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FILE NO. RHG:HP



DEPARTMENT OF STATE

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA



AMERICAN CONSULATE GENERAL

Berlin, Germany, January 4, 1939.

Dear Mr. Messersmith:

Your friend was in to see me this morning and gave me what seems to be interesting information with regard to the present situation in Germany. He has had long talks with Schacht and other people of importance in the Government and gave a pretty clear view of the general set-up. Schacht stated to your friend that the position of the mark internally is so insecure that he is now convinced that it cannot be saved. On this point Schacht indicated that the development toward inflation would be very rapid, but my friend is of the opinion, in view of his knowledge of the whole situation, that in principle Schacht is right, that the mark cannot be saved, but that the development toward an uncontrolled currency will be slow.

With regard to the German foreign currency position Schacht also asserted that it was hopeless and could not be saved. Your friend did not go into details on this point but made the observation that he thought that Schacht's estimate of the situation was correct, except that the foreign currency position would deteriorate much more slowly than the President of the Reichsbank seemed to think.

The third general point that Schacht made about the situation was that there is no solution in

sight

The Honorable
George S. Messersmith,
Assistant Secretary of State,
Washington, D.C.

Schacht. Raymond Z.

*Personal
& strictly
confidential*

sight with regard to what one might call the "Hitler problem". It seems apparent now, according to Schacht, that there is nobody in sight to take Hitler's place and that, in view of the threatening condition with regard to the internal situation of the country under the present regime, very serious problems will arise, apparently insoluble ones.

Your friend also informed me that it is the opinion of Goering's staff that the present situation cannot continue much longer. The nerves of the country are out of balance, not only of the masses of the people, but likewise the whole industrial machinery. They believe that the trend towards war will be disastrous and that the country must go on six to twelve months longer without war, that there must be a slowing down of armaments, the radicals curtailed and that Goebbels and Streicher must be eliminated. However, the opinion is in the quarters above mentioned that Goering is so much tied up to Hitler that he cannot act against him. The shortage of workmen is being felt severely in every branch of industry and in the coal industry the present level of production cannot be maintained. The agricultural situation has become exceedingly serious with a great shortage of agricultural workmen. The railroad systems are likewise being severely taxed and cannot be maintained at the present rate. An indication of the situation in the country is revealed in the fact that 5,000 school teachers are lacking in the elementary schools alone. The Government has planned so much that the whole thing is slowly breaking down. Apparently Hitler has learned that so far as agriculture is concerned Germany cannot hope to solve her problems through an autarchy. While the manufacture of gasoline has increased to 300,000 tons, a shortage always remains owing to the terrific rate at which the whole German machinery is going, and the demand for foreign currency is as keen as ever.

It is known now that Hitler has said to his closest colleagues that the events of 1939 will far

overshadow

overshadow those of 1938. It appears that the only solution which the present regime is willing to consider is a sharp struggle towards the South East for oil, and to the Ukraine for grain. All information now available in Germany points to a tense struggle going on between the radicals and the moderates with regard to the immediate political program of Hitler. There is apparently a realization by all factions that the country is faced by a steady move towards economic and social chaos which to avoid the moderates are straining every nerve to induce a policy of retrenchment with a move towards international understanding and all that such a move would imply; which, however, to avoid the radicals who are in power, with Hitler at the head, believe they must go on towards more daring political adventures, namely pushing the industrial and armaments machinery to the breaking point and launching the offensive towards the East.

In your last letter to me you thought that I believed the regime to be stronger than it actually was. I am not inclined to attribute so much strength to the regime, knowing the uncertain ground upon which it stands, but one cannot underestimate the importance of the terroristic methods employed to crush any sort of opposition. This fact is so well realized by well informed persons in Germany that when they consider the possibility of a change of regime, they think of a Messiah, a kind of Deus ex machina, who might suddenly rise to assume power in Germany. Your friend believes, as I do, that the end is not yet and that the radicals under the aegis of Hitler will be able to make attempts to surmount internal difficulties through external aggression which will give the world a series of grave shocks. Whether or not this will develop sufficient resistance from abroad to unseat this regime, or whether or not the repercussions will be so serious in the country as to let the situation get out of hand, is a question. But judging from all appearances

and

and the strength of the radical forces, I am of the opinion that opposition within the country itself, though widespread in general, cannot be organized or maintain itself in the face of the present terroristic control, and only events of the gravest order can bring a change within the country. The information which your friend gave with regard to the opinion of Schacht, though real enough, does not indicate that on account of currency or even the breakdown of the industrial system, the end is yet in view. It seems clear now that the present regime, and I mean by the present the Hitler regime, cannot last for any great length of time unless Hitler has a rapid success in his seizure of the oil and grain fields to the East.

I believe in view of the present situation, and I think I am expressing also the opinion of people in Germany who think as your friend does, that everything should be done to keep the hardest kind of pressure on the present Government. Probably no time is so opportune as the present and immediate future to apply the pressure as hard as it can possibly be done. I believe our Government at the present time is on the right track and that it should go to the utmost length in bearing down hard upon this regime and giving them no quarter in any direction and forcing the issue wherever it can be done; however, I believe, with others, that it would be a fateful mistake to break off relations with this Government entirely. Our contacts here are valuable and we should maintain these contacts so that proper encouragement and support can be given to those who are struggling to bring Germany back into a normal existence, internal and international. It has been pointed out to me by those who wish to see this change that if all contacts with the United States were broken, it would be most difficult at the proper time for the United States to cooperate in helping any reasonable faction to gain the upper hand.

Your friend also took the opportunity of discussing with me at length a proper method of procedure in aiding the representatives of the Intergovernmental

Committee

Committee to attain their ends when they come to Germany to have their conversations. I am reliably informed that the immediate associates of Goering, whose names I do not wish to mention, have been considering a scheme of aiding the emigration of refugees, and that two important persons close to Goering would be inclined to press upon him the acceptance of a plan which could be satisfactory, not only to the Government here, but to the nations willing to receive refugees. I have not time to go into the details of the plan that has been suggested, but when Mr. Rublee comes I shall give him all the information I have in my possession, as well as to Mr. Gilbert.

With kindest regards,

Faithfully yours,

Raymond