

Occupational Costs Incurred by the United States Forces in Korea and their Impact on the Korean Economy during the U.S. Military Occupation Period*

Kim Jeom Sook

The present study is the first to investigate the costs of occupation incurred by U.S. forces in South Korea (henceforth referred to as Korea) and their effects on the Korean economy from the time of liberation to June 30, 1948. These costs are defined as the means by which the U.S. forces supported and maintained themselves at the expense of the Korean economy. Accordingly, during the U.S. fiscal years 1946, 1947, and 1948, advances from the Bank of Joseon to U.S. forces amounted to about 10 billion Won in total. However, U.S. forces withdrew the funds without any clear plan for reimbursement, suggesting that the U.S. treated Korea as an occupied enemy territory, despite designating it a liberated country. Furthermore, occupational costs and normal governmental costs were mixed up. In mid 1947, the U.S. Secretary of State moved to implement the pay-as-you-go policy in Korea. However, although the U.S. Congress sanctioned funds for implementation in the fiscal year 1948, the process was bogged down when parties concerned could not agree on the establishment of an exchange rate. In the end, the SWNCC (State-War-Navy Coordinate Committee) opted for the 50 Won to 1 USD rate. Moreover, it decreed that payments for construction or improvements, which were undertaken for the benefit of U.S. forces, were excluded from the pay-as-you-go scheme. On June 30, 1948, the pay-as-you-go settlement was finally signed and the U.S. Government promptly dispatched 35,210,021.20 USD to USAMGIK (United States Military Government in Korea) for the payment of advances granted to USAFIK (United States Army Forces in Korea). By examining the relationship between these advances to USAFIK and the expansion of bank credit, it is concluded that, along with advances to

*This work was supported by a Korea Research Foundation Grant funded by the Korean Government (KRF-2008-A00080).

Kim Jeom Sook (jeomsk@mest.go.kr) is a Research Officer at the National Institute of Korean History

Seoul Journal of Korean Studies 24, no. 2 (December 2011): 265-293.

© 2011 Kyujanggak Institute for Korean Studies

meet governmental deficit and advances for rice collection programs, the excess withdrawals made by USAFIK for occupation costs cumulatively increased until 30 June 1948 and accelerated inflation.

Keywords: Occupation costs, USAFIK, USAMGIK, Inflation, Advances to USAFIK, Pay-as-you-go policy

Introduction

This article is inspired by curiosity concerning the serious inflation which occurred in Korea under USAMGIK (United States Military Government in Korea). While researching my doctoral dissertation, I found several documents in the National Archives at College Park, MD (NACP) that cited Won advances given to USAFIK (United States Army Forces in Korea) as one of the main causes of this phenomenon. It was very exciting to read these papers because outside of them there had been no mention of the relationship between Won advances and inflation during this particular period.

Expenditures made by U.S. forces, paid for in Korean Won, were called “occupational costs.” However, there is in fact a wide array of usages for this term. In a broad sense, it refers to the entirety of expenses incurred directly or indirectly by the Department of the Army through the discharge of responsibilities in occupied areas from VE or VJ-Day onward.¹ Additionally, the occupational costs of the Department of the Air Force, as well as its predecessor organization, the United States Army Air Force, expenditures incurred for procuring civilian supplies, and funds used for the support of U.S. forces in Korea are all included under this definition as well.

However, in a narrower sense, the term occupational costs refers only to those funds that supported and maintained U.S. forces, U.S. government agencies, and agencies operating under the Commanding General (CG) of USAFIK, including both official and quasi-official organizations. These particular occupational costs are classified in the following main categories: 1) Dollar drain on the U.S. economy caused by expenditures of U.S. appropriated funds (External Occupational Costs), 2) Miscellaneous drain on the U.S. economy, which means a dissipation of U.S. assets acquired by outside monetary means, such as through occupation, and 3) Drain on an occupied area economy

1. Occupation cost Accounting Procedure for occupied Areas (Draft #2). 3 August 1948, 1, Box 114; Subject File, 1947-51, Entry 1115 (Entry 1115); Special Accounts Branch (SA); Finance Branch (FB); Office of the Comptroller (Comptroller); SCAP; Records of Allied Operational and Occupation Headquarters, World War II, Record Group 331 (RG 331); NACP.

caused by procurement of indigenous resources to support occupation (Internal Occupational Costs).² Following this method of classification, in this article, the term “occupational costs” indicates internal occupational costs only, unless specifically stated otherwise.

Up until now, researchers have paid scant attention to U.S. occupational costs in Korea. Indeed, even when occupational costs and the pay-as-you-go policy are mentioned, they are typically depicted merely as the principle parts of the U.S. financial policy toward Korea, without any in-depth explanation.³ Moreover, it is sometimes erroneously assumed that the pay-as-you-go policy was implemented from the outset of occupation.

Perhaps the main reason for the scarcity of research on this subject is the perceived lack of sufficient historical materials. However, documents concerning the period before the implementation of the pay-as-you-go policy were made public on February 20, 1949, and only after that did all materials originating from the Department of the Army headquarters regarding the “pay-as-you-go” policy in Korea and the exchange rate arrangements between the U.S. Dollar and Won become declassified.⁴ Nevertheless, scholars have generally paid little attention to this matter, even though it is widely acknowledged that Korea is a peculiar case in the U.S.’s post World War II (WWII) occupation policy.⁵ Rather, they have mainly focused on the Korean War and its aftermath, while what little research on the USAFIK’s occupation that does exist has merely attempted to describe the plans and procedures to deploy U.S. forces and to establish the

2. R. M. Levy, Adjutant General, to Chief, Civil Affairs Division, Special Staff, United States Army (Subject: Costs Associated with the Occupation—Japan, Korea and the Ryukyu Islands), 4 October 1947, 2-3, Box 106; Entry 1115; SA; FB; Comptroller: SCAP; RG 331; NACP.

“Accounting Certain Financial Aspects of the Occupation (A.C.F.A.O.),” July 3, 1947, 2, Box 108; Entry 1115; SA; FB; Comptroller: SCAP; RG 331; NACP

3. Pang Seonju and Choe Yeonghui, “Hanbando e isseoseo ui Mi-So gunjeong ui bigyo” [Comparison of the military governments of the United States and the Soviet Union on the Korean peninsula], in *Migumjeonggi Hanguk ui sahoe byeondong gwa sahoesa* [Social changes and social history in South Korea during the American Military Government Era] (Chuncheon: Hallim taehakgyo chulpanbu, 1999), 33-42.

4. Lt. Col Feyerisen, Office of the Army Comptroller, to CINCFE, 7 February 1949, Box 413; General Correspondence, 1942-64, Korea, Entry 207 (Entry 207); Records of the Office of the Chief of Foreign Financial Affairs (Foreign Financial Affairs); Records of the Office of the Comptroller of the Army (Comptroller of the Army); Records of the Army Staff, 1903-96, Record Group 319 (RG 319); NACP.

5. Charles K. Armstrong, “The Cultural Cold War in Korea, 1945-1950,” *Journal of Asian Studies* 62, no. 1 (Feb., 2003): 73; Nam Jeongok, *Han-Mi gunsu gwangyesa* [History of the military relationship between the United States and Korea] (Seoul: Gukbangbu gunsu pyeonchan yeonguso, 2002), 205.

military government in Korea.⁶ In other words, research has largely ignored the financial policies relating to the occupational costs of, as well as administrative problems encountered by USAFIK.

In light of this situation, two things will be examined in this article. First, overviews of both U.S. occupational costs, especially focusing on the procurement of local currency for use by U.S. forces, and the pay-as-you-go settlement between the government of the U.S. and USAMGIK will be provided. Here, it is argued that U.S. policy regarding occupational costs provides a clear example of how the U.S., despite labeling Korea a “liberated country,”⁷ actually treated Korea as an occupied enemy territory, at least before the pay-as-go-go policy was finally implemented.

Second, this study will take a closer look at the U.S. occupational costs’ impact on the Korean economy. In sum, U.S. forces obtained local currency from the Bank of Joseon as necessary without a negotiated payment plan. Accordingly, the amount of notes in circulation increased and, as a result, the lives of Korean people were inevitably affected. For this reason, I will examine the relationship between the advances given to the U.S. forces for occupational purposes and inflation in Korea. As will become clear, although during the occupation period USAMGIK declared that its goal was to achieve economic stabilization in Korea, and thus attempted to control inflation and reduce the amount of currency in circulation, one can assert that USAMGIK economic policies actually caused and accelerated inflation.⁸

USAFIK’s Currency Plan and the Financial Problems relating to Occupational Costs

In order to ensure the proper function, support and maintainance of U.S.

6. Refer to Historical Division of USAFIK, *History of the United States Armed Forces in Korea* which was unpublished until 1988. This book was published by Dolbegae in Seoul. Relating to research trends on the history of the United States Armed Forces in Korea, refer to Nam Jeongok, Preface to *Han-Mi gunsa gwangyesa*.

7. Liberated territory was defined as “a specific form of occupied territory” and as “allied or domestic territory which has been recovered by action of an armed occupying force from enemy occupation or from rebels treated as belligerents” (Department of the Army and Navy. *United States Army and Navy Manual of Civil Affairs Military Government*. (FM 27-5) (Washington D.C.: U.S. Government Printing Office, 1947), 3).

8. Kim Jeom Sook, “Migunjeonggi gyeongje jeongchaek ui yeongu hyeonhwang gwa gwaje” [Research trends on the economic policy during the USAMGIK Period], *Yeoksa wa hyeonsil* 16 (1995), 299.

occupying forces, as well as other associated quasi-official organizations, their individual members and other organizations operating under the CG, goods, services, and facilities were procured from the Korean economy.⁹ The provision allowing for how occupying forces were to legally carry out these actions was originally found in paragraph 52 of the Annex to the Hague Convention No. IV of October 18, 1907. This provision was included in the *Rules of Land Warfare* (FM 27-10).¹⁰ According to FM 27-10, occupying forces should not forcibly demand goods and services except for occupational necessities. Furthermore, such requisitions and services should be demanded only on the authority of the commander of the occupying forces and should be paid for in cash as soon as possible. In the event that payment cannot be made right away, the commander should give receipts and make payments as soon as possible.

These concepts provided the basis for the U.S. principle financial policy toward liberated countries during or after World War II, otherwise known as the “pay-as-you-go policy,” which prescribed that U.S. armed forces occupying liberated countries should not subsist at the expense of occupied territories, but pay their way from funds provided by U. S. Congress.¹¹

However, this policy was not implemented in all countries where U.S. forces were stationed overseas directly after the war. For example, the U. S. government paid its own way in liberated countries such as France, Belgium, the Netherlands, Denmark, Norway and Czechoslovakia, but did not follow the pay-as-you-go policy from the outset of its military occupation in Austria or Korea.¹² The secretary of State claimed that the pay-as-you-go policy was not immediately implemented in Austria because of its “questionable status.” That is, prior to WWII, Austria was recognized as a possession of Germany. Thus, its legal status as an occupied former enemy territory did not change until an independent government in Austria was established.¹³ As a result, U.S. forces stationed in Austria paid for necessities at the expense of the Austrian economy. In other words, the U.S. Armed Forces treated Austria as an occupied enemy

9. Report on Stewardship of Foreign Currencies by U.S. Armed Forces (Report on Foreign Currencies), 27 May 1947, 9-10 [handwritten]; Box 9; Entry A1 108 [formerly Entry A1 74E]; Security Classified Correspondence, compiled 02/1946-07 (SCC, 1946-1947); Records of the office of the Secretary of War, 1791-1948, Record Group 107 (RG 107); NACP.

10. War Department. *Rules of Land Warfare* (FM 27-10) (Washington: GPO, 1947), 84.

11. G. Marshall, Secretary of State, to Robert P. Patterson, Secretary of War, May 20, 1947, 1, Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

12. “Report on Foreign Currencies,” 23-28 [handwritten]; Box 9; Entry A1 108; SCC, 1946-1947; RG 107; NACP.

13. G. Marshall, Secretary of State, to Robert P. Patterson, Secretary of War, May 20, 1947, 1, Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

territory.

One can draw a parallel between the Austrian case and the Korean one. As inscribed in SWNCC 176/8, which was the basic initial directive for Korea, South Korea's legal status was that of "an enemy territory." However, in practice the U.S. policy was to treat Korea "as a liberated country to the maximum extent."¹⁴ Due to this muddled conception of Korea's status, controversy regarding the legal authority for paying occupation costs often surfaced.¹⁵ Since there was no provision in *FM 27-10* describing the currencies to be used by occupying forces in their territories, the U.S. had three choices: 1) To use U.S. Dollars, 2) To use the local currency of the occupied territory, or 3) to use military currency.

Many countries in which U.S. occupation forces were deployed during and after World War II refused to allow their banking institutions to exchange Dollars simply because of the difficulty in transferring funds or credits between nations.¹⁶ It was therefore decided around April 1945 that local currencies, in addition to distributed military currencies, would be used in overseas areas in which U.S. forces were stationed. In order to obtain local currencies, there were several methods employed by U.S. forces: 1) Purchase them from the U.S. Treasury, which had acquired foreign currencies as a result of land lease or currency stabilization activities; 2) Purchase them directly with U.S. Dollars; 3) Have them advanced from allied and liberated governments, though subject to arrangement for payment in U.S. Dollars; 4) Acquire Allied Military currencies from the Combined Headquarters of the Allied Military Commander; and 5) Through official transactions within military enclaves.¹⁷

Initially, USAFIK was commanded to obtain Korean Won by means of the third method, though there was no mention of any arrangement for payment in

14. "Basic Initial Directive for Civil Affairs in Korea," October 4, 1945, 6 (Basic Initial Directive); Box 51; Records Regarding the Okinawa Campaign, United States Military Government in Korea, US-USSR Relations in Korea, and Korean Political Affairs, 1945-1947 (Entry A1 34374); Records of U.S. Theaters of World War II, 1939-1948 (RG 332); NACP. [Relocated to Entry A1 1256; Records of General Headquarters, Far East Command, Supreme Commander Allied Powers, and United Nations command, 1945-1960, Record Group 554 (RG 554)].

15. JA, to General Brown (JA to Brown), 31 December 1947, Box 72; Records of United States Army Force in Korea and Lt. Gen. John R. Hodge Official File, 1943-1948, Entry 11070 (Entry 11070); Records of the United States Army Commands, Record Group 338 (RG 338); NACP [Relocate to Box 24; General correspondence Files, compiled 04/1944 - 06/1949, Entry A1 1378 (Entry A1 1378); RG 554; NACP].

16. If there was a government in the occupied territory, the issue of sovereignty would be considered together ("Report on Foreign Currencies," 2-15 [handwritten]; Box 9; Entry A1 108; SCC, 1946-1947; RG 107; NACP).

17. Ibid., 23 [handwritten].

U.S. Dollars for expenditures. The currency policy was, however, changed immediately by instructions from Washington dated August 28, 1945 as USAFIK was ordered to use local currency together with supplemental military currency.¹⁸ At that time, the so-called Type “A” Yen Currency (Type “A”) had been designed in order to facilitate accounting and currency control among different parts of the former Japanese empire and was stored at Pearl Harbor. Moreover, On September 7, 1945, General MacArthur, the Allied Military Commander in the Pacific Theater, declared the Type “A” note legal tender in Korea, interchangeable with Won currency issued by the Bank of Joseon at face value.¹⁹ Accordingly, the XXIVth Corps moved to Korea employing this currency plan, and a few Type “A” notes were actually circulated.

Originally, the military currency was issued for two reasons.²⁰ First, it was utilized to maintain the stability of the U.S. Dollar and to prevent inflation. Second, it was distributed to cope with the shortage of currency caused by local inhabitants hoarding money. Furthermore, although military currencies issued overseas were typically non-transferrable and circulated only in U.S. forces enclaves for restricted use, Type “A” was unique in that it was considered legal tender in Korea.

However, on September 16, 1945, Archibald V. Arnold, the incumbent Military Governor, ordered the discontinuance of military currency in order to prevent inflation and assure economic stability.²¹ Indeed, even though the SWNCC 176/8 provision insisting Type “A” notes be considered together with Korean Won notes was transferred to McArthur on October 17, 1945,²² the governor still insisted on halting the distribution of military currency in Korea.²³

According to *History of the U.S. Armed Forces in Korea*, which was written

18. Historical Division of the USAFIK, *History of the United States Armed Forces in Korea* (Seoul: Dolbegae, 1988), 62-63.

19. “The Proclamation No. 1, No. 2, and No. 3 by General Headquarters, United States Army Forces, Pacific,” *Daehan Maeil sinbo* (September 11, 1945).

20. Pak Junseop. “Gunpyo ui iron gwa silje” [The theory and practice of military currency], *Sin cheonji* [New World] 1, no. 4 (Seoul: Seoul Sinmunsa, 1946), 26.

21. “Arnold: advanced military currency will not be issued,” *Daehan Maeil sinbo* (September 16, 1945).

22. SWNCC. “Basic Initial Directive to the Commander in Chief, U.S. Army Forces, Pacific, for the Administration of Civil Affairs in Those Areas of Korea Occupied By U.S. Forces (SWNCC 176/8)” in Department of State, *Foreign Relations of the United States, 1945, Volume VI* (Washington D.C.: GPO, 1969), 1073-1091.

23. “Lerch made a statement pertinent to military currency and US-USSR Commission,” *Chosun ilbo* (January 30 1946); “Lerch, Military Governor, had a press interview relating to military currency and reorganization of U.S. Military Government in Korea,” *Chosun ilbo* (February 5, 1946).

by the Historical Division of USAFIK, the reasons why the Type “A” note was withdrawn from circulation were as follows: 1) A sufficient supply of the local currency was available in Korea for U.S. forces as well as civilian use, 2) the handling of military currency at a cashier’s window was considered to be too difficult, and 3) a desire to strengthen Korean notes in the eyes of Koreans.²⁴ Among these reasons, the first reason is difficult to understand, since notes published by the Bank of Joseon were inconvertible and the amount of notes issued was regulated by USAMGIK. According to Jeong Taehun, the amount of notes issued by the Bank of Joseon increased rapidly from July to October of 1945 due to the withdrawal of the Japanese and a rapid decrease in deposits. Moreover, from November 1945 to March 1946, even though deposits generally exceeded withdrawals, because of withdrawals to pay for government deficit as well as for an enormous amount of advances to USAMGIK, which were not even based on any plan for reimbursement, the amount of notes issued by the Bank of Joseon increased alarmingly.²⁵ Therefore, it is hard to accept the U.S. claim that there was a sufficient supply of Won at that time.

MacArthur also proclaimed that, effective July 10, 1946, it was prohibited for Koreans to use or own Type “A” notes.²⁶ On June 29, 1946, the Department of Public Information under USAMGIK announced that the military currency would be issued shortly, but that it was to be used only by U.S. armed forces stationed in Korea as well as civilian personnel in the Department of Army within U.S. Army enclaves.²⁷ As a result, the Bank of Joseon notes became the only legal tender in Korea. This means that U.S. forces had to use Korean Won to pay for military necessities procured at the expense of the Korean economy.

There are two related provisions relative to this issue in SWNCC 176/8. First, it was stated that the Financial Division should remove supplemental Yen (Type “A”) from its currency reserve and record transactions by U.S. forces concerned. Then, it was declared that the accounts for each type of cost, namely normal governmental costs and occupation costs, should be managed separately.²⁸

24. Historical Division of the USAFIK, *History of the United States Armed Forces in Korea*, 63.

25. Jeong Taehun, “Haebang jeonhu geumyung gigwan jageum sugeup gujo wa eunhaenggweon nambal ui baegyeong e daehan yeongu” [A study on financial agencies’ funding systems and the reckless issuing of notes before and after the liberation of Joseon], *Kuksagwan nonchong* 84 (1999): 114-129.

26. “Proclamation No. 4: To the People of Korea,” July 1, 1946; Box 16; Entry A1 34374; RG 332; NACP [Relocated to RG 554, Entry A1 1256].

27. “The Department of Information’s special remark on the usage limitation of the U.S. military currency,” *Seoul Shinmun* (June 30, 1946).

28. SWNCC 176/8, 1087.

With reference to local currency required for use by U.S. forces, it was clearly prescribed in SWNCC 176/23 that “the local currency needs of occupation forces in Korea and any funds in excess of revenues required to finance the operations of the Military Government in Korea will be obtained from the central banking department of the Bank of Joseon.”²⁹ However, there was no settlement of payment for the advances to USAFIK, contrary to the principles of the third method of payment for obtaining local currency, which USAFIK was supposedly employing.

On August 28, 1945, General Hodge established a Military Government for purposes of his own command as well as for the operation of civilian activities in Korea.³⁰ Furthermore, on September 9, 1945, he opened a command post in Seoul and assumed responsibility for all military and non-military aspects of the Korean occupation, and by the time USAMGIK was formally established on January 4, 1946, it too fell under his jurisdiction. Accordingly, the policy for obtaining local currency required by the U.S. armed forces remained consistent throughout, in the form of local currency being withdrawn from the Bank of Joseon without any settlement for payment. This particular state of affairs undoubtedly demonstrates that USAFIK treated Korea as an occupied enemy territory.

In addition, SWNCC 176/23 included how to procure local currency, but a detailed definition of occupational costs was lacking until it was added to SWNCC 176/25 on May 12, 1947 as a new subparagraph to paragraph 13 as follows:

Immediately upon receipt of this directive, you will publicly announce that all U.S. occupation costs in Korea, until the independence of Korea, other than pay and subsistence of troops, and expenditures of U.S. Dollars for all imports into Korea for prevention of disease and unrest and for purposes of the occupation, will be considered as a charge against Japan, and not against Korea; and that repayment to the United States for such expenses incurred on behalf of Korea will be considered a part of the U.S. reparations claim against Japan.³¹ [emphasis added by author]

29. SWNCC. “Interim Directive for Military Government in Korea (SWNCC 176/23),” August 14, 1946. 24; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

30. Kenneth C. Strother, “Establishment of Military Government,” August 28, 1945, Box 41; Records Regarding USAMGIK; G2, Historical Section; RG 332; NACP.

31. SWNCC, “Interim Directive for Military Government in Korea (SWNCC 176/25),” May 12, 1947, 169; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

In the above citation, “pay and subsistence of troops” indicates external occupational costs, while “expenditures of U.S. Dollars for all imports into Korea for prevention of disease and unrest and for purposes of the occupation” refers to expenditures made to import goods from Japan for occupational necessities as well as civilian supplies, or in other words, expenditures with Government Appropriation for Relief in Occupied Areas (GARIOA).³² Since those expenditures were excluded from occupational costs, the occupational costs referred to in SWNCC 176/25 simply meant the internal occupational costs were paid for by procuring funds at the expense of the Korean economy.

However, the paragraph cited above was substituted in SWNCC 176/26 on June 26, 1947 as follows: “Except for the pay and subsistence of troops, all non-Won U.S. occupation costs in Korea including expenditures by the U.S. for all imports into Korea for prevention of disease and unrest and for purposes of the occupation, will be considered as a charge against Japan.”³³ In other words, the expenditures to import goods from Japan for civilians and for military necessities were included in a definition of occupational costs.

Pertinent to the inclusion of expenditures made by GARIOA under occupational costs, it was decided around May 1947 that those classified as civilian supply or civilian pay projects, paid for from GARIOA appropriated funds, not be included under occupation costs, but be considered as foreign trade items for inclusion in the foreign trade “Balance of Payments.”³⁴

Consequently, the above cited paragraph was deleted from SWNCC 176/26 and the following paragraph was added: “U.S. occupation costs in Korea, including both Won and non-Won expenditures for purposes of the occupation, will be covered by separate directives.”³⁵ Thus occupational costs came to be more strictly defined, while expenditures made by GARIOA were excluded.

32. Essential commodities and materials were supplied from Japan to meet the pressing needs of both the United States forces in Korea and the civilian economy on an emergency basis. The concept that payment for imports from Japan be considered as a deduction from Japanese obligations to the U.S. was prescribed in SWNCC 176/23 for the first time.

33. SWNCC, “Interim Directive for Military Government in Korea (SWNCC 176/26),” June 26, 1947, 175; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

34. A.C.F.A.O., July 3, 1947, 304, Box 108; Entry 1115; SA; FB; Comptroller: SCAP; RG 331; NACP.

35. SWNCC. “Interim Directive to the Commander-In-Chief, US Army Forces, Far East, and Commander General, US Army forces in Korea, for Military Government in Those Areas of Korea Occupied by U.S. Forces (SWNCC 176/29)” in Department of State. *Foreign Relations of the United States 1947 Volume VI* (Washington D.C.: GPO, 1972), 714-731. SWNCC 176/29 was approved on July 23, 1947 and transferred to the CINCFE and CG USAFIK on July 26.

Moreover, it was stipulated that the specific costs related to the stationing of the armed forces be treated as a separate matter.

In summary, the above directives show that a clear definition of occupational costs was not established until mid-1947. Evidently, there were several issues of concern complicating the issue. First, there were differences of opinion on whether imported goods from Japan for civilian supplies (for prevention of disease and unrest) as well as occupational necessities could both be classified as occupational costs.³⁶ Second, the Department of War provided insufficient information on accounts pertaining to costs of the occupation of Korea.³⁷ Finally, accountability for supplies given to USAFIK was not established until about June 1, 1947, and any attempts to establish accountability prior to this time had to be deferred, as in all but a few instances there were no depot records of any kind. Consequently, prior to the establishment of a clear definition of occupational costs, USAFIK simply operated without accountability.³⁸ However, in an attempt to make reparations for this period, an overdraft account for advances to USAFIK, entitled "USAMGIK Funding Account No. 1," was established at the Bank of Joseon on June 30, 1947.³⁹

USAFIK described itself as a "perforce hasty organization."⁴⁰ This conclusion helps to shed light on why improper interpretations of occupational costs frequently occurred. For example, some costs incurred by the actions of the military government or tactical units were mistakenly categorized as occupational costs. In recognition of this problem, USAFIK defined the differences between these two types of costs in a letter dated April 25, 1946:

2. In general any activity or function normally performed by a government or which was performed by the Japanese Government in Korea or the former Chosen

36. Regarding the definition of occupation costs, refer to "Accounting Certain Financial Aspects of the Occupation of Japan, Korea, and the Ryukyus Islands," June 20, 1947, 1-3; Box 108; Entry 1115; SA; FB; Comptroller: SCAP; RG 331; NACP.

37. "Accounting Certain Financial Aspects of the Occupation of Japan, Korea, and the Ryukyus Islands," June 20, 1947, 1; Box 108; Entry 1115; SA; FB; Comptroller: SCAP; RG 331; NACP.

38. "Survey of Procedure Employed by USAFIK for Reporting Subsistence and Maintenance Costs for Korea, for the period 2 September 1945 to 30 September 1947," April 27, 1948, 2; Box 116; Entry 1115; SA; FB; Comptroller: SCAP; RG 331; NACP.

39. After that time, CG USAFIK continued to draw won from the overdraft account at the Bank of Joseon entitled of "USAMGIK Funding Account No. 2" from January 31, 1949 to June 30, 1949. The name was changed to "Government of the Republic of Korea - Advances to USAFIK" Refer to Summation of Financial & Property Settlement with Government of the Republic of Korea (S. F. P. S), no date; Box 1; Entry 2849; Seoul Mission; RG 84; NACP.

40. Department of the Army and Navy, *United States Army and Navy Manual of Civil Affairs*, 24.; Historical Division of the USAFIK, *History of the United States Armed Forces in Korea*, 63.

Government-General will be paid for from regular governmental budgets as a “normal governmental cost.” The fact that military personnel, under authority of the U.S. Army Military Government in Korea, directs or performs such activities and functions does not make them “occupational costs.” “Normal governmental costs” are to be charged against regular governmental budgets.

3. “Occupational costs” are those necessary for the maintenance and supply of U.S. Military, Naval and civilian personnel and equipment, and the personnel and equipment of the Allied Nations operating in Korea... “Occupational costs” are to be confined strictly to those for the benefit and need of such personnel, and all other costs, except as otherwise provided herein, are to be classified as “normal governmental costs” for payment from regular governmental budgets. “Occupational costs” are to be charged against occupational allotments, except as otherwise provided herein. -----

7. --- In case of overlapping when it is not practicable to segregate costs into the two classes, the major purpose may serve as a basis for charging the entire cost; thus an expense primarily for a “normal governmental” function but also partly occupation in nature would be charged against a regular governmental budget.⁴¹

The above statements clarified two things. First, the key criterion for distinguishing between “occupational costs” and “normal governmental costs” was simply whether a matter could be classified as a military or governmental one, regardless of whether it was administrated by military personnel. Second, funding for paying each type of cost was supposed to be kept separate. That is, while occupational costs were to be drawn from the occupational allotments of the Department of Army, the normal governmental costs were chargeable to a regular government budget, which was composed of taxes, revenues from monopolized businesses, departmental revenues, etc.⁴² In other words, the U.S. should have paid occupational costs while governmental costs should have been borne by the Korean people.

41. Charles Ennis, Colonel, G. D. Adjutant General, HQ USAFIK, to HQ USAMGIK (Subject: Occupational Costs), 25 April 1946, 1-2; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

42. Departmental revenues included the proceeds from sales of civilian supplies funded with GARIOA. The total proceeds as of the end of June 1948 amounted to 27,041,041,000 won. Refer to Jeom Sook Kim, “Migunjeonggi wa Daehanminguk chogi (1945-50-nyeon mulja sugeupjeongchayeongu)” [Supply and Demand Policy for commodities between 1946 and 1950 in South Korea] (PhD Dissertation, Ewha Womans University, 2000), 52.

Process Leading to the Implementation of the Pay-As-You-Go Policy in Korea

As already described in the second section, USAFIK withdrew Won to support and maintain U.S. forces in Korea without any settlement for payment. Under these circumstances, in 1947 the Secretary of State clearly stated that, "Our national policy toward both Austria and Korea requires that U.S. Armed Forces stationed therein pay their way in these two countries as from the respective dates of liberation."⁴³ Accordingly, he urged the Secretary of War, Robert P. Patterson, to implement the pay-as-you-go policy at the earliest possible date in the two countries.⁴⁴ Following this statement, the U.S. entered into an agreement with the Austrian Government for goods, services, and facilities provided prior to July 1, 1947.⁴⁵ However, it took over a year until the pay-as-you-go policy was implemented in Korea.

Among the reasons for this delay, the first was the opposition of CG USAFIK, who believed that immediate implementation of the policy in Korea was "a great mistake" and would create "a bad situation without compensating gain."⁴⁶ In addition, there were differing positions in regards to the method of implementation. Representatives of the Departments of War and Treasury visited Korea in June 1947 to discuss the problem.⁴⁷

Comparing their positions, several differences can be found.⁴⁸ First, General

43. G. Marshall, Secretary of State, to Robert P. Patterson, Secretary of War, May 20, 1947, 1, Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

44. CSBUD to CINCFE, October 5, 1947, Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

45. On June 21, 1947, an agreement was reached between the U.S. government and the Austrian Coalition Government regarding a settlement of war accounts and claims incidental to the operation of U.S. forces in Austria during the period from April 9, 1945 to June 30, 1947. Under this agreement, the U.S. Government agreed to pay the Austrian Government a lump sum of 31 million USD for all supplies and services received by U.S. agencies and instrumentalities from the Austrian Government or its nationals between April 9, 1945, and June 30, 1947. Then, after July 1, 1947, the U.S. Army paid its own way from funds congressionally appropriated in a manner identical to the arrangements in other liberated areas (William H. Draper, Jr., Acting Secretary of the Army, to Comptroller General of the U.S. (Subject: Statement on U.S. Army Operations in Austria and Korea"). no date; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP).

46. CG, USAFIK, to CINCFE (ZGGG 787), June 11, 1947; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

47. "Summary of the 'Pay-As-You-Go' Policy of the United States toward Korea," September 12, 1947; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

48. "Pay as you go," October 15, 1947; Box 413; Entry 207; Foreign Financial Affairs;

Hodge believed that USAMGIK should not sign a settlement to adjust occupation costs simply because he thought he was responsible only to the U.S. government, not the Korean people. Thus, he insisted that government actions relating to long-term Korean interests should be deferred to the new Korean government. On the other hand, the Departments of State, Treasury, and the Army believed that USAMGIK was the only government in South Korea and as such the only legitimate organization suited to sign for a settlement. In addition, they believed that the Korean government would eventually accept all actions exercised by USAMGIK in good faith.

Second, the Departments of State, Treasury, and the Army expected a favorable reaction to the implementation of the pay-as-you-go policy in Korea, based on the Austrian experience. However, Gen. Hodge believed that, in light of the fact that the U.S. had poured large amounts of aid into Korea, the implementation of the pay-as-you-go policy would raise unnecessary problems and claims against the occupation forces simply based on the Korean people's disinterest in occupational costs.

Third, the Departments of State and Treasury as well as the Army Budget Office believed that, with respect to past expenditures, implementation of the pay-as-you-go policy in Korea provided a means whereby CG USAFIK could remove its deficit in the Net Troop Pay Account, which the Department of the Army had been especially trying to reduce. Approximately 11,000,000 to 13,000,000 USD worth of Won were held in official disbursing accounts by USAFIK and this money was considered "a potential loss to the Department of the Army" until the Dollar counter-value was reestablished.⁴⁹ However, Gen. Hodge believed that the Korean economy should not be made to suffer just because of a deficit in the troop account, and that this deficit should be met by special appropriations.

Fourth, American Dollars were to be made available to implement the pay-as-you-go policy, but the Departments of State and Treasury, as well as the Army Budget Office, believed that U.S. Congress would allot the appropriate funds, and as such, USAMGIK would obtain a net gain in Dollars. On the other hand, Gen. Hodge insisted on requiring not only more military funds to implement the policy, but also additional GARIOA funds in the probable event that the Japan-Korea trade relationship ended up on a Dollar settlement basis.

Finally, concerning a realistic military conversion rate to compute occupational

Comptroller of the Army; RG 319; NACP.

49. WARX 87724; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

costs into Dollars, the Departments of Treasury and State did not wish to change the military conversion rate of 1 USD to 50 Won, but Gen. Hodge insisted on readjusting the Won-Dollar exchange rates to a realistic level.

Among the issues stated above, two are of particular significance. First, the matter of creating funds to implement the pay-as-you-go policy, and second, the task of establishing an equitable exchange rate for computing the amount of Dollars owed to Korea based on past and future Won expenditures by U.S. forces.

As for the funds, the Secretary of the Army, Kenneth C. Royall, wrote that there was a clear precedent for Congress approving the use of appropriated funds for a pay-as-you-go policy in non-enemy countries or territories. For example, U.S. forces stationed in such liberated countries as France, Belgium, and Austria had paid their own way from funds provided by Congress.⁵⁰

The requirement of funds to implement the pay-as-you-go policy in Austria and Korea was brought to the attention of Congress on June 27, 1947. In testimony before the Senate Appropriations Committee, it was indicated that almost all costs could be absorbed in funds already available to the Department, except for a portion, which a preliminary estimate gauged at somewhere between 15,000,000 and 18,000,000 USD.⁵¹ In any case, due to the new policy of treating certain countries, heretofore treated as occupied, as liberated nations, the Senate recommended 10,800,000 USD be appropriated. Although, in the end the committee of conference approved 129,386,000 USD for "Engineer Service, Army" and the 10,800,000 USD was not included.⁵²

On April 8, 1948, President Harry S. Truman requested from Congress a supplemental estimate of appropriation for the fiscal year 1948 for the Department of the Army in the amount of 41,000,000 USD. The amount was for "Engineer Service, Army" and "Barracks and quarters, Army," and therein 20,000,000 USD of that was for the maintenance, operation, and repair of overseas military installations, rental of overseas property leased for military purposes, operations of overseas engineer supply depots, and for the administration of the engineer sections of overseas military headquarters in certain areas formerly considered occupied territory.⁵³ However, on May 10,

50. Draper to Royall, October 1, 1947, Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

51. The United States Senate, "Senate Hearings on H. R. 3678 (The 80th Congress)" (1948): 242.

52. House of Representatives, "Conference Report 1091: Military Establishment Appropriation Bill, 1948" (1st Session of the 80th Congress): 3.

53. The United States Senate, "Senate Report No. 1223: Supplemental National Defense Appropriation, 1948 (the 80th Congress)," (1948): 6.

1948 the committee of conference reduced the total amount requested under “Engineer Service, Army” and “Barracks and quarters, Army,” which was included under pay-as-you-go, from 41,000,000 to 31,800,000 USD.⁵⁴ The 31,800,000 USD was made available in the “Supplemental National Appropriation Act, 1948.”

Therefore, with funding provided, from October of 1947 a military currency conversion rate became the main issue of concern. On the one hand, CG USAFIK had continuously asserted that a readjustment of the Won-Dollar military exchange rate to a realistic level was imperative.⁵⁵ Moreover, he stressed that the military conversion rate of 50 Won to 1 USD was wholly unsatisfactory for occupational personnel and simply served to present a powerful incentive for the black marketing of Post Exchange (PX) and other U.S. supplies.⁵⁶ Accordingly, on June 21, 1947, he proposed an exchange rate of 200 Won for 1 USD.⁵⁷ He emphasized, however, that due to the high cost of dependency housing, road construction, and other expenditures for capital improvement, this rate was recommended for expenditures by individuals only, not as a basis for computing Dollars to pay for advances to USAFIK.

Consequently, on August 11, 1947, the “Revision of the Won-Dollar Military Conversion Rate” was inscribed in SWNCC 343/2, affirming, “the 200 to 1 rate [is] for purposes of personal type expenditures only and does not [apply to]... U.S. Army procurement purpose[s] in Korea. The latter problem, however, must be resolved in view of the U.S. policy of treating Korea as a liberated country from 9 September 1945 forward.”⁵⁸ According to the recommendation

54. House of Representatives, “Report No. 1905: Supplemental National defense Appropriation Bill, 1948 (2nd Session of 80th Congress)” (1948): 1-4.

55. The initial military conversion rate between the U.S. dollar and the local Korean currency, which was established by the War Department radio W-50130 dated August 15, 1945, was 15 won to 1 U.S. dollar. On November 7, 1946 SCAP moved to reset the military conversion rate from 15 won to 1 U.S. dollar to 75 won to 1 U.S. dollar. The SWNCC dealt with the issue of revision of won-dollar military conversion rates. On February 19, 1947 the SWNCC approved a military conversion rate set at 50 won to 1 U.S. dollar for Korea and the new military conversion rate became effective on March 12, 1947. Refer to SWNCC, “Revision of Yen-Dollar Military Conversion Rate (SWNCC 343/1),” February 26, 1947; SWNCC and SANACC Decimal Subject Files, 1944-1949 (National Archives Microfilm Publication M1195, Roll 10) (SWNCC & SANACC); Records of Interdepartmental and Intradepartmental Committees (State Department), Record Group 353 (RG 353); NACP.

56. COMGENUSAFIK to War Department, June 21, 1947, 2-3; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

57. John R. Hodge, CG USAFIK, to Commander-in-Chief, Far East, June 21, 1947, 2-3; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

58. SWNCC, “Revision of Won-Dollar Military Conversion Rate (SWNCC 343/2),” August 11,

of SWNCC 343/2, the problem of payment for U.S. Army procurement in Korea was referred to the subcommittee for the Far East of the State-Army-Navy-Air Coordinate Committee (SANACC).

On August 7, 1947, right before SWNCC 343/2 was adopted, representatives from USAFIK and USAMGIK gathered to discuss the military conversion rate in the office of the Advisor for the Department of Finance of USAMGIK, Mr. Irwin Fine. At first, he presented the National Economic Board (NEB)'s recommendation, suggesting, "A Won to Dollar ratio of 500 to 1 be established for the purpose of paying the occupational costs of the U.S. Army in Korea."⁵⁹ However, after considering several issues, including the inflationary effects of large-scale expenditures by individual members of the occupational forces, which would surely be encouraged by the proposed rate of exchange, essential construction programs, which were being carried out concurrently, as well as a price stabilization policy, the NEB finally recommended a rate of 350 Won to 1 USD.⁶⁰ Conversely, taking into consideration NEB's position, USAFIK proposed a rate of 200 Won to 1 USD, also insisting that a dual rate of conversion for personal and official use would leave the U. S. open to criticism by both Koreans and U. S. personnel; Koreans would accuse the U.S. of using a higher rate for occupation expenditures to exploit Korean labor, and U.S. personnel would feel penalized by the lower rate.⁶¹ Therefore, as a compromise, CG USAFIK finally decided upon a unified exchange rate, encompassing personal as well as official expenses, of 100 won to 1 dollar for FY 1946 and 200 won for 1 dollar for FY 1947 for the purpose of paying the occupational costs of USAFIK.⁶²

After the Department of Army examined USAFIK's position, even though it had been put forward only "tentatively," Draper, then the Under Secretary of the Department of Army, advanced the following response:

- a. For the period from the beginning of the occupation through 30 June 1947 a lump sum payment would be made on the basis recommended by you. This will

1947, 46-47; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

59. Irwin Fine, "Establishment of Dollar-Won Exchange Rate for payment of U.S. Army Occupational costs in Korea," August 7, 1947; Box 70; Entry 11070; RG 338; NACP [Relocated to Box 20; Entry A1 1378; RG 554; NACP].

60. Allan Loren, Advisor of Department of Finance, to CG USAFIK (Subject: Conversion Rate), August 8, 1947, 2; Box 73; Entry 11070; RG 338; NACP [Relocated to Box 29; Entry A1 1378; RG 554; NACP].

61. "Pay-as you-go Program" (Telecon No. 8616), October 13, 1947, 9; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

62. *Ibid.*, 10.

allow the liquidation of the Army Fiscal Officers Won holdings and yield a net of approximately 11 million Dollars to be credited to the Korean trust fund account. No publicity should be given to this action.

b. ... USAFIK will continue to finance the occupational costs by means of overdrafts with Bank of Chosen... At the time of settlement USAFIK will determine a fair Dollar value for official type expenditures during this period, probably excluding construction costs or some part thereof since their capital value remains in Korea.

c. Effective at once a military conversion rate of 200 to 1 shall be established for all personal and quasi-official expenditures, and the proceeds of all Dollar conversions shall be credited by the Army Fiscal Officer to the Korea trust fund account.

d. Accept the policy in principle that all essential trade between Japan and Korea will be handled on a Dollar settlement basis, Dollars to be provided out of GARIOA funds. This policy cannot, of course, be implemented until the necessary funds have become available.⁶³

However, the Department of Treasury still insisted that the current military conversion rate in Korea, of 50 Won to 1 USD, should not be changed. The reasons for this are as follows:

a. The proposed change in the military conversion rate would tend to stimulate further substantial advances in the Won prices of the limited types of goods and services now procured in the open market by military personnel, and thus lead to conditions which would give rise to requests for additional depreciation of the rate.

b. The significant change in the military conversion rate now proposed might be prejudicial to the ultimate establishment of a realistic commercial exchange rate.

c. The proposed change is intended to benefit military and official personnel who now received, independent of local price and exchange conditions, food, housing and such recreational facilities and merchandise items as are supplied through the Army Exchange Service, the Red Cross and other official and quasi-official agencies. It is the view of the Treasury Department that the principal items to be procured by military personnel in the local economy, mainly souvenirs and personal services, could be obtained under the same arrangement proposed for items of local procurement by the military establishment, and supplied by military personnel at an appropriate value in military payment certificates. Accordingly, it does not appear, in view of the alternative available, that a compelling necessity exists for the proposed change in the military conversion rates.⁶⁴

Even though the representatives of the three departments failed to reach an

63. Annex "E" to Appendix "A" of SANACC 343/3 dated June 11, 1948 (WAR 89498), 110-111; SWNCC & SANCC; RG 353; NACP. .

64. Frank A. Southard, Jr., Director of the Office of International Finance, to Mr. Saltzman, December 31, 1947; SWNCC & SANACC; RG 353; NACP.

agreement on changing the military conversion rate, they eventually settled upon establishing the pay-as-you-go policy. Also, they agreed that a “lump sum” payment should be made in return for goods, services and facilities provided for the benefit of the U.S. forces since September 9, 1945, the date of liberation.

The rationale for a lump sum in return for past expenditures was twofold.⁶⁵ First, inflation in Korea had caused a rapid rise in Won prices and as such, payment in Dollars for U.S. armed forces’ past expenses by means of the military conversion rate in effect at the time would therefore cause a significant drain on U.S. taxpayers in excess of the real value of the goods, services and facilities furnished. Second, a precedent had been established with successful lump sum procedures being utilized in both China and Austria.

William H. Draper, then Acting Secretary of the Army, proposed to negotiate a financial agreement between the U.S. Government and USAMGIK for the payment of accounts and claims incidental to the operation of USAFIK following the same lines of the U.S.-Austria Agreement.⁶⁶ The Subcommittee for the Far East of SANACC had dealt with issues concerning financial arrangements in or with Korea since early 1948.

On January 5, 1948, the Subcommittee for the Far East of SANACC circulated a proposed draft of “Financial Arrangements for Korea (SANACC 343/3).” The subcommittee finally approved the draft, after amendment of the conclusion in consideration of messages from General Hodge, on January 27, 1948.⁶⁷ The following provisions are extracts from SANACC 343/3:

1. Implementation of “pay-as-you-go” by settlement on a “lump sum” basis between the U.S. and Korea (USAMGIK) for past procurements up to 30 June 1947 on a “fair-Dollar” basis.
2. Determination of a fair Dollar value for the goods, services and facilities procured in the Korean economy by taking cognizance of amount of Won expenditures, comparison of price level prices between Korea and the U.S., and adjustment for the differential between the U.S. and Korea in quality and quantity of labor and materials required by occupation forces.
3. Implementation of “pay-as-you-go” for the period 30 June 1947 through 21 December 1947 and subsequent periods as decided later will be effected after the end of such periods, and will be made on a “fair-Dollar value” settlement basis.

65. WARX 87724, 3; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

66. William H. Draper, Jr., Acting Secretary of the Army, to the Comptroller General of the United States, no date; Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

67. SANACC, “Decision on the Proposed Draft of SANACC 343/3, Financial Arrangements for Korea,” January 28, 1948; SWNCC & SANCC; RG 353; NACP.

4. USAFIK will continue to obtain Won for the needs of the U.S. Armed Forces in Korea by means of overdrafts at the Bank of Chosen.

5. Effective with the transmission of this directive to CINFE, authority is granted to effect a change in military conversion rate between the U.S. Dollar and Korean Won to 200 Won to 1 Dollar for all personal and quasi-official expenditures of the U.S. military or civilian personnel or agencies in Korea.⁶⁸

Even though the subcommittee adopted the change in the military conversion rate proposed by CG USAFIK, it didn't mean that the Department of Treasury fully concurred with SANACC 343/3.⁶⁹ In addition, during the final development stages of the paper, General MacArthur questioned the desirability of establishing a revised military conversion rate at that time in Korea considering that any change should be met concurrently in Japan.⁷⁰ Thus controversies yet remained.

Nevertheless, in order to avoid delaying the implementation of the pay-as-you-go policy any further, the Army representative of SANACC requested that the question concerning the change in rate be withdrawn from SANACC 343/4.⁷¹ Then, he recommended changes in three parts of SANACC 343/3.⁷² In light of his proposal, paragraph 6, regarding the military conversion rate, was reworded as follows: "Effective with the transmission of this directive to CG USAFIK and CINCFE (Commander in Chief, Far East), authority is granted to effect settlement on a 'fair Dollar value' for all personal and quasi-official expenditures of the U.S. military or civilian personnel or agencies in Korea. Consideration of a change in the military conversion rate shall be made the subject of a separate paper, and until a further decision is made, the military conversion rate shall remain in at 50 to 1 in Japan and Korea." SANACC approved SANACC 343/3 as amended by SANACC 343/4 at its meeting on May 6, 1948 and, with further amending, SANACC 343/3 was finally adopted by June 11, 1948.⁷³ After discussions lasting more than a year, a military

68. Enclosure of "Decision on the Proposed Draft of SANACC 343/3, Financial Arrangements for Korea;" SWNCC & SANCC; RG 353; NACP.

69. SANACC, "Decision Amending SANACC 343/3, Financial Arrangements for Korea," June 11, 1948; SWNCC & SANCC; RG 353; NACP.

70. A. C. Wedemeyer, "Financial Arrangements for Korea, SANACC 343/3," April 15, 1948; SWNCC & SANCC; RG 353; NACP.

71. SANACC, "Financial Arrangements for Korea (SANACC 343/4)," April 28, 1948; SWNCC & SANCC; RG 353; NACP.

72. Ibid.

73. SANACC, "Decision Amending SANACC 343/3, Financial Arrangements for Korea," June 11, 1948; SWNCC & SANCC; RG 353; NACP.

conversion rate to compute occupational costs into Dollar amounts was set at 50 Won to 1 USD.

Nonetheless, regarding implementation of the pay-as-you-go policy, yet another problem soon surfaced concerning whether payment for construction or capital improvements completed for and used by U.S. forces and their dependents should be included in the settlement. This was a significant issue since these particular expenditures held a great deal of weight within the total Won expenditures for occupational costs. According to statistics prepared by the Military Government Disbursing Officers for occupational costs, the expenses for "Engineer Service, Army" equaled 59% of total occupational costs during the U.S. Fiscal Years 1946, 1947, and 1948.⁷⁴ Also, spending for the "Dependent Housing" during the FY 1946 and FY 1947 represented 23% of total Won expenditures. Finally, according to the "Summation of Financial & Property Settlement with the Government of the Republic of Korea," the balance of the Capital Improvements Account, which the Republic of Korea would eventually take charge of, was 32,298,666 USD.⁷⁵

Draper, the Under Secretary General of the Department of War, stated that payment for capital improvements could probably be excluded at the time of settlement.⁷⁶ According to a discussion included in appendix B of SANACC 343/3 dated January 27, 1948, it was recommended a payment be made for "such portion of expenditures on housing, roads, airports and other capital construction as corresponds to the portion of the expected life of the improvements during which they will be used by the U.S. Armed Forces" on a scheduled basis. The discussion continues:

The structure or improvement would... belong to the Korean economy. Materials supplied from outside of Korea... would have to be paid for in Dollars by Korea, resulting in a current drain on the Dollars available to Korea. This would seem to be contrary to the intent of the "pay-as-you-go" policy which visualized an appropriate current Dollar accrual to the benefit of Korea. Re (4) above, settlement for capital improvements of value to Korea but built by the U.S. authorities, would be disposed of under FLC type disposal procedures, under terms allowed other liberated countries upon the departure of U.S. personnel.⁷⁷

74. Refer to footnote 54.

75. S. F. P. S., no date; Box 1; Entry 2849; Seoul Mission; RG 84; NACP.

76. WAR 89498, 110-111; SWNCC & SANCC; RG 353; NACP.

77. Appendix "B" of SANACC 343/3 dated June 11, 1948, 127; SWNCC & SANCC; RG 353; NACP.

Evidently, even though it was agreed that the general approach described above would have been possible, and might have even led to less expenditures overall, because the U.S. drain on the Dollars available to Korea for the payment for materials supplied by Japan, payment for construction or infrastructure improvements was excluded from the settlement.⁷⁸

On June 30, 1948, the U.S. government entered into an agreement with USAMGIK entitled the “Agreement between the Government of the United States of America and the United States Military Government in Korea regarding settlement for certain accounts and claims incident to the operations of the United States Forces in Korea During the Period 9 September 1945 to 30 June 1948, inclusive.”⁷⁹ Lt. Gen. John R. Hodge signed the agreement on behalf of the U.S. Government and Major Gen. William F. Dean, the U.S. Army Military Governor, signed on behalf of USAMGIK.

The final settlement accounting for past Won expenditures under USAFIK’s occupational costs was 35,210,021.20 USD, which included 568,620,484 Won held in the official accounts of the U.S. Disbursing Officers. According to the attached accounting classification on the agreement, the final settlement amount consisted of 2,575,011.11 USD for FY 1942-1946, 12,536,326.39 USD for FY 1947, and 20,098,683.70 USD for FY 1948.

However, there is a great discrepancy between the adjusted amount in the settlement and the balance of USAMGIK Funding Account # 1 as of June 30, 1948. The total cumulative withdrawals for occupational costs were 10,225,029,781 Won.⁸⁰ However, converted at a 50 Won to 1 USD ratio, the total adjusted amount was 1,760,501,060 Won, or 17% of the balance of USAMGIK Funding Account # 1 as of June 30, 1948.

This discrepancy was likely caused by an exclusion of the Won expenditures for capital construction in the interest of U.S. forces and their dependents in Korea, as prescribed in the seventh provision of the settlement. However, in light

78. “Settlement for United States Armed Forces Construction in Korea,” May 3, 1948, 1; Box 413; Entry 207; RG 319; NACP.

79. “Agreement between the Government of the U.S. of America and the U.S. Military Government in Korea regarding a Settlement for Certain Accounts and Claims Incidental to the Operations of the U.S. Forces in Korea during the period 9 September 1945 to 30 June 1948. inclusive”; Box 413; Entry 207; RG 319; NACP.

80. The amount was referred to during the discussion to ratify the “Initial Financial and Property Settlement between the Government of the U.S. of America and the Government of the Republic of Korea” at the 64th meeting of the Constitutional Assembly of the Republic of Korea on Sep. 13, 1948. According to the stenographic records, the amount was prepared by the U.S. forces. The National Assembly of the Republic of Korea, *Jecheon gukhoe sokgirok* 1 [Stenographic records of the Constitutional Assembly] (Seoul: Yeogang chulpansa, 1987), 58.

of the fact that the balance of the Capital Improvements Account, which was one of those assets eventually to be turned over to the Republic of Korea, was 32,298,666 USD, the adjusted amount in the settlement is questionable.

In any case, in accordance with the above agreement, the U.S. Government paid a total of 35,210,021.20 USD to USAMGIK by means of a cheque to the amount of 23,837,611.53 USD dated June 30, 1948, as well as the 568,620,483.50 Korean Won held in the official accounts of the U.S. Disbursing Officers, equal to 11,372,409.67 USD at the rate of 50 Won to 1 USD.⁸¹ Furthermore, on July 1, 1948, a day after the settlement was signed, a pay-as-you-go account was set up with 23,837,611.53 USD in it and transferred to the Republic of Korea. Also, USAMGIK's overdraft account, USAMGIK Funding Account No. 1, which had accumulated 10,225,029,781 Won in debt, remained an unresolved burden on the Korean government.

As the result of the above proceedings, when the "Initial Financial and Property Settlement between the Government of the U.S. of America and the Government of The Republic of Korea" was signed on September 11, 1948, the Korean government agreed that the U.S. government was relieved of all burdens relating to USAFIK occupational costs.⁸²

Won Advances to USAFIK and their Impact on Inflation in Korea

Considering that USAFIK occupational costs were approximately 10 billion Won, their impact on the Korean economy is an issue of great concern. As described by the Secretary of the War Department around June 1947, "in many foreign countries, the U.S. Forces were... sometimes the largest single user of the total local currency in circulation."⁸³ USAFIK was no exception.

The Won requirements of U.S. armed forces in Korea, which were financed through advances from the Bank of Joseon, were one of the key factors accelerating inflation, although one must also take into account overall government expenditures and the costs incidental to rice collection programs.⁸⁴

81. Ralph R. White. Lt Col., Finance Officer, to Accounting Division, Army Finance Center, July 30, 1948; Box 413; Entry 207; RG 319

82. "Initial Financial and Property Settlement between the Government of the United States of America and the Government of the Republic of Korea," September 11, 1948, 13-14; Box 71; Entry 11070; RG 338; NACP [Relocated Box 23; Entry A1 1378; RG 554].

83. Letter written by the Secretary of War, May 27, 1947; Box 9; Entry A1 108 [formerly Entry A1 74E]; SCC, 1946-1947; RG 107; NACP.

84. CG USAFIK to CINCFE, January 30, 1947; Box 785-6; Classified Decimal File, 1945-47 (CDF,

As William H. Draper, Under Secretary of the Army, wrote, “the present housing program and other occupational costs represent the deficit in the Korean internal budget and are largely the cause of the first-class inflation now going on.”⁸⁵ On the basis of this understanding of inflation trends in Korea, the NEB formulated its policy for the “reduction of expenditures by occupational forces in the local economy to an absolute minimum” as a specific stabilization measure.⁸⁶

Strangely, scholars researching inflation in Korea during the USAMGIK period have made no correlation between it and the costs of U.S. occupation. Rather, they have pointed out that hyper-inflation in Korea during the American occupation era was caused by the increase in Bank of Joseon note circulation, which was incurred by the rice collection programs and the extension of bank credit for the purpose of financing government deficit.⁸⁷ To understand what might have led them to reach such a conclusion, one has to examine the following table:

Table 1. Reasons for currency inflation since liberation in 1945 (in thousand Won)⁸⁸

Bank notes issued as of August 15, 1945: 4,975,148
Bank notes issued as of December 31, 1947: 33,388,164
Total increase of bank notes issued: 28,413,016
1. Liquidation fund of Japanese government: 1,392,721(4.90%)
2. Loans for emergency: 1,072,000 (3.77%)
3. Won exchanges for Korean returnees: 874,471 (3.08%)
4. --
5. --
6. Funds for incentive programs for grain collection: 3,000,000 (10.56%)
7. Seasonal funds for grain collection program: 11,103,581 (39.08%)

1945-47); Mail and Records Branch, Operation Division (MRB, OD); Adjutant General Section (AGS); SCAP; RG 331; NACP.

85. William H. Draper, Jr., Under Secretary of the Army, to Secretary Royall, October 1, 1947 (Draper to Royall); Box 413; Entry 207; Foreign Financial Affairs; Comptroller of the Army; RG 319; NACP.

86. USAFIK to CINCAFPAC, December 1, 1946, Box 785-6; CDE, 1945-47; MRB, OD; AGS; SCAP; RG 331; NACP.

87. Kim Young-gyu. “Migunjeong ui geumyung tonghwa jeongchaek” [The financial policy of USAMGIK], in *Migunjeong sidae ui gyeongje jeongchaek* [The economic policies during the U.S Military Government Era] (Seoul: Hanguk jeongshin munwha yeonguwon, 1992), 166; Kim Donguk, “1940-1950-nyeondae inpeulleisyeon gwa anjeonghwa jeongchaek” [A study on inflation and the stabilization policy in Korea during the 1940s and 1950s] (PhD. Diss., Yonsei University, 1995), 54-76.

88. Research Dept. of Bank of Joseon, *Joseon gyeongje yeonbo*, 1948 [Annual Economic Review of Korea, 1948] (Seoul: Daegeon inswae, 1948), I-292.

8. Increase of loans: 531,487 (1.87%)
9. Increase of deposits: (-) 3,173,509 (-11.17%)
10. Miscellaneous issues: 187,064 (0.66%)
Total: 28,413,016 (100%)

Although most scholars have cited this table in their articles on inflation in Korea during the USAMGIK era, it is incomplete with two blanks (lines 4 and 5). Since the total amount excluding items 4 and 5 is 14,987,815,000 Won, one might logically deduce the total of 4 and 5 to be 13,425,201,000 Won, or 47% of the total increase in bank notes issued during the period of August 15, 1945–Dec. 31, 1947. Moreover, in the explanation that follows the table, currency inflation is explained as a result of overdraft for government deficit, including occupational costs and seasonal funds, because the USAMGIK financed government funds, as well as occupational funds, by means of overdrafts from the Bank of Joseon.

The above table was initially cited in a book entitled *Jaejeong geumyung ui hoego*. In the book, numbers 4, 5, 9, and 10 of the above table were categorized as “Government deficit and Miscellaneous.”⁸⁹ Even though this particular book pointed out that currency inflation was mainly caused by advances for government, occupational, and seasonal funds, most scholars just ignored these advances, assuming that the excess issue of bank notes at the time was mainly due to the expansion of bank credit for the purposes of financing government deficit and seasonal funds for agricultural product collection programs. Therefore, in order to clarify the reason for the excess of banknotes at that time, we need to examine three factors: advances to USAMGIK, advances for seasonal funds, and advances for occupational costs. The following diagram (diagram 1) shows the monthly trends relating to notes issued by the Bank of Joseon relative to the advancement of funds to USAMGIK.

The total amount of notes issued by the Bank of Joseon from the end of September to the end of June 1948 amounted to 21,355 million Won. During the same period, the principal factor necessitating note distribution was advances to USAMGIK equal to 46,730 million Won. Also, the sum totals of advances to USAFIK and seasonal funds were 10,146 million Won and 19,147 million Won respectively.

89. Department of Finance, *Jaejeong geumyung ui hoego* [Retrospection on the Financial and Banking Policies in Korea] (Seoul: Department of Finance, 1958), 202-204.

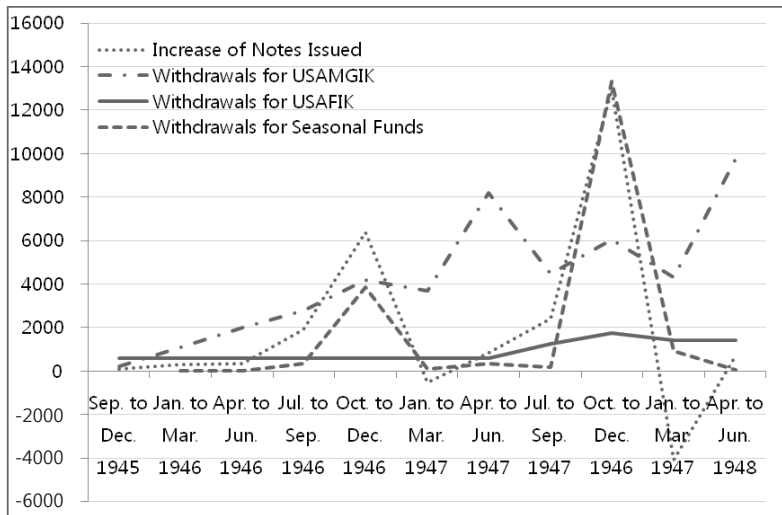


Diagram 1. Monthly increase of Notes issued by the Bank of Joseon and Withdrawals Classified by Causes (Million Won)⁹⁰

However, in measuring the advances for the three funds against inflation, since total advances themselves for each fund do not necessarily represent each fund's substantial effect on inflation, fluctuations should also be considered. Also, it is worth mentioning that USAMGIK and seasonal funds had deposits in the Bank of Joseon respectively, which means that the amount deducted from total deposits against that of total withdrawals for each fund reveals substantial increases in note issuance for both. The following chart (Diagram 2) demonstrates how the advances for the three funds had a significant impact on inflation during the USAMGIK period.

As of June 1948, cumulative excess withdrawals were 21,266 million Won for USAMGIK and 8,453 million Won for seasonal funds. This means that the cumulative withdrawals by U.S. Armed forces, equal to 10,146 million Won, were the second highest inflationary factor in Korea from the outset of U.S. occupation to June 30 1948.

90. Data sources are as follows: ① Data relating to notes issued, withdrawals for USAMGIK and seasonal funds from the Research Dept. of the Bank of Joseon, *Gyeongje yeongam* [Economic Review, 1949] (Seoul: Research Dept. of Bank of Joseon, 1949), IV-129; ② Data relating to withdrawals by USAFIK from the Report of Audit; SF, EAB; Property Liquidation Division; Civil Property Custodian; SCAP; RG 331; NACP. In the case of the data for USAFIK from June 1946 to June 1947, only figures of cumulative excess withdrawals are available, so monthly average disbursements are used to make the above chart. In addition, the data for June of 1948 is a monthly average taken from July 1947 to May 1948.

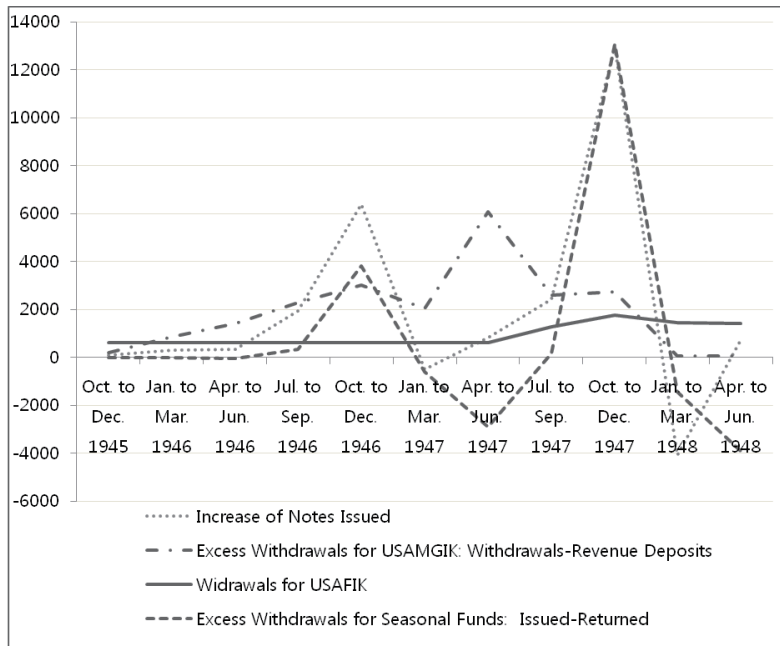


Diagram 2. Excess Withdrawals for USAMGIK, USAFIK, and Seasonal Funds (Million Won)⁹¹

In addition, the excess withdrawals for both USAMGIK and seasonal funds both showed fluctuation. For example, the advances to USAMGIK increased at the end of 1946 continuously, declined sharply during the first three months of 1947, increased during the next three months, declined sharply during the following three months again, and then increased yet again from October to December. This trend was similar to that of advances to USAMGIK during 1948 and was, to a large extent, associated with the financing of the rice collection programs.

As for seasonal funds, which refers to huge sums of money advanced by the Bank of Joseon to smaller banks throughout Korea between September and December, fluctuation was revealed more clearly than in advances to USAMGIK. During this period, also known as the rice-collecting period, a large part of the

91. For the source of this data, refer to footnote 53. It should be stated that a credit of 4,424 million Won was transferred from the Occupation Fund account to the USAMGIK Funding account ("National Economic Board. South Korean Interim Government Activities No 33," in *Migunjeong hwaldong bogoseo* [Summation of U.S. Military Government Activities in Korea] (Seoul: Wonju munhwasa, 1990), 549).

rice crop was bought by the government in cash.⁹² This purchase was made with newly printed money, for the most part, and money in circulation was boosted accordingly. Next, the rice was gradually sold at official prices from the start of the next year and, during the ensuing months, the Won paid by the townspeople was deposited back in the Bank of Joseon. As a result, monetary circulation dropped gradually in the first half of the next year.⁹³ Therefore, the inflationary force of seasonal funds also varied according to the time of year.

The advances to USAFIK for occupational costs, however, can be distinguished from the advances to both funds. As made clear in the chart above, excess withdrawals by USAFIK cumulatively increased until January 1948 because there were no deposits to the USAFIK's overdraft account until June 30, 1948. That means that the inflationary impact of such advances continuously increased until the occupational costs were finally settled on June 30, 1948.

Conclusion

This article has examined the currency plan of the U.S. forces for procuring local currency toward the purposes of occupation, the procedures and debates relative to the implementation of the pay-as-you-go policy, and the impact of occupational costs on the Korean economy. Through an examination of these issues, it has intended to broaden the research on USAMGIK as well as USAFIK.

The pay-as-you-go policy was the principle U.S. financial policy in liberated countries where U.S. forces were stationed overseas. The U.S., however, did not follow this policy in Korea from the outset of occupation. Rather, U.S. forces in Korea obtained local currency through withdrawals from the Bank of Joseon without settlement for payment. Therefore, the U.S. did not treat Korea as a liberated country in practice until the pay-as-you-go settlement for Korea was finally settled.

On May 20, 1947, the Secretary of State urged the implementation of the pay-as-you-go policy in Korea as soon as possible. However, it took over a year

92. Pertaining to the seasonal fluctuation caused by the Seasonal Funds, refer to "Economic Estimate of the Situation, December 1948," 3; Box 17; Entry UD 80; RG 469; NACP.

93. During the rice collection of fall 1947, circulation increased from 20.4 billion Won to 33.4 billion Won and then, during the spring of 1948, circulation fell as low as 28 billion Won. Refer to Enclosure of Letter from Kim Do Yun, Minister of Finance, to the United States Ambassador to the Republic of Korea, January 20, 1950, 1; Box 17; Subject Files, Compiled 1954-1961, Entry UD 80 (Entry UD 80); Records of the U.S. Foreign Assistance Agencies, 1948-61, Record Group 469 (RG 469); NACP.

to settle affairs in Korea due to not only the objections of CG USAFIK, but varying opinions over the best method for implementation as well. Nonetheless, the pay-as-you-go settlement for Korea was finally signed on June 30, 1948.

The cumulative withdrawals for U.S. forces in Korea were estimated at about 10 billion Won as of June 30, 1948. This vast expenditure played a major role in accelerating the inflationary process during that period. As already made clear, in spite of the fact that the authorities of USAMGIK declared that their goal was to stabilize the South Korean economy, it was steadily worsened due to serious inflation caused by the expansion of bank credit. By analyzing the relationship between the advances to USAFIK and the expansion of bank credit, it has been amply demonstrated that, in combination with advances to meet government deficit and advances for bank loans for agricultural products collection programs, advances to USAFIK certainly accelerated the inflationary process.

While the issue of clarifying the special features of the Korean case pertaining to occupational costs yet remains, such an endeavor would entail comparative research involving other cases, such as Austria, The Philippines, Japan, etc. However, this would suffice as the subject of another research paper.

