



2018

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Recommended Citation

Rogers, Mitch (2018) "From Freeze to Fire: How Economic Sanctions against Japan Led to the War in the Pacific," *The Thetean: A Student Journal for Scholarly Historical Writing*: Vol. 47 : Iss. 1 , Article 12.
Available at: <https://scholarsarchive.byu.edu/thetean/vol47/iss1/12>

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*Destroyer USS Shaw exploding during the attack on Pearl Harbor, December 7, 1941.
National Archives.*

Paper

From Freeze to Fire

How Economic Sanctions against Japan Led to the War in the Pacific

Mitch Rogers

ON JULY 26, 1941, THE UNITED STATES GOVERNMENT FROZE JAPANESE-owned financial assets in the United States. American merchants no longer accepted dollars from Japanese businesses and firms, stopping almost all trade. The United States had long been wary of Japanese expansion in Asia, particularly in China, and President Roosevelt's administration saw a financial freeze as a convenient means short of war to curb Japanese ambitions. Roosevelt administration officials rested on the false confidence that the Japanese would never attack the United States. Five months later, Japanese pilots bombed Pearl Harbor. While the enormity of the December 7 attack seems to render all previous U.S. strategy toward Japan irrelevant, it is still worth considering whether Roosevelt's economic sanctions were wise or whether they precipitated a war that could have been avoided. By understanding the international views of both the United States and Japan and considering the theory of economic sanctions, we can now conclude that the economic sanctions directly contributed to the eruption of the War in the Pacific.

Advantaged with the gift of hindsight, most scholars and historians have ruled the economic sanctions placed on Japan as failures. By imposing restrictive sanctions on a determined, expansionist Japan (which by 1941 had been stockpiling war materials for several years), the United States provoked a violent conflict that was by no means inevitable. However, in spite of the staggering volume of scholarship criticizing the economic sanctions against Japan, some

scholars still view the sanctions as successful. According to David A. Baldwin in the book *Economic Statecraft*, the sanctions were useful in allowing the United States to retain vital war materials for itself while denying war materials for a potential enemy.¹ For Baldwin, the goals of the sanctions were to increase the costs of war and conquest for Japan, and the sanctions were thus (technically, theoretically) successful—if one assumes that war with Japan was inevitable. Steve Chan, in the book *Sanctions as Economic Statecraft*, refutes Baldwin's argument well by pointing out that the use of economic isolation in order to weaken an enemy can no longer be defined as economic *sanctions*, which is designed to change policies, but rather economic *warfare*, which is intended as a form of attrition.² Chan reminds Baldwin that at the time of the sanctions, the United States was *not* at war with Japan, and few (if any) people in the Roosevelt administration expected Japan to attack the United States. Thus, by engaging in unilateral economic warfare against a nation it was not at war with, the United States drew itself closer to a Pacific War that potentially did not need to happen in the first place.

A study of the effect of the United States' economic sanctions against Japan must begin by analyzing the United States' attitudes toward Japan's expansion in Asia. As early as 1905, when President Theodore Roosevelt brokered the peace ending the Russo-Japanese War, the United States had suspicions of Japan's intentions in the region.³ Roosevelt commissioned the development of a strategy to curb potential Japanese expansionism. Created by Admirals George Dewey and Alfred Thayer Mahan, this strategy became known as War Plan Orange and rested on the ability of the United States to economically isolate the island nation before striking a decisive military blow. While the 1920s saw refreshing peace and cooperation between Japan and the Allied nations, relations became strained again as the global Great Depression forced nations to pursue isolationist, protectionist economic and foreign policy.⁴ Losing trading partners thrust Japan into economic trouble, which then led to a domestic

1. Baldwin, David A. *Economic Statecraft*. Princeton: Princeton University Press, 1985, 167–172.

2. Chan, Steve and A. Cooper Drury, eds. *Sanctions as Economic Statecraft: Theory and Practice*. New York: St. Martin's Press, 2000, 130.

3. Miller, Edward S. *Bankrupting the Enemy: The U.S. Financial Siege of Japan before Pearl Harbor*. Annapolis: Naval Institute Press, 2007, ix.

4. James, D. Clayton. "American and Japanese Strategies in the Pacific War." As found in *Makers of Modern Strategy from Machiavelli to the Nuclear Age*, Peter Paret, ed. Princeton: Princeton University Press, 1986, 704–705.

resurgence of nationalism. Once again, Japan looked to conquer, and War Plan Orange returned to relevance. According to historian Edward Miller, with the Great War still fresh in every American's mind, and perhaps with just a touch of optimistic self-delusion, "the helplessness of Japan, if isolated economically and financially, evolved into an axiom at a time when the U.S. government was averse to fighting a war."⁵

Japan expressed its rediscovered aggression by seizing Manchuria in 1931. Six years later, in July 1937, Japan launched an invasion of mainland China. This was met with strong opposition by both the citizens and the government of the United States. Since 1899, the United States had pursued the Open Door Policy in regards to China, allowing all nations equal access to Chinese markets. Hoping to respond to Japan's violation of this policy, Roosevelt considered economic sanctions as a valuable mechanism by which to strangle Japanese imperial ambitions. In his famous "Quarantine Speech" given on October 5, 1937, President Franklin Delano Roosevelt declared that certain countries—left unnamed but clearly referring to Japan, Germany, and Italy⁶—had generated "international anarchy and instability from which there is no escape through mere isolation or neutrality."⁷ "When an epidemic of physical disease starts to spread," Roosevelt said, "the community approves and joins in a quarantine of the patients in order to protect the health of the community against the spread of the disease." In this context, the "quarantine" meant economic actions which left Japan isolated.

International relations leading up to 1937 puts FDR's desire to resort to economic means into context. While the United States was not a member of the League of Nations, Japan was, and Article 16 of the League of Nations charter discusses "the prevention of all financial, commercial or personal intercourse between the nationals of the covenant-breaking State . . ."⁸ This meant that any member nation which broke the covenants of the League of Nations (i.e. engaged in warfare with another member state) were to be economically and financially isolated. While this was not legally binding for any actions between

5. Miller, *Bankrupting the Enemy*, x.

6. Borg, Dorothy. "Notes on Roosevelt's 'Quarantine' Speech." *Political Science Quarterly* 72, no. 3 (September 1957): 405–433.

7. Roosevelt, Franklin D. Speech given on October 5, 1937. Accessed at <https://miller-center.org/the-presidency/presidential-speeches/october-5-1937-quarantine-speech>

8. Covenant of the League of Nations, adopted December 1924. Accessed at http://avalon.law.yale.edu/20th_century/leagcov.asp#art6

the United States and Japan, it reflects the readiness of countries at the time to use economic tools to regulate the policies of rogue nations. It established a precedent of economic isolation on an international scale, even after Japan left the League of Nations in 1933. Additionally, in 1935 and again in 1937, the United States enacted Neutrality Acts which restricted trade to nations on either side of a war.⁹ Merchants who wished to trade with these countries were required to attain licenses from the Department of State. According to these acts, the president had certain leeway in what was and was not labelled “war.”

The United States’ first economic moves against Japan began with what were called “moral embargos.” Between 1937 and 1938, exports of U.S. airplanes to Japan increased dramatically, and spectators suspected that the Japanese were using these planes to bomb China. Because the Neutrality Acts forbade trade with countries on both sides of a war, Secretary of State Cordell Hull knew that declaring Japan’s actions “war” would probably hurt China more than it hurt Japan. Instead, he ordered the Department of State in mid-1938 to discourage U.S. airplane manufacturers from selling to Japan. Entirely extralegal and non-binding, this “moral embargo” succeeded in slowing the flow of airplanes to Japan; however, by this time, Japan had already stockpiled enough planes for itself that the action had little effect.¹⁰ This was repeated again in 1939 with a moral embargo on the metals aluminum, magnesium, and molybdenum, to similar effect.

The tensions between Japan and the United States became even more complicated on September 27, 1940, when Japan signed the Tripartite Pact with Nazi Germany and Fascist Italy. This treaty obligated the powers to support one another in the event of war with non-Pact nations. American officials feared that this could lead the United States into war with Japan, as the United States had already shown substantial support to Britain and France in the face of the European Axis powers. At least one Japanese official, however, had a different opinion. Japanese Foreign Minister Yosuke Matsuoka stated on September 19, 1940, while considering a draft of the Tripartite Pact, that he thought signing the Pact would cause the United States to “stiffen temporarily, . . . [but then] recover a level-headed attitude; of course, the chances are fifty-fifty as to whether it will stiffen more and more, leading to a more critical situation. . . .”¹¹

9. Miller, *Bankrupting the Enemy*, chapter 6.

10. Miller, *Bankrupting the Enemy*, chapter 6.

11. Morley, James William, ed., and David A. Titus, trans. *The Final Confrontation: Japan’s Negotiations with the United States, 1941*. New York: Columbia University Press, 1994, 6.

And “stiffen” America did. The moral embargos on airplanes and metals were ineffective because Japan had been able to stockpile those goods ahead of time or supply itself through other means. Embargos on scrap ferrous materials were enacted on September 26 in response to Japan’s alliances with the Axis powers and to Japan’s attack on French Indochina; this embargo “pinched but did not retard Japan’s aggressive policies,”¹² because Japan had the capability of diverting scrap metal from civilian to military production. One good that Japan could not supply for itself, however, was oil, and Japan was California’s largest foreign consumer of petroleum.¹³ The Roosevelt administration thought that squeezing Japan’s oil supply could finally end Japan’s aggressive expansion. In 1941, after months of failed negotiations, the administration began to draft an executive order that would freeze all Japanese assets in the United States, with the intent of stopping Japanese purchases of Californian oil. But unlike the previous economic actions taken against Japan, this move required additional political justification. When the United States had restricted the trade of other goods to Japan, the United States could reasonably justify the sanctions by saying that the country needed to conserve those goods for national security. Oil, however, was in abundant supply in California. In order to justify the financial freeze and the blockage of oil to Japan, FDR exploited false public perceptions of the United States’ national resources.

Under the Neutrality Act (which was again updated in 1939), a warring nation could still trade with the United States as long as it paid in cash and carried the goods away in its own ships. This system was called “cash-and-carry,” and greatly favored Britain and France, who each had large shipping fleets and reserves of dollars and gold. On March 11, 1941, the United Kingdom was further aided by the passage of the Lend-Lease Act, which allowed the United Kingdom to borrow U.S. tankers to ship oil across the Atlantic. Government advisers stated that this could potentially cause shortages on the East Coast, and Secretary of Interior Harold L. Ickes publicly called for a gasoline reduction in the eastern states. FDR used this to his political advantage. In a speech in New York City on July 24, FDR stated that East Coast citizens should be outraged that they were asked to cut gasoline consumption while Japan received near-endless oil from the West Coast. According to FDR, “we are helping Japan in what looks like an act of aggression.”¹⁴

12. Miller, *Bankrupting the Enemy*, 93.

13. Miller, *Bankrupting the Enemy*, 182.

14. Miller, *Bankrupting the Enemy*, 189.

FDR's stance rested on two fallacies: first, no East Coast oil shortage materialized; second, even if the shortage was real, the difficulty of shipping oil from the West to the East Coast was great enough that California would not be able to supply all of the East Coast's needs.¹⁵ But the ploy worked, and on Friday, July 25, FDR announced Executive Order No. 8832. The executive order, which came into effect the next day, froze Japanese-owned American dollars in their bank accounts and prevented the acquisition of more dollars. Great Britain and the Dutch Indies soon followed, further increasing Japan's trade isolation. On Monday, July 28, when the bankers and traders returned to work, both countries saw immediate changes to their financial markets. International bank branches in both countries closed. Japanese silk futures were suspended, and stocks for firms producing rayon (a silk substitute) rose.

Soon after the executive order was issued, negotiations between the two countries centered on thawing the financial freeze. The Department of State remained resolute in its enforcement of the freeze, restricting licenses for trade down to the bare legal essentials, such as allowing for the fulfillment of pre-freeze orders and granting Japanese ships dollars in order to return to their home country. Japanese officials and merchants pursued alternative schemes and loopholes to get around the sanctions, but none worked. Although Japan had stockpiled a significant amount of gold before 1941, it was not allowed to cash it in at the U.S. Treasury for dollars, and U.S. traders were prohibited from purchasing the gold because of the Trading with the Enemy Act.

In order to properly understand the effect the financial freeze had on Japan, one must understand the ideology behind the Japanese expansion. To the Japanese, their imperial conquest was vital in order to form what was disingenuously called the "Greater East Asia Co-Prosperity Sphere."¹⁶ Since the days of the Russo-Japanese War and the origins of War Plan Orange, Japan sought to become a legitimate Great Power. In Japan's eyes, the Greater East Asia Co-Prosperity sphere would "contribute to world peace."¹⁷ According to historian Michael A. Barnhart, "The United States was what Japan wanted to be—rich in resources, internally strong, and dependent on no one."¹⁸ Japan had learned

15. Miller, *Bankrupting the Enemy*, 189.

16. Morley, *The Final Confrontation*, 8.

17. Ike, Nobutaka, ed. and trans. *Japan's Decision for War: Records of the 1941 Policy Conferences*. Stanford: Stanford University Press, 1967, 78.

18. Barnhart, Michael A. *Japan Prepares for Total War: The Search for Economic Security, 1919–1941*. Ithaca: Cornell University Press, 1987, 9.

from Germany in World War I that nations needed to have economic prosperity and independence in the new age of total warfare, where all forms of production, expertise, and skill must be mobilized against the enemy. A sudden freeze on dollars and petroleum could ruin Japan's whole plan. As Matsuoka said in January 1941 in response to his American counterpart Hull, "The United States has evinced no adequate understanding of the fact that the establishment of the Greater East Asia Co-Prosperity Sphere is a life-or-death requirement for Japan."¹⁹ Japan believed that it had as much right as the United States to, in the style of Alfred Thayer Mahan, establish military posts across the Pacific for its own defense.²⁰

Clearly, FDR and his cabinet did not realize that Japan would push back against the financial freeze. According to historian Jonathan Utey, the freeze was optimistically meant to be "a final warning, designed to bring Japan to its senses, not its knees."²¹ In possibly the greatest strategic blunder on the American side, American officials never truly imagined that Japan would attack the United States. If anything, American officials assumed that if Japan was pinched too tightly, it would attack southward, against the nearby, resource-rich Dutch East Indies, or (only after Germany attacked the USSR in 1941) northward, against the Soviet Union.²² For this reason, FDR and his cabinet secretaries thought it only necessary to project deterring power in the Pacific—which included stationing a significant portion of the Pacific fleet as far west as Pearl Harbor. In February of 1941, as FDR's cabinet was still debating which course of action to take, Hull wrote to FDR, saying, "It may be advisable . . . [to give] by our acts in the Pacific new glimpses of diplomatic, economic, and naval 'big sticks.'"²³

The strategic value of economic sanctions, as seen in this narrative, has long been debated. One can almost interpret the United States' action against Japan as arrogant and deluded by hubris: because the United States was the economic powerhouse it was, it believed it could throw its weight around the Pacific without fear of violent retribution. This explains the "diplomatic, economic, and

19. Morley, *The Final Confrontation*, 8.

20. Ibid; see also Freedman, Lawrence. *Strategy*. New York: Oxford University Press, 2013, 115–120.

21. Utey, Jonathan G. *Going to War with Japan, 1937–1941*. Knoxville: University of Tennessee Press, 1985, 154.

22. Barnhart, *Japan Prepares for Total War*, 218, 226.

23. Barnhart, *Japan Prepares for Total War*, 219.

naval “big sticks.” The United States never truly wanted to put its foot down against Japan, and considered economic sanctions as a safe and convenient way to avoid that. As economic scholar Valerie L. Schwebach has written, “The choice of a policy that has been publicly touted as an alternative to war seems an unlikely way to convince an opponent of the willingness to go to war.”²⁴ While it is hard to speculate what the United States could have done better, it is clear to see that the strategy it adopted—economic aggravation and annoyance—did little besides provoke Japan to war.

By understanding American attitudes (an aversion to military mobilization, a comfort in its own economic might), Japanese goals (dominance of Asia), and the ineffectiveness of economic sanctions, it is clear why a freeze of dollars led to the fire of war. Japan could easily work around embargos of airplanes and scrap metal by stockpiling and diverting internal resources; when the United States finally began to get tough by freezing Japan’s American dollars and blocking the sale of oil, Japan was angry and armed enough to bring its ire down upon Pearl Harbor. Engaged with a mighty belligerent in the Pacific and honor-bound to support its Allies in Europe, the United States was now caught in the throes of World War II.

Mitch Rogers is a recent graduate of BYU’s renowned history program, having specialized in American economic, diplomatic, and political history. Almost born but definitely raised in Spokane, Washington, Mitch was led to study history by his insatiable desire for global gossip and historical dirty laundry. Mitch eagerly awaits the day when either he knows what he wants to do with the rest of his life or his shelves of books collapse and crush him in his sleep, whichever comes first. He would like to thank his parents, his accountant, and the classmates he had while writing this paper for their support and encouragement.

24. Chan, Steve and A. Cooper Drury, eds. *Sanctions as Economic Statecraft: Theory and Practice*. New York: St. Martin’s Press, 2000, 187.