Berlin, Germany, April 3, 1934.

Dear Mr. Ambassador:

I am sorry to hear that you had such a stormy trip over, for no matter how good a sailor you may be, you did not have, I am sure, the complete benefit and rest during the sea voyage that I had hoped for. Mrs. Dodd and the young people were at the house the other evening for a dinner that we gave for the Earles before he left for home. I was very glad to have the opportunity to see him before he sailed. We also had a very pleasant afternoon at your house the other day when Mrs. Dodd had us all in for the Earles.

I hope you are as much pleased over the change from Uruguay to Austria as Mrs. Measersmith and I are. I was naturally very much gratified that the President and the Department should give me the promotion as Minister to Uruguay, for my wife and I genuinely like that part of the world and I would have counted it a privilege to endeavor to help the President and the Secretary to build on the splendid foundation which the Secretary laid during the Montevideo Conference. We naturally had very real regret over leaving our associations here and my contact with the problems which I have been so interested in almost without interruption since the end of the war. I need not tell you, therefore, how really tremendously appreciative my wife and I are of the consideration which the President and the Department have shown me in sending me to Vienna. I shall do my best to merit the confidence which they have shown in me and I am very happy that I shall be able to continue to work with you in these problems which we realize so well are of supreme importance. Berlin and Vienna are not so far apart that we shall not be able to keep in very close though with each other.
other and I look forward with real pleasure to our continued association.

I am sorry to tell you that since you have left here the developments have been rather rapid and indicate an increasingly serious situation. Although I believe that the Party is still quite firmly in power and that Mr. Hitler's prestige among the masses has not yet been seriously impaired, there are evidences of growing dissension in the Party, particularly at the top. The antagonism which has long existed between Goering and Goebbels is now being duplicated in other parts of Germany. In Silesia Bruckner and Heines are at odds and Heines who is the worst of the two, has the better of it. The same is true in Saxony where Mutschmann who is by far worse than von Killinger, has the better of it. Roehm who is in command of the S.A., is at odds with General von Fritsch, as Roehm wants to incorporate several thousands of the S. A. bodily into the Reichswehr. General von Fritsch does not want to do this because he wants the Reichswehr to be recruited individually as in the past. I think Hitler will eventually side with von Fritsch as he realizes more than ever that he must keep the Reichswehr intact as he may need it "to save his country" a second time. These internal dissensions between the higher leaders, Hitler has been having the greatest difficulty to compose and I understand that he has shown increasing signs of nervousness and indecision recently. He realizes that these dissensions will work their way down to the secondary leaders and through them to their adherents.

To me the greatest danger in the situation lies in the fact that it is increasingly evident that the power does not really lie in a few people at the top, but that it rests in the secondary leaders. These secondary leaders are still as arbitrary and as radical as ever for the most part, and have not followed the change of attitude of the higher leaders towards the international aspects of Germany's relations, or at least they have not the same comprehension. Since I have come back I had increasing evidence that these secondary
secondary leaders have as little regard as ever for opinion outside of Germany and as little understanding as ever of the consequences of their acts inside and outside of the country. As they wield the power, the situation is really serious.

There is increasing evidence of dissatisfaction among the people. I am surprised to find how much more this dissatisfaction is being voiced. People are actually beginning to talk about the necessity for a change. When I left here last December I had no idea that this situation would develop so rapidly. I felt that it had to come but I thought it would come more slowly.

The economic and financial situation are really approaching a crisis. Production and industry in the country have increased as a result of the various stimuli applied by the Government. The rearmament program has gone ahead rapidly in various directions. The need for raw materials to feed this increased production and industrial activity is now making itself felt. Without any question exports are steadily going down and Germany is faced by the problem of greater need of raw materials with less exports with which to pay for them. The exchange situation is really serious and Schacht has practically exhausted all of the resources which his cleverness could lay hold of. Germany must either increase her exports very tremendously, or get credits if the present industrial activity is to be kept up. Personally I do not see how she can increase her exports under existing conditions, even if certain tariff barriers are lowered. There is a real disinclination on the part of people to trade with Germany and the mere lowering of tariff rates will not increase German exports. I do not think that credits under any circumstances are possible at present, from us or from anyone else. The Germans are so callous with respect to their existing obligations that I do not see how we could give them either a public or private credit at home. It would not be fair to our own people. The situation therefore seems to be a more or less hopeless one for the present Government, for they have either got to

increase
increase exports on what seems an impossible scale, or get credits, or both.

Importations of certain raw materials as you have noticed from the press, have been practically put under a monopoly basis and the distribution of many raw materials in the country is already under strict Government control. This is only a beginning and they intend to go a lot further. It is undoubtedly the serious exchange situation which is behind some of these moves; but as most of the raw materials affected so far are those which we largely supply, there is also much reason for thinking that they are getting ready to negotiate with us.

They are really naive in their eagerness to send a mission to the United States. Following out your suggestion, I have been talking with various people but so far have only talked in the Government with Posse and with one of the men in the Foreign Office. I have seen, however, a good many other people and I have thought it important to give the Department certain background which you will find in my confidential despatches Nos. 1964 and 1970, of which I send you copies. I do not want to burden you with reading while you are home, but I think you will find these despatches interesting. I hope you will not think I am too pessimistic; but I have just tried to face the situation as I think it really is. You know that like you I never fail to remember that there are 65 million people here with whom we want to live in peace and to have very close relations. But it is increasingly obvious that if this Government remains in power and will control the destinies of the German people, there is no room in Germany for any foreign interest. The secondary leaders of the Party are as determined as ever that Germany must be made self-supporting in every possible way; that imports of manufactured goods must be practically excluded; and that the rest of the world must be forced to take German manufactured goods. They take the attitude that Germany is too great a country for the world to let it go to pieces and that we will make any kind of a bargain with her for raw materials.
in order to keep Germany going. My own belief is that we want to keep these 65 million people going; but I am not sure that it is wise to take any action which keeps this Government in control of the German people. The good sense of the German people will come to the top again and there will again be a Government here with which we can deal in a way in which we are accustomed, and when Germany has that kind of a Government I think we can give her credits and all the help which she needs.

What this present Government wants now, however, is to send a mission to the United States which can come back with a very advantageous agreement which will prop up its prestige in Germany and which will enable it to continue to get the raw materials which are necessary for the present internal political and economic program. They have nothing to offer to us in exchange and the bargain they have in mind is too one-sided a one. The long and short of it is that they want us to make sacrifices to enable them to keep in power and to continue with their armament program. I have definite information about what they are doing in other countries along the lines of their rearmament program, and if they can find the money for the preparation to upset the peace of the world, they should be able to find the money to pay for raw materials for legitimate industry. I do not see how we are serving the interests of our own people or of the world in making any arrangements with Germany now which are not just as advantageous for us as they are for Germany. They are exceedingly anxious to send this mission to the United States as soon as possible and it is of course due to the really serious political and general economic and financial situation. This situation I think has become a good deal more aggravated since you left. The callous attitude of Schacht towards Germany's existing financial obligations and the willingness with which he sees our investors suffer, is a pretty fair indication as to the faith and credit that we can put into any new financial engagements which they may enter into. By what they have deliberately done, they have made our people lose about 50 per cent of their investment already made and even though Mr. Schacht
Schacht and his associates agree to take raw materials in fixed quantities at fixed prices for a determined period and give us their promise to pay, it is no assurance for us that we will ever get payment in that amount. The chances are that a short time hence we would be faced by the same kind of a situation which we have confronting us now and that we would be lucky if we get 50 per cent of the value of these goods.

In my despatches I have endeavored to give some of the things which I think we ought to keep in mind. If I have seemed too pessimistic, it is not because I want to raise difficulties, but because I think we must face the situation as it is. They want to hold out as a bait to us, a certain market for some of our raw materials. They think we are so eager to get rid of these raw materials that we will be willing to make any kind of a bargain. It is doubtful whether for a very temporary and slender advantage for some of our raw materials we could take the risks that their adventure would lead us into. I certainly cannot see how in justice to our people we can support a program with raw materials which has in it so much danger not only for us, but for the whole world. While I think we must talk with them and endeavor to try to make some arrangements mutually advantageous, I hope that we will not let a mission come until we are really ready to receive them and know what we are prepared to do. We surely will not allow ourselves to be hurried by them.

I have not heard when the Department wants me to go to Vienna but I suppose I will get instructions soon. I see in the papers that the appointment has been sent to the Senate by the President, but I have not seen any press notice of its confirmation and I suppose I will not get any instructions until the appointment has been confirmed. I doubt whether they will want me to come home now before going to Vienna and there is no particular reason why we should want to go home now; so I am prepared to go to Vienna almost any time they want me to. Should I have left Berlin by the time you get back, I hope that we may have an opportunity to meet very soon after
after your return as I shall be eager to have your reactions on our situation at home and here. When you see the President and the Secretary and my friends in the Department, I hope you will tell them how much I appreciate their consideration and their confidence. It was really splendid of them and I appreciate it all more than I can say. I hope that you will give particularly to the President and to the Secretary my very real appreciation of their consideration and the assurance that I will try to merit it. I hope you are having a pleasant stay at home and a real change and rest from the arduous duties here. Mrs. Kessersmith joins me in all good wishes and in the hope of seeing you very soon.

Cordially and faithfully yours,

Honorable William E. Dodd,
American Ambassador,
c/o Department of State,
Washington, D.C.