Berlin, Germany, March 29, 1934.

Dear Mr. Phillips:

I wrote you on March 24 with regard to the situation here, and I am taking the liberty of bringing to your attention my confidential despatch No. 1964 of March 22 giving certain background information which I thought might be helpful in connection with any consideration which is being given to the negotiation of a trade agreement with Germany. I have also just completed another despatch, No. 1970 of March 28 which I believe will be of particular interest in this connection, and this latter despatch should reach the Department the same time as this letter. I do not wish to burden you with too much reading, but I am inclined to think you may find it worthwhile to go through these two despatches.

The people here are of course over-eager to send a mission to the United States, and are really almost querulous because in their opinion Congress is so slow in giving the President the power to negotiate. All the indications I have are to the effect that they are overly optimistic, and those whom I have talked with either think that we are getting ready to play the part of Santa Claus or, if it is not a question of playing Santa Claus, that we are so eager to get rid of our raw materials that we will be willing to make almost any kind of a bargain. I hope you will not find my despatches too pessimistic, but I am frankly of the opinion that any negotiations which we may have with them eventually, will be exceedingly difficult. They will want a great
great deal, with little to give. Their political situation is extremely unstable and they want this mission to get to the United States as soon as possible and bring home some fine bargain to which they can point as an achievement which will prop up their failing prestige in Germany. Of course, they are eager for the agreement for economic reasons as well, for there is no question but that the economic and financial situations are precarious. I do not see how we can make any worthwhile agreement with this present Government, and if we could it is a question as to how far it could be carried out on this side. I will not go into this further here because the various aspects are so thoroughly covered in the two despatches under reference.

I wrote you on March 24 with regard to the rearmament activities and in this respect you will be interested to know that the Germans are using us pretty heavily in the matter of airplane equipment. It was quite clear from the outset that major emphasis in the rearmament program would be put on increasing Germany's air force. This is General Goering's own field and his hobby, and he can get support for his aircraft program because it is realized that both from an offensive and defensive point of view this airplane equipment is of primary importance in the German program. They are preparing to build 1200 planes before the end of this year. The Sperry Gyroscope people have a contract for supplying parts for fifty automatic pilots a month, with deliveries already in progress. The automatic pilots are to be manufactured in Germany, but a good many of the parts are to be imported from the Sperry factory in the United States. The Bayrisches Motorenwerke have ordered two thousand crankshafts for airplane motors from Pratt & Whitney. Deliveries are to be made at the rate of one hundred a month, beginning at once. These crankshafts are built of special steel which is not being produced here now. The Air Ministry has purchased three Boeing planes from the United Aircraft which are of the long distance mail plane type, which can easily be converted into bombers. A pilot experienced in flying these planes has been brought over from the
United States and is already here to give instruction in flying the planes. The licenses for our best airplane motors are already held by German factories, and I am told that activity at the Bayrische Motorenwerke is almost feverish in the production of motors. I think we can count pretty definitely that before the end of the year Germany will have 1200 new planes, and if they can accelerate the program, they will do it.

There is a good deal of dissension right now between the head of the Reichswehr, General von Fritsche, and Roehm, who is Minister without portfolio and the head of the S.A. Roehm is insisting that when the Reichswehr is increased from 100,000 to 300,000 men, which of course they have definitely in mind, companies of S.A. men as now constituted are to be taken bodily into the Reichswehr. The Reichswehr is insisting that it has always had individual recruiting for years and that it cannot change from this practice, and that if S.A. men are taken into the Reichswehr they must be taken in as individuals and not as units. I am told that this is really a serious difference between the Reichswehr and Roehm, and of course the implications are obvious. Roehm wants organized units of S.A. men in the Reichswehr, for it gives him the definite control of the whole military force. Fritsche does not want it because if Roehm has his way it means really the disintegration of the Reichswehr, and the military force of Germany would be merely an S.A. organization. The final decision in this quarrel will rest with Hitler, and I am inclined to think that Hitler will not let Roehm's plans go through. The Chancellor himself is not prepared to let the Reichswehr disappear for he may have to use it himself "to save his country" a second time. The matter, however, is interesting for it is one of the straws which shows how things are turning here.

I am rather fearful that a reading of my despatches 1964 and 1970 may give you and my friends in the Department an idea that I am too pessimistic about the trade negotiations for which the Germans are so eager and which we, of course, would welcome if we see any possibility of accomplishing anything. I would only
like to say in this respect that my attitude is not one really of pessimism, but that it is merely that I know what difficulties have to be contended with from this side, and that there are certain situations existing here which form anything but a favorable background for negotiations.

With all good wishes,

Cordially and sincerely yours,

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