America’s Sunk Cost Dilemma:
Woodrow Wilson and the Fallacy of American Neutrality in the Great War

Kevin Mason
Methods of History
Joel Deere
In the realm of economics, capital that has already been invested in certain spheres is described as “sunk cost”. Sunk costs are costs that are irrecoverable capital that have already been incurred and are independent of any happenings in the future. Too much sunken capital prompts those whose capital is directly tied to a particular investment to evaluate their investment. Described as a “sunken cost dilemma”, investors must determine whether or not a certain investment project is worth continuing, or pull out their investment in order to avoid any further losses.\(^i\)

Anxiety in America was high in 1914. Tensions in Europe had reached a fever pitch, ushering in a seemingly all encompassing war. Wilson addressed Congress as to what America’s role should be in August of that year. In his address, Wilson made an appeal for American neutrality, claiming that “every man who really loves America will act and speak in the true spirit of neutrality” further adding; “we must be impartial in thought as well as in action.”\(^ii\)

Statements, publications or transaction that may be construed as favoring either side was warned as a potential threat to peace, and that it wasn’t America’s role to get involved. In spite of these public sentiments, adherence to American neutrality didn’t suite the interests of a minority of the population who saw the outbreak of war in Europe as a great opportunity.

Unbeknownst American’s in 1917 were quickly being drawn towards military intervention in World War I. A year prior, American financers, industrialists, politicians and military elite found themselves in a dilemma of sorts. Believing to procure lucrative returns once the war was over American Industrialists and Financiers began lending money and selling War-commodities, to European entities to aide in their war efforts. However, any perceived financial
returns were entirely dependent on an Allied victory. America’s call to war was in effect, a means to guarantee an Allied victory and to protect the financial investments of a select few.

On April 2, 1917, Woodrow Wilson petitioned congress asking for a declaration of war against Germany. During his speech to congress Wilson made his famous claim that the war effort was a fight to make the world safe for democracy. Up to this time, America had a perceived position of global neutrality, however, days after Wilson’s speech congress voted overwhelmingly to send America to war.iii Nearly two decades later, amidst America’s Great depression, Wilson’s motives for war fell under harsh scrutiny.

Of those who criticized Wilson’s push for war, the most prominent was Smedley Butler. Butler, a veteran of the Great War, openly criticized the United States Government; claiming that the intervention in the War was on behalf of the interests of a select minority. Butler supported his claims by drawing attention to the fact, that over the course of the conflict, private citizens within the industrial, financial and agricultural sectors amassed exuberant personal gains. “At least 21,000 new millionaires and Billionaires were made in the United States during World War I.iv” Butler alluded to the fact that since this revelation was uncovered via tax returns, that many more individuals, especially those in the banking sector, could elevate the original figure of 21,000.

Butler’s accusations against Wilson and his administration would garner enough public sentiment to cause a formal investigation by Congress. North Dakota Senator Gerald Nye was appointed to head a Special Committee in charge of investigating the Munitions industry. Committee hearings began September of 1934. By its end in 1936, the Nye Committee conducted ninety-three hearings, questioning over two hundred witnesses.v By its conclusion, the
committee determined that United States munitions companies did not exclusively deal with the production of military materials. Companies such as General Electric and DuPont Chemical focused primarily on civilian commodities. Companies investigated were also found to engage in unsavory business practices such as; offering “questionable favors” and bribes to foreign officials to secure business deals. Nye’s Committee would later acknowledge the potential negative implications of these actions in their report,

The committee finds such practices on the part of any munitions company, domestic or foreign, to be highly unethical... an unavoidable reflection upon those American governmental agencies which have unwittingly aided in the transactions so contaminated. The committee finds, further, that not only are such transactions highly unethical, but that they carry within themselves the seeds of disturbance to the peace and stability of those nations in which they take place.

The Nye Committee further commented on the corrosive effects brought about through the use of private capital in order to coerce special favors from officials. In the report, the committee stated that by engaging in such practices, like that of bribes, munitions companies created an environment that by in large facilitated an individual’s pursuit of self interest rather than the interest of the public. In addition, the committee made comment that through the giving of monetary incentives via the trading of War-time commodities any attempts at negotiating peace settlements between the warring nations would be impeded. Reason being, that in order to suscitate demand for War-time commodities, conflict is needed in order to create a viable market. Highlighting this, the Committee made reference to the lack of enthusiasm on behalf of munitions companies to propose any attempt to limit armaments. Rather the committee noted the opposition munitions companies held to such sentiments.

Munitions companies have constantly exerted pressure on the War Department to allow the exportation of the most recent American improvements in warfare, and have usually been successful in securing it...Any close associations between munitions and supply companies on the one hand and the service departments on the other hand...Brings into being a self-interested political power which operates in the name of patriotism and satisfies interests which are, in large part, purely selfish.
Ultimately the Nye Committees report did little to break up the power structure between business and government although limited legislation was passed in the years following its end. The Nye report did unveil to the American public the faces of the American “Neo-Aristocracy”. Affluent individuals influencing society is not a new concept, however with industrialization brought about a new class of “super-wealthy”. Simply put, prior to industrialization, the means of production were held by the common person. Individuals grew their own food, produced their own tools, and constructed their own homes. Through industry, the common person left their farm or their vocation and went into the factories, thus limiting the control over the means of production. Therefore, as more and more people fell under the influence of limited control over of production, the more influence the individuals who controlled these means accumulated.

Industrialization essentially reshaped American society. American cities with a population of 8,000 or more had risen from 141 in 1860 to 448 by 1890, with 46.3% of America’s population living in urban areas by 1910. This reshaping allowed for certain individuals to obtain strategic positions within society in order to gain influence and control, while limiting entrance to said positions. This limitation in vertical mobility is illustrated by “the Social Register”, a late nineteenth century publication, which produced names of prominent wealthy American families including, but not limited to, politicians, business men, and lawyers. Between the years of 1890 and1920 the Register had an entrance rate of 68%. Suggesting that since its first publication, a significant number of new families entered the ranks of “the social elite”. From 1920 to the 1930’s the entrance of new families into America’s upper echelon plummeted to a mere 6%. 
With this in mind, it must also be taken into account that America’s rapid industrial expansion required sufficient amounts of capital to meet this growth; thus the modern corporation came into existence. Corporations are groups of individuals within a business that are authorized to act out as a single entity. Stake in a Corporation is expressed through the issuing of stocks and or shares, which are typically bought and traded for monetary gain or control. Corporations existed prior to the industrial revolution, but were generally small scale operations composed of relatively local partnerships. Through industrialization the Corporation became the mechanism that would transform American politics into a quasi-rule of the Aristocracy.

To define Aristocracy is, to plainly state, the highest social class within a society. Aristocrats being the individuals who compose said class. Admittance to this class is predominately hereditary, often though dynastic lineage. Rule by Aristocrats’ were established through social hierarchies, like that of feudal Europe. Within social hierarchies the Aristocracy was placed at the top with peasant classes at the bottom. A balance of significance in society was maintained by the merchant and tradesmen classes. In other words, though the Aristocrats controlled the lands which held the capacity for production, skilled individuals controlled the means to produce.

Innovations procured through the industrial revolution helped pave way for the reconstruction of American society. Industrialism shifted control over the means of productions from the many to the few, offsetting the balance of powers between skilled and unskilled workers. With the decrease in the necessity for skilled tradesmen by implementation of machinery and an influx of unskilled workers through immigration and domestic migration, the influence of the common man dropped dramatically.
As working American’s saw their influence in society decline due to changing trends in labor of the 19th and early 20th century, the influence of Corporations rose in conjunction with the rise of influence of those in finance. This shift of influence came to light after the House Banking & Currency Committee, investigating suspicions of the influence held by financiers, published its findings after an almost two year investigation on February 26th 1913. It was revealed that the three largest banking conglomerates. J.P Morgan and company, First National Bank, and City Bank held a total of three hundred and forty-one directorships in one hundred and twelve different corporations. These include Corporations within the banking, insurance, transportation, manufacturing and trade industries as well as public utility companies, amounting to an estimated $22,245,000,000 dollars worth of capital.

The report describes how that through the public trading of stocks, the heads of the big three were able to effectively buy their way into the board of directors, thereby placing themselves into a position to influence corporate policy. Often individuals who composed the various Corporations were friends, relatives or business partners, who would buy and sell stocks amongst themselves contributing to financial gain and limiting control over production. These practices thereby created an intricate system of interlocking directorships that placed the majority control over all facets of commerce into the hands of a few well connected individuals. For example members of the board at J.P. Morgan and company were former vice presidents of First National Bank, or in the case of U.S. Steel Corporation, whose director of finance was also a primary shareholder of Morgan and Co.

No longer was a country ruled by kings or queens, or by politicians or law makers. Those who controlled the means of production had influence; however the new rulers were those who
controlled the capital that kept industry moving. In his book, *The Idle Rich*, Frederick Martin paints a picture of this new class:

"It matters not one lot what political party is in power or what president holds the reins in office...we are the rich; we own America...we intent to keep it...our money, our political connection, our purchased senators...our public speaking demagogues...[will be used against] that which threatens the integrity of our estate.

European powers were enamored in claiming influence through the establishment of colonies in resource rich nations around the world. European nations became global empires, with its holdings in countries, whose diverse resources brought the home nation wealth and influence on the global markets. As America moved into the twentieth century, the members of the New Aristocracy parties saw the turn of the century as an opportunity to propel the United States into the fore front of the global stage. Under the Credo that it was the “white man’s burden” The United States began to systematically stretch its military influence throughout the western hemisphere.

Ultimately this would generate trends that caused what was known as the preparedness movement within the United States. Preparedness was championed by America’s upper echelon of distinguished politicians, lawyers, industrialists and financiers. Initially the call for preparedness was justified through fears that; by lacking a large, well organized military, European powers may invade the sphere of western influence that was currently being held by the United States. Those who favored preparedness pushed the narrative on the American populace that the United States was in needed to buster up its fighting forces in order to maintain national security and garner respect from foreign entities.

The ideals of the preparedness movement came to fruition with the passing of the National Defense Act of 1916. After its enactment the act authorized for the expansion of the
Armed forces, increasing the number of enlisted men, both in the Army and in the National Guard. In addition it granted the National Guard the ability to use federal funds to finance their training while also allowing the president the ability to deploy the guard during times of war or national emergency. Coincidently, the Act allocated federal funds in order to construct two nitrate-manufacturing plants to supply munitions, as well as granting the President the authority to procure war materials.\footnote{18}

President Wilson received criticism for his support of the Defense Act, with many claiming that it was in the interest of Schwab, DuPont and others who had financial stakes in the production of war materials. Wilson in his message to Congress in February of 1916 sought to quell these criticisms:

I have heard the preposterous statement…the agitation for preparedness…has come chiefly from the men who make…munitions for the Army…I have not found the impulse for national defense coming from those sources…of course somebody is going to make money out of the things privately manufactured.

Though Wilson rejected the claims that he was being influence by those who would be making financial gain through military expansion, he would later refuse to even acknowledge these accusations during his debates in congress on March of 1917.

As the gears of war began turning in Europe in 1914, President Woodrow Wilson stood before congress and issued a message in which he declared that America was to remain neutral. “The United States must be neutral in fact, as well as in name… We must be impartial in thought, as well as action.”\footnote{19} Staying out of the fight was a sentiment many Americans of the time shared, and it was such sentiment that would carry Wilson into a second term in the election of 1916, running on the slogan that he had “kept us out of war”.
To take a stance of neutrality is to be; “in a state of not supporting or helping either side of a conflict, disagreement, etc: impartiality.”xx By definition, neither Wilson nor the United States Government maintained a policy of neutrality during the First World War. In the same year as war was declared Secretary of State William Jennings Bryant wrote to Wilson, stating that Morgan & Trust had inquired whether it would objectionable to make loans to Allied powers through their partner banks. Conceptually, if an American bank were to loan money to the Allies, as Bryant would later state, would be; inconsistent with the true spirit of neutrality. 

The issue of neutral nations trading with nations at war was addressed during the Hague Convention of 1907. Wherein it was agreed by the participating nation states that neutral powers were not to have their trade relations inhibited by warring nations, so long as the neutral power did not assist in the war efforts by trading war commodities, in addition to allowing full access to trade via neutral states by all warring nations. 

This proves significant in that it provides validation for American industries to engage in trade with Europe during the war as well as creating justification for the pro-intervention stance if American trade were to be hindered.

Prior to the war, foreign securities held by American banks were valued at 15.6 million dollars. By May of 1916 foreign securities held by American banks were valued at 158.8 million dollars. Before the United States intervened in the War in 1917, fifty-one private banks had loaned out 2.3 Billion dollars to the allied forces. Of these banks, Morgan & Trust, Chase national, 1st National, and National City were the most prominent. 

During the pre-intervention era of 1914-1917, the United States exported $10, 500, 000,000 worth of goods to the Allied powers. With the establishment of a central purchasing bureau in 1915 the Allied powers on average spent $10,000,000 a day for American-made war time commodities. Individuals who had financial ties to War-time industries saw increases in profits, one case being American
munitions, whose exports were valued in 1914 at $40,000,000. By 1916 the value of munitions exports rose to $1,290,000,000.

Government involvement within the business sector was common during the War. With increased demands for War commodities, Government sanctioned prices and contracts were standard practice. In theory, such practices provided incentives to increase production while allowing for proper compensation. In reality, companies that were able to cut production costs, while selling at the fixed government rate, saw exorbitant profits.\textsuperscript{xxiv} Over the course of the War, the United States Government purchased 95-97\% of its war materials from private domestic firms, of which the War Department signed more than 100,000 contracts to produce war materials one example being the United States Arms Company who from 1915-1919 reached 2,262,671,000 units of output via government contract.\textsuperscript{xxv}

American Exports to Europe was rather successful until American Naval vessels face greater danger by German U-boats. On the outbreak of war in August of 1914 British War ships blockaded German ports along the North Sea. In response to the blockade Germany launched an extensive U-boat campaign in hopes of disrupting the British economy. Germany would make a public statement to the world that no ship could be guaranteed safe passage if found attempting to trade with belligerent nations. Germany launched the campaign due to internal pressures brought about by the Allied blockade, in order to subdue England by shutting off imports. \textsuperscript{xxvi}

As the war in Europe escalated, Wilson was faced with a dilemma. Already merchant vessels had been sunk by German U-Boats, persisting even after repeated threats from Wilson to cut diplomatic ties with Germany. Wilson was aware that American ships were endanger of falling victim to German U-boats should they continue to cross the Atlantic, yet if Wilson were
to cease all trade to the Allied powers, then he would run the risk of the Allies losing the war. Wilson had received a letter from Robert Lansing, one of his political advisors, two years prior in which he made the point to Wilson that between the outbreak of war in 1914 to 1915, America’s exports had out valued their imports by a billion dollars. These exports were primarily financed through credit by the Allied powers, with the expectation of repayment once the War had been concluded.xxvii

In 1917, Wilson received a telegram from U.S. Ambassador Walter Page warning that any disruption of trade between the United States and the Allied powers would cause a financial panic in the United States. Page further added that if the Allies were to lose the war, contributions provided through credit would go unpaid. Page speculated that this could lead to the crippling of the U.S. economy, but also a world-wide global financial crisis.xxviii Wilson had repeatedly pushed the narrative of American neutrality, yet faced with the possibility of economic fallout; President Wilson had a change of heart, and asked congress for a declaration of war.

America’s intervention in World War I was based on its financial interests. As Lansing wrote in his letter “can we afford to let a declaration as to our conception of the true spirit of neutrality stand in the way of our self interest?” America’s business elite prior to intervention until the conclusion of the war amassed great profits at the expense of American values through the selling of war commodities and lending out capital to keep the war in motion. In a sense, Wilson boasted on his pacifist tendencies, however no pacifists would allow for vessels carrying munitions and other weapons of destruction to traverse waters occupied by u-boats bent on sinking them, then damn the action and shaming those for interfering trade. It is impossible to take a neutral stance while simultaneously supplying the tools to one country to destroy another.
Works Cited


ii Sixty-six Congress. 2 Session. Senate Document No. 566

iii Sixty-Fifth Congress, 1 Session, Senate Document No. 5

iv Smedley, Butler War is a racket Feral House 2003


vi Ibid

vii Ibid


ix Mills, Wright C. The Power Elite New York, Oxford Univ. Press 1956

x Orth, Samuel P.

xi Pettet, B. G. Company Law. Pearson Education. p. 151

xii Arsene, Pujo Report of the committee appointed pursuant to House Resolutions 429 & 504 to investigate the connection of control of money & credit

xiii Ibid

xiv Stuchtey, benedikt Colonialism and Imperialism 1450-1950 web.


xvii John P. Finnegan, Against the Specter of a Dragon: The Campaign for American Military Preparedness, 1914-1917 (1975)

xviii Jerold E. Brown, Historical Dictionary of the United States Army, 2001

xix Woodrow Wilson, Message to Congress, 63rd Cong., 2d Sess., Senate Doc. No. 566 (Washington, 1914)

xx websters


xxii Encyclopedia of public international law

xxiii Prins, Nomi. All the Presidents Bankers. Nation Books. 2014

xxiv Hardy, Charles. Wartime control of prices. The Brookings Institute. 1940

xxv Englbrecht, H.C. and Hanghen, F.C. Merchants of death: A Study of the International Armament industry. Dodd, Mead and Company. 1934

xxvi Seymour, Charles
