

February 5, 1947

Dear Fong:

You can't imagine how pleased I was to get your long letter with its account of conditions in Shanghai. Also I wish to thank you deeply for your Christmas card. I am glad you have found your work a productive ~~best~~ ^{goal}. I know you will be happy in it even though the conditions are difficult and the outlook unclear. You are young enough to be able to look forward to working with the difficulties and contributing to their solution. I hope in the process you will keep in touch with us here.

The Institute has been an active place this winter. We still have Murkee and Lindberg here, while Folke Hilgerdt is still living in Princeton although he is working at Lake Success. This last week Sir Henry Clay and Bertil Ohlin were visitors at the same time. You can imagine that it was rather busy, but provided a good opportunity for a productive interchange of ideas.

This week we have Dr. Penrose, who used to be with the I.L.O. and later with Mr. Winant in London, and Professor Frank Tannenbaum of Columbia, arriving to stay until June. They both expect to produce a book while they are here.

Lovesday is now at Muffield. He writes to us frequently. Working conditions in Oxford are still difficult, apparently largely because of the restrictions on building and housing.

Please remember me to Mr. Gordon. He is a good man.

Mrs. Riefler, as well as all your friends at the Institute, join me in sending our very warmest greetings.

Sincerely yours,

Mr. Shan-Kwei Fong
Central Trust of China
8 Yuen Ming Yuen Road
Shanghai, China

Winfield Riefler

~~W.H.S.~~
~~S.A.H.~~
~~J.C.~~
~~A.B.W.~~
W.H.S.

Central Trust of China
8 Yuen Ming Yuen Road
Shanghai, China.
November 2, 1946.

Dear Mr. Riefler:

After our last meeting in Princeton I left for the west coast where I sailed for Shanghai. The journey was extremely pleasant. Naturally, it was a great satisfaction to be re-united with my family after ten years' departure, especially to find that everyone had been well.

Shortly after my arrival in Shanghai I was appointed as the Assistant Controller-General of the Central Trust of China which is a subsidiary of the Central Bank of China. The functions of the Central Trust resemble in many respects those of the Reconstruction Finance Corporation of the United States, being a governmental financial organ engaged in granting loans, buying materials, promoting housing projects and handling state trading. It is now carrying out the barter agreements with Soviet Russia and Japan. The work of the Controller is to plan and supervise the entire operation of the organization. The job is very interesting, and I feel that I am doing useful work.

In addition to the job in the Central Trust I am serving concurrently as a technical expert of the Reparations Commission of the Chinese Cabinet. We are planning and negotiating on the intricate issues involved in that problem.

Shanghai appears very much the same as before except that the buildings and streets have been worn out. The part of the city devastated by war is relatively small and economically insignificant. The International Settlement is now in the control of the Chinese. It

remains the most important and prosperous place in China. Population in Shanghai has increased sharply since the V-J Day as everyone likes to return here ~~if~~ even just to take a look. Nanking is not far from here. It is more ^{extensively} devastated than Shanghai, but the main government buildings can still be used after repair. Transportation is very difficult and expensive. Food supply is under control. Rice is cheap but flour is expensive. Meat, vegetables, eggs and milk are all plentiful only the prices are rising rapidly.

The position of workers in Shanghai has been raised purely for political reasons. As the government is anxious to please the workers lest they might turn Communist, any threat of strike may bring them financial gain. The wages are now adjusted to the change in the cost of living index, in some cases higher than the cost of living index. This is certainly a blow to the industrial entrepreneurs. The profit margin is narrowed down, and besides, the need for working capital is increased. We are, therefore, having a depression in the midst of inflation. The budget remains in deficit, but note-issuing is no longer the only source of revenue as the government can raise money by selling gold and enemy property. Soon surplus from U.S. will be sold for revenue. The sale of enemy factories to the public, though helpful to government finance, is nevertheless harmful to the accumulation of capital stock because the buyers usually have no intention to run the factories. They just scrap them and sell the remains. Since note-issue has been cut down and yet the demand for money is still large, the rate of interest has been driven up. It is now on average 15 per cent per month. The Central Trust and other governmental financial organs have established a priority system to allocate government cheap credit (around 5% per month) to essential producers.

The political condition in China remains chaotic. Recently, another attempt has been made to bring the two parties together. But there is no success. It is possible, however, that some agreement may be reached this week.

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People all over China are clamouring for peace. No one can see any gain in continuing the civil strife. Most of China is in acute poverty which cannot be relieved until transportation is restored and funds are used not for war but for reconstruction. We are most afraid of any possible conflict between the United States and Soviet Russia which will lead to another world war. Henry Wallace has found many a sympathizer in China and his speech is widely discussed.

We are also very much interested in the work of the United Nations Assembly. But people usually remain cynical to the effort being made there.

The intellectual life in China has sharply deteriorated. A large number of universities have been damaged; libraries have been looted; teachers have been starved. The atmosphere is unfit for quite and leisurely life. But still a good many intellectuals are struggling to retain as much cultural life as possible. I am a constant visitor to the U.S. Information Service where books and magazines can be found. A few friends and myself are organizing an economic discussion club. I have become a member of the Sino-American Club and a member of the Sino-British Cultural Society. We have recently given a lunch party for Prof. D. B. Copland who is Australian Minister to China.

Princeton must be very beautiful in the late fall. I still remember the days I raked leaves in the garden and burned them, and I could still vaguely remember how it smells. Despite the happy memory, however, I am happy that I am now in China where with my fellow men I have a great task to undertake. I am most thankful for the privilege I got in the United States which have enabled me to shoulder greater responsibility.

There is a friend of yours in China, Mr. David L. Gordon, who has become well acquainted with me.

Please remember me to Mrs. Niefler, Mr. Stewart, Mr. Warren, Mr. Goldenweisser and Mr. Copper.

With best regards,

Sincerely yours,

Shan-Kwei Fong

Shan-Kwei Fong

Feis

April 3, 1947

Dear Herbert:

It was good of you to give me your reactions to the buffer stock article. Your whole thoughtful letter reminds me again that I have resolved to see a great deal of you this year, and have seen nothing of you. Why on earth don't you stop over in Princeton sometime on your many trips to New York? If I got down your way, you won't be able to escape me.

Sincerely,

Winfield Diefler

Mr. Herbert Feis
1529- 29th Street
Washington, D. C.

1529 - 29th Street
 Washington D.C.
 March 7, 1947

Dear Wurt-

I've been buried in the exploratory phases of a rather large writing job. So I've been too slow to read & write you about your journal article on buffer stocks

You've done an extremely thoughtful & ingenious job of formulation. If I thought it possible to bring thru the whirling haze of national & international politics and interests, the type of program you present, many of my warning fears would vanish. But I doubt that it would be possible to secure from the hands of existing national states any program which "would not be subject to the types of political and economic pressures that have caused mismanagement in the past." Your prototype might be proposed as model - but would most likely come out of conference greatly changed.

My basic ground for skepticism is a judgement that no country would permit a buffer stock for long to sell at prices that hurt its export market or exposed its producers to very disturbing competition. While they might not be able to fight economic tides, ~~each~~ each has bargaining power of one type or another to make life miserable for an int'l econ. organization. Even if it should prove possible to raise - by subscription

or borrowing a capital fund sufficient to operate thru depression, the national representatives on the board would, I think, ~~best~~ other forms of control over the organization; it could not win, in the present state of the world, independence of action.

One other comment; I am not at all sure that the injunction to be self-supporting would be consonant with the ideal of stabilization. But I have not thought that through.

Still one further comment to perplex: the present gaps between the real ^{comparative} purchasing power of the monies of many countries and "official" or "controlled" exchange rates would be a devilish difficulty as long as the condition existed.

Well enough of sterile doubt & objection. My mind drifts to the conclusion - in some ways not too far from yours - that the only type of fund operation that could be wisely undertaken would be of an emergency or anti-depression type. It would be only when prices were well & clearly below costs of production, historical & actual, and gradually sell as demand improved. It would not attempt to offset short-term fluctuations at all, or try to prevent upward price movements.

But I suppose all this remains for the time being as rather unreal issue. How slowly the countries struck by the war are recovering their productivity, how many the strains & fissures that threaten future production.

Forgive the essay, but you "asked for it." With warmest regards, as always,
Herbert Feis

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Chang

THE CENTRAL BANK OF CHINA
SHANGHAI

~~W.H.H.~~
~~P.H.H.~~

April 19, 1947.

Mr. Winfield Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, New Jersey,
U. S. A.

Dear Mr. Riefler,

Your letter of April 7th arrives here to-day. The speed in which air mail goes has impressed me and brought to me a very comfortable feeling that I am not far away from my friends in the United States. My wife and myself are both deeply grateful for the kind thoughts which you have expressed in your letter.

As you may notice in the letter-head, that I am now working in the Central Bank of China. Since the middle of February, there has been a re-orientation in China's economic policy, and Mr. Chang Kia-ngau has been appointed as the Governor of the Central Bank of China. Upon his assumption of office I was called upon to serve as his special assistant. Although I still hold my job at the Central Trust, I practically spend all my time at the Central Bank.

You may probably remember that Governor Chang visited Princeton in the Spring of 1945 and was entertained by you and Mr. Stewart at the Nassau Club. As the nation's foremost financier he has always been looked upon by the people as one who could put China's finance in order. His appointment is widely acclaimed as a wise one.

The circumstances in which Mr. Chang finds himself are, however, indeed very difficult. It will take his hard effort as well as his prestige and popularity to restore China's economic condition to normalcy. Inflation, though less fervent as before, remains a serious problem. High domestic prices have stimulated imports and prevented exports and as a consequence there is a serious pressure on the balance of payments. Though the foreign exchange situation can be slightly relieved by import regulations, but consequent upon such regulations, the small amount of machinery and raw material, imported from abroad e.g. coal, cotton and wheat, would not be sufficient for domestic industries. Bottlenecks in the economic system such as these are always threatening to create a situation in which un-employment takes place in the midst of inflation.

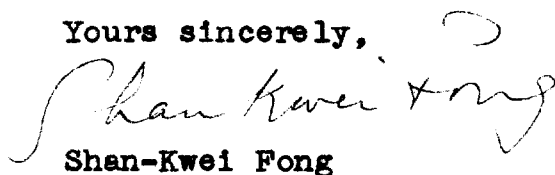
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After Mr. Chang's inauguration, efforts are being made to concentrate private holdings of foreign currency by issuing bonds in terms of U. S. Dollars. Short-term Treasury Certificates also in terms of U. S. Dollars are issued to absorb nation's excess purchasing power. These bonds and Treasury Certificates have been welcomed by the public. It is hoped that when the \$500,000,000.00 Import-Export Bank loan materializes the situation will be substantially improved.

While I find my work extremely interesting I often realize that my experience is yet insufficient. I will appreciate it very much if you would frequently enlighten me with your writings, either publications or personal correspondence, so that I may benefit from your advise as I did when in Princeton.

My best regards to you and Mrs. Riefler.

Yours sincerely,

A handwritten signature in cursive script that reads "Shan Kwei Fong". The signature is written in dark ink and is positioned to the right of the typed name.

Shan-Kwei Fong

W. W. RIEFLER
4/25/47

HWS ✓

Comments on The Greek Problem

A. The alleged moral and character deficiencies of the present Greek Government are an inevitable outcome of nearly three years of progressive inflation. Hyper-inflation in any society acts ruthlessly to eliminate leadership based on solemnity of character. Such individuals become submerged and unavailable for public posts. The actual administration of a country in hyper-inflation must inevitably be conducted by individuals who have demonstrated their capacity to survive in an inflationary environment; a capacity that is nearly always based on dubious personal activities and elastic ethical standards.

B. Genuine permanent stabilization of the Greek currency is a sine qua non to the success of the whole American program in Greece. On it will depend not only the success of other economic measures directed toward reconstruction of the economy, but also, internal social and political stability and above all, the ability to foster the emergence of a governing personnel possessing the character and ethical standards to merit continued support in their own right, and not merely support as an alternative to Russian penetration to the Mediterranean.

C. If it is at all typical of other comparable inflationary situations, Greek society today is rife with unrest and malice toward a profiteering, nouveau riche, ostentatious and unscrupulous leading caste. The peasants have probably benefitted in paying off heavy agricultural indebtedness that plagued reconstruction in the inter-war period, and are surviving today by selling in the black market and making no permanent money savings. The trading and professional middle classes to which the country should look for leadership are probably completely absorbed in current survival. The

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total volume of outstanding private debt must be large in drachma but very small in dollars at current black market rates of exchange and must be owed largely by successful speculators or speculative traders. The currency must be circulating at a high velocity and its dollar value at current relevant (not official) rates of exchange must be small.

D. Effective currency stabilization will slow down the velocity of circulation and create a vacuum both of currency and credit. Thus it will draw the current speculative elements into the banks. If the stabilization is carried through effectively and the banks are honestly and rigorously administered, the stabilization of the currency in and by itself will act as the most powerful force that could be evoked to improve the character of the Greek Government and of the individuals in actual charge of administration. The speculative elements will be bankrupted out of circulation, and the more sober elements in the community will again rise to the top. In banking terms they will possess the credit worthy qualities of character and experience for economic reconstruction in an environment of currency stability.

E. There is probably little real effective money saving in Greece today, such as there is and must be in foreign currencies. This condition will probably continue until the currency is effectively stabilized and is expected to remain so. Even after effective stabilization, internal money savings will tend to be exported for reasons of political security to safer _____ . Internal investment of private money savings in Greece will be limited largely to those sums that can be prevented from escaping through exchange control techniques; techniques that are peculiarly difficult to apply in a country as backward and unstable as Greece, and also difficult to make effective in/country such as Greece whose economy for thousands of years has pivoted around commercial and trading activities throughout the Middle East rather

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than around internal primary production.

F. Such internal investment as takes place in Greece must depend on government funds. With tax revenues that are inadequate to balance the budget, these must be raised either by further inflationary levies or by external loans. If the currency is to be stabilized, the proportionate amount must come from external loans.

G. For the American policy of financial assistance to produce a constructive result, it must provide funds not only sufficient to maintain life on a relief basis--i.e., to meet recent deficits in the balance of payments arising out of abnormally low Greek exports. In addition it must provide the bulk of the funds for current internal investment. These two quantities are not additive, investment funds will provide exchange for the current balance of payments. It is important however to comprehend the internal investment necessities if the American program is to succeed in terms of currency stability and full internal employment.

H. The F.A.O. Report on Greek reconstruction is a valuable document but it missed in its central economic focus. The Greek economy has never rested on internal primary production of the type emphasized in the F.A.O. Report, or rather it has not rested on this type of economic activity since the early days of Athens as a city-state. It has rested rather on commercial activities throughout the Near and Middle East, merchandizing, commerce, shipping, insurance, tourists, etc. This will probably continue to be the focus of Greek economic life so long as it remains part of the free world. Internal agricultural improvement, light industries, and hydro-electric development are all valuable but in terms of Greek economic reconstruction they are secondary to the reestablishment of Greece as a merchandizing.

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commercial, and financing center for the Middle East. Reconstruction of the Greek banks as instruments for the financing of Middle Eastern commerce (not simply Greek commerce), of the Greek merchant marine, and of an enterprising but reliable commercial class, are the three primary requisites of Greek economic survival.

Suggested Program

I. As the first move in the American financial program looking toward the economic, political, social, and strategic reconstruction in Greece, I suggest the abolition of the drachma and the substitution, therefore, of the dollar. This step would be simple, novel, bold and extraordinarily effective. It would be charged by the Left as dollar imperialism, but that charge is already applicable to the entire American program. No move that one could make would more effectively accomplish our objectives in the Middle East. It would stabilize the currency without question, and thus lead to the emergence of a new ruling group based on sober middle-class merchandising and professional backgrounds. It would give the peasant a tangible and compelling loyalty to the West. (Imagine its effect along the troubled Manchurian border when the peasants on one side of the line would have dollars to deal in as compared with nearly worthless money on the other); It would provide the Greek commercial banks with a pecuniary medium on which they could develop as the credit merchants of the Middle East. It would draw back into Greece, and to the use of the Greek economy, the cash balances of Greek enterprise such as the shipping companies. We have an example in Cuba of the stabilizing effect of a move of this kind. Throughout the years of its greatest unrest, Cuba used dollars as a medium of exchange and escaped

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many of the pecuniary consequences of its internal instability. The brief adverse economic effect lay in the fact that it facilitated the flight of internal savings into external hoards. However, these would probably have occurred anyhow. In the Greek case, this objection does not apply. If anything could help bring the internal savings of a commercial nation such as Greece back to the aid of the Greek economy, it would be the provision of a pecuniary medium possessing the "magic" attribute of dollars.

2. The initial cost of introducing the dollar as the official currency of Greece should be small. Under conditions of inflation attended by high velocity, a relatively small sum in dollars should suffice for the exchange of the entire drachma note issue for dollars. The plan could provide that the Greek Government (or Central Bank) could reintroduce the drachma at any time that they had the dollars to repay the currency loan.

3. With dollars as the basis of their currency, the Greek Government would lose the power to finance itself by recourse to inflation. It would be forced, consequently, to rely on dollar loans to the extent that it did not cover its expenditures out of local revenues.

4. This situation would automatically provide the American administrator with the powers he would need to make American assistance constructive and effective. It would enforce fiscal reform, and the Greek Government would be required to execute sound development and construction programs as a basis for the American loans. The situation might soon develop to the point where the International Bank could take over.

5. The essentials in the program are:

(a) Insistence that the drachma be abolished for the time and dollars substituted.

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- (b) Insistence on a sound organization of the Greek central bank and of the Greek private banks, with reliable and conscientious administrative personnel.
- (c) Provision of ample discretion to the American administrator to place effective conditions on further financial assistance.
- (d) Frank acceptance by the United States that it intends to see the program through and to provide the necessary assistance until the program is effective.

**FEDERAL RESERVE BANK
OF NEW YORK**

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NEW YORK 7, N.Y.
May 6, 1947.

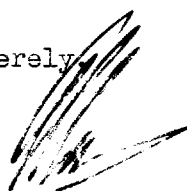
Mr. Winfield Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, New Jersey.

Dear Win:

Enclosed is another memorandum prepared by Coombs containing further comments on your note about stabilizing the Greek currency. As I recall it, you said you wanted to have the facts of the problem developed and this memorandum carries that idea forward. At this stage it does not seem to me that you have hit upon the solution of the problem although you may well have some opinions to offer in rebuttal. Meanwhile, we shall be trying to develop what we think may be a more likely approach.

With best regards,

Yours sincerely,



Allan Sproul.

Enclosure

Sprue

May 10, 1947

Dear Allan:

I am back from my trip South and find your second letter on my desk. The first arrived as I was departing and served the good purpose of keeping me quiet on the Greek situation, even though I did not have time to assimilate the intellectual contents fully. Now I hope to be able to digest both communications or rather all three messages and consequently to be better informed.

The base memorandum on the political and economic background of the Greek request is a magnificent job of expert and informed analysis. As before, I am filled with envy of you, your position and the Reserve Bank. I wonder if you appreciate what it means to have immediate access not only to beautifully organized information but also to experts of such competence, caliber and experience. I had the same feeling in 1939 when I came to you for help on the National Bureau study of business financing. Then I was surprised but less so than this time. In this case I had expected well-organized, up-to-the-minute information but I did not imagine you would already have on your staff someone who was right out of the center of the whole Greek situation. May I make three general comments?

First. Of the various incorrect preconceptions which I had, those relating to the caliber of the personnel of the present regime were most in error. I had imagined that they were more volatile and venal. I had not imagined that the stabilization last year was sufficiently effective in the short run and that it had already produced many effects analogous to but not as favorable as I had hoped. Apparently a hard-headed, long-visioned, thoroughly acclimated leadership has seized power, and it is anything but attractive from our point of view.

The situation certainly gives rise to despondency over any constructive approach to the problem, except ~~first~~ which seems to be ruled out on general security grounds, namely, that of leaving it completely alone. If it is our premise that the United States is now responsible for a successful reconstruction on the basis

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Mr. Allan Sproul

May 10, 1947

of native, non-communist leadership, then any plan which we adopt must operate to shift the leadership as far as possible from the reactionary right, where it now rests, toward the center. The economic counterpart would seem to me a plan which fostered the emergence of a middle class. It may be that the conditions are not present that will contribute to this objective. That simply means that our whole commitment is foredoomed to failure. If we embark at all, our approach must work in that direction. I still feel that a plan which provided for a definitive stabilization of the currency, one that could not conceivably be upset, would favor on balance the emergence into leadership of individuals who achieved prominence on the basis of personal constructive economic performance rather than on the basis of family, monopoly, exchange speculation, commodity hoarding, black market evasion, etc. It may well be that it would not be sufficient to achieve the desired result, but it would work in that direction. I don't see that any of the other programs do even as much. Mr. Coombs' basic memorandum made me very pessimistic. It seemed to say that the economic situation was technically feasible provided power shifted to an honest center government but, as he states, there appears to be very little that serves to compd that shift or even to work in its direction.

Second. Mr. Coombs presents formidable data to shake me out of my observations about the necessity of pivoting reconstruction around mercantile activities rather than internal production. I hope you appreciate that these observations of mine were not dicta but suggestions for exploration. It makes me decidedly uncomfortable to see them quoted as if they came from a prepared memorandum. They sound foolishly bombastic. Is it Mr. Coombs' judgment that there is nothing worth considering in the point? It is always hard to justify statistically the kind of consideration I was advancing, either from national income, employment, or balance of payment figures. For example, American production statistics tend to minimize the importance of foreign trade in our economy--it appears negligible. Likewise the crucial importance of London as a financing, merchandising, mercantile center was always difficult to read from its employment, balance of payments, or national income statistics. My own advice, for whatever it is worth, would still be to provide adequately and consciously in any plan for economic reconstruction for growth in the Greek external mercantile position. The F.A.O. report (which I liked) did not convince me that the ultimate solution for that unhappy country with its meager resources could be found in internal resources alone. That is why I feel it important to give the Greek merchant a currency on which he can operate abroad.

Mr. Allan Spraul

May 10, 1947

Third. I am sorry that you did not extend your analysis to the real suggestion which was the occasion for our contact. I did not suggest either a 100% dollar-backed drachma currency, or sales of gold for drachma. Both had occurred to me and both were rejected on general considerations that are pretty similar to Mr. Coombs' analysis. You will recall that I so stated in our conversation. I am concerned about this because I would not wish to be associated or to have my name associated with either proposition.

My suggestion was that the drachma be withdrawn from circulation and from the reserves of the Greek banks and that dollar currency be substituted. As I read Mr. Coombs' general memorandum describing the stabilization effort last year, and the economic program that was needed then and is still needed now, I kept wishing I had his judgment on the differences between this approach and the one actually used, i.e., the sale of gold against drachma. I kept feeling that my suggestion provided the missing link that would have changed the outlook completely. It seems to me that there would have been four essential differences: (1) It would have minimized or eliminated the over-valuation of the currency. Thus it would have been profitable to export tobacco and we would not have had the phenomenon of non-exportation at a time of currency stabilization; (2) It would have increased the internal cost of luxury imports (this might not have been effective enough to reduce them to tolerable levels but it would have worked in that direction as compared to what actually happened). (3) It would have provided the whole population, including peasants and labor, with a stable medium of saving and exchange, and not merely the moneyed class with a classic opportunity to increase their personal profit by hoarding gold against the community. (4) It would have decreased the drain of foreign reserves by the extent to which it diminished the tendency to hoard, both financial assets and commodities.

The latter point deserves further exploration. A program for economic reconstruction, including currency stabilization, that makes use of monetary instruments is followed by two types of drains on reserves. The first arises out of the expansion in the currency circulation (and bank deposits) that results from a decrease in velocity. The magnitude of this type of drain varies with the success of the stabilization program. It is smallest when the stabilization plan is ill-conceived and not expected to last. It is largest when the stabilization plan is so well conceived that it cannot fail. In other words when it eliminates all expectations

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Mr. Allan Sproul

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of failure. These varying results arise because, in a precarious financial set-up, the velocity of circulation both of deposits and currency is powerfully affected not only by actual currency instability but also by the expectation of instability. I personally am prepared to recommend that adequate additional foreign resources be made available to meet a drain of this kind, that is, a drain due to decreased velocity, if the general reconstruction plan is sound. That is why I made my suggestion. The actual substitution of dollar currency for drachmas would eliminate completely any expectation of further currency instability in Greece. It would, consequently, call for plans to meet a maximum demand for currency and reserves due to a decrease in the velocity of circulation. Mr. Coombs has estimated that 80 million dollars would be required to substitute dollar currency for drachmas at the time of stabilization, and 50 million additional would be required to meet the further demands that arose from a decrease in velocity. These do not seem to me to be exorbitant amounts in view of the commitment and the ends in view if they would insure an effective outcome.

The second type of drain on financial reserves that may accompany a program of stabilization is a hoarding demand. Wealthy individuals, with local currency or deposits in excess of hand-to-hand or till money needs, may turn this currency in for gold, if it is available, or foreign exchange. If they have no currency or deposits they may sell assets to acquire them and turn the resulting currency in for gold or foreign exchange. If their credit standing is good or they have preferred access to the banks, they may borrow in local currency to obtain gold. They may hoard the gold or exchange obtained either at home or abroad in expectation of a further devaluation, or they may use it to import commodities that are not essential to the economy and would not ordinarily be imported, but promise exceptional profit opportunities under the existing chaotic circumstances, or they may invest the fund abroad in foreign profit opportunities. In extreme cases of anticipated instability, they may personally follow their assets abroad, leaving the country. This type of drain on resources contributes nothing to the reconstruction of the economy in which it occurs. It is at a maximum if the stabilization plan is ill-conceived, and holds little promise of success; it is at a minimum or even non-existent if the stabilization plan is so secure that there is little expectation that it will not succeed.

It is important to distinguish between these two types of drain because they will accompany in varying degree any practical attempt to stabilize conditions. Any plan actually adopted should contemplate

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with equanimity the first type of drain—it is a condition of success. Equally it should minimize the second type of drain—it constitutes a dissipation of rare resources and only occurs in magnitude when the reconstruction plan is sufficiently ill-conceived to invite failure. In these circumstances, the hoarding drain of itself is usually sufficient to convert potential weakness into actual disaster.

The sale of gold for drachmas is a particularly vicious example of the latter type of drain. It dissipates scarce foreign resources with no aid to the economy of the country. It leaves a vacuum in the currency that is filled by further note inflation. It offers the wealthy, influential and quick-witted, a rare opportunity to "get theirs while the going is good." A 100% dollar secured drachma issue would be almost as bad. It would not produce expectations of successful long-term stabilization. Reserves put behind a currency by legislation or administrative fiat can be removed by the same means. I would not expect the hoarding drain per month to be as large under a 100% dollar-backed drachma currency as under a program to sell gold for drachma, but I would expect it to be sufficient to waste foreign resources inordinately and thus to jeopardize any plan for successful reconstruction in a situation as difficult as that of Greece. As stated earlier, I would not personally wish to be associated with either plan.

The program I have suggested, namely that the drachma be abolished and the dollar substituted would operate to keep the hoarding drain to a minimum. It would eliminate the tendency to seek security or to make profits by capital flight into either gold or foreign currencies. The wealthy Greek, as well as the common man, i.e., the potential hoarder as well as the rest of the community would have his existing hand-to-hand currency in dollars and his deposits in dollar accounts. He would have no incentive whatever to speculate against the currency or to hoard in anticipation of further collapse. This would not be true of any other plan. His only remaining incentives to hoard or to withdraw currency above his day-to-day needs so far as I can see would be the following: (a) fear of failure on the part of the Greek banks; (b) fear of administrative seizure and confiscation of his bank accounts; (c) desire to take advantage of more profitable investment opportunities abroad; (d) desire to import, and (e) desire to emigrate and live abroad. Pressure for drains of these types would be present under the dollar currency plan as under any other, but they would be the only potential drains to be eliminated or guarded against. The huge drain due to profit-making hoarding would be eliminated. Furthermore, incentives would be established to return hoarded funds into circulation. Provided the banks were

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sound and there was no expectation of confiscation, there would be no incentive for wealthy Greeks to keep funds idle. Mr. Coombs has indicated that the Greek banks are closely controlled. As they probably possess the confidence of the present holders, a dollar currency might well attract back the funds that were dissipated by the sale of gold programs last year.

Please forgive the amount of space I have devoted to the above point. The removal of the incentive to hoard is so near the central justification for my proposal to achieve economic results through currency stabilization that I feel I must make the position clear.

I am distinctly encouraged by one point in Mr. Coombs' memorandum, namely, his considered judgment, based on his direct experience, that a Center government, if it could get into power, would be able to float the economic situation by:

- (1) Introducing rationing and price control for essential foods and clothing.
- (2) Conserving foreign exchange for essential imports.
- (3) Establishing an exchange rate that removed the over-valuation of the currency.
- (4) Enforcing fiscal reform, both in the shape of less regressive taxation and in the shape of elimination of surplus personnel.

His considered judgment that a rationing system backed by price control could be run honestly and effectively, if it is limited to the items he specifies, mostly food and clothing, is more reassuring than anything else I have heard with regard to the Greek situation.

I will discuss the problem of getting a Center government and of persuading it to adopt such a program at a later point in this letter. At this point I would like to get Mr. Coombs' judgment on whether my suggestion for the establishment of a dollar currency would work at cross purposes with the program he outlines. As I have considered the matter, it seems to me that a dollar currency for Greece would contribute more than any other to making it effective.

Point One. I see nothing in the dollar stabilization proposal to impede the establishment of an effective rationing and price control system for food and clothing such as he outlines. If such a system can be introduced without dollar stabilization, one certainly ought to be able to set it up under a stable currency, particularly since the exchange to purchase the food and clothing distributed will come from the dollar loan during the first year. I can see some cost-price disparities that would be troublesome arising eventually if the

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Mr. Allan Sproul

May 10, 1947

prices of the rationed goods were established at levels that were seriously out of line with price and cost levels as they finally shook down after the dollar stabilization were completed but these presumably could be corrected by adjusting the controlled prices.

Point Two. Mr. Coombs' plan contemplates the conservation of foreign exchange for essential imports through the device of import licenses as well as exchange control. Inasmuch as exchange control would be much more difficult to enforce if Greece had a dollar currency, this seems to me to be the most important point where my suggestion might appear to run counter to the program he has in mind. My own feeling is that import licensing should be enough and would be preferable. I came to this as a result of my experience on the Finance Committee of the League of Nations where we devoted many sessions to this problem as it arose in the countries which had placed their finances under our supervision. Those countries were universally following policies that subjected imports to a dual control, i.e., through import licenses and also through exchange permits. The result of our consideration was the recommendation that the system of import licenses be made the central feature of import control and exchange be granted automatically for any licensed import. Our reasons for this conclusion were technical. It was testified almost universally by those actually in charge of the controls that the short term financing of commercial imports and exports was made needlessly cumbersome and expensive by the imposition of two barriers, both directed to the same object. They all agreed that imports could be adequately regulated by direct import licensing alone.

I am naturally inclined to carry over this reasoning over to the Greek situation. If my suggestion that the dollar be introduced as the currency of the country were adopted, I would conserve exchange on trading account by refusing import licenses for luxury goods and by limiting licenses to essential imports.

This measure, together with the elimination of the incentive to hoard currency because of the expectation of further inflation, would eliminate the two big sources of currency drain that operated during the stabilization last year. There would remain as potential incentives to dissipate foreign exchange reserves only the possibility of withdrawals (a) to take advantage of investment opportunities abroad; (b) to escape confiscation, and (c) to facilitate emigration. From Mr. Coombs' description of the actual situation in Greece, it is difficult to imagine these possible sources of drain achieving important dimensions. So long as profit levels in Greece remain at anything like the levels he describes, wealthy Greeks will find it more profitable to invest at home than abroad. So long as the extreme right governing

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regime is as solidly entrenched in industry and finance as well as in Government, there would seem to be little danger that they would withdraw dollar funds from Greece to escape confiscation or to facilitate their own emigration. If the program I am suggesting should succeed, this particular regime would be forced to yield political power to one nearer the center. Even under these conditions, however, I find it difficult to imagine that they would fear persecution to the point where they would choose to leave the country.

Point Three. The establishment of an exchange rate that removed over-valuation of the currency would seem to me to be facilitated by the suggestion that the dollar be substituted for the drachma. I believe that the correction of over-valuation under exchange control is a much more difficult problem. During my experience on the Finance Committee at Geneva this problem was constantly on the agenda. The experts were constantly arguing for devaluation of over-valued currencies under exchange control. Corrective action was always slow or non-existent. Mr. Coombs' discussion of the choice of the rate of 5,000 drachmas instead of one at 7,500 which he favored, reminded me of many wholly analogous discussions in the Finance Committee before the war. There seems to be an inherent tendency toward over-valuation in the administration of exchange control.

Point Four. Fiscal reform, both on the revenue side in the form of more remunerative taxes and on the disbursement side in the form of elimination of inept activities and surplus personnel are common objectives both of his comprehensive program and of the specific suggestion for the incorporation of a dollar currency in the plan. Mr. Coombs is eloquent in arguing the difficulty of getting the present regime to act effectively and of their skillful use of the precarious political situation as blackmail. The situation is certainly one of the most difficult ever faced, but I do not see how the substitution of a dollar currency for the drachma would accentuate this difficulty.

My personal judgment was and still is that American pressure for fiscal reform and also for the adoption of the whole program Mr. Coombs advances would be less difficult under a dollar stabilization. This is a matter of political judgment and not susceptible to definitive proof, pro or con. The most I can do is to outline the considerations that have led me to my conclusion. I have a feeling that most Greek labor and most Greek peasants have heard a great deal about dollars and dollar currency but have never handled dollar currency unless it came as an immigrant remittance. I further feel that

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they would count it as a great boon if they received their wages in the form of dollar currency or sold their crops for dollars. It would constitute a tangible evidence of the interest of the United States in their welfare, something they would not easily give up. If this is true and to the extent it is true, an internal reaction against the regime would show a greater tendency to support opposition elements friendly to the United States and not communist elements, if dollars were the currency rather than drachmas. In other words, it was my thought that the dollar proposal would work to strengthen the political center, liberal and socialist, as the opposition to the regime rather than the communist left. I think Mr. Coombs would agree that any such effect, if it occurred in fact, would weaken the power of the present regime to maintain the tactics he describes, namely, to defer internal fiscal reform because they are sure the United States will not dare push its conditions to the point where a Communist goup d'etat is possible. It was part of my thought that a dollar currency would tend to strengthen the whole 85% non-communist element in the population as against the Communist. In other words, the whole country would want to hold the American affiliation and, consequently, would support the demands of the American administration rather than the regime. Certainly it would work in this direction. Whether sufficiently so is a different question.

The only situation I can see that would have the opposite result, namely, that it would support the regime to the point where it would be able to defy our conditions, would arise if the substitution of dollars for the drachmas by itself solved all the economic problems of the regime and left Greece in no need of further American loans. According to Mr. Coombs' memorandum, this is highly unlikely.

I would like also to expand my thought on the subject of the actual power an American representative would have in the situation described by Mr. Coombs. I personally think the dollar stabilization proposal would improve his trading position. For example, imagine the situation that arose last year when the temporary stabilization, achieved through sales of gold for drachmas, gave rise to a need for more drachmas to fill the vacuum in the currency; and compare this situation with one that would arise if a dollar stabilization were effected and there was a demand for more dollars to fill the vacuum in the currency. In both cases, the American representative on the Currency Board would recognize the need for the increase in circulation but in both cases also he would want to make genuine fiscal reform a condition of his consent to the increase. In both cases, the regime would be playing the fear of a Communist goup against genuine fiscal reform. In the former case, the specific action the American would be asked to approve would be an expansion in the drachma note issue, i.e., a decrease in the cover. Ordinarily such

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action is completely a matter of national sovereignty. Even the most suspicious of our Congressmen might feel we had no business interfering in situations of that sort. In the latter case, the American representative, if he consented, would also have to pay over hard dollars from the limited fund put at his disposal by a suspicious and reluctant Congress. If I personally were put in the position of "trading it out" with the type of realistic tough Greek Mr. Coombs describes, I would feel my trading position was infinitely stronger in the latter case.

Just one word in closing. Your note invited remarks from me in rebuttal. Please don't consider this letter a rebuttal in any sense whatever. Mr. Coombs' memorandum is one of the best that I have ever seen. I am fully aware of my ignorance of the Greek position. I have also participated enough in international negotiations to know how irritating it is to come home, full of the details of a whole tense situation, with an instinctive feel for its elements, to find myself faced with a program or a basic suggestion from somebody who has had no real contact with the problem. I am writing at this length to keep my record straight over a misconception that would worry me if it were allowed to remain, and also to try to give you more comprehensively the ideas and considerations that lay back of my suggestion. I am sure from reading Mr. Coombs' comments on my suggestion that he has not interpreted correctly the basic ideas which I was advancing. I hardly see how he could have from the rough notes which he saw. The essence of the idea is (1) that it would eliminate capital transfer as a drain on Greek resources, (2) that it would eliminate the power of the regime to finance itself by inflation, and (3) that it would create a political alliance within Greece such that the American administration could contemplate a fall of the regime. I intended my written notes as something to recall to you the drift of our conversation, not as material for dissemination or analysis. I had no idea you were in contact with anybody as intimately in contact with the Greek situation as Mr. Coombs. If I had, I would have asked for the opportunity to learn from him before I peeped.

As ever,

Winfield W. Riefler

Mr. Allan Sproul, President
Federal Reserve Bank of New York
New York, N. Y.



WAR DEPARTMENT ✓
WAR DEPARTMENT GENERAL STAFF
OPERATIONS DIVISION
WASHINGTON 25, D. C.

28 April 1947

Dr. Winfield Riefler
The Institute for Advanced Study
Princeton, New Jersey

Dear Dr. Riefler:

We received your letter of 24 April 1947 today and were delighted to learn that you will be in Washington soon and will be able to meet with us.


We should very much like to meet with you on the afternoon of the 1st of May as you suggested. Our group is located in the Pentagon Building, room 4C 768, telephone RE 6700, ext. 2954. In event that you need transportation to get to the Pentagon, please call this office on the morning of the 1st of May and I will make arrangements for a car to pick you up.

We outlined to you in our letter of 17 April the broad problems facing the group. It is our understanding that you have been Chairman of the Committee on Social and Economic Aspects of Atomic Energy of the Social Science Research Council.

As you can well imagine, the social aspects involved in possible atomic warfare have a great bearing on the military aspects of our national security. Therefore, in addition to discussing our program with you, we should like to hear your views as to how the social and economic aspects affect military employment of atomic weapons. Also we would like your views as regards the social and economic concepts of our national security which could maintain the peace--in other words, prevent the war which the military concepts may visualize.

Hoping to see you soon, I am

Sincerely yours,


DON A. ZIMMERMAN

Colonel, AC
Acting Chief, Advanced Study Group

May 1, 1947

Dear Allan:

Thank you for sending me the memorandum. I was getting worried. I have only had time to read it hurriedly this morning before I get off for Hot Springs but I will be back by Monday.

As ever,

Mr. Allan Sproul, President
Federal Reserve Bank of New York
New York, N. Y.

FEDERAL RESERVE BANK
OF NEW YORK

45
NEW YORK ~~7~~, N.Y.
May 12, 1947.

Mr. Winfield Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, New Jersey.

Dear Win:

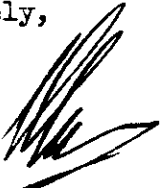
Your long and interesting letter of May 10th would be good fruit even if, as you seem to fear, it is the fruit of misconception, on my part, of your approach to the problem of Greek currency stabilization. Let me reassure you. I retained from our conversation the essential outlines of your proposal, and I considered your memorandum nothing more than a reminder of the drift of that conversation. That is the way it was passed along to Mr. Coombs with a view, as you and I had discussed it, to developing the underlying facts and then reexamining the idea. Perhaps the use of the word "rebuttal" in my note of May 6th was unfortunate. That word is ordinarily associated with debate, and this was certainly not a debate -- it was a mutual exploration of a proposal which, in the first instance, appealed to me.

Mr. Coombs is now studying your further views and I suggest that, when he is ready, you come up to lunch with us so that we can get the benefit of the interplay of ideas which does not come through one hundred per cent in correspondence. Could you do it next Monday or Tuesday, May 19th or 20th?

Meanwhile, one question about your insistence on the virtue of substituting the United States dollar for the Greek drachma. In transposing this idea to a one hundred per cent dollar-backed drachma, I was not thinking in terms of the Greek Government merely changing present cover requirements for the Greek currency, but in terms of the United States Government guaranteeing for the drachma its one hundred per cent dollar backing. This would seem to me to be as reassuring as substituting the dollar for the drachma, and to have lesser political handicaps.

I hope you can come up to talk this all over.

Yours sincerely,



Allan Sproul.

Winant

May 19, 1947

Dear Mr. Winant:

I am sending you under separate cover a copy of the American Statistical Association Bulletin for March. It has an article in it by Ruggles and Brodie, two of the members of our staff in E.W.D., comparing the results of their intelligence work on German armaments with the actual situation revealed in Germany after the war. It illustrates strikingly one of the very great things that was done at the American Embassy during the war. I thought you would like to know about it. I suppose you have seen "Fire and the Air War" published by the National Fire Protection Association. You know that McElroy was a member of the E.W.D. staff at Princess Risborough. His description in this book of some of the work is vivid. You may want to read it for your memoirs.

The appearance of the American Statistical Association article has reminded me of a situation which has made me very unhappy since I returned. I don't think that proper recognition in the form of medals, citations, etc., has been given to any of the members of our staff. Contributions were in many cases unique. I had a letter the other day from Florence Dembits, wife of Lewis Dembits, who was at Princess Risborough for three years and headed the economic research work there. He made a magnificent contribution, as you know. Mrs. Dembits wondered why work such as his received no recognition as had the work of many of his colleagues at Princess Risborough. I just don't know how to answer these letters. Is there anything we could do about it?

Persons told me earlier in the spring that there was a chance you might care to come out here to see us and do

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May 19, 1947

some work on your book here. I have been waiting anxiously for word that you were back in the East and free. What are the possibilities?

As ever,

Winfield W. Siefler

Mr. John G. Winant
510 Park Avenue
New York, N. Y.

100 PER CENT RESERVES FOR THE GREEK DRACHMA

The following memorandum is submitted in reply to your inquiry regarding Mr. Kiefler's proposed substitution of dollar currency for the present drachma note circulation in Greece. In estimating the amount of dollars required for such an operation, one must naturally conceive of an initial conversion rate between dollars and drachmas. To facilitate analysis, Mr. Kiefler's proposal has been re-cast as one of a 100 per cent dollar reserve requirement for the drachma, thus permitting reference to a dollar-drachma exchange rate without altering the substance of his proposal.

1. Drachma Reserve Requirements in Recent Years

The drachma is issued by the Bank of Greece which, by the original terms of its charter, was required to maintain a gold and foreign exchange reserve of at least 40 per cent against its note and other demand liabilities. This requirement was suspended in 1932, however, and by September 1939, gold and exchange assets of the Bank covered no more than 24 per cent of its outstanding notes and other demand liabilities. Following the Axis invasion of Greece, a hyperinflation generated by occupation charges expanded the note issue to nearly 6 quintillion drachmas by November 10, 1944, on which date the first liberation government introduced a new drachma, equivalent to 50 billion old drachmas.

The Act of Monetary Reform establishing the new drachma limited its circulation to the absurdly low maximum of 2 billion drachmas, for which available gold and exchange reserves provided a cover of more than 1,200 per cent. Heavy budgetary deficits caused this maximum to be exceeded within three months, however; unhampered by reserve requirements, the Bank of Greece expanded its note issue to 105 billion drachmas by the end of 1945.

A British-initiated effort at monetary reform, embodied in the Anglo-Greek Agreement of January 26, 1946, provided that the Bank of Greece should maintain a fixed note issue reserve equivalent to 25 million pounds sterling. To assist establishment of this reserve, the British Government granted an exchange stabilization credit of 10 million pounds (not available for actual expenditure), while the Bank of Greece set aside a further 14 million pounds sterling and 4.03 million dollars to complete the cover account. Over subsequent months, virtually unrestricted sale of gold and allocation of exchange against private imports rapidly consumed gold and exchange holdings outside of the cover account and, after October 15, 1946, were permitted to eat into the cover account itself. Thus, the latest statement of the Bank of Greece available—that of December 15, 1946—records a cover account of no more than 18 million pounds, nearly 30 per cent less than the reserve requirements specified in the Anglo-Greek economic agreement. Although the British Government has subsequently credited the Greek Government with 5 million pounds against expenditure of British troops in Greece, and export proceeds together with emigrant remittances have continued to flow in, it is believed that such exchange receipts have been largely allocated to concurrent import requirements rather than to restoration of the note issue reserve.

2. Cost of Establishing 100 Per Cent Dollar Reserves

Since the gold and dollar reserves of the Greek Government probably do not exceed 10-15 million dollars at the present moment, and future dollar receipts must be fully devoted to import requirements, establishment of a 100 per cent dollar reserve could be effected only through loan or outright grant of the requisite funds

by the United States. The dollar appropriation required for this purpose may be estimated, under varying assumptions, as follows. As of the end of January 1947, the drachma note circulation amounted to 542 billion drachmas; by now, it may be estimated that a circulation of 600 billions or more has been reached. At the present official exchange rate of 5,000 drachmas to the dollar, a 100 per cent dollar coverage of the drachma note issue would thus require approximately 120 million dollars. If, however, the drachma should be devalued to roughly 7,500 drachmas to the dollar, as it must if exports are to recover,^{1/} dollar reserve requirements would be reduced to roughly 80 million dollars.

It should be noted, however, that the currently estimated note issue of 600 billion drachmas is far below the levels appropriate to a prospective exchange parity of 7,500 drachmas to the dollar; without an abnormally high velocity of circulation and curtailed volume of transactions, the present note circulation would be grossly inadequate to meet monetary requirements. Assuming that current price levels of 150 times prewar and wage rates of 85-90 times prewar will both eventually settle down at approximately 120 times prewar, a note circulation roughly 120 times 1939 average levels of 8.3 billion drachmas, or 996 billion drachmas will eventually be required. Such a "normal" note circulation of nearly a trillion drachmas would necessitate appropriation of roughly 130 million dollars to provide a 100 per cent reserve coverage.

3. Maximum Drain Upon Dollar Resources

The primary factor determining the maximum possible drain of currency

^{1/} See my memorandum "Political and Economic Background of Greek Request for American Assistance," April 10, 1947, p. 55, for further explanation.

reserves by capital flight and/or an adverse trade balance would be the willingness of the United States to put up new dollars in replacement of net losses. One may consider first the situation in which no further dollar funds would be forthcoming.

Given the neurotic state of Greek psychology likely to prevail over the foreseeable future, authorization of unrestricted capital transfer would unquestionably create enormous pressure upon the dollar resources of the Bank of Greece. Over the past year, the domestic market absorbed sales of roughly 20 million dollars in gold by the Bank of Greece at prices averaging nearly \$120 per ounce at the official exchange parity and nearly \$85 per ounce in terms of the free market dollar rate. The conversion of drachmas into gold thus amounted to roughly 47 million dollars at the free market dollar rate while capital transfers of a further 20-25 million dollars were probably effected. Such gold and exchange purchases equivalent to roughly 70 million dollars were, of course, strongly dependent upon replacement of drachmas thereby withdrawn from circulation by new drachma credits to private enterprise and the government. While establishment of a 100 per cent dollar reserve requirement for the present note issue of 600 billion drachmas (80 million dollars at an exchange rate of 7,500 drachmas to the dollar) would probably limit further capital transfers to perhaps no more than 25 million dollars by exerting steadily increasing deflationary pressure, I would strongly doubt that any Greek government could survive the deflationary consequences of such automatic correction of capital flight. Authorization of unrestricted capital transfer would be inevitably followed by huge demands for dollars, disastrous deflationary pressure, and ultimate suspension of the conversion privilege or reduction of reserve requirements to permit restoration of the normal flow of credit.

With respect to possible drains upon currency reserves resulting from cyclical movements of the trade balance, only extremely tentative estimates may be hazarded. To isolate the maximum deficits which such cyclical influences might occasion, one must first of all exclude extraordinary exchange requirements for reconstruction and development. It is assumed, therefore, that the prospective American assistance program of 350 millions during 1947-48 will permit full restoration of prewar levels of domestic output by 1947 while normal export outlets will be fully recovered or replaced.

Given such full recovery of the Greek economy, and further assuming that world prices settle down at roughly double their prewar levels, a normal balance of payments equilibrium for Greece would probably require coverage of roughly 230 million dollars in controlled imports by export proceeds of approximately 155 million dollars plus remittance, shipping, tourist, and other receipts of a further 75 million dollars. Unfortunately, the prewar foreign trade experience does not provide a satisfactory basis for estimating the maximum gap which cyclical or climatic influences might open in such a "normal" balance of payments. Thus, over the five years preceding the war, bilateral clearing agreements with Germany and other European markets damped down trade fluctuations considerably, rigorous exchange controls limited imports from other markets to current exchange availabilities, while a self-sufficiency program designed to lessen reliance upon imported wheat and cotton further obscured the cyclical and other market forces operating on the trade balance.

In the absence of any instructive prewar experience, one may only suggest at the present that the major threat to balance of payments equilibrium arising from

the import side would be failure of the wheat and other food crops owing to adverse weather conditions. Normal food import requirements at average present levels of domestic output will probably approximate 70 million dollars; a disastrous crop year, such as that experienced in 1945, might add as much as 50 million dollars to minimum food import requirements. On the export side, exchange proceeds from tobacco, the major export item, should prove fairly resistant to external depressions. Reduction of estimated normal export proceeds by roughly 20 per cent, or about 30 million dollars, in a year of world-wide depression would be entirely possible, however, while remittance and other receipts might simultaneously fall by a further 20 millions below normal levels. In the event of such a disastrous combination of adverse domestic harvests and depression abroad, therefore, a balance of payments deficit of as much as 100 million dollars might threaten to develop.

Under a rigid 100 per cent reserve system, of course, any impending deficit would tend to correct itself by precipitating a deflationary adjustment of the cost-price and income structure, thereby checking the actual loss of reserves. This automatic mechanism has long been discredited, however; the deflationary consequences of an impending deficit of even 50 million dollars as compared with a "normal" note circulation of 130 million dollars would be unbearable. The very threat of such an eventuality would probably necessitate either a lowering of the reserve requirements or American grant of further dollar reserves to permit restoration of note issue to normal levels through credit expansion.

If, at the other extreme, the United States should be willing to underwrite whatever net loss of reserves might be produced by capital flight and/or an adverse trade balance, the annual net loss of dollars would be enormous. As indicated

In an earlier connection, net purchases of gold and foreign exchange for capital transfer have amounted over the past year to the equivalent of roughly 70 million dollars. Over roughly the same period, import costs have exceeded export proceeds and other receipts by approximately 230 million dollars. The annual net deficit in the balance of payments consequently amounted to 300 million dollars.

Mr. Riefler apparently has in mind an arrangement whereby the United States would grant further dollar reserves to replace whatever net losses are considered justifiable. With respect to public finance, for example, the Greek Government would "lose the power to finance itself by recourse to inflation" and would be consequently forced "to rely upon dollar loans to the extent that it did not cover its expenditures out of local revenues." Mr. Riefler further asserts that "this situation would automatically provide the American administrator with the powers he would need to make American assistance constructive and effective."

Mr. Riefler's analysis unfortunately overlooks the fact that such an American administrator would not possess adequate sanction powers so long as the presently acute international tension continues. If presented with the fait accompli of a budgetary deficit, an American administrator would hardly dare to withhold dollars required to pay the civil service and thereby to precipitate serious internal disturbances. Neither would he dare to withhold the dollars required to replace credit drawn away from essential uses to finance capital flight. Establishment of a 100 per cent dollar reserve system would rather constitute an open invitation to the Greek Government to pursue a deliberate policy of budgetary disequilibrium, excessive importation and retardation of all exports not subject to spoilage, and lavish grant of credit facilities to political favorites.

The preceding critical comments upon Mr. Eisflor's proposal have been hastily developed in the short space of time available. A more thorough study of the proposal will be gladly undertaken at your request.

Memorandum to Mr. Sproul
from C. A. Coombs,
April 29, 1947.

CAC:wn

A DOLLAR CURRENCY FOR GREECE: FURTHER COMMENTS

With reference to the proposal of Mr. Rieflier for the substitution of a dollar currency for the present Greek drachma circulation, I should like to supplement my memorandum of April 29 with several further comments upon Mr. Rieflier's analysis and conclusions.

1. Structure of the Greek Economy

In paragraph H of his memorandum, Mr. Rieflier states that "the Greek economy has never rested on internal primary production of the types emphasized in the FAO Report [on Greek reconstruction] . . . it has rested rather on commercial activities throughout the Near and Middle East -- merchandizing, commerce, shipping, insurance, tourists, etc. . . . Internal agricultural improvements, light industries, and hydro-electric developments are all valuable but in terms of Greek economic reconstruction they are secondary to the re-establishment of Greece as a merchandizing, commercial, and financing center for the Middle East."

To the best of my knowledge, based upon personal experience in Greece as well as upon statistics of the Greek Government, Mr. Rieflier's comments upon the FAO report are erroneous. The following breakdown of the distribution of the Greek working population above ten years of age in 1928 illustrates the heavy predominance of agriculture and industry in Greek economic life; in 1928 nearly 79 per cent of Greek employment was concentrated within these two major fields. Workers employed in transportation, finance, and commerce constituted only slightly over 13 per cent of the total; at the very most, half of these, or roughly 5 to 6 per cent of the total labor force, might have been engaged in external trading or financial activities and an even smaller percentage in economic pursuits directly linked to other Middle East economies. Since 1928, moreover, agricultural acreage has been considerably extended while industry has also experienced a striking development; it

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is most unlikely, therefore, that the percentage share of the working population employed in agriculture and industry has substantially declined since 1928.

DISTRIBUTION OF GAINFULLY EMPLOYED WORKERS IN GREECE, 1928^{1/}

<u>Occupation</u>	<u>Per Cent</u>
Agriculture and fishing	61.11
Mining and metallurgy	0.26
Industry	17.80
Transportation	4.42
Finance	0.95
Commerce	7.68
Personal services	2.38
Liberal professions	3.56
Public services	<u>1.84</u>
	100.00

Further convincing evidence of the primacy of industry and agriculture in the Greek economy is supplied in the following breakdown of the Greek national income in 1939, as jointly estimated by the Bank of Greece and Ministry of Finance:

THE NATIONAL INCOME OF GREECE IN 1939

<u>Sources</u>	<u>Millions of Drachmas</u>	<u>Per Cent of Total</u>	
Agriculture	17,490	27.8	
Livestock and allied production	4,800	7.6	
Forests	2,058	3.3	
Mining and salt production	673	1.1	
Fishing and hunting	<u>750</u>	<u>1.2</u>	41.0
Manufacturing	7,500	11.9	
Rural home industry	640	1.0	
Building and construction	<u>2,680</u>	<u>4.3</u>	17.2
Land transport	2,470	3.9	
Sea transport	1,056	1.7	
Posts-Telegraph-Telephone	400	.6	
Commerce	<u>5,650</u>	<u>9.0</u>	15.2
Finance and insurance	2,600	4.1	
Rents	4,200	6.7	
Service of loans to the State	<u>954</u>	<u>1.5</u>	<u>12.3</u>
	53,921	85.7	

^{1/} National Bank of Greece, Annuaire Economique de la Grece pour l'Annee 1938, Abrege (1939), p. 13.

<u>Sources (Cont'd.)</u>	<u>Millions of Drachmas</u>	<u>Per Cent of Total</u>
Forward	53,921	85.7
Emigrants' remittances	2,108	3.4
State and community services	3,542	5.6
Personal services	870	1.4
Free professions	<u>2,426</u>	<u>3.9</u>
	<u>6,838</u>	<u>10.9</u>
	62,867	100.0

Thus, according to the above estimates, more than 58 per cent of the national income in 1939 was derived from agricultural and industrial production. Sea transport, commerce, finance, and insurance -- the categories regarded by Mr. Riefler as the pillars of the Greek economy -- are estimated to have provided no more than 15 per cent of the total national income in 1939; I would strongly doubt that more than half of this amount derived from external transactions. An even smaller share can be attributed to economic relationships with other Middle East countries -- perhaps 2 or 3 per cent of total national income.

To dispel further doubts that "commercial activities throughout the Near and Middle East -- merchandizing, commerce, shipping, insurance, tourists, etc." normally provide a substantial proportion even of foreign exchange receipts, one may examine the following breakdown of the balance of payments of Greece on trade and service account in 1938:

GREECE'S BALANCE OF INTERNATIONAL PAYMENTS DURING 1938 ON TRADE AND SERVICE ACCOUNT^{1/}

<u>Receipts</u>	<u>Thousands of dollars</u>	<u>Per Cent of total</u>
Exports	93,636	63.7
Emigrants' remittances	23,697	16.1
Devisen accruing from shipping	9,938	6.8
Expenses of foreigners traveling in Greece	6,606	4.5
Interest on the disposable devisen funds of Greek banks abroad	240	0.2
Interest and dividends of Greek capital funds invested abroad	8,000	5.5
Coupons of Greek national loans paid in Greece	3,076	2.1
State account	<u>1,619</u>	<u>1.1</u>
	<u>146,812</u>	<u>100.0</u>

^{1/} Bank of Greece, The Economic Situation in Greece and the Bank of Greece in 1938 (1939), Appendix, Table IV.

-4-

<u>Payments</u>	<u>Thousands of dollars</u>	<u>Per Cent of Total</u>
Imports	132,876	83.8
Insurance premiums	1,301	0.8
Expenses of Greeks traveling abroad	3,466	2.2
Interest and dividends of foreign capital funds invested in Greece	2,279	1.4
Service of external public debt	9,084	5.7
Other State requirements	<u>9,630</u>	<u>6.1</u>
	158,636	100.0

With respect to export proceeds providing nearly 64 per cent of total exchange receipts in 1938, no less than 71 per cent were derived from shipments to Germany, the United States, the United Kingdom, France, Italy, and Rumania; Egypt accepted no more than 2 per cent of Greek exports, Turkey less than 1 per cent, and other Middle East countries negligible shares. Greek imports were similarly derived in roughly the same proportion from European and Western Hemisphere sources. Transit trade primarily served the needs of Yugoslavia and other Balkan countries through the port of Salonica.

Emigrant remittances, constituting 16 per cent of total exchange receipts, were almost entirely provided by American donors while interest receipts also flowed primarily from investments in the United States. The tourist trade supplied Greece with no more than 4 to 5 per cent of total exchange receipts; at least half of such receipts were probably secured from American and European travelers. Insurance, which Mr. Riefler mentions as a source of income, was on the contrary a debit item; British and Italian companies provided the bulk of insurance not only throughout the rest of the Middle East but even in Greece itself.

With respect to shipping receipts, providing less than 7 per cent of total exchange receipts, Greek ships sought cargo throughout the world. Shipping receipts derived from the Middle East trade provided perhaps 1 or 2 per cent of total exchange receipts.

The conclusion is, I think, that Mr. Riefler's basic concept of the Greek economic structure is not founded on actual fact.

2. Effect of Hyperinflation Upon Governmental and Commercial Morality

Mr. Riefler attributes (paragraphs A-D) the "character deficiencies" of the present Greek Government and, more generally, of the Greek "leading caste" to the demoralizing effects of "nearly three years of hyper-inflation." If Mr. Riefler is referring to the hyperinflation of the occupation period, the three-year time period is correct. One might add that the occupation-period inflation was succeeded by a postliberation inflation of considerably lesser magnitude, extending for a further fifteen months until January 1946. Mr. Riefler does not take account, however, of the currency stabilization measures introduced in February 1946 which have subsequently secured a far higher degree of stability in the Greek price level than that concurrently registered by American price indices. The price index which I developed while in Greece (and which is still used by the Greek Government) rose by no more than 6 per cent from February to December 1946. Prices have reportedly remained stable over more recent months for which no index number calculations are currently available.

While the stability of the drachma over the past year has probably eliminated the less competent among the speculative element, such a purge has not noticeably improved the calibre of governmental and commercial morality. The moral corruption of the Greek governing group is not a surface outgrowth of recent inflation, readily curable by the surgery of deflation which Mr. Riefler suggests; such ethical deficiencies are rather deeply ingrained traits of character, primarily attributable to centuries of Turkish domination, constant political unrest, recurrent revolutions and foreign wars, and an age-old struggle for existence in an area seriously deficient in natural resources. Such conditions have naturally not been conducive to a growth of public and private morality; on the contrary, the highest rewards have normally gone to the most astute chicanery.

-6-

To the best of my knowledge, the governing group in Greece today does not differ substantially from that which the Metaxas dictatorship served. To a large extent, moreover, the Metaxas dictatorship was characterized by the same corruption, inefficiency, and political repression that exist in Athens today. The distinctive characteristic of the present Greek Government lies rather in its utter lack of any sense of national responsibility -- an attribute which the Metaxas dictatorship possessed in a remarkably high degree.

Such irresponsibility on the part of the present government has been fostered by a growing conviction over the past two years that the United States and the United Kingdom will underwrite any budgetary or trade deficit which may develop. The validity of this conviction is being demonstrated at the present moment. By extending a blank check dollar commitment to Greece, over and above the proposed grant of 300 million dollars now before Congress, Mr. Riefler's proposal might well further undermine the incentive of any Greek government to try to work out its own economic salvation.

3. Practical Application of Mr. Riefler's Proposal in 1946

The high degree of price stability maintained in Greece over the past fourteen months has been achieved by a technique closely similar to that now proposed by Mr. Riefler. Unrestricted sale of gold, legal and illicit capital transfers, and unregulated allocation of exchange for importation have made the drachma virtually convertible into gold and foreign exchange. Through the powerfully stabilizing effects of such gold sales, etc., the creation of a "currency and credit vacuum," which Mr. Riefler now urges, was accomplished over a year ago. As of January 31, 1946 the drachma note circulation represented an increase of no more than sixteen times prewar levels, compared with average retail price increases of 158 times. The currency and credit vacuum thus created has been subsequently

-7-

partially filled by expansion of the note circulation to 65 times prewar levels by January 31, 1947 and perhaps to about 70 times at the present moment.

The major defect of this technique of currency stabilization is that it presupposes (in the absence of effective sanctions against budgetary and external extravagance) replacement of dissipated gold and foreign exchange assets by the American Treasury. No foreign government hoping to remain in office after its gold and exchange resources had been exhausted would otherwise embark upon such a course. The Greek Government has acted on the conviction, however, that the United States or the United Kingdom would be inevitably forced to supply whatever foreign exchange assistance proved necessary to prevent economic chaos and further growth of Communism in Greece. While this conviction has proved justified to date, State Department officials are apparently determined to prevent any further drains upon the American Treasury; imposition of rigorous exchange and import controls, thus forcing the Greek Government to rely upon various fiscal and economic reforms rather than dissipation of exchange for the maintenance of price stability, has been repeatedly urged in recent weeks by Department spokesmen. Virtually all Anglo-American observers in Greece over the past two years would heartily endorse such a State Department policy toward Greece.

By removing all remaining bars to capital flight and to further dissipation of exchange upon less essential imports, Mr. Riefler's proposal would not only permit a recurrence of the experience of the past year on an even more expensive scale but would even convert it into a permanent institution. The extension of such a blank check as a dollar currency to Greece would constitute an open invitation to budgetary deficits, lavish grant of credit, capital flight, and unbridled importation, which would be accepted in Athens with astonished delight. I cannot agree with Mr. Riefler's contention that discretionary authority by an American administrator to withhold further dollars would constitute an effective sanction. Enforcement,

-8-

or even public threat to enforce, such a sanction would serve only to strengthen the Communist pressures we are trying to curb. The Greek Government is fully aware of this weakness in our bargaining position and may be expected to press its consequent advantage to the limit.

C. A. Coombs
5/6/47

FEDERAL RESERVE BANK
OF NEW YORK

45
NEW YORK 7, N.Y.
April 29, 1947.

SPECIAL DELIVERY

Mr. Winfield Riefler,
The Institute for Advanced Study,
School of Economics and Politics,
Princeton, New Jersey.

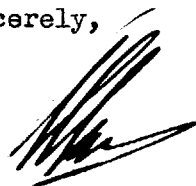
Dear Win:

Enclosed is a memorandum discussing your comments on the Greek problem, prepared by one of our men, C. A. Coombs, who has had some firsthand experience in Greece. There is also enclosed, as of possible interest to you, a memorandum which Mr. Coombs wrote a few weeks back on the general subject of American assistance to Greece.

I am pursuing this matter further but want to emphasize one point now -- the ability of the Greeks to "blackmail" us as they did the British greatly weakens the argument that we could enforce fiscal reform and credit control. I am also still impressed with the political difficulties and possible repercussions of substituting dollars for drachma as the currency of Greece. That is why Mr. Coombs' memorandum recasts your suggestion in terms of requiring 100 per cent dollar reserve.

With best regards,

Yours sincerely,



Allan Sproul.

P.S. I have been in touch with Washington and find that any suggestions we have will not be lost if they are not pressed for a few days. In other words, the global figures haven't too much detail behind them yet.



Enclosures 2

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House of Representatives, U. S.
SELECT COMMITTEE ON FOREIGN AID
Washington, D. C.

August 8, 1947

Dr. Winfield W. Riefler
Orleans, Massachusetts

Dear Dr. Riefler:

I take great pleasure in appointing you to the position of Consultant for the Select Committee on Foreign Aid of the House of Representatives. I consider the work of this Committee to be of the greatest importance and I am delighted that you have agreed to bring your abilities to bear on one of the most pressing problems of the day.

Very sincerely yours,



Charles A. Eaton
Chairman

FOREIGN AFFAIRS



AN AMERICAN QUARTERLY REVIEW

HAMILTON FISH ARMSTRONG
EDITOR

58 EAST SIXTY-EIGHTH STREET
NEW YORK 21, N. Y.

CABLE ADDRESS: FORAFFAIRS, NEW YORK

August 11, 1947

Winfield W. Riefler, Esq.
The Institute for Advanced Study
Princeton, New Jersey

Dear Win:

I was laid up during most of my vacation and am still only under half steam. However, I have my wits about me enough to know that your article is first-rate and that I am delighted to have it for our Anniversary Issue. I don't think you have trod unwarily in the political and military preserves. At any rate, what you say in those connections fits in perfectly well with McCloy and Langer.

The only possible omission that I can see is that you perhaps overlook some aspects of the procedure by which the United States converted to war production. What degree of government assistance and control was needed? This seems to have some important implications for the future, and maybe you can think the matter over and add a paragraph when you get proofs. If you decide deliberately against going into this matter, well and good.

With thanks again, and with all the best, believe me,

Yours ever,



*Reviewed
Aug 16th.*

FOREIGN  AFFAIRS

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With thanks again, and with all the best, believe me,

Yours ever,

Hamilton Fish Armstrong

*Answered
Aug 16 47*



Department of State
OF THE
United States of America

To all to whom these presents come, greeting:

This is to certify that WINFIELD W. RIEFLER
has been designated a Delegate of the United States to the World
Statistical Congress to be held at Washington, D. C., September 6 to
12, 1947.

FOR THE SECRETARY OF STATE:

WASHINGTON, D. C.,

Charles H. Wickard
Acting CHIEF, DIVISION OF
INTERNATIONAL CONFERENCES

August 30, 1947
DATE



Department of State
OF THE
United States of America

To all to whom these presents come, greeting:

This is to certify that WINFIELD W. RIEFLER
has been designated a Delegate of the United States to the World
Statistical Congress to be held at Washington, D. C., September 6 to
18, 1947.

FOR THE SECRETARY OF STATE:

WASHINGTON, D. C.,

Acting CHIEF, DIVISION OF
INTERNATIONAL CONFERENCES

August 30, 1947
DATE

Will you from AAUW film list = 90.000 minutes 11.09 last class



Heaney

Immediately the Individual RR. associates her Dr Reid was 100% enthusiastic about you & Helen. We should do a national + all similar women's secret. It

AMERICAN ASSOCIATION OF UNIVERSITY WOMEN
NATIONAL HEADQUARTERS, 1634 EYE STREET, N. W.
WASHINGTON 6, D. C.

Oct 6, 47

Assoc. in Childhood Education

Dear Winfield Rieffler and all the rest of the Riefflers:

Friday several of this staff went over to the Press Building to see a pre-View of ROUND TRIP. I had no idea that I would see you in it in your role as pin up boy. Particularly poignant were the emotions seeing you in action...as I have just come to Washington to this job to work again after the many year since the Child research center. As I saw you there in the picture so convincingly, and in real competition with Hollywood glamour boys, shaping ~~the~~ public opinion, we hope!, I could remember with dismay sitting on the top step in your home doing ..So help the young, 'Parent Guidance' and remembering too the story of Donald whacking you over the head with a wooden spoon to let you know that he was digesting his training experiences.

One other time you burst in on my unexpectedly and brought with you the/associations of the old days.
happy

I was 750 miles from civilization in the Herbert Hoover mining country north and west of Perth, Australia. We had driven from YOUA-NMI the old mine center to an outer back sheep station through miles of spinnifex and into the endless thickets of roof high Mulga Scrub. There I found the story book life of British culture going on in that home from whose windows could only be seen the unvarying Mulga scrub, fancy looking at that for 25 years ... The mother appeared in a navy blue dinner dress, looking as though she had just come from Eliz. Arden's, a bunch of English Violets on the Mantle shelf, and current magazines and books on the table.

Feeling absolutely out of this world I picked up what I remember as a Readers Digest...was it?, to see in very black on the white page your profile with a short article telling of your work in England, etc.!

Both this paper and the hour say get on with your job, but this morning I couldn't work till I got you

off my chest. Congratulations on the big work you have done. I'm sure you have had fun doing it. Please remember me to Mrs Rieffler. Some day I'll be seeing David and Donald making news of their own kind I know

Christine Heaney

Sincerely yours,

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

DEPARTMENT OF STATE
WASHINGTON



November 10, 1947

Dear Win:

As you know, the United Nations Sub-Commission on Employment and Economic Stability is holding its first session at Lake Success beginning November 17. You are a member of this Sub-Commission, in your individual capacity, and not as an official representative of the United States Government. Hence there will be no formal instructions for your guidance.

We do, however, want to make available to you any information or help that you may need.

During the course of the session, office space can be furnished at the headquarters of the United States Mission to the United Nations at 2 Park Avenue, New York, telephone MU 3-6810, and Mr. William Fowler, the economic officer of the Department who is stationed there, will be glad to be of assistance to you.

As to advance preparation, I am sending you herewith a number of official United Nations documents relevant to the Sub-Commission's work. Included among these is a copy of the draft Charter for the International Trade Organization, which was developed at Geneva last summer, and which will be further considered at Habana beginning November 21, with a view to obtaining final international agreement on the Organization.

In addition, I should be very glad to talk with you about any of the Sub-Commission's business that you would like to discuss before the session opens, and I hope that you will let me know if you feel that such consultation would be helpful to you.

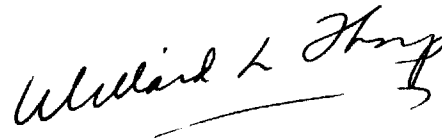
I should

Mr. Winfield Riefler,
Select Committee on Foreign Aid,
Room 230,
Old House Office Building,
Washington, D. C.

- 2 -

I should like to say again how very pleased I am that you are going to serve on this Sub-Commission.

Sincerely yours,



Willard L. Thorp

Enclosures:

1. Charter of the United Nations.
2. Agenda. (E/CN.1/Sub.2/1)
3. Reports of First and Second Sessions, Economic and Employment Commission. (E/255 and E/445)
4. Resolutions of the Economic and Social Council at its Third, Fourth, and Fifth Sessions. (Resolution 1 (III) of the Third Session contains the Sub-Commission's terms of reference.)
5. Report of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment. (Geneva Draft of ITO Charter.)

THE INSTITUTE FOR ADVANCED STUDY
SCHOOL OF MATHEMATICS
PRINCETON, NEW JERSEY

November 18, 1947

To Professors Alexander, Earle, Einstein, Goldman, Lowe, Meritt, v. Neumann,
Panofsky, Riefler, Siegel, Stewart, Veblen, Warren and Weyl

Dear Colleagues:

In June last an informal committee of the Faculty was formed with the consent of all members of the Faculty who could be reached at that time, to arrange for the purchase and presentation of a gift to Dr. Aydelotte on his retirement as Director. This committee was composed of Panofsky, Riefler and Morse. It was Panofsky's happy suggestion that we obtain Malton's Views of Oxford, 1810. This is a collector's item and it has taken some time to get. A suitable leather case for this has been made. The artisan who did a similar task in connection with our gift to Dr. Flexner estimated the cost of the leather case would be \$150. This seemed a little expensive, so with the advice of Librarian Boyd the services of another artisan were obtained at a cost of \$75. The Views of Oxford were priced at \$156, making the total cost \$230.

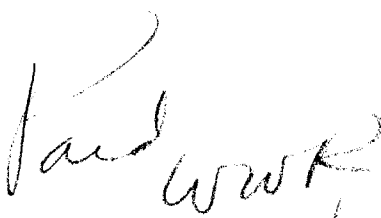
The members of the Faculty who are now in this country and who presumably want to contribute number fifteen. This makes the assessment for each member \$15.33. Check may be sent to me. The bills have already been paid.

At the suggestion of Professor Meritt, and with the concurrence of several other members of the Faculty, I have arranged for the Faculty to drop in on Dr. Aydelotte at his home on Battle Road at 5 o'clock next Tuesday, November 25. I hope all members of the Faculty can be present. It would be well if we met first in the Common Room of the Institute about ten to fifteen minutes before five, and then drove over to Dr. Aydelotte's. The presentation will be very simple and informal and the whole affair should not last very long.

I have sought the views of the members of the Faculty as far as I could as the situation has developed. I hope you will find these arrangements satisfactory and approve of the gift, which seems to me a very attractive one.

Cordially yours,


Marston Morse


11/21/47

November 21, 1947

Dear Fong:

It is always good to hear from you. A letter from Shanghai seems like a message across the years as well as the oceans. I am glad you liked Toynbee's book. He is going to be at the Institute this winter.

I have just recently come back from England where I went as consultant to the Select Committee on Foreign Aid of the House of Representatives, working on the Marshall Plan. Currently I am at Lake Success sitting on the Sub-Committee on Economic Stability. Alexander Loveday is here from England on the same sub-commission. It seems a little like old times, except that work at Lake Success is much more formal than it was at Geneva.

I am enclosing reprints of a couple of articles I have published recently.

My very best to you and Mrs. Fong,

Sincerely yours,

Mr. Shan-Kwei Fong
The Central Bank of China
Shanghai, China

Official Depository of the
NATIONAL GOVERNMENT

Cable Address
"GOVERN BANK"

THE CENTRAL BANK OF CHINA
SHANGHAI

November 5, 1947.

Prof. Winfield Reifler
Institute for Advanced Study
Princeton, N.J.
U. S. A.

Dear Prof. Reifler:

I fear this is indeed a much belated acknowledgement of the receipt of the magnificent gift which you gave me for my wedding. The parcel had apparently been mislaid for quite a few months before it was duly forwarded to me at the Central Bank. My wife and I are deeply grateful for your kindness and are pleased to read the work of Mr. Toynbee, the great historian, who is also widely known in China. Because of the ceaseless hostilities in our country, we have found it very difficult to get books, especially books which cost foreign exchange. Your intellectual gift to us is, therefore, just like a bottle of water to a traveller in the desert.

Yesterday evening, I was profoundly shocked to read in the evening paper a news about Mr. Winant's suicide. The sudden death of your distinguished former colleague whom you worked with during the most difficult days of the last war must have brought you sorrow. I have had only a brief contact with him at the U. N. Economic and Social Council, but have remembered him since for his performance and statesmanship for which I have great admiration. His death is a loss not only to his friends or his country but also to the world as a whole.

I have been transferred from the Central Trust to the Central Bank of China and am serving as an assistant director of the Economic Research Department. The Department maintains a staff of 120 persons and has a collection of some 100,000 volumes.

Official Depository of the
NATIONAL GOVERNMENT

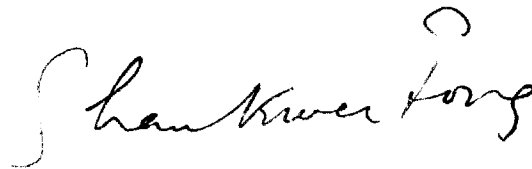
Cable Address
"GOVERN BANK"

THE CENTRAL BANK OF CHINA
SHANGHAI

It publishes, among other things, a monthly and a weekly bulletin on economic statistics and analysis. I will appreciate it if you will constantly benefit me with your advice which will, I am sure, be most helpful to my work.

With best regards to you and Mrs. Riefler,

Yours sincerely

A handwritten signature in cursive script that reads "Shan-Kwei Fong". The signature is written in dark ink and is positioned below the typed name.

Shan-Kwei Fong

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Dr. Winfield W. Riefler
Institute for Advanced Studies
School of Economics
Princeton, New Jersey

Dear Dr. Riefler:

You are cordially invited to attend the special meeting of the reorganized Department of International Justice and Goodwill, at the Benjamin Franklin Hotel, Philadelphia, January 8-9. A major concern of that meeting will be the European Recovery Program, and your counsel would be very helpful in our consideration of policy recommendations for our churches. Chester Barnard has agreed to chair the section dealing with international economic policy, and Willard Thorp and David Owen are speaking on the U.S. and U.N. phases of the task. I enclose a copy of the program and a card for your hotel reservations.

We hope very much that you can arrange your schedule to attend.

Sincerely yours,



Richard M. Fagley

RMF:t
Encls. 2