

This repatriation provision for continental Europe, for example, provides that the direct investor will do the greater of the following: either maintain his 1964-1965-1966 average rate of pay-out of dividends. Secondly, that he will declare sufficient dividends in 1968 so that his reinvested earnings will be low enough so that together with his capital outflow, will be only 35 percent of what the reinvested earnings and capital outflow were in the two base years, 1965-66.

Now, in my opinion, this second provision, which was designed to close the loophole, actually over-reached the objective, because if you look at the second of these two requirements, which is the greater, and therefore for most companies, like ours, will be applicable, you find that you arrive at a requirement to include that pay-out, even if no funds whatsoever were to be sent abroad as transfer of capital in 1968.

With your permission, I would like to describe a very brief example, and I will take this slowly, if I may, because it is quite important.

You assume that a company is the only foreign affiliate of a U.S. direct investor. Assume that in 1968 it has a million dollars worth of earnings, and assume also that it had a similar level of earnings in the base years on the average for 1965 and 1966.

If that company, like an affiliate of a mature U.S. company, were paying a 50 percent dividend, it obviously would be distributing a half million dollars, and it would be retaining a half million dollars for reinvestment. Under this particular provision of the regulations, as they stand now, that company in 1968 can only retain 35 percent of what it retained in the base years.

That is 35 percent of a half million dollars. My arithmetic tells me that is \$175,000, but that immediately provides a corollary.

If I have earned a million dollars, which is my assumption, and I can only retain \$175,000, then perforce I must distribute \$825,000.

My arithmetic again tells me this is 82½ percent.

I submit to anyone who has been in business, or who can understand business, this is not a percentage pay-out with which you can sustain operations, to say nothing of a percentage pay-out with which you can grow.

Now, there has been common use of a figure of a 65 percent pay-out. Many people have said, well, the American companies have been paying out 65 percent out of Europe, and they have been retaining 35 percent, so this should be no problem. This is merely a continuation at the same level.

The problem is that the regulations, as they read, provide that what can be retained in 1968 is only 35 percent of that 35 percent, or somewhere in the neighborhood of 11 or 12 percent, therefore requiring again an excessive pay-out.

Now, we feel strongly that this could be highly damaging to mature companies like ITT. There are others, we are not alone in this. ITT and others already have for many years been paying out 50 to 55 percent of their earnings, and not only distributing, but bringing it back to the United States as a positive flow.

As Mr. Seath suggested, this carries with it the possibility of serious and long-range effects.

If you reduce the equity base by having so little reinvested earnings, then you reduce the amount of equity that you have for local borrowing.