Building New Competitive Advantages for the 21st Century

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company tax rate (also to 15 percent) effective in 2003.

**Alternative minimum tax**
The Act increases the AMT exemption amount for married taxpayers filing a joint return and surviving spouses from $49,000 to $58,000 and for unmarried taxpayers from $35,750 to $40,250 for taxable years beginning in 2003 and 2004.

**Income tax rates**
The Act accelerates the reductions in the regular income tax rates in excess of the 15 percent rate. For 2003 through 2005, the regular income tax rates in excess of 15 percent are 25 percent, 28 percent, 33 percent and 35 percent.

Beginning in 2005 and running through 2007, the Act increases the taxable income level for the 10 percent regular income tax rate brackets for single individuals from $6,000 to $7,000 and, for married individuals filing jointly from $12,000 to $14,000.

The Act increases the size of the 15 percent regular income tax bracket for joint returns to twice the bracket width of the 15 percent regular income tax rate bracket for single individuals for 2003 and 2004.

**Standard deduction**
The Act increases the basic standard deduction amount for joint returns to twice the basic standard deduction for single returns effective for 2003 and 2004. For taxable years beginning after 2004, the applicable percentages revert to those allowed under pre-Act law.

**Child tax credit**
The Act increases the child tax credit from $600 to $1,000 for 2003 and 2004. After 2004, the credit reverts to pre-Act levels.

For 2003, the increased amount of child credit is paid in advance, supposedly beginning in July, 2003, on the basis of information in each taxpayer’s 2002 return filed in 2003. Advance payments are not expected to individuals who did not claim the child credit for 2002.

**Corporate estimated tax**
Under the Act, 25 percent of corporate estimated tax payments due on September 15, 2003, is not due until October 1, 2003.

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**Building New Competitive Advantages for the 21st Century**

by Jason Henderson, Economist, and Nancy Novack, Associate Economist, Center for the Study of Rural America

A more detailed assessment of the challenges facing the rural economy and the need for new competitive advantages appears in the first quarter 2003 issue of the Federal Reserve Bank of Kansas City’s Economic Review.

Rural America has struggled in the 21st century as a national recession and drought have battered rural and farm economies. Rural businesses, on and off Main Street, are facing stiff competition from a new set of foreign competitors. Many rural stakeholders are now searching for new ways to compete in tomorrow’s economy. While the challenges remain daunting, some rural firms and communities are demonstrating that success in the 21st century can be built with a renewed commitment to entrepreneurship and technological innovation.

**The erosion of rural competitiveness**
Traditionally, the success of rural economies was founded principally on low-cost land and labor. Rural businesses often competed with their urban neighbors by being the low-cost producer. Rural firms developed competitive advantages surrounding the availability of these low-cost resources. And, many rural economic developers pursued development strategies that targeted land and labor-intensive industries to take advantage of these assets in their communities.

But globalization has brought new competitors to the rural landscape. Rural manufacturers now compete with foreign factories in addition to factories in U.S. cities. Foreign factories are able to compete effectively with rural manufacturers...
because they have even lower cost land and labor—a challenge also facing America’s farmers.

Signs of rural America’s eroding competitive advantage are emerging. Roughly a third of rural factory job losses in 2002 were caused by factory closings. Some of the losses in factory jobs can be attributed to the relocation of branch plants to foreign countries that have lower labor costs. Similarly, U.S. farmers face increased competition from South American producers in global markets. In 2002, South American soybean production outpaced U.S. production for the first time in history, continuing a severe contraction in U.S. market share over the past decade.

New competitive advantages for the 21st century
To compete in the 21st century, rural industries will need to be innovative in finding business solutions that go well beyond low-cost land and labor. Technical innovation and entrepreneurship will be the hallmarks of rural prosperity. Success will depend on management skills in addition to production capabilities. New products will need to be developed. New technologies will need to be adopted to increase production efficiencies and create a new competitive edge for rural industries.

To be sure, technical innovation and entrepreneurship have always been a part of rural America. In the past two centuries, for instance, the time required to produce 100 bushels of corn fell from 82 hours in 1850 to just 2 in 2000. Technical innovations have also driven huge efficiency gains that have boosted rural productivity. Productivity gains were a primary driver of U.S. economic growth in the 1990s. Innovative entrepreneurs are a key channel for capturing the benefits of these gains. Accordingly, the most entrepreneurial countries enjoyed the strongest levels of economic growth heading into the 21st century.

While the challenges to building new sources of competitive advantage are daunting, some rural areas are already finding new ways to prosper using technological innovation. One such example comes from England, Inc., a rural furniture manufacturer in New Tazewell, Tenn. England is a custom-order furniture manufacturer that produces roughly 11,000 built-to-order sofas and chairs each week. To regain its competitive advantage over foreign competitors, England geared its success to reducing delivery time for its products. By using new technologies and smaller, more flexible production runs, England cut its delivery times to less than a month, a significant reduction from five years ago. Competitors have found it hard to match the shorter delivery schedule. The result has been prosperity for England and job benefits for a very rural community. In 2001, for instance, the U.S. furniture industry as a whole saw both sales and workforce fall by 9.3 percent while England enjoyed an 8.3 percent increase in sales and expanded its workforce by 7.4 percent.

New Tazewell has prospered by delivering existing products in new ways, but other rural communities are also benefiting from firms that create new products from advanced technology. For example, in November 2001, Cargill/Dow LLC opened a processing plant in Blair, Neb. that turns corn into packaging and other synthetic fibers. Using the latest technology, the facility produces polylactic polymers that are used in a variety of fabric products ranging from clothing, upholstery, to diapers. At capacity, the facility is expected to employ over 100 people and use 14 million bushels of corn.

Summary
In sum, technological innovations and entrepreneurial firms are helping some rural businesses find new ways to compete in a global economy. Today’s global environment means rural America must build new sources of competitive advantage, ones that go beyond low-cost land and labor for its communities. Rural farmers, businesses and communities will need innovative, entrepreneurial solutions to discover new engines of growth. New technologies will be needed to develop new rural products. New regional partnerships will be needed to build critical mass in the industries of the future. The rural economy appears to be at another turning point in its history, a point where the most innovative and entrepreneurial communities are in the best position to create new opportunities and prosperity in the 21st century.