

by these stockholders will warrant treatment to enable them to continue to compete in a normal way with their oversea foreign competitors, particularly when, as noted earlier, they have not been sending capital overseas.

Instead of concentrating solely on restraining outflows, the drafters of the regulations understandably attempted to close any loopholes by which earnings retained abroad could be increased above previous levels to offset reduced outflow. However, the regulations overreached this objective and prescribed repatriation at an increased and inordinately high level, particularly in Europe. Here again mature companies already have been repatriating at high levels like ITT's 54 percent, and have been financing their growth mostly through local borrowings. This compares with 42 percent paid as dividends, as an average, for example, by the top 100 U.S. companies to their shareholders.

On the other hand, the regulations on foreign direct investment announced by the Department of Commerce, January 3, imposed severe restrictions on U.S. companies operating abroad and, if applied literally and over a long period, might well prove detrimental to the national interest.

The regulations are especially harsh on companies that have, over many years, contributed regularly to the surpluses in the United States balance-of-payments account.

ITT has been a large annual net contributor to the U.S. balance-of-payments position for the past 20 years. Based on our 1967 performance, we are at present repatriating to the United States at the rate of \$1 billion every 10 years. Based upon our past experience, this figure could double in the next 10 years.

A direct investor, according to the regulations, is required to repatriate annually an amount representing earnings from its affiliated nationals in the various schedules. The amount which must be repatriated from schedule C countries (Western Europe, South Africa, and the Communist countries), for example, is the greater of, and I repeat, is the greater of:

(1) the same percentage of total earnings from schedule C affiliates as was repatriated during 1964, 1965, and 1966, or

(2) any earnings of schedule C affiliates in excess of 35 percent of the direct investment, and note that that includes reinvested earnings, in schedule C countries during 1965 and 1966.

Where dividends have been substantial and capital transfers have been low in prior years, what we call the base years, as in the case of ITT and as called for by the voluntary planning during those same years, application of this second test for repatriation of earnings can force repatriation of so high a percentage of current earnings as to make it difficult for such subsidiaries to compete with foreign companies. Such subsidiaries also would encounter difficulty in borrowing locally because, with forced repatriation of earnings at an abnormally high rate, they would not accrue sufficient equity to support additional borrowings.

Mr. Chairman, if I may, I would like to refer you to the table at the back of the testimony.

In this table we have provided an illustration of three companies: X, Y, and Z, all foreign affiliates of an American direct investor, and