

Mr. Hamilton mentioned a figure of 82½ percent as against the Commerce Department regulation 65 percent figure. Could you explain this difference?

Mr. HAMILTON. Well, Senator Percy, 65 percent has been a much misunderstood figure.

There has been some discussion that American corporations operating abroad have been paying out approximately 65 percent of their disposable income in the form of dividends, and have been remitting this back to the United States. When we dug into these figures, we found some interest payments in the figures and we found some branch profits which probably reduced the actual payout to around 50 percent payout.

But, nevertheless, the thought would follow, even if the number were 65, that since the regulations provide you only have to pay out as much in 1968 as you paid out in the base years 1964, 1965, and 1966, that you could retain 35 percent.

However, as you will recall, Mr. Chairman, in my testimony I mentioned that the regulations limit investment in 1968 to 35 percent of the direct investment in the base years, and direct investment includes reinvested earnings, so in effect what can be retained in 1968, under the more harsh of the two provisions as they affect a company which has been paying out at a 65-percent rate, is not 35 percent, but, unfortunately, is 35 percent of 35 percent, or 12 percent. I assure you this is a very little understood situation. In fact, I must admit that there are many treasurers of large corporations that don't yet understand that this is what the regulations say.

Senator PERCY. Thank you.

Chairman PROXMIRE. Have you checked that with the Department of Commerce? Do they agree that it is 35 percent of 35 percent?

Mr. HAMILTON. Yes, sir; for a company that has been paying out 65 percent.

Chairman PROXMIRE. Ambassador Roth has arrived. I understand Mr. Widnall has one question and then we will hear from Ambassador Roth.

Congressman Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Hamilton, do you believe that the informal ad hoc approach currently being used by the Department of Commerce is the best procedure for covering specific exemptions?

Mr. HAMILTON. No, Mr. Widnall. I think it would be much preferable if time could still be given to developing a set of regulations which, on the one hand, recognized the target of a billion dollar improvement in 1968 over 1967 in the private sector, but, on the other hand, sought improvement in those areas where there would be less longrun damage or where it would at least be postponed the longest.

My own feeling is that with \$3.5 billion flowing out annually, it is about \$3 billion net of what is being borrowed abroad, that there probably is room in there for reduction of as much as \$1 billion in any 1 year, if indeed that is necessary. The corporations, at least, can control what goes abroad.

They also are, to some extent, free to determine what they borrow abroad. But, when you deal with the income side, the \$5 billion worth of income, this becomes much more difficult for any corporate head-