

July 18, 1955

Letter, Harold Lady to Syngman Rhee

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Summary:

Lady proposes that Korea should have a two-way exchange rate.

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Subject: Two-way exchange rate (convertible currency)

A two-way exchange rate is one at which foreign currency will be both bought and sold by the central bank (Bank of Korea). The bank will, of course, charge a small commission to compensate for its trouble and to discourage people from changing their currency without good reason.

A one-way exchange rate, which is what Korea has had for many years, is a rate at which the central bank will sell domestic currency while refusing to buy back its own currency at any price. Such a rate is meaningless because a black market always springs up to take care of the conversion of domestic currency into foreign currency which the central bank of a country with a one-way exchange rate refuses to handle.

For economic health, Korea should have a two-way exchange rate so that the people may change their Hwan into dollars or their dollars into Hwan legally. The fact that they may not, under present regulations, change Hwan into dollars except in the UNC auctions keeps the Hwan from having any real value on the international market.

My recommendation is that the Hwan be made a convertible currency used for both buying and selling dollars at approximately the same rate, just as the Swiss Franc and other sound currency is. I believe this can be done if there is an exchange stabilization fund put at the disposal of experts in the Bank of Korea and the Korean Government does not permit its currency in circulation to increase more rapidly than domestic production increases, and that this can be accomplished if Government stocks of rice are sold in large quantities now when there is a shortage of rice, and bank loans are made only for productive purposes.

Under this plan, moderate restrictions on currency, exports and imports will be necessary, but the Korean people will be given much more economic freedom than present regulations permit.

Harold Wendell Lady
Harold Wendell Lady

It is all increase
\$ price is doubled up once in every
2 or 3 months.