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January 24, 1939.

The Secretary

The Under Secretary

PA/D - Mr. Dunn

Eu - Mr. Moffat

Supplementing my memorandum of January 23 commenting on the recent separation of Schacht from the Reichsbank, the following observations may be of interest.

In some respects the recent action reported in the press with respect to the Army is more significant than that with regard to Schacht. I do not believe that we can disassociate that the removal of Schacht was carried through at the same time as this change in the Army. The removal of Schacht from the Reichsbank places the radical elements in complete control of the financial and economic structure of Germany and removes even the indirect restraining influence which Schacht and those who placed their hopes in him may have exercised. The recent action with respect to the Army, which seems to have been announced about the same time, goes far towards placing the Army under the complete control of the Party. In other words, there is a definite strengthening of the radical elements in the

Government

Government and of their hold on the country.

Already some eight months ago Schacht said to a very close friend of mine, who also happens to be one of his most intimate friends, that he was "at the bottom of his bag of tricks". Resourceful as he is, Schacht felt that he could not go much further without resorting to the printing press and confiscation. Confiscation has begun with the property of the Jews. The probabilities are that the change means further confiscation of private property and perhaps resort to the printing press. I recall that in a conversation after dinner in Vienna in the German Legation Schacht remarked to me in a cynical manner that when he was at the end of his resources he could always resort "to the printing press".

With respect to the changes in the Army, they are most significant in my opinion. It has been a tradition of the German Army and of its officers not to mix directly in politics. It has been the policy of the German Army to build up a strong military force and to put Germany in a position to carry through its policy whatever *that* may be. As to policy itself, and interference in internal affairs, the Army has assumed the attitude that it must not mix in them. While this has been increasingly difficult in recent years, the higher officers of the Army have so far as possible endeavored to maintain this tradition. The

Army

Army was against the march into the Ruhr and it was against the annexation of Austria. It was loath to accept the wholesale movement against the Czechs. It feared involvement of Germany in a war for which the Army feels Germany is as yet unprepared. General von Seeckt used to say to me that at all costs the German Army must avoid a second disgrace and defeat. In every case recently the Army has been proved wrong and Hitler right and, after everyone of these three moves above mentioned, higher officers of the Army have been retired. Whenever the Army, therefore, has asserted itself, or rather its opinion, in a matter of major policy, it has within recent years been proved wrong. The Army only did assert itself, if weakly, in these matters of policy because it considered that the future of the country was at stake. Practically all of the higher officers of the Army who maintain the old tradition are now out of the picture and those of the higher officers who remain are those who through opportunism and personal ambitions are willing to be subservient to the Party.

One of the principal thorns in the flesh of Hitler so far as the Army is concerned has been the consistent opposition of the Army to the inclusion of the S.S. and the S.A. into the Army. You will recall that on at least three different occasions Hitler and the Party endeavored to persuade the heads of the Army to permit the incorporation of

of units of the S.S. and the S.A. into the Army. The Army was able to withstand this pressure and insisted that the enlistments and recruitments of the Army should be on an individual basis.

Hitler wishes to increase the strength of the Army and the reserves as rapidly as possible. Although the German Army has been increased tremendously in recent years, it is well known that the reserves have not been built up. The reserves of the German Army, for example, are much weaker than those of the French Army and, in spite of the increase in the size of the regular German Army, the French would probably be able to put trained reserves into the field more rapidly than the Germans. Now that the Army has been reduced to this position of subserviency in Germany, it is, of course, natural that Hitler and the Party should carry through what seems to be their announced decision within the last few days of incorporating S.S. and S.A. units directly into the Army and of creating the S.S. and S.A. into legal reserves of the Army.

What is more important, however, in definitely establishing this subserviency of the Army, is the recent change announced with regard to the officers' organization. The esprit de corps of the German Army officers has been a real thing to reckon with in Germany even under this present Government. You will recall that when General von Schleicher was

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was murdered in one of the purges by the Party, the esprit de corps of the German Army officers finally forced Hitler to make public expressions of regret. This Hitler and the Party have never forgotten and now what is in a measure the final act for the destroying of the power of the Army as against the Party has been taken.

It has been done in a very clever way and under the guise of making the Army more democratic. The old organization of Army officers is to be made subordinate to the head of the general War Veterans Association and officers as well as men will have to be subordinate to the same head. In other words, the officers' organization as such will disappear. The details are, I believe, quite correctly set forth in the article on the front page of the New York Times of January 23.

I think the following resume of a conversation with General von Fritsch, who was the head of the General Staff, may interest you. In speaking about the morale of the officers and the Army, he said to me, "I can still depend on the Colonel who sits outside of my door to do what I tell him. The Colonel can still depend on the Major who sits outside of his door to do what he is told to do. The Major can no longer be quite sure that the Captain who sits outside of his door will carry through his orders. How long this will continue, I do not know, but the poison is working closer to the head all the time. I am not at all sure how

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long it will be before the Colonel who sits outside of my door will no longer carry through my orders". General von Fritsch was in this way pointing out that slowly but gradually the officers of the Army from the bottom upwards were becoming affected by the general opportunism of the Party. We have seen now how far it has gone. The Army seems to be completely under the control of the Party. That there is still deep resentment among many of the higher officers remaining in the Army is unquestionable and, of course, the morale of the Army as a whole and its loyalty to certain ideals are not yet gone. A long step forward, however, has been taken by the Party in completing the control of the Army -- a control which has been sought since the Party came into power.

What the steps taken portend only the future developments can show. I think reading developments realistically we can only see that the increasingly difficult situation within Germany, and which is recognized by the Party, has obliged it to take these steps. Through the Secret Police the Government is well informed of the state of opinion in the country and in the Army. There has been increasing disaffection with the policy of the Government among the masses. 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



cognizant of this. They are, therefore, strengthening their hold on the economic structure and on the Army. Whether it is the forerunner of aggressive action or a preparation for aggressive action remains to be seen. In any event, we may be sure that there is no indication except that the Government intends to proceed on the course which has been followed and which it has still laid out ahead of it and which, I believe, still follows the general lines set forth in my memorandum of October 11, 1937. There cannot be any hope of any moderation by the German Government in any internal or external policy.

G. S. Messersmith.

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