

Entry – Geoffrey Brooks Essay Competition

“Screw Guns”

30 Nov 2012

Private Sector Defence Procurement: The Example of Britain and J.P. Morgan, 1914-1915.

The Royal Regiment of Canadian Artillery and the Canadian Forces have been under severe budgetary scrutiny recently and as such it is necessary to cut costs, specifically in the expensive procurement process. The Royal Regiment requires everything from guns to trucks to ammunition on a regular basis. All of this must go through the Department of National Defence's procurement process. Often this can be restrictively time consuming and costly. Given the important role of the artillery on the battlefield, it is important to streamline this process to ensure the right equipment is supplied to the Royal Regiment in order for it to fulfil its role. The use of a private sector financial firm as a middleman in the procurement process is one such solution, an example of which was the adoption of J.P. Morgan as purchasing agent for Britain during the beginning of the First World War. What follows is a case study into this example to demonstrate the viability of this solution.

The industrial and financial power of the United States was a fundamental tool utilized by the powers of the Entente, led by Great Britain, throughout the First World War. The significant economic reliance that Britain placed upon the United States in the later stages of the war was founded in the opening months of the conflict in 1914 and early 1915. This relationship between the two powers was instrumental in enabling Britain and the rest of the

Entente to stay in the war. This period was a key phase in the development of wartime cooperation between the two powers as it formed a foundation for economic cooperation that would be utilized once America joined the war in April, 1917. With Allied weapons and munitions being built in the United States, much of the American economy was already on a war footing when war was declared. This essay will focus on the development of economic and financial relations between the United States, Great Britain, and to a much lesser extent the other Allies, in the period from the beginning of the war in the summer of 1914 until the adoption of J.P. Morgan & Company as purchasing agent in early 1915.

Examining the economic activities of Great Britain in the United States prior to direct American involvement in the First World War is of great importance in order to understand the overall economic relationship between the Entente and the associated power of the United States. The reason that a study of British activities is of particular interest is due to the fact that from the beginning of the conflict Britain became the lead power of the Entente in terms of finance. The strength of the pound sterling and the British financial sector meant that Britain was able to absorb the spending of her financially weak allies: France, Russia, and later Italy. The strains of total war necessitated Britain becoming the economic head of the Entente and this was shown by the lead that she took in regards to war purchasing in the United States in 1914 and early 1915¹. Britain was in a strong economic position when the great powers of Europe went to war in the summer of 1914. Though the commanding lead that Britain had possessed when the industrial revolution had begun in the previous century was not nearly what it had once been, she could still call upon a large industrialized economy. By 1914, many

¹ Burk 1979, 355

other powers were becoming just as industrialized as Britain. Germany had undergone an aggressive program of industrialization since its unification in 1871. The United States had also rapidly industrialized in the period since their Civil War, much of this industrialization being financed by Britain².

More important than her industry, Britain possessed a highly developed financial sector that was the envy of the world. At the onset of war, Britain was the global center of finance. This financial primacy was based upon three fundamental factors. Firstly, the British economy had a very strong industrial base, and was correspondingly financially stable. Secondly, the British banking system was more mature than any of its rivals. Thirdly, Britain was able to draw upon the financial support of the City of London³. This meant that Britain was able to borrow large amounts of money in order to finance both her own war effort and that of her allies. This financial strength allowed Britain to wield economic power disproportionate to its industrial base. Thus when Europe went to war in 1914, Britain was able to begin purchasing in the American market making use of its strong financial base.

Pre-war planning in Britain went in the traditional British way. A large army would not be sent to the continent. Instead a small expeditionary force could be sent to represent British interests; the bulk of the continental fighting was to be done by the other Allies. The Royal Navy was to be the main focus for the British war effort. The battleships of the Royal Navy would control the seas, starving Britain's enemies while maintaining the sea lanes in order to supply her allies. This strategy, which was put in place in wartime, became known as the blockade. This

² Burk 1979, 351

³ Burk 1985, 4

strategy was comfortable to planners as it followed the traditional way in which Britain waged war; backing her allies with funds and resources while they provided the manpower on the continent⁴. This along with other pre-war planning conducted by other Great Powers, proved disastrously wrong in 1914.

The unexpected character of the opening phase of the war forced Britain into a position wherein she relied upon purchasing in the United States in order to meet wartime needs. The casualty rates among all the great powers in first few months of the war in 1914 were unprecedented. For France the number of dead reached 306,000, the Germans 241,000, the British losing a similarly proportional number⁵. Though all of the belligerents suffered high casualties, it became apparent that in order to bring the war to a successful conclusion Britain would be required to send a force much larger than the original six divisions of the British Expeditionary Force. The extreme casualties and near defeat suffered by the French army in 1914 as well as the defeat of the Russian army at Tannenberg only reinforced the necessity for a large British contingent in order to secure victory, which was astutely realized by Lord Kitchener⁶.

Britain traditionally did not keep a very large standing army, as opposed to its continental neighbours; the Royal Navy was the first line of defence for the home islands and empire. Therefore, a massive expansion of the British Army would require a huge industrial effort, one that the British economy could not entirely support. In 1914, purchasing of war material for the army was under the jurisdiction of the War Office. Purchasing practices in

⁴ French 1990, xiv

⁵ Keegan 1998, 136

⁶ Grey 1925, 71

Britain were changed to expand the number of suppliers to the army, but this proved inadequate⁷. There is also the competing view that domestic factories were not retooled for wartime production due to the preconception that the war would be over quickly. If this happened, valuable time would be spent retooling plant back from wartime to peacetime production. Thus it would be cheaper in the end to have orders fulfilled overseas while being reluctant to produce them domestically⁸. Therefore, it was only a matter of months until the War Office turned to the United States to supplement Britain's industrial capacity, the first order being made in October, 1914⁹.

The official position of the United States upon the outbreak of war was one of neutrality. America was not directly threatened by any of the belligerents and traditionally had little interest in European power politics. Anglophiles may have supported the cause of Great Britain and the substantial German and Irish minorities opposed her, but the majority of public opinion in the United States in the summer of 1914 was against direct involvement in hostilities¹⁰. This reaction was not unexpected, as Sir Edward Grey, British Foreign Secretary at the time exclaimed in his communications with former President Theodore Roosevelt. "I see all the difficulty there would have been in getting American public opinion to endorse such action. The line that the present United States Government have taken is, of course, the natural and expected one."¹¹

⁷ Burk 1985, 14

⁸ Singleton 1994, 601

⁹ Burk 1985, 14

¹⁰ Seymour 1934, 5

¹¹ Grey 1925, 145

With the United States as a neutral power, both the Entente and Central Powers were attempting to tap into the American market. This put the United States into a delicate diplomatic relationship with both sides. Grey summarized this problem poignantly as the attempt at the prevention of making a mistake that could provoke official American interference with Entente economic warfare against the Central Powers or with economic activities in the United States¹². Most importantly, British decision makers sought to prevent an American embargo on munitions or arms exports. Nevertheless, both the Entente and the Central Powers attempted to siphon aid from the United States while attempting to deny this same aid to the other side¹³. This delicate diplomatic issue would remain at the forefront of British decision making in terms of dealing with the United States until the latter entered the war on the side of the Entente in 1917.

The primary difference between the purchasing attempts of the opposing alliances was in their respective means of exploiting the American market. The Central Powers were not in an advantageous position when war broke out. In order to get goods from the United States, they would have to be shipped across the North Atlantic and through the North Sea to German ports, or alternatively through the Mediterranean to Austria or the Ottoman Empire. Though the principal battle fleet of the German Navy, the High Seas Fleet, was formidable it spent most of the war in port. The exception to this was at Jutland in 1916, with the Royal Navy's Grand Fleet clashing with the High Seas Fleet. The end result of this though, left the German fleet in port¹⁴. As Seymour aptly described "the Germans [had] resigned to the Allies the command

¹² Grey 1925, 160

¹³ Seymour 1934, 9

¹⁴ Keegan 1998, 274

belonging to surface power.”¹⁵ Thus, attempts by Germany and the rest of the Central Powers to purchase war materiel in the United States were miniscule in comparison to the activities of their British enemies.

With the bulk of German naval power in port for the majority of the war, the world's sea lanes, the North Atlantic in particular, were left open to the control of the Royal Navy. This hegemony would go relatively unchallenged, with the exception of several minor clashes and the onset of unrestricted submarine warfare as the war progressed.¹⁶ As German naval power was restricted to the North Sea and with the Entente in control of the Mediterranean there was little way for the Central Powers to tap into the American market. The Royal Navy was able to effectively control the North Atlantic sea lanes and prevent German shipping from reaching its destination. The institution of blockade left the Central Powers cut off from world trade and the Entente able to tap into it with relative impunity.

The demands of equipping a large and newly recruited army necessitated the acquiring of massive numbers of weapons and munitions. Unfortunately, the established process of purchasing weapons and munitions by the War Office was not particularly efficient for purchasing on this scale or speed. Therefore, as arms production was being expanded in Britain, the War Office looked to the vast industrial capability of the United States to augment British production.¹⁷ Purchasing of war supplies in the United States began almost immediately after it became apparent that the conflict was not going to be over as quickly as most had predicted.

¹⁵ Seymour 1934, 27

¹⁶ Keegan 1998. 274

¹⁷ Burk 1985, 15

The first British purchasing orders were made in October, 1914; the agents for these purchases arriving the month previous.¹⁸

A serious obstacle to British use of American industry in the opening phase of the war was that the American economy was not geared to produce war goods. The United States had recently undergone a period of massive economic growth. Thus the United States had a large industrialized economy, but one that was geared towards consumer goods not war materiel. There were relatively few weapons factories in the United States in 1914. Therefore if the British wanted to purchase weapons and munitions, factories would have to be retooled from peacetime to wartime use, an expensive and time consuming process¹⁹

The firms that the British approached were not accustomed to the high precision engineering required for modern weapons and ammunition. Modern rifles, artillery, machine guns, and other weapons and their associated ammunition all require machinery with high tolerances, something that is usually lacking in consumer goods²⁰. Therefore, the War Office thought it necessary to have possible American engineering firms inspected by British agents before any orders were placed. These agents arrived in the United States in September, 1914.²¹ This requirement added one more delay to the process of acquiring supplies for the attrition on the Western Front.

Another delay to delivery of British orders was the eagerness of American businesses to make a profit. Few American engineering firms adequately understood the exact requirements

¹⁸ Burk 1985, 14

¹⁹ Singleton 1994, 601

²⁰ Koistinen 1967, 388-389

²¹ Burk 1985, 17

and ramifications of retooling their enterprises to supply war goods. Most merely saw the potential profit in supplying weapons to the belligerents, overlooking the massive logistical problems inherent in producing vast quantities of highly sophisticated weaponry and ammunition.²² American industry had not been tasked with producing large amounts of war goods since the Civil War, nearly fifty years prior. As weapons technology had gotten increasingly more sophisticated in the preceding five decades, changing plant to produce modern war goods was a much more difficult and expensive task. Nevertheless, the expansion of the American economy during this period was the longest and most sustained since the Civil War²³.

The initial flood of British orders into the American market was conducted with little to no organization, resulting in unnecessary obstacles in acquiring weapons, munitions and supplies. Purchasing agents were sent to the United States in a haphazard manner, to acquire supplies for different departments and needs. It did not take long for this haphazard purchasing system to trip over itself. Purchasing agents began competing against each other for the same orders. This necessarily forced the prices of goods to rise significantly. British agents even began competing with agents from other allies, such as France and Russia.²⁴

The eagerness of American businesses to get orders for munitions created further problems. As the pace of British purchasing orders increased, so too did the number of unauthorized purchasing agents. Normally when an order was to be placed, an authorized purchasing agent would be sent to scout out potential businesses to fulfil that order. With the

²² Burk 1985, 16

²³ Fordham 2007, 286

²⁴ Neilson 1982, 574

increased pace of purchasing, individuals began to assume the role of purchasing agent without authorization from the War Office. These false purchasing agents were able to net large commissions, but in doing so they also drove up the prices of those orders and therefore led to a vastly more unregulated purchasing market in the United States.²⁵ The case of non-British purchasing agents in the United States was a complicating factor. The most extreme of these examples was Russia, which lacked the modern industrialised economy of the other Entente powers. Therefore there was a great demand in Russia for war materiel of all sorts. J. Wesley Allison was a prime example of one of these false purchasing agents. Among other nefarious transactions, he had organized the order of three million artillery shells for Russia to be filled in Canada. The firm with which he placed this order had absolutely no experience in munitions manufacturing and therefore the results of the order never materialized. After being blacklisted by the Canadian and British governments with warnings sent out to the other Allies not to do business with him, Allison continued to peddle his munitions around to the rest of the Entente, with no orders actually being fulfilled²⁶. Allison is just one example of the many unauthorized and unreliable individuals that took advantage of chaotic purchasing system and dire hunger for munitions among the Entente.

The chaotic state of purchasing led the War Office to seek out a more centralized system of making orders and dealing with American businesses. The solution was to hire the New York based investment bank J.P. Morgan & Company as a purchasing agent in January, 1915. The firm was made purchasing agent for not only the War Office but also for the

²⁵ Burk 1985, 16

²⁶ Neilson 1982, 273-278

Admiralty²⁷. British orders for munitions would be given to Morgan's, who would then find a suitable contractor to fulfil the order²⁸. Morgan's was ideally situated within the American financial community, with partner banks in both London and Paris able to assist in the coordination of British and Entente purchasing.²⁹ Morgan's would be responsible for all British purchasing within the United States, but would not directly perform the purchases. Instead, an organization called the Export Department was set up in order to fulfil the role of middleman. This organization was established in order to avoid any claims of unfair purchasing on the part of Morgan's. The Export Department was eventually absorbed into Morgan's by January, 1916.³⁰

While Morgan's was never specifically delegated to be financial agent for the Entente, it effectively filled this role in a variety of ways. Morgan's had only been specifically detailed with facilitating the purchasing of munitions, not the acquisition of loans and capital. The vast experience and clout that the firm had in the North American market was used to advise British and French officials. Morgan's nevertheless backed many of the loans for the individual Allies in the Entente. As the war continued past 1915 this would become increasingly important, as purchasing power became extremely integral to getting munitions³¹. The head of Morgan's, Jack Morgan was also vehemently in the Allied camp from the beginning of the war. He had spent many years living in London and had various business connections there and in Paris. Jack Morgan went so far as to place much of his personal assets in Britain into the hands of the

²⁷ Burk 1979, 352

²⁸ Horn 2000, 86

²⁹ Horn 2000, 85

³⁰ Burk 1985, 26

³¹ Horn 2000, 87-89

British government in order to support the war effort³². This emotional investment on the part of Jack Morgan helped to cement the relationship between Britain and the Morgan firm. This would prove crucial in the cash starved later years of the war.

The adoption of Morgan's as official purchasing agent solved many of the problems inherent in the previous unorganized purchasing fiasco. Competition between individual purchasing agents was relatively nullified, as Morgan's was able to coordinate the placing of orders to prevent this from happening. Unauthorized purchasing agents were forced out of the market as the Export Department, and later Morgan's directly took on that role in an official capacity. Costs were then driven down to reasonable levels. Though, the shell shortage later in 1915 and other events would have serious repercussions in regards to purchasing in the United States, Morgan's continued to be the sole purchasing authority for the British Government as well as acting as unofficial financial advisor and agent. The use of Morgan's as a centralized purchasing authority streamlined the system of military procurement in the United States. Morgan's, in conjunction with the Federal Reserve Bank of New York helped to facilitate private bankers and investors to assist in supporting the Allied cause³³. This all helped to lay the groundwork for the much more involved economic coordination that would occur once the United States formally entered the war in April, 1917.

Britain's purchasing activities in the United States during 1914 and early 1915 provided Britain and the rest of the Allies with essential supplies during a critical phase of the war. During this key phase, exports from the United States to the Entente countries rose from 62% to 82%

³² Horn 2000, 91

³³ Roberts 1998, 586

of total American exports, a level that would remain relatively constant for the rest of the war³⁴. The importance of the American economy to the Allied war effort is measured in the fact that by 1916, 40% of all British war purchasing was being conducted in the United States. This number would continue to grow as the war continued³⁵. The reliance upon America that was built out of this early period was to the point that Sir Edward Grey even mused that he would much sooner abandon the blockade against Germany than lose munitions from the United States³⁶. The methods and practices of purchasing large quantities of war goods in the neutral United States, specifically through J.P. Morgan & Company provided valuable experience and laid the groundwork for the intimately dependent relationship that would occur once Wilson abandoned American neutrality.

The adoption of J.P. Morgan as purchasing agent provides a poignant example to not only the Royal Regiment of Canadian Artillery, but also to the Canadian Forces as a whole. The ability of Morgan's to effectively act as a private sector procurement middleman demonstrates that the role of private industry in the procurement process can be increased. The current procurement process could be radically streamlined by using the experience of Britain with J.P. Morgan. Using a private firm to facilitate procurement can lead to dramatically reduced overhead costs as a civilian firm would have greater experience in the highly capitalistic and competitive defence industry. Given recent trends within the Department of National Defence towards cutting costs, it is necessary for the Canadian Forces to look back to the example of J.P. Morgan in how to cut costs in defence procurement.

³⁴ Fordham 2007, 286

³⁵ Fordham 2007, 287

³⁶ Grey 1925, 107

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