Berlin, Germany, August 14, 1933.

My dear Mr. Phillips:

I am very happy to have your letter of July 10 and to know that my letters and despatches are being found helpful. I particularly appreciate your letter of July 13 expressing appreciation of what I have been trying to do here since the 5th of March and need not tell you what an encouragement what you have been good enough to say is. The situation has been and is, and I think will be for a good time, very difficult, and while it means that to even begin to adequately do what there is to be done I have to be at it anywhere from 12 to 14 and even 16 hours a day, I am very glad to do it as long as we seem to be getting the results which we are. I think I should say right here that Geist, my next man here, has been exceedingly helpful in handling the many difficult situations which come before us every day. I feel very fortunate in having him here with me, for I could not have a better man.

The situation has developed rapidly since I wrote you on June 26 and I shall endeavor very briefly to give you the highlights. In the first place I should say that my conversations with the higher officials of the Government, which are unfortunately too frequent on account of the many cases we have to handle, have shown during the last three weeks particularly that there is a growing realization among them of the importance of sentiment abroad. After March 5 and for several
several months, while not altogether disregarding public opinion outside, there was a feeling among the new people that they were so strong that they could do in Germany what they wished. Now I find an increasing sensitiveness to the unfavorable public opinion which is so general abroad, and this shows itself very concretely in the more rapid and more favorable action that we can get on various matters. I think this is due to two factors: first, they realize that the isolation of Germany is becoming very definite and has already had its economic consequences and that the political ones are just being felt; second, because the difficulties which they are having with their own people at home have made them much less certain if not as well more humble. They are if anything, more thoughtful. I mention this aspect of the situation as it is a very encouraging one not only for Germany but for us all. It is particularly interesting to note that although the controlled newspapers bluster about the failure of the French-English steps with regard to the propaganda in Austria, this action together with what the Italian Ambassador undoubtedly has said here in the same connection, has given them a great deal to think about and has made a very real impression.

The principal development since I last wrote you has been the rapid moving in so many lines in the direction of moderation. This has been very striking and almost unbelievably rapid. Goebbels who had constantly been preaching revolution and predicting new radical steps and who was aiming at becoming the leader of the radical section of the Party, went too far and met a decided reverse. He made a speech early in July in Hamburg, in which he said that those who thought the revolution had ended were greatly mistaken and as a matter of fact it was just starting. He predicted that from day to day radical announcements would be made of new action which would surprise even the most advanced in the Party. As the economic situation was already bad enough and as no one was willing to undertake anything new in the way of business, some of the
leading people in the business and financial world within the Party went to the Chancellor and told him that unless this sort of talk was stopped, an economic crisis within the country which might eventually come, would be very rapidly advanced. This view was sustained by a good many in whom the Chancellor has every confidence, so that loath as he is to take certain decisions, he realized he would have to do something definite; and on the 6th of July he had a meeting of the Statthalter, that is, his personal representatives in every one of the German states, in Berlin, and made his what I believe may be called decisive announcement that the revolution was at an end; that it was a mistake to think that revolution could be a permanent state of affairs; that the revolution was ended and that the period of evolution had begun. He warned against further talk of revolution and stated that any counter-revolutionary or radical elements would be repressed without mercy. He further went on to say that it was absolutely essential in the interests of business that there should be peace in the economic world and that the disturbance in business must stop. Since that day the star of Goebbels has been on the wane and the Chancellor’s statement could be considered only in the light of a rebuke to him. While his elimination from his position as a luminary of the first order will have to be gradual, I think we shall see a constant decline in his power.

The appointment of Schmitt as Minister of Commerce in place of Hugenberg has been the next most encouraging feature and striking indication of the new path towards moderation. Schmitt is a first-class businessman who while sympathetic with the Party, has not taken any active part in Party matters. It is particularly significant that at least three of Hitler’s intimate friends were candidates for this post and two of them were very moderate in their views; but they were not quite moderate enough for the Chancellor, or probably better said, he felt that the new Minister should be a man whose Party affiliations and friendships were not too close. In order to satisfy the radical wing of the Party it was necessary, however, to
to make Dr. Feder who is very radical, a State Secretary in the Commerce Ministry; but the bad effect of this was overcome by retaining Dr. Posse, an old official of the Ministry and a very fine man, as a State Secretary also. I am told by responsible persons that Feder has no real authority in the Ministry and is to be allowed to continue to talk but that Schmitt and Posse will do the work and that Feder will gradually be eliminated. All the declarations which Schmitt has made and all that has happened since he became Minister of Commerce, has been in the line of greater moderation and an endeavor to bring about peace into the badly disturbed German industrial and financial situation.

The two most significant developments in the economic field showing the trend towards moderation, have been the dissolution of the "Kampfbund des gewerblichen Mittelstandes" which was the instrument through which the great disturbance in business was brought about, and the Betriebszellen must be withdrawn. The Kampfbund was made up of selfish interests and the greatest damage to our own interests attempted or accomplished was the work of this organization. Its activities have been thoroughly described in my despatches, and towards the end of March I had already told Minister President Göring that they would have no peace until this organization was dissolved and at that time he frankly admitted he was too strong to be dissolved. While this Kampfbund is not dead in spite of the order to dissolve it, at least the vital blow to it has been struck and it is a very favorable omen for our own interests as well as for the important German interests which were being ruined by it. The second development has been the very emphatic order that the representatives of the Betriebszelle in practically every industry and business, is to be withdrawn. This means that these representatives of the Party who have been exercising practically complete control in the businesses, are to be withdrawn. Similarly, the Party-appointed and the self-appointed Kommissars in businesses have been told that their functions are at an end unless they are definitely retained by the Government. Definite orders
orders have been issued that the department stores and the cooperative stores whose complete annihilation had been planned, are not to be bothered until further orders and there is reason to believe that the folly of endeavoring to put these out of business is now well recognized.

The newspapers have been carrying glowing stories of whole areas of Germany where unemployment has been eradicated, and constant emphasis is placed on the statement that since the National-Socialist Party has come into power, the total of the unemployed has been decreased by 2 million. This I think may be accepted as entirely incorrect, and officials of the Government who know, have admitted that the figures given out are not correct. The best figures I think, are that since March 5 unemployment has been decreased by 600,000, of which 200,000 must be reckoned as the young men in the voluntary labor camps. In other words the Party has been able to do nothing with regard to unemployment. The only important piece of public work to be undertaken is the building of the automobile highways in connection with the State Railways, and this is to be financed by the Railways which are really in a solvent position since they no longer carry the principal burden of the reparation payments. The emphasis on the incorrect figures regarding the decrease of unemployment, must be recognized as merely being one of the ways in which the Government is trying to satisfy the people with regard to the economic situation. As the average German knows that his own situation has not become better, there is this tremendous emphasis every day to make him believe that it is at least better for others and that his turn will come.

The general economic and financial situation is far from encouraging and must in fact be very bad. In this is found the reason for the swing towards moderation, for Mr. Hitler and his associates are not giving up their radical ideas because they want to, but because they are being forced by circumstances to do so. The tax receipts have, I am told, decreased very rapidly; but it is not possible to get figures which tell any real story. The trade balance for the last
last published month was much smaller and unless the figures are juggled, I think the next published statement will be even worse. If the favorable export balance which Germany has been enjoying is wiped out entirely, she cannot without new foreign credits or loans finance her imports of raw materials. This will mean a further decrease of production in the country and a further shrinkage of exports. As the imports of manufactured goods and non-essentials have been cut down so much already, there is very little hope of doing more in that direction without bringing about a serious change for the worse in the standard of living. Should exports shrink further, which is not unlikely, and imports of raw materials be difficult to finance as a consequence, the standard of living will in spite of all efforts be further adversely affected. These are things very much in the realm of possibility and even of probability and their reflex on the political situation cannot be overlooked.

The more moderate program in the economic and financial field on which the Government has embarked, is the most hopeful sign since the 5th of March. It is interesting to see how busily the Government and the Party are now engaged in breaking down and undoing what they so rapidly built up during the first months that they were in power. That they have been able to make these decisions and so far to carry them through when they were such a disappointment to so many of their followers, is an indication of real strength in the Party.

There has, however, been no change for the better with regard to the anti-semitic campaign which goes on steadily and becomes constantly more implacable. The period of physical injury to Jews one can say is over; but practically daily new measures are announced which indicate that the life of the Jew is going to be made absolutely impossible in Germany. This implacability in the anti-semitic situation is due, I believe, to the attitude of the Chancellor himself. There are two questions, I am told, on which even his friends can make no impression on him. The one is the anti-semitic question and the other the Austrian situation. With the Chancellor his anti-semitic prejudice
prejudice is a religion and he wants to see the Jew wiped out. Since they cannot be driven out of the country in a body, he wants to see them excluded from all gainful or responsible positions in the country as to bring about in a generation or two their elimination from the German body politic and economic. On the question of Austria, for some reason, whether it be sentiment or a question of prestige, he is also said to be implacable. He wants to bring about the "Anschluss" at all costs. I am told that a man like Schmitt in whom he has learned to have the greatest confidence, cannot begin to talk with him about these subjects. Schacht learned a great deal while he was in the United States, but although he is a loud talker and very blustering, he is a good deal of a lamb when it comes to trying to talk with the Chancellor and I think he has no influence whatever on these two subjects. One of the Chancellor's most intimate advisers now is a man named Keppler who has helped to bring about the trend towards moderation in the economic field but who is himself personally a strong anti-Semite. He knows how dangerous this question is for Germany but I am told that he too has no influence on the Chancellor in this respect. I think therefore we cannot look forward to any abatement in the anti-Semitic movement and I am quite sure that in spite of all that I have tried to tell the Department about it in my despatches, the implacability and the absolute heartlessness and relentlessness of this movement is not yet appreciated at home.

I think it will be interesting to note that since the accession of the National Socialist Party to power on March 5, Mr. Hitler has been called upon to make four major decisions. The first was the decision that the physical attacks on Jews and the physical maltreatment of Communists and opponents of the new regime must stop. The second decision came in early July when he had to make his declaration that the revolution was at an end and that the period of evolution had started, in order to prevent an immediate economic crisis. The third was when he had to appoint a new Minister of Commerce and decided
to appoint Schmitt, indicating a departure from the radical ideas in the economic field which the Party had previously advocated. The fourth decision followed shortly afterwards when Minister President of Prussia Mr. Goering, called together the leading S.A. officials in Berlin and informed them that all forms of unauthorized acts by the S.A. would hereafter have to be punished just as though the perpetrators were ordinary offenders. This latter measure was necessary in order to put a stop to the lawless acts of S.A. men and to stop troubles which were arising among the S.A. men themselves. The test of strength lies in how far they are able to carry through these decisions. With respect to the first it is possible to say that except in isolated cases physical attacks on Jews have stopped and that the treatment of Communists and enemies or potential enemies of the new regime is at least not as severe as it was although the movement towards the concentration camps and the prisons continues and the conditions in several of the camps are, I am sure, far from good. With respect to the second decision we know that some of the reactionary leaders who were preaching continuance of the revolution and further radical action, although fairly important in the Party have now found their way to the concentration camps. With respect to the third decision we know that the fighting organizations which have been creating the disturbance in business have been dissolved and if not altogether out of commission, are rapidly losing their power, and we also know that the representatives of the "Betriebszellen" and the Kommissars have for the most part been displaced. With respect to the fourth decision, I have Minister President Goering's statement to me which is supported by that of highly placed members of the Party who know what is going on, that some of the reactionaries have been shot for failure to obey orders.

In my letter of June 26 I said that it began to look as though the more moderate leaders would not be able to carry through their more moderate views. The constantly changing situation here is sufficiently emphasized by the fact that in this letter I have to present
present a different picture in this respect. It is impossible here to make any long-range predictions as to how well one is informed and how intimately one keeps in touch. When I said to you on June 26 that it was doubtful whether the leaders would be able to carry through their will towards moderation, I was not expressing a personal view but what I knew to be the feeling of the leaders themselves. These decisions which they have been forced to make have been made by them with the greatest difficulty and with certain trepidation, and never with absolute assurance as to how far they would be able to go. The fact is that as things stand now, it looks as though the Party authority is stronger than ever but we must not forget that this Party authority is supported by what is equivalent to the military force of the S.A. and that without the S.A. and the S.S., the Party would be powerless. It does not yet have behind it public opinion. The workers have had their trade unions dissolved and these were very real and very helpful organizations to them and formed a very intimate part of their life. Instead of the trade organizations they have the so-called "Arbeitsfront" which has promised them much and given them nothing. The whole outward structure of German life has been changed; but the Germans remain on the whole very much the same people as they were before and they have been given nothing but a new organization which so far has not borne any fruit. The external situation of Germany is worse than it was before March 5 and the internal situation is as much worse as the external. The German workers and the German population as a whole are cowed and subdued but hardly convinced.

The Government and the Party are trying to keep things going by their propaganda in the press, by large public demonstrations of all kinds over the country, by emphasis on military training and on the organization measures which are still constantly being taken; but there are serious obstacles ahead. I myself consider the economic situation in the country which may become worse, the most dangerous obstacle. Difficulties which may come out of the situation with Austria may become very serious. The disarmament question
question offers another opportunity where the Government may find a defeat which they cannot hide from the people. All these are rocks, including the anti-semitic movement, on which the Party may stumble. I believe, however, that Mr. Hitler is conscious of all these difficulties and that he has his way out prepared. The Reichswehr is more and more with him since he has taken this moderate course, and as I see it now, if a crisis in the internal situation seems unavoidable, the Chancellor will, before it comes to a head, turn the Government into a monarchy with young Prince Louis Ferdinand who is now in the United States, as the head, with the Chancellor himself continuing in his present position. This in many respects would be a good solution, for it would assure a more moderate and saner Government, including better treatment of the Jews although by this I do not mean to say that they would be in any way restored to their former position. I hope in the near future to be able to write you with regard to this latter aspect of the problem here, as I happen to know young Prince Louis Ferdinand very well and have for years, and I often discussed various matters with him. He is a very sensible and really a very fine boy.

We have all learned to grow very fond of the Ambassador in the short time that he has been here. He is not only a very charming, but a very capable person and very understanding of human nature and of the problems which we have to deal with. It will be a pleasure for me to work with him here.

Believe me, with all good wishes,

Very sincerely yours,

The Honorable
William Phillips,
Under Secretary of State,
Washington, D.C.