



Rd

159 Minami, Ota-ku
Senzoku, Tokyo
January 3, 1951

Dear President Rhee: SUBJECT: SELLING PRICE FOR AID MATERIALS

The ECA letter advocating an increase in the prices at which aid materials are sold to the public by the Korean Government was quite interesting. As you may recall, this is the policy that I favored in early 1949 and which was put into effect despite ECA and State Department opposition.

At that time the Korean economy was approaching normalcy. I am not sufficiently conversant with the present situation to have a firm opinion as to the best policy now. However, it would appear that the war must have made it virtually impossible to collect most of the taxes so that the Government has no important sources of revenue except that from printing money and from selling aid supplies. Hence, aid materials should be sold at as high a price as possible without inflicting undue hardship on the populace. A clear separation should be made between people receiving charity and those able to pay for what they are given. When there is so much currency in circulation everyone cannot be without money, and those with money should pay.

However, I do not know whether setting the sales prices on the basis of world commodity prices converted at ₩4000/\$1 would give the right answer. This exchange rate is probably based, at least in part, on the black market rate which ~~is~~ is affected by ill-conceived restrictions on currency transactions. I would have more faith in whatever figure Dr. Chey estimated as the fair ₩/\$ exchange rate than in the black market rate.

Whatever the exchange rate of the ₩ and \$ may be at the present time I am certain that it could be improved and the Korean economy greatly benefitted if you arranged for the Americans to discontinue the use of Military Scrip in Korea and to permit the unrestricted circulation of

14-0052



genuine dollars within Korea. Personal expenditures of foreigners in Korea would then be an important source of foreign exchange income to the economy. As it is now, foreigners are made unhappy by the Military Scrip and currency restrictions, their expenditures in Korea are decreased, and most of the Koreans who do supply goods and services to them can get only cigarettes and candy bars with the M.P.O.'s that they earn. Also, some day the Korean people will be robbed of millions of dollars, just as they were on April 26, 1948, by a call and conversion of outstanding military scrip, unless steps are taken soon to eliminate the use of scrip in Korea.

This is a matter on which I feel very strongly. There are others who are equally emphatic on the other side. However, the experience of the past five years in Korea clearly proves the fallacy of the theories back of the use of Military Scrip. The fact that the system has^{apparently} worked with reasonable success in Japan is based entirely on the fact that enforcement of currency regulations in Japan has been so lax that they had only negligible effect on the economy.

Sincerely,


Harold