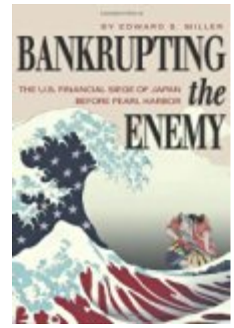

Edward S. Miller. *Bankrupting the Enemy: The U.S. Financial Siege of Japan before Pearl Harbor.* Annapolis: Naval Institute Press, 2007. 352 pp $32.00, cloth, ISBN 978-1-59114-520-2.

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Ever since Japan launched the surprise attack on Pearl Harbor on December 7, 1941, American historians have offered numerous accounts as to what caused Japan to go to war with the United States. Many agree that one of the immediate factors that prompted Japan's war decision was the U.S. oil embargo in the summer of 1941. Some of the leading scholars in the United States have pointed out that this oil embargo was the unintended consequence of president Franklin D. Roosevelt's executive order on July 25, 1941 to freeze all Japanese assets in the United States. At that time, neither the president nor secretary of state Cordell Hull meant to implement a complete oil embargo through the freeze order because they were aware that the oil embargo might provoke Japan into war. Yet, the mid-level hard-line bureaucrats in the State and Treasury departments instituted a virtual oil embargo through manipulating the financial freeze. Michael Barnhart's valuable study has already shown that the financial freeze and the unplanned U.S. oil embargo had unfortunate effects on Japanese leaders, who had been pursuing the policy to build an autarkic empire up to that point, for they now felt that Japan must fight for national survival.[1]

Edward S. Miller's new book, ***Bankrupting the Enemy***, sheds new light on the Roosevelt administration's policy to employ economic sanctions to curb Japan's aggression on the Asian continent, first in China in the 1930s and later in French Indochina in the early 1940s. By doing so, it makes an important contribution to the historical debate over Japan's motives behind its decision to go to war with the United States. Miller takes a new approach toward the U.S. financial and trade sanctions against Japan by treating “embargoing” and “bankrupting” of a hostile nation's economy as two different economic sanction strategies. The author suggests that the trade embargos (both export and import controls) that the Roosevelt administration employed against Japan, although discriminatory enough to hurt the Japanese trade and their feelings, did not produce desired outcomes, and he even goes so far as to argue that the abrogation of the 1911 Commercial Treaty in

January 1940, traditionally considered as an important step in U.S. economic sanctions against Japan, was "a meaningless gesture because the United States did not invoke any trade penalties" (p. 83). The book's main argument is clear: the U.S. government deliberately pursued the policy to launch economic warfare to deter Japanese aggression by financially bankrupting its economy. On the road to Pearl Harbor, in the author's words, "the most devastating American action against Japan was the financial freeze" (p. 1). In the end, although Miller does not state it outright, the financial freeze was most devastating not only to Japan but also to the United States. The U.S. attempt to defeat the enemy by bankrupting its economy provoked the enemy into the very war that the Roosevelt administration hoped to avoid.

Miller, an expert on international finance, carefully builds his case by providing statistical evidence throughout the book.The strength of the study lies in his close examination of newly available records from the Treasury Department's Office of the Assistant Secretary of International Affairs, the Division of International Finance of the Board of Governors of the Federal Reserve system, and the files of the U.S. Alien Property Custodian, as well as his extensive use of the records that were recently rearranged for easier access from the Tariff Commission and the Export Control Administration." He also carefully studies "The Place of Foreign Trade in the Japanese Economy" prepared by the U.S. Office of Intelligence Coordination and Liaison (a joint office of the Department of State and the Office of Strategic Services), as well as the detailed statistical data on Japan's trading and financial activities. Although some of the details of statistical discussions may seem excessive to some readers, the meticulous examination of statistical data is a necessary and valuable contribution.

According to Miller, as early as 1933 the Roosevelt administration was aware that Section 5(b) of the Trading with the Enemy Act of 1917 empowered the president to regulate American financial dealings with all foreign countries and entities, and Roosevelt momentarily flirted with the idea of a financial freeze against Japan when Japan invaded China in July 1937. However, his administration continued to rely mainly on ineffective moral embargos partly because U.S. financial experts at that time did not believe that Japan could wage a long war because of its lack of hard currency, and partly because the Japanese banks had cleverly hidden a reserve of dollars large enough to postpone its bankruptcy perhaps to 1943. Miller argues that the beginning of 1941 "marked a turning point in the will of the United States to advance from a patchwork of export restrictions to full-blooded financial warfare against Japan" (p.108). Roosevelt obviously provided the momentum toward this move by appointing an "ardently anti-Axis" lawyer, Dean Acheson as assistant secretary of state in January 1941, and by requesting a freezing committee composed of the heads of the State, Treasury, and Justice departments in February (p. 109).

In the meantime, the Economic Control Administration (ECA) undertook vulnerability studies of Japan's strategic resources, including commodities essential for the Japanese people such as food and clothing on the premise that in total war there should be no distinction between soldiers and civilians. Miller's discussion of the vulnerability studies by the ECA reveals the extent of the U.S. government's understanding of the state of Japan's economy and its vulnerabilities and how to exploit them. The U.S. government was fully aware that petroleum was the most vulnerable resource for Japan's economic life and especially for its military, and that petroleum supplies from the United States were irreplaceable. According to Miller, what emerges from the vulnerability studies report on May 1, 1941, is "a show of determination of the export control bureaucracy to deny Japan almost all commerce with the United States and the British Empire," sounding "a trumpet of total embargo, not a partial embargo" (pp. 123,167).

The most fascinating and valuable section in Miller's book, in my opinion, is his accounts on how the Roosevelt administration moved toward the financial freeze, and consequently toward the de facto oil embargo, in the midst of a rush of events from May to August 1941. Starting with his "fireside chat" declaring the United States to be in a state of unlimited national emergency on May 27, Roosevelt expanded his executive order to freeze the assets of all of Europe under Axis control, thereby changing the emphasis of freezing control from a "defensive weapon" to an "aggressive weapon" (pp.171-172). Germany's invasion of the Soviet Union, apparently not by design, terminated Japan's trade with Germany and the rest of Europe via the Trans-Siberian Railway, which made the U.S. dollar Japan's only medium of international exchange. Here Miller injects an alarming estimate on oil: as of June 1941, Japanese companies had already obtained approved licenses for "7.1 million barrels of gasoline, 21.9 million barrels of crude oil, and 33,000 barrels of lubricants, altogether worth about $50 million," which meant that Japan could legally purchase from the United States "gasoline for another nine months and ordinary crude oil for an astonishing thirty-two months--enough to supply it until the end of 1943!" (p. 175). To Dean Acheson and some other hard-liners the idea of freezing Japanese assets became increasingly attractive, for a financial freeze by a single stroke of pen could cut U.S. exports to Japan to zero despite the approved licenses for oil purchase Japan had already obtained.

In response to Japanese troops' occupation of southern Indochina, Roosevelt wanted to impose "a dollar freeze that would subject all transactions with Japan to licensing" (p. 176), which gave the United States flexibility to decide later how much trade Japan should be allowed to resume based on its future behavior. Miller offers valuable details on how a dual-track control system that emerged in the process of deciding how to administer the final freeze eventually led to the total embargo against Japan. According to the plan, the State Department and the Export Control Administration would continue to grant Japanese export licenses for oil, but a newly created three-man interdepartmental policy committee, the Foreign Funds Control Committee (FFCC), had to release funds for licensed exports. According to Miller, the FFCC was dominated by assistant secretary of state Dean Acheson, who was determined to release no funds to Japan. Miller elaborates on the fact that the FFCC, which was composed of the three "second-tier cabinet officials," "proved to be almost immune to direction from higher authorities" (p. 178) and carried out a total oil embargo without the approval of the president or secretary of state.

On the crucial question of why Roosevelt accepted the unplanned embargo, Miller hints at an alternative scenario: "Roosevelt wanted all along to prod Japan more forcefully than his diplomatic and naval advisers wished, and Acheson was carrying out the unwritten and possibly unspoken wishes of the commander in chief" (p. 203). This could have been another revisionist conspiracy theory if Miller tried to prove it, but he quickly admits that "an absence of evidence prevents an undisputed conclusion as to whether Roosevelt accepted the unconditional freeze of Japan's dollars because it was thrust upon him or because it was the policy he desired" (p. 204). Like many other FDR mysteries, historians may never be able to find a clear-cut answer on this question.

Whatever Roosevelt's true intentions were, the financial freeze order prompted Japan to carry out what the United States tried to prevent--Japan's southward expansion. Even worse, as Miller puts it, "in the Japanese eyes the bankruptcy was a lethal threat, an assault on the nation's very existence" (p. 242). Therefore, the Japanese leadership justified the war as self-defense against the United States, who was trying to strangulate and pauperize Japan. However twisted and misguided the Japanese leadership's thinking may have been in 1941, my own research suggests that this view prevailed among the majority of government and military leaders in Japan at that time.

Miller critically points out the fact that prior to Japan's attack on Pearl Harbor no agency in the U.S. government analyzed how the financial freeze would affect the Japanese economy and people. Only after the war in the Pacific began did the Office of Strategic Services (OSS) compile a secret 519-page study entirely from prewar information. By utilizing this document Miller retrospectively estimates a probable Japanese economic condition under a freeze in 1942-43. According to Miller, "a reduction of 35-40 percent of customary imports for consumption" in the trade-dependant society in Japan would mean "a rollback of the Japanese standard of living of about 15 to 20 percent." He best describes the probable living condition in Japan as follows: "an apt comparison might have been to the most poverty-stricken families in the most miserable regions of the United States in the worst depths of the Great Depression, surviving but enduring lives of grim deprivation with little hope of relief" (p. 235).

Miller's book suggests important lessons for historians of foreign policy and international relations. First, he offers an important lesson about the danger of blowback entailed in the use of relentless economic sanctions against a state that misbehaves itself. Certainly, historians who understand the folly of resorting to war to solve a country's economic vulnerabilities will readily agree that it was the Japanese government that chose war; and in view of the magnitude of destruction, deaths, and misery caused by the war, many thoughtful readers may sympathize with the author's counterfactual question: what if Japan had chosen a different path by "renouncing imperial aggression in return for thawing of the freeze"? (p. 245). Nevertheless, Miller's book reminds us of possible grave consequences when a powerful country with abundant resources attempts to overpower and strangulate a have-not nation fighting for its existence.

Second, with respect to theinternal decision-making process, Miller's book also offers a warning that, even in the most sophisticated democratic government, it is possible for a handful of ambitious individuals to abuse power by exploiting and manipulating a loophole in a complex legal system and bureaucracy. Miller's example demonstrates that hard-line bureaucrat lawyers like Dean Acheson could twist "a cautious squeeze designed 'to bring Japan to its senses, not its knees' into strangulation" (p. 242), with devastating consequences.

Note

[1]. Herbert Feis, ***The Road to Pearl Harbor: The Coming of the War between the United States and Japan*** (Princeton: Princeton University Press, 1950); Jonathan G. Utley, ***Going to War with Japan, 1937-1941*** (Knoxville: The University of Tennessee Press, 1985); and Michael A. Barnhart, ***Japan Prepares for Total War: The Search for Economic Security, 1919-1941*** (Ithaca: Cornell University Press, 1987).

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