

'Don't Make Korea Another China'

CHARLES EDMUNDSON

IF JOHN B. HOLLISTER knows what he is talking about, the Republic of Korea should be the prime example of American success in dispensing foreign aid. Mr. Hollister, retiring as director of the International Cooperation Administration, has left as his parting gift a directive that foreign aid is to be used as much as possible to "encourage the development of private sectors of their [the recipients'] economies" and "normally not . . . to finance publicly owned industrial and extractive enterprises. . . ." In Korea the ICA has consistently favored private enterprise in parceling out U.S. aid funds and has also done its best to persuade the Korean government to sell to private investors the approximately \$1 billion worth of property that was expropriated from the Japanese. Indeed, the ICA has gone to unusual lengths in its eagerness to encourage private initiative in Korea.

Until about five months ago, for example, there was a public lottery every few days in the city of Seoul, a lottery in which the winners often got the equivalent of several million dollars and the losers were always sure of getting their money back. In a drab office of the Korean Ministry of Finance, a few blocks down the street from the fire-gutted Capitol, a handful of officials and clerks and a score or two of hopeful ticket holders would gather to watch an office boy, his black eyes flashing with excitement, reach into a well-churned wicker basket and draw out the winning numbers. This unusual method of supporting private initiative was conducted under the joint auspices of the ICA and the Republic of Korea.

The prize in this grand raffle was the right to purchase a stated amount of a certain commodity—wool, newsprint, rayon yarn—that had been imported with U.S. aid funds. The lucky winner paid only the American wholesale price plus

freight charges. Furthermore, when used to pay for aid goods the local currency was valued at the official rate of five hundred Korean hwan to the dollar, even though the real value of the dollar is closer to a thousand hwan. It's easy to see how the ICA's application of the free-enterprise system in Korea enabled a few fortunate entrepreneurs to turn a sizable and instantaneous profit with no risks to themselves whatsoever.

The only losers were the Korean people and the ICA. The money brought in by the sale of U.S. aid goods goes into Korean economic-recovery and defense funds. Because of the artificial exchange rate and the absence of competitive bidding, tens of millions of dollars were being diverted every year from the constructive purposes they might have served into nothing more than quick profits for lucky gamblers.

But the loss to the aid and defense funds was by no means the only loss. The businessmen of Korea were exerting their best efforts and tying up much of their venture capital in a game of chance. Frequently as much as one-seventh of the total Korean money in circulation was invested in the lottery. Peasant women in remote villages pooled their savings to get into the raffle, and there was an occasional suicide when a go-between made off with the money.

THE LOTTERY system of disposing of aid goods was abolished in May, after a witness described it before the U.S. Senate Special Committee on Foreign Aid. Under the new system the goods go to the buyer who, in addition to paying the stated price, will buy the largest percentage of Republic of Korea bonds. (Only the very rich can win at this new game; peasant women can return to their fields undistracted by dreams of sudden wealth.) The



Rhee

exaggerated profits are still there for anyone who can get his hands on American aid goods, but the inflationary effect is removed, or at least postponed until the bonds are redeemed.

Other millions of dollars' worth of aid goods continue to be apportioned directly to particular manufacturers or processors—"end users" in the official jargon—and for these, too, the windfall profit is still there. The end user enjoys an immediate profit of up to a hundred per cent on the raw material as soon as he acquires it, and of course he adds the maximum possible markup onto the finished goods. Even though prevailing wages of about twenty-five dollars a month keep processing charges very low, retail prices in Korea are frequently three times what they are in the United States.

For example, the United States supplied Korea with \$4 million worth of raw sugar during the last fiscal year. End-user allocations gave all of it to four sugar-refining plants. Three of these belong to the Che-Il Sugar Company, which also owns a large interest in the fourth. Che-Il's sugar doubles in value to \$8 million as soon as it is received

from the ICA. A one hundred per cent markup makes it "worth" \$16 million by the time it reaches the consumer as refined sugar or candy. Somebody's making a lot of money, but there is a question how much actual benefit this American aid is providing for the people of Korea. It is this sort of thing that has created profiteers who can, and do, pay \$10,000 or more for the cheapest new Ford, Chevrolet, or Plymouth—and then pay \$1,500 more in import duties. Mr. Hollister's "private sectors" of the economy are certainly being encouraged.

Why shouldn't aid goods be auctioned off for whatever they will bring, with the whole proceeds going into the funds devoted to reconstruction and defense? One reason this course has not been adopted is that the auctions would be a continuing demonstration that the value of the hwan is not five hundred to the dollar but much less than that. President Syngman Rhee, who fought stubbornly against devaluating the hwan even to 500 to 1, bitterly opposes any procedure that would suggest it ought to be devalued still further. This is why the Koreans favored the lottery system in the first place. President Rhee cannot understand that in an economy of acute scarcity with rigidly limited imports there is bound to be a gulf between the official value of the hwan and its free-market rate, and that recognition of this fact would be no reflection on the honor of Korea.

Of course, if the ICA officials in Korea were to tell President Rhee that aid goods must be sold in such a way as to produce the maximum amount for reconstruction and defense, he would have to give in. But for a variety of reasons, the ICA has preferred not to force the issue.

Billions for What?

Since the Korean War ended four years ago, more than \$1 billion of U.S. economic aid (and about twice that much military aid) has been allocated for the southern half of the Korean peninsula. In this period American aid to Korea has been greater than to any other country in the world.

There have been noteworthy accomplishments. The Japanese-built



railroad and telephone and telegraph systems have been restored. The textile industry is running full tilt—or would do so if there were enough orders. Three new steam power plants have been built to supply 100,000 kilowatts of electric power—a minor but important fraction of the power lost when the Communists reneged on their agreement to supply hydroelectric power from North Korea. A number of small prewar plants making diverse products have started up again. Business and institutional building is booming. Health and education facilities are being made available to more Koreans than ever before.

YET FUNDAMENTALLY the Korean economy is not sound, and the accomplishments are unimpressive compared with the amount of aid extended.

The rate of inflation for 1954, 1955, and 1956 respectively was fifty, twenty-five, and twenty per cent. Inflation in the first half of 1957 was eleven per cent on wholesale prices and nearly six per cent on the general price index.

There are those who think that this inflation is actually encouraged by a clique of wealthy Koreans who see in it a means of having industrial plants built for them under the terms of U.S. aid at a fraction of their real value. Inflation already has reduced the debt owed on plants bought three and a half years ago to less than forty-five per cent of the original loan. Representatives of some Korean companies privately admit that they have no intention of paying off their loans until inflation

has reduced them to a negligible sum.

Last November Arthur I. Bloomfield, economist for the Federal Reserve Bank of New York, surveyed the Korean scene for the ICA. He reported that several millions of dollars and many billions of hwan had been lent indiscriminately on the basis of political recommendations and have never been repaid, even in part.

The Poor Get Poorer

President Rhee, now eighty-three, entertains somewhat grandiose ideas about industrialization, and this has led him to neglect the needs of agriculture. The plight of the sixty-five per cent of the population living on farms has grown increasingly worse since the departure of the Japanese. The Japanese-owned land was distributed among the Koreans, but the progressive Japanese system of fertilizer marketing and agricultural credit was not preserved.

Each year since the Korean War, the ICA has presented Korea with some \$50 million worth of fertilizer. Last year a team of ICA consultants conducted a survey and published a sixty-two-page pamphlet telling what happens to the fertilizer.

The fertilizer is given to the Korean government, which sells it to Korean farmers for hwan, which are supposed to go into economic-aid and defense funds. The report reveals that less than thirteen per cent of the local currency owed these funds was actually paid in. Most of the other eighty-seven per cent went into political slush funds or was lost through graft.

Meanwhile, the Korean peasant paid for his fertilizer not the reasonable price agreed to by the American authorities and the Korean government of \$3.72 per hundred-pound bag but an average of two or two and a half times that much. The tired Korean soil will not produce without fertilizer, but the farmers can't afford to improve their soil at such prices. Again, ICA officials in Korea could easily turn on enough pressure to help correct the situation, but apparently they have not felt that they would have the necessary support in Washington.

And so the Korean farmer's situation has become more and

more desperate. In a dispatch from Seoul on May 11, the *Christian Science Monitor* reported:

"The Ministry of Health and Social Welfare has estimated that 3,500,000 farmers will be without food before the fall harvest because of crop failures. Many farmers are already existing on bark, grain husks and grass roots. Economic observers here soberly warn that there is a limit to the hardships a people can bear."

UNTIL RECENTLY the Korean National Assembly resisted American aid to set up a sound farm-credit system and to make a modest start toward farm co-operatives. Three times the ICA brought in John L. Cooper, the specialist who helped set up the excellent farm credit system of the Philippine Republic, and three times he went back to Manila from Seoul without having achieved any tangible results. Bills were introduced in the Assembly, only to be blocked by a powerful loan-shark lobby.

Late last spring, however, the resistance was finally overcome and legislation was passed under which the Ministry of Agriculture will lend the equivalent of \$3,945,000 from local-currency aid funds to farmers. Loans will be made to enable farmers to hold their crops beyond the low-price period that always coincides with the Korean harvest. Other loans will be made for the purchase of tools, pesticides, and seed for green manure crops. Nearly \$1.4 million will be used to help farm co-operatives get under way.

American surplus farm products, chiefly wheat and cotton, are being given to Korea at the rate of about \$100 million worth a year. Rice or flour is set aside for free distribution to the extremely poor and the jobless. Until the fall of 1955, distribution was made by the U.S. Army's Korean Civil Assistance Command; then it was turned over to the Korean government. Although KCAC got an estimated eighty per cent of its supplies into the hands of the needy, the Korean government's score has been estimated by ICA officials at as low as fifty per cent.

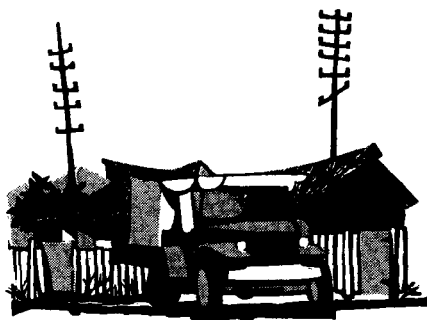
Not all the complaints about how ICA funds are allocated or spent have come from the Americans. There

have been objections (although by no means so many) from the Koreans. President Rhee has never been reluctant to complain about what he considers American errors.

The EBASCO Fiasco

A year and a half ago the ICA put strong pressure on the Koreans to accept a contract for supervisory engineering with the Electric Bond & Share Company and associated firms. The Koreans resisted. When Drew Pearson published a column charging that the contract, worth several million dollars, was being given to EBASCO and its associates as a sop for losing the Dixon-Yates power-plant contract at West Memphis, Arkansas, Korean resistance stiffened.

Representatives of EBASCO came to Korea to press for the contract. They emphasized the one per cent fee the group would get "for the development of authorized projects"—that is, explorations to decide what industrial projects were feasible. Herbert Harris, comptroller for the ICA in Korea and a former Army officer, interviewed the EBASCO representatives with a shorthand secretary present. Harris found that total fees for EBASCO on projects they supervised would actually be about 6.5 per cent and that a four per cent fee to some



other firm for "engineering design would come on top of that." One EBASCO representative told Harris that his firm would receive a sort of management fee of \$7,700 (before taxes) for each \$10,000-a-year man employed in carrying out its contract. A transcript of this conference leaked to the Koreans, and that was the last of EBASCO in Korea.

Wrangling over the EBASCO bid delayed critically needed engineering supervision on ICA work in Ko-

rea by nearly two years. The contract has now gone to a Detroit firm.

The Korean government and the ICA agreed, about three years ago, on the construction of a nitrogen fertilizer plant at Chungju, seventy-five miles southeast of Seoul, at an estimated cost of \$21 million. The plant, begun in 1955, is now about half finished and the final cost, according to the Korean embassy in Washington and the ICA, will be not less than \$35 million plus the equivalent of \$5.5 million more in hwan.

This drastic increase was made possible by the form of the contract. This calls for the construction firm, the McGraw Hydro-Carbon Company, to be paid for the cost of building the plant—whatever that turns out to be—plus a fixed fee for its services. This experience has given the Koreans the same distaste that has been expressed by U.S. Congressional investigating committees for cost-plus-fixed-fee contracts. The Koreans have given the job of building a second fertilizer plant to a West German construction firm—at a specified sum.

Another China?

Why can't the ICA call a halt to the irregularities and corruption that dissipate so much of the U.S. aid money put up by American taxpayers? To begin with, the ICA in Korea is not its own master. The channel of authority runs not only to the State Department and the White House but also to the U.S. Army officer who bears the imposing title of United Nations Commander in Korea. (The ICA administrator in Korea, William E. Warne, is known as the United Nations Command Economic Coordinator for Korea.) This makes for divided authority. The Army has always opposed any action that might conceivably displease the leaders of Korea's army.

The State Department naturally opposes any action that would affront Korean sovereignty. The term "sovereignty" in the case of a nation headed by a chief executive as sensitive and self-willed as Syngman Rhee is easily stretched to include the right to tolerate the misuse of U.S. aid funds.

President Rhee, furthermore, is a shrewd propagandist with powerful

friends in both houses of Congress and among key newspapers and news magazines. In failing to report many essential facts about the aid program in Korea, the American press must bear some of the blame for the situation as it now exists. For example, certain American newspapers and magazines whose reporters saw copies of the ICA report scoring irregularities in the distribution of fertilizer did not print the story.

On occasion the ICA in Korea has refused to go along with the Korean government on decisions involving mismanagement of projects, only to be overruled by Washington. One notable example was the location of the fertilizer plant at Chungju. This site was chosen under pressure from interested private parties even though there is poor access either to ocean ports or to coal mines from which fuel must come to operate the plant. Because Washington failed to support its ICA chief in Korea, a rail connection must now be built to the Hambak coal fields. The bill for this little luxury will be \$12 million.

THE WISE and honest control of aid funds is certainly difficult to achieve. But failure to achieve it is expensive indeed. It saps the morale of the Korean people and lessens the value of Korea as a military ally. If we learned anything from our experience with Chiang Kai-shek on the mainland of China, it must be that an army is no better than the civilian morale behind it.

Not long ago the *Korean Times*, the independent English-language newspaper in Seoul, reported the desertion rate in the Korean Army as ten per cent. Americans visiting Korea report that across highways leading into and out of ROK army camps there are banners pleading with soldiers not to go AWOL.

President Rhee himself, who recently appeared in a filmed interview on a CBS television show called "Korea, the Forgotten Front," concluded his eloquent appeal to the American people with the admonition "Remember, don't make Korea another China." Of course he wasn't talking specifically about the need for reform in the Korean aid program, but there's a good deal more in what he said than he may have imagined.

The Wonderful Buncombe Machine

ERIC SEVAREID

I GUESS the reason I'm revealing the whole thing now is that I just don't have the will power to keep a secret without help, and now all help is fled. I mean the other guys in it aren't in it any more. Joe died this year and Ed went into public relations, and they were the last, except me. So I may as well tell about our Invention, which didn't revolutionize Washington reporting as we thought it would mostly because some of the guys' publishers kept accusing them of trying to be pundits in their news copy and they almost got fired. So they had to soft-pedal their use of It.

We call it It now. It never did have a name except that when we first had it built—oh, a couple of administrations ago—it was a simple truth machine and we called it that. You know, a straight remote-control electronic adaptation of the lie-detector principle that just wrote "True" or "False" when a government official made any statement at a news conference.

Well, you know how these things go—the problem got more complicated as administrations came and went. When Ike came in, we had to have It translate, too. Then we found that even when his language was put into English we had to know what he *meant*. Things developed from there, with the help of some experts in cybernetics, telepathy, lip reading, and psychoanalysis. It not only reported the Official's *unspoken* thoughts, but because It was by then fantastically sensitive and was always stored in the recording room at the broadcasting station, It suddenly began *commenting* on what the Official said, meant, and thought. Of course we've always thrown the comments out before using the stuff. We would have, anyway, because It was obviously biased. Sometimes It sounded like a Creeping Socialist, sometimes like a Taft-wing Republican, sometimes

like Arthur Larson. I mean, if you can imagine an Arthur Larson who swears.

I USED It last at John Foster Dulles's news conference of September 10, and, what the hell, I may as well copy off some of the stuff from the tape and show you how It works.

Q.: Mr. Secretary, what considerations make the Syrian situation such a serious one . . . ?

DULLES: I think you have to go back to the situation which was portrayed by President Eisenhower in his address to the Congress of last January . . .

(**IT:** Ghostwriting Rule No. 1 is involved here—never claim authorship of your own stuff, especially when written for the President.)

DULLES: Now, the activities of the Soviet Union since then have indicated that they were persisting in their intentions . . .

(**IT, THOUGHT-READING:** Oops, I'm admitting the Eisenhower Doctrine hasn't worked, but they won't catch on to that till maybe next week.)

Q.: Mr. Secretary, there has been considerable opinion . . . that a condominium of some sort be established, including the great powers and Russia . . .

DULLES: . . . I have not heard of this suggestion that you allude to, of a so-called condominium of the great powers in the Middle East. . .

(**IT, THOUGHT-READING:** Thank goodness for all my practice answering sloppy committee questions. What this guy means is neutralization with a joint program of aid—but he said "condominium," so that lets me out of *that* one.)

Q.: Mr. Secretary, you described Mr. Henderson's mission as trouble-shooting or that this is an emergency and yet you say that actually the action we take [arms to Jordan] is not an emergency action.

DULLES: I don't think that I ever