

hat on this occasion Mr. e loquacious than usual, ell be that he did not fential utterances to the f Mr. Straight. Perhaps self told certain friends ice with the Counselor nt of State. At any rate 1 October 25, the day ng-Straight conference, erand wrote the follow- Samuel McRoberts, of y Bank:—

ppropriate for me to con- from information, the ac- cannot doubt, [tha] you xent authorities [Wilson- ready, not of course to n" which is neither asked ut to abstain from objec-

reipt of this reassuring al City Bank announced rk *Times* (October 30, ngements were being end to the French Gov- al credit of \$10,000,000. f this arrangement was mber 4, and the corner- t structure of American) the Allies was thus

ons why America went be found in any single ces. There was no clear- that the President fol- ain steps that knew no e were many dim trails omise, and one along d with early misgivings ead was that which led onomic solidarity with

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PAUL BIRDSALL's (1899—) version of the role of economic factors is at once more sophisticated and more determinist than that of either Tansill or the Nye Committee. Birdsall, who also wrote *Persailles Twenty Years After* (1941), a strongly pro-Wilson study of the peace negotiations, argues in the review essay reprinted here that the need to maintain domestic prosperity rather than the influence of bankers persuaded the Wilson administration to approve the private loans which financed the war trade. As that trade mounted Germany, believing that the United States could hardly be of more harm in the war than out, made its decision to resort to the submarine campaign.*

Neutrality and Economic Pressures

Twenty years of debate have not yet produced a satisfactory or even a coherent neutrality policy for the United States, nor have they yet offered any real understanding of the problem of neutrality in the modern world to serve as a basis for policy making. Until we have some adequate analysis of the forces which destroyed President Wilson's neutrality policy between 1914 and 1917 no government is likely to be more successful than his in future efforts to master such forces. Nor will the neutrality legislation of the past years help very much if it simply ignores these forces.

The trouble with much of the writing on the World War period is that it

deals with separate aspects of the problem in watertight compartments with complete disregard of the complex inter-relations between economic and political phenomena. Thus Charles Seymour deals almost exclusively with the diplomatic record of our relations with Imperial Germany and from that record draws the only possible conclusion, that "It was the German submarine warfare and nothing else that forced him [Wilson] to lead America into war." The late Newton D. Baker arrives by the same route at the same conclusion: "Certainly the occasion of the United States entering the World War was the resumption of submarine warfare." That Baker had

* Paul Birdsall, "Neutrality and Economic Pressures, 1914-1917," *Science and Society*, III (Spring, 1939), pp. 217-228. Reprinted without footnotes by permission of Science and Society, Inc.

a glimpse of more remote and subtle causation is indicated by his choice of the word "occasion" and by his admission that critics may with some justification charge him with oversimplification by confusing "occasion" with "cause." "This," he says, "I may to some extent have done." Each of these authors is content with a surface record of diplomacy and politics without reference to the fundamental context of economic and social phenomena which alone can give it significance for analysis of the large problem of neutrality.

Nor does it advance the investigation to turn one's back completely on the diplomatic record and resort to a narrow economic determinism, as does Senator Nye. Ignoring the inescapable evidence that German submarine warfare was the immediate "occasion" for American entry into the war, he argues the simple thesis that American bankers first forced the American Government to authorize large loans to France and Great Britain, and when those countries were faced with defeat, then forced the American Government into the war to protect the bankers' investments. I have heard Senator Nye publicly express embarrassment at the lack of any direct evidence to support the second, and for his purposes the essential, part of his thesis, but what he lacks in evidence he makes up in faith.

What is most needed is careful synthesis of the accurate and valid parts of the diplomatic and economic theses. Senator Nye's committee has given us invaluable data on the development of close economic ties with the Entente Powers in the face of a government policy of neutrality designed to prevent just that development, even if the committee failed to analyze the precise forces

at work. We have accurate and scholarly studies explaining the *immediate* cause of American intervention as due to the German decision to wage unrestricted submarine warfare. But no one has yet demonstrated the connection between American economic ties with Germany's enemies and Germany's submarine campaign which provoked American intervention. It is precisely this connection which reveals the true significance of the economic relationship, namely that it makes neutrality in modern war impossible—unless the economic relations with belligerents can somehow be prevented. And that must be the first subject of investigation.

II

If Senator Nye is right in contending that it was primarily the intrigues of the banking-interests which prevented a genuine neutrality policy,¹ then the present legislation¹ to curb such activity in the future should prove adequate. But careful study of the evidence he has himself unearthed does not bear him out.

The Wilson administration attempted to enforce a neutrality policy identical with that now prescribed by statute in respect to loans to belligerents. To be sure there was no effort to prevent the sale of munitions to belligerents, and Secretary of State Bryan explained why in a letter of January 20, 1915 to Senator Stone of the Senate Committee on Foreign Relations. He said that "the duty of a neutral to restrict trade in munitions of war has never been imposed by international law of municipal statute." . . . [It] has never been the policy of this government to prevent the shipment of munitions to belligerents.¹

¹ Written in 1939, this refers to the neutrality act of 1937.—Ed.

that we would ultimately become the ally of Britain." He was therefore less disposed to maintain the rigid standards of neutrality set by Bryan. Yet in the event it was economic pressures that overwhelmed the policy.

In August of 1915 the British pound sterling began to sag in the exchange market under the pressure of war finance, and the first note of warning of threat to American export business appears in a letter of August 14 from Governor Strong of the New York Federal Reserve Bank to Col. House. Strong said that the drop of sterling to below \$4.71 had already led to cancellation of many foreign contracts for the purchase of American grain. He predicted more to follow and feared for the drastic curtailment of all American exports. On August 21 Secretary of the Treasury McAdoo wrote to President Wilson, "Great Britain is and always has been our best customer. . . . The high prices for food products have brought great prosperity to the farmers, while the purchasers of war munitions have stimulated industry and have set factories going to full capacity. . . . Great prosperity is coming. It is, in large measure, already here. It will be tremendously increased if we can extend reasonable credits to our customers." It was therefore imperative, he said, that Great Britain be permitted to float a loan of \$500,000,000 at once. "To maintain our prosperity we must finance it." Unfortunately, according to him, the way was barred by the State Department ban on foreign loans, and by the pro-German attitude of two members of the Federal Reserve Board, Miller and Warburg.

Wilson's reply was an evasion. On August 26, he wrote Lansing, "My opinion is that we should say that

'parties would take no action either for or against such a transaction,' but that this should be orally conveyed, and not put in writing. Yrs. W. W." But Lansing wanted something more definite and wrote a long letter rehearsing all McAdoo's arguments. "Doubtless Sec'y McAdoo has discussed with you the necessity of floating government loans for the belligerent nations, which are purchasing such great quantities of goods in this country, in order to avoid a serious financial situation which will not only affect them but this country as well." He estimated excess of American exports over imports for the entire year at \$2,500,000,000 and alleged that the figure from December 1, 1914 to June 30, 1915 was only slightly less than \$1,000,000,000. "If the European countries cannot find the means to pay for the excess of goods sold them over those purchased from them, they will have to stop buying and our present export trade will shrink proportionately. The result would be restriction of output, industrial depression, idle capital, idle labor, numerous failures, financial demoralization, and general unrest and suffering among the laboring classes. . . . Can we afford to let a declaration as to our conception of the 'true spirit of neutrality,' made in the early days of the war, stand in the way of our national interests which seem to be seriously threatened?" McAdoo had stressed the opportunity for national prosperity; Lansing threatened the horrors of national depression. Wilson replied two days later, on September 8, "I have no doubt that our oral discussion of this letter suffices. If it does not, will you let me know that you would like a written reply? W. W." Shortly after this the house of Morgan floated a loan of \$500,000,000 on behalf of

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Neutrality and Economic Pressures

the British and French governments. What of Senator Nye's contention that the bankers got us into the war by exerting direct pressure on Washington to protect their "investment"? It remains to be proved that the investment did get us into the war, and it is perfectly clear that direct pressure on Washington ceased when their desire to float loans for belligerent governments was granted. It is likewise clear that the government did not relinquish its ban on such loans out of any tender concern for the bankers as a group. What McAdoo, Lansing, and Wilson feared was a national economic depression. The bankers were in the happy position of being able to serve both God and Mammon. The situation is summarized in a single paragraph of Lansing's letter of September 6: "I believe that Secretary McAdoo is convinced, and I agree with him, that there is only one means of avoiding this situation which would so seriously affect economic conditions in this country, and that is the flotation of large bond issues by the belligerent governments. Our financial institutions have the money to loan and wish to do so."

At this point the conclusions of Seymour and Baker seem irresistible. They conclusively demonstrate from the diplomatic record that German resort to unrestricted submarine warfare was the immediate cause of American participation in the war. Yet they are strangely incurious about the reasons for the German decision, which have a very direct connection with the American departure from its own deliberately adopted policy of forbidding loans to belligerents. The fact that the German decision was made with full realization that it would force the United States into the war is certainly something that needs to be explained

and the search for an explanation is revealing.

FEAR OF DEPRESSION

THIS WAS THE ECONOMIC THESIS

There were two forces struggling for control within Germany, the civilian government of Chancellor Bethmann-Hollweg and the naval-military element. The latter favored extreme military policies without regard to diplomatic consequences, while Bethmann waged a losing fight on behalf of elementary political common-sense. In regard to the specific issue of submarine warfare the military group were uncompromising advocates of its unrestricted use as against Bethmann's warnings that such a policy was certain to bring the United States into the war in the ranks of Germany's enemies. After the sinking of the *Sussex* in March 1916 Bethmann was able to dominate the situation for the rest of the year. On May 4, 1916 the German Government gave to the United States a pledge to abide by the rules of cruiser warfare, abandoning the attacks on passenger ships, and promising to obey the rules of visit and search as they applied to merchant vessels. That the pledge was conditional on American enforcement of international law on Great Britain was a clear indication that Bethmann's victory was not decisive. The military element opposed the pledge from the beginning and fought for its abrogation from May throughout the rest of the year, with ultimate success.

They did not in the least contest the civilian thesis that unrestricted submarine warfare would force the United States into the war. They blithely admitted it—and said it did not matter! Here is the reasoning. On May 4, the very day of the *Sussex* pledge, General Falkenhayn wrote Bethmann: "I con-

SUSSEX PLEDGE

THAT LAWYERS WANTED TO REPORT ON

