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MERCHANTS OF DEATH REVISITED: ARMAMENTS, BANKERS, AND THE FIRST WORLD WAR

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THE YEAR 2004 MARKS the seventieth anniversary of the publication of Engelbrecht and Hanighen's *Merchants of Death: A Study of the International Armament Industry,*[1] a book that made it into the general consciousness of most thinking Americans by the mid-twentieth century. The stark language of the title no doubt contributed to its fame. Moreover, the theme of arms merchants pushing for war is both easily understood and easily discussed, even by those who have not read it.

Engelbrecht and Hanighen presented a convincing historical argument that armaments manufacturers, working hand-in-hand with governments, have played a malign role in the modem world, in particular in the period of World War I. Writing in a popular format for a broad readership, the authors traced the rising influence of arms manufacturers and merchants over the last several hundred years in order to put into context the dreadful conflict of 1914–1918, which is at the core of the book. The book's thesis resonated well in 1934, the early thirties forming the high-water mark of the interwar offensive against the "war system" in the United States and against intervention in foreign wars. *Merchants of Death* was perhaps the best known piece of this offensive.[2]

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[1]H.C. Engelbrecht and F.C. Hanighen, *Merchants of Death: A Study of the International Armament Industry* (New York: Dodd, Mead, 1934).

[2]Other works in this tradition include Justus Doenecke, *Storm on the Horizon: The Challenge to American Intervention,* 1939–1941 (Lanham, Md.: Rowman and Littlefield, 2000); Wayne S. Cole, *Roosevelt and the Isolationists, 1934–1945* (Lincoln: University of Nebraska Press, 1983); and Wayne S. Cole, *Senator Gerald P. Nye and American Foreign Relations* (Minneapolis: University of Minnesota Press, 1962).

Engelbrecht and Hanighen's story connected the rise of complex, long-range armaments with the rise of the modern state.[3] Yet it is also a story of particular individuals and companies who dealt with and against each other. Many of the arms merchants had laid the basis for their twentieth-century wealth in the nineteenth century and even earlier. The Du Pont family arms business stemmed from a powder factory opened in 1802. The Krupps had a small steel business until the middle of the century. Thomas Vickers served an apprenticeship in the Krupp company and subsequently followed the Kmpps in producing first peacetime products, and then, from the 1860s, armaments. The Vickers firm was as colorful and as sinister, perhaps, as any of the arms producers, at least after joining forces with Sir Basil Zaharoff, the mysterious Greek arms merchant whose connections extended across the globe.[4]

One key to the success of all the arms merchants was that they held few national prejudices when it came to selling munitions and arms. So, for example, Irénée Du Pont in some cases supplied both sides with munitions in the Latin American wars for liberation after the Napoleonic period.[5] The Krupp family followed a similar pattern, as did Schneider-Creusot in France. The Vickers Company, the most politically powerful arms company in Britain, under Sir Basil Zaharoff's leadership supplied weapons to both sides in the Boer War, despite the company's position as a kind of national treasure.

Despite this tendency to supply all comers, the great arms companies all managed to secure a role as staunch patriots who enjoyed a special place in the "national" economy. Alfred Kmpp had expanded the family steel business to arms production by the 1840s, and was selling cannon abroad. When the Prussian army underwent reorganization in the late 1850s and early 1860s, it adopted the new Krupp artillery. The company ballooned, through the Wars of Unification, from a small plant at Essen covering two-and-a-half acres and employing a few dozen workers to a complex of 250 acres which employed 80,000 workers in 1914. The Krupp concern indeed, while continuing to sell weapons abroad, became a kind of unofficial part of Imperial Germany's government, protected from both economic

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[3]A number of modem scholars have explored this association, especially William H. McNeill, *The Pursuit of Power: Technology, Armed Force, and Society Since A.D. 1000* (Chicago: University of Chicago Press, 1984); and Martin van Creveld, *The Rise and Decline of the State* (Cambridge: Cambridge University Press, 1999).

[4]Engelbrecht and Hanighen, *Merchants of Death,* pp. 108–10. On Zaharoff, see Robert Neumann, *Zaharoff the Armaments King* (London: George Allen & Unwin, 1938).

[5]Engelbrecht and Hanighen, *Merchants of Death,* pp. 24–26.

competition and the scandals produced by some of the company's leaders.6 Most of the other great arms companies behaved in the same way.

As they did so, arms merchants almost always used the nature of their trade to achieve monopolistic relationships with governments and a free hand at fixing prices and delimiting markets throughout their industry. By 1905, Du Pont provided all the powder ordered by the United States government, and the company was able on its own to "fix" prices across the board. The government charged Du Pont with violating antitrust laws in 1907, calling for price-fixing and related practices to stop, but by this time, Du Pont had eliminated most American competitors with the assistance of the government. The company supplied an enormous share of the gunpowder used by the Allied forces in World War I.[7]

Similarly, the Schneider family of the French company Schneider-Creusot came out of the French defeat at Prussia's hands in 1871 with huge profits. Having supported Napoleon III, the company was now equally supportive of the various Third Republic governments, especially those of a nationalist coloring. Meanwhile, the company relied on the state to suppress strikes and manage discontent at its factories, as it supplied the army with weapons. The Schneiders eventually managed to place one of their own, Eugène Schneider, in the Chamber of Deputies, where he served throughout a period crucial to arms makers: 1900 to 1925.8 Hence, a pattern is clear: increasingly close association with the state, especially from the period of intense nationalism following the 1860s, and a tendency toward gaining access to public support for private profits.

Already high before World War I, profits soared during it. Before the third year of World War I, Krupp had more than doubled its huge profits of the immediate prewar period—to the level of 66 million marks annually. In Austria-Hungary, Skoda likewise doubled its profits during the early war years. On the other side of the Atlantic, profits surged still higher. U.S. Steel netted $105 million annually before the war, $239,653,000 during it. Du Pont's numbers in the same two categories were $6,092,000 annually before the war, to a staggering yearly average of $58,076,000 during the war. These results were repeated in dozens of smaller and subsidiary arms companies throughout the belligerent countries.9 Such are the episodes which Engelbrecht and Hanighen trace.

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[6]Ibid., pp. 71-84. On the Krupp empire, see also William Manchester, *The Arms of Krupp* (Boston: Little, Brown, 1964).

[7]Engelbrecht and Hanighen, *Merchants of Death*, pp. 22–37.

[8]Ibid., pp. 121–25.

[9]Ibid., pp. 159–79.

The revisionist historian Harry Elmer Barnes wrote the book's Foreword, praising it as an exposé of the armaments industry and the willingness of the American government to be persuaded and manipulated by it. But he does make a proviso about the topic which is fairly dramatic, coming as it does in a part of the book itself:

> Even though the armament makers have played a prominent part in encouraging wars, rebellions and border raids, they never exerted so terrible an influence upon the promotion of warfare as did our American bankers between 1914 and 1917. Through their pressure to put the United States into the War, these bankers brought about results which have well nigh wrecked the contemporary world.[10]

As a matter of fact, J.P. Morgan & Co. and other American banking institutions come into Engelbrecht and Hanighen's story in ways consistent with the behavior mentioned by Barnes, but they do not play the central role, at least not in their capacity as banks *per se.* The focus of the book is arms and munitions manufacturers like Du Pont, but the authors are clear on the role of the banks:

> All arms makers have important financial connections. In the Morgan group will be found the Du Pont Company, the Bethlehem Steel Corporation, the U.S. Steel Corporation, together with copper, oil, electric appliances, locomotive, telephone and telegraph interests. This tie-up also leads over into the great banks, including the National City, Corn Exchange, Chase National, etc. It is the Morgan group of corporation clients and banks which dominates the American arms industry.[11]

Engelbrecht and Hanighen point out that internationalization of boards and companies allowed banks and arms companies to have a purchase on any situation, no matter what ties of "loyalty" might be invoked. At the same time, their more-or-less constant relationship with any foreign government to which they sold arms allowed them easy access to the local press. Influencing the populace, and hence public policy, through propaganda became commonplace. When a war scare was needed, it was quite possible to create one by maximizing reports of existing tensions in the press.[12]

In evaluating *Merchants of* Death, it is important to emphasize that the topic of the bankers' influence on American intervention into the First World War was very much a public issue in 1934. For one thing, the extensive investigations of the Senate Munitions

[10] Ibid., p. viii.

[11] Ibid., p. 141.

[12] Ibid., pp. 14143.

Inquiry (the Nye Committee)—a congressional investigation of the role of arms manufacturers in the war--completed in early 1936 an exposé of bribery and corruption among American arms manufacturers such as Du Pont, Whitney Aircraft Company, Sperry Gyroscope, and others. Most of these companies had indeed provided arms to a wide range of customers, sometimes on both sides in the same war.[13]

From another direction, it was also in the early and mid-1930s that dissident Marine General Smedley Butler began criticizing the interventionist activities of international bankers, drawing on his personal experience at the sharp end of empire and war. His book on the topic appeared at the same moment as did *Merchants of Death.* His central point is summed up in a famous passage from his speeches and publications:

> War is just a racket. A racket is best described, I believe, as something that is not what it seems to the majority of people. Only a small inside group knows what it is about. It is conducted for the benefit of the very few at the expense of the masses.[14]

Indeed, the whole array of financial arrangements of the interwar period, from the Paris Peace and reparations to the Young Plan to the trade wars of the 1930s revolved around the names of Morgan, the Rockefeller interests, Kuhn, Loeb & Co., and related banking and commercial concerns. Apart from Hitler and Hindenburg, perhaps no German individual was better known in the United States than Hjalmar Horace Greeley Schacht, the banker and wizard of the German economy from World War I to the late thirties.[15]

Certainly, the study of both groups—arms makers and bankers—finds not only similar behaviors but often the same individuals. Broadly speaking (and this goes for arms makers and bankers throughout the European world), both groups constituted international operations that justified influence over their own governments by their supposed patriotism. Yet both used their own governments to subsidize their operations and produce enormous profit. Both arms makers and bankers were active in handing out

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[13] John E. Wiltz, *In Search of Peace: The Senate Munitions Inquiry, 1934–1936* (Baton Rouge: Louisiana State University Press, 1965). The report of the Nye Committee, often called the Nye Report, is in U.S. Senate, Special Committee Investigating the Munitions Industry, 73rd Cong., 2nd sess., 1936.

[14] Smedley D. Butler, *War is a Racket* (New York: Round Table Press, 1935).

[15] Schacht's 1953 memoirs appeared in translation in the United States with the title *Confessions of the Old Wizard: The Autobiography of Hjalmar Horace Greeley Schacht* (New York: Houghton Mifflin, 1956).

subventions to the press in order to shape public opinion in needed ways. Perhaps most importantly, the interests of both groups lay in a cycle of conflict. The arms makers needed conflict for huge demand and close relations with the governments being supplied. But they also needed bouts of armed peace or cold war to upgrade technologies and sell their new goods. The bankers likewise needed conflict as a way of financing governments' war efforts overall, forging all kinds of ties with those governments, and gaining government help in crushing their business rivals or taking them over. Yet times of peace were especially important for bankers, because even greater profits were forthcoming from reconstruction efforts after a conflict was over, counted then not by millions but by billions.

The nature of armaments technology before and during the First World War made the terms of the "destruction-reconstruction" nexus far more extreme. Advances in artillery, above all, made shellfire more powerful, more accurate, and more destructive of lives and property. Artillery stood at the center of war tactics in 1914, and became even more predominant as the war progressed. The result was maximum destruction. For interests which combined arms production with investment banking, maximum destruction meant maximum opportunity for profits from reconstruction after the war.[16]

A few figures will give an idea of the scope of destruction. At the Armistice, the Entente powers on the Western Front and the Italian Front had in their lines 29,315 artillery pieces.[17] Shelling was more-or-less constant along all fronts, especially the Western Front. It intensified with attacks, and the pre-attack explosives expended in shells or mines tended to increase as the war went along. Artillery shells came in many varieties, and by the end of the war, they were raining high explosive, shrapnel, burning heavy metals, gas, and other death-dealing substances down on enemy positions. The zone of destruction on the Western Front alone was roughly 400 miles long by 50 miles wide. Of these roughly 20,000 square miles, some substantial segments remain today so thoroughly impregnated with chemicals, live explosives, and other detritus of war that they are still "red-zoned" by the French government—that is, habitation is simply forbidden, and no economic activity is allowed, except logging in some cases. Some villages are today remembered only by reunion associations, since the families have been scattered to live elsewhere since 1914.[18]

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[16]Tooley, *The Western Front,* pp. 88–93.

[17]Randal Gray and Christopher Argyle, *Chronicle of the First World War* (New York: Facts On File, 1991), vol. 2, p. 288.

[18]For a general description of the zone itself, see Tooley, *The Western Front,* pp. 258–63.

The destruction was enormous, and the inefficiencies of "reconstruction" combined government bureaucratic highhandedness with the "reconstruction" elements of "reparation" deals which continued for over a decade after the war. Indeed, the little-investigated story of the actual reconstruction of France, Belgium, and the other reparation recipients is beyond the scope of this study, but it is a story that contains elements one might expect from nearly a century of experience with such processes: politicization of "reconstruction," monopolistic relationships between governments and companies chosen to do the reconstructing, and various other financial techniques associated with government programs.[19]

Engelbrecht and Hanighen worked against this background, and also from the perspective of the populist historical revisionism which formed an important component of the intellectual movement against aggressive war. During the vibrant discussions of American intervention in the war, imperialism, and militarism during the 1930s and afterward, most of the "mainstream" historians in American academe were missing in action. Indeed, under the renewed waves of war and destruction which began only five years after the publication of Merchants of Death, all but the staunchest American critics of the warfare state were overwhelmed. The name of the book lived on, it is true, but in caricature form, so that by the 1960s and 1970s, college professors could assert, without having read it, that the Merchants of Death "theory" was that World War I had come about solely because of the makers of munitions and armaments—a simplification which the authors explicitly rejected.[20]

Since the Second World War, scholarly historical literature on armaments and the origins of World War I have tended to cast the issue in terms of an armaments competition among the Great Powers of Europe. Historians have argued over whether naval armaments were more significant in this regard, or whether land-based weaponry played the major role in the competition.[21] Still, the assumption at the heart of any such interpretation is that the arms

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[19] The best study of reconstruction is the recent work by Hugh D. Clout, *After the Ruins: Restoring the Countryside of Northern France After the Great War* (Exeter, U.K.: University of Exeter Press, 1996).

[20] Engelbrecht and Hanighen, *Merchants of Death*, pp. 5–11.

[21] An extensive argument for the importance of naval armaments in the coming of the war is Paul Kennedy, *The Rise of the Anglo-German Antagonism* (New York: Allen & Unwin, 1980). Two recent works speak convincingly for the primacy of land-based weapons in the arms competition: David G. Herrmann, *The Arming of Europe and the Making of the First World War* (Princeton, N.J.: Princeton University Press, 1996); and David Stevenson, *Armaments and the Coming of the War: Europe, 1904–1914* (New York: Clarendon Press, 1996).

"race" which preceded World War I was in a sense automatic: European states built more arms when they observed other states building more arms. Engelbrecht and Hanighen examine more convincing historical instrumentalities in that they provide at least a history which is full of contingencies and individual motivations, rather than a history which seems predetermined. Yet, by and large, historical scholarship has paid little lasting attention to the idea that armaments makers encouraged states to go to war.

Likewise, in terms of the bankers and their role in armaments and the making of war, the great crusade of the Second World War wiped out much of the existing interest in this topic as well as many others. The earlier critique was largely forgotten in the heady war for freedom against the Axis Powers. Perhaps, in addition, the financial elites themselves did more in the way of publicity to make them seem a necessary and important part of the American struggle for "freedom" here and abroad.

The general subject of the influence of international banking and business has been at the core of some prominent dissenting interpretations of the modern world, including interpretations from widely separated points on any given political spectrum. Large bodies of popular literature on the malign influence of the bankers and big business exist and have existed since at least the late nineteenth century. A thorough and satisfying scholarly treatment of this historical subject has yet to be written, but many parts of this story have been investigated, both from within academia and outside it. The following sections of this essay constitute an attempt, first, to assess Engelbrecht's and Hanighen's insights into the broad topic of bankers and big business in World War I in light of the serious literature which has emerged in the seventy years since its publication. From the components of this historiography, we will explore as well the outlines of a broad reconstruction of the relationships involved.

OTHER SCHOLARS CONSIDER THE ISSUE

From the scholarly world, a mainstream historical literature on the enormous influence of big business and banking on United States intervention in the First World War began to emerge only in the 1960s, and it was fairly limited even then.[22]

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[22] I am using the terms "mainstream" and "scholarly" in this article to indicate the academic world of university-trained historians (and economists and political scientists, etc.). It is worth noting that the graduate education of a large percentage of academics writing the history discussed herein have been supported by foundations related to many of the companies mentioned in this article. For example, the present writer was a Du Pont Fellow at the University of Virginia during one stage of his doctoral work.

Gabriel Kolko and the New Left

New Left revisionism, especially the work of Gabriel Kolko, made it into the mainstream of the historical and political consciousness at this time, but the Marxist biases of many New Left revisionists rendered their work off-putting to many scholars who might have been interested in broadening the discussion and taking up the topic of international banking and its relationship to World War I.[23] As the New Left critique of American interventionism, or parts of it, entered the mainstream of the American historical profession in the 1970s and 1980s, the whole topic of the banks tended to drop out of the argument.

Some interest in the influence of bankers on the First World War has reemerged with younger scholars in the 1990s, but hardly any note of disapproval remains in these works, in which monopolistic business and international bankers in particular are seen to be powerful, but well-intentioned and altruistic.[24]

Georges-Henri Soutou

Recent works on the economic diplomacy of the First World War have been few, but Georges-Henri Soutou's magisterial monograph on the economic war aims of all the belligerents should be mentioned here. Soutou's work is not especially critical of the role of

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[23]Kolko has dealt with this theme repeatedly, but his classic statement of the problem is Gabriel Kolko, *The Triumph of Conservatism: A Re-Interpretation of American History, 1900–1916* (Chicago: Quadrangle Books, 1963). Some students of New Left revisionists such as Kolko, William Appleman Williams, and Lloyd Gardner continued to work on these topics for some time. See, for example, Harry N. Scheiber, "World War I as Entrepreneurial Opportunity: Willard Straight and the American International Corporation," *Political Science Quarterly* 84 (September 1969): 486–511; Gail L. Owen, "Dollar Diplomacy in Default: The Economics of Russian-American Relations, 1910–1917," *Historical Journal* 13, no. 2 (1970): 251–72; and Roberta A. Dayer, "Strange Bedfellows: J.P. Morgan & Co., Whitehall, and the Wilson Administration During World War I," *Business History* 18 (1976): 127–51.

[24]See, for example, Priscilla Roberts, "Willard D. Straight and the Diplomacy of International Finance during the First World War," *Business History* 40 (1998): 16– 47; Martin Horn, *Britain, France, and the Financing of the First World War* (Montreal: McGill-Queen's University Press, 2002); Martin Horn, "A Private Bank at War: J.P. Morgan & Co. and France, 1914–1918," *Business History Review* 74 (Spring 2000): 85–112; and Jeffrey Frieden, "The Economics of Intervention: American Overseas Investments and Relations with Underdeveloped Areas, 1890–1950," *Comparative Studies in Society and History* 31 (January 1989): 55–80.

business on national policy in one way or the other, but his study—based chiefly on archival materials—is massive, and his conclusions are in many ways consistent with the thesis of *Merchants of Death.*

Soutou's analysis of American bankers and American policy is particularly useful here. He attributes a great deal of direct influence by investment bankers and business on the decisions of Wilson and his administration. In Soutou's interpretation, almost all the American political and financial elites viewed the war as an opportunity for the expansion of American capital and American influence.

The pre-intervention phase of the war represents for Soutou a period in which Wilson tended to be swayed by "hemispheric" arguments that the United States should continue and indeed expand its political and economic power in Latin America, arguments which came to Wilson most significantly through William Gibbs McAdoo, a former corporate lawyer who was Wilson's Secretary of the Treasury and son-in-law. McAdoo was associated with a specific group of banks and corporations who stood to gain if their activities in Latin America received even more subsidizing from the American public.

Yet after late 1916, Soutou argues, Wilson became convinced by the arguments for an "Atlantic" (Anglo-American) outlook represented by Secretary of State Robert Lansing, the Federal Reserve Board, and the Morgan group. In the end, according to Soutou, American entry into the war was not solely due to economic causes, although many influences from circles of high finance influenced policy. On the other hand, he says, American entry had very direct and massive economic consequences, and it signaled an expansion of American economic goals from the old hemispheric plans to the world scale.[25]

Carroll Quigley

On the other hand, Carroll Quigley, a longtime professor of history at Georgetown University and establishment historian contemporary with the New Left revisionists—but very far from any revisionist camp—attributed a great influence to Anglo-American banking concerns. One of Quigley's research specialties was the history of banking and finance in the nineteenth and twentieth centuries, and this research is reflected in his books *Tragedy and Hope* (1966) and *The Anglo-American Establishment* (written in 1949). In these works, Quigley described explicitly a kind of secret, benevolent "network" consisting of international bankers and connected

[25]Georges-Henri Soutou, *L'or et le sang: les buts de guerre économiques de la première guerre mondiale* (Paris: Fayard, 1989), pp. 353–411.

elites in business, education, the media, and government which had existed since the nineteenth century:

> The powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole.[26]

Rather than hiding its light under a bushel, this elite network, Quigley thought, should have been proud of its civilizing activities. If these representatives of the Anglo-Saxon rich and powerful had used various kinds of secret manipulations, they had done so, in his view, to make the world a better place. The network was led by individuals whom Quigley saw as good and upright internationalists, such as Cecil Rhodes, Alfred Milner, and other men with London banking connections and influence in halls of power, including especially the great New York financial groups.[27] In Quigley's telling, the role of this elite and its banking connections in World War I was that of financing the "Anglo-American" cause against the Central Powers, whose victory might have threatened what he viewed as the existing Anglo-American *Pax Romana.* Any imperial references are clearly intended, since Quigley's insider elite—from Rhodes and Milner on down—was doggedly paternalistic and thoroughly "invested" in overseas imperialism.

Quigley's admiring description of this subterranean network which encompassed international bankers in the United States, Great Britain, and, to some extent, on the Continent as well, immediately became a staple of theorists of conspiracies. One reason is that his description of a "conspiracy" among the elites of money, family, and power is clear and unequivocal. At the same time, though mainstream academe and the mainstream communications media almost universally denigrate or ignore the study of all but a few "politically correct" large-scale conspiracies in history, Quigley's stature as historian and his connections with the Northeastern power structures of money and education made it impossible simply to write him off.[28] Quigley died in 1977, but his reputation as

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[26]Carroll Quigley, *Tragedy and Hope: A History of the World in Our Time* (New York: Macmillan, 1966), p. 324.

[27]Ibid., pp. 52-63; and Carroll Quigley, *The Anglo-American Establishment* (New York: Basic Books in Focus, 1981).

[28]Quigley is often mentioned (in university syllabi, for example) as a "world historian" or "meta-historian" in the ranks of such writers as Arnold Toynbee, William H. McNeill, Michel Foucault, and others. His book, Carroll Quigley, *The Evolution of Civilizations: An Introduction to Historical Analysis* (New York: Macrnillan, 1961) is still regarded as a standard work.

an expert on power elites was confirmed *post mortem* in 1992 when, in his acceptance of the Democratic Party nomination for president, Bill Clinton referred to Quigley, his teacher at Georgetown, as an inspiration on par with that offered him by John F. Kennedy's pronouncements.[29]

Antony C. Sutton

A number of conservative and libertarian writers took up the subject of the bankers from the 1960s, bringing to paleoconservative and libertarian audiences a highly critical picture of bankers and their influence, premised in essence on an argument similar to the central point of Engelbrecht and Hanighen, that the great international banking houses of New York not only exercised enormous, and malign or self-serving, influence in government circles, but that they were so powerful that they shaped events to a striking degree.[30]

The academic work of Antony C. Sutton is the most important of these. Sutton was an economist with a deep background in the engineering aspects of heavy industry. His first publication touching on the topic of international bankers and elite influence on modern history, *Western Technology and Soviet Economic Development,* lay just off the mainstream of Sovietology and academic history. A more explicit critique of the subterranean influence and manipulations of international banking houses followed in the form of *Wall Street and the Bolshevik Revolution.* The Wall Street book and the Western Technology volumes are very closely related thematically, and both are products of intensive research. But the six years that separate these two works were years in which Sutton was dropped by the Hoover Institution, where he had worked, and which had published the first of these books.[31] The publisher of *Wall Street and the Bolshevik*

[29]See Quigley's obituary in *The Washington Star* (January 6, 1977). See also Bill Clinton's speech, "Hope for the Future," New York, Democratic Convention, 16 July 1992, 4President.org.

[30]See Alan Stang, *The Actor: The True Stoy of John Foster Dulles* (Boston: Western Islands, 1968); and Gary Allen, *None Dare Call If Conspiracy* (Boston: Concord Books, 1971).

[31]Antony C. Sutton, *Western Technology and Soviet Economic Development,* 3 vols. (Stanford, Calif.: Hoover Institution on War, Revolution, and Peace, 1968–73). On Sutton's departure from mainstream academe, see Gary North, Foreword to *The Best Enemy Money Can Buy,* by Antony C. Sutton (Billings, Mont.: Liberty House Press, 1986); and Richard Pipes's comments on Sutton's work in *Survival is Not Enough* (New York: Simon and Schuster, 1984), pp. 259-60, esp. n. 29. Pipes asserts the value of Sutton's Western Technology books, but says that they tend to be ignored by the mainstream as "extreme."

Revolution was Arlington House, which had been associated with many figures from the Old Right. Sutton followed with several more works dealing with the nexus of money, technology, banks, and the malign influence of money and power elites.[32]

In brief, Sutton showed solid evidence that international bankers, or merchant bankers, were directly active in encouraging the United States to support Britain in a most unneutral way during World War I, an assertion which—as we have seen—Harry Elmer Barnes had made forty years before Sutton. But Sutton's reconstruction was much more detailed and far-reaching. He pointed out first that the maneuverings of American business and financial interests had taken over a directing influence in the imperialized world of pre-1914. Goals related to the shaping of world affairs led concerns like J.P. Morgan & Co., National City Bank, and American International Corporation (a wartime combination of interests from both the rival Morgan and Rockefeller camps) to help create revolution in Russia so as to have a completely new field for American investment. This vision, according to Sutton, was very much related to the grandiose plans for American financial and market control of China planned by Morgan agent Willard Straight.[33]

Charges of anti-Semitism are frequently leveled against historians and other writers who discuss banking elites and conspiratorial influence. After all, the history of Europe and the history of a number of Jewish families have intersected in such a way that, from the eighteenth century, some of the most successful and influential international banks in both Europe and the United States were the Rothschild house, Gerson von Bleichroder in Berlin, Jacob Schiff in New York, and others. Hence, anyone who studies the largest banks of modem times will be studying some Jewish banks. On the other hand, it is also true that from the end of the nineteenth century onward, the anti-Semitic movement attached special importance to the "rootless" international banking activities of Jews in Europe and elsewhere. Indeed, the "Jewish world conspiracy" was a standard element of anti-Semitic writing long before Hitler took it up. Actually, Sutton dealt with the evidence for a "Jewish world conspiracy" explicitly in his *Wall Street and the Bolshevik Revolution.* He assessed various theories of "Jewish" conspiracies to promote Bolshevism and found these theories flawed, the evidence nonexistent. A central

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[32]Antony C. Sutton, *Wall Street and the Bolshevik Revolution* (New Rochelle, N.Y.: Arlington House, 1974); Antony C. Sutton, *Wall Street and FDR* (New Rochelle, N.Y Arlington House, 1976); and Antony C. Sutton, *Wall Street and the Rise of Hitler* (New Rochelle, *N.Y* Arlington House, 1976).

[33]Sutton, *Wall Street and the Bolshevik Revolution,* pp. 125–44.

stage of most theories proposing American Jewish bankers as financiers of the Bolshevik Revolution (Trotsky in particular) is the supposed role of the American Jewish banker Jacob Schiff, head of Kuhn, Loeb & Co. Sutton demonstrated from solid documentation that Schiff was against support for the Bolshevik regime, unlike many bankers from the Morgan and Rockefeller orbit. Sutton therefore explicitly rejected the various "Jewish Conspiracy" theories that make the Bolshevik Revolution the result of Jewish high finance.[34]

G. Edward Griffin

Many works by journalists and other writers followed the research studies of Sutton, most of them in a popular vein, and few of them going beyond the work Sutton had done, except in many cases to add one conspiracy or another onto Sutton's description of a power elite without much in the way of solid evidence.

Yet some conservative works built solidly on Sutton and his sources. The most successful of these is the recent work, from the Old Right tradition, *The Creature from Jekyll Island: A Second Look at the Federal Reserve*, by writer and researcher G. Edward Griffin.[35] Griffin builds on firm information from Sutton, Murray Rothbard, and many others to create a broad treatment of the role of the Morgan, Rockefeller, and Kuhn, Loeb & Co. banking interests in American life and the rest of the world as well. Beginning with the founding of the Federal Reserve System, Griffin shows the extent to which the system allowed the Morgan and Rockefeller agents and partners who ran the system to manipulate the dollar during World War I.

In addition to making loans outright, J.P. Morgan (the younger, known to contemporaries as "Jack") became chief purchasing agent for Britain in the United States as well as sales agent for Allied bonds offered on the American market. With the dollars from the bonds, the British and French bought goods which bolstered their war effort. "Morgans" (a term used to designate the house of Morgan and its ancillary companies) also owned or controlled many of the manufacturing firms which gained orders for munitions, uniforms, and an array of other goods.

Griffin points out that the impact of German submarines on the shipping of these war goods across the Atlantic was so dramatic that the entire Allied cause was endangered. As Griffin puts it:

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[34]Ibid., pp. 185–211.

[35]G. Edward Griffin, *The Creature from Jekyll Island: A Second Look at the Federal Reserve* (Westlake Village, Calif.: American Media, 1994).

> It became increasingly difficult to sell their [the Allies'] bonds. No bonds meant no purchases, and the Morgan cash flow was threatened. Furthermore, if the previously sold bonds should go into default, as they certainly would in the wake of defeat, the Morgan consortium would suffer gigantic losses.[36]

Hence, Morgans and other American banks not only lobbied very hard for American intervention, as did the British, but also engaged in a massive public relations campaign to get the United States into the war.

Griffin has been a well-known Old Right writer and thinker for many years, and his specialty has been putting together larger pictures of interpretation and presenting his interpretations to a nonspecialist public. From the standpoint of historiographical canons, Griffin's study is not designed to follow the more rigorous, monographic standards of argumentation and primary evidence which Sutton observed in his early books, but the breadth of *The Creature from Jekyll Island* as an overview is nonetheless impressive. It succeeds very well as history or interpretation for the broader public.

Murray N. Rothbard

An equally broad treatment of the topic under discussion, and one more focused and incisive in scholarly terms, is the analysis of libertarian economist, political philosopher, and historian Murray N. Rothbard. A consummate scholar, Rothbard combined attention to evidentiary rules with a sweeping understanding of the modem world to achieve some dramatic insights into recent history. We now turn to his insights into the topic of bankers, arms makers, and the First World War.

Rothbard began to write about this issue in the early 1960s, and he returned to it in the '80s and '90s. In 1963, in his famous essay *What Has Government Done to Our Money?* and in his book *America's Great Depression,* Rothbard made some brief but significant remarks on the role of the whole Federal Reserve scheme in the cataclysm of war that followed immediately on its heels in 1914, with the suggestion that the financial houses involved in the secretive creation of the Federal Reserve had used their newly gained inflationary freedom to influence the course of the war and the peace to follow. He discussed the issue of the support for statism and control of society by elite financial interests in his essay from the late 1980s, "World War I as Fulfillment: Power and the Intellectuals."[37] But he covered these

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[36]Ibid., pp. 260–61.

[37]Murray N. Rothbard, "World War I as Fulfillment: Power and the Intellectuals," *Journal of Libertarian Studies* 9 (Winter 1989), pp. 81–125.

issues much more extensively in his larger study, History of Money and Banking in the United *States*.[38] Here, Rothbard elaborated on what he apparently considered one of the crucial events of the twentieth century, the founding of the Federal Reserve and the immediate use of its inflationary potential to finance the war in Europe and prolong the war of "fulfillment" so as to produce the world that followed.

In a crucial passage dealing with the origins of the Federal Reserve, Rothbard focuses on the ideas of Charles A. Conant and other intellectuals and businessmen in the Morgan orbit who worked out the world view underlying the creation of the expansive, crusading "democratic" state of later years. He shows that from the late nineteenth century, elite American financial circles developed an analysis of world power and American dominance that ran quite parallel to contemporary British, Russian, and German visions of expansive world power and imperialism, and was influenced by similar cultural influences. Various components went into the plans of Conant and others for the imperial expansion of American power and capital across the globe, but one of the more important was a kind of determinist logic in which industrial society was supposed to be producing surplus capital in the modern age, and since the supposed surplus capital must be employed somewhere, it would be employed best in exporting a new American system: a managerial system of imperial goods collection, profit-making, and expropriation which they dubbed "democracy."[39]

These preliminaries to the creation of the Federal Reserve paralleled the expansion of the United States to imperialism with the Spanish-American war, the practice of Dollar Diplomacy in the years before World War I, and, throughout this period, regardless of administration, the export of "democracy." This process almost invariably meant military invasion, expropriation of individuals in the countries invaded, "reformed" financial systems under the control of American international bankers, and the "export" of American capital under monopolistic circumstances which gave companies like United Fruit and Standard Oil control of local resources.

Meanwhile, Conant and others had foreseen that there was much work to be done at home. Rothbard summarizes: "Domestic society, he claimed, would have to be transformed to make the

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[38] Murray N. Rothbard, *History of Money and Banking in the United States: The Colonial Era to World War II* (Auburn, Ala.: Ludwig von Mises Institute, 2002). See also Murray N. Rothbard, "The Origins of the Federal Reserve," *Quarterly Journal of Austrian Economics* 2 (Fall 1999): 3–51.

[39] Rothbard, *History of Money and Banking*, pp. 208–34.

nation as 'efficient' as possible. Efficiency in particular, meant centralized concentration of power."[40] Above all, if American capital was to "conquer" the globe, a means of manipulating the national currency would be necessary. As we have seen, the Federal Reserve supplied this means.

Another of Rothbard's insights into World War I relates to his interpretation of the Progressive Movement. The older historiography (which still prevails to some extent in the year 2004) pictured the Progressives as altruistic experts who rose up to assist the workers and farmers in their revolt against the rich and powerful. In his *History* of Money and Banking, Rothbard asserted that "the truth was the reverse of this well-worn fable." In fact, going beyond Kolko's similar starting point, Rothbard shows that big-business interests, "led by J.P. Morgan and Company," saw their monopolies threatened by competition, so they founded and financed the Progressive Movement to bolster monopoly: "Monopoly could be put over in the name of opposition to monopoly!" The financing of intellectuals and social scientists in this paternalistic cause, from the late nineteenth century onward, supplied armies of supporters of cartelistic efficiency and social imperialism.[41]

The result was that, when the war came, most American intellectuals welcomed it as "fulfillment" of one goal or another, as did monopolistic business and empire-building international bankers. It certainly fulfilled the arms makers to the overflowing. Rothbard investigated this general tendency, especially among Progressive intellectuals, in a brilliant 1989 article, "World War I as Fulfillment: Power and the Intellectuals." The various threads of Rothbard's analysis go together the following way:

- bankers and monopolistic business financed the British and eventually helped push the United States to intervene, in the name of an American peace program which would leave a world open to "American capital";
- intellectuals pushed their positivistic and technocratic versions of socialism;
- the power of the government (even its ability to stamp out sin) and its centralization of society grew apace;
- business was concentrated by the conditions of war and by government fiat;
- the populace was manipulated into a kind of vacuous support for the "crusade"; and

[40] Ibid., p. 212.

[41] Ibid., pp. 183–85; emphasis in original.

- a peace was arranged in which American banking houses arranged for the reconstruction of war damage, meanwhile lending money to Germany so that Germany could pay reparations to the Allies, who in turn could pay back their war debts in the United States.

The rich and powerful monopoly interests got richer and more powerful.

Only a few other historians and economists in the libertarian camp followed Rothbard in this broad reconstruction. Among the most significant of those who have done so is Robert Higgs. Though bankers and business is not the main topic of Higgs's classic, Crisis and Leviathan, his chapter on "The Political Economy of War, 1916–1918" deals in some detail with the business aspects of the rapid growth of government during the war. For example, Higgs is careful to show the connections between war collectivism and the War Industries Board run by Wall Street speculator Bernard Baruch, with cooperation from other big-business individuals who helped ratchet up government size and power as big business created "national efficiency" by using government policies and subsidies to gobble up smaller and frequently more efficient competitors.[42]

THE BANKS AND THE ALLIED POWERS

Since the late 1960s, a number of academic research works from mainstream sources have added details which bolster the interpretation of Merchants of Death, or at least demonstrate that American financial and business interests had clear plans that enabled them to welcome the war as "fulfillment."

Willard Straight, War Financier

The activities of Willard Straight provide a prime example. In 1915, this Morgans officer was centrally involved in the founding of the American International Corporation (AIC), a joint venture of Morgan and Rockefeller interests. In a 1969 study, Harry N. Scheiber showed convincingly that the founding of the AIC, in which Straight served as vice-president, was "no isolated event,', but rather the extension of a more general investment strategy designed to extend American investment overseas, usually with the assistance of the United States government.43 Previously a United States diplomat

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[42]Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1989).

[43]Scheiber, "World War I as Entrepreneurial Opportunity," pp. 486–511; see also Sutton, *Wall Street and the Bolshevik Revolution,* pp. 125–44.

and, by 1909, a Morgans partner, Straight worked vigorously to use both the diplomatic resources of the United States and the enormous influence of Morgans to engineer, along with a European "Consortium," a "four-power" currency-reform loan ($50 million) to China in 1910, which would have bolstered American, British, French, and German control over fractured and troubled China—"dollar diplomacy" on a large scale. The deal fell through, but Straight seemed determined to let no more chances slip away for economic penetration by monopolistic business, privileged private international banks, and the resources of the United States armed forces and bureaucracy. As Scheiber wrote:

> [F]or Willard Straight and other leading financiers, the European war simply provided a new, more promising context for the pursuit of strategies developed during the Consortium episode. . . . In light of Willard Straight's activities during the war years, . . . it seems more appropriate to interpret the bankers' loans and credits to the Allies during 1914–1917—and also such organization innovations as the AIC—as parts of a much larger, conscious wartime effort by an American business elite to attain hegemony for the United States in world markets.[44]

Straight's program included his advocacy of a wide range of statist "reforms" throughout this period, including higher tariffs, increased public subsidies for American business abroad, and the like.[45] It was the AIC that fostered the Russian Revolutions, which seemed to provide a wide field for American investment, and AIC officers were urging the State Department to recognize the barely existent Bolshevik government early in 1918. Straight had married heiress Dorothy Whitney in 1911, and her brother, Harry Payne Whitney, was the owner of Metropolitan, a journal which was one of the main venues and primary sources of support for John Reed, a journalist friend of Lenin's who proved the most vocal American supporter of the Bolsheviks.[46]

This concerted push by Straight, Frank Vanderlip, Morgans, Kuhn, Loeb & Co., and the various Rockefeller interests, along with the strong support of Wilson's Treasury Secretary William G. McAdoo and Commerce Secretary William C. Redfield, looks exactly like European financial imperialism of the late nineteenth

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[44]Scheiber, "World War I as Entrepreneurial Opportunity," pp. 491–92.

[45]Roberts is somewhat less critical of Straight and the A.I.C. than is Scheiber, but her article "Willard D. Straight and the Diplomacy of International Finance during the First World War," pp. 16–47, adds much detail.

[46]Sutton, *Wall Street and the Bolshevik Revolution,* pp. 137–44.

and early twentieth centuries, and that is indeed exactly what it is.[47] This connection between the paternalism, the statism, and the profits of imperialism is really crucial to making sense of the World War I experience.

One might therefore suggest that the failures of American dollar diplomacy in China, Persia, and particularly Russia provided the backdrop for the war years, when Wall Street planners like Straight and Vanderlip saw the war as an opportunity to make up lost ground and use the needs of the warring countries to leverage themselves to positions of permanent advantage.[48] It was the war itself that provided a breakthrough, or, one might say, fulfillment. Before the war, the United States had been, in the aggregate, a country which borrowed capital. By 1915, the United States was the creditor of Europe, and its financial supremacy was growing as the European Great Powers fired off hundreds of thousands of artillery shells at each other. By late 1916, nearly half of Allied war supplies came from North America.[49]

The Aims and Activities of Woodrow Wilson

The aims and activities of Woodrow Wilson are significant in this connection. Though the majority of academic historians have tended to picture Woodrow Wilson as an idealist fighting for peace,[50] some recent studies and published records have shown Wilson to be quite cooperative with the aggressive and warlike plans of his Progressive backers, Morgans and Wall Street. Extensive scholarship has been devoted to exploring why the United States spent the first half of the war acting as a pro-Allied neutral and why, when the Allied armies began to crack, Wilson led the country into war in 1917.[51]

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[47]On the financial processes of imperialism, see Herbert Feis, *Europe, the World's Banker: An Account of European Foreign Investment and the Connection of World Finance With Diplomacy Before the War* (New York: Council on Foreign Relations, 1964). Feis was even more a part of the mainstream historical establishment than was Quigley, and for many more years. His friendly account of the "exuberant" financial background to imperialism is quite positive.

[48]This argument is made for the Russian case in Owen, "Dollar Diplomacy in Default," pp. 251–72.

[49]Roberts, "Willard D. Straight," p. 17.

[50]See Lloyd Ambrosius, *Wilsonianism: Woodrow Wilson and His Legacy in American Foreign Relations* (New York: Palgrave Macmillan, 2002).

[51]For an older but still useful overview, see Ron Gregory, *The Origins of American Intervention in the First World War* (New York: Norton, 1971).

Woodrow Wilson was no doubt a complicated man, but his behavior in this national crisis has been convincingly explained since the 1920s by "old revisionists" such as Harry Elmer Barnes. Like the Progressive intellectuals that Murray Rothbard studied, Wilson saw the war as an opportunity. In his case, the opportunity was to crusade for "Democracy," which to Wilson seems to have meant a range of concepts ranging from the group fulfillment of "national self-determination" to what one might call the Anglo-American way of government through parliaments to the Comtean dirigiste and technocratic goals of institutionalized paternalism. Wilson probably meant many things by "democracy," but it seems clear from the evidence that he and his alter ego Edward Mandell House preferred the Comtean principle of rule by elite experts.[52]

Wilson's goals dovetailed with those of the financial interests who had supported him into power, though clearly, from time to time, Wilson did not please all factions of the financial world. At the outbreak of the war, for example, Wall Street grumbled when Wilson's State Department issued a rule that "loans by American bankers to any foreign nation which is at war are inconsistent with the true spirit of neutrality." But the introduction of the Federal Reserve System had led to what a recent historian has called a massive and "desperate" liquidation of foreign capital in the United States, whose prewar economy relied to a great extent on foreign capital.[53] Foreign investors feared the devaluation of the dollar. At the same time, Britain, France, and Russia were in the process of gearing up their domestic economies for war even as they used up dollar resources abroad in buying American supplies.

Morgans and the British

By October 1914, Wilson's advisors (and an outpouring of opinions from the financial world) had convinced him that recovery from the financial crisis would depend on the revival of export trade, and that the revival of trade with the now-voracious war economies of Europe would necessitate American loans and credits to Europe so that the belligerents could buy American supplies and war goods. Wilson therefore reversed himself, and the first loans to Entente powers were arranged before the end of the year. J.P. Morgan & Co. was the middleman in floating bonds on the American market. The borrowed money went toward Entente war goods. The process was much delayed in the Russian case, since trade relations between the

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[52]See Joseph Stromberg, "Remembering With Astonishment Woodrow Wilson's Reign of Terror in Defense of 'Freedom'," www.LewRockwell.com/stromberg/stromberg18.html.

[53]Scheiber, "World War I as Entrepreneurial Opportunity," p. 493.

United States and Russia had been very poor since before the war. Russia at first acquired goods from the French and British, but eventually the Russians borrowed money both on the bond market and directly from the United States.[54]

The extent of borrowing was massive. By 1917, Russia had "spent" $1.7 billion on war supplies in America. Some $300 million of this was made good by the export of trade goods and especially precious metals. For the rest, Russia borrowed, receiving direct and indirect advances from Morgans, National City Bank, the United States Government, and a variety of private lenders. Some of these loans were secured "in the name of" Britain, France, or "the Entente." The total of war loans to France from the United States was $2.997 billion, and to Britain $4.277 billion.[55]

The experiences of European belligerents in gaining loans with the private banking houses of New York were in no way equal. The process by which American bankers facilitated the Entente purchase of American products paid for by loans in America was full of conflict and problems, despite the closeness of Morgans ties in Britain, and despite the nearly hysterical Anglophile sympathies of most American international bankers. The history of loans to the Russians, for example, is a story complicated by pre-war American attempts to counter Russian financial influence in Manchuria and Persia, a series of financial clashes which ended with a virtual cessation of trade.[56]

At the other end of the spectrum, American financial connections with London were the closest, especially the connections of the largest American banker by far, J.P. Morgan & Co. This huge New York investment bank had affiliates in Philadelphia, London (Morgan Grenfell & Co.), and Paris (Morgan, Harjes et Cie)—all these together comprising the house of Morgan. The London bank, Morgan Grenfell, was widely regarded as the bank most closely in touch with "base" operations in New York.[57]

Indeed, the importance of Morgan Grenfell in the London financial world and the size of Morgans on both sides of the Atlantic enabled the British government to act rapidly to gain American

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[54]Scheiber, "World War I as Entrepreneurial Opportunity," p. 494; and Owen, "Dollar Diplomacy in Default," pp. 259–64.

[55]The figures on Russia come from Owen, "Dollar Diplomacy in Default," pp. 266–67; figures on Britain and France are from Gray and Argyle, *Chronicle of the First World War*, vol. 2, p. 292.

[56]Owen, "Dollar Diplomacy in Default," pp. 251–59.

[57]Horn, "A Private Bank at War," pp. 85-86.

resources.[58] Before the first battles of the war were over, London had made J.P. Morgan & Co. its official purchasing agent in the United States, and had, moreover, begun the process of borrowing from the company as well. Traveling back and forth across the Atlantic to help facilitate the relationship were high Morgan officials, including the leading partner, Henry P. Davison. Willard Straight made two round trips to London between December 1914 and March 1915.[59]

The financial relationship between the United States and Britain during the war has been examined extensively, and it is still the object of scholarly study. Historians Kathleen Burk, Roberta A. Dayer, Priscilla Roberts, and, most recently, Martin Horn have all written in detail about this relationship.[60] The picture that emerges from these histories is as follows. The American financiers and their subsidiary businesses were, for the most part, pro-British to the core. Some American bankers and industrialists were less excited about the British cause, and for some, the presence of non-British Entente members seemed to spoil their enthusiasm for the whole team. For example, Kuhn, Loeb & Co. key partners Jacob Schiff and Paul Warburg were both driving forces in the creation of the Federal Reserve, and were not nearly as pro-Entente. Schiff had long worked against Tsarist Russia in hopes of gaining some relief from anti-Semitic discrimination and persecution for Jews in the Russian Empire. Paul Warburg, a Federal Reserve Board governor and former Kuhn, Loeb partner, advised against increased loans and increased exports to the Entente on the economic argument that the end of the war would bring an industrial depression to the United States.[61] As will be seen below, even the relationship between the house of Morgan and the French government was uneven.

But the bulk of those in the Morgan and Rockefeller groups lobbied extensively for American support for the Entente, both through the press and through political contacts. Years later, in Nye Committee hearings, J.P. (Jack) Morgan made no secret of his support for the Entente: "In spite of President Wilson's urging 'impartiality even in thought,' we found it quite impossible to be impartial as between right and wrong." Morgan then clarified his position: "We agreed that we should do all that was lawfully in our power to help the Allies win the war as soon as possible."[62] Indeed, though Wilson

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[58]Kathleen Burk, *Morgan Grenfell, 1838–1988: The Biography of a Merchant Bank* (New York: Oxford University Press, 1989), esp. pp. 103–56.

[59]Roberts, "Willard D. Straight," pp. 24–26.

[60]Ibid., pp. 24–26.

[61]Ibid., pp. 25–29.

[62]Dayer, "Strange Bedfellows," p. 126.

would seem at times out of sorts with the Allies, and with Morgans too, there was no doubt about his sentiments. British Ambassador Sir Cecil Arthur Spring Rice cabled British Foreign Secretary Sir Edward Grey on 18 January 1915:

> Mr. Morgan saw President to-day. The latter was quite willing M. should take any action "in furtherance of trade" including advancement [of funds] to Russia. He says President is still most anxious to get shipping bill through but that Congress will certainly delay it for at least some time. M. could manage private purchase of German ships if His Majesty's Government desired it. President's personal sentiments to us are friendly and he is opposed to proposal for restricting sale of contraband: but he is much afraid of German vote.[63]

German vote or no, Wilson was signaling, and would continue to signal, his regard for the British cause.

Paradoxically, one of the major results of all this Anglophile sentiment was to shift financial dominance from Britain to the United States.[64] As American loans began to cover British war purchases from American suppliers, London gave way to New York as the world's most significant financial center. By mid-1915, Morgans began to push for something beyond the short-term loans permitted by the Wilson Administration, and recommended that the British government arrange a large loan in the United States.

Meanwhile, Morgans manipulated the exchange rate to achieve a drop in the value of the pound sterling against the dollar. At the same time, J.P. Morgan & Co. notified Treasury Secretary McAdoo that if the administration did not permit a loan to the British which would offset and partly restore their loss in purchasing power, then the British might take their business elsewhere. The Nye Committee later construed this set of movements as bribery aimed at forcing the United States to permit the loan, which in turn resulted in profits of millions for Morgans. Even though both McAdoo and Secretary of State Robert Lansing recommended the loan, Wilson, pressured by anti-interventionist sentiment as embodied by vocal politicians such as Senators William Stone and William Borah, still refused to allow a large British or Entente loan.

In September, Morgan partner Thomas Lamont accompanied British officials to Chicago to drum up interest for the loan, hoping

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[63]*The Papers of Woodrow Wilson*, Arthur S. Link, ed. (Princeton, N.J.: Princeton University Press, 1980), vol. 32, p. 87.

[64]This shift is described in detail in Kathleen Burk, "The Diplomacy of Finance: British Financial Missions to the United States, 1914–1918," *Historical Journal* 22 (1979): 351–72.

to gain political momentum by involving some non-Morgan interests. All banks in Chicago declined, except for one. Lamont was able to persuade banker Charles G. Dawes, who owned the medium-sized Central Trust Company, to participate, an important acquisition to the team working for the loan. Dawes would be promoting the loan as someone outside the Morgans sphere. Lamont promised Dawes that if he assumed the lead in backing the British loan, this service would "make a position for him in the banking world such as he otherwise could never hope to make." Under the leadership of Dawes, the Anglo-French loan of $500,000,000 succeeded and set a precedent for further loans. American exports would rise from the level of $2.4 billion in fiscal 1914 to $6.2 billion in the fiscal year from June 1916 to June 1917, pushed upward by massive sales in the form of war material and other supplies.[65]

Still, frictions occurred. In July 1916, for example, Britain published a "blacklist" of 87 American firms and 350 Latin American companies "guilty" or suspected of trading with the Central Powers. Irritated almost out of his pro-Entente "neutrality," Wilson wrote to Colonel House:

> I am, I must admit, about at the end of my patience with Great Britain and the Allies. This blacklist business is the last straw. . . . I am seriously considering asking Congress to authorize me to prohibit loans and restrict exportation to the Allies.[66]

For their part, the British bemoaned abandoning the financial heights to the Americans, but still hoped for more money. Indeed, the biggest "crisis" in the Anglo-American financial relationship came in late 1916, when the British were exhausted by the titanic battles of the Somme, Jutland, and (indirectly) Verdun. At this time, Britain called for American loans totalling as much as $250 million per month for the following six months, and potentially further into the future. Moreover, the loans were to be unsecured. Henry P. Davison abruptly informed United States financial agencies that Morgans was going to raise these loans by selling British Treasury bills, hoping they would be bought by American banks and renewed repeatedly. Davison hoped to raise upwards of a billion dollars this way. At this juncture, the Federal Reserve Board became alarmed that flooding the American market with paper, whose payment would be solely dependent on war trade, was a recipe for disaster. Drafting a warning, the Board sent it for approval to Wilson, who agreed. British and American war bond prices fell precipitously, the

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[65]Dayer, "Strange Bedfellows," pp. 130–31; and Roberts, "Willard D. Straight," pp. 24–26.

[66]Burk, "The Diplomacy of Finance," p. 356.

British Cabinet fell, and the rate of Allied expenditures continued to grow.[67] The situation was eventually "saved" by German reintroduction of Unlimited Submarine Warfare, that is, attacking supply ships coming from North America without surfacing to give them warning, and the subsequent entry of the United States into the war in April 1917.

Conditions changed when the United States intervened. Notably, the house of Morgan took care of crucial business, as historian Roberta Dayer has pointed out:

> Once the United States had declared war, Morgans took every possible step to assure itself that the private debts which the British government owed the bankers and bondholders were transferred to the United States Government in exchange for United States Bonds or Treasury Notes. In other words, Morgans ensured that it was repaid before the war was over, while the American Treasury, that is, the American people, assumed the British debts, which, because of postwar debt renunciation, were never fully paid.

Many other American decision-makers recognized that the new relationship could work out as "fulfillment" in one way or another. As Woodrow Wilson wrote to House: "When the war is over, we can force them [the British] to our way of thinking, because by that time they will, among other things, be financially in our hands."[68]

One might think in terms of historical irony here, since all the American efforts in Britain's favor had resulted in a kind of war footing that made the U.S.'s actual transition to war much smoother than it might have been. In a study of the Anglo-American connection in war finance and production, historian Ellen Janet Jenkins concluded that by the time the United States entered the war, American industry had already been mobilized for war "through the direct efforts of J.P. Morgan and Company and, indirectly, by the British Ministry of Munitions."[69]

Morgans and the French

In wartime France, too, the Morgan interests maintained a pivotal role, but the relationship was much more difficult than with

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[67] Burk, "The Diplomacy of Finance," pp. 357–60; see also Priscilla Roberts, "'*Quis Custodiet Ipsos Custodes?' The* Federal Reserve System's Founding Fathers and Allied Finances in the First World War," *Business History Review* 72 (Winter 1998): 585–620.

[68] Dayer, "Strange Bedfellows," pp. 134–35.

[69] Ellen Janet Jenkins, "'Organizing Victory': Great Britain, the United States, and the Instruments of War, 1914–1916" (Ph.D. diss., University of North Texas, 1992), p. 250.

Britain. The house of Morgan comprised four separate banking concerns at this time—in New York, Philadelphia, London, and Paris—and the Paris firm of Morgan, Harjes et Cie represented the interests of the house there. Once the war started, the house of Morgan began immediately to facilitate French government purchases in America, both of foodstuffs and military goods.

Between early 1915 and May 1917, the Morgan banks received commissions of *2* percent (and 1 percent after the contracts totaled $50 million) on all purchases in the United States. According to Dan P. Silverman, Morgans made a commission of $949 million on those purchases. The banking house made, again in Silverman's calculation, a half of a percent commission on a substantial portion of the supplies the French government bought from America during the last year-and-a-half of the war, and the French total during this time was $2,509,900,000.[70]

Another way in which Morgan influenced the fortunes of France was through loans. Like every other participant in the war, France was unable to sustain 1914-style high-tech warfare for long, for the reason that it was too expensive for anything but a short war. Hence, after stalemate set in during the fall of 1914, France was desperate for loans to pay for enormous purchases such as the ones described above. But the French still hoped to get American loans at bargain rates and without completely abandoning sound fiscal practice. Morgan stood ready, but the New York dynasty was displeased with the French. Morgan partners Henry P. Davison, Thomas Lamont, and J.P. Morgan, Jr., all derided French politics and old-fashioned financial notions. Herman Harjes, the Paris Morgan partner, wrote in December 1914 that French leaders could not be moved from their petty squabbles into "doing the thing in a big way."[71]

The first Morgan loan to France came through in March 1915, but Morgan luminaries were disappointed. American investors had failed to buy into the loan, and the Morgan people attributed this failure to the French refusal to start shipping their gold reserves to the United States in order to reassure the New York money market and show American investors a certain degree of good faith. Jack Morgan complained to Herman Harjes that a "gold reserve made into a fetish ceases to be a reserve and becomes a liability instead of an asset." Historian Martin Horn has recently suggested that Morgan's animosity was fueled in part by his Anglophilia and his preference for the British over the French in most areas.[72]

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[70]Dan P. Silverman, *Reconstructing Europe After the Great War* (Cambridge, Mass.: Harvard University Press, 1982), pp. 200–03.

[71]Horn, "A Private Bank at War," pp. 98–100.

[72]Ibid., p. 100.

Eventually, the dissatisfaction of the house of Morgan with French finance policy and French recalcitrance would have an even more direct impact on wartime France. From 1914 to 1916, at least three French finance officials in key positions of liaison with the United States were fired or removed from their jobs by Paris governments in order to placate J.P. Morgan & Co. The officials were Jean Jules Jusserand, French ambassador to the U.S.; Maurice Leon, assistant to Jusserand in New York; and Octave Homberg, French financial representative to the U.S. Morgans saw all three as dragging their feet, but Jusserand and Léon had also made the mistake of originally favoring National City Bank over J.P. Morgan & Co. All three were removed from their positions by 1916 because of pressure from Morgans.[73]

In addition, numerous Morgan agents played roles in and around the French government which increased the predominance of Morgan interests in French finance. Herman Harjes, the leading partner of Morgan, Harjes et Cie in Paris, served the United States army as a lieutenant-colonel. He was not destined for the trenches, however. His war was spent in the Office of the General Purchasing Agent of the American Expeditionary Force, where he worked with another Morgan partner in Paris, N. Dean Jay.

Their boss was Brigadier General Charles G. Dawes, the Chicago banker who had "saved" the first big Anglo-American loan in September 1915 and was now head of supplies procurement and distribution for the AEF. Dawes was and would be a finance official in both Republican and Democratic administrations at the same time that he plied his trade of investment banker, as owner of the Central Trust Company of Illinois. As seen above, by 1916, he was very much in the Morgan orbit. The influential Dawes was in the fortunate position of serving under a commander who was one of his best friends: He and John G. Pershing had been very close since the two had met each other many years before when both lived in Lincoln, Nebraska.[74]

Historian Dan Silverman has recently evaluated the Morgans relationship with the French: "By the end of the war, Morgans role had become that of American banker to the French government."[75] This position would also put Morgans on the ground floor at the peace conference. One might add here that Woodrow Wilson's collection of experts and assistants at the Paris Peace

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[73]Ibid., p. 102.

[74]On Dawes's association with Pershing, see Frank Everson Vandiver, *Black Jack: The Life and Times of John J. Pershing* (College Station: Texas A&M University Press, 1977), vol. 1, pp. 115–16.

[75]Silverman, *Reconstructing Europe*, p. 203.

Conference consisted in part of academics, attorneys, and financiers from the Morgan world. Hence, the predominance of J.P. Morgan & Co. in the postwar world and the presence of American banking agents in practically every major international decision-making process between the wars, from the Paris Peace Conference to the Young Plan and on to World War II.

THE ROLE OF THE GERMAN BANKERS

The German case was far different from these Allied-American financial dealings, but a comparison of the German situation adds some interesting detail to the picture of bankers, armaments, and big business in World War I.

Germany had long had its own set of private investment banks, including the Berlin representative of the house of Rothschild, Bankhaus S. Bleichroder (whose famous leader, Gerson von Bleichroder, had helped finance Bismarck's wars of unification), the important Berlin concern Mendelsohn & Co., and others, many of them with connections to Morgans as well as to other houses, such as Kuhn, Loeb & Co.[76] Great monetary upheavals in German and European life had led the most powerful German banks to streamline operations. From 130 deposit banks in 1874, by 1914 almost all savings and resources for credit were concentrated in about a dozen banks, most of that in the four largest.

These banks were very much involved with pre-war military planning, along with the Federal and state finance ministries, and the German central Bank, the Reichsbank. As economic historian Gustav Stolper commented:

> In one economic sphere alone did Germany have something like a plan according to which, in case of war, she could begin to act on the very first day: the sphere of money and credit and of state finance. The German Government had not troubled their heads how, if the dreadful emergency came, they would procure bread for the people and raw materials for the army. But they had taken well to heart the old and wise adage the three things are indispensable to wage a modem war: money, money, and again money.[77]

Indeed, the German financial world was equally involved in the sort of far-flung awareness of investing in politics that American

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[76] See Fritz Stem, *Gold and Iron: Bismarck, Bleichroder, and the Building of the German Empire* (New York: Vintage Books, 1979).

[77] Gustav Stolper, *German Economy 1870–1940: Issues and Trends* (New York: Reynal & Hitchcock, 1940), pp. 96–97.

financiers such as Frank Vanderlip and Willard Straight hoped to emulate and improve upon. Bernhard Dernburg, German investment banker, head of the Colonial Office before World War I, and head of the Reich Finance Ministry afterward, gives, in his unpublished memoir written in the 1920s, an unusually frank appraisal:

> It was even then the case [before World War I], though not in the public awareness, that every international political negotiation was attached to or carried out simultaneously with financial arrangements which can only be executed by the great banking houses. The World War and the politically motivated loan activity which preceded it brought these connections to light in the clearest way. The fate of the belligerents was connected intimatelv with the fate of state finances and especially the war loans. France still mourns today the 40 billion francs which it handed over as a seal of friendship with the Russians and to help an ally arm itself. And in order to enable England, France, Russia, and Italy to continue the war and for the protection of its already engaged resources, the United States had to dig deep into its own money bags, and for this same purpose to plunge its own country into the war. This is the only way one can make sense of the strenuous efforts of American investment institutions.[78]

The actual financial arrangements made in Germany may be described in brief here. After war broke out, the German Reichstag immediately (4 August 1914) passed the war credit bill which suspended the redemption of all bank notes in gold, that is to say, suspended the gold standard. To expand credit as rapidly as possible, the credit bill further set up Loan Banks (Darlehenkassen) which were to make loans to further all aspects of the war effort, including advances on income from the war loan bonds sold throughout the war. Raising funds for these activities was quite simple after the suspension of the gold standard: the Loan Banks simply printed notes called Loan Bank notes which served as legal tender. Germany did raise taxes, of course, but printing currency and selling war bonds became the most important means of financing the war. Since the inflationary policy of the Reichsbank had given the great banks a sense of increased liquidity, they, too, bought government paper, especially treasury bills bearing interest at between 4.5 and 5 percent.[79]

The obvious problem was that Germany was cut off from gaining either supplies or loans such as the Entente found so ready to

[78] Bernhard Demburg, "Material für eine Lebensbeschreibung," n.d. (probably written after his political retirement in the late 1920s), Bundesarchiv Koblenz, Nachlass (Papers) Bemhard Demburg, vol. 11, pp. 74–75. Translation mine.

[79] Stolper, *German Economy*, pp. 96–101.

hand. This isolation existed in part because of the British Blockade, an operation at variance with international law which would eventually kill several hundred thousand German civilians. Despite the efforts of the German U-boat force, it was extremely difficult to gain supplies from overseas. Many supplies could, however, be drawn from Austria-Hungary and other Central Powers, and the occupied lands behind both the Eastern and Western Fronts supplied much in the form of war booty. Still, most ways of acquiring supplies required money, and as the German government expropriated its populace, financiers attempted to gain loans from neutral sources up until 1917.[80]

The German Bankers in America

Max Warburg and other bankers suggested to the German government that it was worth a try to send representatives to New York to see if loans could be obtained, but German officials were not optimistic. The head of the Reichsbank, Rudolf Havenstein, opined that "it was very clear to us that we were thrown back upon our own resources and that we could expect support from no one in this world war."[81]

Nevertheless, attempts were made. One interesting case is that of Bernhard Dernburg, quoted above, who proposed to go to neutral America in 1914 and raise loans for buying supplies and goods, to be purchased and shipped by the German shipping company Hapag.[82] To administer the funds which he hoped to borrow, Dernburg

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[80]An important brief account of financing the war is in John G. Williamson, *Karl Helfferich 1872–1924* (Princeton, N.J.: Princeton University Press, 1971), pp. 122–50. On the blockade, see C. Paul Vincent, *The Politics of Hunger: The Allied Blockade of Germany, 1914–1919* (Athens: Ohio University Press, 1985). For a summary and commentary on the Vincent book, see Ralph Raico, "The Politics of Hunger: A Review," *Review of Austrian Economics* 3 (1989):253–59; and see another, more comprehensive, essay by Ralph Raico, "World War I: The Turning Point," in *The Costs of War: America's Phyrric Victories,* John V. Denson, ed., 2nd ed. (New Brunswick, N.J.: Transaction, 1999).

[81]Gerald D. Feldman, *The Great Disorder: Politics, Economics, and Society in the German Inflation, 1914–1924* (New York: Oxford University Press, 1993), p. 39.

[82]This story comes from Albert's report to his boss in the Interior Ministry, Theodor Lewald (found in the Lewald papers in the Bundesarchiv Berlin, Nachlass Lewald 41), and from the memoir of Albert's later assistant and co-worker, Arnold Brecht, *Aus nackster Nähe: Lebenserinnerungen eines beteiligten Beobachters, 1884–1927* (Stuttgart: Deutsche Verlags-Anstalt, 1966), pp. 269–71. For a study of pro-British propaganda Albert was up against, see Jenkins, "'Organizing Victory,'" pp. 168–96.

drafted from the Reich Office of the Interior Heinrich F. Albert, a 40-year-old official with international experience. Dernburg, who was both investment banker and former high-ranking government official, sailed with Albert to America and began beating the bushes for loans. This activity was perfectly legal, since the United States was neutral, but Dernburg could not find any major banks to help out, since they all said that they feared losing their British customers if they made any deals with the Germans. Eventually, before leaving, Dernburg put together a consortium of smaller American banks and came up with a $10 million loan, but this sum was a mere drop in the bucket.

Dernburg left his energetic assistant, Heinrich Albert, to raise as much money as he could. In attempting to do his job, Albert lived the strange life of an "enemy" in a neutral country. He soon figured out that helping find and ship goods to Germany was only one way he could help. In the course of shopping, he became aware of various rare goods and crucial tooling machinery which the British, in their wave of spending through the Morgan empire, were preparing to buy. Albert quickly bought these goods to prevent the British from doing so. Moreover, understanding that the British and the pro-British banking empires were subventioning newspapers, he found several newspapers which would accept financial assistance in exchange for more favorable coverage of Germany, so that at least a few news sources would veer away from the general Anglophile course. (Albert reported later that he had not seen a German newspaper in months, since the British regarded these as contraband and confiscated them, especially if they were on their way to the United States.)

Unlike his British counterparts, who appeared publicly and often flamboyantly in their quest for loans and American support, Albert was tailed by federal agents, in spite of the legality of his purchasing and fund-raising efforts. Eventually, the usually circumspect Albert made a mistake. On a late streetcar ride home one evening, he fell asleep. His briefcase was gone from his lap when he woke up. The thief seemed to know just what to do with the contents, which were published a few days later in the New ***York World.*** Albert had kept his work legitimate, and his paperwork indicated no illegal activities, certainly nothing British agents were not doing in high profile. But evidence of newspaper subventions seemed especially outrageous to the upright American press, and he was "exposed" as an evil German trying to influence American opinion. No charges came from the government even then, although scrutiny increased, and customs bureaucrats began to question Albert's shipping forms, which listed neutral countries as destinations, but from which the goods could be shipped on to Germany.

He stayed in the U.S. until the spring of 1917, when the intervention of the United States forced his departure. Though highly interesting, the efforts of Dernburg and Albert had little chance of success on so uneven a playing field. Northeastern wealth, in addition to British propaganda efforts, was financing whole armies of journalists, writers, and other opinion molders to maintain the pro-Entente slant of the press and of American opinion. Against this, the Germans had little chance in neutral America.

When we read the visions of American bankers like Frank Vanderlip and Willard Straight, it is by no means far-fetched to conclude that these enormous banking concerns, in conjunction with the state machinery itself, engaged in what can only be called conspiratorial activity for their own ends, though, as we have seen, they tended to justify these activities among themselves as the avenue to achieving a higher good. It is clear that, among "Wall Street bankers," there was a range of desires and goals. The house of Morgan worked against Woodrow Wilson at times during both the 1912 and the 1916 elections. Some big business people detested others and proved bitter opponents. Different priorities among the banking groups could emerge; for example, Rockefeller associates seemed more interested in aggressive investment abroad and imperialistic control of "backward" countries, while Morgans seemed to give higher priority to its Anglophile activities.

Still, all factions could agree on various significant and historically important issues, and they certainly cooperated at such times under the coordination of leading individuals in business, banking, and government. One of the keys to understanding a group repeatedly described as "high-minded" was the ability of investment bankers and their agents to conflate the good of the world with their own private gains in power, influence, and wealth. They were influenced both by social darwinism (many of the financial powers in the American Northeast were enthusiastically supporting "racial science" and eugenics) and by New England forms of what might be called "Calvinist pride," that is, pride in having the proof of God's Grace here on earth: wealth. From these seemingly contradictory bases of elitism came a confidence that these planners could decide best for the masses, and that profits from such decisions were only appropriate.[83]

The Germans and the Russian Revolution

We have a clear record that German elites during the war were proceeding on as devious a course as any banking interests from

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[83]On the attitudes among international bankers, see Horn, "A Private Bank at War," pp. 92–95.

Wall Street or the financial circles of London. This record is the case of German support for the Bolshevik Revolution. This support has been known and written about for at least the last fifty years, and such historians as Z.A.B. Zeman, W.B. Scharlau,[84] and Stefan Possony have explored the German contacts very thoroughly. Yet many accounts of 1917 Revolutions today mention only in passing the so-called sealed train on which Lenin and other exiled revolutionaries were carried by the Germans from Switzerland to return to Russia. Both the German foreign office and the German army high command apparently planned from the opening days of hostilities, and most definitely by the onset of stalemate in the West in November 1914, to resort to instigating revolutionary unrest in Russia. The object may not have been, at least in Berlin, revolution itself. At the very least, the Germans aimed at a destabilization which would force the tsar's government to negotiate a separate peace. Such a peace would have led to immediate changes on the stalemated Western Front by allowing Germany to take most of its resources committed on the Eastern Front and throw them at the Entente in the West. Judging from the evaluations and pronouncements of the Allies themselves, there is no doubt that such a turn of events would have increased enormously the probability of a German victory.

On the other hand, as Stefan Possony made clear in an indispensable 1965 study of these events, the Germans did not gamble all on one throw of the dice. According to Possony:

> The German diplomats, experts in revolution, did not select any one revolutionary to overthrow the government of his country. They assumed unpredictability and so supported many revolutionary persons and movements, betting, as it were, on all the horses in the race. They did not put these revolutionaries on their payroll, win them over to the cause of the German Emperor, dictate what they should or should not write, or issue orders guiding specific actions. The Germans used well instructed agents to influence decisions and events, but they left the revolutionaries to their own ideologies, tactics, and devices. Only rarely were direct contacts made. . . . Many revolutionaries were willing to accept any help

[84]Z.A.B. Zeman and W.B. Scharlau, *The Merchant of Revolution: The Life of Alexander Israel Helphand* (Parvus), 1867–1924 (London: Oxford University Press, 1965); Stefan Possony, *Lenin: The Compulsive Revolutionary* (Chicago: Henry Regnery, 1965); and Werner Hahlweg, *Lenin's Ruckkehr nach Russland 1917: die deutschen Akten* (Leiden: Brill, 1957). The pertinent documents, many of them discovered in the 1950s in the captured records of the German Foreign Office, are in Z.A.B. Zeman, *Germany and the Revolution in Russia, 1915–1918* (New York: Oxford University Press, 1958). See also George Katkov, "German Foreign Office Documents on Financial Support to the Bolsheviks in 1917," *International Affairs* 32 (1956):181–89.

> offered, on the grounds that they were upholding their own convictions and were actually using the Germans for their own ends. The Germans recognized this attitude, and to strengthen their political warfare capabilities, stimulated sentiments of this nature.
>
> On the other hand, Germans were careful to select intermediaries or liaison agents who were realistic and cynical, willing to ally themselves with the Germans for the attainment of common objectives, and who had sufficient political ambition to carry out their assignments with the required zest.[85]

The principal intermediary in carrying out these plans was Alexander Helphand, the famous "Parvus," a committed and prominent Marxist Russian revolutionary and theorist who seems to have made his fortune in Constantinople in the years just before World War I by assisting in the international arms trade—Vickers super salesman Basil Zaharoff was often mentioned as a Helphand contact—and with the German Foreign Office. He was just such a cynical person as Possony describes. Indeed, though a Marxist revolutionary of long standing, he became a German agent, and might have been a British agent as well. Helphand seemed to want revolution in Russia, but, like his German masters, he may well have been keeping his options open. Helphand funneled German money to the Ukrainian and Georgian separatist movements early in the war, and eventually to Lenin and the Bolsheviks. At the same time, one of Germany's most prominent bankers, Max Warburg, helped raise funds for Lenin's revolutionary work. Lenin, Trotsky, and other Bolsheviks waited until a real revolution broke out in Russia in early 1917, and made their way home from exile to revolutionize the masses so that they could carry out the Bolshevik coup d'état in October 1917.[86] Hence, we see here a slightly different configuration of the triad of banking, arms, and government in connection with the First World War.

BANKERS AND THE POST-WAR PEACE

Another such configuration may be seen in the conclusion of the war as well. Actually, this subject of bankers, arms merchants, and the peacemaking process of 1919 is an enormous historical study far beyond the scope of this paper, and is, in many ways, the best charted of all issues covered in this study. The influence of the banks was, simply put, overwhelming. Bankers and their lawyers filled out the staffs of all the Allied peace delegations. A listing of Morgans

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[85] Possony, *Lenin: The Compulsive Revolutionary,* Chap. 31.

[86] See Zeman and Scharlau, *The Merchant of Revolution.*

and other Wall Street agents in and around the peace delegations would be extensive indeed, all the way up to Morgans partner Thomas Lamont, who went along as Wilson's personal advisor on financial matters. The individual who suggested the famous "war guilt clause" as a way of fixing Germany financial responsibility was John Foster Dulles, thirty years old and chief counsel of the American delegation, on leave from his job at Sullivan and Cromwell, a law firm securely in the Morgan orbit. The list goes on and on.[87]

The result of the Paris Peace and its five "treaties of the Paris suburbs" was not a world safe for democracy, but a Europe of unrest, dislocation, dictatorship, and ethnic hatred. Yet the financial settlements originating from the Paris Peace Conference—reparation, reconstruction, "stabilization" of ruined currencies—left the bankers with more influence on world politics than ever before.[88] Needless to say, the short-lived "disarmament" phase, which included German disarmament and a naval limitation among the strongest powers, was only a phase. The cycle would soon bring back the arms merchants representing divisions of the banking houses.

CONCLUSION

This paper is, in part, a historiographical study of what one might call the *Merchants of Death* thesis. That is, it seeks to review the historical work on the subject of this classic book in the seventy years since its publication. Frankly, the connections which they made between arms salesmen and lobbies for large-scale violence have never been much in dispute. Nonetheless, we have seen that few mainstream scholars have attempted to investigate the thesis of Engelbrecht and Hanighen directly, to broaden their investigations, or to apply their approach to elite influence on general government policy to related groups.

Yet we find out a great deal even in a preliminary investigation of the nexus between the state, arms manufacturers, and the business and financial groups of which the arms manufacturers formed a part. We have seen that many mainstream academic studies on war finance and related matters in recent decades have contributed,

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[87]See Paul P. Abrahams, "American Bankers and the Economic Tactics of Peace: 1919," *Journal of American History* 56 (1969): 572–83, a study especially clear in connecting the prewar goals of "aggressive" investment and the settlement made at Paris.

[88]For the extent to which international finance and the international bankers themselves tended to mold the international political agenda of the 1930s, see Charles Kindleberger, *The World In Depression, 1929–1939* (Berkeley: University of California Press, 1973).

sometimes unintentionally, to the picture sketched by Engelbrecht and Hanighen. At the same time, solid investigations from the periphery of academic history and from outside of it have made significant contributions to what we know about this historical subject.

The present review of all this literature points to some clear conclusions. We may certainly say the First World War had many "causes," both proximate and distant. But arms manufacturers and salesmen were in the special position, both before and during the war, of playing the double role of monopolistic, rent-seeking, state-supported "bureaucrat-businessmen" at home, and freewheeling, all's-fair-in-love-and-war competitors abroad. In great measure because of this role, their influence on the coming and conduct of the war was enormous. Before the war, they helped create an increasingly unstable atmosphere in the world at large, first pushing in various ways for war, and later lobbying for its continuation, and eventually for American intervention once the Allies seemed exhausted enough to negotiate a peace.

Although the authors of the work clearly rejected the "arms lobby" as the only cause of the First World War, a caricaturized version of the "Merchants of Death thesis has tended to be the popularly known version, and in this version, arms merchants caused the war. Historians can and still do discuss the causes of World War I, but none would hold that any single cause could have touched off this great catastrophe. As Ludwig von Mises, a profound student of war and its causes, wrote in Human Action:

> People do not drink intoxicating beverages in order to make the "alcohol capital" happy, and they do not go to war in order to increase the profits of the "merchants of death." The existence of the armaments industries is a consequence of the warlike spirit, not its cause.[89]

War, like all human action, is an act of human preferences and will. The will for war, and hence a reason for governments to go to war, has to be present, and the study of this will, at both elite and popular levels, is still indispensable.

Yet with the age of mass politics and mass journalism, it is a commonplace that the masses can be moved to support political measures by journalistic persuasion. We have seen that many of the arms firms and purchases were tied in with great banking houses, since all were associated with steel companies and hundreds of other firms which enjoyed vast profits during the war. And as we have likewise seen, these business combinations carried out intensive

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[89] Ludwig von Mises, *Human Action: A Treatise on Economics,* 4th ed. (Irving-on-Hudson, N.Y.: Foundation for Economic Education, 1996), p. 300.

publicity and propaganda campaigns to influence their publics—above all in the United States. As with the pre-war arms business, their profits tended to come not through efficiency in the marketplace, but through state subsidies and through a kind of war centralization of the economy in which the favored arms-related companies were assisted in taking over smaller contractors, in the name of "national efficiency," "rationalization," and similar goals.

On the American side, we might view this whole process as going hand in hand with the larger goal of the new financial regime of dynamic and aggressive dominance of American investments abroad, tied in many ways to a prewar desire for "reengineering" and "managing" the world. The Federal Reserve was central in all such calculations, as Rothbard and Griffin have shown. The presence of representatives of all the major American financial groupings on the ground floor of such plans from Jekyll Island onward indicates the extent to which this fundamental manipulation of the American economy was essential in the global plans of the investment interests. Clearly, the presence of the United States as the supply house and financier for the Entente prolonged the war. The longer the war lasted, and the more intensive the propaganda of hatred sponsored by governments and financial houses, the more difficult it became, whatever the decisions of the battlefields, to reach any sort of settlement based on negotiation and compromise. Even scholars who want to minimize the role of arms merchants and their financial empires during the war must admit at last that arms merchants and bankers must—periodically, in any case—prefer some level of conflict, or at least the preparation for conflict, to peace.

During the First World War, all the significant investment banks in the United States (and in part the other Entente powers), even considered apart from their arms manufacturing activities, accumulated enormous wealth. This wealth formed an important element of the background to the peacemaking after the war--one has but to think of the Dawes Plan and the Young Plan to recognize this. But the wealth itself also gave to international bankers, and the house of Morgan in particular, even greater influence on public affairs than it had had before the war. And as they helped mold and shape events during the war and after, these American international bankers and their European counterparts helped shape a peace settlement in which the reconstruction of the devastation would offer even more wealth and influence in the future. In fact, they could hardly ignore a self-evident calculation: the more destruction during the war, the more potential for reconstruction afterwards.

Engelbrecht and Hanighen proved to be quite right. These were merchants of death indeed.

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