused to seek refunds from farmers whose contracts were voided; awarded cattle-related money to people who had no cattle; and violated state policy by awarding money on a first-come, first-served basis.

The largest share of Kentucky's settlement money has gone to its cattle industry. Among the state model programs, which are funded at the county level, in which \$96 million has been spent, cattle-handling facilities and cattle genetics have received \$19 million and \$12 million, respectively. The largest single category, forage, at \$21 million, largely benefits cattle producers. So does livestock fencing, at \$9 million, and on-farm water enhancement, at \$1.2 million. Cattle producers also benefit from the storage program for hay, straw and commodities, which has spent \$17 million.

The Kentucky Beef Network, which helps farmers produce and market their cattle, has received more than \$8.5 million from state-level alloca-

tions. The largest outlays in that category have been \$23 million to the Kentucky Agricultural Finance Corp., which makes loans, and \$9.3 million for an ethanol plant in Hopkinsville. The Kentucky Horticulture Council has received \$6.2 million.

Concerned that it was not getting enough applications from 19 tobacco-dependent counties in northeastern Kentucky, the board gave the University of Kentucky almost \$1.3 million for an Entrepreneurial Coaches Institute to develop entrepreneurship in the area. The university's only other grant has been \$28,984 "to study the potential for farmer profit of supplying biomass products to a proposed Eastern Kentucky power plant."

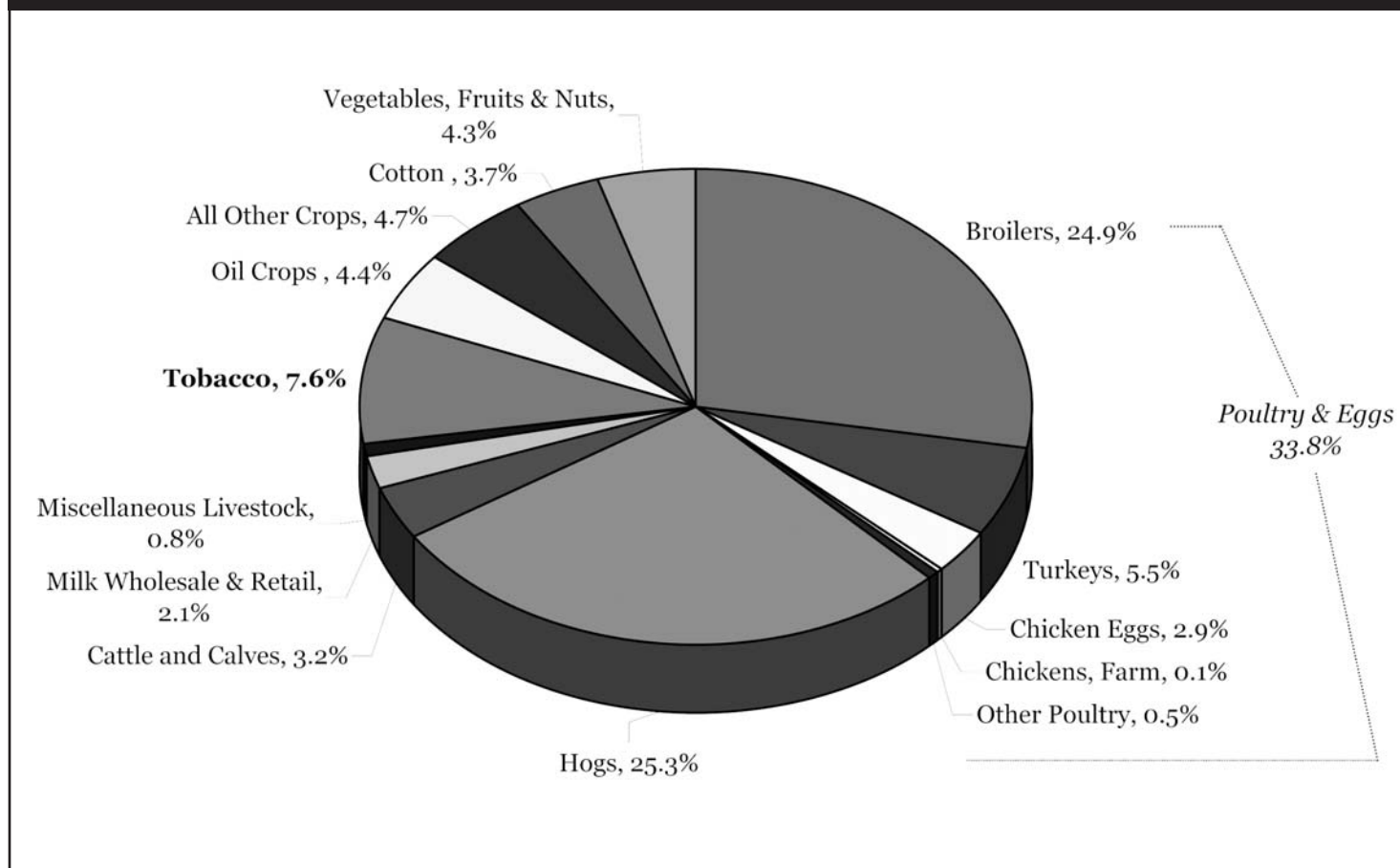
The only biotechnology grant in Kentucky has been \$255,000 to Apolimmune, an early-stage biopharmaceutical company. Rogers said last winter that the board might add research to its new strategic plan, but that has not happened. However, the Kentucky Agricultural Finance Corp. recently loaned \$3.6 million of settlement money to help a subsidiary of Owensboro

Medical Health System buy the Owensboro facilities of bankrupt Large Scale Biology Corp., where tobacco plants are to produce proteins for vaccines.

Rogers' predecessor, John-Mark Hack, said efforts to fund research in Kentucky faced big obstacles — the desire "to see money in farmers' hands," organized resistance to biotechnology, lack of a biotechnology industry like that in North Carolina, and now a state board that is "more dominated by people coming from a traditional farm background and less from an agribusiness background." ■

*Al Cross is director of the Institute for Rural Journalism and Community Issues, based at the University of Kentucky, where he is an assistant professor of journalism and directs reporting projects by undergraduate students — including one on the future of tobacco and tobacco-dependent communities, which provided some of the information for this article. Until July 2004, he was political writer at The (Louisville) Courier-Journal.*

### Source of Farm Cash Receipts, North Carolina, 2004



# In Seeking Creative Class, Basics Still Matter

NICHOLA LOWE, *City and Regional Planning, University of North Carolina, Chapel Hill*<sup>1</sup>

Since 2002, Richard Florida's theory of the creative class has attracted the attention of policy makers and urban planners throughout the United States. For city officials and boosters, the take home lesson from Florida's well-publicized national speaking tour is that creative people and more specifically, highly-educated professionals, scientists, computer programmers, designers and artists, now drive economic growth and development.

In order for cities to attract and retain these creative types, it is no longer enough to offer high-paying, reliable jobs. Rather, according to Florida, competitive places must also cater to the needs and desires of this subset of the working population (30 percent, according to Florida's estimates) by supporting the creation of hip, stylish eateries and cafes, art galleries, independently-owned boutiques and eclectic, culturally-diverse urban hangouts. Cities from Denver to Providence to Durham have embraced this logic and made it the centerpiece for urban renewal and economic development by transforming gritty inner-city neighborhoods into vibrant centers of urban life and in the process, converting old industrial spaces into high-end, high-style and in many cases, high-priced downtown condominiums, townhouses and residential lofts. Their main assumption is that creative workers seek creative outlets in all aspects of life and therefore migrate to cities that actively support their preferred life style.

In their rush to attract and retain what is believed to be highly mobile talent, however, city officials — and to a large extent Richard Florida himself — seem to have glossed over a perhaps less exciting, but nonetheless critical component of the creative class story. Embedded in Florida's creative class indices are a more traditional set of indicators for explaining differences in regional economic growth — namely, educational attainment levels of the local population, industrial mix, including a region's relative share of high technology industries and regional performance in technology patenting and entrepreneurship. By featuring the lifestyle choices of creative talent, as well as urban ethnic and cultural diversity, Florida has successfully distanced himself from more established economic theories that emphasize human capital investments and industrial diversification. What he has yet to prove, however, is that creative people are replacing traditional place-based factors as the new drivers of regional growth.

Our research explores the influence of Florida's indicators on U.S. economic growth and development. Step one in this process — outlined here for 14 Southern states — involves unpacking Florida's creative class theory into four component parts: human capital, industrial mix, innovative capacity and creative population. In an effort to round out each group, we have added additional variables to Florida's original list, including

share of the population that have earned a high school diploma, earnings from business proprietorships (a proxy for entrepreneurship) and finally, earnings from business services and manufacturing industries.

How do Southern states perform in each category relative to the national average? As Table 1 illustrates, for all indicators<sup>ii</sup> except business service earnings, regional averages for the South fall below the national average. The most notable differences exist in three areas, technology patenting, high-tech industrial output (i.e., Richard Florida's tech-pole indicator) and the bohemian index.<sup>iii</sup> For high-tech industrial output, average performance for the South is roughly half that of the nation. For all other categories, however, regional and national averages are not significantly different.

How do individual Southern cities perform? Table 2 (online) presents data for the three most populated metropolitan statistical areas (MSA) in each Southern state. For Texas and Florida, we have included all MSAs with more than 1 million residents. Shaded values indicate top performers in specific areas. San Antonio, for example, has the largest share of college graduates for this sub-set of Southern MSAs. Huntsville, home to NASA, outperforms all other cities in patents per 1,000 residents — it also has the highest percentage of earnings from business services. In terms of diverse population, Fort Lauderdale has the highest concentration of same-sex couples, Miami has the largest foreign-born population, and Lawton, Okla., has the largest share of what Florida calls bohemians, that is "artistically creative people," such as musicians, actors, painters, performers and dancers. A subset of cities — namely Atlanta, Austin, Dallas and North Carolina's Research Triangle metro-area — rank consistently high across most categories.

How do city rankings compare when looking at traditional versus creative indicators, that is, when comparing a composite index of human capital, industrial mix and innovation to a similar composite of all creative population measures? Interestingly, city rankings differ substantially across both sets of indicators.

As Table 3 illustrates, the highest-ranked

**Table 1: Southern vs. National Averages**

		South Averages	U.S. Averages
	Population (2003)	578,327	738,562
<b>Human Capital</b>	College Graduates (as a % of total population)	22.1%	23.6%
	High School Graduates (as a % of total population)	79.1%	81.5%
<b>Innovation</b>	Earnings from Proprietorships (% 1986)	9.4%	9.5%
	Total Patents per 1000 (1986)	0.09	0.16
<b>Industrial Mix</b>	Earnings from Business Services (% 1986)	3.0%	3.4%
	Earnings from Manufacturing (% 1986)	18.9%	21.3%
	Tech Pole 2000	0.23	0.53
<b>Creative Population</b>	Melting Pot 2000	0.06	0.07
	Gay Index 2000	0.80	0.83
	Bohemian Index 1990	0.85	0.93
	Creative Class 1998	0.26	0.27

Southern creative city, Miami, drops to 39th place when factoring in more traditional variables. In contrast, Huntsville, Ala., which ranks seventh on the traditional list due in part to its strong performance in technology patenting and business services, drops to 18th place on the creative population list. Similarly, Tulsa, Okla., drops from eighth to 26th place when moving from the traditional to creative list, and Baton Rouge drops from ninth to 23rd.

Despite these differences across the South, there is some overlap. Austin, for example, ranks second and third for traditional and creative categories, respectively. Similarly, Dallas, Atlanta and Houston are high performers in both areas. This overlap is captured by a rank order correlation coefficient of .69. As this value indicates, there is a significant relationship between both lists of cities. Still, it is not sufficiently large enough to guarantee that high concentrations of creative people will result in equally strong performance in the traditional factors of economic development.

Are these different rankings really that important? They are if one set of factors is found to have a stronger influence on economic growth. Step two of our analysis tests for this relationship at both the national and regional level by looking at the impact of traditional and creative indicators on per capita income levels and job growth. While a more detailed description of our findings for the U.S. South will be presented in a future issue of *SouthNow*, preliminary results do suggest a strong, positive relationship between economic growth and the more traditional measures of human capital, innovation and industrial diversification. In contrast, creative population indicators demonstrate little or no additional growth effects. In fact, in the case of one measure, the melting-pot index, per capita income levels decline as the share of foreign-born in U.S. cities rises.

Florida recommends that cities adopt a supportive and tolerant strategy for attracting and retaining creative thinkers. This advice is important on one level, as it encourages city planners to consider the quality of life of current (and future) residents. The fact that this advice is translated into urban renewal strategies that target a small, elite subset of the working population, is often justified on the grounds that this “class” drives economic growth and development.

The economic benefits from creative talent deepening is believed to spill over into the larger community through new and better

jobs and more globally competitive industries. While appealing, this “rising tides” logic has yet  
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**Table 3: Metro Rankings: Traditional vs. Creative**

MSA	Traditional Ranking	MSA	Florida's Rankings
Dallas, TX (PMSA)	1	Miami, FL (PMSA)	1
Austin-San Marcos, TX (MSA)	2	Fort Lauderdale, FL (PMSA)	2
Raleigh-Durham-Chapel Hill, NC (MSA)	3	Austin-San Marcos, TX (MSA)	3
Houston, TX (PMSA)	4	Dallas, TX (PMSA)	4
Atlanta, GA (MSA)	5	Houston, TX (PMSA)	5
San Antonio, TX (MSA)	6	Atlanta, GA (MSA)	6
Huntsville, AL (MSA)	7	Raleigh-Durham-Chapel Hill, NC (MSA)	7
Tulsa, OK (MSA)	8	Orlando, FL (MSA)	8
Baton Rouge, LA (MSA)	9	West Palm Beach-Boca Raton, FL (MSA)	9
West Palm Beach-Boca Raton, FL (MSA)	10	Nashville, TN (MSA)	10
Oklahoma City, OK (MSA)	11	Tampa-St. Petersburg-Clearwater, FL (MSA)	11
Fort Lauderdale, FL (PMSA)	12	New Orleans, LA (MSA)	12
Fort Worth-Arlington, TX (PMSA)	13	Fort Worth-Arlington, TX (PMSA)	13
Orlando, FL (MSA)	14	Charlotte-Gastonia-Rock Hill, NC-SC (MSA)	14
Nashville, TN (MSA)	15	Richmond-Petersburg, VA (MSA)	15
New Orleans, LA (MSA)	16	Lexington, KY (MSA)	16
Birmingham, AL (MSA)	17	Birmingham, AL (MSA)	17
Tampa-St. Petersburg-Clearwater, FL (MSA)	18	Huntsville, AL (MSA)	18
Lexington, KY (MSA)	19	Greensboro-Winston-Salem-High Point, NC (MSA)	19
Columbia, SC (MSA)	20	Jackson, MS (MSA)	20
Knoxville, TN (MSA)	21	San Antonio, TX (MSA)	21
Jackson, MS (MSA)	22	Columbia, SC (MSA)	22
Little Rock-North Little Rock, AR (MSA)	23	Baton Rouge, LA (MSA)	23
Richmond-Petersburg, VA (MSA)	24	Jacksonville, FL (MSA)	24
Shreveport-Bossier City, LA (MSA)	25	Oklahoma City, OK (MSA)	25
Hattiesburg, MS (MSA)	26	Tulsa, OK (MSA)	26
Memphis, TN-AR-MS (MSA)	27	Norfolk-Virginia Beach-Newport News, VA-NC (MSA)	27
Charlotte-Gastonia-Rock Hill, NC-SC (MSA)	28	Louisville, KY-IN (MSA)	28
Charleston-North Charleston, SC (MSA)	29	Memphis, TN-AR-MS (MSA)	29
Jacksonville, FL (MSA)	30	Little Rock-North Little Rock, AR (MSA)	30
Roanoke, VA (MSA)	31	Biloxi-Gulfport-Pascagoula, MS (MSA)	31
Lawton, OK (MSA)	32	Macon, GA (MSA)	32
Louisville, KY-IN (MSA)	33	Charleston-North Charleston, SC (MSA)	33
Norfolk-Virginia Beach-Newport News, VA-NC (MSA)	34	Lawton, OK (MSA)	34
Owensboro, KY (MSA)	35	Knoxville, TN (MSA)	35
Fayetteville-Springdale-Rogers, AR (MSA)	36	Roanoke, VA (MSA)	36
Charleston, WV (MSA)	37	Mobile, AL (MSA)	37
Mobile, AL (MSA)	38	Augusta-Aiken, GA-SC (MSA)	38
Miami, FL (PMSA)	39	Greenville-Spartanburg-Anderson, SC (MSA)	39
Greensboro-Winston-Salem-High Point, NC (MSA)	40	Huntington-Ashland, WV-KY-OH (MSA)	40
Wheeling, WV-OH (MSA)	41	Fayetteville-Springdale-Rogers, AR (MSA)	41
Fort Smith, AR-OK (MSA)	42	Charleston, WV (MSA)	42
Augusta-Aiken, GA-SC (MSA)	43	Shreveport-Bossier City, LA (MSA)	43
Biloxi-Gulfport-Pascagoula, MS (MSA)	44	Hattiesburg, MS (MSA)	44
Macon, GA (MSA)	45	Wheeling, WV-OH (MSA)	45
Greenville-Spartanburg-Anderson, SC (MSA)	46	Fort Smith, AR-OK (MSA)	46
Huntington-Ashland, WV-KY-OH (MSA)	47	Owensboro, KY (MSA)	47

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to offer credible evidence of this relational dynamic. Until it does, policy makers and planners, especially those responsible for improving lagging economic regions of the U.S. South, should remain on the traditional path — that is, promoting the economy through more direct investments in quality education and training, new business creation and technology deepening. ■

<sup>i</sup> Project collaborators at the Department of City and Regional Planning, UNC-Chapel Hill include Mary Donegan, Josh Drucker, Harvey Goldstein and Emil Maliza.

<sup>ii</sup> Human capital variables were generated from the 1990 U.S. Census and describe the percentage of the population aged 25 and older by education levels. The high school graduate category also includes GED equivalency earners. We used data from the Regional Economic Accounts of the Bureau of Economic Analysis to generate data on the

share of earnings from business proprietorships and from establishments categorized as business services and manufacturing. We used data from the U.S. Patent and Trademark Office to generate commercial utility patents granted per 1000 population.

<sup>iii</sup> The following indices were developed by Richard Florida: Creative Class is the percentage of the MSA's workforce in creative professional and super-creative core occupations. Creative professional occupations include: management occupations; business and financial operations occupations; legal occupations; healthcare practitioners and technical occupations; high-end sales and sales management. Super-creative core occupations include computer and mathematical occupations; architecture and engineering occupations; life, physical, and social science occupations; education, training, and library occupations; arts, design, entertainment, sports, and media occupations. TechPole is a combination of an MSA's high-tech industrial output as a percentage of total US high-tech industrial output and the MSA's location quotient of high-tech industrial output. The Bohemian and Gay Indices are location quotients for artistically creative people in MSA and those who identify as gay male partners, respectively. The Melting Pot Index is the percentage of foreign-born in the MSA. (We are grateful to Richard Florida and Kevin Stolarnick for these data.)