CHASING SMOKESTACKS, STRANDING SMALL BUSINESS:
RURAL MINNESOTA’S CRISIS

THE CASE FOR USING WHAT WE HAVE TO DO MORE IN THE PLACES THAT NEED IT MOST

Lee Egerstrom ● Minnesota 2020 Fellow

June 27, 2007
CONTENTS

Executive Summary..........................................................2
Introduction........................................................................3
Overcoming the Odds.........................................................4
Minnesota Needs a Fresh Approach.................................5
Understanding Minnesota’s Demographics....................8
Focusing on Community Priorities.................................9
Why Minnesota Can and Should Do More.....................10
The Way Forward for Minnesota.................................12
Conclusion.......................................................................15
References....................................................................16
EXECUTIVE SUMMARY

The state is failing rural Minnesota. Today, the State of Minnesota’s economic development policy is oriented towards large projects and larger cities. Efforts to aid rural areas are fragmented, unfocused or nonexistent.

Minnesota faces a stark, fundamental policy choice: do we invest in small town business development policy or do we return rural Minnesota to the buffalo?

Current state agency infrastructure and resources, particularly those administered by the Minnesota Department of Employment and Economic Development (DEED), can be easily retasked to better serve Minnesota’s 80,000 smallest businesses. At present, little state effort is directed to aiding these entrepreneurs.

Business data suggest that a modest policy shift, realized though state agencies, will yield substantive dividends. As Luverne, Minnesota Mayor Andy Steensma states, “I would rather have 30 businesses employing 10 people (each) than have a factory come to town and employ 300 workers,” he said. “We would have more diversification. And, we would have most of the profits from those businesses that stay right here in town.”

This research project identifies four public policy initiatives that will result in a stronger small town business climate.

- Entrepreneur business skill building and research
- Business development resource coordination
- Development and marketing
- Capital formation and micro-lending

Indifference, denial and neglect of our rural areas are poor public policy. By leveraging existing resources and making rural economic development a priority, Minnesota could realize a boundless future.
**INTRODUCTION**

Minnesota is failing its rural areas. While large manufacturers and larger cities receive business planning assistance, lending and state and community incentive packages, small town entrepreneurs, in many of Minnesota’s rural areas, are ignored and left to fend for themselves. The great shame is that the state possesses the tools to let rural small businesses grow; it chooses not to deploy them. Minnesota is weaker and less competitive as a result.

Like most states, Minnesota “chases smokestacks” as its principal economic development strategy. It aids businesses in relocating, moving, building or expanding manufacturing plants. Most of these tools involve tax subsidies granted at the state level and various grants and loans offered through federal programs that support infrastructure and business development. Consequently, community leaders and business developers have an easier time accessing loans and grants totaling $25 million than entrepreneurs have in finding $2,500 or $25,000 to launch new businesses.

Small towns and rural entrepreneurs face further structural impediments. Accessing financial and tax subsidy programs require skilled, experienced economic development professionals, the type commonly found in large cities’ and regional centers’ taxpayer-funded economic development departments. Without this infrastructure, small towns can’t offer assistance. Without the assistance available to large-scale business, rural entrepreneurship withers and small towns fall further behind.

Under these circumstances, prospective small town entrepreneurs face two choices. Either they can start a business with limited resources or they can join the exodus from small towns to larger communities that offer more opportunities. Frankly, those options - leaving or doing nothing - are worse than poor choices. They are a shameful blot on our state’s rich tradition.

While the lost opportunity is tragic, business data suggests that a modest policy shift, realized though current state agency structures, will yield substantive dividends. In 2004, the most recent year for which data is available, Minnesota had 80,762 businesses with 1-4 employees. Collectively, these businesses represent a huge and stable part of the rural economy.

A strong argument for supporting these businesses comes from the State of Minnesota itself. In a 2005 report for the Minnesota Department of Employment and Economic Development (DEED), analyst Anthony Schaffhauser found that startup businesses with few employees have a “far more pervasive” influence on the economy than is generally recognized. For instance, in times of economic downturns, large companies shed employees while small firms prove to be more resilient. And, not only do these small firms actually produce more jobs over time than large companies, the DEED analyst found that these small companies produce innovative products, services and processes in addition to jobs.

Although Schaffhauser was writing about small firms regardless of location, he did make the point, “A business retention and expansion project aimed at entrepreneurial businesses, for example, could prove very fruitful.”

Indifference, denial and neglect of our small towns is poor public policy. By leveraging existing resources and making rural economic development a priority, Minnesota could realize an extraordinary business boom. Exchanging the one for the other, Minnesota suddenly confronts a boundless future.
OVERCOMING THE ODDS

Carlson Meat Processing Inc., is a small business in Grove City, Minnesota. The company has been in the same family since 1913, and now a fourth generation Carlson, Andrew, works there part time. Each generation has altered the company, adjusting to changing tastes and markets, said Kristin Carlson, who with her husband Charles now owns the business. Not once during these changes that required new butchering, freezing and packaging equipment has Carlson Meat Processing turned to state or local programs to help with costs or business loans, she added. “It would have helped, but we were too busy.”

With programs to aid small businesses in small towns spread over various county, state and federal agencies and departments, business people are effectively disincentivized from seeking assistance. It would take too much time to scour the bureaucratic landscape to learn what assistance programs might have been available at the time the Carlsons were expanding and modernizing their operation.

The meat company has 10 employees. That makes it a small company by Minnesota business standards. At the same time, it is a big company for Grove City, population 608 in the 2000 Census. By expanding its market reach to the growing western Minneapolis suburbs, Carlson Meat Processing would have a profound, transformative impact on the rural, central Minnesota economy.

Finding skilled expertise is a never-ending challenge in Grove City, said Kristin Carlson. “We just don’t have an available workforce. It’s that simple,” she said.

On top of that, Carlson Meat Processing now custom cuts beef, pork, lamb, buffalo and yak for farmers and their customers. This work requires a learned butchering skill that doesn’t come walking in the door.

ONE iPOD AT A TIME

Operating from Granite Falls, a western Minnesota town, entrepreneur Blake Paulson started a business in September that is finding a fast-growing market even as he is learning business practices and strategies on the fly.

Paulson started an online business, ifixipodsfast.com, using his technological skills to repair the wildly popular but expensive iPod music players. Operating from his home basement in Granite Falls, Paulson earned revenues of about $20,000 in his company’s first four months of existence. This year, he topped $15,000 in revenue in May alone, and is serving customers from the United Kingdom and Canada as well as from most American states.

His business is like the automobile repair business, he said. “When you are looking at $165 for repairs, it’s amazing how many people go ahead and repair their iPods. They don’t want to lose their initial [[$500-600]] investment.”

While that is the customers’ motivation behind his market, Paulson’s motivation is using his tech skills to start his own business.

“I’ve needed help,” Paulson said in an interview. “I’m only 21 years old. It is interesting what you can do without prior knowledge, but that doesn’t mean you don’t need help.”

Granite Falls, population 3,070, is not a small town by rural Minnesota standards. It spans the Minnesota River in west-central Minnesota and is in both Yellow Medicine and Chippewa counties—the former is losing population and struggling with economic development.
Paulson is an exception to the typical entrepreneurial model in rural communities:

- He didn’t need startup capital to launch his electronic repair business on the Internet. This is an advantage new technology offers entrepreneurs when traditional forms of manufacturing can require huge upfront investment.

- A former college professor of his from Ridgewater College at Hutchinson helped him plan his business, and got Paulson in touch with a Small Business Development Center at Southwest Minnesota State University at Marshall. He is also getting business advice from a high school friend who is a graduate student at the University of Minnesota’s Carlson School of Management.

- His business isn’t directly tied to the community or the farm economy around Granite Falls. Nor does he need to be close to a metro area to depend on walk-in trade. In a real sense, he is helping Granite Falls diversify its local economy.

Paulson will need to hone his evolving business skills going forward. He believes he will need to move the business out of his basement in about six months. He also wants to start a companion business to repair cell phones, and, at the current rate of business growth, he will hire employees in the near future.

“I think there will be meetings with bankers,” he said.

So far, he admits, he has been lucky on two counts. First, people pointed him in the direction to access business expertise from resources he previously didn’t know existed. Second, he didn’t need the large amounts of capital to launch his business that hold back other prospective entrepreneurs.

Those mentors were like Internet search engines for Paulson. They got him to business development center expertise that most startup entrepreneurs would have to find on their own, chasing through DEED and Minnesota State Colleges and Universities (MnSCU) web sites – a chase most “mom and pop” entrepreneurs either don’t have the time or knowledge to do.

Going forward, he likely will need the state’s system of business development centers and training campuses when he hires people to repair handheld electronic devices. The latter isn’t expertise easily found in plentiful supply outside the Twin Cities and Minnesota’s larger college and university towns.

**MINNESOTA NEEDS A FRESH APPROACH**

While rural businesses have demonstrated need and capacity, the State government’s indifference underscores the challenges facing small town entrepreneurs. Rural-focused non-profit organizations and foundations alone are no substitute for effective, focused state economic development policy.

Minnesota’s high profile rural economic development tool, the Job Opportunity Building Zones (JOBZ) was initiated in 2004. Considerable controversy has surrounded the program. In a December 2006 report, The Center for Rural Policy and Development (CRPD) outlines arguments
made by opponents of JOBZ. The report says one such argument is that the “JOBZ program will simply relocate, pitting one rural community against another and ultimately creating no ‘net gain’ for the State of Minnesota.” If effect, it treats rural communities to the illusion of progress rather than real growth.

**JOBZ is manufacturing-centric with 73% of jobs created in the manufacturing sector and the next highest amount, 10%, in services (CRPD, December 2006 JOBZ study); from this it is clear that small towns enjoy no significant advantage and may, in fact, be suffering. As the CRPD December study outlines, another argument made by opponents of JOBZ is that it “unfairly shifts the added costs of government from rural businesses in the JOBZ program to other rural businesses, rural landowners and rural residents.”**

Remarkably, given the political and taxpayer-funded capital invested in JOBZ, no data is available to objectively evaluate the program’s outcomes. What is clear is that nearly four of ten JOBZ jobs were simply relocated from one part of the state to another. Polaris Industries, for example, was negotiating with Chisago County’s Wyoming Township, as Minnesota Public Radio reported, to relocate a testing facility before JOBZ’ creation. Polaris appears to have shifted its strategy to take advantage of JOBZ after the fact rather than a genuine expansion inducement.

Regional planning organizations that work with state and federal agencies to assist development could offer greater assistance as could Minnesota’s geographically located research organizations and training centers. Laboratories such as those operated by the Agricultural Utilization and Research Institute (AURI) could better help entrepreneurs develop products.

Extraordinary services are provided by the regional foundations - known as the Initiative Funds - started by the McKnight Foundation, the Blandin Foundation, the Bremer Foundation and a variety of other regional philanthropic organizations, such as the Northland Institute. The Initiative Funds, for instance, have loans programs that help start businesses in small communities.

This wealth of philanthropic support for rural development is documented by Bobby Gierisch, a fellow and director of state policy programs for the Rural Policy Research Institute jointly operated by the University of Missouri, University of Nebraska and Iowa State University. His comprehensive paper, “The Minnesota Model for Rural Development,” can be found online at [www.rupri.org/productsarchive.php](http://www.rupri.org/productsarchive.php) and makes two salient points about the diverse Minnesota development resources. First, he notes, the wealth of resources was founded independently in response to economic distress, such as the financial crisis of the 1980s. Second, Gierisch said, government leaders have supplied “important impetus” at critical times but state government is not at the forefront of rural policy.

**Charles Hassebrook, Executive Director of the Center for Rural Affairs at Lyons, Nebraska, said Minnesota has more resources for development than most, and perhaps all, Midwestern states.** At the same time, he said, Minnesota still has the common problem of reaching people that are most in need of development services.

That is a problem showing itself at Luverne, MN, in the far southwestern corner of Minnesota. The Rock County Star Herald reported June 14 that one of Luverne’s anchor manufacturing companies has given up trying to use Minnesota’s JOBZ program to move to a larger, more modern factory in the city. Elsewhere in town, electronics merchant and trainer Scott Wessels is looking to expand his Computer Tutors business but, as essentially a retailer, he doesn’t believe any local, state or federal programs will help him move to better facilities even though the move will double employment at his computer and electronics business by four or five new jobs.
“I started this business three and a half years ago,” Wessels said. “There wasn’t (investment) money available at all, and no low-interest loans unless I wanted to build something large to take advantage of the state JOBZ zone.”

That isn’t easy to do in Rock County, among rural Minnesota counties losing population. Luverne (pop. 4,466) itself had a 3.3 percent population loss between 2000 and 2005, according to current U.S. Census Bureau estimates. About a quarter of Luverne’s residents pack into cars and commute daily to jobs across the state border in Sioux Falls, South Dakota.

Wessels knows the commuters like he knows his computers. He commuted to work as a computer industry trainer at Gateway Corp. until the computer manufacturer pulled the plug on its large Sioux Falls factory and moved about 1,800 of those jobs to Singapore. “Singapore had give-a-ways and business incentives that topped the buildings, wage rates and tax breaks offered by South Dakota,” Wessels said.

The Gateway getaway is all too familiar to critics of state competitions built on subsidizing business and especially manufacturing. The race to counter states such as South Dakota and Mississippi can’t be won when there are places in Asia and Latin America ready to lure industries just passing through.

Minnesota’s JOBZ program is just one of such programs. Nearly every state does something similar, negating each other’s programs and objectives. A careful and critical evaluation of these programs is offered by the Mountain Association for Community Economic Development at Berea, Ky. In its “Accounting for Impact: Economic Development Spending in Kentucky,” the Appalachian research and lending organization found four shortcomings of that state’s programs. They include:

- Most economic development spending is not evaluated and needs accountability to ensure the best use of public resources. (For instance, about three-fourths of state spending is through tax breaks and incentives, and the majority of that spending gets no evaluation.)
- Many indicators of well-being in Kentucky are sliding the wrong way while the state continues to invest the bulk of its economic resources in just one approach – industrial recruitment. (Despite these costs to the state, Kentucky continues to lose industrial jobs, average annual wages are fallen behind national averages, the number of children living in poverty is increasing, and Kentucky ranks 42nd in per capita income.)
- Kentucky’s economic development system needs to be overhauled and modernized to ensure the greatest return on the public’s investment. (Like Minnesota, Kentucky doesn’t have a unified plan for state economic development efforts, and the group said it needs a plan to coordinate across departments.)
- Kentucky needs a new economic development approach that starts from a stronger foundation, is forward looking, (and) is based on Kentucky’s strengths and invests in innovation. (It specifically cites the need to invest in entrepreneurs and small businesses.)

A careful look at all state business development incentive programs would likely raise similar criticisms and lead to similar recommendations. For Wessels, watching Gateway expand, moving first from Sioux City, Iowa, to Sioux Falls, capturing South Dakota tax and wage breaks and then to Singapore is indicative of the greater problems facing not just the
computer industry but communities. He’d like to open other stores in other cities but he intends to stay put in Luverne.

Understanding Minnesota’s Demographics

Demographers using 2000 Census and more recent population estimates from the U.S. Census Bureau identify 34 of Minnesota’s 87 counties as “frontier” counties. They contain 9.2% of Minnesota’s population. The term “frontier counties” applies to counties that, according to US Department of Agriculture demographers David A. McGranahan and Calvin L. Beale’s Rural America 2002 article, “Understanding Rural Population Loss,” lack cultural and institutional amenities deemed sufficient to support growth. Mostly, the designation reflects that none of these counties has what demographers would call a metropolitan area, or what local people might call a major market center.

Minnesota’s Frontier Counties

<table>
<thead>
<tr>
<th>County</th>
<th>Koochiching</th>
<th>Red Lake</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beltrami</td>
<td>Lac qui Parle</td>
<td>Redwood</td>
</tr>
<tr>
<td>Big Stone</td>
<td>Lake</td>
<td>Renville</td>
</tr>
<tr>
<td>Cass</td>
<td>Lake of the Woods</td>
<td>Rock</td>
</tr>
<tr>
<td>Clearwater</td>
<td>Lincoln</td>
<td>Roseau</td>
</tr>
<tr>
<td>Cook</td>
<td>Mahnomen</td>
<td>Stevens</td>
</tr>
<tr>
<td>Cottonwood</td>
<td>Marshall</td>
<td>Swift</td>
</tr>
<tr>
<td>Grant</td>
<td>Murray</td>
<td>Traverse</td>
</tr>
<tr>
<td>Hubbard</td>
<td>Norman</td>
<td>Wilkin</td>
</tr>
<tr>
<td>Itasca</td>
<td>Pine</td>
<td>Yellow Medicine</td>
</tr>
<tr>
<td>Jackson</td>
<td>Polk</td>
<td></td>
</tr>
<tr>
<td>Kittson</td>
<td>Pope</td>
<td></td>
</tr>
</tbody>
</table>

These counties contain 9.2 percent of Minnesota’s population of 4,919,479 while nationally, 812 frontier counties account for 8 percent of the U.S. population. Demographers use of the term “frontier” becomes ironic rather than conventionally descriptive. For people who see cultural and economic value in rural areas, the frontier counties today are known for reverse migration, or out-migrations of residents, and an ageing population of those left behind. This is apparent in U.S. Census Bureau studies of Minnesota population change between 2000 and 2003:


<table>
<thead>
<tr>
<th>County</th>
<th>Percent Change</th>
<th>County</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kittson*</td>
<td>- 6.0</td>
<td>Lake of the Woods*</td>
<td>- 3.1</td>
</tr>
<tr>
<td>Traverse*</td>
<td>- 5.4</td>
<td>Big Stone*</td>
<td>- 2.9</td>
</tr>
<tr>
<td>Lincoln*</td>
<td>- 4.2</td>
<td>Faribault</td>
<td>- 2.7</td>
</tr>
<tr>
<td>Yellow Medicine*</td>
<td>- 3.6</td>
<td>Wilkin*</td>
<td>- 2.7</td>
</tr>
<tr>
<td>Redwood*</td>
<td>- 3.5</td>
<td>Martin</td>
<td>- 2.7</td>
</tr>
<tr>
<td>Norman*</td>
<td>- 3.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* denotes “frontier” county
These population trends are not likely to reverse themselves without extraordinary intervention. Coupled with the out-migration is the aging populations found in small towns and on farms that suggest existing towns and farms are not being replenished. This has researchers at the U.S. Environmental Protection Agency questioning “the long-term health of family farms as an American institution.”

USDA demographers McGranahan and Beale, meanwhile, look at the frontier counties and the cause-effect of the diminishing ties between agriculture and rural community population. It is not the declining employment in agriculture that is the cause, they note. Rather, it is the absence of non-farm activities to support jobs and rural households.

They wrote in the Winter 2002 edition of Rural America: “The analysis presented here suggests that low-amenity frontier counties are facing difficult choices. Unless they can find a means to develop a recreation industry, they must deal with either industrial agriculture or continued population loss. Either of the last two courses would put pressure on services, the first through the need to serve an immigrant population, and the second through further declines in the number of people served…”

Smokestack chasing is not a viable alternative course of action for most of these counties because the half-century of steady population decline doesn’t leave an industrial workforce behind, as historian Joe Amato has observed. Small town and densely populated counties must have ground-up development that opens opportunity for people to stay or move in.

**FOCUSING ON COMMUNITY PRIORITIES**

Current government programs could help these counties. That they haven’t, raises a troubling concern with public policy priorities. **Equally troubling, however, are present programs’ generous definition of “rural.”** The result is that they are not targeted at what demographers call frontier counties and some policy makers label as “deep rural” counties. Regardless of name, they are by definition the most in need of development and amenities.

Reviewing the JOBZ program, the Center for Rural Policy and Development found no ties between job creation and communities with great needs.

Among big job gainers were Lyon County (270 jobs), Chisago County (236 jobs), Olmsted County (177 jobs), Otter Tail County (107 jobs), St. Louis County (85.5 jobs), and Stearns County (62 jobs.)

Lyon County is home to Marshall, a government service center, university and food processing city. Chisago is rapidly becoming an extension of the Twin Cities and St. Cloud metropolitan areas. Olmsted is home to Rochester, with the Mayo Clinic, high-tech and education facilities. Otter Tail is home to Fergus Falls, another education and industrial city. St. Louis is the woodsy and lake region county around Duluth. Stearns is home to St. Cloud, the university and industrial center in central Minnesota.

There are notable exceptions for job growth, however, including two rural counties along the Iowa border. One is Freeborn County, gaining 418 jobs. This partly reflects state efforts to revive the meatpacking industry in Albert Lea that experienced everything including industry consolidation,
business abandonment, and a major fire. The other is Jackson County, with 175 jobs created from industrial expansion and growth.

Results are not as impressive among frontier-designated counties. The St. Peter-based research center could not verify any jobs created in Beltrami, Big Stone, Cook, Cottonwood, Grant, Koochiching, Lincoln, Mahnomen, Marshall, Norman, Pope, Swift, Wilkin, or Yellow Medicine counties from the frontier county list. One job was created by JOBZ development subsidies in Murray County, and two jobs were attributed to the program in each of Chippewa, Hubbard and Lac Qui Parle counties.

The federal government has even more and larger programs aimed at helping rural areas. No comparable breakout of where the money goes, and what it is for, will be offered here. Entrepreneurs have received special help from Small Business Administration programs. The largest program operator, however, is USDA Rural Development that provided $587.6 million in various loans and grants to communities and businesses in 2006.

The USDA Rural Development-Cooperative Service arm of the federal department has seven programs available in Minnesota, including one for renewal energy and energy efficiency development. Two programs that merit special mention here, however, are the Business & Industry Guarantee (Loan) Program, that helped rural businesses secure $16.6 million in 2006, and the Rural Business Enterprise Grant program that made $498,000 available to public bodies and non-profit organizations helping rural economic development.

Despite such collaborative programs and the presence of 16 field offices throughout Minnesota, the USDA programs still have problems reaching people and communities that are most in need of services, said Steve Wenzel, the state Rural Development director. Farm groups and farm-directed programs keep public attention on the “agriculture” part of USDA programs, he said in an interview, even though rural development is a growth area of the department.

The Bush administration and the Democratic leadership of the agriculture committees in Congress are supportive of rural economic development as Congress works on a new multi-year farm bill, Wenzel noted. Hintgen, in The Daily Journal in Fergus Falls, Minnesota, noted this support for rural development as well in a feature on U.S. Rep. Collin Peterson, the congressman from northwestern Minnesota who chairs the House Agriculture Committee.

While public support for small towns and small business entrepreneurs is evident in general terms, there are conflicting interests at work in drafting the new federal “farm” program. It is obvious when interests and political action committees are monitored that small towns and micro enterprise still have small voices in the farm bill process.

Those voices did get a boost in April, however, when 12 organizations representing rural governments, community colleges, and groups such as The Center for Rural Affairs announced formation of a Campaign for a Renewed Rural Development. That announcement was made by Blue Earth (MN) County Commissioner Colleen Landkamer, who is serving as president of the National Association of Counties.

**WHY MINNESOTA CAN AND SHOULD DO MORE**

Economists can, and do, argue the merits of entrepreneurial development vis-à-vis large business recruitment, retention and expansion programs. University of North Carolina researchers, for instance, question the methodology of measuring economic development benefits that evolved
during the 1970s. There is far broader agreement, however, that the “big three” forms of programs garner most public support. Less than 5 percent of development funding goes to small, or microenterprise, development, a concern of the National Governors’ Association.

The UNC faculty sums up the barriers to small business success as market failures (See References, “Why Do Small Businesses Need Assistance?”) These barriers include:

- Lack of information
- Lack of access to capital
- Inequitable distribution of income and economic opportunities
- Compliance with government regulation requires time and money

The need for accountability of public programs may be contributing to the barriers and to the imbalance in economic development programs. Just as the CRPD can evaluate job creation and job relocation projects induced by Minnesota’s JOBZ program, budget watchers can also count numbers of people served by rural water development and other federally-supported infrastructure projects.

It is far more difficult to evaluate the impact of a one, two or three person business that stays put in a community. These micro-entrepreneurs are helping to arrest the trends of out-migration from small towns of under 1,000 or 2,000 populations. Furthermore, it is extremely difficult to quantify the economic benefits of these rural-based firms. You have to know the economic dynamics of small business to know they do cause business activity for local electricians, plumbers and local service providers, said veteran North Dakota economic development specialist Bill Patrie.

According to an Oklahoma State University study, entrepreneurs who stay home in small towns and begin businesses do cause economic benefits that are not readily apparent in economic studies.

The Center for Rural Affairs, in its history of the Rural Enterprise Assistance Project (see References), found that Nebraska was also focusing its business recruitment efforts at industrial factories. The programs virtually ignored micro businesses of five or fewer employees that had lending needs of less that $25,000. At the same time, Nebraska has 400 towns of less than 2,000 people that are incapable of providing a labor force for a large factory. That summation closely resembles Minnesota’s 34 frontier counties and their communities as well.

McGranahan and Beale, in “Understanding Rural Population Loss,” note that such counties are now dependent on industrial agriculture development, the growth of gaming and related recreation, and to the building and relocation of jails and prisons. “Industrial agriculture usually needs to be embedded in an area where corn or other feed grain can be raised, casinos are largely confined to Native American locations, and prisons, one hopes, are now less of a growth industry,” they concluded.

Schaffhauser’s small Minnesota business research suggests that other “ground-up” business development is possible. Keeping attention focused on small towns and entrepreneurs is, however, being made more difficult by recent business trends in Minnesota.

Within the past month, the U.S. Commerce Department announced that Minnesota’s economy now ranks 30th of the 50 states in economic growth. In a subsequent government report, a St Paul Pioneer Press article cited U.S. Labor Department and Minnesota Department of Employment and Economic Development data on the state’s rising unemployment rate. This is a trend that encourages state officials and civic leaders to go chasing
smokestacks - not looking for ways to help an entrepreneur expand and create a couple of extra jobs.

It also misses the point about economic development in smaller cities and frontier counties, said Andy Steensma, a former Minnesota Legislator who is now mayor of Luverne, in southwestern Minnesota.

“I would rather have 30 businesses employing 10 people (each) than have a factory come to town and employ 300 workers,” he said. “We would have more diversification. We wouldn’t have to worry about that factory and its employees all the time. And we would have most of the profits from those businesses stay right here in town, and put to use back into the community.”

The smaller business would likely make a better fit with the Luverne market for trading and services, too. Luverne, like so many southwestern communities, has an aging population. “Here’s how it’s changed,” the mayor said. “About 25 years ago, we had five or six people in each household. Today there is one or two.”

Minnesota is awash with public, private and non-profit business assistance programs but, for small businesses, they are an awkward fit at best. Just as 1970s-era Detroit auto manufacturers ineptly responded to changing consumer demand by offering scaled-down versions of gargantuan automobiles, current economic development policy and culture doesn’t allow for small challenges. In effect, Minnesota is telling small businesses, “come back when you’re big enough to be worth helping.”

When the mid-1980s farm financial crisis signaled a restructuring and consolidation of agricultural commodity production into fewer farm hands, the financial devastation moved to town in the intervening years. The agricultural service economy, with fewer but larger customers, retreated from small towns into county seats and regional centers. The fact remains, however, that rural Minnesota farmers and small town business people remain busy with existing business activities and are still in need of capital to start or expand new ventures.

DEED possesses the infrastructure, staff and resources necessary to develop and implement effective small town economic development strategies. The agency already works across government jurisdictional lines with private and non-profit organizations to coordinate existing programs. Minnesota’s small towns would benefit immediately.

THE WAY FORWARD FOR RURAL MINNESOTA

A retasked DEED will be able to leverage its leadership role should the Minnesota Legislature create the Rural Enterprise Corps as proposed by Minnesota Rural Partners. That proposal merits consideration because it would create a corps to help those towns and rural citizens reach available programs. What’s more, it would create a group of young professionals committed to rural development.

This is where Minnesota’s need or gap is evident: to create the most seamless and accessible pipeline of support for entrepreneurs – from any entry point – using existing service providers, and to customize that support to the distinctive needs of a wide range of stages and types of entrepreneurship, from pre-venture assessment to technical and educational assistance, to financial resources and more.

Jane Leonard, executive director of Minnesota Rural Partners, said in an interview that “there isn’t a lot of energy for new programs,” given Minnesota’s budget problem. What’s more, the
entrepreneurship proposals may also have gotten lost in the transition “shuffle” of leadership in the Minnesota Legislature after the 2006 election. Regardless, she added, there is bipartisan support for the proposals even though they didn’t gain momentum during the 2007 legislative session.

While a different outcome during the 2008 legislative session is unlikely, reprioritized economic development priorities offer far greater and more immediate prospects for small business success. A more modest approach, focusing on small towns and micro enterprise will change attitudes and raise awareness by better coordination of existing services and development talents. Using existing resources at various state departments and agencies will greatly reduce the need for new appropriations.

Key benefits to this approach include:

- **A one-stop web site** for entrepreneurs showing all existing public and private programs and organizations ready to provide service to small towns and entrepreneurs. These services can be found now only by hunting and pecking through time-consuming Internet searches and web sites operated by different public and private organizations. For example, review the extensive but incomplete list of available resources listed at the Center for Rural Policy and Development [www.mnsu.edu.ruralmn/links.php](http://www.mnsu.edu.ruralmn/links.php) web site.

- **One state agency** would be charged with raising public awareness of what programs do exist. Leonard notes that DEED gives only passing attention to small entrepreneurs, stressing its JOBZ development program above all others

- **Outreach and coordination** would be centered in one, easy to reach office, breaking down barriers rather than by building walls to protect department and agency turf.

Coordinating activities would cross program and agency lines to help entrepreneurs access the following:

**A. Research and Training.** Small Business Development Centers, primarily based at MnSCU campuses around the state, are within reach of most people living in frontier counties. Federal programs support business development training and research that includes business plans and feasibility studies. The University of Minnesota – Morris brings diverse talents to help small communities with planning, if the community reaches out to the Center for Small Towns at the Morris campus. DEED and MnSCU essentially share the business centers, but their existing Internet links do not make easy access for entrepreneurs in need of general business or special training programs.

**B. Development and Marketing.** Minnesota has strong development and marketing programs to help agricultural and rural business operators. The unique Agricultural Utilization and Research Institute already aids entrepreneurs and entrepreneurial groups, such as cooperatives, to develop products made from Minnesota commodities. Moreover, the Minnesota Department of Agriculture marketing division has developed strengths in helping small businesses market through its Minnesota Grown directories, support for Farmers’ Markets, and specialty crops and niche market products.

Coordination would be helpful since DEED has the most development programs under its umbrella, Minnesota Department of Agriculture may be doing the most to actually help rural entrepreneurs through marketing promotions, and AURI has almost independent agency status as it works to help entrepreneurs with new products and development.
Carlson Meat Processing at Grove City could have used all these services over the years, and might have 20 employees today instead of 10 if it had. The only state service helping the company is more accidental than intentional, said Kristin Carlson. Minnesota Department of Agriculture programs help consumers link up with farmers to know where their food come from – a program that has its origins in Japan. The Carlsons fit in the supply chain, processing and packaging meat for those direct farm-to-consumer sales.

C. Capital Formation. Micro loan programs have gained popularity across the nation in the past two decades. Interest has increased enormously in recent years and especially in the past year after the awarding of the Nobel Peace Prize to Dr. Mohammed Yunus for his work in fighting poverty through micro loans in Bangladesh. Make no mistake, Minnesota does not face Bangladesh’s enormous, unwieldy and debilitating poverty. However, Minnesota has great swaths of the state that are effectively beyond venture capital’s reach. Minnesota will benefit from increased access to modest capital as an application of microlending suggests.

OF CLOWNS AND CAPITAL

Capital acquisition is a never-ending problem everywhere, insists Audrey Malan, executive director of the Cooperation Works! national association for 18 cooperative development centers that provide services in 41 states.

Malan’s group toured Quebec in Fall 2006 to explore the venture capital funds operated by the huge Desjardins Group of credit unions. The access to capital story fondly recalled in Quebec involves two street entertainers who thought they could employ up to 20 other entertainers during tourism season if they could purchase a tent. Their business plan was mostly a vision, and they didn’t get far when receptionists at financial institutions called in to loan officers, saying, “We got a couple of clowns out here who think they need a business loan.”

“I just love it,” said Malan in an interview for this paper. A risk capital fund operated by Desjardins, the largest association of credit unions in North America, put up the money in 1982. Today, Cirque du Soleil has 14 shows working in 40 countries, employs 3,500 people who include 900 performing artists, and produces weekly revenue totaling millions of dollars.

This is, of course, another example of why fortuitous economic development doesn’t always fit neat business plans, said Malan.

Minnesota is fortunate in that it has had entrepreneurs who followed a vision and then developed a business plan.

Earl B. Olson thought Willmar, and Kandiyohi County, would make a good home headquarters for the nation’s turkey industry. Jennie-O Turkey Store is now the nation’s largest turkey meat company after Jennie-O merged with the Jerome family turkey operations in Wisconsin.

Geo. A. Hormel thought Austin would make a good site for a pork processing plant given the nearby cornfields that raised feed for hogs. It did, and Hormel Foods is still headquartered in Austin. It now owns the Willmar turkey company among its diverse meat and food product holdings.

Marvin Schwan and the Schwan family brought good fortune to Marshall, Jeno Paulucci never ran out of entrepreneurial ideas at Duluth, and Minnesota Timberwolves owner Glen Taylor has a portfolio of companies strengthening the Mankato area economy.
Less dramatic examples of entrepreneurial success can be found throughout the state. One favorite example cited by USDA demographer Beale is Roseau, a remote city and county near the Canadian border where a pair of brothers started the snowmobile industry. What special resources did Roseau bring to this development? A couple of people with entrepreneurial vision, and a working knowledge of snow.

DEED should help prospective small entrepreneurs discover available lending sources and explain new tools, such as Minnesota’s 308B cooperatives, that are another source for entrepreneurial capital formation. Minnesota leads the nation in the number of producer-owned and consumer-owned cooperatives. New tools for community investments and cooperative business models being developed in other states and nations are available to spur even more local entrepreneurship.

Private and regional investment funds already exist. The U.S. Small Business Administration has loan programs aimed at budding entrepreneurs, and USDA Rural Development has several programs that could help access venture capital.

The state has a working model for a revolving loan program that could work as well. The Rural Finance Authority (RFA) was started to help new and modernizing farmers in the mid-1980s when agricultural credit was both scarce and expensive.

Jim Boerboom, assistant commissioner of the Minnesota Department of Agriculture who directs the RFA, was a member of the Minnesota Legislature when the program was created. It was started at a time of crisis for agriculture, he said in an interview. And yes, he said, it would be a workable model for a companion program aimed at small town development.

**D: Local microenterprise loan funds.** DEED could work with existing regional development groups and local investors to create micro loan programs. Several now exist in Minnesota communities. Some around the country are aimed at helping new residents – mostly immigrants – launch businesses. More could work here by prompting local people to think as entrepreneurs, knowing capital assistance is available, and encouraging local investors to think about what more they could do for their communities.

### Conclusion

Ignoring the challenges of Minnesota’s small towns won’t make them go away. Minnesota’s present economic development policy either dismisses small town entrepreneurs or discounts their worthiness. Improving Minnesota’s economic development policy requires little more than bringing Minnesota’s state agency resources to bear. As both Blake Paulson’s and Carlson Meat Processing’s experiences reflect, leveraging state resources can truly support and sustain an entrepreneurial culture.

**Chasing smokestacks is a Faustian bargain at best; real economic growth, like Paulson’s iPod repair business, merits real public policy reform. All it takes is will and imagination, qualities that Minnesotans have to spare. To realize it though, Minnesota requires public policy to match.**
REFERENCES


Bizjournals. “The Small Business Administration plans to reduce fees for its three main business lending programs next year, but low-income entrepreneurs may find it harder to get help.” Washington, D.C.: A story carried by bizjournal publications across the country that can be found at the http://sanantonio.bizjournals.com/extraedge/washingtonbureau/archive/2007/02/12/ bureau1 website location.


Boerboom, Jim. The director of the Minnesota Rural Finance Authority was interviewed for this paper.


Center for Rural Affairs. “History of the Rural Enterprise Assistance Project (REAP).” Lyons, Neb.: This historical report reviews the REAP program since its inception in 1990 on the center’s http://www2.cfa.org/reap/history.htm website location.

Center for Rural Affairs. “REAP Quick Facts.” Lyons, Neb.: The 2002 Rural Enterprise Assistance Project “Harvesting Results” survey of REAP program participants is available from the center upon request.


Malan, Audrey. The president of Cooperation Works! think-tank was interviewed for this paper.


Patrie, William. The long-time North Dakota economic development director and current strategic planner for North Country Cooperative Development Services was interviewed for this paper.


Song, Booyong, Mike D. Woods, Gerald A. Doeksen and Dean Schreiner. “Multiplier Analysis for Agricultural and Other Industries.” Oklahoma State University: Division of Agricultural Sciences and Natural Resources. The paper is available through the Oklahoma Cooperative Extension Service at http://www.osuextra.com website location.


Turner, Frederick Jackson. “The Significance of the Frontier in American History.” A paper presented in 1893, widely reproduced, that is credited with the start of western historical, political and sociological studies. The University of Wisconsin – Madison and Harvard University historian would later write three books, one of which won a Pulitzer Prize, defining and developing frontier themes.

Wenzel, Stephen. The state director of USDA’s Rural Development in Minnesota was interviewed for this paper.

“Why Do Small Businesses Need Assistance?” Chapel Hill: University of North Carolina. A synopsis of course material exploring this subject can be found at http://www.planning.unc.edu/courses/261/callaway/why.html website location. It contains two germane graphics under the headline “Market failures inhibit the growth of small businesses.”