

DATE: May 23, 2017

FROM: Casie Daugherty, Prime Policy Group

SUBJECT: House Ways and Means Committee Hearing

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Today, the House Ways and Means Committee held a hearing entitled “Increasing U.S. Competitiveness and Preventing American Jobs from Moving Overseas.”

### **Committee Members’ Opening Statements**

[Committee Chairman Ken Brady \(R-TX\)](#)

[Committee Ranking Member Richie Neal \(D-MA\)](#)

### **Witnesses’ Opening Statements**

[Juan Luciano](#), President and Chief Executive Officer, Archer Daniels Midland Company

Mr. Luciano spoke in favor of reducing the corporate rate to 20% so that businesses could operate more competitively; he stated that ADM’s current effect tax rate is 30%. Additionally, he said moving to a territorial system would remove the burdens of higher tax rates and capital restrictions and help to stop the decline in agricultural market share.

[Brian Cornell](#), Board Chairman and Chief Executive Officer, Target Corporation

Mr. Cornell said he strongly support tax reform, as Target currently pays an effective tax rate of 35%. However, he said that the proposed BAT would undermine the pro-growth principles of the Better Way Blueprint. Mr. Cornell stated that the BAT would cause consumers to pay more on necessities like groceries and gas, so multinationals could pay less, making it a middle class budget breaker. He concluded by stating that it was time to move past the BAT to get tax reform done.

[William Simon](#), Former President and Chief Executive Officer, Walmart U.S.

Mr. Simon said that the current system wasn’t serving anyone well and that if a BAT was properly implemented, it would be in the best interest of the country. However, he cautioned that it must allow for adjustments and applying a 20% tax would not be good for industry or consumers. Further, he said that retailers need to work with the committee on how best to implement a transition, and spoke in favor of a long implementation with a phase-in of the impact. Mr. Simon also suggested pegging or using the value of the dollar to trigger the next phase-in of the BAT.

[Lawrence B. Lindsey](#), President and CEO, The Lindsey Group

Mr. Lindsey stated that the U.S. needed to move to territorial system, as a good portion of our goods are taxed twice. He explained that a BAT is not complicated, as it is a netting effect. Additionally, he emphasized that a BAT *will* lead to a currency adjustment, though there could be a debate about how much. He also agreed that the focus of discussion should be on the transition.

[Kimberly Clausing](#), Thormund A. Miller and Walter Mintz Professor of Economics, Reed College

Dr. Clausing stated that the BAT would cause large economic shocks. She brought up that there was a good possibility that it would not be WTO compliant and all other countries to retaliate with tariffs. She

did commend the Blueprint for tackling offshore profit sharing, which she stated cost the U.S. government \$100 billion/year.

#### Q&A:

**Chairman Kevin Brady (R-TX):** [Speaking to Mr. Lindsey] Based on your economic analysis, you see greater growth and higher wages. Can you explain why you don't think that the BAT will increase consumer costs? Why will wages increase?

**Mr. Lindsey:** Currently, the U.S. is labor constrained but not capital constrained. The only way to extend expansion at full employment is to increase growth on the supply side.

**Chairman Brady:** What are your thoughts on what kinds of manufacturing can return to U.S., and how can retail and manufacturing partner to make sure this tax reform works for them?

**Mr. Simon:** Businesses need access to capital and workforce transformation is really critical. It's important to realize that when retailers import goods, they have to order a year ahead of time, while domestic product lead times could be 14-16 weeks. Therefore, cash flow is different so other business practices would have to be adjusted with a BAT. As to manufacturing, it is unlikely that small items like microchips or heavy labor items are likely to return to the U.S.

**Ranking Member Richie Neal (D-MA):** What are some of your ideas for middle class relief?

**Dr. Clausing:** We should expand tax relief at a greater rate than for the rich; expand the EITC; and avoid tax changes that raise the deficit.

**Ranking Member Neal:** Why are you skeptical about dollar appreciation after instituting a BAT?

**Mr. Cornell:** I'm not an exporter, but I've studied what economists are saying around the issue of the BAT. There are "grave doubts" that exchange rates will offset; and "great uncertainty" around all of the aspects relating to it. David Wu says a BAT is the most difficult thing to estimate. I worry about the impact on families for basic family essentials if they are paying prices that are 20% higher than they are now.

**Ranking Member Neal:** Who are the biggest winners and losers of BAT?

**Dr. Clausing:** The losers would be import intensive industries and workers, as many countries have fixed exchange rates. Export firms could win, but face risks if other countries decide to retaliate. For instance, if we lose in the WTO, it would allow for very large tariffs on American goods.

**Rep. Devin Nunes (R-CA):** What does the U.S. have in common with the countries (Mali, Libya, Syria, etc.) you mentioned?

**Mr. Lindsey:** They all do not have a VAT/BAT.

**Rep. Nunes:** In your opinion, what will happen with the exchange rate?

**Mr. Lindsey:** Supply and demand is going to cause the dollar to appreciate. It is likely that the total increase in consumer price of only 1% in total. Markets move ahead of reality, so I wouldn't worry about exchange rate values being delayed.

**Rep. Nunes:** Can you talk about the WTO argument we have heard in this hearing?

**Mr. Lindsey:** The WTO is dominated by Europeans; we should respect international body but recognize that bias. The WTO has ruled it a BAT/VAT is legal, and not even the WTO would say

that it was ok for Europeans to do this but not Americans. If they do, maybe we should reconsider our affiliation with them.

**Rep. Nunes:** Should we look at a phase-in approach?

**Mr. Lindsey:** One way to address it, is to just do a portion.

**Rep. Sander Levin (D-MI):** I think there is a deep distinction between VAT and BAT. We've heard steel used as an example, but U.S. steel has to fight China on its use of SOEs and currency manipulation. The move of the auto industry has also been cited as one of the needs for a BAT, but that move is partly due to labor costs. Mr. Lindsey reiterated that one of the arguments for a VAT is reimbursement upon export, but CATO and others say this is false. What are others' views?

**Dr. Clausing:** The concept of a "Made in America" tax isn't exactly right.

**Rep. Dave Reichert (R-WA):** This is our chance to build a competitive tax code, provide job opportunities and economic growth. How does an international tax system impact a country's operations? With a more modern code, would you invest more in the U.S.?

**Mr. Luciano:** A healthy agriculture industry is important to feed the world. One competitive advantage the U.S. has is agriculture production capabilities. Right now, if the choice is wheat from Kansas or Ukraine, in Ukraine we have ability to get a refund on the VAT, so that would be our choice. The U.S. has lost world market share in commodities to other countries. Acreage in the U.S. has been reduced 12%, increased in other countries. Of course we would invest in the U.S. more if the farmer grows more.

**Rep. John Lewis (D-GA):** [Brought a focus to the witnesses and stated that it was strange there was only one woman when women make up more than 50% of the population. Dr. Clausing said "there is a lot of weird things about tax reform."] Does this tax reform plan help working families?

**Dr. Clausing:** The Tax Policy Center says the top 1% of earners gets a tax cut of more than \$200,000 tax cut, while the bottom where 80% gets around \$200. The exchange rate can take time to adjust, so in the interim consumers would bear the brunt of the BAT.

**Rep. Lewis:** Why is it important that tax reform is revenue neutral?

**Dr. Clausing:** Obligations to senior citizens and debts will be increasing because of Social Security and Medicare. Debts can crowd out growth or increase trade deficits, having a ripple effect.

**Rep. Peter Roskam (R-IL):** In last week's hearing, a small business owner, Mr. Mottl, testified that he was very supportive of the BAT. [Rep. Roskam expressed disgust at the money spent on anti-BAT ads that he felt were inaccurate. He also pushed back on the argument that the BAT was doomed to lose in the WTO, saying that the leader of that body said there was a lot of grey area.] Why doesn't BAT create fear and loathing in you?

**Mr. Simon:** The concerns of the retail industry are real; if we can address them with a transitional plan, the BAT will be good for the country. We don't want to ignore their concerns. If the BAT is improperly implemented, it will be terrible for consumers. Properly, it can be very successful for U.S. manufacturing.

**Rep. Lloyd Doggett (D-TX):** There is \$2.6 trillion in 'so-called' offshore earnings. Is it true that companies can already use it to invest without tax liabilities?

**Dr. Clausing:** Yes, much of that money is booked offshore but invested through U.S. financial firms. It can't be used for dividends, but companies can borrow against it for credit.

**Rep. Vern Buchanan (R-FL):** What are your thoughts on growing the economy? What is the basis and drivers to 3.5%?

**Mr. Lindsey:** There are two steps: first, the long-run capacity should grow by 2.7% annually. Second, to get to that capacity, there is likely to be increased short-term business fixed investment.

**Rep. Buchanan:** What does this do to deficit long-term?

**Mr. Lindsey:** I've scored out the long-term debt situation, and on annual, the plan breaks even in year 6, by year 12 the cost will be covered. Judging in the very long-run, its impact is positive.

**Rep. Buchanan:** I'm concerned about inversions. Companies aren't moving to tax havens; they are running to Canada or the UK.

**Mr. Lindsey:** It is important to differentiate between inversions and the offshore money piece. Rep. Doggett is correct that the money kept overseas is already in international markets; however, the tax revenue from it has not come to the U.S. treasury (about \$100 billion yearly); doing deemed repatriation is likely to increase that amount to as much as \$200 billion.

**Rep. Mike Thompson (D-CA):** In your testimony, you said that the BAT would raise revenue, but that revenue is borrowed from future taxpayers. Can you elaborate?

**Dr. Clausing:** At present, we run a trade deficit, so BAT would raise revenue. However, no country can run a trade deficit forever. When we begin running a trade surplus, the BAT would cost the U.S. money.

**Rep. Thompson:** A Washington company recently visited me to talk about how devastating the BAT would be for their company. The company buys items that wouldn't be made in the U.S. no matter our tax policy. How would the WTO issue play out?

**Clausing:** Our trading partners are already preparing suits to be playing out in dispute settlement to fight against the BAT.

**Rep. Adrian Smith (R-NE):** There are currently barriers to agriculture exports. Please talk about your perspective on how this plan might help.

**Mr. Luciano:** This plan is about balancing the playing field. Many countries refund part of VAT, while others have internal consumption tax that aren't applied to export. These put U.S. agricultural interests at a disadvantage.

**Rep. Smith:** Is the current corporate tax code really not that bad?

**Dr. Clausing:** Most economists think there is room for fair changes. One way would be to lower rates, combined with the closing of loopholes.

**Rep. John Larson (D-CT):** Please share how this plan would impact the top earners vs. those in the lower income bracket.

**Dr. Clausing:** [reiterates earlier numbers on the benefits to the top 1% and the lower 80%]; Mr. Lindsey says if there was enough growth, it could counter those numbers, but 37 economists say that the growth projections are too optimistic and wouldn't cover the cost.

**Larson:** What are the risks for major manufacturers?

**Dr. Clausing:** The exchange rate risk is a serious one. Countries with VATs also trade less than other countries.

**Rep. Lynn Jenkins (R-KS):** You have talked about the growing demand to feed a growing global population. How does tax reform pair with global demand? How does the BAT help farmers see bigger and better market?

**Mr. Luciano:** The world's population is growing; there will be an estimated 9 billion people in 2050, but production only comes from 3 parts of the world (North and South America and Eastern Europe). The global middle class needs the products that we produce. The U.S. farmer in Kansas is at a disadvantage because producers elsewhere have a VAT that is discounted. The U.S. has a competitive advantage in things like shipping. Anything that farmers control, the U.S. has an advantage.

**Rep. Earl Blumenauer (D-OR):** Is it possible to stimulate demand by putting people to work on infrastructure (funded by raising the gas tax)?

**Simon:** That question is out of my expertise. However, anything that builds long term middle class jobs is good for the retail industry.

**Cornell:** I would like to see infrastructure improvements.

**Rep. Blumenauer:** What are your thoughts on our system?

**Dr. Clausing:** Some describe our system as a "stupid territorial system"; some of our trading partner tax profits immediately because of erosion

**Rep. Erik Paulsen (R-MN):** We Need to make sure America is a destination, but it has to be done in a thoughtful way. I CANNOT SUPPORT THE BAT AS INTRODUCED LAST YEAR. What policy recommendations do you have?

**Mr. Cornell:** I'm not a tax expert, but we would like to see comprehensive tax reform, as Target currently pays a 35% rate. We would prioritize simplification. However, I continue to hear "if" at this hearing, which is a red flag. Businesses need to have certainty. It is hard to craft a business plan with "if."

**Rep. Bill Pascrell (D-NJ):** [As a soliloquy: We've heard a lot about how businesses can't compete because taxes are too high. I have no problems with that, and agree that we need to make changes to the code. However, Republicans are clinging to debunked idea that if you cut taxes at the top, the results will trickle down.]

**Rep. Kenny Marchant (R-TX):** We all have the same goals- a simpler and fairer tax code that makes companies competitive. What percentage of your products are imported?

**Mr. Cornell:** About half of Target's products are imported. 8 of our top 10 vendors are from here in the U.S.

**Mr. Simon:** Because of Wal-Mart's heavy concentration on food, about 1/3 is imported.

**Rep. Marchant:** How has retail adjusted to currency in the last three months (gives the example of falling U.S. dollar and Euro changes)? How has your company dealt with currency swings in the past?

**Mr. Cornell:** We have a number of currency experts that look at this issue. It's important to remember that there are lots of other things that tend to change besides currency, like

commodities. However, our contracts are dollar denominated, and the dollar is the global currency, which makes these impact even greater.

**Mr. Lindsey:** All 160 countries that have a VAT/BAT still have retail sectors that haven't been wiped out. One of the reasons that currencies adjust is that retailers have market power.

**Rep. Mike Kelly (R-PA):** My concern is final price on the shelf for consumers. Parts content is an additional complication to the BAT. What is the actual effect on every day Americans?

**Mr. Cornell:** I spend time with customers every day. We have looked at the implications of the BAT; we've calculated that prices go up by about 20%. There are simply things the U.S. can't produce that must be imported; produce doesn't grow in the U.S. in the winter. Many supply chains don't exist in U.S. (97% of apparel is made outside the U.S.). Electronic device supply chains are not in US.

**Rep. Kelly:** How many employees do your companies have?

**Mr. Cornell:** Target has 320,000 employees in US.

**Mr. Simon:** Wal-Mart has 1.3 million.

**Mr. Luciano:** ADM has 20,000 in the U.S.

**Rep. Danny Davis (D-IL):** Given Republican policies to cut federal support for middle and working class families on the spending side, concerned about the same families with the tax plan

**Dr. Clausing:** This type of tax system has no precedent. No other country does border adjusted corporate tax; this is an untested plan. If the dollar does appreciate at rate they say, it could create an emerging market crisis.

**Rep. Jim Renacci (R-OH):** I am extremely skeptical of the BAT but am trying not to be. I have been supportive of a more conventional border consumption tax. Among my concerns is if a BAT is compliant to treaty obligations? What impacts will it have on currency? What sort of burden will it place on consumers? It seems to me that the BAT hinges on economic theory and could be flagrant violation of our international trade responsibilities. I've heard from mainstreet Ohio and am very concerned. Can anyone assure us that currency will adjust, so there will be NO EFFECT? [All witnesses decline to say there will be no effect; Mr. Lindsey says any effect will be minimal. As to the WTO, Mr. Lindsey says that no one knows how it will rule, while Dr. Clausing says based on her conversations with trade lawyers, she doesn't think it will hold up.]

**Rep. Renacci:** How long to get American companies back in the business of making tvs?

**Mr. Simon:** TVs have been assembled in U.S. for first time since 1970s in the last couple of years. It takes time for supply chains to catch up

**Rep. Renacci:** Is this plan the only way?

**Mr. Lindsey:** It is the best I have seen.

**Rep. Kristi Noem (R-SD):** I am very concerned about small businesses and retailers. I believe that the tax code has perpetuated problems of consolidation and ownership changing to other countries. How does this plan address those?

**Mr. Luciano:** This proposal can help us to help the farmer become more competitive. I worry about losing competitiveness of the market share.

**Rep. Noem:** When we talk about the BAT, there is concern that it could potentially shift the burden. Farmers and ranchers are concerned that the BAT doesn't let the profit flow. They see big companies like ADM getting the profit, but not smaller businesses.

**Mr. Luciano:** ADM does not thrive unless there is a thriving farmer. We have a very symbiotic relationship.

**Rep. Linda Sánchez (D-CA):** I am concerned about an ill-advised gamble on the dollar, and I fear that a BAT would cause a WTO loss. Further, I worry that this system could incentivize export-import mergers to game the tax system. Is the middle class being squeezed in this system?

**Dr. Clausing:** Middle class wages have been growing slowly for years. Problem is that tax cut would reinforce the differences between upper and middle class benefits.

**Rep. Sánchez:** Alternative ways that we could address international tax reform

**Dr. Clausing:** End deferral with lower rate; minimal tax on a per-country basis. Expanding corporate tax base would help.

**Rep. George Holding (R-NC):** Do you agree with Dr. Clausing that when trade deficits turn into surpluses, the BAT causes lost revenue?

**Mr. Lindsey:** We have had a trade deficit for 50 years. I think the right thing is to focus on is how to finance the trade deficit. Right now, we sell debt overseas. This bill will finance it by encouraging FDI into the U.S.

**Rep. Holding:** 5400 people expatriated from the U.S. in 2015. Is there any other plan that achieves what we are trying to protect in the tax base?

**Mr. Lindsey:** This committee considered a number of options a few years ago, but those plans but restrictions on U.S. companies without touching foreign companies. That is not the way to address the problem.

**Rep. Dave Schweikert (R-AZ):** Please detail your experience in trying to rework your supply chain.

**Mr. Simon:** 97% of apparel is made outside of the U.S., though much is made with U.S. cotton. The labor component isn't the driver of that. Products migrated because tax and infrastructure eroded. We can't survive as a consumption economy. We have to make things. Every product that Wal-Mart has repatriated, has taken an extreme amount of effort. However, businesses may also have to restructure some of their business model to adjust.

**Rep. Suzan DelBene (D-WA):** Small brewers are concerned about the BAT because they rely on imports and only sell domestically. Do you agree that they should be concerned? How do you respond?

**Dr. Clausing:** There is a risk to import-heavy industries. We can help workers hurt by trade by EITC and other ways.

**Rep. DelBene:** How are digital goods and intangible goods treated under BAT?

**Dr. Clausing:** Digital goods are more difficult to observe. The issue has been raised issue with countries that have VAT. In general, the more physical, the less responsive to taxes. However, the BAT could cause huge headaches with the financial sector.

**Rep. DelBene:** Manufacturing is moving to more automation. Do economists look at this?

**Dr. Clausing:** Technological change is a huge issue. If we bring manufacturing back and make it with robots, there are still no more American workers. Tax policy is important, but spending policy is also important. Upgrading skill level of population is vital.

**Rep. Tom Rice (R-SC):** If an American company and Irish company make the same product and compete globally, what is the outcome?

**Mr. Lindsey:** The Irish company is well advantaged.

**Dr. Clausing:** I disagree. [Rep. Rice says she is first person who has ever disagreed with this hypothetical question.]

**Rep. Rice:** What's your opinion of the lower income rate and higher VAT in Ireland?

**Mr. Lindsey:** It is very clever and it has worked very well.

**Rep. Carlos Curbelo (R-FL):** [He reiterated his support for comprehensive, permanent, revenue neutral tax reform.] How will Miami and South Florida fair under a BAT?

**Mr. Simon:** By all accounts, American exporters will be more competitive. Port activity will remain vital. Many companies will still be heavily importing because supply lines won't be there in the beginning. If we can't figure out a transition plan, we could see a slow down. However, we should also start to see rising consumer income and rising consumer participation in the market.

**Rep. Curbelo:** What is your message to those that rely on textile imports?

**Mr. Simon:** It is important to sit down together and understand the impact that the BAT will have on businesses. We can't depend on theory or hope, we need a plan with bridges and safety nets. Let's not have our opinions impact the ability of companies to do business.

**Mr. Cornell:** Short term, all of the products will be impacted in a very negative way. In your district, small businesses will be impacted.

**Rep. Judy Chu (D-CA):** Several reports estimate that the price of a car increases with the BAT by between \$2000 and \$3300. Can we depend on a rise in wages to mitigate this?

**Dr. Clausing:** The auto industry is very global. Cars come from many, many different countries. A BAT will drive up the price for both imported and domestic cars. Exporters of cars also face risk with WTO and retaliatory tariffs.

**Rep. Chu:** What is the result of a regressive tax on the consumer?

**Dr. Clausing:** If the exchange rate doesn't react, consumers will pay larger share. What will drive American wages higher? Some have said that lower rates will cause companies to raise wages, but Corporate profits after tax are higher than they ever have been and wages are stagnate.

**Rep. Tom Reed (R-NY):** We cannot maintain the status quo; it puts us at a competitive disadvantage. During the 2004 repatriation holiday there was a concern about money going to shareholders because of fiduciary responsibility. Is that a concern with this bill?

**Mr. Lindsey:** I would not do another holiday. That is one of the reasons that I like this bill, not only is it not a holiday, it takes care of the problem permanently. [Rep. Reed asks if Dr. Clausen agrees. She says she does and that it should be permanent.]

**Rep. Reed:** Overseas trapped earnings are trapped in two different things. Would you encourage bifurcated rate?

**Lindsey:** No. I would support a single rate.

**Rep. Mike Bishop (R-MI):** Tool & Dye companies are on the verge of extinction. What can we do to address this concern?

**Mr. Lindsey:** A number of things can be done. The proposal helps with the issue by targeting the expensing component.

**Rep. Bishop:** How important is it to get tax reform done before 2018?

**Mr. Lindsey:** Vital

**Mr. Simon:** Every day is important because we are running out of time.

**Rep. Jackie Walorski (R-IN):** Inversions have been extremely detrimental. Is there a solution to make the U.S. more competitive (other than tax reform)? How important is it for ADM to move away from worldwide system and lockout effect?

**Mr. Luciano:** This proposal addresses competitive issue. Our intention is always to make what we can here.