In spite of surface indications from time to time which would tend to show that the German Government desires to improve the status of its relationships with the United States, the facts show that the German Government is not prepared to take any real steps which are necessary to bring about improvement. The economic situation of Germany is giving great concern to those at the head of the regime. There is no question about their difficulties in practically every respect increasing. Even the internal financing is becoming more difficult. Under these circumstances Germany desires to make every effort to improve her trade relations and general relations with us, but she is no more prepared now than in the past to take those steps which are necessary to serve as a basis for improvement in commercial or political relationships. There is practically every reason to believe that she is just as unable now as in the past, without definite danger to the future of the regime and the economic practices which keep it going, to make such changes.

The recent expressions of Hitler and of the principal mouthpiece of the most radical element in the Party, Goebbels, indicate that the Party leaders are seriously concerned with respect to the financial and general economic situation in Germany. It is significant when these men, who have heretofore spoken of everything as being rosy within Germany, speak to the German people of the difficulties in the financial and economic internal situation.

The German effort will continue to be to use every instrumentality under their control at home and abroad,
and these must not be underestimated, to convince people that it is the Jews who are at the basis of the unsatisfactory relationships between the United States and Germany. The hope is to create cleavage in public opinion and to stir up anti-Semitic feeling in this country. The desire is to make it appear that the Jews are responsible for the attitude of this Government in all matters affecting its relationships with Germany and to create indirectly a more sympathetic and friendly basis for the efforts of those in this country who, in spite of everything, desire better trade relations with Germany, usually for selfish reasons.

It is necessary to bear in mind that the German political, social and economic objectives remain just what they have been. No real change in their policy or practices can be expected. Greater efforts will be made to make it appear that some of these practices are being changed or modified. Experience, however, will show with almost definite certainty that these practices will not be changed and German policy modified. It is necessary to face this aspect of the problem realistically and any weakness on the part of this or other Governments is immediately exploited to the advantage of Germany.

Reading developments within Germany realistically, it is possible to determine the increasingly difficult situation within Germany which is recognized by the Party and which is impelling it to continue to take further steps which are so disturbing to the peace of the world. Through the Secret Police, the German Government is well informed of the state of opinion in the country and in the Army. There has been without question increasing disaffection with
with the policy of the Government among the masses and there has been increasing fear that the policies of the Government will lead Germany into a war which the people do not want. The Government and the Party are cognizant of this. They will, therefore, strengthen their hold on the economic structure and on the Army. All this is in preparation for further aggressive action beyond the frontiers of Germany.

The acquisition of the Sudeten land some months ago, which contained between 60 and 70 percent of the industries of Czechoslovakia, did not really increase the economic power of Germany. The industries there need raw materials and the former Czech markets abroad have disappeared. The German Government is, therefore, faced with the necessity of keeping these establishments going, with providing raw materials and with diminishing foreign markets. In the long run the acquisition of these new areas may increase the economic and military strength of Germany; for the present and for the immediately foreseeable future these acquisitions only increase the financial and general economic problems of the Reich. All these are elements which are constantly pressing the German Government further on on its program of conquest. It is a vicious circle from which they are not able to escape. The movement will continue until the rest of the world ceases to trade with Germany and holds her responsible for the acts of international piracy which she is committing.
There are indications that the financial structure built up by Schacht, one of the cleverest and most resourceful bankers of recent times, is at last coming to that point of strain which has been predicted for some time. There are indications that the policy of credit inflation is no longer effective. The last popular loan was not fully subscribed. The note increase went up rapidly during the latter half of 1938. The Government, particularly the Army which is the largest purchaser within the country, has been issuing for some months non-interest bearing notes for delivery in place of the former interest bearing paper. All these are but a few of the straws which indicate the strain to which the German financial structure is being subjected.

The United States has been prepared to treat with Germany in its trade agreement program on the same basis as with any other country. The fact that the trade relations between Germany and the United States are so unsatisfactory is not due to any action on the part of this country. We have certain fundamental principles to which we adhere in our general trading and commercial program. These are principles which we have learned to be sound and which the world generally still recognizes as a necessary basis for sound international trade. Germany, however, through her system of controlled economy, has established a regime which she cannot change without seriously risking the continuance of the political regime which controls every aspect of the life of the country.
Any trade agreement with Germany is impossible for the present not because we may not wish it or are not prepared to negotiate, but because Germany is not in a position to negotiate. She is willing to negotiate but on the basis of this country giving everything and receiving nothing. Negotiation with Germany under existing conditions would mean a complete change in our internal economic and financial structure. We would have to set up exchange controls and all other kinds of distribution and production controls, as well as import and export controls, in order to be able to enter into any agreement with Germany. In other words, an agreement with Germany would mean complete regimentation of our industrial and financial structure. This we are not prepared to do and until Germany is prepared to change her system to accord with that still prevailing in this and in most other countries, there can be no real improvement in the commercial relations between the two countries. We would be paying a destructive price for such an agreement without securing any real advantage therefrom.