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Berlin, Germany, March 24, 1934.

Handwritten signature/initials

Dear Mr. Phillips:

I am very sure that the Ambassador has given you all a very interesting and complete picture of the way the situation stands here and that it has been very helpful to have him back. I do not know that I can add anything to the picture as he only left here a short time ago, but I feel that you might be interested in my reactions after having been out of the center of things here for almost three months. I have been back only about ten days, but have been about a good deal already and seen a good many people.

I have the very distinct impression that things have in no way improved in Germany, either so far as her external or her internal situation is concerned. Externally, her withdrawal from the League and from the Disarmament Conference and the now very plain execution of her program of rearmament, seem only to have resulted in solidifying foreign opinion. Her agreement with Poland is only one of a series of agreements which she would like to make to follow out her policy of gaining time and allaying suspicion, but when one realizes what a callous attitude those in power here take now towards agreements of any kind, and hears what they have to say about them, one realizes that they mean nothing more than what they are intended for, i.e. a part of her policy to keep the peace and maintain the status quo until she is prepared to gain her ends through force if they cannot be achieved otherwise. Although in public and in private leaders of the Movement loudly proclaim that National-Socialism and the new Government are gaining favor, understanding and prestige abroad rapidly, I think they realize more definitely than ever

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that there is a solid block of world opinion against them, and even Hungary whom they thought they had definitely in their camp, they now see is no longer so friendly. The decreasing German exports have been probably the principal means of convincing the leaders that they have made no progress abroad. Externally therefore, I think we may safely assume that Germany's position is definitely worse than it was in the beginning of December when I went home, and I have the very real impression that while the higher leaders of the party here understand that this is so, the secondary leaders who in this situation here are very powerful and cannot be disregarded, still do not realize this thoroughly, or still feel that they need not concern themselves about foreign opinion.

Internally, I feel, too, that the situation is distinctly worse than at the beginning of December last year. There is no question that this is true from the internal political, economic and financial point of view although industrially there is more activity, but even this increased industrial activity is not of a healthy nature. That the internal situation is precarious from practically every point of view, one can sense very readily, and I have the very distinct impression that the major leaders in the Government as well as a good many of the secondary leaders are very nervous and apprehensive. I think you may be interested in some of the details to support this, although in this letter I shall have to be very brief on account of the lack of time before the pouch leaves.

In the first place there is unquestionably a good deal of dissatisfaction and dissension in the party. Just as Goering and Goebbels have been at odds in Prussia for months, so difficulties between major leaders in various parts of Germany are becoming more acute. In Silesia, for example, there is accurate information to the effect that Heines and Bruckner do not get along with each other at all, and naturally they have their adherents so that these personal differences go pretty well down to the bottom of the ranks. Of the two, Bruckner is the better man although he is radical enough, but it is significant that in that part of Germany Heines, who you know is an impossible person

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from almost every point of view, is getting the better of it. Similarly in Saxony, there are two major leaders, Mutschmann and von Killinger. It is von Killinger who is the better man of the two and who is losing ground, and there is very real antagonism between the two of them. The same situation prevails in other parts of Germany, and I am reliably told that the personal difficulties and differences between the Nazi leaders, which were of course bound to become more accentuated with time, have become more real. This has not helped discipline among the secondary leaders, nor in the ranks of the S.A. This revolution from the beginning has been a very personal one, as I suppose all revolutions are, but during the first eight months at least when the party was consolidating its power and when every one was busy with some kind of a job, these personal differences were on a secondary plane. Now obviously they are coming to the front and it is making Mr. Hitler very unhappy and I understand very uncertain.

There is further very real dissatisfaction in the S.A. and in the rank and file of the party. The easily appropriated spoils and jobs have been pretty well taken up and there are a good many people still who think themselves very important, who have not been cared for. All they have out of it is their uniform and the marching, and a show of authority. The strict requirements for drill and all sorts of training, which take up so much of the time of these men, are getting irksome. Those who have jobs find that, after they have paid their taxes which they to their surprise find they must pay like anyone else who is not a party member, they must also pay all sorts of contributions; and all these contributions are very well brought out in a letter which Consul General Haeberle at Dresden wrote to the Ambassador and of which a copy was sent to the Department for the files of the Commercial Office. This is by the way an interesting letter.

Among the great mass of the people who are in the party or not, there is obviously great discontent and growing disillusionment. The income of the workers has gone down and the cost of living has gone up rather than down. The increased industrial activity has

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absorbed a certain number of workers, but on the whole the German worker is worse off than he was when the Nazi party came into power. Sufficient time now has elapsed for the worker to realize that nothing has really happened to help him and this disillusionment is going to grow, and the party leaders realize it and at the same time they are more conscious than ever of their inability to do anything. This feeling of helplessness and that they are up against a stone wall both with respect to the external and internal situation, has become very much accentuated among the major leaders and they are beginning to show the strain. This feeling accompanied by the growing knowledge of the serious economic situation and by the dissension all the way from the top to the bottom, has brought about a nervousness and an uncertainty which have not existed since the party came into power. This is the major point which I should like to bring out now to you, for I believe it is of great importance and this is a situation which has been developing particularly in the last few weeks, so that it is quite possible that the Ambassador may not have been able to bring out this point so strongly to you.

So far as the internal situation is concerned, there are real indications of increased activity in industry. This does not mean that as many people have been put to work as the published statements in Germany would indicate, but the stimulus given to the textile and related trades by the program of putting everybody into some kind of uniform, has been real; so real that the tremendously increased wool imports and the precarious exchange situation have made it necessary to put a temporary stop to the uniform program. The principal stimulus, however, has come from the activity towards rearmament, and we can have no illusions on this subject. I think I told you while I was home that my friends in the party here had made it quite clear that they intended to rearm, and they have made quite a good deal of progress in the past months. The principal emphasis was to be in the beginning on the building of machine tools, lathes and machine equipment in general necessary for the production of light and heavy artillery, tanks, etc. This was in line with the policy of the Nazi leaders in Germany that the country must at all costs maintain the peace for some years as she was not in a position either to

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have an offensive or defensive war, and that it was therefore useless to begin immediately the production of smaller arms and actual munitions. I find, however, that as is usually the case, once started such a program gathers momentum and may get out of hand, and this has happened here. The manufacture of small arms is going on and I have quite definite information that there are a number of factories producing shell cases and similar material, the manufacture of which was not originally contemplated at the outset.

More healthy industrial activity, however, has not made any progress, for, as is quite evident with wages remaining stable or going down and with prices increasing as is the case, consumptive power of the masses has gone down, and as this same internal situation has been accompanied by decreasing export markets in general, industry has not felt any impulse and the retail trade is really worse than it was some months ago.

The exchange situation and the position of the Reichsbank are definitely worse. The unfavorable trade balance of 22 million marks in January, and 35 million marks in February may be even worse in following months in spite of the radical measures being taken to cut down imports. Schacht said the other day that the gold reserve of the Reichsbank was down to 8% and I think this is still a little bit higher than the actual amount. This in itself is not so serious, for if it was only the gold reserve which held the mark, it would have gone down long ago, but the exchange position of the country is really serious. The increased industrial activity in the country makes greater importations of raw materials necessary and with exports going down and no possibility of securing credits, the country is in a position where it may not be able to pay for even essential raw materials. There is no doubt that Schacht in spite of certain qualities which he may have, is a clever banker, and he has exhausted every resource to maintain the situation. By the use of registered marks, Sperr-mark, etc. and of scrip, he has been making it possible for Germany to sell in foreign markets and against depreciated currencies. But all these expedients have practically served their purpose. The country is now faced by the position of needing more raw materials

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than ever to carry through the industrial program including rearmament, with at the same time constantly decreasing exports. The situation is now such that unless Germany can get credit or make some extraordinary arrangements which it is doubtful that anyone will be willing to make with her, a financial and economic crisis is impending. It is impossible to keep up the present rate of industrial activity without raw materials, and in the next two months Germany will be faced by almost insuperable obstacles in getting these materials.

Schacht and Schmitt and others who realize the seriousness of the situation, have brought it to the attention of the Chancellor and higher leaders of the party. The realization of this together with the real appreciation of the dissension and difficulties in the party have made Hitler extremely nervous so that he is said to be distinctly showing the strain. Schacht himself is showing the strain and is at times like an animal in a cage, for in every direction now he tries to find a way out it is closed to him in spite of his cleverness. This is more or less the psychological situation here, and while I do not wish to overstate the position I can only say that, as I said at the outset of this letter, the situation here is really distinctly worse than it has ever been since the new Government came in.

I gather that already there is considerable discussion as to the way out. To my surprise I learnt that well-informed persons are of the opinion that the Reichswehr is still quite untouched by the Nazi movement. Well-informed persons tell me that the present commander-in-chief, von Fritsche, is a very level-headed person and that he and practically all of the higher officers of the Reichswehr are a unit in feeling that the present state of affairs cannot continue. Just what turn the situation will take, it is of course impossible to say, but there are indications that Hitler is beginning to feel that the whole position is unstable and that unless he can get rid of certain elements like Goering, Goebbels and Heines, a collapse will come. He is said to be having the greatest difficulties to maintain peace. His personal prestige is apparently as strong as ever. But all over Germany one talks about the "little Hitlers", who are

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exercising power throughout the country in the most arbitrary and in many cases brutal fashion. Well-informed friends tell me that there is a growing feeling that a change will have to come as the only way away from these people who are abusing their power. These same people are speculating as to the form of the new Government, and seem to think that it would be in the form of a military Government established by the Reichswehr, with a parliamentary background. The feeling that the Hohenzollern may be brought back through Louis Ferdinand or another Hohenzollern prince does not seem to be so strong. I find, however, no one who is willing even to venture what form any change in the Government would take, but they seem to be in agreement that it would be a Government put in through the Reichswehr with a strong possibility that Hitler would figure in it, but that he might not last. Bruening is more and more spoken of in certain circles as the man who would head a new Reichswehr Government. I am only telling you about this now so that you may know what people are seriously talking about. I am a good deal surprised to find this situation, as I felt when I left here last December that the Government was so firmly entrenched that even talk of this kind would not come to the surface for some time longer. There are those who even speak of a probability of difficulties for the Government within the next three weeks. I should not like to make any forecast personally, and while I believe that a change in this Government will eventually come I think it is too early to make any forecast as to when discontent will be sufficiently strong to bring about a change. The only thing which I think I would be safe in saying at this time is that for the first time since the new Government came into power there is real nervousness in the party as to its position and authority, and that there is a possibility that disintegration of the party organization may be accelerated by the extremely difficult economic and financial situation which is developing.

For the present, the principal thing that now occupies the minds of the thinking people outside

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of the Government as well as those in the Government, is the exchange situation. There has been stress on it in every public speech recently made, and it is the principal topic of conversation everywhere one goes. It is probably the unfavorable figures for January and February which have made this impression on most people, as in inner circles the imminence of this problem had already been known. It is the most concrete setback that the new Government has had to face, for it means bread and work. Without raw materials they cannot keep on. There is, as you know, already a fat monopoly, and a similar monopoly is already being worked on for copper, and I feel very confident that this will be extended very rapidly to practically all raw materials, all trading in which and all importations of which will be put into the hands of the Government. This will be done as a matter of sheer necessity, but the actual measures themselves which will be most likely of a very arbitrary nature, will be taken to impress the world with the seriousness of the situation, and to serve as a background for the stoppage of payment of all interest on foreign indebtedness, and to put Germany into a position where countries exporting raw materials to her will wish to enter into immediate negotiations.

In this connection I may take the liberty of bringing to your attention my confidential despatch No. 1964 of March 22, in which I take up certain considerations in connection with the possible negotiation of trade

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agreements between the United States and Germany. The statements made in this despatch, while to a certain extent they represent forecasts, are I believe of sufficient interest to you for you to read it. I shall therefore not cover in this letter the subject matter of the despatch, but I should say here that there is the greatest eagerness here to talk with us. The Germans are greatly disappointed that the bill authorizing the President to make these trade agreements has not yet passed Congress. They want, as you know, to be the first country with whom we talk. The Staatssekretär in the Ministry of Commerce told me that they "could ill afford to wait as the situation for them was extremely serious". I tried to point out to him, as you will note from my despatch above referred to, that while there would be no unreasonable delays on our part there were reasons which would make the negotiations of an agreement with us a matter which might take some time. While I believe that we should negotiate with Germany when we are ready to do so, for it will probably be the only way in which we can keep on doing business with her, I think we should not allow ourselves to be hurried into anything, and I do believe that the considerations which I have set forth in my despatch should be carefully considered. There is no question but that in spite of the ~~fact that~~ our interests have suffered and are being discriminated against here and that the capital value of our investments in Germany is constantly shrinking and the Government has not given our interests and trade the protection which it should. With this background as definite and with Mr. Schacht speaking calmly of wiping out all Germany's obligations at one stroke, and at the same time saying that, as he undoubtedly will in the next days, Germany cannot go on without credits, a situation is created which it is very difficult for us to approach. With another Government in power here which represents a reasonable Germany, it might even be possible to extend some new credits to the country, but with this Government in power, not willing to protect existing interests, getting ready to repudiate its debts and asking for new agreements and new credits with which to get raw materials, a good part of which are destined for a rearmament program, I do not see how we can help them. At least I do not see how we can hurry just to save a situation which in the general world interest it may be worth-while to let come to a crisis.

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I am not going to go into the question of devaluation here because I think you are familiar with the situation. The German mark must be devaluated in time and this is thoroughly realized here in informed circles. The one thing they do know, however, is that when it is done it will have to be done in a definite way so that a second devaluation will not be necessary. For this reason they want to wait until France and the other gold countries have taken action and they are able to determine at what rate to stabilize. It will be very radical, of course, and it is generally believed that the devaluation will not be less than 50%. The Nazi leaders realize that this is another of the dangerous steps which they have to take, and it will be accompanied by tremendous loss of prestige for they have definitely promised that it will not be done ever since they came into power, and Hitler again at Munich the other day repeated the promise although he knows that the step cannot be avoided. Whether the devaluation can be put off until the other gold countries take action, is another question, but that is what they are trying to do for obvious reasons.

There is much that I should like to tell you, but time does not permit. The great mass of the German people still have no information concerning the real action of the Government. The newspapers here in Germany and abroad carry notices that some concentration camps have been abolished and that many people have been allowed to return to their homes. As a matter of fact, the number of concentration camps has been reduced merely as a measure of administrative economy and efficiency, but the number of people in the camps has not gone down, for it has merely involved a transfer from one camp to another. Fifty-eight people were arrested here the other day in a "spy" round-up. The head of them is supposed to be a Pole. The manufacture of airplanes, particularly of airplane ~~machines~~, *is* being very rapidly accelerated. It is almost being openly discussed now that a great deal of the money collected from the great mass of the people and for which real sacrifices were made for the so-called "Winterhilfe", is being diverted to the party and to individuals. The movement against the Jews is continuing with absolute implacability, and more and

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more people in key positions in business and industry are being constantly relieved from their duties. It was even planned to have big anti-Jewish demonstrations over Easter, but it seems that these are to be abandoned. The public speeches of leaders of the party are getting to be more inflammatory. In a speech at Munich the other day Hitler spoke of the boundaries of Germany as always changing and that they would continue to change until they included all Germans. Himmler of the S.S. and of the police, said on the same occasion that the military organizations were marking time and awaiting the command to do something. These speeches of course as reported in the press are never carried in exactly the same form. No speech is printed until it has been carefully edited in the Ministry of Propaganda, no matter what the man may have said. Not a single Minister outside of the Foreign Ministry can see a representative of the foreign press or a foreigner of importance, without the permission of the Propaganda Ministry. No important person in a Ministry will see anyone without having his Nazi adviser or overseer with him. These few disconnected statements may be of interest.

I wish I could tell you how much pleased I was with the appointment to Vienna. The telegram of the Department to the effect that the President desired to appoint me to Austria rather than to Uruguay, came I think as the most pleasant surprise of my life and made me very happy. We were genuinely happy to go to Montevideo, for it would have given me very real satisfaction to endeavor to help the President and the Secretary and the Department to endeavor to do something to build on the splendid foundation which the Secretary laid at the Conference, and Mrs. Messersmith and I both like that part of the world and the people. We looked forward to service in Montevideo with pleasure, but I am very happy that the President and the Department wish me to go to Austria, for it will keep me nearer old friends and in touch with a situation which I have been following so closely for some years. I want to tell you how really gratified I am over this mark of confidence which the President and the Secretary and you all have shown in me. I need not tell you that I shall do my best to continue to merit that confidence.

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I hope to be able to get further information in the next few days as to what the Germans have in mind as the basis for their possible trade negotiations in Washington, and I will write you as soon as I have anything of interest.

Cordially and faithfully yours,

Honorable William Phillips,
Under-Secretary of State,
Washington, D.C.

A true copy of
the signed original.
[Signature]

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