Berlin, Germany, February 15, 1936.

Dear Mr. Dunn:

I have been prevented on account of an operation from sending you a report earlier. During the time I was in the hospital and confined to my house I could hardly maintain the contacts necessary to keep posted. In this report I shall endeavor to sum up the salient points of the situation in Germany, hoping that it may be of some service to you.

The economic boom continues in Germany as a result solely of the Government's spending program. Short-term borrowing has not diminished; as there is no thought of halting the armaments preparations. No official figures are available as to the size of the short-term indebtedness; but it is safely thought to be around 12,000,000,000. Actual expenditures, financed by short-term bills, are about 500,000,000 per month. The bills have been loaded on the banks and the insurance companies and now are being forced on industry. Funding in 1935 was about 3,000,000,000 marks.

The Germans have gone so far in this direction that it is inconceivable that any change can take place. Where they intend to call a halt is unknown. It is generally thought here among close observers that the military program in conjunction with the maintenance of the present policy of short-term borrowing will continue unabated for at least two years more, when the armaments program will be completed. There is always danger that the race between a fixed program of armaments and the growth of the heavy burden of borrowing may cause a financial catastrophe; but under the present system of absolute government control, I believe this unlikely. The Government will not turn back
on their present course; and many more stringent means of financing expenditures can be found: (1) seizure of German liquid assets abroad, (2) capital levy, (3) heavier taxes, etc..

I think we should be clear on the positions of Dr. Schacht and the Finance Minister, Baron von Krosigk. These officials carry out their tasks within the framework of their mandate—namely to complete the armaments program and provide employment for the masses. Neither Schacht nor von Krosigk has a free hand in promoting sound economic or financial policies for the general good of the country. It is true that Schacht pretends to be orthodox in his methods; but political pressure and the circumstances of the complex in which he must operate make his role more that of a financial prestidigitator than of a statesman. In a free country where reactions had ready play, the psychological factors would upset the general order; but not here. The will of the Government (i.e. the Party) will be carried out even across the abyss of ruin. The trend in finance and economics is briefly as follows:

(1) Increase of short-term indebtedness approximately 3,000,000,000 annually (deducting the most sanguine funding possibilities). Bankers think they can safely go to 30,000,000,000.

(2) Increased governmental control in business, tending more and more toward state capitalism, which process will be expedited through increasing taxes for export subsidies, and investing in short-term and long-term paper and an eventual capital levy.

(3) Decrease of standard of living of the masses through lower wages, higher living costs, and scarcity of foods, compensated by costly shows, party displays, and cheap entertainment for the laborers.

(4) Forcing of exports.

At
At a dinner last night the British Financial Adviser stated to me privately that he positively expects a devaluation of the mark before the end of the year. I know that foreign financial observers here are of that opinion; but I believe that this is due to their orthodox way of looking at financial and economic developments without fully appreciating the overwhelming political factors. This is the reason most calculations regarding German policy in general miss the mark. Few observers appreciate the fanaticism of the party leaders. The Nazis are in control of the whole German governmental apparatus and carry through measures which are contrary to good sense and constructive statescraft. Hitler and his old guard are bent upon carrying out the party's program; that is why in the international sphere no deviation is made from the program laid down in "Mein Kampf". A most remarkable situation prevails here regarding the comparative importance of governmental departments and party organizations. Pure party organizations have powers and functions which completely overshadow the traditionally established governmental departments. Foreign policy is determined not by von Neurath and his Foreign Office, but by Hitler, Goebbels, von Ribbentrop and a few other Nazi chiefs, at times including Goering and von Blomberg in the War Ministry. The Ministry of Justice and the whole German judicial system is subject to the all-powerful dictates of the Secret Police. The Ministry of the Interior is almost completely dominated by Party machinery; and the thousands of local officials responsible to its control are National-Socialists. It is the chief instrument in carrying out the radical dictates of the party in internal policy. The Ministries of Finance and Economics work along orthodox lines; but these departments are honey-combed with Nazi enthusiasts who see that radical policies are carried out. The Ministers themselves are subject to the dictates of Hitler and his chiefs. The Governmental agencies may be classified as follows, according to power:

NAZI - RADICAL:

1. Hitler and his Chancellery;
2. Hess with the fourteen Statthalters and high Party leaders;
3. The Secret Police (Himmler);
4. The
4. The Ministry of Propaganda (Goebbels);
5. Dr. Ley and his German Labor Front;
6. Walter Darre and his Bauernstand;
7. Julius Streicher and Anti-Semitism;
8. Ministry of Education (Dr. Rust),
   (a) Dr. Kerrl and church matters;
9. Ministry of Interior (Dr. Frick).

NAZI - CONSERVATIVE (limited influence):
1. Ministry of Air (Goering);
2. Ministry of War (von Blomberg);
3. Ministry of Justice (Dr. Frank - Kommissar;
   Minister - Dr. Guertner).

CONSERVATIVE (little influence):
1. Ministry of Finance (von Krosigk);
2. Ministry of Economics (Dr. Schacht);

The order indicated above is in reference to political power and prestige. It is the complete reverse of our Government where the Secretary of State ranks after the President. In Germany the Foreign Minister has less political prestige in the country than the chief of the Secret Police, the notorious Jew-baiter or the Minister of Propaganda. Finance and Commerce are depressed by the enormous weight of political forces nearer to the throne. Foreign affairs are no longer directed by the officials in that office, but handled by persons nearer to Hitler. The best informed persons confess to an utter bewilderment regarding the forces at work in the Government. It is generally conceded that anything can happen.

Economists including the Commercial Attaches of the various countries represented here see little prospect of any kind of healthy development. They all agree that the financial policy must lead to disaster; but nobody will predict. It is agreed also that only an increase of exports at remunerative prices can eventually save the situation. A member of a former cabinet told me today that any further decrease in exports would lead to a disaster of the present regime. He considered that in foreign policy the zero point had been reached; Germany has no foreign policy because
the only two countries with whom she can negotiate are Poland and Japan. There is really no confidence between the Germans and the Poles and Germany dares not make common cause with the Japanese as that would be a "betrayal of the white race", which even the Nazis would not dare to sponsor.

I desire particularly to emphasize an observation made to me by a high-up person in East Prussia. He said that the big landowners of East Prussia are convinced that "der preussische Militarismus hat seine Explosionskraft verloren" (Prussian militarism has lost its explosive power). If this is so, it is a great fact to take into consideration. And many circumstances point to the truth of this observation; the subservient role the militarists have played in the Nazi usurpation of power; their toleration of the extremely destructive policies which are leading Germany to the abyss; their precautions and hesitancy with regard to Memel, the Corridor and Austria; their passivity at the time of the murder of their leader, von Schleicher; the extent to which they have been compelled to fraternize with the Nazi leaders; their apparent impotence in directing foreign policy which from a military point of view (ratification of the Russo-French pact and alienation of England) has miserably failed. If the great "explosive power" of the Prussian militarists has decayed, as East Prussia thinks, then the thundering Hails with their armaments will never strike. As I see it the situation for the Germans is either Armageddon or Canossa. They must either break through the steel circle which is being steadily drawn tighter around them, or reverse their course - return to the policy of Briand and Stresemann - and confess themselves at the League of Nations and sack cloth and ashes, which will never be done in Hitler's time. I am of the opinion, as are many others, that Germany will be forced to Canossa; and this course will make a change of regime necessary.

With regard to a change in regime it may be safely said that there is no immediate prospect. The efforts of European States under the leadership of England to consolidate security in Europe will have the effect more and more for the time being of consolidating the Nazi position within the country. Therefore the strain will continue on Europe for some time to come. If Prussian militarism has lost its explosive power the international situation in Europe
will continue until the economic and financial situation in Germany force a re-consideration of the whole position. I am sure, however, this hangs together only with Hitler's personal fate and a crisis will come when he sees he is no longer able to secure a return of a minimum prosperity to the country, or success in the international field. What circumstances could bring about such a crisis, cannot be predicted. The Nazis can go a very long way through a number of years to come in directing the internal situation to meet their ends. Radicalism will continue as experiments in a new State's form, i.e. the creation of the totalitarian State is in fact the chief work of the present regime. Economic and financial successes are not the primary aim. The great weight of governmental pressure is directed towards recreating the State in its political, aspect, cultural, social and racial. The fanaticism finds its chief expression in these fields. The task is considered a gigantic one and the regime allocates itself a long time to fulfill its mission. Its high priest is Hitler. Should the crisis come it will come only, in my opinion, when the high priest approaches his end and when the question of a successor becomes actual. Indications are that Hitler will not find a successor in his own party, but that his successor will incorporate the age-old traditions of Germany, i.e. a fusion of the monarchy with the totalitarian State; but if one can properly estimate the political forces dominant within the country it will appear that the Hitlerian idea cannot be swept away overnight, and that millions of Germans will insist upon carrying on the tradition in some form or other. Circumstances, however, may compel the Germans to modify the Hitlerian idea in such a way as to suit it to a monarchical form of government which will make Germany acceptable to the outside world. Therefore, if proper appraisal is made of the significance of the mystical elements which have been built up around the person of Hitler, it is foreseen that no sudden change resulting in a complete overthrow of the Nazi idea in Germany is possible.

Very sincerely yours,

Raymond H. Geist.

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