3. It does not appear to have been the intention of the Bell Mission that an exchange tax, if adopted, be applied to remittable profits from business financed from abroad, or to remittable proceeds from general investments by foreigners, or to remittances which would normally be made by foreign citizens employed in the Philippines.

4. No evidence is available that the United States Congress expressed a preference for an exchange tax over other measures suggested in the Bell Report for curtailment of imports.

5. It has not been confirmed that the United States Congress advocated or expressed views favoring the application of an exchange tax to profits or dividends from business investments or to remittances normally made by citizens of other countries employed in the Philippines.

6. Remittances for purposes expressed in "3" above should be readily distinguishable from remittances which represent flight of capital from the country.

7. The exchange tax operates to set up a penalty against American-owned business, investments from American sources, and American citizens employed in the Philippines.

8. Collections under the exchange tax have exceeded the goal which the authors had in mind and therefore the improved condition of the government finances would permit of an amendment to the exchange tax law as indicated.

Statement on Gold*

By the International Monetary Fund

THE Executive Board of the International Monetary Fund published the following statement on September 28:

"In June, 1947, the Fund issued a statement recommending to its members that they take effective action to prevent external transactions in gold at premium prices, because such transactions tend to undermine exchange stability and to impair monetary reserves. From time to time the Fund has reviewed its recommendations and the effectiveness of the action taken by its members.

"Despite the improvement in the payments positions of many members, sound gold and exchange policy of members continues to require that, to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. It is only as gold is held in official reserves that it can be used by the monetary authorities to maintain exchange rates and meet balance of payments needs.

"However, the Fund's continuous study of the situation in gold producing and consuming countries shows that their positions vary so widely as to make it impracticable to expect all members to take uniform measures in order to achieve the objectives of the premium gold statement. Accordingly, while the Fund reaffirms its belief in the economic principles involved and urges the members to support them, the Fund leaves to its members the practical operating decisions involved in their implementation, subject to the provisions of Article IV, Section 2 and other relevant articles of the Articles of Agreement of the International Monetary Fund.

"The Fund will continue to collect full information about gold transactions, will watch carefully developments in this field, and will be prepared in consultation with members to consider problems relating to exchange stability and any other problems which may arise."

In communicating this statement to the press, Mr. Rooth, the Managing Director, recalled the background of the original statement on premium gold transactions. In June, 1947, the initial par values of Fund members had only been recently agreed and were not yet tested under postwar conditions. Total dollar receipts from exports to the United States were running at a rate of about $5,500,000,000 a year. Monetary reserves outside the United States were declining rapidly. The payments difficulties that led to the Marshall plan were already visible. In these circumstances the Fund's statement helped to focus the attention of members on the dangers of an unrestricted flow of gold into hoards and was useful in limiting the supply of gold to premium markets. As world economic conditions improved in late 1949 and 1950, the flow of gold into hoards tended in fact to subside. Since the outbreak of the Korean war, however, it has again become larger.

Mr. Rooth pointed out that, in studying premium sales of gold and the drain on reserves caused by the absorption of gold into private hoards, the Fund has found that, to reduce materially the volume of gold transactions at premium prices, many members would have to institute much more rigorous controls than they now have. Moreover, the positions of different countries vary so widely that it would be impracticable to expect all members to take uniform measures to make the 1947 gold statement effective. The new statement, therefore, affirms the Fund's belief that to the maximum extent practicable gold should be held in official reserves rather than go into private hoards. The Fund urges its members to support this view. It is left to members, however, to decide the practical operating measures that they will take. Each member will be the judge of just how and to what extent it will implement this statement.

With the new statement, members are not bound to any particular procedure for handling their external transactions in gold. They are not limited to the sale of any specific amount of gold or to any particular proportion of their newly-mined production. Probably gold will now be sold by some countries that did not engage in such operations before. Other countries may continue to sell the same amounts that they did before. And some countries may even reduce the amounts they had previously been selling.

Mr. Rooth concluded with two observations on the Fund's experience with the gold statement of 1947: First, controls as such can have only a limited effect unless they are reinforced by appropriate economic policies. In a period of acute difficulty, the imposition of strong controls to prevent premium gold transactions can be justified. But as time goes on and means of evasion and avoidance are devised, the controls gradually lose their effectiveness. When this happens, the controls cannot be made to work by asking countries to impose more and more onerous restrictions.

Second, the only dependable way for getting rid of premium gold markets and private hoarding of gold is to create the economic conditions under which the private demand for gold will become negligible. In some countries, where gold is hoarded as a matter of tradition, the development of strong banks and sound financial institutions will encourage people to hold more of their savings in banks or securities or invest them in productive enterprises. In every country, the best way to reduce the demand for gold for private hoards is to follow budget and credit policies that will give people confidence in their currency. Nobody can have a good reason for hoarding gold or paying a premium for gold in a country in which the currency will remain stable in internal and external value.

*From the *International Financial News Survey*, October 5, 1951.

The U.S. Treasury announced on September 28 that it concurred in the Fund's statement, which accords with its own policy, and that it plans to continue in effect its existing gold practices and procedures.

At a press conference in London after the Fund's Annual Meeting, Mr. Gaitskell, the Chancellor of the Exchequer, stated that the British Government supported the view that gold producing countries should sell their gold exclusively to central banks and, therefore, at the respective parities of their currencies; but he implied that if there were any deviations from this rule they should be allowed on a non-discriminatory basis.

Sources: International Monetary Fund, Press Release No. 170, Washington, D. C., September 28, 1951; U.S. Treasury Department, Press Release, Washington, D. C., September 28, 1951: *The Economist*, London, England, September 29, 1951.

Shipping Conferences and Ocean Freight Rates

By the Associated Steamship Lines

ALTHOUGH the recent relatively moderate increase in the so-called "general cargo" ocean freight rate (this type of cargo constitutes only around 10% of the total cargo carried) has aroused some adverse comment and has even led to the suggestion that control of the ocean freight rates be placed under some Philippine Government agency, the Associated Steamship Lines welcomes the public interest which is being shown. The Association has nothing to conceal and if its nature and objectives become better known to the public, this could only redound to the mutual advantage.

Everyone understands how important foreign trade is in the national economy of the Philippines, and, therefore, the importance of the shipping which carries this trade. And, certainly, no one could believe that the shipping companies would take any action damaging to the trade on which its own existence depends.

What, by the way, is not so well understood is that the cost of ocean transportation with respect to many classes of cargo, represents only a very small proportion of the ultimate retail price to consumers. The public will have to look elsewhere for the cause of high prices. From the United States Pacific coast, the ocean transportation cost of a can of evaporated milk, for instance, figures out to only around 1/4 of one centavo for a tall can and 1/8 of one centavo for a small can!

The Associated Steamship Lines is a voluntary, nonprofit group of steamship companies engaged in the carrying trade between the Philippines and other countries, not including the countries of Europe, which has been operating since 1922, a few years after the close of the First World War.

The Association has been referred to as a "shipping conference", a type of operation which began to evolve after the transition of shipping from sail to steam. Such conferences now exist in all the leading maritime countries.

It should be understood that it was the advent of the steamship which for the first time made fast and regular service possible between the ports of the world, since steamships were not so dependent on wind and weather as were the sailing ships. Sailing ships were generally individually owned, sailed only when they had taken on full cargoes, which might take weeks or months, and the duration of their voyages could never be foretold with any accuracy.

With the regular service between ports provided by steamships, the speed alone of these ships greatly increased the amount of cargo carried within a stated period, and with the natural increase in the number of ships and the increase in the sailings from and to the various ports, a very destructive period of cut-throat competition set in among shipowners. If this had continued, all the weaker steamship companies would have been driven off the seas and the organization of a few great monopolies would automatically have been brought about.

Shipping conferences are sometimes accused of seeking to control and monopolize a trade, but actually the very opposite is the truth. Shipping companies were driven into these conferences to survive as such and prevent the formation of gigantic monopolies. Without the agreements brought about in the conferences, adequate and satisfactory service on the various shipping routes of the world by the various companies would not be possible.

Shipping conferences attempt to stabilize freight rates,—that is one of their objectives, and these rates must be adjusted from time to time, but this is not done arbitrarily but only after extended consultations between the shipping companies and at least all the more important shippers. Conferences can not simply levy what rates they like, not only because rates that are too high would destroy their own cargo-carrying business as the shippers would not be able to compete in the world markets, but because there are always shipping companies which are not members of such organizations as well as numerous tramp ship operators who offer competition. Furthermore, except in the matter of rates, the member shipping companies are still in competition among each other with respect to quality of service.

AN outstanding fact is that the shipping business is largely international. Every shipping company not engaged in merely a coast-wise trade, comes within the territorial jurisdiction of at least two nations, often many more as its ships ply between the ports of various countries. It is for this reason that governments, while they exercise their general regulatory powers over all shipping under their own jurisdiction and over foreign shipping when under their jurisdiction, they do not attempt to exercise direct control over ocean freight rates.

Suppose, for instance, that one government, in the interests of its merchants, fixed the maximum rate on a certain commodity at $20 a ton, and the government of another country, in the interests of its merchant marine, prescribed a minimum rate of $25. For a shipowner to accept cargo under those conflicting orders would manifestly be impossible. Treaties of friendship, commerce, and navigation entered into between nations generally provide that no attempt will be made by either government to fix ocean freight rates.

The foregoing should make it clear why the international shipping business has been permitted to work out what is largely a system of self-regulation through the conference system.

Yet simple as all this seems, the system has sometimes been under attack,—as in the Philippines only recently. Even the sea-wise British Government, as early as 1906,