COLLECT OF MATERIAL ON SHIFTING INTERNATIONAL SITUATION

I. OUTLINE OF FACTORS FOR PROBABLE 1939 PLANS
   January 28, 1939

II. LATEST AND PRIOR STAGES OF
    NAZI REVOLUTION INTERNALLY AND INTERNATIONALLY
    February 4, 1939

III. THE INNER NATURE OF NAZISM AND THE SITUATION IN GERMANY
     AS INTERPRETED BY DR. HERMANN RAUSCHNING IN
     "THE REVOLUTION OF NIHILISM"
     (Based Largely on Review in The Spectator, February 10, 1939)

IV. INTERVIEWS WITH ENGLISH AND FRENCH STATESMEN
    BY A FRIEND IN FEBRUARY
    March 6, 1939

V. SYNOPTIC VIEW OF THE INTERNATIONAL SITUATION
    April 14, 1939

By

ALEXANDER SACHS

January/April, 1939

CONFIDENTIAL OFFICE MEMORANDUM
Exclusively for the use and information of Officials of The Lehman Corporation
Foreword on These Critical Times

Against the general background of the diplomatic and military struggles that have been going on since 1935 between the aggressive Power States and the retrogressive Welfare States, the present position is past a mid-point - if not in time, as a sort of Seven Years' War, then at any rate in the balance of power since, with the Munich settlement, Germany gained a preponderance over Continental as well as Middle Europe. The orientation towards the crisis that has been developed in prior reports and needs to be borne in mind continually is that we are already in what Thomas Hobbes, who lived through the British Civil War three hundred years ago, justly called "war-time-tract" and "war-weather": "For war consisteth not in Battle only but in a tract of time wherein the will to contend by battle is sufficiently known ... For as the nature of Foul Weather lieth not in a shower of rain but in an inclination thereto of many days together; so the nature of war consisteth not in actual fighting but in the known disposition thereto during all the time there is no assurance to the contrary" (The Leviathan, 1651).
OUTLINE OF FACTORS FOR PROBABLE 1959 PLANS*

By

ALEXANDER SACHS

*Note: Hitler's tactics as self-defined: "The shrewd victor will, if possible, keep imposing his demands on the vanquished by degrees," Hitler wrote 14 years ago in 'Mein Kampf,' his autobiography and profession of faith. "He can then in dealing with a nation which has lost its character - and this means every nation which submits voluntarily - count on its never finding in any one act of oppression adequate ground for taking up arms once more.

"For the more exactions which have been willingly endured, the less justifiable does it seem to them to resist at the last because of a new and apparently isolated (although, to be sure, constantly recurring) imposition, especially when so much more and much greater misfortune, taken together, has already been accepted submissively and with silence."

January 28, 1959
I.

January 28, 1939

OUTLINE OF FACTORS FOR PROBABLE 1939 PLANS

A. Evidence of Direction of Pressure in West Rather Than East
   1. In the light of definite assurance given lately in Berlin, it is clear that Germany does not desire, or has postponed, the accomplishment of the annexation of Danzig or Memel.

   2. Polish Foreign Minister Beck is reported as having been assured by Hitler that the question of independent, autonomous Ukraine will not be pressed in the immediate future.

   3. While the German progress with Czechoslovakia has been satisfactory, Roumania has proved so far resistant and the tempo of the acquiescence by Hungary somewhat slower than had been anticipated. The ground, therefore, is not yet prepared for the drive to the East.

B. Italian Demands on France

   1. The state of tension between France and Italy will be held to justify refusal to withdraw Italian troops from Spain. Franco would be induced to pursue ruthless, punitive policies towards the conquered, emulating Nasi tactics. Such a Franquist Spain would not be concerning itself with binding up the wounds of the Civil War or with the scheme of seeking British loans in exchange for assertion of national independence and integrity to the point of exorcising the Nazi-Fascist spirit and expelling them from potent military and economic position in Spain.

   2. The entrenchment of Fascism in Spain would not only directly threaten the British and French lines of communication with the Near East and the African colonies, but assume a new significance for influence on and penetration in Latin America. In a word, culturally and militarily, Fascist domination of the Iberian Peninsula is fraught with danger to democratic Latin-America, to the United States and to our present program of continental solidarity.
C. **Internal German Situation**

1. The economic situation has become increasingly serious on the side of (1) supply of foreign exchange, (2) supplies of essential materials and foods, and (3) industrial productivity.

D. **Developing and Later-Maturing Pressures on Great Britain**

1. The inner Nazi view is that Chamberlain has gone back upon the promise at Munich that the British Government is ready to discuss colonial concessions.

2. Reinforcing this German resentment against the failure of Chamberlain to deliver on colonial concessions is concern over cumulative pressure for accelerating the pace of British rearmament and keying civilian economic life into the magnitude and the tempo of preparedness.

3. The extremists, led by von Ribbentrop, are, accordingly, advising Hitler that Germany ought to strike, at least at British prestige, without further delay, instead of waiting for the time when Britain might feel strong enough to resist claims directed against British interests.

4. With the elimination of the so-called moderate elements and with the domination over policy exercised by extremists, the probability is that Hitler's mind is made up to work towards accomplishing an early discomfiture of Great Britain.

5. (1) At this prelude phase, the Schacht elimination means the entry of Germany upon a more ruthless and destructive international dumping in already disorganized world trade than has been practiced so far, to secure the foreign exchange for Germany's imports of foods and industrial raw materials for armament.

   (2) The breaking of the links with the international system will now proceed in rapid order. Preliminaries will be for the Reichsbank
to drop its membership in the Bank for International Settlements, followed by a demand for the revision of all the Standstill Agreements, particularly with the neutral countries. The pivotal importance of Holland is that, although it is one of the best customers of Germany, and in 1937 produced for Germany a favorable balance of trade of about 186 million guilders, its colonial possessions, the Dutch East Indies, exported to Germany more than they imported and produced an unfavorable balance for Germany of about 85.5 million guilders. We can count on political pressure upon Holland and threats of conquest of the Dutch East Indies by Japan, to secure for Germany amer and easier ways of acquiring the rubber and tobacco and other products.

More concretely, the German slogan will be: Trade war to the limit on the part of our autarchic system, which we will keep at all costs against the internationally correlated economies of the democracies, unless the Great Powers and the creditor European neutrals give us the colonies that we need for our dynamic systems and enable us to acquire the necessary foreign exchange. Pending the colonial repartition, Germany will exert pressure to modify existing credit and trade arrangements.

6. In the light of the foregoing, it is significant that a violent campaign has been proceeding directly and chiefly against Holland and, incidentally, against Belgium and Denmark. The historic interest of Great Britain in and the record of her several wars to assure the elimination of foreign domination over the Low Countries suggests that the Nazis are now out for the great prize of colonial repartition and for world supremacy.

7. The manifold importance of Switzerland in this constellation of forces is first of all as a great creditor Power, and second, of her strategic position vis-à-vis France and the two Fascist Powers. Plans for an Italian-
German dismemberment of Switzerland are, therefore, being actively pursued. The Government at Berne apprehends her precarious position and even more keenly than other neutrals does not know where to turn for aid in the present decay of the Pax Britannica.

E. Some Prospective German Preparatory Measures

1. On the assumption of a non-sensation and rather disarming speech on Monday, Hitler could leave the stage for a while to enable Mussolini to press his colonial demands and prepare for a Spring or later offensive for further German gains.

2. (a) On the one hand Hitler is being urged to couple in due time an offer of an Anglo-German accord on arms limitation with immediate recognition in principle of the colonial demands of Germany, Italy, Poland and Japan; and (b) on the other hand he is being urged to resort by Spring to a "test mobilization." The tentative date for this "test mobilization" is said to be February 15th. This would imply a start at the end of the first week of February, moving to completion within about a fortnight. In addition to furthering the varied and large-scale demands of Germany and Italy, such a mobilization would frighten the smaller Danubian and Balkan states into transforming their polities on the Nazi model and entering the Nazi economic and international political orbit. Eventually, Germany plans to establish a Fascist league of subject nations.
February 4, 1939

LATEST AND PRIOR STAGES OF

NAZI REVOLUTION INTERNALLY AND INTERNATIONALLY

I

The first month of the new year has been signalized by internal revolutionary events and external preparatory aggressions. On the internal front the events are: A. (1) dismissal of Schacht, implying accelerated pace of armament inflation and (2) correlative advancement of extremists like Ribbentrop and Himmler as against so-called moderates like Goering and Wiedemann among Hitler's immediate counsellors; B. (1) New decrees bringing every German between 17 and 45 under the military training regime and (2) announcement of submarine building up to the British level.

The concurrent international events and policies are: (1) conquest of Catalonia by Franco; (2) progressive inroads of Nazi policies and ideologies in Central Europe; (3) promulgation by Hitler of sweeping colonial demands, implying a repartition of the world's colonial possessions combined with threats of international barter trade war; and (4) continued pressing by Italy of her colonial claims against France and correlative German backing for such Italian claims.

These omens are the more sinister because they imply (1) that notwithstanding, or because of, internal economic and other difficulties, the leadership aims at the West and not, as the pro-appeasement school had hoped, at the East; and (2) that it is staking everything upon either maximal concessions from the present British and French Governments or overwhelming victory. This new phase of the Nazi Revolution clearly aims not at equality with the Great Powers, but world hegemony, as we foreshadowed, at the time of the emergence of the German demands for the dismemberment of Czechoslovakia, in the study on The German Challenge to Great Britain (in the Perspective of Britain's Development as a World Power and Fostering Through Naval and Monetary Power of a concerted and pacific International Order).

Although for convenience this latest Nazi phase may be designated as the Napoleonic, such a designation is a misnomer. For, the Napoleonic phase of the French Revolution, for all of its excesses, was not incompatible with the historic trends of Western Civilization and, indeed, contributed to the dissolution of dynastic feudalism in Central Europe and to the development of nationalism. But the
successive and overlapping phases of the Nazi Revolution have widened the breach with the past and have come to constitute a major challenge to Western Civilization similar to the invasion of the Barbarians and to the sweep of the Ottomans over Christendom until checked and reversed in the long struggles between the Sixteenth and Seventeenth Centuries.

II.

While recognizing that an adequate analysis of these phases of the Nazi Revolution would take a book and require a synthesis of the talents of a political scientist, economist and cultural historian, it is believed that even a mere tabular resume of the distinguishing characteristics may prove suggestive for the present and the future, as well as the past. With this in view the following account is submitted as a description of the phases in terms that coordinate domestic and foreign policies of the Nazi regime against the reactions from and impacts upon the retreating and contracting international order built up by the Great Powers as a check upon the prior challenge of Imperial Germany to that order.

1. 1933-1934*

A. Internal political and social subjugation through elimination of the quasi-democratic polity of post-war Germany.

B. Scaling down of external obligations through concessions on interest and selective repudiations of principal, applied to outstanding foreign long- and short-term loans, and the utilization of such saving of fixed charges and foreign capital levies and diverted credits for internal economic recovery and reorganization.

2. 1935 to Mid-1936

A. Reversal of disarmament imposed by the Treaty of Versailles; Reabsorption of the Saar; establishment of Nazi regime in Danzig; playing off of Great Britain and France against each other by Anglo-German Naval Agreement of June, 1935 and the prior Franco-Italian Agreement of January, 1935.

B. First stages of conversion of internal economic order into a national defense economy.

*The designation A. represents political and cultural, and B. economic factors.
5. 1956-1957

A. Reoccupation of the Rhineland in the spring of the year; Italian conquest of Abyssinia in the wake of German and Austrian abstention from and contribution to circumvention of the economic sanctions that had been imposed upon Italy in October-December, 1955; replacement of tension between Germany and Italy over Austria by collaboration and formation of the Rome-Berlin Axis; emergence of the problem whether Balkanized Central Europe from the Danube to the Baltic will become dominated by the new Axis Berlin-Rome or continue to revolve centrifugally around the transverse Axis Paris-Moscow; cutting of Belgian ties from France and loosening of the Little Entente and the Balkans - constituting a stampede of the lesser Powers towards a precarious detachment from the Great Powers; incitement of Spanish rebellion and intervention in its behalf by Fascist Powers; establishment of anti-Comintern pact.

B. Second rearmament phase and inauguration in September 1956, at party rally at Nuremberg of the four-year plan for self-sufficiency; prosecution along more autarchist lines of barter bilateral trade with other nations by Schacht and initiation of storing of war materials and foods.

4. 1957-1958

A. Fostering of an official state irreligion and Fuehrer worship with recurrent efforts at uprooting of other religious and cultural loyalties; sabotaging and crippling of League by the anti-Comintern Powers; the fluctuating infirmity of American purpose as expressed in the Neutrality Act of 1957; presidential announcement and later withdrawal of idea of quarantine against dictator Powers, and Congressional support for isolationism exemplified by the Ludlow Resolution for a war referendum, which was defeated in the House in January, 1958, by a margin of only 4%; further progress by Germany in the liquidation of the Versailles Treaty; denunciation of the Treaty provisions regarding international waterways and, more concretely, nationalizing the Rhine and the Elbe; fostering of Arab unrest and insurrection in Palestine under British mandate, and of unrest in northwestern African territories under French rule.

*Note: The cumulative instances of attacks on the confessional synod and the government of the Protestant churches, including the institution of free sermons, and the cumulative oppression of the Catholic orders and seminaries, are thus viewed as the analogue of the Russian attacks on religion which were most virulent in the earlier phases of the Soviet regime. Correspondingly, 1957 saw in Russia an orgy of cultural witch-hunting analogous to that which the Nazis had initiated from the start and continued ever since: Thus as a coda to the political purges, the Astronomical Council of the Moscow Academy of Sciences was liquidated on December 16th for "wrecking astronomy" in response to the prior induced press campaign which had complained that astronomy was not being turned to proper account for the anti-God propaganda in universities and workers' clubs.
B. Assimilation of internal economic and social orders closer to Bolshevik model of state capitalism, with party oligarchy under party Tyrant, and elimination of residual factors of capitalism as a democracy of (a) independent sources of initiative and direction by entrepreneurs in the framework of (b) self-regulating markets and (c) banking-monetary controls and (d) autonomous investment processes and markets.

5. 1938-1939

A. Culminating successes in 1938 through annexation of Austria and Sudetenland and political-economic control over truncated Czechoslovakia, and pressure politics and economics to compel absorption in Nazi-Fascist orbit of countries of middle and southeastern Europe, - all in the wake of abandonment at Munich by the British Government of the balance of power principle and by the French Government of its system of Eastern alliances.

6. 1939

A. Inauguration of Nazi imperialism which, for all its claims for a more equitable distribution of raw material areas, on a parity with the sated colonial-possessor Powers, constitutes a breach with the Imperialism formed by the Western Powers in the wake of the opening up of the new continents, since the Renaissance, and their development under the economic free play of laissez-faire and progressive improvement of the conditions of the subject peoples through the gradual application of the concept of trusteeship. The emergent Nazi Imperialism is being applied with tactics of ruthlessness and recidivism that obtained prior to the Christian Era and that later were only practiced upon Christian peoples by the Osmanlis from the Late Middle Ages down to the Eighteenth Century. The elements common to those Imperialisms are exploitation of the controlled economies as sources of tribute and degradation of political and cultural status of the individuals and minorities in the conquered populations, in the manner of the saying in the Odyssey: "The day of enslavement deprives man of half of his manhood." Thus, following the annexation of Austria and Czechoslovakia, the internal political and cultural orders have been destroyed and the individuals compelled to adopt for their State-Politics and State-Religion the Nazi systems, and their economic and cultural systems not only called to conform to Nazi models but reduced to vassalage and tools of the ulterior ends of the Herrenvolk or Master Power.
THE INNER NATURE OF NAZISM AND THE SITUATION IN GERMANY AS INTERPRETED BY DR. HERMANN RAUSCHNING IN "THE REVOLUTION OF NIHILISM" (Based Largely on Review in The Spectator, February 10, 1939)

Dr. Rauschniag comes of Prussian conservative military stock and was a leader in the territory around Danzig. It was out of resentment against the Treaty of Versailles and the policy of Poland that he joined National Socialism in 1931 in the hope that the movement would bring about German regeneration. This brought him into active collaboration with the Nazi leaders of the Reich who made him President of the Senate of Danzig, the virtual political head of the Free City. Their continuous exploitation of Danzig for the political ends of the Reich and their disregard of the interests of the population of slump-stricken Danzig, which he had sought to aid through proposals for the extension of its commerce with Russia, led him to renounce his post and to go into voluntary exile in Poland. The book embodies his reflections on the movement and the alarming changes it has imposed upon Germany and the German character. The theme of the book is that "the essence of the National Socialist movement in Germany is nihilistic, that its driving force is destructiveness, a destructiveness which knows no frontiers, and is, therefore, as much the concern of every American or Australian as it is of every Frenchman or of every Englishman."

The book attempts an answer to the interrelated questions as to whether Nazism should be regarded as a continuation of pre-war pan-German imperialism, though a corollary of this question is the ever present one: What will Hitler do next with regard to the East and colonies?"

On all that Dr. Rauschniag maintains that the successive ventures are not so much part of a methodical plan as manifestations of nihilistic tendencies:

"This nihilism has ended the reign of law and banished the Christian ethic in Germany itself; it has spread destruction across Austria and Czechoslovakia; until it is destroyed itself it will spread destruction beyond the frontiers of Greater Germany, and, indeed, beyond Europe itself. In a section called 'The Aims of National Socialism', Dr. Rauschniag shows that the Nazi leaders have one object alone, viz., to obtain and to keep power in their hands; in order to maintain themselves they depend upon movement, and the only dynamics of which they are capable are those of destruction.

"As for the talk of nationalism and socialism, the race theories, etc., these slogans are used to conceal a ruthless opportunism from the masses at home and from public opinion abroad. For conscious nihilists (i.e. the Party elite) there are no real ideas. But sham ideas can be found to be suggested to the masses. Indeed, 'everything which National Socialism does only takes place in defence of a holy right and a moral mission,' and an Austrian detention camp or an Austrian plebiscite could be attacked as terrorist, though they offered but a pale reflection of the methods employed in the Reich."
"Dr. Rauschning's analysis of Nazi foreign policy is perhaps the most brilliant portion of his book. The section entitled 'The Class Struggle Between the Nations' emphasizes the dexterity with which Hitler has identified Germany with all the poorer nations of the world in resenting the prosperity of its more civilized communities. In championing the have-nots and their claims to self-determination, the new Germany has seized upon a world mission for itself to order to legitimise its own determination to dominate the world and wipe out self-determination. 'National Socialism', writes Dr. Rauschning, 'is on its way to achieve this domination!... only with the alliance between Germany and Italy did the sterile cry for (treaty) revision change into a realistic determination to achieve an entirely new order of things, a new partition of the world.'

"Dr. Rauschning's account of his conversations with Hitler and Pilsudski in 1933 and 1934 are particularly interesting, of Hitler's plans then for annexing half Europe, of his exhilaration after staging Germany's exit from Geneva. 'His leadership was bound to launch Germany upon a sea of endless revolutionary waves, in order that he should be able to assert himself. He deliberately led the nation into danger and difficulties in order to force it into a revolutionary course.' Dr. Rauschning believes that this diabolic fury will of necessity destroy itself, but the question remains how much more it will sweep to destruction at the same time. He regards Hitler's policy last September, blind as it seemed to be to the potential coalition of enemies, as having illustrated these contentions; he believes that the Fuehrer invited destruction, and was saved only by the 'unintelligible indulgence of his opponents.

"For his part, Dr. Rauschning believes the only solution for the world to lie in the determined restoration of the rule of law in place of the licence of force. He regards domination as, in fact, d'ärmod und...cried out for international federation at the expense of the bloated dimensions of the power of the sovereign State of today."
1. **INTERVIEW WITH WINSTON CHURCHILL AT HIS COUNTRY PLACE IN KENT**  
February 10

1. **Mr. Churchill’s Opinions About Roosevelt**

Mr. Churchill said that Roosevelt’s statements may be responsible for saving the peace of Europe. Certainly they have given both the French and English a feeling of confidence that must, undoubtedly, encourage their respective Governments to take a much firmer stand than they might have otherwise.

2. **British Defenses**

There is no reason to doubt that Britain and France in the event of war would have control of the seas. As to the air force, the regular anti-aircraft around London had shown a great improvement during the past three months. The so-called home defenses against air raids, such as the building of trenches and shelters for the removal of the population from dangerously congested districts were still in a dreadful shape and had not as yet the proper personnel to manage it.

3. **Spain**

Mr. Churchill said it was all very well for the British to gloat that Franco would have to turn to them in order to reconstruct Spain, since they were the only people who had the money to give Franco the essential help he needed. Franco, in addition, was absolutely positive that England’s sole objective was an independent Spain free from any entangling alliances. Undoubtedly both the Italians and the Germans were far from popular in Spain. But how could anyone in their senses imagine that either Germany or Italy, after they great help they rendered the Franco cause, was going to give up the fruits of victory to the English without a struggle. Mussolini’s ambitions for a Mediterranean Empire required control of Spain. Thus, in the Spanish situation, there exists the immediate seed of conflict; the

CONFIDENTIAL OFFICE MEMORANDUM

Exclusively for the use and information of Officials of The Lehman Corporation
probabilities being that it will bring on a crisis within the next few weeks. In addition, Churchill felt that Hitler had now reached the peak of the military power. Therefore, logic dictated the time to strike was now. If Hitler's ambitions were moderate, he would have taken what Chamberlain offered him last October. As the standard of living goes steadily down, the only way the dictators can continue in power is by steadily returning home with new adventures and fresh victories.

4. **Attitudes of British and French People**

Mr. Churchill continued that he had no doubt about the willingness of the French or the British people to resist the demands of the dictators at this time even if it came to war. French leaders who believed in Munich were now ashamed and wish to atone for their sins and show the people that they were patriotic Frenchmen. The others who had not believed in Munich felt that now was the time to redeem French honour. As for Chamberlain, the facts of the case were steadily pushing him and his followers into following the Churchill thesis, whether they liked it or not. Nevertheless, Chamberlain is still the deciding influence and there is a streak of oriental pacifism in his nature that might lead him to surrender at the last moment, even against the will of many members of his own party.

5. **Prospects of War and Guesses About How It Would Shape Up**

The best Churchill expected was a series of crises in which the Italians and Germans would hope to break the English and French morale by the steady pressure of mobilization and the constant threat of war. But there was more than a 50% chance of war.

As to the possible strategy that would be followed in the event of a war, Churchill believed the main field of fighting would be in the Méditerranee. The Maginot Line was sufficiently strong to keep the Germans
out of France. In the initial stages the war would center around Italy. He felt that the Italian navy might never leave its harbors in spite of its beautiful new guns and battleships. The Germans, in all probability, would strike East attacking Roumania, but a large part of their forces would have to be diverted to Italy in order to prop up a faltering ally. The English and French naval supremacy was so great that Italy could be bottled up very completely in a very short time. This blockade, in turn, would put an added strain on Germany's slender economic reserve, since Germany would have to feed Italy and supply her with necessary raw materials from her own none too plentiful reserves. London would be bombed and this might readily bring the United States into the conflict. The probabilities are that Turkey, Russia, Roumania would all be on the Allied side, with Yugoslavia, Poland and even Czechoslovakia, eventually joining in. He did not see how Germany in the long run could win in view of the great vulnerability of Italy. Of course, there was always the chance of Germany attacking Holland and Switzerland, and there was always the additional chance of unpleasant surprises in any war. The whole problem was further complicated by the fact that Hitler and Mussolini have become the slaves of their own policy of expansion and were unable to turn off the heat for fear of internal difficulties.

6. Distrust of Bonnet

Churchill expressed the view that he and a great many other Englishmen were very uncomfortable about the presence of Mr. Bonnet in the Cabinet, fearing that he was completely unreliable especially after his informal speech to newspaper men in which it was claimed that he said that Italy had "just grievances". He added that if war had occurred last October the victory would have been a very easy one for the Allies in spite of the fact that their
air force was far from properly prepared. The loss of 40 Czech divisions and
the strengthening of the Siegfried Line had not been compensated by the
fact that London's internal defense position was somewhat better, that the
air fleet was now reaching a point of real efficiency.

7. **Importance of U.S. Propaganda Against the Dictators**

He ended by saying that the very best thing the United States could
do was to keep on beating the drums and talking back to the dictators. The one
thing that might make them hesitate in plunging the world into war was the
fear that the United States would soon be in it in a big way. He added that
if the next six months could be gotten through without a war, he was sure
there would be no war. In all events, he was optimistic that western civiliza­
tion and democracy would both survive.

11. **INTERVIEW WITH SIR HORACE WILSON, February 9**

1. **Explanation of Munich and What Led Up To It**

The defense of the Chamberlain policy made by Sir Horace Wilson
was as follows: In the early stages of the Czech crisis the English, as a
whole, would not have given complete support to the war to defend Czecho­
slovakia. It was only when Chamberlain, to quote Sir Horace, "injected the
moral principle that England would not permit any nation to dominate the
Continent of Europe by force, that Chamberlain achieved full cooperation of
the British people to the extent that they would have followed him to a man
to war."

2. **Effect of the Chamberlain Trips Upon the German People**

The German people had no idea of the attitude of the Western Powers
toward Germany. It was the first time that the German people discovered that
they had been consistently deceived by propaganda and once a people learns
that a Government is consistently deceiving them, they rapidly lose faith in
that Government.
1. Conditions in Germany

According to reports Lord Bearsted had recently been receiving from officials of his company in both Germany and Italy, dissatisfaction is rife through Germany. In Austria the bitterness is especially acute and there are daily acts of sabotage. The Austrians object first and foremost to the fact that the leading Government positions have been given to Germans and not to Austrians. The Austrian laborer is unaccustomed to high pressure German methods. He does not like the numerous food substitutes that he is forced to have and the numerous restrictions of the Nazi regime with its endless red tape. The Church is uncomfortable over the prospects of having its property nationalized and the leading industrialists have been subordinated to positions of state functionaires, while the large land owners are worried over the prospects of having their estates divided. The youth, common soldiers and the German factory workers are the only satisfied elements in the Reich today. The peasants are irked by the numerous restrictions and by the constant supervision of the party bureaucracy.

Lord Bearsted said that he is absolutely certain that if there is no war within the next two years that the German Government will crack.

2. Similar Views of Sir Horace Wilson and Lord Bearsted on German Conditions and Their International Consequences

They said the Germans by their recent aggressiveness had successfully achieved building a moral wall around themselves and that they had done something that the pre-Munich military alliance, which France had constructed, had never been able to achieve, namely, to completely solidify public opinion in the surrounding states against them. Even the Hungarians are not happy over their alliance. In Yugoslavia the fall of the Government...
which was pro-German, is just another symptom. The Poles are flirting with
the Russians and there is a determined effort among all the Balkan States to
resist to the utmost further German pressure on them. In self-defense, the
Balkans are forgetting the old enmities among themselves and are trying to co-
operate to meet the German onslaught. Larger and larger groups in Germany
believe in and are hoping for the success of Chamberlain's policy, and it
might be very difficult for Hitler to get the German people to follow him in
a long war.

To quote Sir Horace Wilson further, "You can rest assured that
British rearmament is coming along very fast. The six months' interval be-
tween Munich and now has created a great difference in our ability to either
strike back or defend ourselves. We are just beginning to reap the benefit
of the rearmament program that was undertaken 18 months ago. I cannot give
you exact figures; I can assure you, however, that both in guns and airplanes,
we are adequately equipped so we can say 'no' to any further demands. In a
very short time we will be in a position where we will no longer have to
wonder about our ability either to defend or to attack. I think Hitler knows
this - I am sure Mussolini does. Every day that passes without war bring peace
nearer because we are growing stronger as the others are growing weaker. If we
can avoid war for the next six months I doubt very much if there will be a
war. We shall be too strong. Even today if there should be a war, I am con-
fident that, although we might have a difficult time at first, in the end,
we shall surely win. Mr. Chamberlain is calm about the British position today.
All of us associated with him share that calmness and confidence."

IV. INTERVIEW WITH M. PAUL REYNAUD - February 15

1. Causes of Failure of French Policy Towards Spain
As far back as 1934, M. Reynaud made representations to Flandin as follows: "You have two choices: you must either have a foreign policy that coincides with your military policy or you must have a military policy that coincides with your foreign policy. Today we have a very aggressive foreign policy; that is, we are trying to keep Germany surrounded through a system of alliances which will give France hegemony in Europe. At the same time, we are building up only a defensive war machine. However, if we are to continue an offensive foreign policy, we must have an army ready to take an offensive position...But if, we are not willing to do that, then we should make a foreign policy in which we try to placate and cooperate with Germany, while it is still in our power to come to some sort of an arrangement with her."


M. Reynaud continued: "The fact is we adopted neither and the result is today we are in a difficult position! However, I can say that the morale of both the Government and the people are far stronger than it was at the time of Munich. So far we have not caught up to Germany. In fact, in a military way, Germany is still building more planes than France and England combined, but we are beginning to catch up. It is my opinion that if there is to be a world war, it will take place this year. The economic position of both Germany and Italy is becoming desperate. They cannot keep up the pace of armament much longer. Therefore, if they are to use their arms, logic demands that they use them this year."

As to the question of whether he believed the French would make any concessions toward the Italians or whether they would submit to another Munich in face of the increased Italian and German military strength, he replied categorically, "No."

3. Basis for Hope of Minimal Conditions
The elements of strength in the French position are that it had in its possession most of the gold reserves of Spain, and, in addition, there were large bodies of Spanish Government troops which could be reequipped and sent back to Spain if necessary. There is an element in the Cabinet which feels that France can insist on explicit understanding before affording full recognition to Franco or returning the gold reserves to the Bank of France.
SYNOPTIC VIEW OF THE INTERNATIONAL SITUATION

April 14, 1939

The hypothesis about the international situation which we have developed and applied fairly consistently since the beginning of the year is that of continued war alarms and war atmosphere - what Thomas Hobbes, who lived through the British Civil War three hundred years ago, called "a tract of time wherein the will to contend by battle is sufficiently known."

The three phases since the beginning of the year have been these:

1. Measures and pronouncements by Hitler and Mussolini indicating that this is to be the Year of Challenge and Decision for the Western Powers;
2. A brief interlude between mid-February and mid-March of recapturing confidence by the Western Powers as a result of British rearmament, French unification and cementing of the Anglo-French alliance, positively reinforced by the American Administration's aid to Western rearmament and support of the democracies and negatively reinforced by disclosed faults in the German economic machine; and
3. The new outbreak of violent aggression by the Nazi-Fascist Powers, primarily the Nazi destruction after mid-March of the rump Czechoslovakia and its conversion into a political colony and economic vassal, and secondarily the Fascist invasion-absorption of Albania early in April.

The sequel to this accelerated and extended Nazi-Fascist program of threatened encirclement and immobilization of the Anglo-French alliance was the bold return of Great Britain to the policy of collective security against further aggression and conquest in middle and southeastern Europe. Displaying an ability for swift manoeuvre surprising in so stately a ship of state, H.M.S. Britain, with her old Premier at the helm, swung out into rough waters. The policy of appeasement was replaced by the
policy of pledged protection not only to the historic vital interest of Great Britain, the Low Countries, but to the countries with outlets on the European seas - Poland to the Baltic and Roumania to the Black Sea - providing such threatened countries offered resistance for the maintenance of their independence. The extension of protection to Greece and the negotiations towards that end with Turkey were calculated to secure the British lifeline through the eastern Mediterranean and the Straits. By implication and by still uncompleted stages of negotiation with a view to inclusion in the anti-aggression front, Britain is offering to defend the independence of all European states bordering France - like Switzerland - or having outlets to the northern or the southern seas - like Denmark and Greece. The hesitant countries which Britain would now want to include are Yugoslavia and Bulgaria. In addition, strenuous efforts are being made to bring in the Soviet Union as part of an overriding triple alliance with Britain and France for saving Central and Southeastern Europe from the Nazi-Fascist Juggernaut.

Now, this new strategical defensive which the British and the French are developing is just as novel as the hitherto successful Nazi costless, piecemeal conquests by undermining the will to resist in the intimidated countries. To use the chess analogy from our larger report on the situation, we are towards the end of the Middle Game, with the Germans having had the advantage in the opening game and in the initial phase of the Middle Game, represented by the carving up of Czechoslovakia and the winning of the war in Spain. Only after these events did the British and the French realize that their king could be checkmated and they decided to play
on a resolute and heroic scale. By sending down the Mediterranean fleets to prevent a follow-up of the Albanian conquest by immobilization of Greece, they have shown that the major pieces are still with them. Assuming that Russia comes in as an air arm and munitions supply source for Poland and Roumania and in view of the consistent efforts of the President to show that our material resources will be on the side of the Allies, the probabilities, I believe, favor the anti-Nazi coalition. Besides, we must not foreclose dramatic favorable gestures and events such as interventions by the President and the Pope similar to the 1916-17 efforts of President Wilson and Pope Benedict XV.

Turning to the opposing forces which have up to the latest phase held the initiative and the mastery over the situation, the obvious thing one must not neglect is that they will not relinquish that role readily. Hitler, to revert to an image used in an earlier number of our international series, is in the position of a man whose path appears to be blocked by a wall that others consider too high to climb over, too long to get around and too embedded to dig under, and who, accordingly, resourcefully tries to find the spots where breaches can be made and experiments all along the wall for those spots which give off a hollow sound or which can serve as an entering wedge. Besides, having for so long found that the British and the French "didn't mean it," he and the other Axis partners, mindful particularly of the overextended geographical sweep of the British guarantees, now will be testing each link in the presumed chain.

_by the well established technique of boring from within the smaller nations and pulling a strangulating economic string here and laying_
down a propaganda barrage there, the Nazis will now be seeking to recapture their initiative in middle and southeastern Europe. That, rather than a fatal plunge on the now-or-never hypothesis, looks to me to be the probable course of events for the next days and weeks, and perhaps months. Because the Nazis still assume that the British are "sicklied o'er with the pale cast" of irresolution and because they do not understand the British temperament, the probability is that they will not be striking now. Nor will they abandon their bold expansionist schemes.

On this basis it is suggested that they will still refrain from the ultimate throw of the dice, but will be trying to woo some of the neighboring countries, wean away some of the half-hearted Allies and make demonstrative gestures fraught with danger but short of the plunge into a world war. The very uncertainty as to where and when the next blow may be struck is itself a powerful weapon in the hands of Hitler and Mussolini. Will it be Danzig, Lithuania, the smaller Baltic countries, strategic points in the eastern Mediterranean or in the Western Mediterranean through Franco's cooperation with the Axis, or setting up disturbances in Portugal through the subversive Falangist elements? Or will it be through a side diversion by Japanese expansion into strategic islands or points threatening the British, the French and the Dutch? Will Ukrainian minorities in Poland and Croatian minorities in Yugoslavia be incited? Will Bulgaria and Hungary be tempted by promises of support for the return of the respective Irredentas in Yugoslavia and Roumania? Will there be a putsch by the Nazis in Danzig so as to offer up that Free City for Hitler's birthday, like the "candle to grow on" on a birthday cake? Are this morning's announced forthcoming German naval manoeuvres in Spain to be linked up with their logical complements of
Franco-ist Spanish operations against French Morocco and Gibraltar, and Japanese operations against Indo-China, Hongkong and the Dutch Indies? Or does this squadron portend a war wherein these trade-attacking units can operate from Spanish bases against British shipping - reminiscent of the submarine campaign in 1917?

Even assuming these fears do not materialize, how can democratic capitalism operate under such time-continuous and space-extensive vigils, with business compelled to curtail commitments and foreshorten perspectives? Or will the Anglo-French economies and the United States as auxiliary be transformed into preparedness economies, with diffused long-term guarantees for the industries involved? A still more fundamental question must be raised, namely whether the Western World may not have to resume the role of Warden of the Marches of Civilization - to cite the nearest example in modern history, the improvised coalition of Danubian Christendom against the hitherto triumphant Ottoman Empire until the defeat of the Osmanlis at the second siege of Vienna in 1682. All such questions in these unusual, troubled times are more intrinsic and nearer to our present and future than the evanescent latest reported news.

But reverting to the immediacy of the situation, on the principle of sufficient unto the day is the diminution of the evil thereof, the foregoing considerations suggest that the newly gathered strength and firmness of the democratic coalition compel delay and reorientation on the part of the Fascists and that to this extent we have entered into a better phase - very different as to the unfolding power of the opposing coalitions. If we are vouchsafed some respite, then the problem of the succession of harvests from June to late August will entail delays and changes in the presumed - but until it occurs, avertible - war outbreak.