Dear Moffat:

I wrote to Mr. Phillips on February 27, at some length, but there have been developments of unusual interest and there is some further comment which I would like to get off by the pouch today.

There have been rumors for several days now that Papen intends to resign or will be recalled, and this morning one of the less responsible newspapers here, DER TAG, carries an item to the effect that he has resigned. I saw my French colleague last night who thinks there is a good deal to these rumors.

In my letter to Mr. Phillips I have covered the Tschirschky incident which has undoubtedly tremendously upset Papen for it has recalled vividly to him the events of June 30 with all their implications. It is difficult to understand a complex case like Papen. von Bose, one of his Secretaries, who was quite attached to him in someways and who was certainly a devoted co-worker of his, used to say to me that Papen was a curious mixture of good and bad. Papen undoubtedly had orders to get Tschirschky back to Berlin and he knew what would happen to Tschirschky if he did go back. He could see in the way Tschirschky was to be handled what might be coming to him. In any event it is clear that he has been tremendously disturbed and extremely uncomfortable recently. As I know him so well, he is quite transparent for me, but it has been noticeable to more than one of my colleagues recently that the man is suffering from extraordinary mental unrest with which a good deal of fear and uncertainty are mixed.

He went again to Berlin the day before yesterday and has not yet returned. As I have made clear in my despatches and letters, his mission here has been a complete failure both from the Austrian point of view and from that of the Party in Germany. It is doubtful if even the Wilhelmstrasse is satisfied with him for the reasonable elements left there must realize how unfortunate much has been that

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he has done here. The Tschirschky incident has merely aggravated what was already a difficult situation.

He has been utterly inept here, for with the Austrian authorities his attitude has been overbearing. In some circles he has endeavored to give the impression that Germany has no aims against Austrian sovereignty. In others he has made it clear what the real aims of the regime are. He has carried water on both shoulders and this is known here and in Berlin. Whether he is naive enough to think he could get away with it here or in Berlin I don't know, but can simply say that this is characteristic of Papen and one can expect nothing else from him. He is deeply conscious that his double dealing is known. He knows that in his own Legation he is being spied upon and that outside there are those who report to Berlin what he does and says. He has his pride and I think from this background, which is of course only a bit of the picture, for I must not impose too many details on you, you can see why he should be thoroughly uncomfortable.

I think it is pretty clear from reliable information we get from Berlin that the radical elements of the Party are for the present in the fore again. These elements have no use for Papen. They may be prepared to go so far as to recall him. This is undoubtedly what they would like to do, for they consider him a total failure, but for reasons of prestige he may be allowed to stay on for some time. Papen's situation is so intolerable that he may be in the mood to resign, but the question is as to whether he will be permitted to resign, and he certainly is not in a position to press his resignation if they don't want it. He is not a heroic figure and he will not take any personal risks. The probabilities are that for reasons of prestige the situation will drag out for some time. When Papen gets over his depression, accentuated by recent developments, he will be prepared to stay on for with the present mood in Berlin there is certainly no other worthwhile job they will wish to give him. For his resignation to be demanded now would merely give an additional blow to German and Nazi prestige all around and it would not help the Party even in Germany. The probabilities are therefore that he will stay on for some time but that his mission may end in the not distant future.
His resignation or recall will not make Austro-German relations either better or worse. If a quite unobtrusive person were sent here to replace him he might make some progress. If they send a real Nazi to replace him it will, under existing circumstances in Austria, only tend to increase distrust of Germany here and make the relations still more difficult.

In my letter to Mr. Phillips of February 27, I indicated that the information we get points to increased strength of the radical elements in the Party. I am appending to this letter some extracts from Hitler's speech in Munich of Sunday, February 24. These extracts are significant enough, but we must remember that his speeches are carefully edited before they appear in the papers in Germany and that the reports are more significant usually for what they leave out of the real speech than for what they give. For instance, none of the German reports carried the statement which he made, "Yes, indeed, I want that my enemies hate me. They shall hate me." The speech was delivered in his raw and most bellicose manner, I am reliably informed. Parts of the speech quoted in the enclosure to this letter were undoubtedly intended to refer to external developments and to Hitler's own state of mind and to the attitude which may be expected. The importance of the speech and that of Goebbels cannot be underestimated in view of the background which they may furnish for the approaching conversations with the English in Berlin.

In considering the German attitude towards the London proposals and the tone which the Germans will take during the coming Berlin conversations it is, I believe, essential to bear in mind that they are greatly disturbed. To all appearances and to even an experienced observer things may look quite good in Germany. Industrial activity is certainly higher than for several years. Many factories are running nights as well as days. Businesses are showing a profit. Lots of business men are content, not realising the real background. Some people have more money to spend and are spending it. But Schacht and the responsible leaders of industry and finance are disturbed. The whole industrial activity is based on the Arbeitsbeschaffungswechsel. Gray was in Berlin about two weeks ago and came back with the news that these amounts now to about 8 to 10 billions of marks and that Schacht had informed the Party that the limit had been reached without open inflationary measures and that a conversion would have to take place. I learned a few days ago from one of
Sehacht's oldest friends that the total is in reality 12 billions of marks. Something will have to be done or the whole industrial activity is endangered. A recent Government decree has opened the way for conversion, but if conversion is resorted to it will have to be largely a forced one, and this will not help the Party, and they know it.

The mark is too high, but they cannot risk devaluation until there is general stabilization outside so that the responsibility for the German revaluation can be put on other countries. Agricultural prices are too high and are increasing. The cost of internal production is too great. Wages should be increased to meet the increased living costs, but this is impracticable for production costs are already too high. The replace materials are unsatisfactory and in every single case cost more than the raw materials formerly imported. This is particularly true of such articles as rubber. The cotton situation is serious in spite of what may be said to the contrary. There is tension in the economic situation which is increasing the nervousness of the Party and which has led to the return of the more radical elements to the foreground.

Only a political victory of a definite character they feel can save them from eventual catastrophe. This is the psychology and background of the men who will have to talk with Simon, and for the Party it is a life and death struggle. This is one of the reasons why the atmosphere for the Berlin conversations is not favorable.

The raw material situation in Germany is worse than is generally believed. After the President took action at home which put an end to the possibility of their getting cotton from us on a certain barter basis, which action I need not tell you in my opinion was most wise and to our advantage now and ultimately, Sehacht in his desperation called in an American banker in Berlin with whom he has close contact and asked him to do what he could to make an arrangement through banks in New York for cotton. The American banker told him that even though he wanted to do something about it, it was utterly useless to even think of it for he could have no success whatever. The fact, however, that Sehacht should approach this banker under the circumstances showed his situation.
For the Department's strictly confidential information I can tell you that last night the British Minister here told me that he had just read a despatch from some of their people in Egypt reporting on the cotton situation there. It seems that the Germans announced that certain restrictions would be put in effect on a certain date with respect to Egyptian cotton. The Egyptian cotton merchants immediately took the bait and made heavy shipments to Germany to arrive there before the restrictions became effective. As soon as the shipments arrived safely there new restrictions were announced by the German Government which exclude all possibility of the Egyptian merchants being paid for these shipments. Now, according to my British colleague, the Egyptian cotton people are being "blackmailed" in order to make further shipments to get paid for those they have already sent in. These are the deceptions and subterfuges to which a great nation has been reduced by the desperate needs of the existing regime. This incident should be a good example for our own people who have been so eager to export cotton to Germany.

You have undoubtedly heard from Berlin that Lippert, who is the real Burgermaster of Berlin, for Sehm is only a figurehead, gave a talk before the American Chamber of Commerce in Berlin some days ago in which he practically threatened that if we ever wished to sell any cotton to Germany again we had better let them have some now. As we know, or should know that they have no intention of continuing to buy from us when they do not need to, this threat is an empty one, but it will undoubtedly have its effect on some people.

The temper of the regime in Germany is indicated by further recent developments. Yesterday the Berlin newspapers gave the announcement that the Association of German Jurists is proposing that a decree be issued which limits the parental authority over children and transfers a good part of it to the State. This is primary Nazi doctrine on which I have listened in the past to long, earnest dissertations, but which has been kept in the background. It is quite significant that at this time this association of jurists, which is supposed to be equivalent to our American Bar Association, should come out with such a proposal. The
The elimination of Dr. Frank, who was the exponent of these radical juridical measures, seems not to have influenced the Party trend. We have to keep on facing the facts and not be governed by appearances.

The German newspapers also carried yesterday very brief accounts of the long delayed interview of Bishop Miller with Hitler. Instead of this interview being followed by his resignation as seven some of the German papers had hinted possible, the indications are that he received further instructions to try to carry through the Party program. In other words, we have got to interpret this in the light of what Hitler himself said in his Munich speech of February 24, in which he emphasized that the Party program would be carried through unaltered.

I would like to correct one statement I made in my letter to Mr. Phillips of February 27, with regard to the trial of Hinterlein. I said in my letter that the trial might be put off. I learned this morning that the trial is still scheduled to begin tomorrow.

I am hoping that nothing may interfere with my contemplated sailing from Hamburg on March 25 for at least a brief stay at home, and I look forward very much to seeing you.

Cordially yours,

George S. Messersmith.

Enclosure:

1. Excerpts from Hitler's speech.