Introduction

In the early years of the Great War, as generals waged such visible carnage that claimed so many young lives, there was another side of the conflict, invisible not only to the public of the day but to history for more than a century. Immense copper cables traversing the Atlantic carried confidential messages destined for the American diplomatic outposts in the capitals of Europe – messages sent in the service of a noble goal: bringing the slaughter to a halt. Only a short walk from the residence of the US Ambassador in London, a nondescript building on Cork Street would house a secret team of British cryptanalysts. A year into the war, that team began working to solve US codes and soon was steadily deciphering American transmissions. As the codebreakers worked, an uneasy political truce hung over the city. Beneath the surface, tension seethed amongst government ministers and unelected military and naval officials, who possessed vastly differing views of how the war was to be won – or if it remained winnable at all.

The war had ground down to a bloody stalemate by 1915. For the next three years, the lines of the Western Front would barely budge. For all their troubles in Europe, however, some British leaders had their minds just as focussed on the other side of the Atlantic. The industry of the United States hummed as the British bought immense quantities of American supplies, but the rising republic’s massive, untapped power otherwise remained aloof. Perhaps in other times that building on Cork Street, which would house a secret military intelligence division called MI1(b), might have formed the cornerstone for building the friendliest – if not exactly the most candid – of relationships with Washington. Yet with a right-wing intelligence chief seeking to manipulate leaders as they jockeyed over policy and power, this secret intelligence instead served to provide Whitehall’s occupants with ammunition in their skirmishes with one another, and it was very nearly betrayed to the Americans in the process. With the fates of millions hanging in the balance, these British leaders battled over the ultimate question of war and peace – and, at the final key moment, British codebreaking destroyed the best chance for an early end to the First World War.

1
The United States lay at the centre of these leaders’ battles, for Britain had never more needed the friendliest of relations with Washington. These supplies from America formed the foundation of Britain’s powerful war machine. One can only marvel at the extraordinary British national effort that went into assembling that war machine in the two-and-a-half years before the American entry into the war in April 1917. Not only did the British muster from scratch a large and powerful land army, they deployed their economic might to buttress their alliance on an unprecedented scale. British factories churned out extensive provisions for this massive new military force and for Britain’s allies. Even more impressive, however, were the colossal war provisions Britain arranged for the alliance from the United States. Under the aegis of a formidable British financial campaign, by the turn of 1917 the Allies were importing from America about as much as France was spending on its entire war effort. The British did all this without receiving more than modest loans from skittish American bankers and without a dime from the US government. Yet while this financial campaign was formidable – indeed, only the greatest of economic powers could even contemplate attempting such a feat – it was far from inexhaustible. In early 1917, it approached collapse.

Not everyone in the British government, however, looked to the west. A crucial conflict over the United States lay at the very heart of British policy for much of the period of American neutrality. Presaging the role that the United States would come to play in the twentieth century, many of Britain’s leaders came to seriously doubt that, without the United States, the war could still be won at all. Taking a realistic view of Britain’s capabilities, these leaders dreaded the consequences of exhaust- ing this American supply line and disbelieved that the Allies could prevail before it collapsed. With the war looking increasingly unwinnable, they began looking for an escape: an end to the Great War through a compromise peace negotiated under the auspices of American diplomacy.

Yet those who recognized rising US power were forced to contend with a second, powerful faction that remained wedded to outmoded ideas of America’s limited relevance on the global stage. These leaders envisioned the British Empire as the colossus that would continue to bestride the world during the twentieth century. An economically invincible Britain, they insisted, need never worry about such trifles as finance. They refused to accept either the existence of practical limits to British power or the significance of the burgeoning republic across the Atlantic.

As these factions battled for supremacy, the American leadership understood the power it wielded. Seeking to facilitate, and eventually to force, a peace settlement, the Americans pursued an adept diplomatic
strategy. The success of their efforts depended fundamentally on European leaders’ comprehension of the clout that this growing American leviathan could command. Not all, but some, in Britain were willing to understand. These leaders saw the economic dangers as they approached, and they recognized that British choices were increasingly delivering the Allied war effort into the hands of the American President. By mid-1917, his hands almost certainly held the power, had he desired, to compel the Allies to the peace table. Only a dramatic German decision, and a dramatic British codebreaking coup, stood in the way of that presidential desire. Past historians would have us dismiss these American mediation efforts as little more than an irritant to the belligerents, a mere ‘distraction of peace during war’. But the United States in fact loomed far larger in British minds, and it fuelled the fires of British Cabinet politics – fires that raged down an American fault line. The failure of an American peace was never foreordained. There existed a meaningful chance that the world might have escaped the brutality of the second half of the Great War, and been spared its world-shaking events that would reverberate down through the twentieth century. The question is not why the final years of the war became inevitable. The question, rather, is why they had to be fought at all.

Britain marched to war in 1914 with vast global power. Its fleet ruled the world’s oceans and immediately drove Germany from the surface of the seas. Powerful British telegraph companies shut down German access to the global communications network. Britain’s bankers and manufacturers dominated global markets; the country could commandeer much of the world’s productive capacity and press it into Allied service. An enormous British merchant marine worked to deploy that productive capacity into Europe. Only Britain could wall Germany off from the world, and only Britain could marshal the world behind the Allies.

Britain’s continental allies in Europe, however, went to war with one thing that Britain lacked: power on land. France and Russia mobilized millions of soldiers in August 1914. The British Expeditionary Force raced across the English Channel numbering only some 250,000. This too Britain sought to transform, assembling millions of men into the New Armies, and the British soon possessed their own formidable share of the military might of the Allies. No one doubted Britain’s continuing ability to wall Germany off for as long as the war could last. But as the realization sharpened that the war could last years rather than months, concern began to multiply over whether, even straining every nerve, this British Atlas could hold aloft all that was being asked of it – not merely in Europe but across the globe.
New York City, though an ocean away, held the answer. As the British sought to deploy much of the world’s productive capacity on the Allies’ behalf, they looked to their Empire, and they looked to neutrals. Above all others, however, they looked to the one great producer outside Europe: the United States. By necessity, London turned to New York. If the power of the budding American financial sector could be harnessed to the Allied cause, the two cities together could form the engine of the Allied global war. Only a few American firms responded to Britain’s call, though they did so enthusiastically. The efforts of these firms spawned myths that the malign influence of the American financial class, burning with the need to recoup their investment into the Allies, secretly drove America into the Great War. More recent have been assertions that American investors created a ‘mutual dependence’ that inextricably linked the United States ‘to the fate of the Entente’. But in reality, most American financiers had no desire to risk their balance sheets on the Allied war effort. The enthusiasm and influence of the pro-Allied minority could not make up for their raw lack of numbers. New York’s answer to Britain was unmistakable: New York answered ‘no’.

With the British pulling ever greater war supplies across the Atlantic, a number of British leaders, led by Chancellor of the Exchequer Reginald McKenna, faced the stark reality of New York’s decision. They pressed their colleagues to realize the consequences of the choices they were making. It was still possible, McKenna argued, to continue bringing in such massive supplies from America. The British economy was an international juggernaut. If Britain kept up its global trade, he predicted that it would have the economic wherewithal to keep the financial campaign underwriting those American supplies sustainable for the foreseeable future. But this British Atlas, powerful though he was, had his limits. He could not both sustain a total war British army and keep up Britain’s global trade simultaneously. For without sufficient British trade flowing out into the world, Britain had only one way to keep the world’s production flowing into Europe. It could seek to liquidate what it could of the country’s enormous international reserve of assets, which had been built up over decades. Assets, however, are governed by one ageless, and often inconvenient, maxim: when spent, they run out.

Without direct American government involvement, from 1915 onward the British government was confronted with a stark strategic trilemma. A total war army, colossal war imports from the United States, and a long war: choose any two. Britain could burn through its American assets with abandon to build a massive, abundantly supplied war machine and gamble for a win in 1916 – a strategy that might be termed ‘Battle of the Somme or bust’. Alternatively, it could keep indefinitely in the field a
very large but more leanly resourced army, while restraining Allied recourse to American provisions. Or it could deploy a significantly smaller but well-supplied army while seeking to coordinate potentially limitless economic assistance to its allies. Each of these three strategies was a reasonable path for a British policymaker to advocate, with arguments for and against each one. There was also room for compromise amongst these, space available in the middle of this triangle or along its edges: the smaller the army or the greater the restraint in their American purchasing, the longer their American assets would last. A difficult choice, however, had to be made.

Previous historians have tended to understand the British leadership by dividing it into two factions, which they have often termed ‘economists’ and ‘consumptionists’ – a ‘party of caution’ on the one hand and those who favoured unleashing British power to the utmost on the other. With the exception of historian Martin Farr, this ‘party of caution’, led by McKenna, has never been taken particularly seriously. Historians have dismissed it as having a ‘fatuous’ attitude of ‘limited liability’, one that ‘impeded full British mobilization’ out of an unhealthy obsession with ‘fiscal prudence’. These critiques, however, underestimate the sheer scale and unsustainability of Britain’s economic wartime reliance on the United States. Of the three above-mentioned strategies, McKenna supported the last, wanting to emphasize supplying the Allies’ economic needs and preparing for a longer conflict. But more broadly than that, he favoured the Cabinet simply making a choice amongst the three: ‘It is no use undertaking to do a thing which you physically cannot do. … I am looking at the question from the point of view of not attempting to do things which are physically impossible to be done’. Only Martin Farr has treated McKenna’s position with the seriousness it deserves: ‘The Entente’, he writes, ‘was an inverted pyramid standing on the Dollar exchange’. McKenna and his allies in the government grasped this fundamental truth. It may seem deeply counterintuitive to say that the Allied war effort depended above all on something seemingly as trivial as a rate of currency exchange. The exchange rate, however, was merely the surface manifestation of a crucial fact at the heart of the Allied war effort: it depended on importing from the United States far, far more goods than the Allies could ever hope to export in return. Allied imports from the United States exploded from less than $1 billion before the war to at least $3.2 billion in 1916 – a figure that is likely a serious underestimate. The true number may reach some $5 billion. By comparison, France in 1916 was devoting some $4 billion of its economy to its war effort; Britain, about $6 billion. In essence, the British were attempting to
marshal and pay for nearly a full extra allied economy’s worth of war supplies. Though the French government contributed modestly, until the United States came into the war in 1917 financing this truly abnormal and precarious economic relationship for as long as humanly possible was effectively a British problem.

For those who understood this problem, led by McKenna, it drove their views on almost every aspect of the war. Sustaining this financial campaign depended above all on maintaining the strength of the British economy. The more they disrupted it to feed their ever-growing war machine, the less they could export to neutrals to offset their imports, the less they could supply their allies, and the more the entire alliance had to bring in from America. The more they imported, the more assets they had to liquidate, and the sooner those assets would run out.

Those who faced up to this problem held no illusions about Britain’s standing in the world. They recognized that British power – for all its global vastness – had witnessed a generation of relative decline. In 1870, Britain had stood at the apex of the global economic system, its supremacy unrivalled. The United States, its only equal in terms of raw output, possessed none of Britain’s financial prowess, and US attention was consumed inward as the British Empire continued to extend across the globe. Four decades later, however, Britain’s economy had fallen behind those of the United States and Germany. McKenna faced up frankly to this profound decline in British power: ‘We are third of the three’, he bluntly told his colleagues. There were a couple of relatively minor members of the British Cabinet who understood this problem as McKenna did and who yet also favoured ‘Battle of the Somme or bust’ as British strategy. With their eyes fully open to the realities and risks, Britain, they argued, had to make its utmost effort now and gamble for a win in 1916.

But the rest of ‘consumptionists’, as they have been termed, insisted that the British Empire was economically invincible. They argued for an all-out effort in 1916 while refusing to recognize that this represented any kind of a gamble at all. There was no such strategy, they insisted, of ‘Battle of the Somme or bust’. Britain was the world’s financial superpower: it would not, and could not ever, bust. Steadfastly denying that they had to make any kind of a strategic choice, they demanded not only that the war be fought on a massive scale for as long as necessary – 1917, 1918, or beyond – but that the gargantuan shipments of war supplies from the United States be continued all the while.

They demanded an impossibility, and they failed to appreciate that this course was to put them increasingly, and eventually completely, at the mercy of the American President. Instead, they fantasized that it was in
fact they who held the whip in the transatlantic relationship, and not the Americans. They dismissed the importance of the United States as an independent power, refusing to view the American government as much more than a minor player. The Allies, they asserted, could afford to offend the United States with relative impunity. If the United States wished to enter the war on the Allied side, American assistance would of course be helpful. If not, however, it hardly mattered. They rained contempt on their colleagues, accusing them of muddle, of not getting on with the war, of not rising to the profound gravity of the military situation in which the Allies found themselves. McKenna objected to ‘Battle of the Somme or bust’ because he thought it wrongheaded; he objected to it more fundamentally still because so many of his colleagues insisted on adopting it while firmly shutting their eyes to the realities of its consequences. Few in the British leadership confidently expected to achieve victory in 1916, yet Britain’s strategy was predicated on it.

The most fundamental divide within the British government that year, therefore, was not between alternative economic and consumptionist strategies. Rather, it was between those who faced the reality of the limit of British power and those who denied it. A faction of realists comprehended the grave risks that attended an all-out push in 1916. The other faction, of what are more accurately called ‘maximalists’, wrongly dismissed those grave risks as but figments of their opponents’ overly anxious imaginations. The maximalists’ refusal to engage with this problem arose fundamentally out of arrogance and complacency, and was justified by a sense of righteous determination. They insisted on an economic view of the world in which little had changed since 1870, with Britain still able to strut about with the unchallenged swagger it had possessed in their youth. These men had never known London other than as the world’s capital of business and banking. The dealings of powerful British financiers had reached for decades into every corner of every inhabited continent. Pound sterling served as the cornerstone of the global financial system: transactions amongst distant countries were routed through London simply as a matter of course. A seemingly unshakeable bedrock of stability, the City had not seen a major banking crisis since 1866, when most of the British leaders during the First World War had been mere children. Even as grave an economic moment as the outbreak of war in 1914, for all its seriousness, caused only a momentary scare, and the British government’s successful management of the crisis only helped to reinforce a sense of invulnerability. Few in government understood the intricacies of British finance, but all grasped the profound reservoir of power it gave them. For many, having lived their entire lives with British
domination of the global financial system, the notion that this reservoir could ever be emptied seemed beyond the realm of conceivability. And so they dismissed those who forewarned otherwise as mere blinkered bean-counters, ones incomprehensibly obsessed with placing fiscal rectitude ahead of the immediacy of a life-and-death national struggle.

This grave political conflict over Britain’s economic invincibility – with the United States at its very centre – governed almost every major debate within the British government before 1917. The realists in the government battled these fantasies of invincibility, seeking desperately to forestall the crash that their opponents denied could ever come. But as the maximalists repeatedly prevailed, those who faced the reality of their situation increasingly realized its impossibility. They had to get the United States into the war, and yet the Americans showed no signs of coming to their rescue. At least in one respect, the maximalists were not entirely wrong: the Allied military situation was indeed grave. In truth, all three of the strategies outlined above probably were inadequate to the task. To win the war, Britain probably needed a total war army, vast American supplies, and a long war – and, quite probably, a large American army as well.

To compound the British strategic thicket, for a number of ministers Britain’s military options all seemed to have but the dimmest prospects of success. While a number of civilian leaders retained an unwavering faith in the generals leading Britain’s armies, others increasingly saw Western Front offensives as little more than feeding men into an enormous killing field that consumed them to little purpose. To these sceptics, ‘Battle of the Somme or bust’ looked like a dreadful strategy in every respect: the battle seemed as pointless as the bust. They disbelieved that a large offensive there would produce significant results, yet the military insisted that there were no viable offensive options elsewhere.

Caught between the maximalists’ denialism and the military promises they believed to be doomed to failure, many of the realists turned to the Americans. If New York would not help them win the war, then perhaps Washington at least could prevent them from losing it. Pessimism began to drive this faction’s decision-making. Historian Brock Millman introduced the concept of ‘pessimism’ in the discussion of war aims, usefully defining the term not as an emotion, but as a purely rational construct – namely, the specific and serious doubt that victory remains achievable. Pessimism, to be clear, is not defeatism. A defeatist believes that the war is lost, and is prepared to accept whatever conditions the enemy may be disposed to offer, which otherwise would be regarded as intolerable. Though pessimists doubt victory, they are not yet prepared to admit
defeat. Rather, a pessimist still hopes a tolerable, even though not victorious, peace can be arranged.\textsuperscript{16}

Pessimism defined the outlook of several of the most important British leaders within H. H. Asquith’s coalition government for most of 1916, with the exception of a brief period in the later summer. The Allied position was difficult. As Millman observes, the fact that the Allies were losing made any compromise peace in the short term challenging: ‘Any peace negotiation, before the Allies had somehow redressed the balance, would simply establish in law what existed in fact – an Allied defeat’.\textsuperscript{17} Pessimists no longer look for ways to win the war; they look for pathways to an acceptable peace. These pathways may include limited military offensives with the goal of improving one’s negotiating position. They may also include looking to the diplomatic intervention of a friendly and powerful neutral to achieve more favourable terms at the bargaining table than could be obtained on one’s own.

By early 1916, the United States was willing to provide precisely that kind of diplomatic intervention, ready to leverage its power in the pursuit of a general peace. Many of the British realists wanted to let them. Not all Europeans recognized it, but the power at the Americans’ disposal was profound. Over the previous half-century, an extraordinary transformation had created an American economic powerhouse that had come to tower over its European competitors. The GDP of the United States roughly equalled that of Britain in 1870. By 1913, US GDP was larger than that of Britain and Germany combined.\textsuperscript{18} This sheer American economic power, however, was raw and fledgling – tempered by an isolationist streak in American diplomacy, an inward-looking and underdeveloped finance, a relatively modest ability to project military force, and a politically fractious American Congress. Had the United States desired a greater global role, it might already have become the world’s foremost geopolitical power. Instead, apart from a few recently acquired colonial possessions in the Pacific, the United States remained content with regional hegemony.\textsuperscript{19} Some European leaders recognized the profound change in the transatlantic balance that had happened over the course of their lifetimes. Others did not.

From the moment the war began, the Americans looked for ways to bring it to a halt. Where British policymaking was fractured down a Cabinet of twenty-five, in the United States there were only two men who mattered: President Woodrow Wilson and his close advisor and confidant Colonel Edward M. House. House spearheaded these diplomatic efforts and worked tirelessly with his President to bring the belligerents around a conference table, with a conception of American mediation that steadily grew in ambition. Previous historians have always
dismissed these American efforts as a mere fool’s errand with no basis in diplomatic reality – ‘a Don Quixote tilting at windmills’. They paint a portrait of House as unutterably naïve, susceptible to flattery, and prone to delusions of grandeur. He went to Europe prancing about playing peacemaker; no one had the heart to tell him that they had no interest, and so he deluded himself into thinking that he was succeeding. There is one problem with this picture: none of it is true.

In fact, House had his fingers squarely on the pulse of opinion within the British government. He fostered trust and a surprising degree of honesty, his diplomacy tended to be astute and flexible, and his decision-making was generally sound. A masterful behind-the-scenes political operator and a quiet man of limitless tact, House had helped four consecutive Democratic governors win election in his home state of Texas – one of whom returned the favour by bestowing the honorific title of Colonel on him – before moving to New York and occupying a place on the edge of the national political scene. In the run-up to the 1912 presidential election, he forged an intimate friendship with then-Governor Wilson, who appreciated his talents and increasingly relied upon his advice. A few weeks after they met, their bond had grown so strong that, when House asked him ‘if he realized that we had known one another for so short a time’, Wilson replied: ‘My dear friend, we have known one another always’.

House did not possess Wilson’s formidable intellect or sharp sense of the public mood, but Wilson lacked House’s almost unparalleled expertise in the politics of personal relations. House had an uncanny ability to get people to trust and confide in him, and a keen understanding of how