I. The Domestic Political Situation.

The Army, to-day, stands solidly behind Hitler. He has succeeded in eliminating the generals who had views opposed to his own, such as Fritsch and his circle. All the present heads of the Army owe their situation to Hitler. They look upon him unreservedly as the supreme War Lord and would never hesitate to carry out his orders, as they have been educated to do. Besides, it must be remembered that Hitler's great successes in foreign policy have given him so to speak a halo of infallibility in the eyes of the Army as well as of the public in general. The men who are to-day at the head of the German Army are pure soldiers, without any political views. Although the generals, practically without exception, are not adherents of the Nazi theories in every particular, the younger officers and even some of the staff officers have become convinced Nazis since Hitler's successes in Austria and Czecho-Slovakia.

It is practically out of the question that a movement against Hitler will come from the Army, be it only because the Gestapo exercises a minute control over every officer. On the slightest suspicion, officers are eliminated from the Army.

On the other hand, it is not impossible that some day a movement against Hitler will come from the civil leaders of Germany. Thus, it is rumoured that relations between Goering and Hitler have become much worse, because Goering may be looked upon to-day as one of the moderate elements in matters of foreign policy. The warning uttered by Hitler in his speech at Kifffhausen to the Association of former combatants in May 1939 is looked upon as having been directed against Goering. Hitler said on that occasion that every government servant, however high his position, was expected to carry out his duties as a soldier unreservedly, and that if there were any suspicion that such was not the case he (Hitler) would get rid of such a man without any consideration for the rank he held in the State.
In the inner circles of the Nazi Party, the opinion prevails that Hitler, after having settled the pending problems of foreign policy, will proceed to a new purge on the model of that of June 30th, 1934.

II. Economic Situation.

The characteristic feature of the present German economic situation is over-employment, a result of the incessant increase in Government orders for armaments, the capacity of the means of production being used to a maximum and yet many orders remaining unfulfilled. The insufficiency of labour resources is even more keenly felt than the insufficiency of raw materials. According to a declaration of the Permanent Secretary to the Ministry of Labour, Dr. Syrup, Germany lacks to-day two million men, although twenty million men are occupied. Efforts have been made to increase the reserve of hands. On the one hand, recipients of old-age or accident pensions have been forced to take part again in the processes of production; on the other hand, the age of school attendance and the years of study in High Schools and Universities have been shortened. Moreover, an increasing number of women have been incorporated in the army of workers. Although, in principle, the Nazi doctrine is opposed to female labour and attempts were made in the first years of the Nazi régime to induce women to give up their employment at the time of their marriage by means of State grants made on that occasion, there are more women employed to-day than ever before. Finally, the Government is obliged to rope in workers from circles which heretofore did not take part in manual work or were not working as employees. In the course of the past two years, more than one hundred thousand artisans have more or less willingly entered the ranks of salaried workmen; and it is now contemplated to close down the smaller commercial undertakings so as to divert towards industry the men hitherto occupied in these undertakings. A reduction of these by one-third is contemplated, five hundred thousand persons being expected to be released for industry in this process.

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The lack of hands has resulted in the prolongation of the hours of labour, and at the same time in the reduction in the output per hour of the workers. This explains why, to-day, there is a lack of coal in Germany because there are not enough efficient colliers available.

The lack of adequate means of production in regard to labour and in regard to equipment obliged the Government to manipulation of the economic system on the lines of planned economy. Whereas Nazi Government, until over-employment set in at the beginning of 1937, would rest content with managing a limited number of important fields in economic activities, the necessity of further adjustments leads the Government to a constant extension of its interventions. The German economic machine can only work to-day if the relations between the various economic activities are carefully co-ordinated according to plan. As has always been the case under the Nazi régime, these measures of co-ordination are only developing slowly under the pressure of acute difficulties arising in particular fields; but a complete network of regulations is gradually being established. As it was some years ago with exchange regulations, so it is to-day with the planning of industry. At first, special commissaries - mostly men of experience in organizing, taken from the General Staff - were appointed to the iron and steel industries, the building industry, the automobile industry and the industry for the distribution of information. The duties of these special commissaries are not only to allocate raw materials amongst various undertakings according to orders placed by the Army or for export purposes; they also consist in rationalizing production. The number of types of articles is to be simplified, the carrying out of orders is split up amongst the various undertakings. These are moreover told what new investments they are to make and what kind of production they are to abandon. Next to the special commissaries, the price commissaries control the economic system. The methods of calculating costs of production are minutely set forth; if the commissary considers that the profits of a given branch of industry exceed the permissible rates of interest and amortization, reductions in the sales prices are made compulsory.
So far, management extends only to certain sections of the economic system; but there can be no doubt that, gradually, a general system of planned economy is evolving in which the outer forms of the capitalist régime continue to obtain, while, in fact, State Socialism is being established in an ever-increasing measure.

III. Public Finances.

The present German boom is being financed by means of a credit expansion engineered by the Government to an unprecedented extent, while the additional purchasing power thus created has been constantly pumped out by means of taxation and government borrowing. So far, the increase in revenue and the proceeds of loans have not come up to the growing financial requirements of the Reich. Repeated attempts have been made to halt the expansion of credit. These attempts have been unsuccessful because of the insatiable requirements of direct and indirect armaments. The inflationary risks of this financial policy have been repressed by stringent control of prices and wages. They have further been diminished by a transformation of the concept of money in the Third Reich.

The purchasing power of German money is no longer a definite unit; it changes according to the holder of the money. This is a consequence of the managed economy applied to the principal foodstuffs (butter, meat, eggs, etc.) and to the principal industrial raw material (metals, textiles, etc.). Only such persons as are in possession of a permit to purchase can use their money for buying goods, and then only to the extent of their permit. In other words, the mere possession of money without a permit to purchase does not give actual purchasing capacity. In that respect, the German system closely resembles the Bolchevik system.

Public finances are highly strained. The Government is compelled to draw upon the tax revenue of coming years, which engages of course the Budgets for these coming years, unless the revenue expended to-day is exacted a second time. On the other hand, the weight of interest and amortization charges on the public debt is becoming...
exceedingly heavy; the probabilities are that means will be sought to reduce these charges appreciably.

IV. The trend of prices.

There is a latent tendency in the German price system towards a continuous rise. On the one hand, consumers are competing for a restricted supply of consumer's goods - a supply reduced by restrictions of imports and expenditure on armaments - while the aggregate income has increased with the suppression of unemployment. On the other hand, there is a very keen competition between public and private buyers for labour and raw materials, both of which have become scanty, and for the capacity of the industrial equipment to respond to demand. Efforts are being made to keep down prices by a severe regimentation of the assessment of the cost of production. A definite period (October 1936) has arbitrarily been taken as reflecting normal prices which can only be exceeded in exceptional cases. As was to be expected, the prohibition to raise prices has brought about a concealed increase in prices. Sometimes the nominal prices remain the same while quality materially deteriorates. In other instances, a new form of trading has evolved, the so-called "coupled sales". When somebody wishes to buy a commodity which is scarce, the tradesman compels him to buy at the same time another commodity which is available in super-abundance for which the purchaser has little use. The system of "coupled sales" is extraordinarily widespread in Germany despite all official endeavours to suppress it. A long list of consumers' goods and articles of equipment are rationed by the Government. Obviously because their price does not reflect as it would under the system of free trade the true market situation. Consequently, all price indexes which comprise a number of these artificial prices are misleading. The apparent stability of the German price index has therefore very little practical meaning. In short, all that can be said is that there is a reduced supply of the German industrial and household goods, together with a lowering of the quality in the supply, but that nominal prices per unit do not show a marked rise.
The German economic system to-day is characterized by inadequate supplies as regards raw materials, capacity of production and labour. In order to counteract these deficiencies, the Government is compelled continuously to extend its interference in the economic system. To-day already this system offers an aspect which is quite different from that of the Western European systems. The same words, such as "money" and "price", have a perfectly different meaning in Germany to-day from that which they have, say, in England, France or the United States.

However, there are no prospects of the Third Reich collapsing as a consequence of its economic difficulties, since a Government that disposes of all the means of coercion available to a modern dictator can induce its citizens to accept almost unlimited hardships.

July 27th, 1939.