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WAR DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

29 November 1943

Memorandum for Miss Neary.

The attached memorandum to General Hilldring covers an oral report I made to the Secretary shortly after noon on Saturday, 27 November 1943. I send it in case you care to have it for your files.

G. L. Harrison

GEORGE L. HARRISON

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29 November 1943

Memorandum for Major General J. H. Hilldring.

Subject: Yen Rate--Gilbert Islands.

Following our conversation with the Secretary on Saturday morning, 27 November 1943, on the yen rate in the Gilbert Islands, I telephoned Mr. Knocke, Vice President of the Federal Reserve Bank in New York in charge of foreign affairs. I explained that I was calling him confidentially at the request of the Secretary of War. After outlining the problem to him, he said that he would check further and call back. This he did at 12:15 noon, Saturday, 27 November 1943. In substance, his comments were as follows:

1. So far as the Mandated Islands are concerned the rate to be fixed is utterly immaterial even insofar as China is concerned. Those islands normally have little or no trade except in cocoanuts. Theoretically, therefore, any rate is probably the right rate. The only risk to be avoided is that of establishing a precedent.

2. As far as Japan proper is concerned, information is limited and unreliable. Even so, on the basis of purchasing power parity five cents for the yen is much too low. There is no black market in the yen and, therefore, no opportunity to get any lead. But prices in Japan have changed very little since 1941 when the yen was twenty-three cents. If that is the yardstick, and if you assume the purchasing power parity is the appropriate basis for determining the rate, and if the figures which we have are reliable, then scientifically twenty cents would be nearly the right rate.

3. But if as we expect, the Japanese are defeated and economic conditions in Japan become chaotic and all the natural results follow, five cents might even be too high a rate.

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4. Whatever rate is fixed for Japan, whether five cents or twenty cents, it will not work to the disadvantage of China. At the present time the official rate for the Chinese dollar is five cents, or twenty to the American dollar. In the black market the Chinese dollar is 60 to the American dollar. Even at that rate, the Chinese dollar is apparently way over-valued. That being so, a depreciation in the yen down to a five cent rate will probably not hurt China inasmuch as it appears likely China will have to depreciate even further than at present.

5. The important thing is to emphasize the need of not considering the five cent rate for the yen in the mandated islands as a precedent for Japan itself.

I reported these opinions of Mr. Knocke's to the Secretary about 12:30 on Saturday. In the light of them, he said that I might tell you that he had no objection to the proposed cable. This information I passed on to you about one o'clock Saturday.

George L. Harrison
Special Consultant to the
Secretary of War.

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