Berlin, Germany, April 27, 1934.

Dear Mr. Phillips:

I have nothing new of particular importance to tell you, but perhaps the most significant thing which I could say at this time is that everything that has come to my attention since I last wrote you tends to confirm the impressions which I have already given you in my recent letters.

The outstanding features of the situation may be briefly summarized as follows. Very considerable and in some cases obvious nervousness and uncertainty among the higher leaders who feel for the first time that the position of the new regime is threatened and even the end of it in sight. Greater powerlessness on the part of the major leaders and of the high authorities of the Government to assert their authority over their subordinates who are definitely in control and definitely bound on a path which can only increase Germany's isolation and bring complete ruin to her foreign trade and upset the internal economic and financial situation in the country. Increasing evidence of discontent and disenchantment among the masses which, however, has still far to go before it is equivalent to reaction. The personal prestige of Hitler remains strong. The rearmament program is proceeding rapidly and gaining momentum as is natural, for every manufacturer who knows that the other has received orders uses pressure to get something for himself. The principal stress is on air equipment and in this field there is every reason to believe very rapid progress is being made. The action against Jews and other persons in and out of the Party of whom someone is jealous, continues.
The discrimination against foreign interests is as definite as ever. Among those who really control, there is the same disregard of the external situation. There is increasing talk in all circles of the necessity for, and the possibility of, a change in the Government.

When I left here at the beginning of December last year, there was reason to believe that the reasonable elements in the Party were gaining strength and that they might be able to impose their will on the secondary leaders, at least in certain major matters. It looked, therefore, as though the regime would gradually change its policies and to a certain extent its form, but be able to maintain its position. This was a dreary prospect for Germany and for Europe and for all of us, because although changes in the way of moderation would come, they would come so slowly that in the meantime there would continue to be built up in Germany this mentality, particularly among the young, which would necessarily make Germany a menace to the world. At that time the major leaders in the Party were quite confident that they would be able to carry through, and among the diplomats and the newspaper men here there was a feeling that they might be able to do so. Among the Germans who are not in sympathy with the regime though openly favoring it or working with it, there was a feeling of abject hopelessness.

As I have indicated to you, all this is now changed, so much so that it is quite clear that Schacht and Schmitt have really tried to leave the ship but have been told that they have to stay on. It is so clear that the secondary leaders really exercise the control and that their ideas can only bring ruin to the regime. The acuteness of the export and of the raw material question has done more than any other single factor to bring a realization of the dangers to the regime. Those representatives of foreign countries among whom were a good many of the South American diplomats, who were enamoured of the present regime because of the special attentions shown to them, are now becoming very shy
of their friends in the regime and avoiding the closer association which they had with them. The intelligent foreign observers here who in December felt that the regime might last are now, so far as I can see, a unit in believing that it cannot continue for more than five or six months at the most. It is particularly interesting that the American correspondents here who are very close to the situation and who felt four months ago that the situation was hopeless, now feel that the end of the present Government is in sight. I talked last evening with the best-informed of the American correspondents here and the one who has wide and close contact with the highest leaders of the Party, and he was very direct in his statement that they would be finished in five or six months unless help comes to the regime from the outside which will prop up its falling prestige in the country and which will provide the raw materials which they have to have. I have information showing that business men in various parts of the country who have been rendering lip service to the present regime for various reasons are now being more outspoken and have lost all confidence.

Of course the principal preoccupation is how the change will come, how it can be brought about and what form the Government will take and what the probabilities are of it being directed too far to the left. The general feeling as I find it in intelligent and well-informed circles, is that when the popular disillusionment has gone far enough, a military dictatorship as a transitional Government will be set up and that the Reichswehr, the police and sections of the S.A. who have been armed but who are not in sympathy with the Government, will be able to establish the new order. There is some fear expressed that the popular disillusionment might turn the masses to the left; but the more general impression is that it would be a military dictatorship much more to the right than even the most conservative in the present Government.

It is extremely difficult to offer any personal comment and I can only give you my impressions for what
what they are worth. I felt too, in beginning December, that the Government might be able to hold out for a considerable period. I now feel that its chances are very slender. Hitler is obviously greatly disturbed and more isolated than ever. Of the major leaders and of his associates he sees practically only Goebbels in an intimate way. Roehm got him to make a trip with him to the north and they took a short cruise during which Roehm tried to persuade him to permit taking over large blocks of the S.A. into the Reichswehr. It is significant that he did not succeed. As I have already told you, Hitler feels that he may need the Reichswehr to save the country a second time. Hitler's greater isolation is not helping the situation of the Party, in which the dissensions between the major leaders can only grow. The differences based largely on the desire for place and power are increasingly and obviously greater. An interesting development in this connection was the recent displacement of Dr. Diels as the head of the Prussian Secret Political Police and the complete unification of the political police under Himmler. The real story of this is that Diels is really a decent man who as long as five months back insisted that order could not be brought about unless S.A. men were punished in the same way as others. It was difficult for Goering, his chief, to consent to this, but he saw the point and S.A. men began to go to concentration camps. The S.A. has never forgiven Diels and determined to get him, and in spite of the disinclination of Hitler and Goering to let him go, the animosity of the S.A. prevailed and Diels has been made Regierungspraesident at Cologne. I happen to know, however, that as late as the afternoon of May 19 - the announcement of the change being made on May 20 - Diels was not sure whether he would go as Regierungspraesident to Cologne or whether he would go to a concentration camp as the S.A. insisted upon. The long and short of it is, of course, that Diels was too decent for the political police and that an S.A. man like Himmler who could be depended upon to do anything, must take his place.
There is little question but that Schacht and Schmitt have both wished to desert the ship recently, for they feel their situation impossible and they do not wish to be associated with a losing venture. This is particularly true of Schacht who, as you know, is inordinately proud and jealous of his reputation as a banker. He feels the situation hopeless, having exerted all his resources and realizing the absolute impossibility of saving the situation unless the Government completely changes its policy with respect to Jews and discrimination against foreign interests, etc. Not being able to get out, both of them of course merely become spokesmen for the Government and have to sink or swim with it.

The cynicism of Schacht is really almost beyond comprehension. Night before last at a small dinner at which I happened to be present, one of the more important of the South American diplomats tried to draw him out as to what would be the German attitude at the meetings with the foreign creditors to begin two days later. Schacht said: "I will simply tell them that we can't pay, and for their headaches I shall recommend aspirin". This sounds cynical enough and abrupt enough in English, but gives no idea of what it sounds like in German. In other conversations in the last few days he has said that the world is forcing them to complete rationing of the German population and that he will be wearing a paper suit by fall but sees no reason why he shouldn't. Schacht is intelligent and so is Schmitt and when they are driven to the making of threats and to the cynical and really quite extravagant things that they have been saying recently, I can only see it as the attitude of men who are in desperation and whose only remaining defense is threats. The conversations which our own people and the English, the Swiss and the Dutch are having now, are going to be exceedingly difficult, but they can lead to nothing. Schacht can hardly agree to pay anything because if he does, it is practically certain that he can't anyway. If he did agree to pay and even if they could pay, I am sure the agreement wouldn't be any
use, for the secondary people in control here are not going to permit any exchange to be used for interest payments. Their only hope is to try to force us into some agreement by which they pay nothing and the bankers promise to use their influence to get credits for raw materials and to aid clearing or bilateral agreements through which Germany will pay for raw materials with exports of finished goods. As I have already pointed out in my despatches Nos. 1964 of March 22 and 1970 of March 23 and in my recent letters, I cannot see that this is the time to offer any direct or indirect help to Germany or to do anything which will bolster up the present regime. I realize thoroughly that we want an outlet for raw materials and that Germany is potentially one of our best customers for such materials; but I am convinced that anything that we do now, directly or indirectly, will be of no real help to us and will merely aid to maintain a regime which is beginning to totter and that the only hope for Europe and for us all is that this regime does fall so that it may be replaced by a Government with which we can deal in the ordinary way; and a Germany under a new Government is one which we can begin to help again and which we would undoubtedly have to give some encouragement to and one which can be expected to be a customer. These people are so definitely determined not to buy anything that they don't have to and only to buy as long as they have to and only when they wish to, that if they remain in power no agreements which we might make will be of any use to us; and we, by any assistance which we give now, will only be paving the way for them to accomplish the program so definitely dangerous to us all. We have been suffering for some time and have lost and are losing a lot of money and our market has shrunk here to a figure which is almost insignificant compared with previous volume; so that we can afford to wait a little longer and to suffer a little more to see whether or not this madhouse here will be cleaned out. As I see it, we have nothing to lose and everything to gain by a policy of waiting.
For your very confidential information I may say that the Argentine Minister who had been inclined to be somewhat sympathetic with this regime, told me the other day that the Argentine Foreign Minister had been wanting to make some new agreements with Germany for some time. However, in spite of his somewhat lukewarm sympathies for the present regime in Germany, the Argentine Minister here advised his Government to make no agreements for the present in spite of the pressure which was brought on him from home to continue conversations. He says that he is continuing to inform his Government that this is no time to make any kind of an agreement with Germany, even of a temporary nature, as he has no confidence whatever in the ability or the intention of the present Government to carry out any agreements it may make.

Schacht made a speech over the radio last night for the German people, on the tasks of the Transfer Conference now being held here; and he places the whole responsibility for Germany's situation on the Versailles Treaty, on the previous "Marxist Governments" in Germany, on the loans which were made in other countries "for reparations" and on the bad will of foreign countries in not taking German exports of manufactured goods. He said that Germany was entirely willing to pay and able to pay her interest and amortization in German currency and was paying; and that it was only a problem of transfers and that the rest of the world made these transfers impossible. You can appreciate how badly informed the German people are when a man like Schacht tells them that all their troubles are due to the Versailles Treaty, to previous Marxist Governments and to the ill-will of foreign countries. His repeated statement that Germany is showing her good-faith, her good-will and her capacity to pay by meeting all interest and amortization charges in Reichsmarks paid into the Konversionsbank, is pure sophistry which, however, has had some effect in foreign countries. But any one who is familiar with the situation realizes how little use these mark payments are to the creditor when there is no possibility of transfer and when
even if the owner of the marks wishes to use them here in the country itself, he finds that they are so surrounded by regulations that only an infinitesimal quantity can be actually withdrawn from the bank for use. Such is the type of men whom we have to deal with, and when we consider that with all his faults Schacht is one of the best of them, it is not a pretty picture.

Mr. Child is here and I hope to see him to-day and have a long talk with him. All this sounds rather gloomy, but as a matter of fact I have seen in the past weeks for the first time real hope for Germany and for the rest of the world. If this Government can remain in power – and it will try to bluff its way through – we are faced by a situation which none of us can contemplate with equanimity. It looks, however, now, that by its own acts it is destroying itself and if I have in any way judged the situation correctly, the disillusionment of the masses will steadily grow during the next months. The rationing of raw stuffs and of finished goods in Germany is only at its beginning. It is now already openly broken of. The economic factors at work seem fairly sure to precipitate the political crisis which we can only hope will result in a Government more representative of Germany, and which I believe we will be able to deal with again. When the moment for action comes in Germany and when there is a change of regime here, I think we at home, England, France and Italy, will have to make it clear to the German people that with their new Government we will be in a position to, and will be prepared to deal in a new way and help in the settlement of their economic and political problems. Such declarations from the outside will be exceedingly helpful to the new Government and will do much to help to prevent any drift towards the left in Germany. In the meantime we can only observe the trend which the situation takes here, refraining in my opinion from any action which would in any way tend to prop up the present regime. Such help from the outside seems now to be their only hope; and their only weapon is threats which from their
mouths I believe have no significance.

Believe me,

Cordially and sincerely yours,

The Honorable
William Phillips,
Under Secretary of State,
Washington, D.C.
CONSULAR SERVICE
DEPARTMENT OF STATE