

WRITTEN TESTIMONY OF WILLIAM S. SIMON
BEFORE THE U.S. HOUSE COMMITTEE ON WAYS AND MEANS
HEARING ON INCREASING U.S. COMPETITIVENESS AND
PREVENTING AMERICAN JOBS FROM MOVING OVERSEAS
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Chairman Brady, Ranking Member Neal and Members of the Committee, my name is Bill Simon and I am the former Chief Executive Officer of Walmart, US. I am privileged to be here today to discuss the importance of rebuilding U.S. manufacturing to protect and grow middle class jobs.

I am here representing my own views as a private citizen.

I'd like to begin by noting that I have long been a strident supporter of US manufacturing. Indeed, the National Retail Federation hosted me at their annual meeting in 2013 when we launched the Walmart US manufacturing initiative – which, I would add, has been quite successful.

Manufacturing jobs have always represented the pathway to middle class. We have seen that throughout our history.

There is a reason that the middle class in the US has struggled recently. It is the same reason the middle class in other global markets has emerged. The manufacturing base has moved and the jobs followed.

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

But not anymore.

The government lays out the rules, like puzzle pieces. Those pieces are the tax, labor and trade policies that they believe best for the country. Businesses take those pieces, put them together and use them in order to maximize the return for their shareholders.

Over the last 30 years, when you assemble those puzzle pieces virtually every scenario ran by every company, results in the same outcome, offshore manufacturing and a hollowed out middle class with no job progression.

We need a new system. Something needs to change. On that, virtually everyone agrees. I commend you for taking on this most important issue.

Many ideas have been discussed in recent months. One of the more controversial for the retail industry is the Border Adjustment.

I have weighed the considerable challenges this proposal presents to retail with the significant benefits it will deliver to the economy as a whole and have concluded that *properly implemented*, it is in the best interest of our country for this to be considered.

However, such a system would have to be implemented with careful consideration of the transitional challenges that U.S. retailers will face.

It must allow for adjustments that may be necessary to address the concerns you've heard from the industry.

Most of the manufacturing capacity that exists in the world, outside of food products, is no longer based in the US. Simply applying a 20% tax on day one to those products would have a serious impact on the industry and the consumer.

I hope you see that my point of view isn't completely at odds with the industry. I'm just looking at this from a different perspective.

If we are to move forward, I believe it is important that retailers work with this committee and provide input on how to best transition.

The retail industry is already in flux. They are dealing with generational technology and trend changes. I would submit this is part of the same issue. The challenges facing the middle class have put a damper on the power of the consumer in recent years and are now impacting retail broadly.

Resurgence in American manufacturing would result in a stronger US consumer and a very healthy retail industry over the long run. But in manufacturing and supply chains, the long run is a very long time. The migration of manufacturing out of the US took 30 years. It is critical that any proposed legislation understands and account for this.

If you move forward with a border adjustment, I would recommend considering a long implementation period with a phase in of the tax impact. Economists forecast that currency impacts would offset all or most of these changes. If that is the case, use the expected value of the dollar to 'trigger' the next phase in the tax rates or some other trigger method.

There are also many things that the retail industry can do to accelerate the transition.

First, embrace US manufacturers as they become established. With the change, American sourcing will become increasingly viable.

Additionally, being closer to the point of consumption, shortens lead

times, lowers transportation costs and increases manufacturing flexibility.

Second, for some products, apparel for example. Competitively priced US product won't be available for some time. Working with existing suppliers, the industry should look up stream at the component parts to drive down costs. For example, American cotton is readily available and used throughout the world. A retailer could secure products made with US cotton for reimport to the US lowering the impact of a border adjustment.

With increased competition pricing will come down. As more American manufacturers come online, pricing all over the world should be lower.

Our current tax system is not serving any of us well. But until we substantially changes the 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 fail to deliver the economic security we all seek.

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

Thank You