



# Changing places:

## Shifting livelihoods of people and communities in rural Minnesota

Small towns and rural areas are a big part of Minnesota. One of every five Minnesotans lives outside the Twin Cities area in a city or township of less than 2,000 population. In recent decades, downturns in two mainstays of nonmetropolitan economies – agriculture and mining – have forced changes in the way many rural Minnesotans earn their livelihood.

Parts of rural Minnesota, especially the agricultural areas of southern and western Minnesota, have had long-term population decline. Younger Minnesotans leaving high school or college often leave rural areas for job opportunities elsewhere. Many eventually return, but not until retirement when pensions and social security give them more freedom to live where they choose.

Although resource-based industries such as agriculture, mining and forestry remain the economic anchors of much of rural Minnesota, the economies of many rural areas are more diverse than ever before. Some have added manufacturing employment, while others have benefited from expansion of tourism. Still, rural Minnesotans generally earn less and have a more limited range of higher-wage career options than urban Minnesotans. In addition, the function of many rural places is changing. Many smaller communities, especially in agricultural areas, are struggling to hang on as they lose much of their original commercial trade function to larger cities. Many rural Minnesotans find themselves driving farther for work, shopping and services as businesses in larger cities and towns have gained a competitive advantage.

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In the early decades of the 21st century, livelihood options will be different in rural Minnesota than in urban Minnesota. This *Perspectives* report examines the economic base of rural Minnesota, with an emphasis on the southern and western agricultural regions. Together with a July 2000 *Perspectives*, “Implications of Rural Minnesota’s Changing Demographics,” (see box on page 2), this report provides background for understanding development challenges facing rural Minnesota. Another *Perspectives* report, “Growing Rural Economic Success,” will explore possible options for rural economic development.

This report takes a quarter-century perspective, focusing on trends from 1972 to 1997. Although more recent personal income data is now available, using 1997

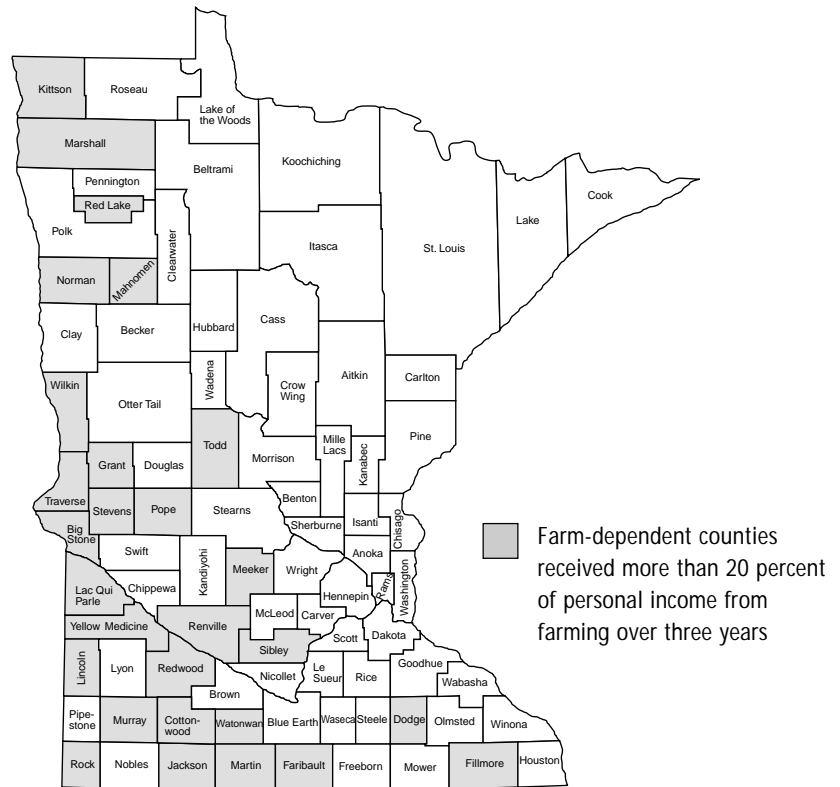
data allows comparisons with data from the 1997 economic and agricultural censuses. The 25-year time frame illustrates how much communities can change in less than a generation. Twenty-five years from now, today's rural high school graduates will be in their 40s – many with teenage children. What kind of rural Minnesota will those future high school graduates and their families know?

Except where otherwise indicated, this report defines rural as the 69 counties outside metropolitan areas defined by the federal government. Five federally recognized metropolitan statistical areas include counties in Minnesota: Minneapolis-St. Paul, St. Cloud, Rochester, Duluth-Superior, Fargo-Moorhead and Grand Forks-East Grand Forks.

Although this division of the state into metropolitan and nonmetropolitan is useful for comparing urban and rural areas, neither area is entirely urban or rural. Just as there are urban areas as large as Mankato and Winona within these 69 rural counties, some metropolitan counties – for example, Polk and St. Louis – contain significant rural areas.

To get a closer look at the rural part of the state, some analysis in this report uses a U.S. Department of Agriculture classification of 29 farm-dependent counties. The 69 counties outside metropolitan statistical areas were classified based on their predominant source of income. Farm-dependent

## Farm-dependent counties 1987-1989



Note: Counties in Metropolitan statistical areas are excluded from typology.

Source: USDA, Economic Research Service

counties were defined as those receiving more than 20 percent of their total 1987-89 labor and proprietor income from farming. This grouping is useful for this report because it identifies a group of nonmetropolitan counties that were among the state's most heavily agricultural in the middle of the study period.

The band of farm-dependent counties sweeping from Fillmore County in the southeast to Rock County in the southwest, and then north to Kittson County in the northwest, is interrupted by a handful of strong agricultural counties with more diversified economic bases. These are generally counties containing a city of 10,000 or more population with a strong retail or manufacturing base. In south central Minnesota, Nicollet (North Mankato), Brown (New Ulm), Steele (Owatonna) and Freeborn (Albert Lea) were classified as manufacturing counties. Other counties had economies diversified enough to be classified as nonspecialized: Lyon (Marshall), Nobles (Worthington), Mower (Austin), Kandiyohi (Willmar) and Chippewa (Montevideo, Granite Falls).

Although they have traditionally been the most farm-dependent in the state, the 29 farm-dependent counties accounted for only 49 percent of total Minnesota farm income in 1997. Many other nonmetropolitan counties are important farming

### CHANGING DEMOGRAPHICS

*Implications of Rural Minnesota's Changing Demographics* (Minnesota Planning, July 2000) explored the implications of three rural trends:

- Aging population – The entire state's population is aging, but the trend is especially strong in rural areas where, in most counties, more than 20 percent of the population will be over age 65 by 2025.
- Exodus of young adults – Declining birth rates and outmigration of young adults means continued school enrollment decline in rural areas.
- Uneven population growth – Rural counties with lake and forest amenities are growing, but agricultural rural counties face continued population decline without significant in-migration.

areas, but are much less dependent on farm income because they have more diversified economies.

Analysis of sources of personal income is based on data from the Bureau of Economic Analysis in the U.S. Department of Commerce. It is supplemented with data on business establishments from the U.S. Census Bureau.

## Rural income lags behind metropolitan area income

The hundreds of small towns and cities across Minnesota have historically been dependent on income generated from the land – agriculture, mining and forestry. Most industry was tied to processing of crops, livestock, minerals and forest products. Main street businesses and service establishments depended heavily on the buying power of farmers and other resource-based businesses.

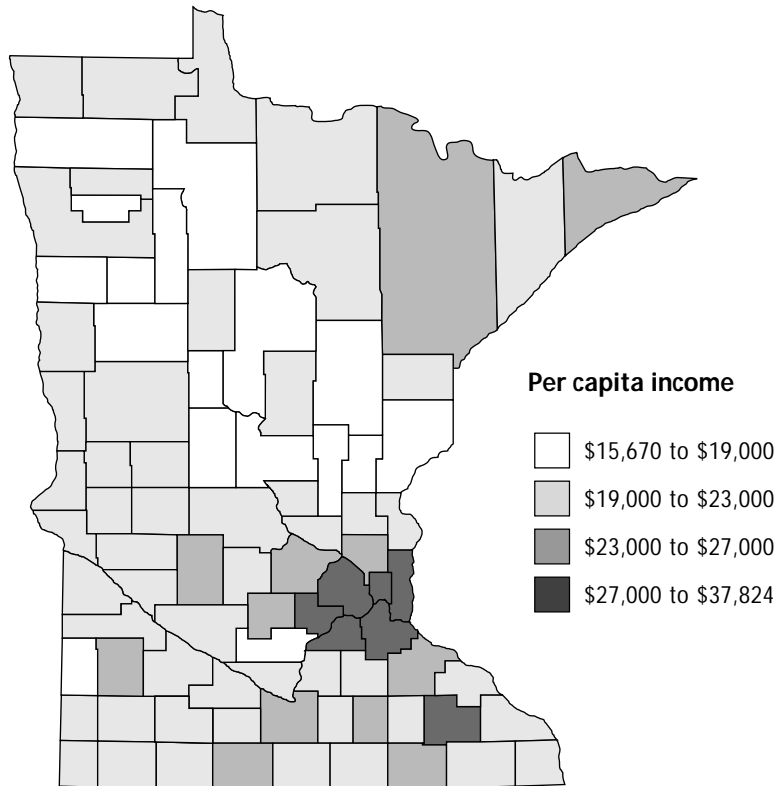
Over the past 30 years, rural economies and opportunities for making a living have changed in important ways:

- As farms have grown in size and farm population has declined, the retail base of many small towns and cities has shrunk.
- Recurring crises in agriculture have diminished the buying power of those remaining on farms.
- Many small, locally owned businesses – drug stores, gas stations, hardware stores – have been replaced by large chain establishments such as Wal-Mart or SuperAmerica.

Much retail and service trade has moved from smaller to larger communities, so that many people travel farther today to work or spend their money. This centralization of economic activity has strengthened a handful of larger centers that have been able to expand their retail and service sectors despite stagnant or declining population in their surrounding trade areas.

The story is not the same everywhere. Some fairly small communities have benefited from new successful

## Minnesota's 1997 per capita income varied widely throughout the state

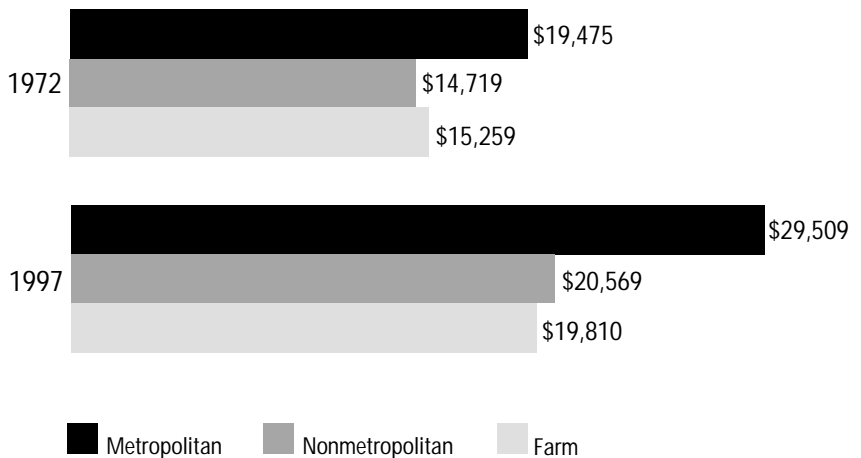


Statewide per capita income was \$27,523

Source: Bureau of Economic Analysis

### Income lags in rural areas

Per capita income in 1997 dollars



Note: Counties in Metropolitan statistical areas are excluded from typology.

Source: USDA, Economic Research Service

manufacturing, while some larger centers have lost jobs in declining industries. Communities in high amenity areas have benefited from the stimulus of population growth, with new residents often bringing retirement savings and income with them.

Population growth has favored north central Minnesota, where lakes and forests have attracted retirees and others seeking a nonmetropolitan lifestyle. Northeastern counties have gradually diversified their economies to offset job losses in mining. Diversification has been more difficult in agricultural areas of southern and western Minnesota, where many counties have experienced several decades of population decline.

Although the fortunes of Minnesota's urban and rural communities are inextricably linked, income levels and sources of livelihood are significantly different in rural Minnesota.

In 1997, annual per capita income in rural areas was only 70 percent of per capita income in Minnesota's metropolitan counties. In dollar terms, the gap was nearly \$9,000. Per capita income was slightly lower in the 29 farming-dependent counties than in other nonmetropolitan counties. Some of the income gap is probably offset by lower living costs in nonmetropolitan areas, but good

### PER CAPITA PERSONAL INCOME BY SOURCE, 1997

	Job earnings	Dividends, interest and rent	Transfer payments	Total
Metropolitan counties	\$20,571	\$6,020	\$2,918	\$29,509
Nonmetropolitan counties	\$12,256	\$4,730	\$3,583	\$20,569
Farm-dependent counties	\$11,128	\$4,873	\$3,809	\$19,810

comparative data is not available. Personal income includes job earnings, transfer payments and income from dividends, interest and rent.

Metropolitan areas outpaced rural areas in total per capita income growth from 1972 to 1997. Adjusted for inflation, per capita income grew 40 percent in nonmetropolitan areas, compared to 52 percent in metropolitan areas. The 29 farm-dependent counties lagged even farther behind with per capita income growth of only 30 percent.

The income gap between metropolitan and nonmetropolitan counties widened between 1972 and 1997. Nonmetropolitan per capita income fell from 76 percent of metropolitan per capita income in 1972 to 70 percent in 1997. If only farm-dependent counties are considered, the gap grew even more. Farm county per capita income slipped from 78 percent of metropolitan income to 67 percent.

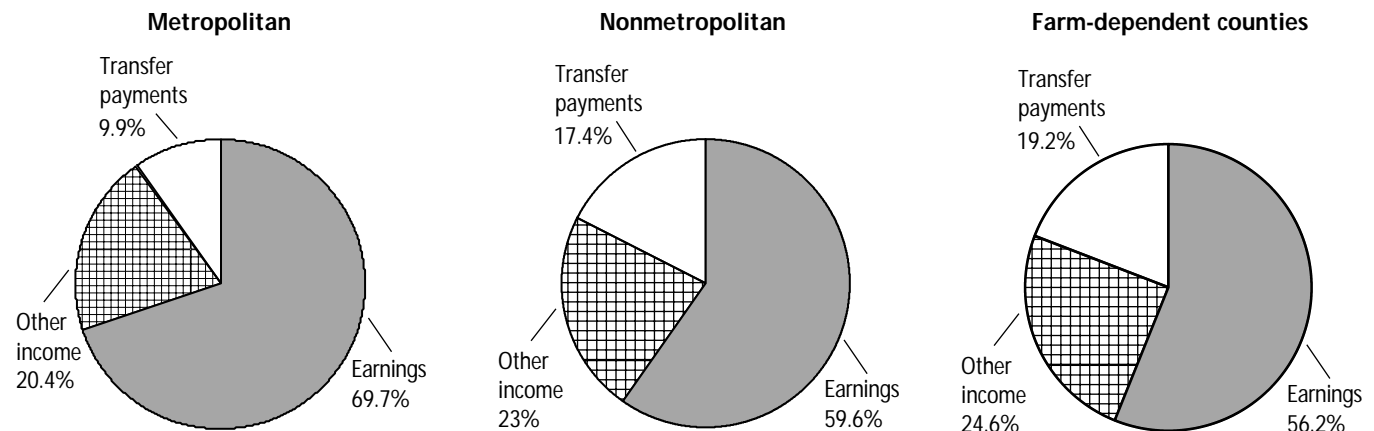
### Rural areas more dependent on manufacturing, government and transfer payments

The income gap between rural and metropolitan areas has grown largely because rural earned income – labor income and proprietor's (including farm) income – has not kept pace with metropolitan earnings. Only strong growth in federal transfer payments such as Social Security, pensions and unemployment benefits has kept the gap from widening even further.

In 1997, earnings contributed 60 percent of nonmetropolitan income, compared to 70 percent in metropolitan areas. At the same time, 17 percent of nonmetropolitan income came from transfer payments, compared to only 10 percent in metropolitan areas.

### Rural areas more dependent on transfer payments

Personal income by source, 1997



Source: Bureau of Economic Analysis

The disparity was even greater for farm-dependent counties, where only 56 percent of income came from earnings and 19 percent came from transfer payments. Farm-dependent counties were also significantly more dependent on income from dividends, interest and rent.

Although they had more than \$8,000 less per capita in job-related earnings, nonmetropolitan counties received nearly \$700 more per capita in transfer payments than metropolitan counties in 1997. The gap was even larger if only the 29 farm-dependent counties are considered.

Per capita transfer payments increased 103 percent in all nonmetropolitan counties and 117 percent in farm-dependent counties from 1972 to 1997, compared to only 67 percent in metropolitan counties. In contrast, job-related earnings grew 36 percent in metropolitan areas, but only 18 percent in nonmetropolitan areas. Job-related earnings actually fell slightly in farm-dependent counties, because of sharply reduced farm income.

Transfer payments are somewhat higher per capita in rural Minnesota, but the big difference in the composition of personal income is the much lower per capita income from job earnings in rural Minnesota, compared to urban Minnesota. Per capita job earnings were 68 percent higher in metropolitan Minnesota than in nonmetropolitan Minnesota in 1997.

Over the past 25 years, transfer payments have become more important in both urban and rural Minnesota, but the shift away from earnings toward transfer payments has been more prominent in rural Minnesota. Transfer payments jumped from 12 to 17 percent of nonmetropolitan income, while earnings fell from 74 to 60 percent.

The bad news on job-related earnings is mostly limited to farm income. If only nonfarm earnings – for the most part earnings from jobs in towns and cities – are considered, nonmetropolitan Minnesota nearly kept pace with metropolitan Minnesota over the 25 years. Per capita nonfarm earnings grew 40

## Farmers become more dependent on off-farm income

Principal source of farm operator income



Source: U.S. Department of Agriculture

percent in nonmetropolitan Minnesota and 43 percent in metropolitan Minnesota. Farm-dependent counties posted a 37 percent gain, in part due to declining population.

In an era of stagnant farm income, trends in nonfarm income are important indicators of economic health and diversity in rural areas. Nonfarm income tells the story of what is happening in towns and cities, where farm families must increasingly look for their livelihoods.

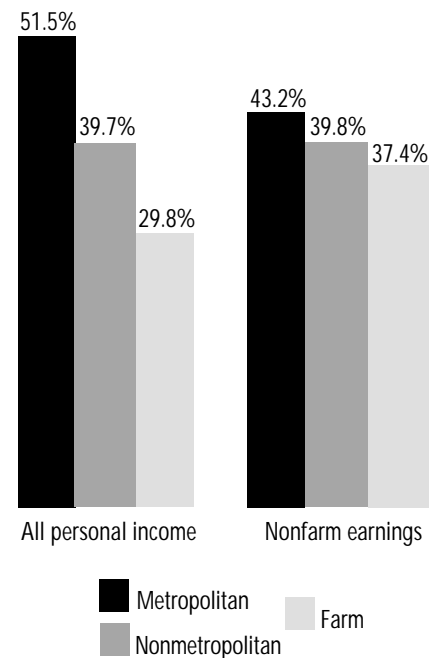
One of the biggest challenges for rural Minnesota may, in fact, be to keep nonfarm job earnings growing fast enough to give off-farm income relief to struggling farmers. Today's farmers are more dependent on income from jobs off the farm than a generation ago. In the 1974 Census of Agriculture, 80 percent of farm operators reported they earned most of their income from farming. By 1997, only 60 percent said farming was their principal occupation. Of those reporting, 34 percent said they worked at jobs off the farm more than 200 days per year; only 23 percent worked 200 days off the farm in 1974.

Because job opportunities in nonmetropolitan Minnesota tend to be concentrated in regional centers, residents in farm-dependent counties often must commute some distance to work. Only 93 percent of earnings in farm-dependent

counties were generated from jobs in the same county. Other parts of the state import employees from farm-dependent counties, sending income back with them to their home counties.

## Rural areas nearly kept pace in nonfarm earnings

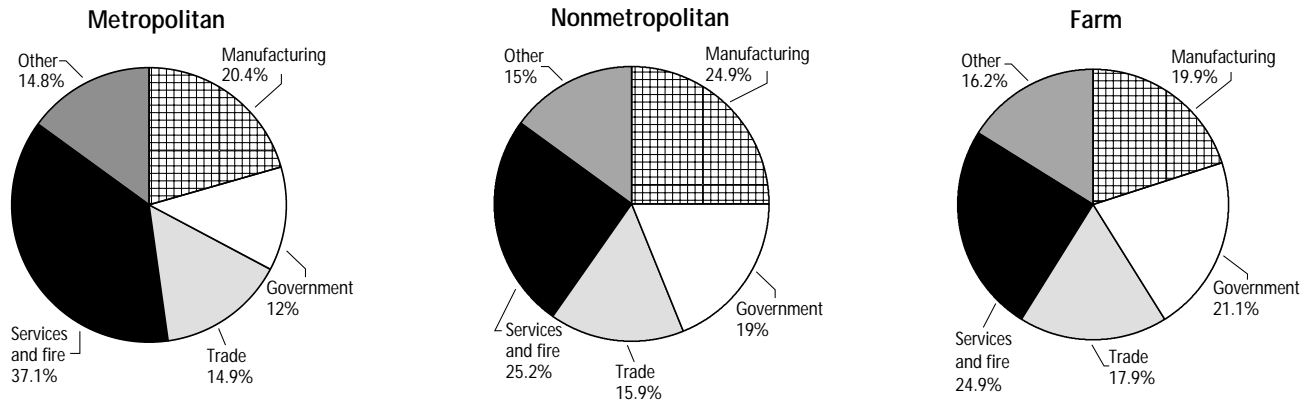
Growth in income and earnings 1972-1997



Source: Bureau of Economic Analysis

## Rural areas more dependent on income from manufacturing and government employment

Nonfarm income by source, 1997



Source: Bureau of Economic Analysis

Despite growing nearly as fast as metropolitan income between 1972 and 1997, nonfarm per capita income in nonmetropolitan areas still stood at only 53 percent of metropolitan levels in 1997. Farm-dependent counties fared even less well, with per capita nonfarm income only 41 percent of metropolitan figures. The comparisons would be somewhat more favorable if farm population was excluded when computing per capita income. The limited off-farm economic base of agricultural areas is evidenced by the fact that the 29 farm-dependent counties accounted for only 18 percent of total nonmetropolitan nonfarm income in 1997.

In every major sector of the economy, nonmetropolitan per capita income falls well behind metropolitan area income. The gap is especially wide in wholesale trade, services and finance, insurance and real estate – businesses that naturally tend to

thrive in more urban places. Farm-dependent counties fall even farther behind in services and finance, insurance and real estate. Farm-dependent counties also fall far behind other nonmetropolitan counties in manufacturing earnings. Nonfarm earnings are reported by place of work; as noted above, some of the earnings generated in other counties is taken home by employees to farm-dependent counties.

For the state as a whole, manufacturing and service industries generate nearly half of all nonfarm personal income, followed by government, retail trade and the finance, insurance and real estate industry group.

The pattern differs between metropolitan and nonmetropolitan counties. Nonmetropolitan Minnesota is more dependent on income from manufacturing

and government employment than metropolitan Minnesota. One-fourth of nonmetropolitan nonfarm income comes from manufacturing, compared to one-fifth in metropolitan areas. Government produces 19 percent of nonmetropolitan nonfarm income, compared to only 13 percent in metropolitan areas. Farm-dependent counties are even more dependent on government employment, but nonmetropolitan manufacturing income is disproportionately centered in nonfarm counties.

Nonmetropolitan counties have not shared equally with metropolitan areas in the growing services and financial sectors of the economy. Together the services sector, finance, insurance and real estate generate 37 percent of metropolitan area nonfarm income, but only 25 percent of nonmetropolitan income.

The differing patterns in metropolitan and nonmetropolitan areas reflect the different nature of urban and rural economies. Demand for finance, insurance and real estate services is closely associated with diversified, vibrant urban economies. Wholesale trade also tends to cluster in larger, more diversified trade centers from which wholesalers serve businesses in surrounding regions. Retail trade, on the other hand, tends to be somewhat more dispersed, with stores meeting everyday needs located closer to where rural people

### RURAL EARNINGS LAG IN ALL PARTS OF ECONOMY

1997 per capita earnings, by place of work

	Metropolitan	Non-metropolitan	Farm counties
Manufacturing	\$4,595	\$2,981	\$1,837
Wholesale	\$1,865	\$737	\$790
Retail	\$1,947	\$1,178	\$857
Services	\$5,848	\$2,387	\$1,739
Finance, insurance and real estate	\$2,117	\$463	\$470
Government	\$2,877	\$2,272	\$1,951

Source: Bureau of Economic Analysis

live. Manufacturing has also become more dispersed as improved transportation and telecommunications make location less important.

Nonmetropolitan areas are much more dependent on income from government employment than are metropolitan areas. This does not necessarily mean rural areas have more or higher-paid government jobs. In fact, income per capita from government employment is significantly higher in urban than in rural Minnesota. The higher dependence on government employment in rural areas has more to do with the fact that private sector income per capita lags far behind urban Minnesota.

The composition of local economies varies widely across rural Minnesota. Some communities in agricultural regions have robust manufacturing economies. More than half of all nonfarm personal income in Roseau and McLeod counties came from manufacturing in 1997. McLeod is part of a cluster of counties south and west of the Twin Cities, including Brown, LeSueur, Waseca, Nicollet and Steele, where more than one-third of personal income came from manufacturing.

Statewide, farm income accounted for less than 1 percent of total personal income in

1997, but was more than 5 percent of income in the 29 farm counties. This is a far cry from 1972, when farming produced more than 28 percent of total personal income in the same counties. If only earnings are considered, farm income was somewhat more important, reaching 10 percent of earnings in farm counties in 1997, but still much lower than the 39 percent recorded in 1972.

Farm income remains very important in some areas. In Lac qui Parle County in west central Minnesota, farm income was 23 percent of total personal income in 1997. Farm income exceeded 10 percent of personal income in another 16 counties – typically counties without a significant trade or employment center.

These figures understate the economic impact of agriculture in the economy of farming areas. Packing plants, food processing plants, grain elevators and other businesses that transport agricultural produce and convert it to higher value commodities all generate additional income in rural communities. In addition, farm income creates buying demand for local businesses – everything from restaurants to clothing stores to auto and implement dealers. One of the biggest challenges to rural businesses is

weathering the erratic ups and downs in farm income.

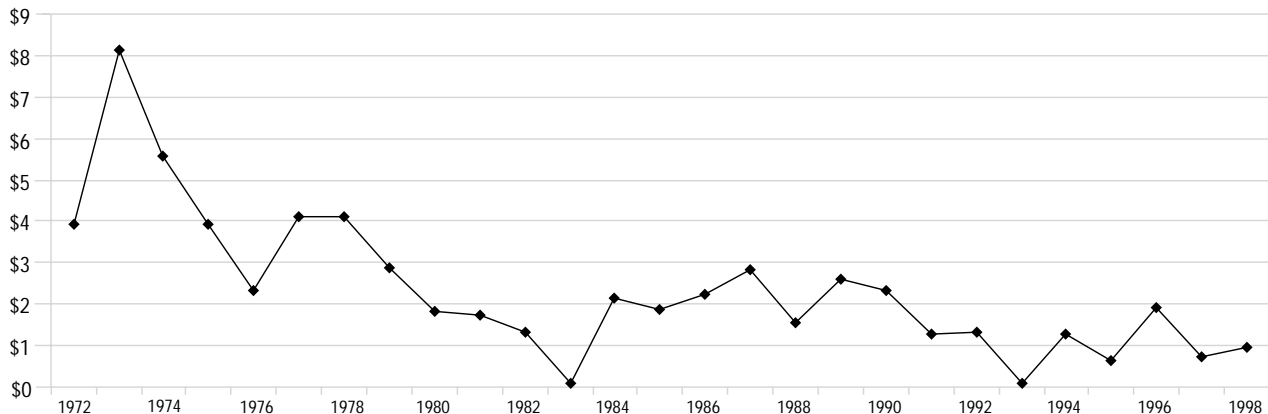
Farm income was, indeed, very low in 1997, but it had been lagging since the early 1990s. Because farm income often fluctuates widely from year to year, it is useful to use three-year averages to smooth out unusual highs and lows. Adjusting for inflation, total farm income in Minnesota in 1996-98 was only 24 percent of farm income in 1971-73. Farm exports pushed farm income unusually high in 1973 and 1974, but even without these exceptional years, farm income was much higher throughout the 1970s and even much of the 1980s than in the 1990s.

From 1996 to 1998, farming produced only 1.4 percent of total earnings in Minnesota, compared to 7.5 percent from 1971 to 1973. While farming remains an important source of income in most of southern and western Minnesota, most farming areas are much less dependent on agriculture than a quarter century ago. Some decline is due to growth in income from transfer payments and other industry groups such as manufacturing and services; however, a large part is directly tied to stagnation in farm income. Adjusted for inflation, total farm income fell from \$15.5 billion in 1971-73 to \$3.6 billion in 1996-98.

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## Farm income has not kept pace with inflation

Farm income in 1998 dollars in billions

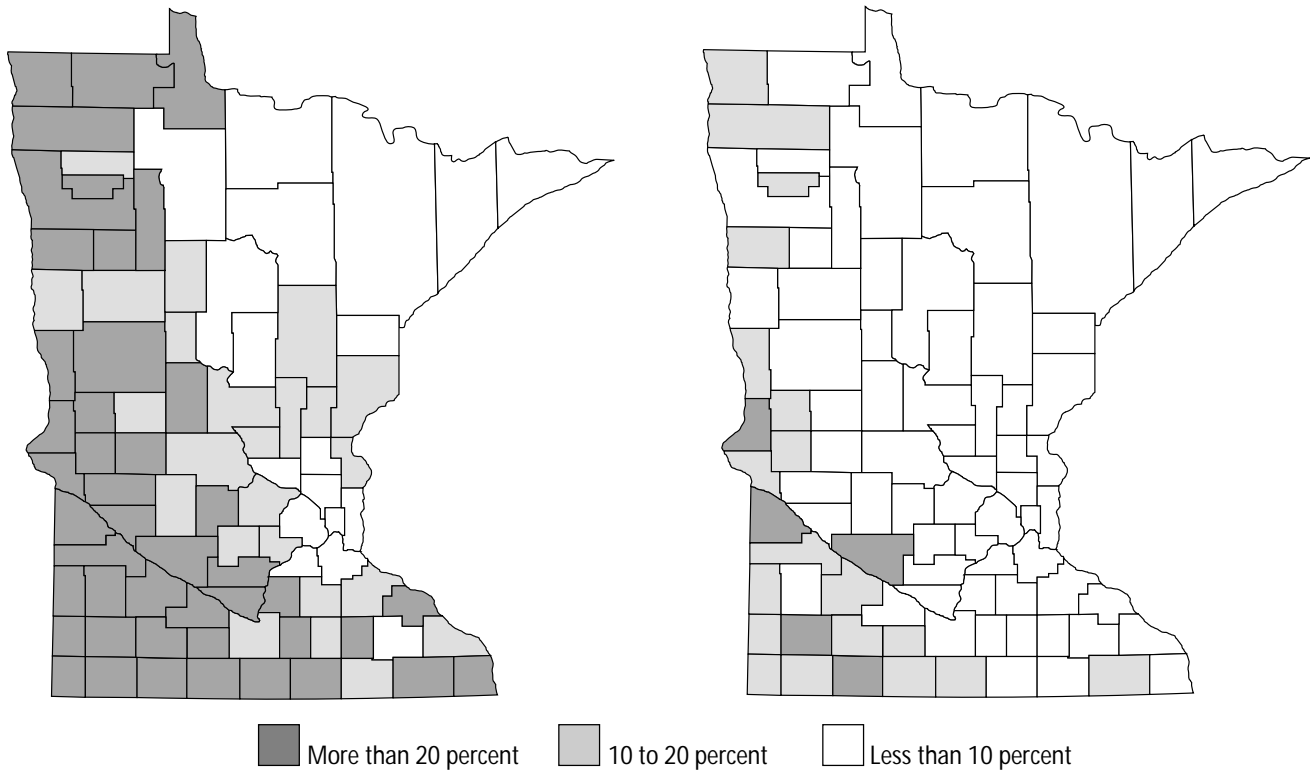


Source: Bureau of Economic Analysis

## Farming contributes less to local economies than it used to

Farm income 1971-1973  
as percent of earned income, by place of residence

Farm income 1996-1998  
as percent of earned income, by place of residence



Source: Bureau of Economic Analysis

### Thinning of rural population weakens small trade centers

Minnesota's pattern of rural communities took shape more than a century ago. Rural population decline, improved transportation and changes in retailing and service delivery have all eroded the role of small communities that once served as full-service centers for their surrounding rural population.

Communities rarely stand still. Some grow. Others decline. Some lose main street businesses. Others capture a growing share of trade in their regions. Entrepreneurs create new manufacturing jobs in some communities, while other communities lose jobs in declining industries. Some thrive as retirement centers or bedroom communities, while

others remain too far from urban centers or have too few amenities to attract newcomers.

Many smaller rural communities have had a hard time maintaining their local businesses. Even some larger communities – say, in the 10,000 to 25,000 population range – have also had trouble maintaining downtown business districts, while often at the same time welcoming larger volume retailers on the edge of town. The new businesses are less likely to be locally owned, and in some cases may be located beyond a city's corporate limits and therefore outside its tax base.

The geographic distribution of hamlets, towns and cities across Minnesota reflects the agricultural and transportation technologies prevailing when the region was settled more than 100 years ago. Agriculture required a large supply of labor, which translated into a dense rural

population, which in turn supported trade center towns every 10 miles or so across the landscape. Towns served as depots, collecting agricultural products for shipment by rail to distant cities and supplying goods and services to the rural population.

Southwestern Minnesota marked a transition zone between the more densely settled corn belt regions of Iowa and Illinois to the southeast and the less densely settled wheat region of northwestern Minnesota and the Dakotas. To the south and east, good soils and rainfall made farmland more productive, supporting a denser rural population. To the west and north, the land was less productive and supported fewer people per square mile. As a result, towns were generally bigger and closer together to the southeast and smaller and farther apart to the northwest.

Trade centers require customers with purchasing power. The larger number and size of towns in south central Minnesota, compared to northwestern Minnesota and the Dakotas, reflects the greater purchasing power of a denser rural population dating back to the 1800s.

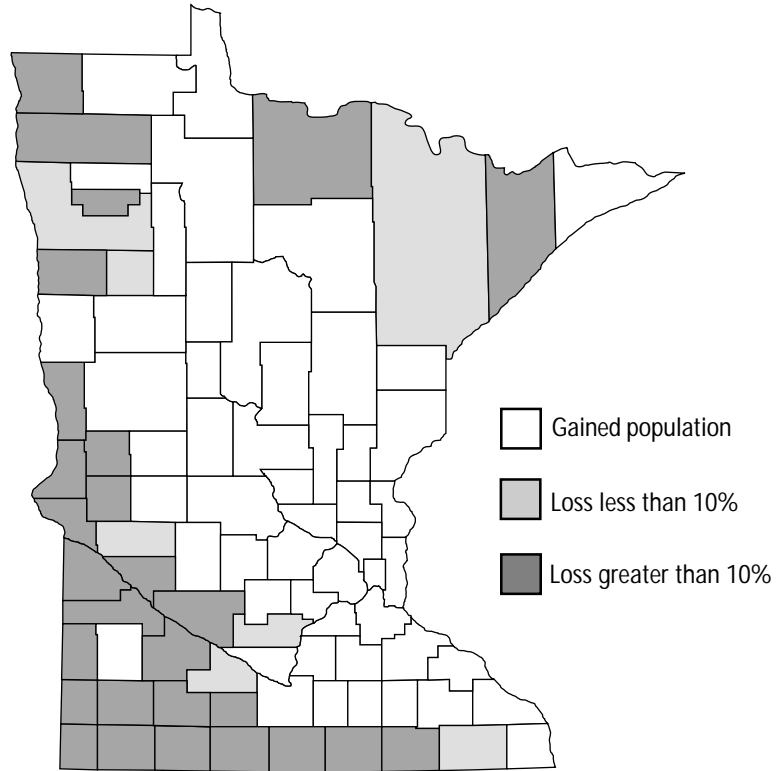
The changing retail landscape must be viewed against a backdrop of diminished rural markets. Diminished trade markets, coupled with changes in transportation and retailing technology have endangered the position of many trade centers across agricultural areas of the Upper Midwest. There are fewer people to buy small town goods and services; better highways and inexpensive gasoline have made it possible to travel farther to work and shop. In addition, large volume retailers in regional centers can discount prices below what small town retailers can charge. On top of everything else, periodic crises in farm income have further pinched small town businesses.

All but four of the 29 farm-dependent counties lost population between 1970 and 2000. The exceptions are easily explained. Dodge County benefited from its proximity to Rochester. Meeker County is close enough to the Twin Cities and St. Cloud to share in some of their growth. Although predominately agricultural, Pope and Todd counties share in the lake-based growth in north central Minnesota.

Most manufacturing, service and government-dependent counties, as well as nonspecialized counties, grew during the same period. Those that didn't – for example, Freeborn, Brown, Mower, Chippewa, Nobles and Pipestone – are mostly in agricultural regions of the state.

## Many rural areas have long-term population losses

Population change 1970 to 2000

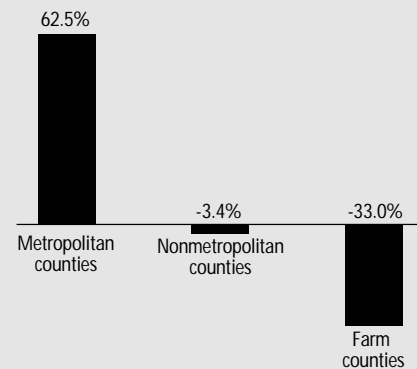


Source: U.S. Census Bureau

Even though some regional trade centers in agricultural areas held their own in population, their surrounding trade areas lost population between 1970 and 2000.

■ Although Willmar and Kandiyohi County had strong population growth, three agricultural counties immediately to the west and south lost 7,200 residents, offsetting much of Kandiyohi County's 10,700 gain.

### The number of retail establishments fell in most Minnesota counties between 1972 and 1997



Note: Excludes eating and drinking establishments

Source: U.S. Census Bureau, County Business Patterns, 1972 and 1997

### NUMBERS OF RETAIL ESTABLISHMENTS, 1972 AND 1997

Excluding eating and drinking establishments

	Number		Per 10,000 population	
	1972	1997	1972	1997
Metropolitan counties	8,019	13,031	32.0	38.7
Nonmetropolitan counties	7,736	7,471	57.2	51.8
Farm counties*	2,506	1,674	64.5	48.6

\*Estimated

Source: U.S. Census Bureau, County Business Patterns, 1972 and 1997

■ Marshall, in Lyon County, gained population, but five surrounding counties in southwestern Minnesota lost 15,900 residents.

■ Along the Iowa border, Freeborn and Mower counties – each with sizable county seat trade centers – lost 11,800 residents between them, putting Albert Lea and Austin at a competitive disadvantage for trade vis-à-vis faster-growing neighbors Rochester and Owatonna.

■ Six mostly agricultural counties north of Fargo-Moorhead in northwestern Minnesota lost 11,500 residents, and in addition faced growing retail competition from the leading cities of the region – Fargo-Moorhead to the south and Grand Forks to the west. Only the areas around the trade center cities of Crookston and Thief River Falls held their own.

The 1990s offered hope for many areas with long-term population decline. All but two nonmetropolitan counties declined more slowly, reversed population decline or grew faster in the 1990s, compared to the 1980s. Nineteen of 29 farm-dependent counties had continued population decline, but at slower rates than in the 1980s. Eight farm-dependent counties went from population loss to population gain, while the other two grew faster in the 1990s than during the 1980s.

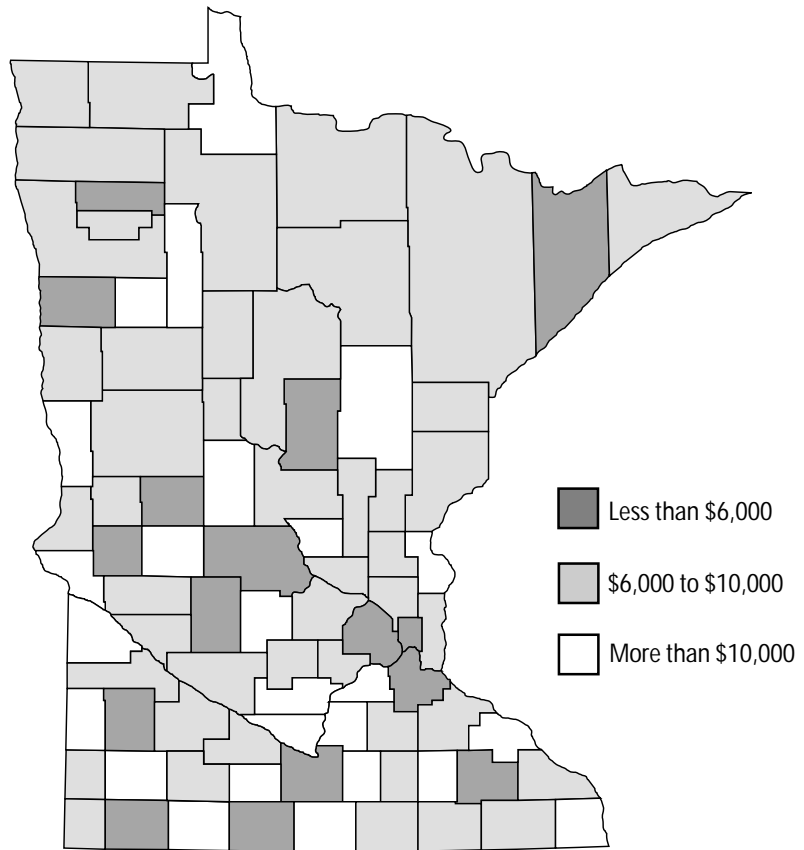
## Trends have favored larger centers

In a landmark 1961 study, University of Minnesota geographers John Borchert and Russell Adams noted that the size and spacing of Upper Midwest trade centers depended mainly on rural population densities prior to 1960. They described an eight-level hierarchy of trade centers ranging from metropolitan areas like the Twin Cities down to hamlets that played a minimal retail role. They noted that, already in the 1960s, larger shopping centers were increasing their penetration of their trade areas, weakening the position of small outlying centers.

A 1998 study at the University of Minnesota's Center for Urban and Regional Affairs re-examined the pattern

## Retail sales concentrated in regional centers

Retail sales per capita, 1997



Source: U.S. Census Bureau, Census of Retail Trade

of trade centers three decades after the Borchert and Adams study. The geography of trade centers in Minnesota and surrounding states remained largely unchanged – that is, only a handful of communities moved up or down the trade-center hierarchy. For example, most towns that qualified as minimum convenience centers – places with a restaurant, bank, gas station and hardware, grocery and drug stores – still qualified. However, growth was not evenly shared throughout the hierarchy. The biggest trade centers captured the largest share of growth, so that trade was much more concentrated in 1989, compared to 1960. Hamlets at the bottom of the hierarchy lost half the share of business they commanded in 1960.

The widening gap between large and small centers was most dramatic for retail trade. Secondary regional centers such as

Winona, Mankato and Willmar doubled their share of retail trade, largely at the expense of smaller centers in their surrounding regions. Secondary centers are a step below primary centers such as Fargo, Sioux Falls and Duluth.

The shift toward larger centers was not limited to retail trade. Service industries have always been attracted to population centers because services are most in demand where other services and businesses are located. Transportation, communication and wholesale trade also concentrate in larger centers because inventory can be controlled more easily, more specialties can be handled and “hub and spoke” delivery is more efficient.

This pattern is troubling for the farming region stretching from south central to northwestern Minnesota. Secondary

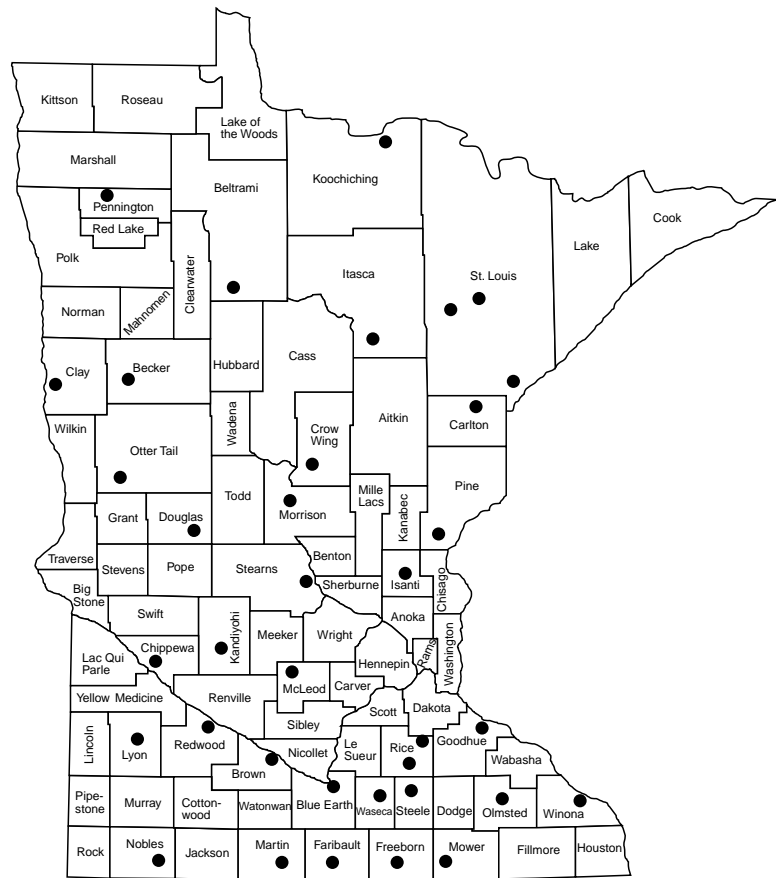
regional centers are mostly absent in this area. Those that exist are on the region's eastern edge. Two strong primary centers – Fargo and Sioux Falls – sit just to the west. With these larger competitors to the east and west, the smaller trade centers of western Minnesota have limited opportunity for growth.

Minnesota Planning analysis of U.S. Census Bureau data on business establishments reinforces the CURA findings. Between 1972 and 1997, Minnesota added more than 9,000 retail establishments, but eating and drinking establishments accounted for nearly half the gain, and by 1997 accounted for nearly 30 percent of all retail establishments in the state.

A more revealing picture of how the geography of trade has changed is apparent if eating and drinking establishments are eliminated from the analysis. Excluding restaurants and bars, the number of retail businesses still increased 30 percent, but the growth was highly concentrated in metropolitan areas. Metropolitan counties had a 63 percent increase, compared to a 3 percent decline in the number of nonmetropolitan establishments. The 29 farm-dependent counties were almost entirely responsible for the nonmetropolitan decline. The number of establishments fell by about one-third in the 29 farm-dependent counties, while the number of establishments grew in other nonmetropolitan counties – generally, those counties with some significant economic base beyond agriculture.

The decline in retail establishments in farm-dependent counties cannot be entirely explained by population decline. In 1972, farm-dependent counties had about 65 noneating and drinking retail establishments for every 10,000 people. The number fell to less than 50 in 1997. In metropolitan counties, the ratio increased from 32 in 1972 to 38 in 1997. These trends suggest two things: an increase in the viable size of rural businesses and a shift in retail activity from farm-dependent counties to larger trade centers in neighboring counties.

## Cities with Kmart, Wal-Mart or Target Stores, outside Twin Cities area, 2000



Source: Minnesota Planning analysis, based on information from retailers

Data from the Census of Retail Trade illustrates the general trend for two small town mainstays – grocery stores and hardware stores.

■ **Grocery stores.** Small grocery stores used to be common in every small town and urban neighborhood. Although convenience stores have proliferated, full-service grocery stores have expanded in scale, requiring larger trade areas to survive. The number of grocery stores in nonmetropolitan Minnesota declined more than 50 percent between 1972 and 1997.

■ **Hardware stores.** Hardware stores have disappeared from the main streets of many small towns. The number of hardware stores outside metropolitan areas declined from 518 in 1972 to 289 in 1997. The number of stores also declined in metropolitan areas, but in many smaller towns the store that closed was the only

one in town. Some of the decline in hardware stores is attributable to the growth of superstores like Menard's or Knox that sell a wide range of hardware, building and garden supplies. However, these stores are located primarily in cities with more than 10,000 population, creating stiff competitive pressure for the traditional small town hardware store.

Data from other sources paints a similar picture for other businesses and service providers.

■ **Grain elevators and farm equipment dealers.** For decades, grain elevators, farm machinery dealers and others businesses serving farms have been mainstays of many small towns. Although Minnesota farmers are producing as much grain as ever, the number of licensed country elevators declined from 775 in

Joseph Amato and John Radzilowski, researchers at Southwest State University, have chronicled the commercial role of Marshall from the 1880s to the present. They describe how, from the beginning, towns like Marshall specialized in goods and services designed to draw business away from their neighbors. By the 1930s, Marshall's population was growing at the expense of surrounding towns, giving the first clear evidence that Marshall "was beginning to devour the surrounding countryside as it drew neighboring populations to itself." Between 1950 and 1970, Marshall doubled its share of bank deposits in Lyon County. In the shadows of larger trade centers like Marshall, rural hamlets lost much of their commercial position.

*They struggled, in vain, to save their hardware stores and their coffee shops. Commonly they traded their schools for nursing homes and ended up grateful that at least the town had a lone franchise convenience store with gas, newspapers, videos and pizza, even if it was located on the edge of town, dependent on the highway traffic for its major commerce.*

Even in successful centers such as Marshall, the commercial profile changed over recent decades. Local family-owned mainstreet businesses lost ground to chain stores and franchise businesses on the city's outskirts. Loyalties to local businesses weakened. In an attempt to remain competitive, strained local retailers were forced to imitate their chain and franchise competitors, combining low prices, high volume and good selection, whether they could afford it or not. Often, the only way to do it was to become franchisees themselves. Hardware stores, farm implement dealers, auto dealerships and banks all were compelled to affiliate with larger chains to gain the advantage of wider offerings and volume.

1980 to 496 in 2000. The decline reflects both closings and consolidations. At the same time, the number of farm machinery and equipment dealers in Minnesota has fallen from 721 in 1980 to 481 in 1997.

■ **Banks.** Statewide, the number of banks outside the seven-county Twin Cities area declined from 493 in 1984 to 315 in 2000. The decline reflects both closings and mergers, but in either case means fewer locally owned, independent banks in rural Minnesota. Banking services are increasingly concentrated in larger trade centers, leaving many small towns with only bank branches or no bank at all.

■ **Hospitals.** Twenty-seven hospitals outside the seven-county Twin Cities area have closed since 1983, mostly in cities with less than 2,500 population.

Today, retail trade is unevenly distributed across the state, reflecting variations in personal income, tourism and the ability of full service trade centers to draw shoppers from surrounding areas. Outside the Twin Cities region, retail trade is concentrated in larger regional centers like St. Cloud, Rochester or Mankato, as well as in smaller centers like Brainerd, Thief River

Falls, Marshall, Fairmont, Worthington, Willmar, Morris and Alexandria.

The pull of successful centers is illustrated by Marshall and Mankato. In 1997, retail sales reached \$11,400 per capita in Marshall, compared to less than \$7,500 in the surrounding counties of Lincoln, Yellow Medicine, Redwood and Murray. Similarly, with per capita sales of more than \$13,300, Mankato more than doubled the per capita figures for Watonwan, Faribault, Waseca, Le Sueur and Nicollet counties. Similar patterns are observable around most retail trade centers.

Most cities over 10,000 have solidified their retail position with a large discount department store like Target, Kmart or Wal-Mart. Outside the Twin Cities and St. Cloud areas, only St. Peter has not acquired one of the three. More than half the cities between 5,000 and 10,000 population have a Target, Kmart or Wal-Mart. Some that don't are in the shadow of larger cities that do have large retail stores. Towns under 5,000 population are not likely to join the discount department store league – only Blue Earth and Pine City have a Wal-Mart store. Other

cities under 5,000 will have a hard time competing for retail trade. Even for larger cities, the discount department stores are a mixed blessing, making it harder for mainstreet specialty stores to survive.

## Prospects for growth are limited

Future growth patterns are difficult to predict. The strength of the national economy, energy prices, e-commerce, farm policies, immigration, retirement trends and other factors could change prospects for rural Minnesota.

The 1990 Center for Urban and Regional Affairs study found that most communities that improved their relative trade center rank between 1960 and 1989 were within 100 miles of a metropolitan center like the Twin Cities. They have become part of an extended metropolitan economy. Places outside the metropolitan orbit were not able to move up in the hierarchy of trade centers.

When Minnesota Planning made 30-year population projections, only three of 34 counties were projected to gain population between 1995 and 2025 in a mostly agricultural region stretching from south of Rochester across southern Minnesota south of Mankato, and then trending west of Willmar, Detroit Lakes and Alexandria to Kittson County in the far northwest. The population of the 34 counties was expected to decline 50,000, or about 10 percent. Within this band, only Nobles (Worthington), Lyon (Marshall) and Clay (Moorhead) counties were projected to have small growth.

Population projections depend heavily on the age structure of the current population, birth rates and migration patterns. While projections can turn out to be wrong, they give a general idea of what to expect in the absence of fundamental changes in migration patterns or birth rates. The 2000 census counts surpassed projections in most of the state, but fell below projections in more than half of the 29 farm-dependent counties. Prospects for longer-term growth are still limited without stronger than expected in-migration.

These findings suggest that most communities in agricultural Minnesota should not expect to regain their past glory as trade centers. One hundred years ago, many of these towns dreamed of being the next Chicago or, at least, the next Winona, but today most small towns cannot make their futures as trade centers, and must adapt to a changing role.

Decline is not inevitable. These communities often have unused infrastructure capacity, affordable buildings and governments eager to assist businesses. These advantages will help at least some communities hold their own against larger centers.

In 2000, Minnesota is increasingly an urban state. More than half the state's population lives in the immediate seven-county Twin Cities area. An additional 20 counties, stretching from Winona west to Mankato, north to St. Cloud and east to the Wisconsin border – almost entirely within 100 miles of the Twin Cities – adds another 950,000 people, bringing the total for this expanded area to 73 percent of the state's total population. This area is not entirely urban, and includes dozens of small towns and millions of acres of farmland, but is all close enough to be touched by the prosperity of the Twin Cities, St. Cloud, Rochester and Mankato areas.

Despite the state's dominant urban face, a sizable minority of Minnesotans still earn their livelihood in small towns and rural areas. One of every five Minnesotans lives outside the seven-county Twin Cities area in a city or town of less than 2,000 population. Minnesota has 376 cities with less than 500 population; 187 of these have less than 200 people. More than two-thirds of the state's township governments serve fewer than 500 people; 174 have populations less than 100.

Small towns rarely disappear, but their functions do change. Most of these small places have only limited prospects as trade or employment centers, but nearly all will survive as places for people to live. Some people will live in small, rural communities by choice and others will live there because they can't afford to leave. Large

numbers of Minnesotans will continue to live in predominately rural areas and they will require services such as schools, health care, roads and fire protection.

The problems of rural communities are not unique to Minnesota. Small cities and towns are at risk in agricultural areas from Iowa to eastern Montana. But, Minnesota's growing metropolitan areas have put the state on a stronger footing than Iowa or the Dakotas. As a state, Minnesota has suffered less from restructuring of agriculture and small trade centers than its neighbors because much of the state is less dependent on agriculture. Minnesota benefits from the economic stimulus of a thriving Twin Cities metropolitan area, and only about a third of the state is agricultural, compared to virtually all of Iowa and the Dakotas. Scenic and recreational amenities in Minnesota's lake and forest regions have also helped small towns and cities retain and attract population.

Writing nearly 40 years ago in 1963, Minnesota's eminent geographer, John R. Borchert, said that the Upper Midwest's dense pattern of settlements and local governments was obsolete in the automobile era. Both the close-together small towns and large number of small organized governments in rural townships were responses to slow, difficult travel and communications. Since Borchert's diagnosis, continued population decline in agricultural areas has further weakened the viability of many smaller towns and trade centers. Those communities that successfully change their economic base by diversifying beyond trade have the best prospects of retaining their current population or growing. For many agricultural communities outside tourist or retirement regions, this may mean finding a way to expand manufacturing and services employment. Retailing can no longer support many smaller cities.

In an analysis of 12 rural "turnaround counties" that either grew faster or declined more slowly in the first half of the 1990s compared to the 1980s, the State Demographic Center found that manufacturing growth occurred in nine of the 12. Some counties benefited from

spillover growth from regional centers, while in other cases recreational opportunities attracted retirees. Immigrants were attracted to communities with meatpacking and other food-processing industries. Analysis of a second group of 10 turnaround counties found a 13 percent increase in manufacturing employment and a 22 percent gain in total employment between 1990 and 1995 in five counties with accelerated population growth.

Those interested in the long-term vitality of rural areas may want to monitor several aspects of rural economies.

■ To what extent will the overall trend toward centralization of critical functions such as health care and education in larger centers continue?

■ Will the level of public services in rural areas decline or tax burdens increase as property tax bases stagnate?

■ What will happen to residential housing values in declining or slow growth areas? Will stagnant property values prevent people from relocating or jeopardize the fiscal health of retirees?

The changing economic base of Minnesota's rural communities poses questions for the viability of both individuals and their communities.

■ Will *people* in rural areas have livelihood opportunities that provide adequate incomes to afford housing, health care and higher education for their children?

■ Will *communities* have adequate fiscal resources to provide basic public services?

Minnesota's system of rural governments features independent municipal governments for each small city and separate township governments for the surrounding rural areas. Such a system was well suited for an era when the state's farming regions were dotted by dozens of prosperous small trade centers and there were few development pressures beyond city limits. Declining rural population and the narrowed economic base of many small towns raise questions about the viability of Minnesota's smallest rural governments:

- Can Minnesota's rural areas continue to support their small governments?
- Does rural restructuring require fundamentally new arrangements for delivery of public and private services?

## State faces policy choices

When Minnesota Planning asked the state's citizens in 1990 what they wanted Minnesota to be like in 20 or 30 years, they said they hoped for prosperous cities and economically vibrant small towns and rural areas. This citizen input established a *Minnesota Milestones* goal that rural areas, small cities and neighborhoods throughout the state be economically viable places for people to live and work.

Minnesotans attending listening posts throughout the state in 2000 reaffirmed the desire that economic well-being reach all corners of the state. Recognizing that their small towns won't likely be the next Rochester or St. Cloud, rural residents were anxious to stem the outflow of young adults and attract enough newcomers to at least stabilize their population and remain economically viable.

Many small communities will succeed with vision, hard work and the help of successful entrepreneurs. The benefits (and costs) of urban growth will spill out to others within the orbits of the Twin Cities and other growing cities. But, prospects for growth – either in terms of population or economic activity – are less promising for hundreds of other small communities.

Minnesotans and their elected representatives will need to decide what role government should play in protecting individuals and communities from changes in the economic base of rural Minnesota. Should government take action to slow the transitions already under way? Or should government concentrate on helping individuals and communities adjust to changes that are largely beyond their control?

Policy-makers can approach these issues from two directions: policies and programs that respond to the problems created by ongoing changes in the state's economic geography, or policies and programs that seek to influence the state's settlement pattern and the distribution of economic activity.

A mixture of both approaches may be desirable. The first approach concentrates on helping people and communities adjust to changing conditions. Examples include:

- Job training
- Relocation assistance
- Income support programs
- Aids to local governments

The second approach focuses more on preserving places. It is more difficult because it attempts to reverse, or at least slow, forces that are reshaping rural Minnesota. It assumes positive answers to two questions:

- Do Minnesotans value the existing pattern of rural communities and believe it should be preserved, making it possible for people to live in rural areas without undue economic sacrifice?
- Do policies and programs – tax incentives, state aids, infrastructure investments – designed to aid the survival of small towns and rural areas work?

Even if the answers to both questions are "yes," there will be limits to what can be achieved. Although even the smallest towns almost never completely die, conditions are not favorable for most to grow. Any comprehensive state policy to "save" rural Minnesota would likely have to be selective and focus on communities with the greatest prospects for success. In the most extreme version of this approach, the state would focus its efforts on only a handful of "growth centers," with the idea that they could in turn be economic sparkplugs for their surrounding regions.

Deciding where to target the state's investments would be difficult and almost certainly controversial. Some might choose to focus the state's efforts on nonmetropolitan communities that already are growing, in the belief that they have already demonstrated their potential for anchoring the broader rural Minnesota economy. It might be argued, however, that these communities will prosper even without help from the state. Others might prefer to aim a level lower in the hierarchy of urban centers and try to bolster a group of smaller cities that might have potential for slowing the concentration of jobs and trade in the state's larger regional centers.

Strategies available to the state might include:

- Targeted infrastructure investments designed to make communities more competitive – for example, highways, transportation terminals (including airports) and water and sewer facilities.
- Strategic location of, or new investment in, job-producing public facilities – for example, higher education institutions, correctional facilities, state offices.
- Geographically targeted availability of venture capital to assist new business development.
- Financial incentives for industries with promise for spillover growth around them.

No one expects or wants rural Minnesota to become a mirror image of metropolitan Minnesota. People do, however, want to assure a reasonable level of economic opportunity for rural residents and their communities. At the very least, they want to soften the hardships that can accompany population decline and the shift of commerce to larger regional centers. Some places will fare better than others – with or without state help – and most rural areas will probably lag behind metropolitan areas in personal income and amenities. Still, most will remain good places for Minnesotans to live. ■

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## GLOSSARY

**Earnings** – includes wages and salaries, other income from labor and proprietor's income.

**Farm income** – consists of proprietors' income; the cash wages, pay-in-kind and other labor income of hired farm workers; and the salaries of officers of corporate farms; does not include farm program payments to farmers.

**Metropolitan areas** – Minnesota counties that are part of federally designated metropolitan statistical areas. MSAs consist of one or more counties with strong economic interdependence with a city of 50,000 or more population.

**Nonmetropolitan areas** – sixty-nine Minnesota counties that are not part of metropolitan statistical areas.

**Personal income** – includes workplace earnings (minus personal contributions for social insurance), income from dividends, interest and rent, and income from transfer payments.

**Proprietor's income** – income derived from businesses by business owners (sole proprietorships, partnerships and tax-exempt cooperatives).

**Regional centers** – larger communities, usually of 10,000 to 20,000 population or more, that serve as shopping, service and employment centers for a multi-county region.

**Trade center hierarchy** – the multi-level network of trade centers, ranging from hamlets and small towns that provide limited retail services to metropolitan areas that provide highly specialized retail and wholesale services to a large region.

**Transfer payments** – includes social security, medicare and medicaid payments, veterans benefits, unemployment insurance benefits and other payments for which individuals do not render service.

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