Berlin, Germany, May 9, 1935.

SUBJECT:

Uncertainty as to developments in the economic and financial situation in Germany.

THE HONORABLE
THE SECRETARY OF STATE
WASHINGTON.

SIR:

I have the honor to refer to my despatch No. 1232 of April 25 in which I informed the Department that all the information which was available to the Consulate General indicated that the leaders of the National-Socialist party and of the present Government in Germany had no definite economic and financial program, but that they were drifting with the tide hoping that favorable developments in the internal and external situation might be seized from time to time to satisfy the masses to whom such varying and extravagant promises have been made. The much heralded speech of the Chancellor on May 1, in which the long awaited economic program of the Government and of the party was to be announced, again contained nothing new as has already been reported to the Department by the Embassy and by this Consulate General in its despatch No. 1202 of May 9, 1933. There are indications coming to us constantly in more concrete form to the effect that
not only does the Government not have a program, but that individual effort by the masses, trade organizations and all sorts of organized groups is endeavoring to force action on the Government of a radical nature which the leaders of the party, now grown more moderate, do not wish to see carried through.

The outstanding development of the last few weeks in the German situation has been that the leaders of the party, which is merely another way of saying those in control of the Government, have grown more moderate, while the secondary leaders of the masses have if anything grown more radical. Of the primary leaders the Chancellor, Mr. Hitler, and Minister Goering have undoubtedly grown more moderate and are to a certain extent appalled by the pressure which is coming to them from the bottom to do various things which they know involve not only economic ruin for the country, but political ruin for the party. Dr. Goebbels, the Minister of Propaganda, has been more impervious to moderating influences and remains of the three primary leaders the one who is definitely radical and reactionary.

There is reason to believe that the Chancellor and Minister Goering have come to a realization that not only great mistakes have been made already but that grave mistakes equally dangerous may again be made. One of the immediate associates of Minister Goering stated to me recently: "We know that we have done very foolish things and we know that we cannot afford to do any more of them." He was referring to the mistakes which had been made in the
the persecution of the Jews and was assuring me that the treaty obligations of Germany with regard to the protection of foreign business and capital would be carried through in spite of the difficulties coming from the bottom in this connection.

In order to understand the present situation in Germany one must realize that while the higher leaders of the party have absolute and complete control of the Government and of the country, they are not in a position to force certain decisions which are contrary to the wishes and the will of the masses and the intermediary leaders. They are being haunted every day by the prospect of the promises which they made as the leaders of a party which was endeavoring to secure power. Now they are being asked to meet these promises. Just as in the beginning, that is immediately after March 5, every individual member of the National-Socialist party who had a grievance against a neighbor or a competitor or a private grudge of any kind tried to work it out by having physical injury or imprisonment inflicted on such persons through the party organization, so now every business man, every artist, every professional man, every trade organization with grievances is trying to carry out its own little revolution under the protection of the "national" revolution. There is much reason to believe that Messrs. Hitler and Goering are seriously disturbed over this. At first they were in complete sympathy with their many adherents and wished to let them have an opportunity to work out their grievances. As the days
have gone on they have realized what impossible situations this is bringing about and how it is definitely prejudicing the economic and political situation in Germany, but while we may accept this to be true I am forced to the conclusion that it is equally true that they do not feel themselves able to force any decisions on their people which will be a further disappointment to them.

The Chancellor is aware that the outside world is considerably disturbed concerning the plans of the Government, and has therefore on several occasions taken the opportunity to state that Germany desires nothing more than peace. In an interview which he gave recently in Berlin to Sir John Foster, which has I am sure already been reported to the Department, he endeavored to give reassuring declarations. "No one in Germany who went through the war wishes to go through this experience again .... He hopes that the revision of the Treaty of Versailles may be reached through peaceful means. The thought of an overseas expansion of Germany has been given up. Germany does not wish to engage in a contest on the sea with England. The fate of Germany does not depend on colonies and dominions, but on her Eastern frontier ..... Large fortunes must disappear and unearned incomes must be cut ..... In the future there will only be an aristocracy of labor. Work is more valuable than property. Every young man irrespective of his birth must spend a year in the compulsory labor camp. Among Germans all difference of classes will be eliminated. The demoralizing system of aid to the
unemployed must have an end and must be substituted by earned wages ...

The Chancellor's statement with respect to Germany's future not depending on colonies or dominions, which was interpreted in some newspapers to the effect that Germany had no future interest in colonies, must have caused great concern to certain members of the party, for on the days following the publication of the interview corrections appeared in the press to the effect that the Chancellor's statements were not to be interpreted to mean that Germany had no interest in colonies, but rather that the Chancellor had assured Sir John Foster that Germany "would respect the overseas possessions of England".

The Chancellor's statement that large fortunes must disappear and that unearned incomes must be cut down is one of the most direct statements which he has made since March 5 showing the highly socialistic and radical character of the real aims of the party. The first declaration of the radical policies of the party was made by Minister Goering in a speech already reported to the Department, in which he said that in the past too much emphasis had been placed on the purely national character of the National-Socialist party and that he wished to emphasize the socialist character of its program. He endeavored to distinguish between the socialist aims of the present Government in contra-distinction to the marxistic policies of the Social-Democratic
Social-Democratic party previously so powerful in Germany and which the present Government is so effectively wiping out. The developments, however, are showing steadily that the present Government and the National-Socialist party are more radical in their policies and aims than any Socialist movement in Germany has heretofore dared to be. I think it may be taken for granted that the present Government and the party are definitely against large fortunes and unearned income, and almost any steps in this direction may be expected. In a speech held on May 4 by Oberpräsident Bruckner of Lower Silesia at the opening of an agricultural machinery exhibition in Breslau he made the definite statement that the large landed estates in Germany must disappear. He said that by 1930 all such large estates would have disappeared in Germany. In previous despatches I have made it clear that the Government is definitely against big business, large department stores, chain stores and one-price stores. We now have the Chancellor's word that what large fortunes remain in Germany must disappear, and that unearned incomes must be greatly cut. While the declaration with regard to the disappearance of large landed properties was made by a secondary leader in Silesia it is an open secret that the cutting up of the large estates is a definite part of the program of the National-Socialist movement. Of this aspect, however, little has been said as the National-Socialist party has had some of its strong support from East Prussia.
where the division of these estates would arouse general antagonism.

The Department and our people at home must be prepared for startling economic developments in Germany for it is increasingly evident that the real program of the National-Socialist party is highly radical and in many respects is no different from that placed in effect by the Communist regime in Russia. That in many ways the higher leaders of the party would like to moderate this program, is clear; that the masses and the intermediary leaders are just as radical as before and show no moderating tendency is equally clear. The great enigma remains as to how far the more moderating leaders at the top can influence the intermediary leaders and the masses, or how far the radical bottom will influence the top.

One cannot close one's eyes to the fact that the movement is definitely towards radical measures. One need only read the declarations of men like Dr. von Rentelnas, the new leader of the Reichsstand des Deutschen Handels, as published in the "Berliner Tageblatt", morning issue of May 5. It is he who stands between the Government and the various trade organizations and industrial organizations which have been recently placed completely under National-Socialist domination. The intensely nationalistic and socialistic aims of Dr. von Rentelnas are quite clear and unless he had the confidence of the higher leaders of the party
he would not have been placed in this key position.

The German situation to-day is full of anomalies. Immediately following the Chancellor's declaration that large fortunes must disappear and that unearned incomes must be cut, immediately following the declaration of various organizations that the large department stores and chain stores must be gradually eliminated, closely upon the action of various organizations calling for legislation which would put out of business some of the leading export houses of Germany, and practically following the statement already referred to that the large estates must be cut up, there appeared on May 5 in practically all of the newspapers throughout Germany a statement headed "Authoritative Declaration - All Interference in Business must be Stopped". The declaration in resume is briefly to the following effect:

"... The German Government has all interest that business shall be definitely and honestly tranquillized. All rigorous interference will have to stop and will be stopped so that business shall be in the position to make plans for the future and the necessary stability which it needs be guaranteed to it. Business can begin to plan in a big way for the future. Those who begin quickly will find the warmest moral support from the Government. It is altogether out of accord with the Government's ideas if in business and business circles any nervousness still prevails. Now that the movement against the trade unions has been carried through the life of business can be properly consolidated and business can work on the basis of a definite and clear future."

The very fact that it was necessary for the Government to issue an authoritative declaration that
business was to be undisturbed is sufficient to indicate the uncertainty which exists in business. This declaration of the Government will in no way quiet business because even those in the party itself are not reassured by it. These declarations have proved so far to be mere words and every day there is further action which tends to make business uncertain and afraid.

In several despatches I have stated that it is impossible for anyone here in Germany to indicate what developments will be and what the future holds in store, on the ground that the men who are leading the Government do not themselves know what they are going to do and that their personalities and characters are such that they are capable of the most unexpected actions. The developments which have taken place since those despatches were written clearly indicate that this is true. The situation is just as uncertain now as it was a month ago. Progress has been made only in one direction - that it can now be definitely said that this Government is radical and highly socialistic in its aims and that the most unexpected economic measures may be taken. It is now quite clear that it is the most extremely national Government which one can conceive of and that although it desires very earnestly peace for the next few years in order to consolidate its position, there is on the other hand every reason to believe that once the consolidation is achieved "the new Germany" will strive in every way to impose its will on the rest of the world. With a country
country with such highly nationalistic and so poorly concealed militaristic aims and which is contemplating putting into effect in Germany an economic system totally out of accord with the economic systems prevailing among its neighbors in Europe and overseas, it is impossible for the rest of the world to discuss disarmament, equality of armaments or any forms of commercial or economic agreements. The present German Government by its actions every day is placing itself in a position where such matters cannot be discussed with it by other nations. It may be eventually that the leaders of the Government and of the party will know what they can do and what they cannot do, but for the present any discussion with them is useless, because it is discussing with people who do not themselves know what they really wish to do or what they can do. In the course of a few months the situation may have to a certain extent crystallized and the actual course of events here may be more definitely foreseen. There is no dictatorship as is so commonly assumed either of one or of three individuals. The masses are for the moment the dictator in Germany, and the party leaders are merely their spokesmen. They are very radically in disagreement with much that the masses want, but for the moment and probably for some time still they will not be able to take any real action contrary to the will of the masses.

Respectfully yours,

George S. Messersmith,
American Consul General.