# H WAYS & MEANS HEARING ON U.S. COMPETITIVENESS

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BRIAN CORNELL, BOARD CHAIRMAN AND CHIEF EXECUTIVE OFFICER, TARGET CORPORATION

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[*] BRADY: The Committee will come to order. Welcome to the Ways and Means Committee hearing on "Increasing U.S. Competitiveness and Preventing American Jobs from Moving Overseas."

Before we get started, I want to take a moment to speak about the evil terror attack that occurred last night in the United Kingdom. Our deepest condolences go out to the victims, their families, and their loved ones. Please ***know*** that you are in our prayers.

Today, we are continuing our work on pro-growth tax reform that will improve the lives of all Americans. This morning's hearing is focused on strengthening America's competitiveness and preventing American jobs from moving overseas.

For years, Americans have watched as our manufacturing plants, middle-class jobs and long standing U.S. companies have moved overseas, devastating communities and the families that depend upon them. Hundreds of thousands of good-paying American jobs have left and continue to leave to China, Mexico, Ireland, and other ***foreign*** countries.

Some of our communities have never recovered. Because when these plants and companies move overseas, then local small businesses, housing values and local tax revenue disappear with them. I've watched as 17 key Texas companies have relocated their headquarters to England, Canada, Bermuda, Ireland, the Caymans Islands, Switzerland, and the Netherlands.

Americans are being hurt because our nation is saddled with one of the most costly, unfair, and uncompetitive tax systems on the planet. According to the Nonpartisan Tax Foundation, when it comes to competitive tax codes, America is ranked nearly last among our global competitors, 31 of 35.

The good news is we're edging out Greece. The bad news is nearly everyone else is eating our lunch along with our jobs, manufacturing plants and research facilities. The urgency for bold, permanent, pro- growth tax reform has never been greater.

We gather today because with our current tax code, the playing field for American workers is not level. Not even close. Over three decades have passed since the last time we reformed America's tax code. While Washington has been on the sidelines, our ***foreign*** competitors have been improving their tax systems for their businesses and workers.

Today, it's clear our tax code is failing American workers, families, and businesses in three crucial areas. First, our corporate tax rate, now the highest in the industrial world at 35 percent, is at least 10 to 15 points higher than our competitors. This makes it much harder for our businesses to compete globally and create jobs here at home.

Second, our tax system discourages U.S. businesses from bringing home ***foreign*** profits to grow middle-class jobs and middle-class paychecks. Instead, our tax code encourages global U.S. businesses to keep profits abroad to grow ***foreign*** jobs and ***foreign*** paychecks.

At last check, more than $2.5 trillion of U.S. profits are stranded overseas, unable to be affordably reinvested back here in America. Addressing these two issues is important, and would be good enough to move America back to average somewhere in the middle of the pack.

But tax reform only happens once in a generation. Is our vision merely to be average? Given all that's at stake for middle-class families, our goal in tax reform should be to vault America from dead last among our global competitors back into the lead pack, pack among the top three best places on the planet for that next new job, manufacturing plant or research facility.

To do this, we must take action on a third crucial competitive issue ending the Made in America tax. Today, the vast majority of our international competitors apply taxes on products that are sold in their country no matter where the product is made. And they remove taxes from products that are exported, including products that are sold into the America. This is called border adjustment, taxes are adjusted when products cross the border.

Over 160 of our competitors' border adjust their taxes. These are all the blue countries on the map on the screen. America is one of the very few who don't, along with countries like Cuba, North Korea and Somalia.

In our country, we apply taxes only on products that are made in America and Washington imposes that Made in America tax on our products no matter where they are sold, including overseas.

As a result, Made in America products are at a major tax disadvantage here at home and around the world. So why is Washington providing special tax breaks for ***foreign*** products over American made products? Why should Chinese steel get a tax break over American steel, Mexican auto parts and agriculture over American auto parts and agriculture, ***foreign*** oil over American-made oil?

This doesn't make sense, especially since this a big reason our current tax code drives U.S. jobs and companies overseas. In the tax reform blueprint, we propose to end the Made in America tax and instead tax all products and services equally when they are sold in America, at a low rate of 20 percent. No special tax breaks for ***foreign*** products. Everyone treated the same. True competition for the first time.

And we lift the tax on Made in America products and services when they are sold abroad and for the first time leveling the field -- the playing field for American workers, businesses and farmers.

Our goal is not simply to eliminate any tax reason to move American jobs overseas, but to reestablish America as a 21st century magnet for new jobs and investment. And for the first time, companies will no longer gain by moving their headquarters to Bermuda, their manufacturing plants to China or their intellectual property to Ireland. As a result, for the first time in decades, companies and industries are coming forward to describe how under the Republican blueprint they can bring large parts of their supply chains back to America. These are the good-paying jobs, manufacturing plants, research labs and technology centers that cutting -- that house cutting-edge intellectual property like patents.

The current tax code told them to move these activities overseas. The House blueprint allows them to bring them back to the United States.

We recognize this is a significant change from our current tax code. We ***know*** there are legitimate concerns, including from some of our witnesses here today and our colleagues on the other side of the aisle about how it will affect American workers, businesses, and consumers. And we are committed to working with all of you to address these concerns.

We have to get it right, and we will. It's time for a tax code that rewards Americans' hard work rather than pushing American jobs out of our communities.

The Tax Foundation estimates that the House Blueprint as a whole will create 1.7 million jobs over the next decade and grow paychecks for middle-class American families by roughly $5,000.

Imagine how successful American consumers will be when they have a secure, good-paying job and a tax code that allows them to keep more of their paychecks. It's time for Washington to get off the sidelines and back into the game fighting for our businesses, workers, and consumers.

I want to thank all of our witnesses for being here today. We have a stellar field and we look forward to hearing your ideas on how we can level the playing field for American workers and unleash a new era of American prosperity.

Before I recognize the Ranking Member, I want to announce that we are joined here today by Bill Thomas who chaired this committee from 2001 to 2006. Mr. Chairman, welcome back.

(APPLAUSE)

I now yield to distinguished Ranking Member Mr. Neal for the purposes of an opening statement.

NEAL: Thank you, Mr. Chairman, and we fully share the sentiments you expressed on events that took place last night in Manchester, Great Britain.

First, ***let*** me thank you, Mr. Chairman, for holding today's hearing on increasing U.S. competitiveness and preventing American jobs from moving overseas. It's an important topic and I look forward to a productive conversation.

As we continue with this series of hearings on comprehensive tax reform, I want to reiterate my support for reforming the tax code. There's certainly strong bipartisan support for simplifying the tax system and making it more fair. We on the Democratic side are willing partners in those efforts.

However, we will support tax reform at a comprehensive basis that will ease financial burdens on the middle class and working families. We will not support tax cuts for those at top of the income scale at the expense of those of the middle class. Our primary focus and top priority in tax reform needs to be putting the middle class first.

I also believe that a key component of tax reform is ensuring that American businesses remain competitive in the global economy and that we prevent American jobs from moving overseas. Achieving this includes providing incentives to companies to conduct research and development here in the United States.

We also need to improve our nation's infrastructure so that it's in line with other developed nations. That includes meaningful investments to repair and enhance our nation's roads, rail, bridges, harbors, sea and water harbor opportunities as well. These reforms can be done through the tax code and would also jump start economic growth and create thousands of jobs.

Another key component of international competitiveness is investment in well-trained and skilled workforce opportunities. A 2015 report by the Manufacturing Institute estimated that over the next decade, two million manufacturing jobs in this country could go unfilled due to a skills gap.

The New England Council recently estimated in a 2015 report that thousands of high paying advance manufacturing jobs, some with salaries well over $80,000 a year with full benefits, go unfilled because employers are struggling to find candidates to meet the needs of these open positions. At a time when families across the country are trying to reach and stay in the middle class, our nation cannot afford to have factories and workers sit idle. To remain competitive, we need to invest in workforce development.

***Let*** me shift to another focus of today's hearing, the border adjustment tax. I think that the border adjustment tax proposal is certainly interesting. As my past support of an innovation box demonstrates, I'm no stranger to innovative tax ideas, I'm willing to look outside the box for smart tax policy and certainly encourage others to do the same.

Some argue that a border adjustment tax would create such an incentive for companies to make things in the U.S. that it would drive up demand for American-made goods. We certainly are supportive of American manufacturers.

However, there are many unknowns about the border adjustment tax. Given the many significant economic uncertainties and risks associated with a border adjustment tax, the committee must evaluate its merits thoroughly and methodically. There are many very important questions that must be answered in order to evaluate the proposal. So I applaud the Chairman for holding today's hearing to do just that. For example, what will the impact be on consumers? The retailers tell us the cost of products like food, clothing and medicine will go up for consumers by more than $1,700 a year. Gas prices could increase by 35 cents a gallon.

Also I've been told that a 20 percent BAT could increase average home heating oil cost for a New England family by up to $400 per winter. Middle-class families can't and shouldn't have to sustain these types of increases in consumer prices as a result of tax reform. Is that a risk within adjustment border tax?

Will the dollar strengthen to offset increases in consumer prices? If so, how long will it take and will it indeed be complete? And how much certainty is there with respect to currency fluctuations and other implications of an increased dollar?

With the border adjustment tax, is it WTO compliant? Is there a risk of retaliation? What would the BAT's impact be on American jobs? Who will be the winners and losers as a result of a border adjustment tax?

Another important question that I have is the impact on small businesses. Unfortunately, we don't have a small business witness with us today. But I think understanding the potential impact on small business is key.

The owner of Dave's Soda and Pet City in my district it was quite successful, tells me that his imported products would certainly provide the margin for him to operate the rest of his business is currently constructed. He says that if his costs go up, he can't rent out utilities, he can't rent out other places to cut the payroll, in fact, he has to absorb to cost.

He also is very concerned that if consumers have to pay more for gas and other essentials, he will sell less of the pet accessories that keep his business afloat. I hope we can continue to examine the impact of the BAT on small businesses.

Mr. Chairman, I hope you will consider holding a hearing in the near future on how to best use revenue from a deemed repatriation tax as we discuss tax reform. I support using repatriation dollars to pay for infrastructure and/or other product -- productive purposes for the middle class.

Mr. Chairman, thanks for your leadership in calling today's hearing and I'm hopeful that we can dive into this topic of the BAT and get our questions answered. I hope that this will continue to be a productive conversation and thank the witnesses for their participation.

BRADY: Thank you, Mr. Neal. Without objection, the members' opening statements will remain part of the record.

Today's witness panel includes five experts. Juan Luciano is the President and Chief Executive Officer of the Archer Daniels Midland Company; Brian Cornell is the Board Chairman and Chief Executive Officer of the Target Corporation; William Simon is the former President and Chief Executive Officer of Wal-Mart U.S; Lawrence B. Lindsey is the President and Chief Executive Officer of The Lindsey Group; and Kimberly Clausing is the Thormund A. Miller and Walter Mintz Professor of Economics at Reed College.

The Committee has received your written statements. They'll all be made part of the formal hearing record. You each have five minutes to deliver your oral remarks. We'll begin with Mr. Luciano. Welcome and you may begin when you're ready.

LUCIANO: Thank you. Chairman Brady, Ranking Member Neal and members of the Committee, thank you for the opportunity to testify about comprehensive tax reform.

ADM began as a linseed-oil processor in Minneapolis 115 years ago. Today, we employ nearly 20,000 employees in the United States serving customers in 160 countries. Our network allows us to source crops to transport them to our processing facilities, to transform them into food, feed, renewable fuels and chemicals and to deliver them to customers on six continents.

We support U.S. farmers and businesses in significant ways. In 2016, we purchased $25.9 billion in goods and services from vendors or farmer in all 50 states. I'm pleased to say we have employees in 25 of the 26 states represented on this Committee and Congressman Neal, we hope to have the opportunity to invest in Massachusetts.

ADM's reach opened global markets for America's farmers who have run a trade surplus 50 years. But U.S. companies like ADM now compete with well-capitalized non-U.S. companies often enjoy tax system with lower rates and border adjustments that create a competitive advantage for them.

ADM only thrives when America's farmers thrive. For us to serve America's farmers while creating jobs and contributing to growth, we must have a globally competitive U.S. tax code. We must encourage the return of capital to the U.S. and enable companies like ADM to create and maintain jobs here in the United States. The proposal we're discussing today will help accomplish those goals.

First, reducing the corporate rate to 20 percent will allows companies like ADM to operate more competitively. Today, many competitors have a substantial tax advantage. Our effective tax rate is approximately 30 percent and we must compete with firms with tax rates at 20 percent or in the teens.

Second, the proposal will level the playing field by moving from worldwide taxation to territorial taxation. The territorial tax system will remove the burdens of high corporate tax rates and address the capital restrictions that hinder U.S. companies and not global competitors. This will facilitate our ability to enable American crops to reach the world.

Third, the destination-based cash flow tax will level the playing field for our exports. When we must go toe to toe with competitors, we enjoy significant BAT rebates or exemptions when they export. Unlike BAT, the U.S. income tax system has no offset for exports. This systematically disadvantages our own producers. The destination- based cash flow tax corrects this imbalance.

The U.S. market share of global exports has fallen precipitously in major commodities over the past five decades. The U.S. is no longer number one in soybeans and wheat. From 1965 to today, U.S. world share of soybeans exports has fallen from 90 percent to 39 percent with Brazil taking the lead.

Over the same period, our world share exports of wheat has fallen from 40 percent to 20 percent with Russia taking the lead. The U.S. world share of corn has fallen from 65 percent to 34 percent.

America's antiquated tax system may not be the only reason for this decline but it clearly contributed. We need to modernize our tax code to allow us to keep up with the rest of the world. This proposal creates declinement which will support reinvesting in America and will result in millions of American jobs. It will help stop the decline in our market share and enhance our ability to serve the world.

Other countries have responded to our inaction. We feel the opportunity with tax reform to give American farmers and workers a chance to fairly compete and provide American products to customers around the globe.

BRADY: Mr. Luciano, thank you very much for your testimony.

Mr. Cornell, welcome and please proceed.

CORNELL: Good morning, Chairman Brady, Ranking Member Neal and members of the Committee. Thank you for the opportunity to be here today.

***Let*** me begin by saying that we strongly support tax reform. At Target, we have a very high effective tax rate, an average of 35 percent over the past decade. So we're as motivated as anyone to bring that rate down.

We recognize our current tax code is broken. The status quo is unacceptable. Mr. Chairman, we'll put every tax benefit we currently receive on the table, every single one, in order to pass tax reform, to lower that rate, to spur investment, to create jobs, and to grow the American economy.

However, we've concluded that the new border adjustment tax would undermine the pro-growth principles in the Blueprint, and it's not just us, more than 500 companies and associations feel the same way.

I'm talking about main street coffee shops, car dealers, grocery stores, gas stations and restaurants. From large companies like Target to small American businesses, we've all come to the same conclusion. Under the new border adjustment tax, American families, your constituents, would pay more so many multinational corporations can pay even less. Eighty-five percent of Americans shop at Target every year. We believe this new tax would hit families hard. Raising prices on everyday essentials by up to 20 percent. We're not talking about luxury items here, but instead the basics American families need.

Moms in Cincinnati would pay more for back-to-school clothes. Parents in Houston would pay more for their groceries. Seniors in Philadelphia would pay more for medicine. Every time your constituents fill up their gas tanks, they would pay more.

The people who shop at Target are middle-class hard working families whose budgets are already stretched. For them, this new tax would be a budget breaker.

Mr. Chairman, we're investing in America. We're hiring. We recently announced we're investing $7 billion in communities across this country. $7 billion to build new stores, to renovate hundreds more and to transform our distribution network. All right here in the United States.

These investments will create thousands of new jobs at Target and thousands more for engineers, electricians, plumbers, and painters across the country and we're doing that today.

But under the new border adjustment tax, our rate would more than double, from 35 percent to 75 percent. And we, like many others, would be left with only bad options. It's pretty simple math.

If the government takes nearly four out of every five dollars we make, four out of five, there's no capital to invest and no prospects for growth and that matters a lot both to us and the American economy. Instead of investing and creating American jobs, we'd be pushed in the other direction.

Mr. Chairman, I have a responsibility to more than 320,000 employees, 99 percent of whom are based right here in the United States. That's hundreds of thousands of American families who depend on me every day.

I ***know*** there's an academic theory that says currency markets will adjust, that families won't be harmed under this plan. Well, that might work in a textbook. But I can't tell my employees that their paychecks and Congress shouldn't tell American families that their budgets are being wagered on an unproven and untested theory.

So in closing, Mr. Chairman, members of the Committee, we have a historic opportunity to simplify the tax code, to spur economic growth and to create jobs. Many parts of the Blueprint will do just that. But I can't sign up for a plan that would stick American families with that bill or a plan that would double our tax rate, a plan that would stifle our investment in America.

Mr. Chairman, I want to thank you again for your leadership. I ***know*** this is challenging and I want to help. ***Let***'s move past the new border adjustment tax and get tax reform done. It's too important. That's why we're here today. So thank you. BRADY: Thank you.

Mr. Simon, welcome today and please proceed with your testimony.

SIMON: Thank you, Chairman Brady, Ranking Member Neal and members of the Committee. It is really my pleasure to be here with you today and discuss the importance of U.S. manufacturing on middle class jobs.

I am here representing myself as a private citizens. These are my views.

I'd like to begin by noting that I've long been a supporter of U.S. manufacturing. In fact, the National Retail Federation hosted me at their annual meeting in 2013 when we launched Wal-Mart U.S. manufacturing initiative which I would add has been quite successful.

Manufacturing jobs in this country and really around the world have always represented the pathway to the middle class. That's how it works and we've seen it throughout our history.

And there's a reason that the middle class has struggled in this country recently and it's the same reason we've seen the middle class has emerged in global markets and that is the manufacturing base has moved and with it, the jobs have followed.

There was a time in this country when a job in a local factory was a ticket to the middle class. I grew up in Congressman Larsen's district around Hartford, Connecticut. We made Pratt and Whitney Engines and Colt Firearms and everybody in the community was proud of that factory and if you got a job there, you were set.

But in this country, it doesn't work that way anymore. You -- the government, you lay out the rules like puzzle pieces and businesses like us take the tax labor and trade policies that you've given us and put them together and try to deliver the best results we can for shareholders.

And over the past 30 years, when you assemble those puzzle pieces, virtually every scenario run by every company has resulted in the same outcome, offshore manufacturing and hollowed out middle class with limited job progression.

Something needs to be change on this, everybody agrees and I join my colleague in commending you for taking on this difficult issue. Many ideas have been discussed I recent months and of the most controversial particularly for the retail industry has been the border adjustment.

And I've weighed the considerable challenges the proposal presents to retail and they are considerable with the significant benefits that will deliver to the economy as a whole and have concluded that if properly implemented, it's in the best interest of the country for this to be considered.

However, such a system would have to be implemented with careful consideration to the transitional challenges retailers will face. It has to allow for adjustments that are necessary to address the concerns that you've heard from the industry. Like for example, most of the manufacturing capacity that in the world, outside of food products no longer is based in the U.S. as we've heard. So simply applying a 20 percent tax across the board on day one would have serious impact to the industry and consumer and I ***<u>know</u>*** that's not being proposed.

I hope you see my point of view isn't completely at odds with the industry. I just look at it from a different perspective. That is if we're to move forward, I believe it's important that retailers work with the Committee and provide input on how to best transition.

The retail industry is already in flux. They're dealing with generational technology and trend changes and I submit that it's all part of the same issue. The challenges that face -- excuse me, that face the middle class today have put a damper on the power of the consumer and are now impacting retail broadly.

Resurgence in American manufacturing would result in a stronger U.S. consumer and a stronger retail industry over the long run. But in manufacturing and in supply chains, the long run is a long time and the migration of manufacturing out of the U.S. took 30 years. And so it's critical that any proposed legislation understands and account for this.

If you move forward the border adjustment, I'd recommend considering a long implementation period with a phase in of the tax impact. If you guard against the currency fluctuations that some believe are just a textbook thing, the economists forecasting those impacts would offset the change and I would suggest that you peg or use the value of the dollar maybe to trigger or signal the next phase in of the tax rates or some other method that provides some security to the retail industry.

There's also things that the retailers can -- the industry can do to accelerate the transition. First and foremost is embrace U.S. manufacturers when they come online and they will come online rapidly. Because with the change, American sourcing will become increasingly viable. Also being closer to the point of consumption, shortens lead times, lowers transportation costs and increases manufacturing flexibility.

Second, for some products and apparel is a good example, competitively priced U.S. product won't be available for some time. In that case, they need to work with existing suppliers and look up stream is a way to drive down costs.

For example, American cotton is readily available on the international markets and could be acquired by the retailer and then reimported to offset some of the impact of the adjustment. With increased competition, obviously, prices will come down.

Our current system isn't serving anybody well at all. But until we substantially change the puzzle pieces, the puzzle will continue to be assembled in a way that inhibits the development of our manufacturing base. It will continue to restrict the development of the American middle class and it will not deliver the economic security that we need.

But if we get the pieces right, we'll see a rebirth of American manufacturing without the severe negative impacts on important sectors like retail. We'll see more good middle class jobs, a robust U.S. economy and an era of growth that will be led by a new industrial revolution.

Thank you.

BRADY: Thank you, Mr. Simon.

Mr. Lindsey, welcome too as well and please proceed.

LINDSEY: (OFF-MIKE)

BRADY: Can you hit that microphone?

LINDSEY: Yes. I was told to do that and you can't teach old dogs new tricks I guess.

Mr. Chairman, Ranking Member Neal and members of the Committee, thanks very much for having me here today. I think we all have at the same objective and that objective is to grow this economy faster, improve our competitiveness, raise living standards and if possible improve the distribution of income but making it more fair.

I'm here today because I believe that the basic Blueprint that was outlined will accomplish all these goals. Forty years ago when I was a graduate student, the basic structure of what was laid out in the Blueprint was considered across the political spectrum to be the best way we could design a tax system.

I quote in my testimony a paper written by a colleague of mine, Larry Summers that points this out. So the welfare cost of capital income taxation seriously underestimated. For reasonable parameter values, the annual welfare gain from a shift to consumption taxation is conservatively estimated at 10 percent of GDP.

It is unlikely that that basic conclusion of this analysis would be altered. Capita income taxes are likely to appear very undesirable in any sort of realistic life cycle formulation. That's how broad the consensus was about how we should structure our tax code.

There was a survey of 69 public finance economists by NBER that said that the '86 bill which was a pale imitation of what we're doing here increased the long-run growth of the U.S. economy by a full point.

My work on the House Blueprint suggest that we will have a growth rate of about 3.5 percent for the first four or five years and that will ultimately moderate to about two and three quarters percent. If you work it out, this is almost identical to Summers' calculation of the 10 percent increase. The reason is that if you look at recent performance, our problem has been a lack of capital formation which in the current recovery has fallen by almost 40 percent and a collapsing productivity which has fallen by two thirds and by this, I'm not counting recession, I'm counting the years after the recession. This has been the worst period of recovery ever.

And that's why in this bill targets both capital formation and entrepreneurship. I think all of the extra growth that will show up will be in the form of increased labor compensation. It's not only because of the structure of the tax which will give each worker more capital to work with but because right now, it's roughly for employment.

And so any expansion of the economy I think is likely to lead to higher wage growth. The last time we did anything like this, i.e., a capital formation oriented supply side tax cut at the time of full employment were the Kennedy tax cuts in 1964 and it take off in the economy and the rapid rise in capital -- excuse me, rapid rise in wage income and improvements in distribution of income occurred just like -- I think will happen today.

***Let*** me turn to the territorial system and the border adjustment tax. I think we need to a territorial destination-based system and away from our current global production-based system. Right now, our goods are taxed here when they're produced and are tax there when they are imported.

On the other hand, their goods have a big tax rebate given to them when they leave there and are not taxed here. So essentially, a good portion of our goods are taxed twice while a good portion of our goods going there aren't taxed at all.

***Let*** me turn to a few particular points. Border adjustment isn't complicated. It doesn't follow each good each time it crosses the border. It's a netting effect of exports minus imports.

Second, border adjustment will lead to a currency adjustment. We can argue about how much but basically when you put something like this and you increase the demand for dollars and you decrease the supply of dollars and higher demand and lower supply means a higher value of the dollar. It's simple as that.

One of my competitors I guess has estimated this. They actually have the lowest percentage of exchange rate adjustment that I ***know*** of, 65 percent, and they estimate that the effect of border adjustment on consumer prices will be a one-time probably over two years, so one- time increase of the total consumer price level of just 1 percent.

That's what we're talking about here. Will there be transition cost to these changes? Absolutely. And I agree with the other witnesses that that in fact is where the focus of our conversation should be. That the most important thing you can do is pass this bill.

Thank you. BRADY: Thank you, Dr. Lindsey.

Ms. Clausing, welcome to today's hearing. Please proceed.

CLAUSING: Chairman Brady, Ranking Member Neal, members of the Committee, thank you so much for inviting me today. In my testimony, I will talk about competitiveness, the Ryan/Brady plan and alternatives to the plan that can keep the advantages without the downsides.

First, competitiveness. In talking about competitiveness, many people emphasized tax. But competitiveness really has more to do with fundamentals like worker education, like an economically secure middle class, like sound infrastructure.

The investments that make the middle class prosperous will make our businesses successful. Most measures, our businesses are quite successful. Corporate profits are a higher share of GDP than they have been at any time in the recent history. Profits in the last 15 years are 50 percent higher than they were in prior decades.

Also, our companies dominate the Forbes list of the most important companies in the world. While our economy is about one fifth the size of the world, our companies are one third of the world's top companies.

While our corporate tax system has problems, most multinational firms face comparable effective tax rates as firms in other countries. In fact, our corporate tax revenues are lower than the corporate tax revenues of pure nations by about 1 percent of GDP.

Turning to the Ryan/Brady plan, there are good parts. First, it tackles offshore profit shifting and this has become a huge problem. My research suggests that profit shifting to tax havens is currently costing the U.S. government over $100 billion every year. In fact, our corporate -- sorry, our profits are often shifted to tax havens such as those shown on the chart, Bermuda, Switzerland and the Caymans.

However, there's some serious flaws with the Ryan/Brady plan. First, the plan is likely to generate large economic shocks harming American workers and major parts of our economy. The plan taxes imported goods and absent dollar appreciation will harm American businesses and harm American consumers.

In Oregon, a Nike executive called this plan the single biggest threat to the company in its history. Many practical considerations may get in the way of dollar appreciation and the evidence we have suggests that there's some serious risk here. Do we really want to bet large sectors of the economy on this idea? The retail sector alone accounts for one in 10 American jobs.

Second, legal experts argue that the plan is incompatible with the world trading system. Because of this, our trading partners will file suit and when we inevitably lose, they will be authorized to retaliate with tariffs reducing U.S. exports by hundreds of billions of dollars.

Trade disputes at this magnitude generate uncertainty and unstable investment environment and a threat to a trading system that we spent 50 years negotiating after World War II.

Third, this plan loses revenue. The non-partisan tax policy center estimates that it loses $3 trillion over 10 years. While the border adjustment feature raises revenue, that revenue is simply borrowed from future tax payers since trade deficits eventually turn to surpluses.

Also, there is no intellectually coherent rationale for a lower rate on business income under this plan. Instead, the lower rate will cause revenue loss as wealthy individuals mask labor compensation as business income.

Fourth, the plan is regressive at the proposed rates. The plan benefits the top 1 percent with a tax cut 1,000 times larger than the tax cut for the bottom 80 percent. This plan follows several decades of increasing income inequality and middle class wage stagnation.

It used to be that income growth was higher for the middle class than for those at the top. But in the past 35 years, there's been very little income growth for the bottom 90 percent of the population. Because of these trends, tax policy should be moving in the opposite direction of the Ryan/Brady plan.

Fortunately, there are good alternatives to the Ryan/Brady plan. Congress should focus on a revenue neutral reform that reduces the rate but also eliminates loop holes. Most helpful would be repealing deferral, taxing offshore earnings in full. This will solve our huge profit shifting problem and end the repatriation problem but without the negatives of the Ryan/Brady plan.

Making our tax system compatible with the global economy is an important goal. We need a simpler corporate tax system that actually collects the tax is due at a reasonable rate. Even more important, we need a tax system that reflects the real struggles of the middle class by giving tax cuts that are larger for the middle class than for the rich.

We should also work to solidify the fundamentals that are crucial to competitiveness. This requires responsible tax legislation with enough revenue for the priorities and education and infrastructure that we need.

Thank you for inviting me to testify today. I look forward to your questions.

BRADY: Thank you.

And thank you all for your excellent testimony. We'll now proceed to question and answer session and I'll lead off. So, Dr. Lindsey, you ***know***, based on your economic analysis, you see in the Blueprint significant acceleration of growth greater than even the reg in reforms which you ***know*** quite a bit about. But you see all this growth reflected in higher wages which is exactly what we want to see with tax reform and why we need tax reform now. You've heard Mr. Cornell eloquently expressed concern the border adjustment element could result in higher prices for consumers and increased cost for retailers like Target that import a lot of the products that they sell.

We don't want to see that happen. Can you explain why you don't think that will be a result of the border adjustment prevision and more broadly how increased wages can help grow the economy, including for importers who are important part of our economy?

LINDSEY: Absolutely, Mr. Chairman. I learned that time. First of all, why will wages at this point increase? I think there are two elements. Some of which are neglected in the long-run analysis and that's the particular point of the business cycle that we're at right now.

We are labor constrained but because of the free flow of goods into this country, effectively, we're not capital constrained. Now, if you have growth at this point and you keep that in place, what you're probably going to have is higher wage but the cost will be less competitive situation.

I think what you'll end up with is either inflationary push or you'll have a recession or possibly both. This is a very, very difficult time for Federal Reserve and I think that will actually be making decision.

The only way you can extend this expansion which although anemic, it's been going on for years, the only way you can extend once you get full employment is to also increase the supply side of the economy.

Because what you're basically doing right now is you're driving up and you're about to hit a brick wall and I think what you have to do is you either hit the brick wall or you have moved the wall. And I think what this bill will do is move the wall that will allow wages to rise as we continue to expand jobs at full employment.

I think any measure of how much wages will go up absolutely swamps any other distribution of considerations. I think we'll actually see for the first time in 50 years, actually for the first time since the Kennedy tax cut a reduction in the measures of inequality we have.

BRADY: Thank you, Doctor.

Mr. Simon, you are strong advocate for the retail industry because of your work experience. You also have a passion for bringing manufacturing back in United States, which will revitalize our local communities/

And as you said, with supply chains that are local, that will shorten lean time towards transportation transaction cost but it will grow in middle class, it's sustainable. So your experience with global supply chains, can you share your thoughts on what kind of manufacturing capability and jobs can return to the United States? And as part of that, how can manufacturing and retail work together, partner with us to make sure this tax reform works well for them?

SIMON: Thank you for the question, Chairman. Based on experience and we've had early successes with the Wal-Mart program and early successes in repatriation where new lines at existing factory and reopening of old facilities that had closed and investors in companies have been a little bit hesitant to spend major CapEx needed for a transformational change and hopefully, this will bring that forward.

In order for the transformational change, we need some of the things that have been talked about today, access to all the capital that stash offshore invested in the U.S. would be a huge boon for manufacturing. The expense versus depreciation issue would help although for some small businesses, you should potentially consider an either or option.

And as the Ranking Member said, work force transformation is really, really critical because that is a limiting factor today. Retail has need to do some things, too. The way the P&Ls are structured and incentives are structured aren't aligned to think we've been training over 30 years to behave the way that we behave.

An example of that would be imported goods, right? Retailer has to order a year ahead of time nearly and then take possession FOB at the ***foreign*** port and they're on the water for up to three months. So a year lead time. Three months, you own the product where your cash is not doing anything for you.

Domestic products, when you order and the lead times could be as short as 14 or 16 weeks and you take possession when it hits your distribution center. So the cash flow is different. But more companies in their model don't incent buyers on cash flow. That's a treasury function. It is until you look at the whole picture holistically that you start to realize that this can and does make sense.

We can expect products to come back in this order and we did this work. Large heavy big items, heavy cube items first like furniture, lawn furniture can come back once the plant is in place. With some of the changes you make, the list will -- the line will go down.

There are some products today that the economics don't suggest they could come back. Small items like microchips in some cases or heavy labor items like cut-and-sew apparel could be challenging.

But if we do the work, it is worth it and I've toured towel factories in Georgia and bicycle factories in South Carolina where you can see the difference that it makes in people's lives and more so you can see the excitement and the energy and transformation that occurs in the communities when these plants open and it is worth every bit of the sacrifice that it might take to get there.

BRADY: All right. Thank you, Mr. Simon.

I now recognize the distinguished Ranking Member, Mr. Neal, any questions you may have.

NEAL: Thank you, Mr. Chairman.

Professor Clausing, as I mentioned in my opening statement, my priority as well as the minority's position here is in support fully of middle class relief. Would you talk a little bit about your ideas for what we might do with the tax code that would help with the middle class growth and aspiration?

CLAUSING: Absolutely. One of the key things we can do with the tax code to help the middle class is to expand tax relief to the middle class at a greater rate than for the rich. I also think expanding the earned income tax credit is a crucial policy tool or award work for some of the people in our society who most need help with their wages.

Those two would be great contributors. I also think it's important to avoid tax changes that raise the deficit because that hurts future generations of taxpayers and the fundamentals of our economy.

NEAL: OK. Mr. Cornell, you seemed to be a bit skeptical about the argument over dollar appreciation. Want to talk a little bit about that?

CORNELL: You ***know***, I spent a lot of time looking at this issue and I'm certainly not an economist, I'm not a currency expert but we've been studying what some of the experts have been saying and as you might ***know***, there's very different opinions.

You ***know***, I've talked to many of our economists great. Economists of Goldman Sachs support this. You ***know***, their accounts have been there should be grave doubts that exchange rates will smoothly offset the effects of the border adjustment.

We've been listening to Fed Chairman Yellen. Her quote was, "The problem is there's great uncertainty without in reality markets would respond to these changes." We work very closely with the lead economist and FX creator at Bank of America, David Woo. He talks about this being the most difficult thing to forecast and to build an intergenerational tax reform plan based on these assumptions of what FX will do is similar of a lack of emotion.

So when I read comments and read reports like this and think about the impact this can have on our business, on American families, I worry about the impact on those families who, for basic essential items or clothing or back-to-school essentials, for those basic family essentials, as we've looked at it, we'd be paying prices that could be 20 percent higher.

So we've certainly looked at the currency adjustment as we run our models. We factored in some currency appreciation in capture rates. But every time we run the models, we come to the same conclusion, Americans will pay more for basic essential items that they need today and we don't think that's the right thing for American families. I have a sense that many of you would agree with that. NEAL: Professor Clausing, who might be the winners and losers as a result of the border adjustment tax?

CLAUSING: I think the big losers would be import-intensive industries and the workers and those industries and the consumers of their products mostly because of this uncertainty about the exchange rate. Many countries have fixed exchange rates, much trade is priced in dollars and, you ***know***, as just mentioned, the exchange rate is very difficult to forecast. It's a $5 trillion a day market, 88 percent of which is in U.S. dollars.

So we aren't sure the exchange rate is going to appreciate in absent that the import competing -- the import-intensive industries would be really hurt. The export firms could win but they also face some risks here in terms of possible retaliation from trading partners and the like. So I'd be happy to elaborate on those if you like.

NEAL: If you wanted, you're up another minute.

CLAUSING: So for instance, if we lose in the WTO which most trade lawyers think that we would, that will cause retaliation by our trading partners and they would be authorize to have historically very large tariffs enough to reduce U.S. exports by hundreds of billions of dollars. This has given a lot of exporting firms pause and thinking about the benefits of this proposal.

Another major downside for them is that they may not show tax liabilities under this proposal but if the exchange rate adjust, they would be due a credit back from the government. However, the plan doesn't include enough to fully offset these losses so they'll find that they aren't able to use the losses that they're showing which might lead to some silly outcomes like ADM merging with Target and it's not entirely clear that we want the tax code to induce those types of mergers just because ADM can't use their losses and Target can.

NEAL: Thank you, Mr. Chairman.

BRADY: So for the record, I'm assuming ADM is not merging with Target. We can pretty much go with that today.

CORNELL: You can go with that today.

BRADY: Thank you, Mr. Cornell.

Mr. Nunes, you're recognized.

NUNES: Thank you, Mr. Chairman.

Dr. Lindsey, thanks a lot for being here. I just want to ask you, Chairman Brady talked about this in opening statement but it's interesting that the one thing that the United States, Mali, Libya, Syria, Iraq and Afghanistan and North Korea have in common is what?

LINDSEY: That we don't have any border adjustment. NUNES: We don't do border adjustment. All the other major countries in the world do. I'm just going to -- I'm going to come back to your, Dr. Lindsey. But, Mr. Simon, I ***know*** that you formerly worked with Wal-Mart. You're a global company. So you operated in many of these places that weren't North Korea, Iraq, Syria, and Mali.

I think you had places. Your big markets are, where, Canada, Mexico.

SIMON: Correct. UK, China.

NUNES: UK, China. In any of those countries, did you pay -- because they border adjust, did you pay anywhere close to 70 percent or 80 percent or 90 percent tax rate?

SIMON: I don't have that information at my fingertips but my inclination is no.

NUNES: Yes. Dr. Lindsey, I will come back to you. In your opening statement, you -- at the very end of your opening statement, you didn't get a lot of chance to expand on it but the one economist who's you're rival who disagrees with the exchange rate, could you go into that how he only came up with the 1 percent change in crisis?

LINDSEY: Sure. Again, the consensus at the economics profession is simply supply and demand is going to cause the dollar to appreciate. And their estimate which is actually very much in the low ends was that the appreciation would only be 65 percent of what we expect in terms of full appreciation.

And if you plug that number into the model, what you're going to end up with is a total increase in consumer prices of just 1 percent. Not 1 percent year, 1 percent altogether. Now I ***know*** there are some concerns that have been expressed about the pace of it. Using that point out is that markets move ahead of reality. That's what they -- that's how they make profits is market makers move quickly.

So I wouldn't worry about things being delayed. The second point I'd make is, yes, some currencies have -- some countries have administered exchange rates notably China. But if anything, an administered currency exchange rate is something that's ***quicker*** to move.

And in fact, the Chinese as soon as, right, November 9th when it appeared that something like this might actually have a good chance of moving, the Chinese began the appreciation processes quickly. They speeded it up. Now that the markets think that it's less likely, they attempted to slow it down.

So I wouldn't worry about the administered exchange rate argument because I think actually they'll be the first to move their exchange rates.

NUNES: And you worked on this obviously for a long time and can you talk about the WTO argument which is one of the main objections to this? Can you walk us through that? LINDSEY: Congressman, when you say a long time, you mean -- I think you were seven when I first started working on it. So that is a long time. I worked at in every administration. I'm being very candid.

The WTO is dominated by Europeans. There's no question about it. Most of the rulings are pro-European. And, yes, it's an international body and we should respect the international body but we should recognize the approaches.

That's why European style tax systems, one reason why European style tax systems, all had border adjustability declared legal. Now, there are technical arguments and I would acknowledge that there are both lawyers and economists on both sides of this issue, I suspect that if not even the WTO would be so bold face as to say, it's OK for Europeans to do this but not for Americans to do it.

It's such a transparent recognition of their bias that I don't even think they would do that. Now if they were, then I think maybe we should reconsider our situation with the WTO. But I don't think that's going to happen, I just don't think that's logical.

NUNES: So with the 30 seconds I have left, Mr. Lindsey, can you walk us through kind of maybe possible phase-in approach of the border adjustment?

LINDSEY: Yes. I've been -- I get that 20 percent is a big leap and I can understand the issue of uncertainty very well. I think one way of addressing that is to just two portion of it.

Declare for example -- first thing I would make sure I did was in the short run, maybe year or two, you might want to say all dollar- based contracts are deemed to be domestic. But secondly, I think maybe phase in say 30 percent, have only 30 percent of exports and imports involved.

I don't think anybody thinks that a 6 percent border adjustment is going to, you ***know***, ruin the world. It's not going to cause the retail industry to go out of business. So sure, ***let***'s try it. ***Let***'s try something minor.

BRADY: All time has expired.

NUNES: Thank you, Mr. Chairman.

BRADY: Mr. Levin, you're recognized.

LEVIN: Thank you. Welcome. I don't want to focus on this, Mr. Lindsey, but someone who worked here with the WTO on like cases, I think there was deep extension between a VAT and a border adjustment tax and I think we lost cases for the WTO and we would likely lost this one with some very serious implications. But -- and I worked on this, we lost the cases twice that had some similarities.

We need tax reform but I think we need to step away from some of the mythologies. By the way, one is that a big benefit in terms of income growth will come from a further income tax break for the high income and I'd like to have introduce into the record a paper by Owen Zidar who says, stimulative effects of income tax cuts are largely driven by tax cuts for the bottom 90 percent and that the empirical link between employment growth and tax changes for the top 10 percent is weak to negligible over a business cycle frequency. I'd like to be entered.

BRADY: Without objection.

LEVIN: OK. Now I want to talk about manufacturing. Chairman used a few examples and no one cares more I think about resurgence of manufacturing than I do. But the examples that you used, steel, that happened because China rigged its currency, because of their state- owned enterprises, it was not related in any way to our tax system there is.

The same is true of your reference to the automotive industry and the movement of auto parts and vehicle assembly to Mexico. It wasn't because of our tax systems, it was because of the huge differential in the cost of labor.

And in both cases, the Republican majority, both the steel and these auto parts, refused to address trade-related issues that impacted and the loss of manufacturing jobs. Now ***let*** me just try to get to one of the knobs. I want to ask Professor Clausing this, in Mr. Lindsey's testimony, he reiterates an argument made by proponents of BAT, namely that U.S. companies are now disadvantaged when other countries operate under VATs as rebates for their exports.

Two conservative analysts from Cato and George Mason have suggested this claim is false saying the real issue is whether the playing field is level in a given market. They point out that if the U.S. company and a German company sell a product in Germany, both firms pay a VAT and corporate tax. If they sell in the U.S., both pay just a corporate tax. In other words, companies selling in the same market are treated the same. What is your view of this issue?

CLAUSING: I absolutely agree with that characterization and the designers of this tax who are economists also agree with that characterization. The VAT doesn't create an unleveled playing field across countries.

And so the Made in America tax concept is a little bit misleading. Put simply, imagine an American firm selling a good in France. If the American firm sells it in France, they pay the French value-added tax but so does the French firm. They pay the U.S. corporate tax and the French firm pays the French corporate tax. So they're treated the same.

If the two firms instead sell in America, neither of them pay value-added tax but they both pay their corporate taxes at home. So we already have a level playing field with respect to those taxes and that's why the Cato person that you sight agrees with that but also Alan Auerbach and Mike Devereux and others who designed this tax would similarly agree with that. LEVIN: OK. This is one of the gist of the argument and I thin as we talk about substance both on manufacturing but also on the VAT, we need to really look at the realities. There may be a difference in the corporate tax structure in Europe and the United States and therefore, there may be some differential.

It may not be entirely level but in terms of each paying the same kind of taxes, it is the same. I yield back.

BRADY: Thank you.

Mr. Reichert, you're recognized.

REICHERT: Thank you, Mr. Chairman.

Welcome and thank you for your testimony today. Like our witnesses last week, you've all made it very clear that we're behind in global competition that the tax code is holding our businesses, farmers and workers back and we all ***know*** that given have a chance, our American workers will always exceed and win from the apple grower in Eastern Washington to the manufacturer on the west side of the mountains, the south of Seattle.

We all agree that we need tax reform that devil is in details and your testimony today has been very educational and helpful to me I ***know*** for sure. But this is our chance to build a competitive tax code that leads to increased growth, higher paychecks and greater opportunity.

I ***know*** Mr. Neal said ease the financial burden of the middle class but we're more interested in not just easing the financial burden but providing job opportunities and economic growth. I mean, we want to think big and move forward, look to the future.

So I want Mr. Luciano please if you could discuss further how the international tax system impacts your company's domestic and international operations and with the modernized code, would you invest more in the United States?

LUCIANO: Thank you for the question, Congressman.

So a health agricultural industry is important for us to be able to feed the world. We will have to feed 9 billion people in 2050 and that's challenging itself. But it's also important because of the connection with the middle class and middle America.

We are a company that have 32,000 people but we have only in our headquarter -- global headquarter in Chicago, we are less than 70 people. The rest of the people are in small communities whether it's Decatur, Illinois, Cedar Rapids, Iowa, Alpharetta, Georgia, those where the people are.

And we see those communities and in those communities inside the country in a small rural America, there are very little competitive advantages left and that's why it's so difficult to get jobs or to get industries. One of that competitive advantages is agriculture. But the way we're operating today when we compete in the global market, if I need to sell to Egypt and I have the choice to bring the product from Kansas City with Kansas City or from Ukraine, Ukraine has the opportunity to get their refund of the BAT. So Ukraine does not have -- they get the credit for that 20 percent but the U.S. does not.

So to me, if you think about wanting to have a competitive playing field for the farmers in the U.S. and you heard my oral testimony, we have lost market share. We used to be the bread basket of the world. We have lost it in wheat to Russia. We have lost it soybeans to Brazil. We are hanging to corn but not for long.

So what happened in this period is that acreage in the United States has been reduced 12 percent over the last 20 years. While in Russia, production of corn has improved 61 percent. The planted area of soybeans has increased by three times.

So all these countries where they have the same comparative advantage that we have whether it's, you ***know***, a very good weather, a good soil and land available, have accounted with policies that actually have been helping those farmers to take market share for the U.S.

So we are not leading anymore into that and we're slowly declining. As you decline, those communities that are boosted by agriculture continue to decline as well. Because when we go there, we just don't have an elevator or storage. We provide -- we buy from the farmers and the farmers they -- and we also have an ecosystem of other companies that basically supply security to us, that they supply, you ***know***, safety equipment, that they supply a chemical...

REICHERT: Would you invest more money into the United States?

LUCIANO: I'm sorry?

REICHERT: Would you -- would your company invest more money back into the United States?

LUCIANO: Of course, if the farmer will be growing in the United States. At this point in time, again, we have lost 50 million acres. So we're going to invest if there's going to be more production.

And I think that with the plan that like the Blueprint we're considering today, we can see us level in the playing field for the U.S. farmer to be competitive in the world and that could become as you guys said before a magnet for investment in the U.S. and jobs and I think that this Blueprint achieves that.

REICHERT: Thank you.

BRADY: Thank you. Time has expired.

Mr. Lewis, you're recognized.

LEWIS: Well, thank you very much, Mr. Chairman. ***Let*** me thank all of the witnesses for being here today. Dr. Clausing, you're the democratic witness, right?

CLAUSING: That's correct.

LEWIS: And you're the only woman on this panel.

CLAUSING: That's also correct.

LEWIS: You see it -- and you see a lot of men here just in blue suit. Well, one in gray. Don't you think it's sort of strange when we're talking about tax reform and when women make up more than 50 percent of the population of America and you saw all these men here?

CLAUSING: Yes. Well, there's a lot of strange things about tax reform.

LEWIS: Thank you. Well, don't you think we should move into the 21st century as a nation and as a people?

CLAUSING: Absolutely.

LEWIS: Comprehensive tax reform should help the middle class and working families. Do you think this proposal will help the middle class and working families?

CLAUSING: I have several doubts about that and mostly if you rely on the non-partisan tax policy center estimates, my biggest concern is that the top 1 percent get a tax cut that's about $200,000 and the bottom fore fist of the population get a tax cut that's about $200.

Now this $200 tax cut is nice but it's not going to go very far if your imported goods are more expensive or if you've lost your job because you're in the retail industry and the exchange rate didn't adjust as quickly as we thought. Waiting around for an exchange rate to adjust can take some time and as Keynes once said, in the long run, we're all dead. So I worry a lot about the middle class given the way that this tax cut is structured.

LEWIS: You stated in your testimony that business tax reform should be revenue neutral. Can you explain why this is so important?

CLAUSING: Yes. The deficit is an important issue for several reasons. We have a lot of obligations to our senior citizens, many of whom are retiring now and will be older in the coming years and this means that even on a normal trajectory, our deficits are going to be increasing due to our Social Security and Medicare obligations.

So tax cuts at this point will make those deficits even larger and those deficits can crowd out investment or increase the size of our trade deficit, both things that this Committee might worry about. So I think it's important to raise adequate revenue because we're going to need that revenue for priorities that also a factor for competitiveness like infrastructure, education, health care and the like.

LEWIS: Thank you. Mr. Chairman, I like to yield the balance of my time to Mr. Doggett.

DOGGETT: Thank you very much.

So many of our colleagues believe that there is a giant tax cut rainbow and at the end of that rainbow is a huge pot of tax cut gold that if we can just find the right good tax cut fairy, everything will be blissful in our country.

And because they believe that, there's no obstruction of justice, there's no breach of our international security, there's not tweet that's too outrages to be ignored because Donald Trump is viewed as the key way to find that good tax cut fairy. We find ourselves here today with more the mythology and fantasy that is characterized this debate from the outset.

And I agreed 100 percent with the Chairman that we should be supporting a pro-growth tax policy to grow jobs in this country. The problem is the so called better way, as self-styled, does not do that and it does not even come close. It is a better way to get more national debt. It is a better way to widen the income gap and disparities that are already out there and without the border adjustment tax which is already on life support to remainder of the territorial system here will only grow jobs overseas as it advantages multinationals over small territories.

And how amazing to hear that the policy we need to follow from the tax foundation is to achieve the type of system Estonia and Latvia have. Who ***knew*** that that was the approach to success here?

Well, Estonia and Latvia in the time they've had that over the last three years have never grown 3 percent -- more than 3 percent and we're told that under this magical tax fairy approach, we'll achieve over 5 percent growth. It's mythology in action.

BRADY: All time has expired.

Mr. Roskam, you're recognized.

ROSKAM: Thank you, Mr. Chairman.

Three observations and a question for you, Mr. Simon. Observation number one, Mr. Neal observed that there's no small business here and yet on Thursday it's no myth, there was a small business here. Mr. Mottl from the Chicago area who testified two or three times in the competitiveness hearing how in favored he was of border adjustment. It's a very powerful testimony, you can look at the record.

Point number two, it's interesting we're in an hour and 20 minutes into this hearing and no witness, no member of this body has mentioned the myth of $1,700 negative impact on average middle Americans that has been running on television ads criticizing the border adjustment tax. Really interesting and I commend the critics of border adjustment today not using what fact check.org. called baloney. Third point, Professor Clausing was pretty dismissive, I mean, it was all in the advocacy business but was pretty dismissive of this WTO question and I just think we got to be sort of measured in sobered because you made a claim that this will inevitably lose before the WTO and then quickly in the testimony was like ***tripping*** us down into the valley of retaliation and I thought it's important to recognize that the Director General Roberto Azevedo of the WTO has noted that there's lots of gray areas in the WTO rules and he has declined to speculate.

And we're working through these details and we're mindful of the criticism but surely, we don't need to be just coming to conclusion that this is not compliant. Mr. Simon, I think you're the most interesting person here today. You're the most interesting person here today because you've got the value of actual perspective and you've made some very strong claims.

You said, this is in the best interest of our country if properly implemented. That's an incredibly strong claim. You said, if we do the work, it's worth it. The change in American sourcing becomes increasingly viable. I mean, there's an aspiration there.

Look, one point that I'm really interested in your viewpoint, it was somebody who's run arguably one of the biggest retail operations on the globe, why doesn't this create fear and loading in you in the way that it does Mr. Cornell and others, why do you say, no, no, no, this is a good thing, I ***know*** the system, this is a god thing.

Here's one point, we haven't discussed the nature of the companies that are leaving today. So in Chicago for example, when Aon left, where did they go, they went to the UK, they're going to our best friends. When Burger King left, they went to Canada. They're not going to some tax haven.

Walgreens tried to make a jailbreak not long ago. They weren't successful based on the politics. But it seems to me like our tax code is an island that's dissolving underneath us, just dissolving underneath us, and we've got an opportunity for a transformational moment.

What is the transformational moment, Mr. Simon, that we should cease? Why is your insight so helpful and what assurance do you have for people who have no interest in having an adverse impact on middle class families? Why is this a boon?

SIMON: My view is not too dramatically different from what Mr. Cornell just described or the retail industry. The concerns that they have are real and if we can address those with an implementation mechanism or a safety net of sorts or...

ROSKAM: Transition.

SIMON: A transitional plan for them on the other side of this, it will be very, very good for the country. That's the point that I came here to say it today. I don't want to ignore nor bulldoze their concerns because improperly implemented, it will be very, very hurtful for the industry and the consumer. But if we take the time and do the work and sit down in a group and iron out -- lay out what it will look like, I think it will be very, very successful for U.S. manufacturing. Once the middle class jobs start to return to the country and the wage increases that would come with that, retail will start to see a new sort of resurgence in a period of growth.

Right now, the win is coming out of retail sales because the win is coming out of the middle class and the points about the bifurcation of income have been well documented. There just aren't enough people on the high end to keep all the retail locations that we have going and that's why they're struggling.

But if we can rebuild a middle class through a manufacturing base, retail in the long run and I ***know*** everybody is dead but in the long run will be better. Then question is how do we get to the long run and that's what I'd like to get to discuss.

ROSKAM: And I think smooth transition is key. Thank you, Mr. Simon.

BRADY: Thank you. All time has expired.

Mr. Doggett, you're recognized.

DOGGETT: Well, thank you very much.

I guess we do just have a basic disagreement in referring to America as a prison break, America is not a prison for American business. We have some of the most competitive businesses in the entire world and to refer to it as a prison break is also a wrong in that the reason these companies have suddenly renounced their American citizenship and gone abroad in many cases is because of the consistent refusal of our Republican colleagues to support measures to put a stop to it.

I won't close the door to those who want to do their business here in America and head off to Ireland or the Bahamas or the Cayman Islands and Dr. Clausing has some impressive data about that that I would like to explore.

Additionally, we've already seen the path, the rainbow to the pot of gold followed once in this Committee already with the results that will be achieved if we do it the second time. And that is on the so called Obama Care repeal which was really nothing but a trillion dollar tax cut that rewarded certain special interest like pharmaceutical manufacturers and dramatically again widen the income gap by giving the benefits to those at the top rather than to the middle class.

Of course, we don't ***know*** exactly how much it did that because it was rushed through this Committee almost overnight and we still don't have a score from the Congressional Budget Office for that ill-advised proposal even though they rushed it through, it's still sitting on the speaker's desk, it's never -- they were in such a rush, they sent it over to the Senate for action. ***Let***'s focus on the propaganda and mythology associated with today's proposal, this so called better way. And one of the big aspects of the pot of gold that's out there waiting for us is $2.6 trillion that's just dying to come back to America if we will treat it right.

Dr. Clausing, I would like to ask you about this 2.6 trillion in so called stranded offshore earnings that could logically do so much good in creating jobs here in America. Is it true that much of that money can already be invested in the U.S. economy without those multinationals paying a dime of tax on it unless they earn money from their investments here? Indeed, on a substantial portion of that 2.6 trillion, isn't it already being held in Wall Street institutions right here onshore within the United States?

CLAUSING: Agreed. Yes. Much of that money is offshore -- booked offshore for tax purposes but it's still invested in U.S. assets through U.S. financial institutions. There are limits on what firms can do with that money. They can't give it back to their shareholders as dividends or share repurchases and this is why they're very anxious to get that money.

But they can still borrow against those funds and the firms that have those funds abroad are some of the most credit worthy firms, you ***know***, on the planet and they have no trouble financing new investments.

DOGGETT: And your paper shows that they in fact earned millions if not billions of dollars in interest and dividends right here in the United States on their offshore earnings today.

Now, you mentioned the fact that they'd like to have this money back not to create jobs but to give -- hiring executives even more high earnings and to give their shareholders dividends and stock buybacks. We've had a little experience with that before and how -- it just really appropriate that former Chairman Thomas was here because he was the author pushing through this Committee what was called the American Jobs Creation Act of 2004. How many jobs did that bill that this Committee heard much of the same rhetoric that we're hearing in support of this measure? How many jobs did that bill create?

CLAUSING: My understanding is that all economists who've looked at that bill found that it didn't create a single job or cause a single investment and this includes some people who advised George W. Bush who also looked in to this. That money was used for dividends and share repurchases and some of the firms that repatriated the most money actually laid off workers. It's possible it did have a small job creation effect for lawyers or accountants because there was a lot of complexity in the bill as well.

DOGGETT: We were told by the Chairman, follow the example of the tax foundation. Follow Estonia and Latvia and their tax policies. Do you think our companies will be more competitive if we adopt the Estonian and Latvian approach to international taxation? Are they competitive today in the international market? CLAUSING: As the slide I showed earlier indicates they're quite competitive, we have profits these days that if 50 percent higher than they were in prior decades.

DOGGETT: Thank you.

BRADY: Thank you. His time has expired.

Mr. Buchanan, you're recognized.

BUCHANAN: Thank you, Mr. Chairman.

I also want to thank all of our witness for being here today.

Dr. Lindsey, ***let*** me ask you. I mean, I think you as much to do with the blueprint as anybody. The economy is growing an anemic one percent on average, one and a half percent the last 10 years, I guess you got to go back to the '50s that were totally grown at that period -- that percentage. But what is your thoughts when you talk about growing the economy at this plan from three, three and a half, four percent, I don't ***know*** -- I don't ***know*** your number but I heard three and a half, what basis or what are the drivers that's going to drive it up from one, one and a half percent to three and a half?

LINDSEY: Sure. There's two steps here. The first is what I would call long run capacity. (Inaudible), for example, have the same long run number that I do which is two-seven, two and three quarters percent.

However, to get to that capacity, we're likely to have a short- term increase in business fixed investment. That's actually the demand side of the proposal as going to stimulate the economy in the short run. I think this is a very high multiplier tax cut in that regard and that's how I think -- that's how I got to the numbers that I got to as well as the long run and the short run component.

BUCHANAN: Yes. ***Let*** me ask you another question. One of my concerns and I've heard other people express it is the idea of budget deficits. We came here, almost 10 years ago, was $8 trillion in change, today's it's $20 trillion. At some point, it ends badly. That's why I'm a believer, like 49 out of 50 governments have a constitutional balance budget amendment. But what does this do to our deficit long term?

I mean, ideally, with the growth, we should get more receipts. There should be somewhat revenue neutrality, ideally. What's your thoughts on that?

LINDSEY: Yes, when I scored out the long-term debt situation, I think on annual basis, the blueprint breaks even about in year 6 and I think that by year 12, the total cost of the deficit -- excuse me -- of deficit cost of the bill will be covered. So, long run, very long run, I think it's a positive and I think that it's essentially a revenue neutral bill of 12 years.

BUCHANAN: And my last -- my last question is on inversions, would you have a lot of great companies leaving America? I like to think, you ***know***, as a part of our tax planning, this could be the best place on the planet to do business in terms of a pro-growth tax policy but they're moving the tax savings, they're moving to our friends in Canada and in Great Britain where they've cut their rates. In fact, I read someone said in "New York Times" that the inversions in Great Britain have come down dramatically or pretty much quit, what's your thoughts in terms of that?

LINDSEY: Yes. I think it's important that we differentiate between the inversion piece and the offshore money piece. I listen to Mr. Doggett's comments carefully and there's actually one component in which I think he's correct and that is that the money is called kept overseas is in international markets and I ***know*** a lot of people have said, ***let***'s use that for infrastructure, things like that. I think it's in international markets, however, already.

However, the tax revenue associated with that has not come to the U.S. Treasury. My colleague here estimates that the annual cost of that is $100 billion that's being lost with the U.S. Treasury. This bill fixes that. In addition, if you have a one-time deemed repatriation, depending on the rate you select, you're liable to get perhaps as much as $200 billion? I don't ***know*** what the actual number is. Depends on your rate.

So, yes, the money is in international markets but the taxes on that money is not in the U.S. Treasury, it should be and the bill under consideration will do that.

BUCHANAN: And the other thing I would just -- because I've watched -- I've been in the business for 30 years before I got here is that people will move to different states, Florida, no state income tax -- taxes, Nevada, you can name the states, they will move and move their businesses to other states and it's the same thing in terms of moving in terms of inversions and other things, not everybody but some, it's a major consideration, a major driver, don't you agree?

LINDSEY: Absolutely. The best thing we could do, long run, for workers, for everyone is to make America the best place in the world in which to invest and start a business and hire people and I think this bill does that.

BUCHANAN: Thank you.

BRADY: Thank you.

Mr. Thompson, you're recognized.

THOMPSON: Thank you, Mr. Chairman. Thanks to all the witnesses for being here.

Mr. Chairman, I have two articles that I'd like unanimous consent to place in the record. One's out of the "New York Times" that points out that after eight years of steady growth, the main economic concern in Utah and a number -- and a growing number of other states is no longer the lack of jobs but the lack of workers and it goes on to explain this... (CROSSTALK)

BRADY: Yes. Without objection.

THOMPSON: And the second one is a "Wall Street Journal" article that explains, I think, beautifully what the point that Mr. Doggett was making as to what companies who repatriated money from overseas spent that money on. And I think it hits those points exactly and I think Mr. Doggett was correct. I'd like to have that put in...

BRADY: Without objection.

THOMPSON: Thank you.

M. Clausing, you mentioned in your written testimony that the Border Adjustment Tax would raise revenue but that revenue was ultimately borrowed from future taxpayers. I want to make sure that people at home -- I want to make sure that people at home fully understand what this means and how it's going to impact their pocketbook. Can you elaborate on that a little bit, please?

CLAUSING: Sure. At present, we were on a trade deficit and because of this size of that deficit, that means that when you tax imports and exempt exports from taxation, on net, the border tax will raise revenue and the Tax Policy Center estimates it's about a trillion over 10 years.

But no country can run a trade deficit forever. Trade deficits entail a flipside which is borrowing from foreigners that's equal in opposite to the size of the trade deficit. So, eventually, when we repay that money, we will also be running a trade surplus.

In those years, the import tax will raise less revenues and the export exemption cost the treasury. So, in the future, our taxpayers will actually lose money from the border adjustment so that means that basically what we're getting from that is revenue that we're borrowing from future generations.

THOMPSON: I have someone come in and talk to me the other day about the effect that the Border Adjustment Tax would have on their business. They are a company located in Washington, a 30 million -- they make $30 million a year, employ 4,000 employees and they -- what they sell, they buy from 31 other countries.

There are items that wouldn't be made in this country no matter what we do out of the very low markup on the stuff. And they told me if the BAT comes about, that they'll go from making $30 million a year to losing a $130 million a year. In other words, this Washington state company would close the doors, five generations long company would close the door. And I think that's something that we need to be concerned about.

But the other side of that and it's really become -- made clear today is our constituents, those consumers that buy those products and there's a couple of company represented on the dais today that are -- that represent companies that those consumers that try -- that buy those products, they're going to be hurt and that's exactly, I think, what it is that Ms. Chasing is talking about. So your consumers, our constituents are going their prices go up.

It was also Ms. Clausing made the point about the WTO impact. How would this play out? When will see this happen? I represent a district that imports a lot of products overseas. I represent wine country in California and whenever there's a discussion about anybody retaliating, it doesn't take long before that conversation comes back to U.S. exported wine.

So, can you tell me what are our constituent companies are going to experience if retaliation becomes a reality?

CLAUSING: Yes. So, our trading partners are already preparing to be filed with the dispute settlement mechanism of the WTO. This dispute settlement mechanism, by the way, is something that U.S. helped negotiate and it's something that serves our interest very well because often, the WTO will rule in our favor about disputes that we have too.

The WTO has over 160 member countries and it supervises a well- functioning trading system. But once they're -- they authorize that our taxes are direct tax, which it is, and thus it violates the WTO obligations, that then gives the greenlight to trading partners to retaliate in an equal and opposite fashion. And because of the size of this, that will entail large tariff burdens.

THOMPSON: Thank you very much.

BRADY: Thank you. And without objection, I would seek to place in the record Goldman Sach's report that estimates that with no appreciation in the dollar, 85 percent of industries have actually cut their prices, still maintaining the current profit margins and with the dollar even partially adjusted like we ***know*** industry would need to raise the prices. Without objection.

Mr. Smith, you're recognized.

SMITH: Thank you, Mr. Chairman, and thank you to our witnesses here today for sharing your perspective and insight. I think this is an overdue conversation that we need to have and I think a constructive moment here as we do sift through the facts and I just think through that the status quo with our tax code shows that we have great opportunity to change it to be bold and to really pursue growth- oriented policies.

I'm representing agriculture, the number one agriculture district in the nation. Certainly, we're pretty god at exporting things already. I don't want to jeopardize that. But I also am concern that there actually -- are still significant barriers. And, Mr. Luciano, you stated that there are some barriers that are still out there that you feel that the tax proposals that are being made would be -- would be helpful in overcoming some of those obstacles.

I'm also concerned when I hear Professor Clausing say that U.S. multinationals are not paying very much tax or that -- and that the tax rates proposed in the tax reform plan are too low and that a better reform would be to expand the U.S. worldwide tax system by eliminating deferral. And now imposing immediate taxes on -- on U.S. companies worldwide income, I believe, would move our country in the exact opposite direction as our trading partners and I think a lot of the facts would -- would point to that.

But, Mr. Luciano, can you talk about your perspective? Obviously, it's a pretty broad perspective. I ***know*** you depend on ag producers one at a time being successful, hopefully, on their productivity, their efficiency. Can you, perhaps, expound on how you think that this plan might help and that also perhaps some of the notions that imposing immediate taxes on U.S. company worldwide income moving our country in a negative direction.

LUCIANO: Yes. Thank you for the question.

This is all about balancing the playing field. When we compete with the other companies, other global grain companies that are as well capitalized or they have the same technology that we have and experience we have, as I've said before, we pay about 30 percent. I have two of them that pay in the low 20s. The rest, in the mid teens. So, that's the kind of difference.

And in agriculture, in the business we're in, businesses models are very similar. So, it's very similar to compare this. So there are no major differences on margins because it's trade of commodities are very same. So this differences in income tax are astronomical and putting ADM at this point at a disadvantage to other competitors around the world.

And then they have the flexibility to move their -- their earnings and invest whatever they want which, you ***know***, we are partially restricted to.

And the third point is that a lot of their exports are coming from countries that they refund the BAT. If you look at Ukraine, provides 20 percent refund of BAT. Argentina, 10 percent. Germany, 19 percent.

And then you have places that compete with us whether it's Australia, Canada, or Brazil that basically have internal consumption taxes that they are not assessed for exports.

So, there's on wonder that our market share of global commodities from the U.S. exported to the world is declining and it's going to continue to do so because we are at a disadvantage. So, to me, this proposal addresses those three issues where they're going to get jobs back to middle America and to the middle class of America through agriculture which is, I think, one of the true competitive advantage of the U.S., inside the U.S., the middle of the U.S. still have.

SMITH: Thank you.

Well, I -- I ***know*** that there are many challenges facing agriculture and I would hope that we would not complicate matters and that, hopefully, a growing economy will also help agriculture. Ms. Clausing, I think you suggested, but correct me if I'm wrong, that perhaps the corporate tax code that we currently have is really not that bad. Now, I thought that perhaps some lower hanging fruit in terms of agreement on changing our tax code would fall in that corporate category but I -- am I wrong in...

CLAUSING: You're wrong. I mean, I think that most economists across the political spectrum thing that there's ample room for a fair improvement to the corporate tax system and I suggest that...

SMITH: What would that look like?

CLAUSING: ... alternatives in my testimony but I believe it would include potentially a lower rate but combine that with closing the loopholes that we have presently. Right now, some of the domestic firms, you ***know***, much higher rates than these mobile multinationals.

SMITH: Thank you.

BRADY: Thank you.

Mr. Larson, you're recognized.

LARSON: Thank you, Mr. Chairman, and I want to thank all the panelists.

We also like the Congresses about the vitality of ideas openly exchanged and, today, Mr. Chairman, you're to be commended because I think we're witnessing that here.

But I also wanted to thank my colleague, Mr. Roskam, for pointing out and I share his sentiments about Mr. Simon, I must confess, a prejudice because of the representing the City of Hartford. And also would note the strong feeling we share, I ***know*** on this side of the aisle, and I dare say my colleagues on the other side as well, with the key to manufacturing.

You mentioned too in Hartford both gold manufacturing, of course, Pratt & Whitney, which is a part of United Technologies. United Technologies is exemplary in terms of what they do for their employees and I would hope all manufacturers would take heed in terms of offering free education to further that they are training in any field paying for that and giving them time off. It's a little plug for United Technologies and for the City of Hartford and thank you for being here.

I thank all the panelists.

To get back to your point about manufacturing, if we're going to revive the middle class and I think the disparity is this, everyone this Committee has pointed out are pretty well ***known*** to everybody. The concern on this side is that what we see is the shift that's going to take place, again. Mr. Doggett pointed out that we saw that in health care, and now it seems, in the tax proposal, that we're going to see this again. Ms. Clausing, you've pointed out that that shift is very dramatic and what would result in this would be almost a thousand percent difference in terms of what would be the share for the middle class versus the nation's top one percent. Could you explain that?

CLAUSING: Yes. Those come from the Tax Policy Center estimate of the bill and that's a nonpartisan center and that's -- those are their estimates with the top one percent, we get $200,000 tax cut. And the bottom 80 percent would get a $200 tax cut. So, that's a thousand-full difference.

What Mr. Lindsey's testimony suggests is that if you had enough growth, that could, maybe, counter some of those effect that you had and, you ***know***, enough investment that could raise wages. But I have some concerns about that as well. In particular, it seems odd to suggest that what we need is more after-tax corporate profits to generate investment and wages when we're at a period of historically very high corporate profits.

And sometimes this growth forecast can be a little too optimistic when they survey economists very recently about whether the Trump growth forecast along with his tax plan were, you ***know***, accurate, 35 of 37 economists concluded that those growth forecasts were way too optimistic. And when they asked the other two, well, why do you think it's going to grow so quickly, it turns out they misread the question. So, all 37 really disagreed with those optimistic growth estimate.

So, I think it's important that our budgets and our tax plans creates the revenue that's needed now without making valiant assumptions about growth...

(CROSSTALK)

LARSON: I think -- I think a number of our manufacturers and exporters and Mr. Simon pointed out how this could work and I appreciate a lot of the optimism and concern that have been stressed, he mentioned caution as we go forward to make sure that we get this right. Being from a strong manufacturing state, what would be some of the risks for major manufacturers? And is it clear that this is a clear winner or do we have to exhibit that caution and what would be your concerns, Ms. Clausing?

CLAUSING: I think the exchange rate risk is a serious one. I went back and looked at all of the countries that have adopted that. We should see a similar exchange rate adjustment under a floating exchange rate and there are only a handful of rich countries that have adopted that's under floating exchange rates to look at. But if you look at that set of countries, in three quarters of the cases, the exchange rate actually moved in the wrong direction.

So, I guess, my point is that exchange rates are very volatile, it's a very large market. We can't be sure it's going to move in the right direction or by the right amount and that gives us a big risk for the import-intensive industries.

If you look at the data, it appears the countries also trade somewhat less than other countries and I think trade is an important part of a healthy manufacturing sector and many of our products are made with global supply chains throughout the world.

LARSON: Well, thank you.

And, again, I thank the panelists.

In many cases, many people have commented on this bill, oftentimes feel like they're trapped between this proposal and the White House and the Senate but I want to assure people and thank them for being here today and the exchange of these ideas has been beneficial to the Committee.

BRADY: Thank you.

Ms. Jenkins, you're recognized.

JENKINS: Thank you, Mr. Chairman, for holding the hearing and we thank the panel for your time this morning.

Mr. Luciano, I have a question for you coming from Kansas, just to follow up on the ag inquiry of my seatmate, Mr. Smith. In your testimony, you talked about growing global demand for food. If we can get this international tax reform right, how does that pair with increased global demand to put more money in the pockets of Kansas farmers and how does the border adjustment help U.S. farmers see a bigger and better market for their goods?

LUCIANO: Yes. Thank you for the question.

So, the world is growing the population and the population, as I've said before, will reach nine billion people in 2050. But the production is in only three parts of the world. The production is concentrated in North America, South America and Eastern Europe. So, you have -- China has 22 percent of the world population, only 6 percent of the water, eight percent of the land. So they always going to be importing.

So, you have this global middle class that needs the products that we produce. The issue is this race between Eastern Europe, South America, and the U.S. And both places -- or Brazil or Argentina or Ukraine or Romania or Russia, they have BATs that, basically, they discount when we export. So, the U.S. -- the U.S. farmer in Kansas is actually at a disadvantage because when you form the price, everybody else discount that tax and we added to the tax.

So, we're all just waiting for a leveled playing field. There's no technological difference between the farmer in Kansas and the farmer in the -- in Russia. There is, actually, a competitive advantage we have in logistics even if our infrastructure is deteriorating, we still have a competitive advantage. We still can shape something 1,500 miles cheaper than what Argentina can ship in 300 kilometers.

But the issue is of all the things that the farmer and companies like us can control, we are more competitive than the other countries. Only tax does make that difference. So, I don't think it's the only factor but I think that the proposal, the blueprint addresses a lot of that delta.

JENKINS: Thank you, Mr. Chairman. I yield back.

BRADY: Thank you.

Mr. Blumenauer, you're recognized.

BLUMENAUER: Thank you, Mr. Chairman.

I would like to welcome Dr. Clausing, a constituent from Reed College. I really appreciate your joining us.

But first, Mr. Chairman, I would like to enter into the record a letter to you and Mr. Roskam from Tim Boyle, the Chairman and CEO of Columbia Manufacturing in Portland where he outlines the deep concerns his company has with the approach to a Border Adjustment Tax. He also points out that they -- they transact with their ***foreign*** partners and contractors exclusively in U.S. dollars. And so the adjustment, in terms of the currency...

BRADY: Without objection.

BLUMENAUER: ... have problems for them. And that most of the products that they are involved with are no longer manufactured in the United States and haven't been for some time leaving them without choice, so I appreciate your courtesy on that.

I do appreciate the notion what you're saying about doing it right, trying to get the balance. Your concern about having hollowed out the middle class and not being available to purchase and collapsing retail. Would it not be possible to stimulate demand here at home by putting people to work on infrastructure projects that can't be outsourced if we were to do something radical, like, raise the gas tax, like, dozens of republican states have done to improve infrastructure? Wouldn't be able to strengthen the middle class and purchase -- purchasing power by taking a step like that?

SIMON: Well, you're clearly out of my area of expertise when you start talking about infrastructure, but anything that would -- that would provide...

BLUMENAUER: Does your enterprises relied heavily on well- functioning American infrastructure?

SIMON: Absolutely.

BLUMENAUER: Problems with congestion or lack of reliability?

SIMON: Anything that builds good, solid, strong, long term middle class jobs would be good for -- good for the industry. But, Mr. Cornell, doesn't your business rely upon a well-functioning American infrastructure?

CORNELL: We certainly do and would certainly love to see infrastructure improvements.

BLUMENAUER: I would like to turn to, Dr. Clausing, a point that you made that I think is important. In your testimony, I really appreciate that you're making a distinction that is not often made before this Committee. Yes, there are some companies that are wildly disadvantaged and paid close to the statutory rate because they don't have as many opportunities to engineer the tax code.

You make a point that American international corporations have been very successful, they have higher profit rates than their competitors that they had an effective tax rate that is very similar to what their competitors are because they take advantage of this stupid jerry-rigged tax code and they spent time and energy engineering it but at the end, aren't they basically at status quo ante? Aren't the -- you say it better than I in your testimony.

CLAUSING: Yes. There's a big difference between label and reality in our tax system. So, our label is a statutory tax rate of 35 percent but our reality treats different firms very differently from each other. Some domestics pay an amount that's close to the statutory rate. But many multinational firms including some of them more aggressive, profit shifters, can get their rate down into the single digits. And so you have a big discrepancy there.

There's another label mismatch with the worldwide and territorial. Our worldwide system, some describe as just a stupid territorial system and I think that's pretty accurate. Many multinational firms -- most of them don't pay a single cent on their ***foreign*** profits. They leave them offshore and they wait for the hopes that one of you guys will give them a holiday.

You ***know***, so, where some of our trading partners, who have reportedly territorial systems, they tax immediately some of the ***foreign*** income that's earned because of their base erosion protections through things that look a lot like a minimum tax. So, we have to be careful about how we characterize the system.

BLUMENAUER: I think it's important to look at the big picture the way that you do. There are opportunities for us to move forward, investing in infrastructure's one of them. But to have a broad brush so called reform that puts us at risk for companies like Columbia Sportswear and sets us up in the future because we are not going to run trade -- huge trade deficits in perpetuity for significant revenue loss.

And your point about tax changes like this could incent people to have unnatural mergers simply because of the tax code like the aforementioned Archer Daniels Midland's and Wal-Mart. We can do better than that and I think the Committee can do better with that if we listen carefully to the information, like you presented.

BRADY: Thank you. Your time has expired.

Mr. Paulsen, you're recognized.

PAULSEN: Thank you, Mr. Chairman. And first of all, thank you all for providing very constructive testimony here today. I especially appreciate the opportunity to have a great Minnesota company be a part of this tax reform conversation which, I think, provides a good component to this discussion.

You ***know***, the primary justification for the advocates of order adjustability is in the special tax breaks for ***foreign*** products over American products and to keep American businesses and jobs moving overseas.

Certainly, given that the pace of American companies, moving their headquarters to other countries, inversions which we talked about earlier and recent years, it's happened both to Minnesota and across the country, you don't need to convince Minnesotans that something needs to be done. We need to make sure that America is a destination to not only invest but to build or be able to create a business.

But this has to be done in a very thoughtful way. The way that addresses the very real and valid concerns that, Mr. Cornell, you raised today and I've heard from others, certainly, that have been raised. I cannot support the border adjustability provisions as introduced last year in the blueprint. I really want to urge this Committee to listen, to be educated and then to address these concerns that we've heard as we move forward with the reform.

Last week, we had a really good hearing, a hearing that talked about the need for the comprehensive reform efforts, fundamental reform, it's very important. We've heard a lot about the positive effects they would have in the form of more jobs, of higher wages, greater economic growth.

We also heard about the effects it would have on companies both large and small, up and down on the supply chain at every level.

So, we ***know*** the tax policy impacts different businesses and different ways and we ***know*** the reform proposals will affect different businesses in the industries in different ways. We got to focus in making sure that we are lifting everyone up and economic growth is a key component because I think of the four key principles is focusing on growth, on simplicity, dealing with base erosion and the dealing with permanency so you can count as you're budgeting count on with predictability and with certainties. You're budgeting, allocating capital for five years, investing in your companies. We're giving you that certainty, that confidence.

So, Mr. Cornell, you shared your views about border adjustability and you also mentioned we can't keep the status quo. You said we should have every tax provision out there, tax benefit, should be on the table. I agree.

So, keeping that in mind, what might be some -- ***knowing*** that we're working on physically responsible tax reform, revenue neutrality, et cetera, what might be some policy recommendations that you would offer that should be key components of this reform effort as part of a comprehensive effort because that's really -- it's not just about cutting rates, it's about the comprehensive effort that I think you're going to do.

CORNELL: Well, again, I'm certainly not a tax expert. I'm in a retail business and deal with real consumers and real families and real employees every day.

To your point, we certainly would like to see tax reform. As a company that pays one of the highest effective rates anywhere in America at 35 percent, we'd certainly like to see that rate lowered so we can continue to invest in our business and see our business grow.

We'd certainly like to see simplification. But as I listen this morning to the discussion, there's on word I continue to hear repeated again and again and that's if. And if currencies appreciates and if the GDP grows and if manufacturing comes back and if we can avoid trade wars, we certainly would need to be sitting here working on something that's going to provide greater certainty to certainly the families we serve at Target, my 320,000 employees, those small businesses that are in the back of the room.

It's really hard for me to sit here today and cramp the business plan, one that's focused on investing in America and strengthening my company and creating more jobs when I keep hearing these provisions and say if this happens. And if these traders were in place. I think we have to be focused on a plan that creates growth in America but simplifies the tax code, gives us greater certainty so that we have greater certainty as I talk to families across America, we're interfaced with IT each and every day.

I can't ask the American families to sit back and say if these things happen, you'll be OK. I can't sit with 320,000 employees, Mr. Paulsen, and ***let*** them ***know*** if all these things come to pass, our company will be here. And I ***know*** for small businesses in America, they can't sit here today saying if all of these different factors come together, they'll be OK.

So, I'd be happy to work with you. I think we've shown and demonstrated that to the Chairman that we're really -- roll up our sleeves but I think we need greater simplicity, much greater clarity and much more certainty going forward.

PAULSEN: And I would just urge you to keep your sit for the table for that discussion because that's what's, really, we're counting on as a part of that education effort. So, I yield back, Mr. Chairman.

BRADY: Thank you.

Mr. Pascrell, you're recognized.

PASCRELL: Thank you, Mr. Chairman.

Great. Great, Committee before us today, the panel, and thank you for all of your testimony.

Mr. Simon, there's a reason, you say, in your testimony, "That the middle class in the United States has struggled recently. It is the same region, the middle class and the other global markets has emerged. The manufacturing base has moved and jobs followed." Unquote.

Look, manufacturing base, that's an inanimate objective. You, your companies and before we even -- this panel, in the past 25 years, you moved manufacturing. You moved it. You moved it offshore because it was cheaper labor and very few regulations.

You're entitled to your opinions. As some would say, you're not entitled to your own set of facts. Now, this is -- I look at this hearing today as act -- part of Act II, Scene II. Act I was what happened in 2001 or 2003 with promises attached as to what it would do to not only increase and help the economy, the gross domestic product, but also have it sustained, question number one. And question number two is it was obviously not sustained.

Act II began last weekend on our hearing. We had a search for anything in tax reform that even referred to the people in the other cars into caboose. Everything about the top one percent, every one that's left off stage.

Now, we've heard a lot today, that businesses in this country cannot compete globally because our taxes are too high. I'd like to see real, bipartisan revenue neutral tax reform that would benefit all Americans while bringing down the top corporate rate to be more in line with our competitors around the world. I have no problem doing it. The number, we can debate.

I introduced a legislation a few years back, Bring Jobs Home Act. I tried to get bipartisan support like I do all my legislation. My Republican colleagues are clinging to a -- in a debunked idea and debunked theory that a bill would end the tax break companies get for shipping jobs also.

Now, there -- they believe in the idea that taxes, if they cut taxes at the top, all of that will trickle down and serve everyone. But firms in the United States already have -- check this out -- the highest, higher after tax profits than in any time since the 1960s. That's a fact of life. But they're not investing those profits towards increased productivity. They're just paying it out to wealthy shareholders.

Corporations that are sitting on record profits today do not need to be showered with deficit financed tax cuts. At a time when middle class wages are stagnant, as some of you brought up in your own presentations and broad gross domestic product is sluggish. It's quite simply a miss allocation of our resources.

Further, U.S. firms are extremely competitive, Mr. Chairman, by any metric. The Forbes Global 2000, list of the largest public companies in the United States is disproportionately represented. The World Economic Forum ranks the United States third in global competitiveness out of 138 countries.

And lastly, with all the deductions and loopholes corporations employ, effective tax rates paid by profitable organization in companies are closer to 25 percent, similar to or lower than the averages around the world.

Manufacturing jobs aren't moving abroad because, really, primarily of the tax code but because they seek low labor cost. So, as long as factory workers in Vietnam make 20 cents an hour, textile factories will continue to move there regardless of what tax we employ on what's coming across the border. We ***know*** of boost productivity. We could invest in infrastructure in developing our workforce, in raising wages for middle class families and the working poor.

Mr. Chairman, is my time up?

BRADY: Yes, sir. All time's expired.

PASCRELL: I had a lot more to say about it.

BRADY: I ***know*** that. I ***know*** Mr. Pascrell.

So, we'll begin two to one questions so we can balance off questions.

Mr. Marchant, you're recognized.

MARCHANT: Thank you, Mr. Chairman.

We all have the same goals, you ***know***, here today. We want a simpler, fair tax code that significantly lowers personal as true corporate rates that makes our companies competitive on the world stage. I think we can all agree on that.

Mr. Cornell, what percentage of product did you sell in your store comes -- is brought in from overseas?

CORNELL: Half of all the products we sell today are made right here in the United States, other half, obviously, would be brought in from other countries.

So, if you take a look at the composition of our business today, 8 of our top 10 vendors are companies right here in the United States. They're companies like Procter & Gamble in Ohio or Frito-Lay in Plano, Texas. Companies like KitchenAid in Ohio. Johnson & Johnson in New York.

So, it's a balance. So, many of the products that...

MARCHANT: But the answer is about 50 percent.

CORNELL: About 50-50.

MARCHANT: Mr. Simon, when you were affiliated with another major retailer, what figure did you use? What was the common...

SIMON: Because of the heavy concentration of food at Wal-Mart, about two-thirds of what -- of what they'd sell in the U.S. is either grown or made in the U.S.

MARCHANT: OK. So, about a third. SIMON: Two-thirds.

MARCHANT: Two-thirds. OK.

One of the big objections that I've heard today about the Border Adjustability Tax is the uncertainty of how the currency would adjust and whether the currency would adjust and how -- how would you deal with the currency that adjusted.

BRADY: So, Mr. Marchant, while we're adjusting the microphone, you might want to speak a little closer to the microphone.

MARCHANT: I'd like to ask Mr. Lindsey, how has retail across the world adjusted in the last three months while we've seen the dollar- euro -- the dollar's lost about eight percent against the euro in the last three or four weeks (inaudible) while we've been talking about this discussion and the pound has gained about eight cents, $1.22 to $1.30. And then when we had the Brexit, we had a drop in one day from $1.60 down to $1.20.

So, after all that's happened, what have the companies that are adjusting the currency, Mr. Simon and Mr. Cornell, has -- how is your company dealt with those currency swings?

CORNELL: We have currency experts that look at this all the time. There are a number of other factors that you have to consider as we think about changes in cost. Currency is one of them. Commodity prices tend to change and those are impacted by a number of different variables starting with weather. Extreme freezes, extreme heat, floods and droughts, transportation costs can be impacted by...

MARCHANT: But in this case, we're talking about currencies.

So, Mr. Lindsey, how are companies dealing with this currency?

LINDSEY: Well, first of all, ***let***'s just take example of border adjustability. Of all the countries, the 160 countries that have border adjustability, amazingly still have retail sectors that haven't been wiped out by the imposition of border adjustability. So, I would -- I think the claims of the damage that would be done to those companies is exaggerated.

What companies do, first of all, is there are currency hedgers. They take out positions in various currencies. The other thing that happens is what are the reasons the currencies adjust is these folks have market power to imagine that Wal-Mart doesn't -- or Target doesn't have market power with regard to Chinese sweatshops, I find kind of silly.

And in fact, what will happen, the Chinese followup bureau understands that perfectly well. And they will adjust their currency. There is no doubt in my mind that they will do it and then that's why there's not really an issue here.

(CROSSTALK) CORNELL: If I -- and I think one of the other important factors we all need to recognize is for a company like Target and I can speak for many others in the retail industry today, our contracts are dollar denominated. They are today, they will be tomorrow and the vendors that we work with, their raw materials are largely dollar denominated. So, I think we have to recognize as we go forward, the U.S. dollar is the global currency.

BRADY: Thank you.

Mr. Kelly, you're recognized.

KELLY: Thank you, Chairman.

Thank you, all, for being here.

Please don't take this as disrespect, Ms. Clausing. I appreciate you being here but I wanted to talk to the people that are actually in the retail business, an automobile dealer. I'm not somebody that grew up in a laptop, I grew up on black top. Who I talk to are moms and dads who are trying to make sure that their budgets are workable and whenever I sit down with people to see if we can get to some type of the solution for their transportation problem, it's always the wife who makes the final determination of whether they can afford or not afford to buy a new car or a new truck. And sometimes, the difference is $5 a month. Now, in Washington, D.C. they'll say no, no, it can't be possible, please come home with me and see what blue collar people go through every single day of their life.

And so that's why I wanted to ask you because you're in the retail business. My concern is the final price on the shelf for those folks that pick up the tab on every single thing this wonderful government does in their name. So, if you can just tell me -- now, Mr. Luciano, you talked about things that were happening in ag; Mr. Cornell, you talked about what has happening at Target which my wife is addicted to being in every Sunday right after mass and Wal-Mart, I go to quite a bit because they're all on my town. The effect, the actual effect on every day Americans.

Because the global supply chain has changed, I also have in my pocket, by the way, Monroney labels which I would love to share with people that show parts content because that's truly the complication of how do you tax different pieces. So, if you can tell us, and there's not enough time to do it, five minutes is not nearly of time to talk about this huge proposal, how does this affect the price on the shelf and how would it affect consumers as we go down this road? Both plus and minus.

I ***know*** we have to pay for these tax cuts but I don't want to be the backup everyday hard working American taxpayers.

CORNELL: I'd be happy to start. And, Mr. Chairman, for the record, I think I'll say with Mr. Cornell for today. But we talk to consumers all the time. I have 30 million shoppers in our stores every single week. I spend time with them in our stores and in our homes. And to your point, these are families, middle class families on a budget. And for those families, as we look at the implications, I think the unintended implications that the new border adjustability has, we ***know*** that their prices will go up on essential items. They'll pay 20 percent more for apparel -- I'm going to spend a few minutes explaining why -- on back to school items. They're also going to spend more on essential items like produce that in the winter, we don't grow in the United States. They come from Mexico and Chile. We're not going to be growing bananas anytime soon in Ohio or coffee beans in Michigan.

So, that basic American family, they're going to pay higher prices. We've talked about manufacturing come back -- coming back to the U.S. and I'd certainly love to see that happen but I also ***know*** and Mr. Simon's talked about this, for many of the supply chains, they don't exist here in the U.S. right now. Ninety seven percent, 97 percent of all the apparel we buy in the U.S. is made outside the U.S.

Those supply chains don't exist here. So, I ***know*** under the new border adjustability tax, the prices we pay that those moms pay to buy apparel and clothing for their kids, they go up. And right now, I can tell you when I sit with them, they're on a budget. At the start of the month when they get a paycheck in their family, they're loading up their pantry, they're buying a few unique things for their family. By the end of the month, they're counting their final dollars.

So, we've got to make sure we understand the impact on American consumers. All of the electronic devices we all love, all of our phones and tablets, those supply chains are not here in the U.S...

KELLY: I'm going to stop you for one second because we're running out of time. How many employees do you have?

CORNELL: I have 320,000 employees, 99 percent of which are right here in the U.S.

KELLY: Mr. Simon?

SIMON: Well, I'm retired no. I have one.

KELLY: But when you weren't retired?

SIMON: One-point three million.

KELLY: One-point three million.

Mr. Luciano?

LUCIANO: Thirty two thousand globally, 20,000 in the U.S.

KELLY: OK. But I want to make it really clear here with this thing, we go into political talking points rather than good policy here. How can we get attacked from the other side? I would just like to remind everybody that's sitting in this panel, in addition to paying taxes on your profits, there's a huge item there called wage taxes, there's business privilege tax, there's real estate taxes that actually propel all the wonderful programs this nation supplies for its people and I think sometimes, we miss the bigger part of this.

It is you that is responsible or makes up all the revenue for Social Security, for Medicare, all these wonderful programs that we have come out of wage taxes and I think that we better take a look at are we going to eliminate people who were working. They're the ones that pick up the tab in all of these wonderful things.

I thank you so much for being here. We share your concerns and we're on board with -- we're going to do this the right way. Thank you and I yield back.

BRADY: Thank you. And without objection, I'll submit for the record a research by JPMorgan which shows if the dollar didn't adjust at all, which no one believe, retailers would need to raise prices by only five percent on average to offset it which is two percent auto parts retailers would. Without objection.

Mister -- Dr. Davis, you're recognized.

DAVIS: Thank you very much, Mr. Chairman. And I, too, want to thank our witnesses. Very interesting hearing.

And I think in order to understand how this tax proposal will affect our constituents, we must examine them in light of the cruel Republican budget priorities released today. Those budget which cuts hundreds of billions of dollars from the most vulnerable American, this budget which makes draconian cuts in food stamps, Meal on Wheels, even assistance and support for the extremely poor, elderly and disabled people, particularly targeting families with disabled children, eliminates the Social Security Block Grant that funds critical child welfare and youth services and eviscerates our health education and job trading supports.

The Trump Republican tax plan amplifies the harm from these mean- spirited policies by taking even more from these families to give an average tax cut of at least $15 million a year to the wealthiest 400 families and the most profitable corporations in sharp contrast to the minimal $250 relief for middle class families.

In addition, these untested tax policies promises to shock our vulnerable economic system. At a time of stagnant wages, heightened economic insecurity, fallen wealth gaps, and shocks to the workforce from trade agreements and technological advances, the Republican plan could send prices that stores skyrocketing by 20 percent and force huge job losses in the retail sector which would certainly undermine my city, my state and our nation.

Professor Clausing, given the Republican policies to drastically cut federal support from middle and working class families on the spending side, I am deeply concerned about the possible harm to these same families from these tax policies. Could you expand on your concerns about the potential shock to our economic system and how it could affect jobs, income, and cost to families?

CLAUSING: Sure. This tax system, while border adjusted in similar in some respects to a VAT, really, has no precedent. There isn't another country that does a border adjusted corporate tax. And so that makes it fundamentally different.

I think the biggest risk to households really do come from the possible absence of adequate exchange rate appreciation but this is an untested plan and there are other types of risks too. ***Let***'s say that the dollar does appreciate by the amount that they said it would, to 25 percent immediately, that could create an emerging market crisis. There's $9 trillion worth of dollar denominated debt in the world economy.

And Mr. Cornell is exactly right, the dollar is a unique currency in the world system. And so, when the dollar appreciates, that can harm the entire world economy which, again, can hurt the middle class because the middle class is dependent on international trade whether they have export jobs or whether they have jobs that are in import industries.

So, between the fears of higher costs and the fears of job loss in traded intensive sectors, those would be my big concerns.

BRADY: Thank you. All time has expired.

Mr. Renacci, you're recognized.

RENACCI: Thank you, Mr. Chairman. I want to thank the witnesses for being here.

Look, I believe getting tax legislations signed in law is absolutely critical to getting our economy growing. I must admit, though, I've been skeptical of the border adjustment as the central element of the blueprint but I am trying not to be.

It's not because I oppose border adjustment in all context. As many of you ***know***, I'm a strong supporter of a more conventional border adjustment consumption tax. My concern is really rooted in three questions. Does border adjustment/adjustability in the blueprint pick winners and losers? Who will the tax burden ultimately shift to? And is it compliant with our international treaty obligation? So, just three simple questions.

From what I've heard today, the answer to the first two questions hinges on economic theory. The currency will adjust to offset the tax. Market analysts and currency experts have been skeptical. Wall Street firms believe there's a large potential for disruption and could cause volatility in the market.

With respect to question three, there really seems at best border adjustment is in the case of first impression or worst, it's a flagrant violation of our international obligations. I'm also hearing very real concerns from main street Ohio where I represent. One major employer in my district sells coffee but coffee beans generally come from high altitude mountains in Africa and Latin America, you just can't buy much U.S. grown coffee here in America. Border adjustment would increase the price of coffee.

I'm very concerned for the low margin companies in my district that rely on imported goods, not primarily produced in the United States whether that'd be coffee or any other good, it can only be imported.

So, look, I'm a business guy like Mr. Kelly. A CPA, a tax practitioner. I understand taxes and I understand business so I've been in the business world for 30 years. I've made all of my decisions on factual background, normally, not on economic theory. In fact, economic theory, in many cases, in the business world can be troubling if you do it the wrong way, as you all ***know***.

So, to each witnesses, can any of you assure me that the currency will adjust so that there will be no effect to the cost of our consumers? Yes or no to each one of you.

CORNELL: No, I can't.

RENACCI: Anybody?

LINDSEY: No.

RENACCI: There's going to be an effect to our consumer?

(CROSSTALK)

LINDSEY: ... nothing has no effect. I think it will be extremely minimal.

RENACCI: OK. But there is an effect.

Mr. Lindsey, you gave an answer on my third concern which is WTO. To each other witnesses, do you have any experience to ***know*** whether this will pass WTO? Yes or no?

LINDSEY: No one will ***know*** whether it can pass WTO until it's brought there. No one could possibly ***know*** the answer to that question.

RENACCI: Anybody else -- yes or no, will it pass WTO?

CLAUSING: I don't think it will based on discussions with lots of traders.

RENACCI: Any other individuals? Yes or no, will it pass WTO?

LUCIANO: Difficult to ***know***. It's pretty similar to VAT that is being enforced today.

RENACCI: Mr. Lindsey, I'm going to come back to you because you -- I was listening to you, you said WTO is a European-based organization. OK for Europeans to do it but not Americans. Isn't it true that European base border adjustments do not allow for deduction of labor and if it did, the same thing with our BAT, if we eliminated labor in our BAT concept, we would be -- it would become a VAT and therefore would be WTO compliant? Yes or no?

LINDSEY: No, ***let*** me describe exactly what the Europeans did. What they did was they put on a VAT and then they cut other taxes with the revenue they got. RENACCI: I understand...

LINDSEY: So, essentially -- essentially, what they did was exactly what the BAT do. Exactly.

RENACCI: I ***know***. But if labor was eliminated, we would have the same thing?

LINDSEY: But they eliminated -- what they did was to reduce other taxes on labor with it.

RENACCI: I understand that.

LINDSEY: So, the -- that's why I think it will pass WTO buster because essentially, the Europeans did exactly what this tax...

RENACCI: OK. I've got a couple other questions. I appreciate.

Mr. Simon, you indicated in your testimony long implementation period for this to work. In 1950s, 90 American companies made T.V. Today, there's not a single American company making T.V.s and there hasn't been in over 20 years an American company has made a T.V.

How long, in average, do you think it would take to get American companies back in the business of making T.V.s because you said a long implementation period, I'd like to ***know*** what that means.

SIMON: T.V.s are being assembled in the U.S. for the first time since the '70s today with a progression towards making them in the U.S. I can tell you the same thing about bicycles. They started in South Carolina in assembly and they're moving in to paint and powder and rolled steel. It takes time and that -- the process for bicycles take in four years.

RENACCI: Mr. Lindsey, I'm going to come back to you. You said this bill is the best way to make American the most competitive place in the business world. Is this the only way to get this accomplished? This bill? Is it the only way?

LINDSEY: This is the best way that I have seen to get it done.

RENACCI: So far?

LINDSEY: That's correct. And I -- by the way, very supportive of what was called for here which is careful implementation, phasing in and things like that. I'm a big supporter of it and what I hear from the chairman and others is that they are too.

(CROSSTALK)

RENACCI: I thank you all...

BRADY: ... all time has expired.

Thank you.

Ms. Noem, you're recognized. Or mister -- yes. Ms. Noem, you're recognized.

NOEM: Thank you, Mr. Chairman. My name is Kristi Noem, I represent the entire state of South Dakota and I go to Wal-Mart to get a lot of things that I need but I go to Target for fun. So, I don't ***know***. Our family appreciates both of you being in towns in South Dakota because a lot of times, we don't have a lot of options.

I am very concerned about small retailers. I'm very concerned about small businesses. That's the life blood of South Dakota but our number one industry is agriculture which supports all of the small business at our state and our families.

Mr. Luciano, I want to talk to you about that because we read over and over again about large companies being bought out by companies not from the United States especially in the agriculture industry, we're seeing concentration happening in Chinese companies specifically coming in and purchasing large chemical companies and other within the agriculture industry. Do you believe there are tax code and policies have perpetuated this problem that we see this consolidation happening in the industry but also we see it, the ownership changing to other countries and how that's impacting the United States and what, in this proposal, could be beneficial in stopping that type of change that we don't believe is necessarily -- I don't believe necessarily is in the nation's best interest?

And I have a follow-up question when you're done with that one, too.

LUCIANO: First of all, Congresswoman Noem, ***let*** me thank you in behalf of ADM and the biodiesel industry for your personal leadership on -- for both biofuels overall and for biodiesel in particular.

NOEM: Thank you. I appreciate that.

LUCIANO: That was very helpful for the industry.

I think this proposal, as we are analyzing it today and it is presented to us, helps improve the competitiveness of the industry. The fight for grabbing sources of food, as you described, is very important, very strategic whether you are in the Middle East, whether you are in China, whether you are in all those places where you have more population than production, actually.

And we have that and South America has that, as I've said before and the Black Sea has that. So, whether we can stop that, I'm not sure any proposal can stop if China determines that strategically they need to own resources, but I think it can make us more competitive and it can allow us for the U.S. farmer to continue to invest and for us to be -- to have the ability to help the farmer to become more competitive by -- by investing an infrastructure, by investing and supporting for the farmer.

And I think that that's what it limits when I worry very much about losing competitiveness and losing share, what I said in my oral testimony because once you lose a customer, once you present to that customer that you are not a reliable supplier because you are retrenching, things change. And one somebody in Egypt that has been using our wheat for years to make bread, starts to use some wheat from Romania, things change and they adapt recipes and all that and then they don't want -- you become a secondary supplier, a supplier of last resort instead of the primary supplier.

And we're slowly going into that direction. So, to me, this blueprint address how to restore the profitability and the competitiveness of the farmer in the U.S.

NOEM: So, I'm a lifelong farmer and rancher and when I talk about the BAT at home to other farmers and ranchers, I talk about it how when our beef leaves the United States, it's taxed then it hits the border of Japan, they add another tariff to it which makes it virtually unaffordable to be purchased in that country and the BAT could potentially shift that to making it more affordable if we didn't do that.

But a lot of the farmers and the ranchers are worried. They're concerned that with the BAT, potentially, they sell their commodity to ADM, ADM then sells to another country, keeps more of a profit margin and doesn't necessarily ***let*** it flow down to those guys producing the actual crops, the actual commodities. How would you answer that concern?

Because I face that quite often that, yes, sure, maybe the big companies that actually market the grain overseas get a bigger profit but is that -- how's that going to help my pocketbook?

LUCIANO: It's a very good question. In the U.S., the product is coming. We have this system. So, but you have to understand ADM does not thrive unless there is a thriving farmer and there's -- we don't own land. We don't farm.

So, we cannot export -- I mean, individually. The farmer cannot export, we cannot export the production that doesn't exist. So, we work with the farmer. Our farmers are our farmers for 115 years and we spent a lot of time in this community supporting the farmer.

If you go and see what we do every day in an elevator, is it -- you go into an elevator and may have six commercial people from our side, I mean, in storage unit or origination unit and then you're going to have six or seven farmers sitting out there, you ***know***, reading the newspaper but also evaluating what they should do and getting from ADM what they should plan, when they should sell. So, it's a very symbiotic relationship. ADM does not exist without a farmer.

NOEM: Thank you. Appreciate that.

I yield back.

BRADY: Thank you.

Ms. Sanchez, you're recognized.

SANCHEZ: Thank you, Mr. Chairman, and to our witnesses for being here today.

Mr. Chairman, I'd like to ask unanimous consent to enter into the record a Bloomberg news article in which Treasury Secretary Mnuchin states that one of the problems with the Border Adjusted Tax is that it doesn't create a level playing field. It has very different impacts on different companies. It has the potential to pass on significant cost to the consumer and it has the potential moving those...

BRADY: Without objective.

SANCHEZ: Thank you.

Today's hearing has definitely provided an interesting mix of perspectives on what most consider to be the centerpiece of the Republican tax reform plan and I think it's high time that we begin to dig in to this brand-new proposal that's sort of blindsided everybody last year. I happen to believe that this -- this size -- a proposal of this size deserves some thoughtful consideration and I'm pleased that we're finally starting that process today. But I can't help but note that I wish we were here discussing a bipartisan idea that came together through substantive Committee process rather than a few pages of talking points.

I want share some of the concerns that my colleagues have highlighted. Number one is an ill-advised gamble on the value of the U.S. dollar to not think world economic markets should the rate not adjust immediately to the very optimistically projected levels. Second, the fear that adopting the republic plan would set the United States up for huge loss at the WTO which could have lasting implications on domestic producers and consumers for many years to come. And thirdly, a system that could incentivize some of the largest corporate exporters to merge with large importers, creating even bigger behemoth multinational corporations to game the new tax system. Those are just three of my concerns.

Ms. Clausing, I'd like to spend my time focusing on the issue of distribution that you raised on the slides that your provided. I find those numbers to be truly staggering. So, can you provide a little more insight into how the proposed Republican plan, not only exacerbates the divide between the rich and the poor in this country but how the middle-class households, specifically, will be squeezed, by this policy?

CLAUSING: Sure. You're exactly right to focus on income distribution. It's been a big issue for the last 35 years. If you look at the last 35 years of data, you'll see that the middle-class wage has been growing very slowly and that the vast majority of GDP growth has gone to those at the top of the income distribution. So, this is an important thing to consider.

The problem with this tax plan is that the tax cut is much higher for those at the very top of the distribution who've already been benefiting a lot from the global economy and from technological change and from other forces that have been hitting our economy. So, it seems, in a way, the opposite of what you would want to do. When you have shocks to an economy like trade disruption, technological change and other things, you want the tax system to sort of insulate people from shock so that everybody's after tax income can go up, you ***know***, a rising tide should lift all ***boats***. But if your response to those shocks is to give a huge tax cut to the top, at the top one percent and then give $200 to the bottom 80 percent, then that's going to be the opposite of what would be helpful in the current context.

SANCHEZ: Following up on that, right now, middle class families in my district are forced to make what I call unwinnable choices such as using the majority of one parent salary to pay for child care or having a parent leave the workforce entirely because the cost of child care means that what they effectively take home at the end of the year is not going to -- is not worth it. And I -- I think we should be highlighting those issues that we force our constituents to try to figure out, you ***know***, for themselves when we have a tax code that can help blunt those effects and hopefully make those working families, not have to make those difficult choices.

So, with the time I have left, I'd like you to address alternative ways that we could address international tax reform in a way that would actually help working families.

CLAUSING: Absolutely. There's a lot of good ways that we could do better to protect our corporate tax base from erosion. One option is to simply end deferral and combine that with the lower rate. But a minimum tax done on a per country basis could also be very effective. Ninety eight percent of all the profit shifting is done with countries that have effective tax rates below 15 percent and 80 percent of it is done with just a few havens.

So, expanding the corporate tax base would help (inaudible) revenues and that's important because a lot of our priorities including infrastructure, education, health care require government revenues. So, having an adequate revenue basis is very important.

SANCHEZ: Great. Thank you so much for your testimony and I yield back.

BRADY: Thank you.

Mr. Holding, you're recognized.

HOLDING: Thank you, Mr. Chairman.

I think we all agree we've got a tax cut that's 30 years old and despite having an economy, it's vastly different than it was 30 years ago. And I think we can all probably agree that we need to undertake a permanent comprehensive tax reform.

My concern, like I ***know*** the concern of a lot of us here, for eight years we've had ballooning debt well over $20 trillion. We need to ensure that we put in place a tax cut that spurs the economy in a fiscally possible way that promotes growth and puts us in a position to be able to reduce debt.

So, I'm worried when I hear from Ms. Clausing's testimony when she states that trade deficits turn into surpluses, the border adjustment will lose revenue.

So, Mr. Lindsey, do you agree with the statement and could you walk us through the impact that the border adjustment will have, perhaps, on the deficit long and short term?

LINDSEY: Certainly, Mr. Holding.

I'd also take just 30 seconds to say -- to comment on something Congresswoman Sanchez just said that this was a new idea that was just sprung at us some talking points. This was a tax system, a tax structure. It was discussed when I was in graduate school and it was considered one of the best systems we could have and I assure you, I was not in graduate school yesterday.

As to the -- your particular question, I'm sorry...

HOLDING: The particular question has to do with the border adjustment...

LINDSEY: Right. Being a permanent. Thank you.

Yes, I wasn't in the school yesterday, I -- I tend to forget things. First of all, we have had a trade deficit now for 50 years. So, saying that trade deficits will turn into surpluses gives new meaning to the word theoretical. However, I think that the right thing to focus on is how we finance that trade deficit and what we do now is we basically put it on our credit card. We sell our debt overseas. That is the main way we finance it. This is called the capital account.

What this bill will do instead is it will finance it by encouraging ***foreign***-direct investment into America and I think that is a much better way of financing a trade deficit than simply selling treasury bonds.

HOLDING: Another function that we're trying to get up, a goal we're trying to reach is protecting our national tax base, the base erosion, whether the -- from the erosion of the corporate tax base, and honestly, I think we need to be worried about the erosion of our human capital base here as a stunning fact that the number of expatriations from the United States has been rising just at a tremendous rate. In 2016, we had 54 people expatriate from the United States compared to 2008 when you had 231 people expatriate.

Mr. Chairman, for the -- I'd like to introduce into the record a recent article from the international tax blog regarding expatriation rates.

BRADY: Without objection.

HOLDING: Back to the tax base on a corporate level, so is there any other plan that achieves other than the border adjustment what we're trying to achieve with protecting the national tax base?

LINDSEY: Yes. A lot have been discussed and some of the comments have come out today and this Committee considered a number of options a few years ago to try and crack down on the ability firms to go overseas. You ***know***, there's an old saying that the beatings will stop once morale improves, which I think kind of has it backward and what I think we need to focus on is that all of those other plans punish American companies by putting more rules on American companies but do not touch ***foreign*** companies and I just think that is simply the wrong way to go about it. We need to start thinking about why it should be attractive to be headquartered in America and why it should be attractive to move our production facilities here.

HOLDING: Thank you.

Mr. Chairman, I yield back.

BRADY: Thank you.

Mr. Higgins, you're recognized.

HIGGINS: Thank you, Mr. Chairman.

The border assessment adjustment tax is a poorly conceived tax because it will be adjusted a second time, domestically, internally in higher consumer prices for every American. Target and Wal-Mart don't make things, they sell to Americans what other countries make, particularly China.

America's five percent of the world's population in 23 percent of the world's economy. The United States is the world's largest economy and 70 percent consumption, we consume much more than we make. China is 20 percent of the world's population and nine percent of the world's economy.

America's largest goods trading partner is China. Last year, we sold to China a $115 billion worth of goods and they sold to us $462 billion. We had a good trade deficit with China last year of $347 billion. So the border adjustment tax will hit China mostly which I would be OK with but we ***know*** that the border adjustment tax will really result in higher consumer prices and hurt American retailers.

There is lots of tough talk in Washington about challenging China's ambitious -- ambitions to become the world's economic leader but that tough talk lacks guts or backbone. What do I mean by this? Washington whines about China's currency -- about China's currency manipulation, about China's poor quality of their air and their water and their land, about how poorly they treat their own people. But you ***know*** what China just did? China announced a $1 trillion investment to open up China, to connect to 47 other Asian countries, to sell the stuff that they make to 47 brand new markets, much more efficiently.

The United States under this administration is looking inward. The United States wants to build a $38 billion wall along its southern border and the United States has responded to $2 trillion in invest -- infrastructure needs with a pathetically weak $200 billion investment American infrastructure, maybe.

Look, I think you get the point. China is making an aggressive challenge to United States leadership in the world. China ***knows*** that infrastructure is how you dominate. China's peaceful rise is driven by economic growth rather than military force.

The United States, under this administration, wants to spend another $50 billion on war, wants to take health care from those who need it most, and has a tax scheme to take away money from those who need it to give it to people who don't.

I'm not quite sure what I'm missing here. But a tax policy that doesn't put money into the hands of people that will spend it in the world's largest economy that is 70 percent consumption is a policy that can't work. I often hear here that these tax cuts will pay for themselves. There's not a tax cut in human history that has paid for itself. The most conservative economic estimates are that maybe a third of tax cuts would be paid for by ensuing economic growth.

What you have to do to growth your economy is to invest in it, people to bring them to and beyond the current technology, your infrastructure which based on any objective analysis puts the quality of our infrastructure at a very, very poor rate as it relates to the rest of the world.

So, you can talk about tax policy all we want here but unless we're going to back it up with serious investments to compete on a global scale with places like China, the platitude is about where we want our tax policy to take us will never take us there.

I pretty much used all the time and I apologize for that but I think it's a statement that needed to be made and I think it's very important relative to this debate and I yield back.

BRADY: Thank you.

Mr. Schweikert, you're recognized.

SCHWEIKERT: Thank you, Mr. Chairman.

This is going to be one of those hearings when we all go back and actually read the transcript that's going to be absolutely fascinating trying to follow some of the intellectual consistency on the lines, but at least we now have heard that many of our brothers down the left, our brothers and sisters in the left now are supporting much more trade and a lot of these other things. I cannot wait to grab my highlighter and go over this.

Mr. Simon, you actually have one of the most unique work experiences in history and that was a massive company trying to restructure parts of your supply chain. Can you tell -- put a little more detail on that experience on -- because I just -- a moment ago, which your company I absolutely love. It's in my neighborhood but we actually grow vegetables in Arizona in the winter. We supply the nation's lettuce crop and we can do a lot more, except right now the rest of the world has a financial arbitrage on those south of the border.

Tell us about rebuilding supply chains that became domestic from the products that were reformed before?

SIMON: Well, Mr. Cornell is right. Ninety seven percent of apparel is made outside of the U.S. today. A good percentage of it is made with American cotton, so imagine the irony. Cotton grown in the U.S., 12 million bales a year, exported, much of it to Asia where it's made into apparel then reimported in the U.S. It makes no sense. The labor component isn't -- isn't the driver of that.

You have transportation in two directions and all of the other things that go with it. But my mother in law in North Carolina use to make blue jeans at a factory there and that product migrated. It migrated because the initially labor but eventually tax and infrastructure eroded.

In order for it to come back, it needs -- we need to rejigger the puzzle pieces and we need incentives like some of the things that have been discussed today that will allow that to happen. It won't happen on its own. We can't survive as a service economy that the gentlemen mention 70 percent of our economy's consumption. It is.

But I can't go to the movies and you can't go to a restaurant every day and have the economy be buoyant. We have to make things.

SCHWEIKERT: Did you ever -- but did you have that experience where a product that as Wal-Mart had been an international supply chain and the skepticism and then a couple years later you would found a way to domestically source?

SIMON: Every product that Wal-Mart has been able to repatriate, and the list is quite long now, has taken an incredible amount of effort from both the supplier and the company. They sit down and they analyze the cost components of every single leg along the way. And we're overcoming 30 years of muscle memory where the things that -- the way that we've done things, the way that we've accounted for cost that are in the system, costs like currency and we have that discussion earlier.

Currency, in most companies is a foot note on their earnings statement and they say our earnings was -- were $3 a share, that's up or down versus last year because of currency. And then Wall Street usually doesn't reward or penalize the currency adjustment. So, our whole thinking isn't around currency adjustments. Our whole thinking is about how much earnings per share can you deliver.

We found out that the transportation cost and the -- and the time value of money from paying FOB in Shanghai versus delivery at your dock in Delaware is three months and that three months on, you ***know***, a billion dollars of imports is a significant amount of money. So, as you restructure your supply chains, you also have to restructure your practices and the way that you look at your business.

SCHWEIKERT: And look at everything from currency exposures to environmental cost to moving things with those difference. Look, I -- hopefully, we have a universal agreement, all the members in the right and left here, we actually have a wealth gap issue. We actually have an income worker mobility issue and yet, so -- I keep hearing because for, you ***know***, taking a little shots at each other almost defense of the status quo which is absurd.

And as we sort of walk through this, look, I'm fixating on some of the technologies. We've been talking about apparel and the articles that are now coming out, that last year we finally now ***know*** how to laser cut cloth where before, that was always the excuse of why it had to be done with labor, now we actually have a technology that can change that predictive capacity.

There are technological solutions that actually will make repatriation of some of these supply chains possible. And I ***know*** I'm -- there's so many things.

Ms. Clausing, can you help me just -- because you've actually said a couple of things that I found absolutely fascinating and I must give you a compliment, I've been actually reading some of the things you've done, thank you for being a person of the left but also caring about what's happening depth-wise and the destruction that does for our next generation and why we must actually step up and deal with it.

With that, I yield back.

BRADY: Thank you.

Ms. DelBene, you're recognized.

DELBENE: Thank you, Mr. Chair, and thanks to all of you for being here today and Professor Clausing for being here from my alma mater.

Actually, I want to start with a question for you. I've heard from small brewers in my district, they're very concerned about the border adjustment proposal because they rely on imported ingredients and barrels to produce specialty beers, and often, they only sell domestically.

And so, despite the fact that they're supporting jobs and economic activity right here at home, they would be hit by border adjustment with no offset. And so, I wondered -- do you agree with that and how would you respond to their concerns?

CLAUSING: Yes. I agree that there are substantial risks here to import-intensive industries because of the possibility that the exchange rate won't adjust perfectly.

One thing that this testimony has reminded me of is the fact that we can't really do everything in one country. Like, we have international trade for a reason. We don't want absolutely everything to be done in the United States. It might make more sense to do the apparel abroad.

But that doesn't mean, you ***know***, that we can't be sensitive in terms of thinking about how trade has affected American workers and one way that you can help the workers who've been hurt by the downsides of international trade is by a tax system that favors, for instance, the earned income tax credit, the low end or middle -- middle incomes as well. But there are many industries including brewing and the wine makers of Oregon and others that -- that are worried about this because of the possible lack of an exchange rate offset.

DELBENE: And our tax system, when we talk about things, we generally talk about physical goods, the movement of something or nexus where something is located. But I wonder if you can comment on digital goods and intangible goods, how they'd be treated right now under this proposal or do we even have enough information that have a sense of how they be treated?

CLAUSING: Yes. One of the difficult things with digital goods is that they're more difficult to observe. And so, this has actually raised a huge issue with countries that have VATs, for instance, because they need to observe the passage of a good across a border and with the digital good, that's often difficult to observe. And so, that generates possible avoidance opportunities.

In general, the economic literature and taxation suggest that the more physical or real something is, the less responsive it is to taxes. So, if you look, for instance, at U.S. multinational firms, where they have jobs abroad is often other countries that have high tax rates and high regulations of where they have their profits or in these low tax havens. And so, you get this big difference in how responsive things are to tax based on how easy they are to move and digital goods are one example of things that are very -- very easy to move.

DELBENE: And do we have enough information right now in terms of how border adjustment, in particular, might impact the digital goods, specifically in this plan?

CLAUSING: I think it would raise enforcement concerns but this is one of several things that haven't been fully worked out in the plan. Another big issue is finance because the financial sector would have to be treated differently under this plan and this creates huge headaches in terms of thinking about who to administer this tax with respect to financial sector.

DELBENE: One other issue that was alluded to earlier is that manufacturing is moving to more automation using technology, artificial intelligence robots. And so it may not be used as many people for that work. And if we look going forward the economists look at this as we estimate kind of future impact and impact on families and workers, is that part of the modelling because I've heard people talking about that as much.

CLAUSING: I think technological change is a huge issue and one thing to think about when we think about what it means to bring something back to the United States. If we bring it back and use robots to make it, it's not clear that that's generating anymore American jobs than if we'd left it somewhere else. Adapting to technological change requires both tax policy that's sensitive to the needs of the middle class but also spending policy. We want workers who can use technology to their advantage, not be replaced by it. So, if you have an engineering degree or you write software, technology is your friend.

But if you're a low-skilled worker, technology hurts you. So the answer to that seems to be upgrading the skill levels of our population and that's going to require investments in education and investments in infrastructure, not just hard infrastructure like roads but other types of infrastructure like internet access, computing access and the like. So, I think our spending priorities need to reflect that.

DELBENE: Thank you very much.

And, Mr. Chairman, I yield back.

BRADY: Thank you.

Mr. Rice, you're recognized.

RICE: Mr. Lindsey, I have a question for you. If you have an American company, and they both make the exact same product and they both compete worldwide for the materials to make that product and they both compete worldwide for customers to sell that product to and the American company pays a 35 percent income tax and the Irish company pays a 13 percent income tax and a VAT, can you tell me the outcome of that story?

LINDSEY: It's very simple. Obviously, the Irish company is well advantaged.

RICE: So, the American company's going to end up bankrupt, right, or bought by the Irish company, correct?

LINDSEY: Well, it's certainly going to be less competitive. There's no question.

RICE: Do you disagree with that, Ms. Clausing?

CLAUSING: I think that some of the competitiveness issues are misunderstood. In particular, any company that's serving...

RICE: You disagree with that, is what you're saying?

CLAUSING: Yes, I disagree. Yes.

RICE: You ***know***, I asked that theoretical question all the time. You're the first person that I've actually heard to disagree with that. But, you ***know***, at that point, I asked it as a theoretical question but we have a real-live instance of it right here. Mr. Luciano's made the best -- much better case for that point than I ever could.

And he says that our American manufacturers are facing competition from Ukraine and from Brazil on grain exports, correct? And they have for what period of time, Mr. Luciano? What period of time have that -- have we faced this competition?

LUCIANO: Well, we face it for the last 50 years but I would say in the last five years of accelerated...

RICE: And Brazil and Ukraine have these consumption taxes that we're talking about here in the border adjustment, is that correct?

LUCIANO: That's correct.

RICE: So, the effect of that, as you said earlier, is that to sell to worldwide markets, their cost, the price they charge for their product is less. By how much?

LUCIANO: Enough to make the U.S. uncompetitive for long periods of time.

RICE: So, if China is one of the big markets for our agricultural exports, question is, I suppose, if our taxes our income taxes portrays a 15 percent higher cost of American farmers, are the Chinese going to pay 15 percent more for American corn than they are for Ukrainian corn over Brazilian corn? Is that right?

LUCIANO: I think what would end up happening is that the actual price that the U.S. farmer will get for the product in order to compete with those markets will be lower than the price that the Brazilian farmer or the Ukrainian farmer.

RICE: But we've seen the effects of it already over the last decades, right? And what has been the effect? I mean, what -- what's happened to our market share?

LUCIANO: We have been declining. We lost it by half.

RICE: Mr. Lindsey, is that line of reasoning just apply to agricultural plant -- products or does that apply to any other products made in America with this higher tax bracket?

LINDSEY: Sorry, obviously, it applies to all products. But also point out the number of companies, how many companies have switched and moved to intellectual property from here to Ireland versus the number of Irish companies that have moved back. I think I would point out to the ranking member how smart the Irish are.

RICE: Well, you ***know*** -- and they are and they've designed a tax system, has a low-income tax and a higher VAT, correct? And what -- why would they do such a thing?

LINDSEY: Why would the Irish do such a thing?

RICE: Yes. Yes.

LINDSEY: Because they're very clever people.

RICE: Because they want to be competitive, correct? LINDSEY: They want to be competitive and, you ***know***...

RICE: And it's worked, hadn't it?

LINDSEY: It has worked beautifully. Ireland 30 years ago was not a particularly prosperous place. Now, it is. And they've -- they've done a very good job.

RICE: I think that if the playing field is level, the American worker can compete with anybody. Since 1986, Washington stood by and ***let*** the rest of the world tilt the playing field against the American worker. My friends on the left spend their time arguing about the distribution of the tax reductions and I sure want to work and make that fair but in my opinion, that's small potatoes.

Medium household income in the United States is just about equal today to what it was in 1990. The American middle class has not had a raise in 27 years. The American middle class was 50 percent of the population in 1990, today it's 43 percent.

So, our middle class is shrinking and its income is stagnant. We have to do better. We can't stay where we are. In my opinion, the growth in GDP from this plan will dwarf any reduction in taxes. In my opinion, we'll see a resurgence in the American manufacturing; in my opinion, we'll see a resurgence in the American middle class; in my opinion, we will see a reduction in income disparity.

I yield back, Mr. Chairman.

BRADY: Thank you.

Mr. Curbelo, you're recognized.

CURBELO: Mr. Chairman, thank you for hosting yet another important hearing on a comprehensive tax reform and I thank the witnesses for their participation today. I want to build on my comments from last week and reiterate my support for permanent revenue neutral and comprehensive tax reform as the surest way to bring the U.S. economy into the 21st century. And again, I'm pleased to hear that there's so much bipartisan consensus in favor of permanent revenue neutral tax reform. I think that's absolutely critical as it is important that individuals as families as well as businesses of all sizes have confidence in ***knowing*** their tax system is permanent, fair, and that it strives to achieve the lowest rates and the most simplicity for all taxpayers.

I want to ask Mr. Simon. I'd like you to take into account the region I represent, Miami, oftentimes mentioned the gateway to the Americas many export opportunities in south Florida. We have access to many markets all over the world.

But also, the Port of Miami sees a lot of imports. So, looking at our blueprint more broadly and then honing in specifically on today's topic, border adjustability, how do you think an area like Miami, like South Florida, where there's just great entrepreneurial spirit where we have immigrants who are thirsty to contribute to our country to start new businesses, who bring new ideas, how does an area like ours fare under the house blueprint and specifically with regards to the policy that we're considering today?

SIMON: Well, I've been, by all accounts, American exporters will be more competitive because they'll have a substantially different tax situation than they do today.

So, the port and all the activity around the port of Miami and all of our ports will remain vital. By most accounts, at least in the short and medium term will still be very, very heavily importing because of the supply chains, supply lines, won't be there.

I think the risk and we've talked about it quite a bit is that if -- if we can't figure out a transition plan and prices go up, consumer prices go up which I think everybody in the room doesn't want to have happen, if we can't figure that out, we could see a slowdown in some of the imports. But fundamentally, what will happen in most of the economy in the U.S. is that because of the revitalization of our export base and our manufacturing base, we'll start to see rising consumer -- consumer -- household incomes and increase participation of consumers in the market and retail industry will begin to become more vital both large and small retailers because of the spending power of the middle class which, as we heard, eloquently just a moment ago has been eroded over the last 20 years. And once that's rebuilt, a lot of really, really exciting things happen.

CURBELO: And, Mr. Simon, what's your message for businesses who rely on textile imports? Of course, South Florida's been a great beneficiary of many wonderful trade deals like DR CAFTA and other bilateral deals throughout the region and we do receive a lot of imports through our South Florida ports and, of course, there are American businesses that rely on these imports who employ many people in my community.

They have very serious concerns that they have conveyed to me. What -- how would you address those concerns?

SIMON: I really commend my friend, Mr. Cornell here, for being here and being at the table because that's the way we're going to get this done particularly in some of these more challenging industries. We need to sit down together and understand the impact and then try to find ways, the best ways to mitigate them and not with theory and not with hope and not with plan. And build in bridges and safety nets so these industries that may be impacted and, to be quite honest with you, we're all, you ***know***, have our own opinions but ***let***'s -- ***let***'s not have our opinions determine the outcome of his company or his industry, ***let***'s figure out ways to bridge the gap and build the transition so that we can get to the other side of this and get rid of that 30 years of muscle memory that's having us doing things this way and has no other option besides offshore for apparel and many other industries. Once we do that, we'll be able to move forward.

CURBELO: Mr. Cornell, briefly, I'll give you the balance of my time.

CORNELL: I think Mr. Simon is talking some of the issues but I think, you ***know***, really important topic. Short term, all of the products that are imported into your district today will be impacted in a very negative way. And ***knowing*** your district pretty well, you have hundreds and hundreds of small businesses and I ***know*** that they depend on import products. So, the short-term implications are significant. They could be devastating.

CURBELO: Thank you, Mr. Cornell.

Thank you, Mr. Chairman.

BRADY: Thank you.

Ms. Chu, you're recognized.

CHU: Ms. Clausing, I represent a district in Los Angeles county that relies on its cars. In fact, our survival in that area depends on owning a vehicle and navigating the freeways. For many middle class working families, purchasing a vehicle is often one of the largest household expenditures of their lives and I'm concerned about the effect of a Border Adjustment Tax on vehicle prices for these families.

Now, the automakers that have come in to see me tell me that automakers in the U.S. are part of a highly globally integrated industry and because of the integrated supply chain, no vehicle made in the U.S. contains exclusively domestic content. Also, there are studies such as from the center for automotive research which estimates that the average auto price will increase by $2,000 and the Roland Berger study estimates that the average price increase would be about $3,300.

That sounds to me pretty prohibitive. So, I'd like to ***know*** how you think this plan will affect the American consumers of automobiles and the auto industry as a whole and there are others on this panel who are saying that these -- the rise in wages will mitigate price increases. Is that true?

CLAUSING: Yes. Thank you for your question.

I think the auto industry is one that is highly globally integrated as you pointed out. Whether you buy a Ford or whether you buy a Toyota, if you look at that sticker, you'll see that both of those cars come from many, many different countries.

And so, any globally integrated industry like the auto industry is going to have some risk associated with this. On the import side, if the exchange rate doesn't appreciate, that's going to drive up the auto prices of imported cars which will, of course, increase the price of domestic cars as well because they compete with each other in the economy as a whole. And so that would be one risk for the auto consumer.

For exporters of cars, there are also risks associated with the potential for WTO problems and trade and tariff retaliation. The auto sector would be an obvious one to target and retaliate for any tariffs. So that would be one worry that I would have there. And I would also point out that our auto exporters in general are competing on a level playing field with other countries with respect to a sales tax. If a country like Ukraine has a sales tax or a vat, you ***know***, that is, of course, rebated when they export to another country and we could add a sales tax here and rebate it but that's not going to make our companies more competitive. We already have a level playing field with respect to sales tax.

CHU: Well, I was shocked to see that this proposal could have very different effects for the top one percent versus the bottom 80 percent. In fact, you point out that the top one percent will get a tax cut averaging $213,000. The bottom 80 percent will get a tax cut averaging $210. That's -- that means that the upper one percent benefit by a thousand times more than the bottom 80 percent.

And we see also that the cost of everyday products that average consumers for just -- would rise like food and the USDA says that certain food products are very import-heavy like fish, fruit and nuts and that almost all bananas, mangoes, coffee, cocoa, tea, spices, tomatoes, melons, and grapes are imported. So, I have families in my district that live on a limited income, seniors that live on a fixed income, thinking about all these families and seniors, well, does this tax plan on the BAT result in a regressive tax on consumers and especially those on a fixed income?

CLAUSING: Yes. There are three ways in which I would worry about this. One, as you point out, if the exchange rate doesn't adjust, people will pay more for all of their imported products and we ***know*** that the poorer you are, the higher the share in your consumption bundle is imported goods. And so that's my first concern.

Second, if you just look at the estimates even ignoring the exchange rate effect, the tax cuts are just much larger at the top as you point out, a thousand times larger than they are for the bottom 80 percent.

And third, returning to this wage issue that you mentioned in your last question, we've really had to ask what is going to drive American wages higher? I think this plan is premised on the idea that will unleash a new way of investments and increase the supply side of the economy to drive up wages.

But if you look, again, at corporate profits after tax, they're higher than they've ever been in all of our lifetimes. So, if they really need more after tax profits in order to generate more investments, you kind of wonder, well, where is the investment paradise over the last 15 years because we've had really high profits but without big investments. So, I think a strong middle class is the answer to big investments.

BRADY: Thank you. Time has expired.

Mr. Reed, you're recognized.

REED: Well, thank you, Mr. Chairman, and I ***know*** I went down to three minutes so I'll be ***quick***. That's the penalty of coming late. You have to go a little shorter which I appreciate.

To the panel, I want to just -- one, I think there's broad agreement. We cannot maintain the status quo. The status quo of the American tax code is just fundamentally flawed and puts us at such a competitive disadvantage that we have to do something. Would everybody with that, at least? OK. So, we got a common agreement there. I had some head shaking.

I want to focus on repatriation because this is important to a lot of folks back at my district and some interest that we have in the district. The holiday of 2004 was that just that, a holiday. And when that occurred, there was a lot of concern about that going to corporate shareholders and others.

Obviously, I believe there's a reason for that. Don't you have a fiduciary obligation to your shareholders in America and if you got a holiday and you get one-time injection of cash, is there the fiduciary obligation has been satisfied to give that to your shareholders? So, is that a concern if we do another holiday going forward?

Mr. Lindsey?

LINDSEY: I would not do another holiday. That's one of the reason I like this bill, not only is ti not a holiday, it is -- it takes care of the problem permanently and I...

(CROSSTALK)

LINDSEY: ... estimate was a hundred billion a year and ending profit shift.

REED: I'm reclaiming my time. So, for the Democratic witness, you would agree with that, too? Correct?

CLAUSING: Yes.

LINDSEY: So, doing a permanent is the way to go. That is the general consensus...

CLAUSING: I'm sure we disagree on the rate, but I agree that it should be permanent and the holidays are a bad idea.

REED: I totally appreciate that.

The other source of agreement that I want to get to is when you look at the overseas trapped earnings, my understanding of it is you got essentially two types of overseas trapped earnings that are there, you have cash or cash equivalence and you have investment oversea earnings that are sitting in brick and mortar and other type of investments overseas. Does that not encourage us to make sure that we have a bifurcated rate as opposed to one rate?

Mr. Lindsey, could you offer some comments?

LINDSEY: My instinct, and obviously it's just my instinct, is no because the way that money was repatriated over there -- excuse me -- retained over there was due to the combination of ***foreign*** tax credit and the delay in repatriation. What they chose to do with that money given that it was over there, that issue should be irrelevant to how we have deemed repatriation.

REED: So you're advocating for a single rate.

LINDSEY: Single rate.

REED: As opposed to fabricated. Anyone disagree with that assessment? Any of you have overseas trapped earnings? I ***know*** you're retail, ADM, doesn't matter either way? OK.

Well, I'm very concerned because I do ***know*** ***Uncle Sam*** and ***Uncle Sam*** does not take payments in regard to brick and mortar. He wants cash. And if you don't have the cash on your books to pay, I'm very concerned that an impact of a single rate could have on those companies is that they would be significantly hit from a cash flow perspective and the cash balance sheet.

So with that, I yield back.

BRADY: Thank you.

Mr. Bishop, you're recognized.

BISHOP: Thank you, Mr. Chairman.

I'm sitting here and I ***know*** that I have a thousand questions for all of you. Thank you for the time you've taken and I'm sorry I only have three minutes to ask a question. I'm from the Detroit area, home of the motor city, autos, component parts, manufacturing, big deal for us.

Mr. Simon, your comment that we have to make things is very important to me. I do believe that and we are not a service center economy and in my area, that is very important and I would like to -- if I could drill down at the manufacturing issue a little bit more.

Tool and die in our country is on the verge of extinction. We are the arsenal democracy. We're the home of the big three, home of Henry Ford, home of the greatest auto industry in the world. Yet in a blink of an eye, we have seen -- we have lost 70 percent of the tool and die industry and a full 80 percent of its skilled work force.

In a magazine article that I have here date May 15th, Mark Schmidt who's the President of Atlas Tool in Roseville, Michigan, made some alarming statements and a very dire prediction. And in his article, he said that China is under a deliberate and predatory economic attack right now. He talks about how they're undercutting all the prices in the United States and make it impossible for American folks to compete.

And he also says that soon we will not have this sufficient capacity because we'll be pushed out of the industry entirely. China will completely take over and as a result, will become the dominant automotive manufacturer and supplier in the world. This represents a huge threat in the United States, not just in the area of the economy and jobs but also all the way into the realm with national security. What are we doing? This is the craziest thing I've ever heard. If we're not doing something today or in this process that will address this concern, I'd like to ***know*** from all of you what we can do to try and to address this.

But this is insanity to me if we can't do something about this and I don't ***know*** if border adjustment is the solution. But I -- Mr. Lindsey, can you comment on that? I'm sorry if I've taken so much time.

LINDSEY: I think that there are number of things. Again, it comes back to how do you make America the best place in the world which you invest and produce things. And I think we're targeting that in this bill particularly with the expensing component because we're going to be accelerating the incentives to, you ***know***, have new plant, new equipment here.

I think that that is number one. I also think the general reduction in rates is probably helpful but I would go back to the most important answer I think is the expensing component.

BISHOP: Thank you. And one ***quick*** question for all of you, how important is it for us to get this done before 2018?

LINDSEY: Vital. Vital. Vital. Vital.

BISHOP: Mr. Simon?

SIMON: Every day is important. We're rooting -- we're running out of energy.

BISHOP: I would ask you all but I yield back.

BRADY: Thank you. All time has expired.

Ms. Walorski, for the last question.

WALORSKI: The last question. Thanks again for being here. I represent northern Indiana and I come from the medical device and pharmaceutical industry. So inversions have been extremely detrimental to our state and could be potentially be as well.

Another issues, Zimmer Biomet, a global leader in orthopedic medical devices headquartered in Indiana, I met with their head of global tax a few months ago and he put this in stark term, this is why I bring this up. He said, Indiana is a consistent leader in quality infrastructure, high skilled labor, reliable and low energy cost.

A few years ago, they were considering expanding their manufacturing footprint and excluding the tax code, Indiana was the clear leader. But when you factor then the U.S. tax code, Indiana drops to dead last and that's drawing.

Mr. Luciano, is there a solution to make the U.S. competitive and attract investment other than tax reform is my one question, I got to do this ***quick***, how important for ADM and others in registry is moving away from a worldwide tax system and ending the lockout effect and then what ripple effects do you see when companies are required by ***foreign*** competitors or invertors?

LUCIANO: Yes. I think I said it before I think that what we see in this proposal to us addresses that competitive issue that you are describing and I think allows us to move freely investments to whatever we need to make those investments that make sense.

And our intention is always to make it here to improve the competitiveness of the U.S. It's a very competitive market out there and we cannot -- aren't allowed to help in my case a farmer or any other manufacturers if we're going to be falling behind to other countries that are challenging the U.S. supremacy in all this.

WALORSKI: I appreciate it,

Mr. Chairman, I yield back just one minute.

BRADY: So noticed.

So, couple things. One, I would for the record like to introduce the (inaudible) study for the Peterson Institute that shows in review of 34 countries that have adapted or adjusted their border -- adjusted taxes since 1970. But one full appreciation of the currency to balance straight effects. Another research paper by Alan Auerbach and Larry Kotlikoff (inaudible) shows destination based consumption tax more progressive than corporate tax.

I would like to thank our witnesses today. You've brought incredible insight to this well-watched hearing. You ***know***, you can tell some have already given up on U.S. manufacturing and agriculture. You've heard it. You ***know***, we don't make that anymore. It's not coming back.

I'm hearten though by the discussions we've heard here today that that's not necessarily the case and I ***know*** with Mr. Simon, you've told me before about when you bring back manufacturing capability for lawn furniture, you bring it back to manufacturing hair dryers, not that I use those anymore, and on and on down that supply chain.

I'm hearten by Rich Noll who's the Chairman of Hanes Company. That's -- they've got the Hanes, Champion, Playtex apparel, you ***know***, very import sensitive who makes cases. If we have this tax code in place today, these supply chains will be back here in America.

And I also am hearten by the fact that we all recognize that moving forward with this type of bold change chance requires thoughtful transition, deliberate transition addressing successfully of our concerns we've heard today.

So we're going to continue to that track and please be advised that members of Congress on the Committee have two weeks to submit written questions to you to be answered later in writing. So those questions and your answers will be made part of the formal hearing record.

Again, on behalf of Mr. Neal and myself, thank you for being here today. The meeting stands adjourned.

## Classification

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