SUBJECT: Some observations on the general economic situation in Germany to-day.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON.

SIR:

I have the honor to make the following observations on the general economic situation in Germany, which may be of interest to the Department. At the outset it is necessary to state that it is extremely difficult to give a clear picture of the situation, as accurate data with regard to the actual condition of industry, the banks and general business conditions is extremely difficult to secure. Those men who were in the past years and up until March 5, 1933, in a position to speak very definitely with regard to the situation are no longer able to do so as they are not so well informed.

The picture which I get from bankers, industrialists and business men is not encouraging, and the optimistic public statements which they make are strikingly in contrast with the quite pessimistic opinions which they give in private. The general consensus of opinion which I gather is
is that although the situation to-day in industry and in business generally is quite satisfactory considering all the circumstances, the prospect for the future is not encouraging, and those who seem to know the situation best are inclined to be quite pessimistic. German bankers and industrialists within the last two weeks have commented particularly on what they say is a real turn for the better in England, and they remark that instead of seeing any turn for the better in Germany the movement is towards less occupation of industry. This they view with the greatest concern, especially as the buying and consumptive power of the German population seems to be steadily decreasing.

That the economic situation is behind the scenes the greatest concern of the present Government and of the National-Socialist party, is I believe quite obvious. The decision of the Chancellor some months ago to appoint Dr. Schmitt as Minister of Commerce, when so many of his friends wished the place, and when the economic views of these disappointed men were much more in accord with those of the Chancellor than those held by Dr. Schmitt, is I think the clearest indication of the recognition of the party of the dangers in the economic situation. If the Chancellor had felt free to follow his inclinations he would have appointed any one of four or five other aspirants to this Ministry instead of Schmitt, and sufficient time has elapsed since the present Government has come into power for anyone to see that when the

Chancellor
Chancellor makes a decision of this kind, he is governed by considerations which he believes so vital that they cannot be disregarded in spite of his prejudices or inclinations.

The appointment of Dr. Schmitt meant a definite change in the economic policy of the party. It meant that the period of experimenting was approaching its end and that there would be a return to a more conservative economic policy. During the few months that Dr. Schmitt has been Minister of Commerce, there has been very considerable appeasement in the general industrial and financial situation. While individual action on the part of party members in big business has not stopped, it has greatly decreased. While the proponents of the old economic policy of the party have not been silenced altogether, they are much less in evidence and constantly disappearing further in the background. Schmitt himself has proceeded with the greatest prudence and has concentrated his efforts on preventing destructive action so far as possible, and in a recent conversation he indicated to me that this was one of the reasons why he had been able to do so little in the way of constructive action. He has concentrated on giving to the younger men in the party, who so largely control its policy, lessons showing the fallacy of the ideas which they have been proposing and their danger to Germany and to their party in the long run. He has been carrying on to my personal knowledge a very active campaign of education and clarification among party leaders.
On account of the attitude which Dr. Schmitt has taken in the Jewish question and the efforts which he is making to bring about some appeasement in the treatment of Jews in business and in the social structure generally, he has gathered upon himself the enmity and the open opposition of radical elements from all sides in the party, these being largely headed in the economic field by Mr. Darre, the radical Minister of Agriculture, and Dr. Ley, the head of the "Deutsche Arbeitsfront". Darre is a man without adequate background, who is not in a position to discuss or to justify any of the measures which he is carrying through in the agricultural field, and he is therefore the stern enemy of Dr. Schmitt as he always appears badly in any conversation or discussion which they may have with regard to economic policy. Dr. Ley is a pure demagogue, and the thoughtful, considerate and realistic Schmitt he cannot tolerate. As the Department knows from previous despatches, a very definite campaign has therefore been carried on by these radical elements against Schmitt, and less directly against Dr. Schacht of the Reichsbank, and other more conservative persons in the Government. Even among well informed persons there was a feeling until recently that the radical elements might succeed and that one of the first steps which would be taken after the election of November 12 would be the replacing of Schmitt by a man such as Dr. Feder, who is in complete sympathy with Darre and Ley.

Now that the election is over and the Government has received what it will interpret as a practically unanimous endorsement
endorsement of what it has done and intends to do, there is still no evidence as to how it will use this power in the social, industrial and financial field, although it is more clear as to how it will use it in the political sphere at home and in external policy. Should the radical elements gain the ascendency with the Chancellor, and Dr. Schmitt, for example, be removed as Minister of Commerce, it will mean that there will be a serious reaction in the economic situation and things will become definitely worse. If the radical elements secure control, ultimate recovery will be put back in Germany for at least three to six months as it would take that time before more conservative men can again replace the radicals. While it is too early to say what attitude the Chancellor will take, and I believe it is not too much to say that his decision will be the deciding factor, there are increasing reasons to believe now that his decision will be against his radical supporters as it was several months ago. This will mean that Dr. Schmitt will be established in his position and the work which he has done among more radical young party leaders will not be lost. His situation and those who are beginning to hold his more conservative views will be consolidated, and should this come about it will be one of the more encouraging features of the German situation since the present Government came into power.

While I am of the opinion that this is the course which will be followed by the Chancellor, it is too early to say what he will actually do. One must bear in mind that the radical thinkers in economic lines are the only ones, as I have already pointed out, with whom the

Chancellor
Chancellor sympathizes and whose views he holds. As the Chancellor is so largely governed by his emotions and prejudices, especially at times when important decisions are to be made, I have found no one here who is willing as yet to indicate definitely with which element he will cast his lot. As he appreciates the importance of economic factors in Germany's future more than practically any other of those among the primary leaders of the party, the probabilities are at least greater that his decision will be against his radical friends.

A meeting of the "Generalrat der Wirtschaft", i.e. the General Council for Trade, was called for September 21 in Berlin, and the leading industrialists and financiers of Germany felt it their duty to appear. The Chancellor addressed the council in very general terms and had nothing constructive to offer, except to make another appeal to the industrialists and financiers to get behind the movement as this was a primary necessity to bring about a betterment in the situation. He directed himself energetically against what he called professional critics who criticize only for its own sake and who can make no constructive suggestions. He said that for all good and useful advice the Government was appreciative, but that it must stop any criticism which places criticism above everything else, and that if the Government after ripe consideration proclaimed a measure, then every one must stand behind that measure. Dr. Krupp von Bohlen-Halbach who is the head of the council, also spoke in very general terms and said that the deep-seated belief of the Chancellor in the future of the German people gave to the leaders of
of industry in Germany the courage and the force to do
everything towards the rebuilding of a sound national
commercial system, of a strong National state under
National-Socialist leadership. Dr. Schmitt followed and
made the only speech in which anything constructive was
brought before the council. He emphasized that only the
services of the worth-while and the capable could bring
any salvation from the desperate situation and that it
was not possible to do without the capable and to depend
upon the weaker elements. He said that they had already
emerged from the dangerous struggle of individuals to
get places for themselves. In this statement Dr. Schmitt
emphasized one of his principal difficulties and wished to
point out the danger which all industrialists feel is
imminent, i.e. that practically all the most competent
men in German industry and technic have been removed to
make places for less competent ones, merely for party
reasons. When Mr. Schmitt says that this personal struggle
has ceased, he is expressing a pious wish rather than an
actuality, for the information which comes from industry
still shows that the replacing of competent men is
constantly going on by those who have no recommendation
except their membership in the party.

Dr. Schmitt emphasized the importance of German
foreign trade to the country. As the majority of his
hearers were of the school which believes that Germany
can help itself and can cut itself off from the rest of
the world, he declaimed: "Our people must help themselves,
but we must not cut ourselves off from the trade and commerce between the peoples in the world. He pronounced himself against further deflation as well as against an inflation which could bring Germany no advantage. He indicated that the many measures which were being urged upon the Government by the party, particularly in the interests of certain parts of trade, could not be carried through as they were dangerous to the entire economic structure. He called particular attention to the attacks on the department stores, cooperative associations and banks, showing that these were institutions which could not be light-heartedly and thoughtlessly attacked and destroyed. He emphasized the importance of tax reform. His address was on the whole the most constructive statement by any public man in Germany on economic matters since March 5. Its conservatism and its soundness and its constructive features served to strengthen the attacks of the radicals against him. He is in many respects to-day the principal bulwark against further radical experimentation and is the strongest and most effective, constructive individual in the country. His remaining on the scene or his eclipse may therefore be taken as an indication of first importance.

The question of unemployment remains a primary one and the number of unemployed may be conservatively estimated as about five millions, which is no appreciable decrease over the number when the National-Socialist party came into power. The voluntary labor service in spite of
the glowing accounts in the press has not been a success and the young men in these camps do not appear to be happy. The attempts to force industry to take on increased personnel have to a certain extent been successful, but there is direct information that large as well as small concerns are seriously menaced so far as their further operations are concerned by the increased cost of this personnel. In certain plants stocks are being built up for which there seems to be no market in prospect. The attempts of the Government to decrease so-called "double employment" have met a severe setback. The radical measures taken through party leaders, particularly in the small towns and cities, to prevent all double employment, caused very real suffering and resentment. Families in which the husband was earning less than 200 marks a month, and where the wife might be earning 50 to 70 marks a month as a domestic servant, or by doing some kind of outside work, were compelled to sacrifice either the position of the husband or that of the wife. The combined income had been sufficient to provide for a living for the family, but just sufficient for mere existence. Taking away the income of the wife made the situation of the family unbearable, as the lost income could not be made up through help from the State. Where there had been before a family which was at least getting just enough to eat, there was now a family not able to exist on its income. The Government early recognized the impossibility of carrying
carrying through its program in this connection, and although an endeavor is being made here and there to reduce so-called double employment, this has practically been stopped so far as wage earners are concerned, at least for the winter months.

Very severe measures have been taken with respect to the employment of foreigners, and according to regulations now effective and since the 1st of July, persons who are not German citizens may not have employment in the country unless they are in possession of a specific authorization from the appropriate authorities. These authorizations it is becoming more and more difficult to get, and as these same foreigners who are being deprived of their positions, are also not able to secure any unemployment doles, their situation is pitiable.

So far as I have been able to ascertain, the effect of the program to decrease unemployment in Germany has been almost totally without success. The measures which have been taken are largely those which involve force and have involved a slightly wider distribution of unemployment accompanied by a corresponding decrease of family income. As the majority of German families already live on a really minimum income the situation of the masses in general has not been improved. Technically the number of unemployed has been decreased. Actually the cost of the doles has been reduced as so many who have been deprived of their possessions on account of race, former
party adherence, etc., are not given relief. There is
greater suffering among the unemployed than there was at
the same time last year. The misery is to be alleviated
so far as possible through the activity of the party in
gathering funds for the "Winterhilfe" (winter help). It
is not necessary here to go into the methods which the
party is employing in order to practically levy tribute
on every solvent family in Germany to help this program.
The income of the Winterhilfe is supposed to come from
voluntary contributions, but the methods of administra-
tion are such that the contributions are anything but
voluntary.

The Winterhilfe program against hunger and need, which
was launched with such tremendous publicity all over the
country, does not seem to have met with the popular
response in the form of money which was expected. As I
informed the Department at the time the program was
announced, the party realized that large contributions
from industry and well-to-do persons could not be ex-
pected, as industry was not in a position to make such
large contributions and the number of well-to-do persons
is comparatively restricted. The appeal therefore was to
be made to the great mass of the people to give something
out of the little they had. There have been fair sized
contributions from some of the industrial establishments,
largely under party pressure and on the fear of reprisals
if they were not made. Various organizations have
contributed
contributed what in Germany are in these days considerable sums, but these have usually come from the funds of these organizations collected from their members, and they do not represent a real contribution to relief as it simply means that these funds instead of being used by the organizations themselves for relief, are used by the party. It is merely another application of the principle of "Gleichschaltung" or coordination, as all means of relief are to be centered in the party instead of in other organizations.

The so-called "Hinopfgericht", or single dish meal, to be served at midday on the first Sunday of every month in every family in Germany, is having success so far as its application and observance are concerned. It is a measure which has a certain popular appeal, and the single dish midday meal on the first Sunday of every month is now probably an almost universal observance in Germany. Immediately after the midday meal the party workers who have been pressed into service for this purpose, appear at every German home and ask for the contribution to the Winterhilfe. These contributions are very small, however, and seldom are over two marks per family, and are as low as twenty to thirty pfennigs per family. In Berlin on the first Sunday of November in a city of four and a half million people, the amount turned in by the party workers as the result of the Hinterpfgericht collections, was about 400,000 marks, which is a comparatively small amount, and it is not likely that collections in other cities
cities of Germany are giving relatively larger returns. The total amount available to the party for Winterhilfe does therefore not give promise of being considerable or in any way adequate to serve as an auxiliary to the deal.

The program of intensive speech making by party members all over Germany, which was proclaimed at the outset of the Winterhilfe action, has for some reason not been started.

As the Department is aware, one of the principal elements of the economic program of the National-Socialist party was that the department stores, one-price stores and cooperative associations must disappear from the German retail structure. When it was realized almost immediately after March 8 that this program would involve adding large numbers of people to the unemployed both in these stores and in the many industries which serve them, and that their elimination from the economic structure was not so simple on account of the destruction of capital involved, action on this part of the program was suspended. The action of the Government, however, in not taking any action against these establishments has by no means satisfied the more radical wing of the party and the Government has had the greatest difficulty in combating action arising within the party against these stores. In various parts of Germany orders have issued from party sources ordering party members not to buy in department stores, in one price stores and in cooperative stores. As recently as November 6 the newspapers throughout Germany have carried announcements to the effect that the Ministry of Commerce in Berlin makes it known that the orders which have been issued
issued that party members will be excluded from the party if they buy in such establishments, are not correct, and that it is also not correct that members of the S.A., who when in uniform buy in such stores, will be excluded from that organization. The campaign against the department stores nevertheless goes on and the Government is seriously disturbed over the effect which this party campaign has had on the earnings of the stores.

I am informed by the owner of one of the largest department stores in Berlin, who is a Jew, that his turnover has decreased at least 22% since the party came into power. He is obviously not able to determine how much of this decrease is due to boycott or how much of it is due to decreased buying power. As the boycott against these three types of stores has never been popular with the masses, for they know that they can buy cheaper and better in them than in the establishments to which the party wishes to direct them, it is not improbable that a very considerable part of the decrease is due to what is obviously a constantly decreasing buying power of the masses in Germany. Several of the larger department stores such as Leonard Tietz, have been reorganized in order to give them non-Jewish control, but these same stores are suffering in the same manner as the one above referred to, and I am informed from a reliable source that the Tietz and Karstadt stores are in a very serious situation again in spite of the recent financial reorganization.

While even the radical elements in the Government and in the party realize that the campaign against the
department stores was a mistake and that in carrying through involves serious disorganization of the economic structure within the country, they are powerless against the movement which has been started. The newspapers contain constant references to the effect that these stores cannot be eliminated at once or rapidly, as it would be too dangerous to the retail structure and would destroy capital, much of which is owned by persons of little means. These same articles show, however, that it is the intention finally to eliminate these establishments, and this is something which must be reckoned with. As there are many millions of dollars which these stores owe in the United States I believe that we may definitely reckon with the ultimate loss of practically all this money which has been loaned to these establishments in one form or another. The department stores, the one price stores and the cooperatives may finally not disappear from the German structure, and I believe they will not, but the capital which is invested in them will I believe be wiped out and it will involve considerable financial loss for those of our citizens who have invested in their bonds, and for the banks which have advanced them money.

The Department is aware that conferences have been going on in the Reichsbank, under the leadership of Dr. Schacht, with reference to bank reform. It is too early to indicate what changes in the banking structure will be made or the definite form in which they will be made,
but it is quite clear that the control of the Government over the banks which already exists to a considerable extent, will be made definite and absolute. One factor has, however, developed out of these discussions which is interesting, and that is that the elimination of the private banks from the German banking structure may not be accomplished as was originally intended. These private banks are largely owned by Jews, and it was the original intention to completely eliminate, absorb or confiscate them. Recent developments indicate now that it is considered that the private banks in some form should continue definitely under Government control. It is nevertheless equally clear that the Jewish owners of these private banks will exercise very little direct control after the formal reorganization over their own establishments, and whether they will not be forced into liquidation under such control is something which only the future can show. As symptomatic an article is interesting which appeared in the "Berliner Tageblatt" of November 9, headed "An Appeal to the Private Banker". The article states that at the meeting of the private bankers' association of November 9 the chairman, who is a National-Socialist, demanded from those present that the action of the banks should be directed particularly towards helping the firms belonging to the so-called German "Mittelstand" or middle class. He went on to say that the private bank is the especially indicated helper and adviser of the middle class. He said that if the private banks in Germany will carry out their duty in this connection
connection, their place in the new Reich will be made
sure and consolidated.

One of the most disturbing features in the economic
situation continues to be the interference which party
members exercise in business, frequently without authoriza-
tion. Although this interference has steadily decreased
since the earlier days of the revolution and although the
majority of commissars has been removed, this interference
continues. The boards of directors of important establish-
ments are no longer deliberative bodies, but merely act
as an instrument to ratify the program laid before them
by the chairman, who may act under party pressure or
directly through Government instructions. This has
interfered with the orderly and efficient conduct of
business. The Government and the highest officials of
the party definitely reserve themselves the right to
give orders to industry and business, and have endeavored
to repress such action from smaller leaders of the party
or from industrial units. It may be taken for granted,
however, I believe that as long as the higher leaders of
the party reserve to themselves this right, the smaller
leaders will continue to act on their own initiative, and
the repeated declarations from the top that the interference
with business must stop will not be altogether effective.

On September 12 the Prussian Minister of Justice issued
an order to the effect that this interference on the
part of individuals with business would be considered as
"commercial sabotage" and that the offenders would be
punished irrespective of who they might be. This particular
order
order was issued as the Prussian Ministry of Justice had had brought to its attention the fact that a number of establishments had had to close and considerable numbers of workers were thrown out of employment due to the bad management of men who had been placed at the head of these businesses by local party leaders. An order such as this is interesting, because I happen to know that the men at the head of the Prussian Ministry of Justice are really in sympathy with this action taken by the smaller leaders. They do not really wish to repress this individual action because they are governed by prejudices against individuals who they think are not enthusiastic party members, and therefore wish to see them taken out of the control of the business which they may have. They know, however, that the question of unemployment and the distress during the winter is one of the rocks on which the party and its program may founder. Irrespective therefore of their own opinions and prejudices, they are forced to take certain action. This is characteristic of the present revolution. Very few of the leaders have in any way changed their radical opinions. They hold to these just as strongly as during the years that they struggled for power and would really prefer to carry out their will as they did during the first days of the revolution. This is one of the dangerous features of the economic situation which is not, I may say, unknown to or disregarded by those who know something of the dangers involved. No real appeasement will come in the German economic situation until the great majority of those who are now exercising power, have been replaced.
replaced by more moderate elements. How soon this replace-
ment will come, it is still too early to predict.

The discussions in the inner circles of the party as to what is a "German" concern and a "pure German" concern, are still going on, and while previous definitions have been published they are not sufficiently clear and constant discrimination is taking place against those firms which by some are not considered as German or pure German concerns. The definition which the party wishes to put into effect, is that a pure German concern is one owned solely by Germans of Aryan origin, and that a German concern is one which is owned by Germans or by foreigners of Aryan origin, organized as a German company, with the control of the company solely in the hands of German citizens of Aryan origin. This definition, however, they have so far not felt to be able to carry into effect. A pure German concern, according to the present definition most commonly accepted, is one which is solely and wholly owned by Germans of Aryan origin. A German firm, however, is construed more liberally and a firm is to be considered a German firm as long as it is organized under German law, has largely German management, and the fact that there is foreign or Jewish capital is not to interfere with the designation to it of the term "German firm". This concession has been made so far as so many firms would have been driven out of existence in Germany, which employ large numbers of people. The definition, however, is much too liberal for the radical party members and they are continually combating it. What the ultimate definition of a pure German and a German firm will be,
will depend upon the development in the attitude towards the Jewish question in general.

It is being recognized more and more in radical party circles that the attitude of the Government and of the party in the Jewish question is one of the most serious mistakes which they have made. They realize that the elimination of Jews from the boards of directors and from the management of technical departments of German firms has greatly weakened these. The conservative business men throughout the country are deeply concerned over this. They realize that most of the men who have been eliminated could not be spared and that not only has Germany lost their special ability, but that the most capable have passed into the service of competitive firms in other countries. In spite of this realization, however, which extends even to radical elements in the party, there has been no appeasement whatever in the Jewish situation and the elimination of Jews from industry and finance continues.

The Government is seriously considering the simplification of the tax system in order to bring relief to industry. It is realized that the tax burden on industry and business is too heavy and that the tax system is too complicated. In this field constructive action is possible and there is reason to believe that really helpful action will be taken by the Government. Up to the present time the program for tax reforms has not taken sufficiently definite form to report anything of definite interest to the Department, but I believe that it may be anticipated that the action which the Government will take on the question of tax reform, will be of a
constructive and helpful character.

The question of Germany's foreign trade is giving the greatest concern and intensive steps are being taken to make Hamburg a propaganda center for the rest of the world. The Government and the party realize that while there is no organized boycott against German goods in the rest of the world, there is a real boycott which is more dangerous than an organized one. As the Hamburg firms in the import and export business have long standing connections with firms throughout the rest of the world, a propaganda office has been set up in Hamburg which is to control commercial and political propaganda in other countries, and the Hamburg firms are to act as the agents of this bureau.

In the matter of shipping, the slogan has been adopted "German Goods through German Ports in German Bottoms". As Germany is to a considerable extent a carrier of the goods of foreign countries in many trades, this slogan is not particularly pleasing to the conservative shipping elements in the country. They realize that such a program can eventually do much more harm through ultimate retaliation in other countries, than good. The German shipping companies, however, have been placed completely under the control of the party so that the experienced and conservative leaders of shipping are for the time being in the background.

I realize that the foregoing is a rather sketchy and incomplete picture of the German economic situation. As I said
said at the outset, however, it is impossible even for the best informed persons in the country and for those who formerly knew the German situation thoroughly, to give any clear or definite picture. The injection of the party and of very diverse elements into every feature of German business life has had a disorganizing effect, the ultimate results of which it is still too early to predict. For the time being, to anyone coming to Germany and even to those living here, the observance of surface conditions would seem to indicate that the economic situation of the country is better than that of many of its neighbors and probably even better than our own. When one goes beneath the surface, however, and realizes the really definite changes which have been made and the disturbing influences which are at work, and when one appreciates the effect which the present psychological attitude of the great mass of the German people is having on business, one is not so happy concerning the outcome. I am personally convinced that the economic situation in the country is precarious and that it contains elements which may set back the country for many years. Much depends upon developments within the next few months. If the conservative and constructive elements in the Government and in the party can remain in influence, and if Dr. Schmitt, the Minister of Commerce, is retained in his position, it will be a distinctly encouraging feature and the significance of his retention can hardly be overestimated.

Respectfully yours,

George S. Messersmith,
American Consul General.

Enclosure:
4 newspaper clippings.