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Berlin, October 7, 1935.

*Strictly confidential*

Dear Mr. Messersmith:

The German Government at the present time is watching the European situation as it is affected by the Italo-Abyssinian dispute with a profound interest. Word has gone out to the newspapers to refrain from criticisms which might reflect unfavorably on the attitude of "splendid isolation" which has been officially assumed. The German public on the other hand is one hundred per cent back of the Abyssinians and follows the events with a passionate interest, hoping for reports of Italian reverses. The neutral attitude of the Government and the press attracts no attention; but if a pro-Italian policy were adopted and publicly appeared as such in the press it would certainly be secretly opposed by the mass of inhabitants. A few papers such as the Frankfurter Zeitung have not been able to conceal their disapproval of the Italian policy.

It was thought at first that the German Government would bring the Memel question to a head at the end of last month and take advantage of the strained position between England and Italy; but this appears not to be the case. The Germans are going to do nothing in a military way for the time being; though a serious outbreak of war in Europe might change the attitude of the Nazis. A high personage in the Reichswehr last week explained "that Germany was not going to make any military move in any direction; that Germany would not abandon its claim to Memel and that it would not "let up" on Memel until it was reincorporated in the German Reich. The Fuehrer's speech at Nuremberg in this regard was the beginning of a steady campaign to this end; but the problem of Memel was bound up with all the other eastern questions, which eventually the powers would prefer to settle than have a Germany which is steadily increasing in military might and prestige, make Memel more and more a disturbing element in the complex of European peace."

A few words about the position of the Reichswehr will illuminate the actual situation. The Reichswehr is not proceeding feverishly toward perfecting its peace

strength.

strength. It is now reasonably sure that by the middle of 1936 it will have about 600,000 well trained soldiers and possess the heavy artillery which a first-class well equipped army needs. The preparations are going on according to conservative regulations and rules; no hurry or rush is evident. The usual necessary time is being allotted to the training and development of the new recruits. As to the further development of the army, that is to bringing it up to a war-time strength, probably on the same footing as it was in 1914 when Germany was able to place into the field a first-class army of 2,400,000 men, it is expected that that will be accomplished by the middle of 1938.

No one can give for the moment a clear picture of what is really going on in the highest Government circles. The situation is complicated and very much obscured. The radical element in the Party are no doubt bringing considerable pressure to bear upon Hitler and the net result of the Nuremberg rally was to increase their prestige outwardly if not inwardly. What is really going on inwardly is the great question. Hitler leans strongly toward the old party guard and he is not yielding everything to Schacht, the Reichswehr and other conservative forces. For instance I am informed that a considerable struggle is going on now between the Reichswehr and Hitler regarding the maintenance of a division of S.S. men whom Hitler wants to equip with heavy arms, just as any division of the Reichswehr. This still shows lack of trust on both sides; and I understand that this "lack of trust" is very real. Nevertheless the relations between the Party-State and the Reichswehr are not being severely tested. Both sides are avoiding that; and I am informed quite reliably that if a show-down came between the Party and the Military Conservative forces the Party would win. Since this opinion is shared in very responsible circles in the Reichswehr I have no doubt that it represents <sup>the</sup> actual situation. This indicates the strength of Hitler and his party. Furthermore, in spite of the lack of raw materials and the food shortage which is most aggravating to the general public no sacrifice of Nazi principles is even thought of to relieve this situation. Instead the principal Nazi leaders have

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taken the situation in hand and are exhorting the people to tighten their belts so that the necessary raw materials can be imported instead of food. Goebbels' speech on this subject last Saturday was brilliant contribution to this campaign.

The persecution of the Jews goes on unabated and it is reasonably certain that a good deal of actual expropriation will be increasingly resorted to. It looks as though the object is to get the Jews out of the country and confiscate their property. The most serious factor in the whole situation is the lack of raw materials; this is increasingly evident and everything possible will be resorted to to get enough foreign exchange to get the necessary raw stuffs, except there will be no change in any of the radical platforms to which the Party is committed. Bankers are prophesying financial collapse; but these statements cannot be taken seriously. The Nazis know how to muddle through and I am confident that Mr. Schacht's financial machinery will stand a great deal of strain and for a comparatively long time to come. A banker of some prominence said to me that the total extra-budgetary expenditures were not much over 11,500,000 marks; while estimates have been made up to 20 billions.

The main lines of the present policy might be summed up as follows:

- 1) In Home Affairs: Proceeding with all measures which favor the idea of the total supremacy of the State: racial, social and religious.

Preserving the supply of raw materials for armaments and work at the sacrifice of the food supply; consequently a reduced standard of living.

No change in the wage policy; but increased propaganda to placate the workers with regard to their social status in the new Germany: Kraft durch Freude, etc.

2) In

2) In Foreign Affairs: No action at the present time which would involve running military risks unless the European situation got into such difficulties that an open door stood wide ajar, and that it would be a sign of weakness not to take advantage of the opening.

Any radical change in the line-up of the great powers might create an entirely new situation for the Germans. They are quiet and conservative.

They will endeavor to establish a German-Polish-Hungarian block; but the difficulties at present are too great - nevertheless they can see no harm in having intercourse and conversations.

Very sincerely yours,

*Raymond Beait*