

To encourage downtown retailers to refurbish their storefronts, the Eastern Band spent more than \$1 million to renovate this tribal-owned shopping complex.

Making it on the Reservation

The Eastern Band of the Cherokee Indians shares the economic problems that afflict tribes nationwide and the beleaguered rural communities of western North Carolina

BY CHARLES GERENA

Whether it's Kitty Hawk or Virginia Beach, every tourist destination has it — a strip of retailers whose purpose is to empty visitors' wallets. Downtown Cherokee in western North Carolina has one too. The major difference is the frequent appearance of buzzwords like "tepee" and "chief" above storefronts.

On an overcast morning in April, the tourist season is just warming up. A guy stands outside of one shop looking bored and rather chilly dressed in Indian garb, waiting to greet people and have his picture taken. For now, there are only a few couples and families wandering around, browsing traditional crafts sold alongside cowboy paraphernalia and merchandise emblazoned with "Great Smoky Mountains."

This is the economic heart of the Qualla Boundary, the largest reservation in the Fifth District and home of the Eastern Band of Cherokee Indians. Like its mountain neighbors seeking economic opportunities, the Eastern Band has embraced tourism. It is an industry where the tribe's cul-

ture and history provide a comparative advantage. A casino that opened in 1997, one of relatively few Indian-run gaming operations east of the Mississippi, has jump-started the tribal economy.

Across the country, the 511,000 American Indians living on reservations have struggled to succeed. Their per-capita income grew 83 percent from 1970 to 2000, outpacing the nationwide rate. Still, it remained about one-third of the U.S. average. Median incomes, poverty levels, and unemployment on reservations followed a similar pattern — they improved significantly over the last decade, yet still compare poorly to the country as a whole.

Economists and historians blame this lagging performance on problems with financial, human, and physical capital; reservations either don't have enough of it or use it inefficiently. Tribes have had to overcome a legacy of federal micro-management of Indian affairs, along with the present-day problems faced by all rural communities. Furthermore, a complicated web of land-use

and ownership policies on many reservations makes it hard to find investors for new ventures. The Eastern Band is trying to meet the unique challenges of life on the reservation and in western North Carolina with pragmatism and a determination to survive.

Reservation Life

Survival was everything when the federal government forced thousands of Cherokee Indians from their ancestral lands throughout the Southeast during the late 1830s. Many died during the grueling westward march known as the "Trail of Tears." About 1,000 stayed behind, some hiding in the mountains of North Carolina to evade the U.S. Army.

The story of the Eastern Band doesn't end there, asserts tribal member James Bradley. "People say, 'Oh they were removed, how sad,' and they don't get a sense of how we fought to stay where we were and the leadership we've had over the years," says Bradley, a program associate with the nonprofit Cherokee Preservation Foundation.

PHOTOGRAPHY: CHARLES GERENA

The Eastern Band has a long history of self-determination. After many years of legal wrangling, tribal members persuaded state officials to recognize their rights as permanent residents in 1866. This paved the way for the federal government to acknowledge their rights and for the tribe to reacquire some of its land. A general council was held two years later, a new chief was elected in 1870, and the tribe incorporated under state law in 1889.

Today, a democratically elected council serves as the legislative branch of the Eastern Band's tribal government. A principal chief and vice chief comprise the executive branch, while a tribal court serves as the judiciary. The government provides basic services like sewage treatment and police protection, as well as social services like daycare and senior housing, for the 8,500 tribal members who live in the Qualla Boundary. (About 5,000 live off the reservation.)

While the Eastern Band is a sovereign nation with its own laws, many of them are harmonized with state and federal regulations. For example, everyone who works and lives in the Qualla Boundary pays a tribal levy on purchases that is equal to the state sales tax. Also, while tribal members don't pay a highway-use tax on vehicle sales, they must have a valid driver's license from the state.

Tribal governments often perform many of the administrative functions of a county. But not every tribe has a long-standing, widely accepted system of self-governance like the Eastern Band. According to sociologist Stephen Cornell and other researchers with the Harvard Project on American Indian Economic Development, this is essential for economic success.

"Indian nations that have taken over decisionmaking power—and have backed that power up with capable governmental organizations and structure—have done much better than those who haven't," says Cornell, co-director of the Harvard Project. "You have to create institutions that

the people being governed are likely to believe in and view as theirs."

Businesspeople dislike uncertainty, so they are less willing to invest somewhere that doesn't have a legitimate, stable government which consistently enforces the rules of the game. "You've got to create an environment [where] they feel comfortable and that looks promising," notes Cornell. It doesn't have to guarantee success, but "it has to be a place where people are going to get a fair shake."

The complicated nature of land ownership has stymied economic development efforts on reservations. Reservation land can be owned individually by tribal members or collectively by the tribe. In both cases, there can be restrictions on transferring or mortgaging property. Or the U.S. Secretary of the Interior can hold the title to reservation land in trust. The Eastern Band placed its lands under federal control in 1924, and other tribes did so at other times for the same reason: to keep non-Indian speculators from snatching up Indian territory for their gain.

The trust arrangement has worked all too well. It complicates any effort to obtain land or capital for new development. Individually owned land held in trust can be mortgaged only with the approval of the Interior Secretary. A non-Indian can't purchase the land unless it is subject to foreclosure or cannot be transferred within the tribe, plus any sale requires federal approval. Meanwhile, tribal land held in trust cannot be mortgaged or sold. While it is leasable for extended periods, the tribe and the Bureau of Indian Affairs have to give their OK.

Land issues were a headache for Carr Swicegood, an Asheville businessman who opened a large shopping center in the Qualla Boundary four years ago. Swicegood attracted tenants like Food Lion and Family Dollar to Cherokee Crossing, but banks were leery about financing the project and the development process took longer than usual because of the approvals he had to get

for his 50-year ground lease. Meanwhile, his efforts to develop a large parcel across the road haven't been successful.

In general, researchers have found that productivity is significantly higher on reservations where a relatively large portion of the land is privately owned compared to those where land is held in trust or owned by the tribe. Part of the reason is that people may be reluctant to invest their knowledge and money into making their property more productive if they have a hard time reaping the added value in the future. "You've got to get the incentives right," says Leonard Carlson, an Emory University economist who has studied Indian reservations.

Indeed, many business owners in downtown Cherokee were letting their storefronts age, until the tribe recently renovated its strip center and began offering low-interest loans for external renovations. Now, new green roofs and stucco facades greet customers at several eateries and shops.

Rural Life

Location also works against reservations. The federal government often created them on the fringes of developed areas. Therefore, they share the economic challenges faced by isolated rural communities, challenges that limit business development to small firms and home-based service enterprises.

Remote rural areas tend to have higher transportation costs and limited comparative advantages for industry. Additionally, the mountainous terrain in the higher elevations of western North Carolina leaves little flat land for sprawling factories, subdivisions, or retail centers. This makes it hard to attract human and financial capital, which tend to migrate to where the best opportunities are. It also results in insufficient population density to attract and support large-scale service industry.

As a result, the seasonally adjusted unemployment rate of western North Carolina's rural counties reached 5.7 percent in April 2005 compared

to 5.5 percent for the whole region and 5.3 percent for the state. This gap has persisted for the last four years.

Meanwhile, unemployment in the Qualla Boundary is about 12 percent. As with many Indian reservations, the Boundary only supports a variety of small employers — mostly service firms and retailers — leaving the tribe as the single biggest employer. Most people work directly for the government or at tribal-owned enterprises, including two gaming operations, a group of service companies operated by the Cherokee Boys Club, and a bottled water producer.

Manufacturing activity in the Qualla Boundary has dwindled from several firms to just one: a company that mass-produces toys and souvenirs. Most employment opportunities are outside of the reservation, such as a Stanley Furniture plant to the west.

Shouldn't people move away to find better economic opportunities? Carlson argues that such migration can hinder efforts to preserve the unique heritage of Indian tribes. "If you want a culture or language to survive, you need to have a place where there is a concentration," he explains. Otherwise, it becomes integrated into the mainstream. That's why many tribal members have stayed on the Qualla Boundary or returned home to find ways to leverage native skills and the region's assets.

One asset that the Boundary has is natural resources. In the past, it supported agricultural activity, but timber supplies have been depleted and families have found better ways to make a living than by farming. Today, the Boundary's natural resources support a different industry: tourism and recreation.

In general, this sector can be a source of economic growth for rural areas, as dollars come from more urbanized areas to communities where traditional industries like agriculture and manufacturing have been declining in employment. Of course, not every Indian tribe wants its reservation turned into a tourist trap — the Havasupai Indians haven't built

Lagging Incomes

The three western North Carolina counties closest to the Qualla Boundary share the reservation's lagging economic conditions. Still, county residents fare relatively better than the Eastern Band of Cherokee Indians.

State	Median Household Income (\$)	Population Below Poverty Level (%)
Eastern Cherokee Reservation	27,350	23
Jackson County	32,552	15
Macon County	32,139	13
Swain County	28,608	18
North Carolina	39,184	12

NOTE: Data are from 1999.
SOURCE: U.S. Census Bureau

transportation infrastructure to bring people to their scenic tributary of the Colorado River. Nor does every tribe have a major metropolitan market within driving distance and something to offer for visitors.

For the Eastern Band, tourism has been a good fit. Western North Carolina is a few hours from Charlotte and Atlanta. The Blue Ridge Parkway and the Great Smoky Mountains National Park, both just north of the Qualla Boundary, draw outdoor lovers. And one hour across the border in Tennessee are two other tourist magnets: Gatlinburg and Pigeon Forge, home of Dollywood.

The result is the plethora of roadside shops that hawk "authentic" Indian knickknacks to people heading toward the national park, which opened in 1940. One shop started by Chief Saunooke in 1939, the year that the first segment of the Blue Ridge Parkway opened, has expanded several times. Tribal members have made money every summer by dressing up in Indian garb to perform for shoppers outside of stores, a practice known as "chiefing."

Today, tourism and recreation is the primary industry in the Qualla Boundary, accounting for 2,300 of the Boundary's 5,500 jobs in 2003. About 1,700 tourism positions are at Harrah's Cherokee Casino, a tribal enterprise with 80,000 square feet of video gaming devices and two 15-story towers of luxury accommodations. Other attractions include the "Unto

These Hills" outdoor drama, a re-created Indian village, and two small amusement parks.

Betting on Gaming and Tourism

Like every industry, tourism has its drawbacks. It pays relatively low wages — about \$7 an hour, according to Sharon Blankenship of the Cherokee Native American Business Development Center. Then, there are concerns about preserving the tribe's culture and geographic beauty that many tourists pay to see.

The biggest downside is that tourism can be seasonal. Busloads of people fill the casino year-round, but the Indian village is open only from May to October and the outdoor drama only runs during the summer. As a result, the unemployment rate in the Qualla Boundary varies from a low of 6 percent in the summer to a high of 35 percent in the winter.

Still, tourism brings dollars into a community where there are few major sources of economic activity. The question is whether it makes a material difference in the lives of the Eastern Band of Cherokee Indians. The answer appears to be "yes," largely due to gaming. Similar economic improvement has occurred in other reservations with casinos.

Tribal members occupy a third of the casino's jobs, most of which are hourly positions that pay an average of just under \$10 an hour. In addition, businesses on the reservation get about half of the \$15 million that the casino

spends on goods and services in North Carolina and surrounding states.

In addition to the economic ripples created by what the casino spends, the tribal government has been able to do more. Half of the net revenue from the casino, as well as from a tribal-owned bingo parlor, goes directly into the government's coffers. Officials have used this money to expand health care and other services, which has required an expansion of its payroll to about 900 employees.

The other half of the tribe's net gaming revenue goes to each enrolled member as a biannual payment, which amounted to \$5,200 in June 2005. These per-capita payments accumulate for underage members until they are 18 years old and have a high school diploma. At that point, the windfall can be used for educational purposes ... or for a post-graduation spending spree.

Millions of visitors pass through the Eastern Band of Cherokee's reservation on their way to the Great Smoky Mountains National Park.



The per-capita payments exceeded \$50 million in each of the last three years, helping to boost incomes and reduce poverty levels in the Qualla Boundary. The economic effect of these additional dollars has been more regional than local, though. Without a critical mass of year-round customers, many local businesses cater to the tourist trade. As a result, residents go outside of the reservation for basic goods and services.

"You have to travel quite a distance to [shop]," says Michell Hicks, the tribe's principal chief. "A lot of folks go to the outlet mall in Pigeon Forge [or] the mall in Asheville." Somewhat closer to home, the Walmart Supercenter, less than 30 minutes away in Sylva, reportedly experiences a surge in sales every time tribe members receive their per-capita payments.

The 3.5 million people who visit the casino every year have spurred the development of hotels and fast-food places, but the local tourist trade doesn't see a lot of spillover effects. "We have two groups of people that come here: the gamer and the tourist," describes Joyce Dugan, Harrah's director of external relations and career development at the casino and Hicks' predecessor. Tourists might spend a little money at the casino and then see other sights. In contrast, gamers usually don't venture into the Boundary.

So, the tribal government is working with the Cherokee Preservation Foundation to revitalize the souvenir

shops and other businesses downtown to make them more attractive. They are also working to reorient attractions to leverage the tribe's heritage rather than merely offer trinkets made in China or people dressed up like extras in a Western.

Once tourism is revitalized, the tribal government will turn to the difficult task of diversifying the local economy. It will do what it can to overcome the odds, including investing \$1.9 million in a regional broadband network to attract technology-based businesses and providing loans to small businesses.

"The beauty of the natural environment is probably what they should focus on," suggests Todd Cherry, an Appalachian State University economist that tracks business conditions in western North Carolina. "You can do some things to create a comparative advantage, but you have to build on what you're good at." The existing tourism sector could be expanded to include golf courses or fine restaurants to appeal to different types of visitors.

Regardless of how it is accomplished, diversification will be necessary if the Eastern Band wants to keep more of its dollars within the Qualla Boundary. It will also help the tribe keep its young people when they graduate from high school.

"It will be interesting to see if this generation takes [their per-capita] money and moves away, seeing other opportunities that are bigger than what we have," says Dugan. She is optimistic that they won't. **RF**

READINGS

Anderson, Terry Lee. *Sovereign Nations or Reservations? An Economic History of American Indians*. San Francisco: Pacific Research Institute for Public Policy, 1995.

Cornell, Stephen and Joseph P. Kalt. "Sovereignty and Nation-Building: The Development Challenge in Indian Country Today." *American Indian Culture and Research Journal*, 1998, vol. 22, no. 3, pp. 187-214.

Frantz, Klaus. *Indian Reservations in the United States: Territory, Sovereignty, and Socioeconomic Change*. Chicago: University of Chicago Press, 1999.

Martin, Edward. "Reservations." *Business North Carolina*, March 2004.

Stambaugh, J.J. "Cherokee Renaissance: Success of Casino Helping Eastern Band Reclaim Heritage." *Knoxville News/Sentinel*, Dec. 19, 2004.

Taylor, Jonathan B. and Joseph P. Kalt. "American Indians on Reservations: A Databook of Socioeconomic Change Between the 1990 and 2000 Censuses." The Harvard Project on American Indian Economic Development, John F. Kennedy School of Government, Harvard University, January 2005.

Visit www.richmondfed.org for links to relevant sites and supplemental information.